Coronavirus impact

At time of writing, the World Health Organization was reporting nearly 21,000 confirmed cases of a novel coronavirus, 2019-nCoV, globally. It had determined a Public Health Emergency of International Concern on 30 January, prompting several countries, including the United States, to declare domestic public health emergencies.

- The new coronavirus 2019-nCoV is probably more contagious than severe acute respiratory syndrome (SARS) and continues to spread rapidly, although key details of its nature are still unconfirmed by the WHO. The pathology, contagiousness, clinical spectrum, and incubation period of 2019-nCoV have still not been confirmed by the World Health Organization (WHO) or China’s National Health Commission (NHC). An article published on 24 January stated that the first suspected case occurred on 1 December – one month before the NHC issued statements about the virus – and was not associated with the live animal and food market in Wuhan (the capital of Hubei province) that was traced as the source by Chinese authorities. Academic researchers assess that 2019-nCoV is more contagious than the 2002-2003 SARS virus, with a reproduction rate of 2–3 (that is, an infected individual infects up to three others). There were almost 21,000 officially diagnosed cases globally at the time of writing. However, researchers at Lancaster University estimated on 24 January that more than 190,000 people could become infected by 4 February. On 28 January, researchers at the University of Melbourne announced they had recreated 2019-nCoV. This should aid the development of early-diagnosis and, eventually, a vaccine.

- Travel restrictions to, from, and within more Chinese cities is likely in the coming days. Cities with large numbers of suspected cases and those along the Yangtze River and with high-speed rail connections are at greatest risk. Within China, travel across provinces is being strongly discouraged by local governments. Flights from Wuhan and other parts of Hubei province have been suspended and are likely to remain so until the rate of new cases falls to near zero. Most Asian countries have already blocked travel from Hubei province and are likely to extend this to other Chinese regions with high numbers of cases: Anhui, Chongqing municipality, Guangdong, Henan, Hunan, and Zhejiang have each reported more than 100 cases. The central government swiftly banned travel to, from, and within major cities in Hubei after categorising 2019-nCoV as a “level one” public health issue, alongside bubonic plague and cholera. This likely reflects official commitment to containing the virus rather than knowledge of its fatality rate. Additional cities are very likely to be isolated in the coming days. Areas along the Yangtze River, such as Chongqing municipality and neighbouring Sichuan province, are at greatest risk. Large cities in provinces with direct high-speed railway connections such as the Beijing–Guangzhou railway, which links Beijing municipality, Guangdong, Henan, Hubei, and Hunan provinces, are also at risk.
• **2019-nCoV may trigger force majeure clauses by Chinese counterparties in provinces that have experienced reduced business because of US-China trade disputes.** Thirty provincial-level regions have enacted the level one designation to date, giving the State Council powers to implement response measures and information dissemination. This includes emergency measures such as extending public holidays, mandatory quarantines if individuals are suspected to be infected, and partial or complete closure of roads and public transport services. The central government's power also extends to rules and regulations governing corporate behaviour. Companies are likely to face stronger oversight over actions that could adversely affect employment and the price of essential items. If 2019-nCoV spreads further, local governments may ask offices and production facilities to again postpone reopening, with public holidays for the Lunar New Year already having been extended to 2 February. Chinese companies may consider declaring force majeure to terminate or breach the terms of agreements with their commercial partners to minimise economic loss. This risk is particularly high for companies with agreements containing unclear force majeure provisions that Chinese partners could exploit. Counterparties based in localities with slow economic growth, or that have experienced strong adverse impacts from trade diversion during the past year due to US-China trade disputes, will be particularly prone to local political pressure to limit losses.

• **The estimated economic impact of SARS was an approximately 1% reduction of China’s 2003 GDP.** Using this as a benchmark for the potential maximum economic impact of 2019-nCoV, China’s real GDP growth in 2020 could be reduced by 1.1 percentage points from IHS Markit's current baseline forecast of 5.8%. Like 2019-nCoV, SARS was a coronavirus and its outbreak coincided with the Lunar New Year holiday. The epidemic lasted roughly six months (January to June 2003, although the first case was suspected in November 2002). The worst affected Chinese regions were Guangdong province and Beijing. These together accounted for about 15% of mainland China’s 2002 GDP. Hubei, which is the region that has been worst affected by 2019-nCoV so far, accounted for less than 5% China’s 2019 GDP. However, China’s economy is more vulnerable today, with productivity and overall economic growth falling and the effects of the US-China trade conflict. Travel bans, heightened public health measures, and the current extension of the Lunar New Year holidays to 2 February – there was no extension during the SARS outbreak – will significantly impact household consumption, but will affect production less as factories are seasonally idle during this period. Income from international tourism has become less significant for China’s economy since the SARS outbreak. Mainland China’s international tourism receipts in 2002 totaled USD20.4 billion, or 1.4% of GDP; in comparison, the international tourism receipt for 2018 totaled USD40.4 billion, just 0.3% of GDP. But the effect of mainland Chinese tourists travelling internationally is much more substantial. China's outbound tourism expenditure in 2002 totaled USD15.4 billion; by 2018, such expenditure had surged to USD277.3 billion (2019 data is only reported through the third quarter).

• **Mainland China’s impact on the world economy is also much larger now than during the SARS outbreak, meaning the slowdown in Chinese growth may be a significant drag on global growth.** Mainland China's economy was the sixth largest in the world in 2002, accounting for 4.2% of world GDP; it is now the second-largest economy in the world, accounting for 16.3%. Similarly, mainland China is now the second-largest importer in the world, accounting for 10.4% of the world's goods imports, compared with 4.0% of the world’s imports in 2002.
RISK NOTE: Russia-China land border closure to disrupt bilateral trade and transit container cargo to Europe

31 Jan 2020 - Country Risk | Headline Analysis

On 30 January 2020 Russian Prime Minister Mikhail Mishustin ordered the partial closure of Russia’s Far Eastern land borders to China from 31 January to prevent the spread of the new coronavirus 2019-nCoV, and suspended the issuance of e-visas to Chinese nationals. The closure is until further notice.

- The eastern section of the Russia-China border is 4,000 km long, with the Russian regions of Zabaykalye, Amur, Khabarovsk, Primorye and the Jewish Autonomous region bordering on the Chinese region of Heilongjiang and Inner Mongolia Autonomous Region. There are 25 border crossing points across the border, and the order by Mishustin closed 16 of them, including both automobile and railway crossings. At the time of writing it is unclear if the government will expands the list of crossings to be closed.

- China is Russia’s biggest trading partner, with USD108.3 billion in bilateral trade in 2018 (see chart). China represented 12.5% of Russian exports and 21.9% of Russian imports, as of 2018. The main Russian exports to China include crude oil, coal, mineral ores, timber and agricultural goods, while most imports are electronics, transport vehicles, textiles and chemicals. Over 80% of Russo-Chinese bilateral trade is carried out across the land border, thus the partial border closure will cause disruption in ground cargo movements, damaging bilateral trade. The effect will be felt especially in the Far Eastern Russian regions, which have a lot of small and medium-sized businesses engaged in cross-border trade, especially of consumer and food products. This is likely to lead to temporary shortages of certain Chinese-made consumer and food products in the Russian cities of Khabarovsk, Blagoveshchensk and Vladivostok.

- The closure will also disrupt the transit railway container cargo between China and the European Union via Russian territory. According to China Railway data, the number of container trains between China and the EU, mostly passing in transit via Russia, increased from 1,702 in 2016 to 6,363 in 2018. About 50% of this cargo is consumer electronics, and 10-15% are textiles. As the railway crossing in Zabaykalsk, Zabaykalye region, which is the main entry point of transit container trains to the EU, was among the closed border crossings, this will cause delays and rerouting of this transit trade between China and the EU.

China - Russia bilateral trade
Rwandan-Ugandan border disruption likely to continue, particularly at Gatuna crossing, despite steps towards improving relations

4 Feb 2020 - Country Risk | Headline Analysis

Rwandan President Paul Kagame stated on 29 January that he would not reopen the Gatuna border with Uganda, despite previous indications that the two countries were working towards a rapprochement. Rwandan-Ugandan relations deteriorated sharply during 2017 over a variety of mutual grievances, including mutual accusations of domestic political and security interference. The border posts at Kagitumba and Cyanika remain operational, despite Gatuna’s closure to trade. A meeting between Kagame and Ugandan President Yoweri Museveni in Angola on 2 February ended with a resolution to release prisoners, renewed commitments not to support “destabilisers” against the other government, and an agreement to hold their next round of talks on 21 February at the Gatuna border. Museveni also recommitted to resolving the dispute in his 2020 New Year message. Uganda’s East African Community (EAC) Minister estimated in June 2019 that three months of Gatuna’s closure had lost Uganda USD664-million-worth of exports to Rwanda, and lost Rwanda USD104-million-worth of exports to Uganda.

Significance: Despite positive statements at heads of state meetings, the continued closure of the Gatuna crossing indicates that the drivers of deteriorated Rwandan-Ugandan relations remain largely unresolved. The risk of even localised fighting between Rwandan and Ugandan forces will remain very low as long as they are not both deployed in the same area of a third country, a scenario that is also not probable. Until at least mid-2020, trans-border cargo will likely continue to face delays at border crossings, including (in a minority of cases) some cargo being refused passage, as happened to a convoy of trucks transporting Burundi-bound cattle on 19 January at the Kagitumba crossing. The impact of such delays will likely be greatest on consumables transporters, who are likely to have tighter supply chains; key cross-border cargo includes mining, agriculture, and construction materials. The extension of this disruption beyond the six-month outlook would be likely in the event of either ruling party or opposition figures holding anti-Rwandan government rallies in Uganda that attract turnout in the thousands, representing political pressure on President Museveni ahead of the February 2021 election; the most likely trigger for this would be further killings of Ugandan civilians (allegedly involved in cross-border smuggling) by Rwandan security forces.

Violent protests in Iraq to persist as designated PM beholden to Iran-aligned parties

3 Feb 2020 - Country Risk | Headline Analysis

Iraqi President Barham Salih designated Mohammad Tawfiq Allawi prime minister on 1 February, two months after Adil Abd Al-Mahdi resigned following anti-establishment protests which began on 1 October 2019. Allawi served as communication minister during 2006–07 and 2010–12. He has the support of Muqtada al-Sadr and Hadi al-Ameri, the leaders of the two dominant parliamentary blocs, and Iran. Hundreds of protesters, notably in Baghdad, Najaf, and Nasiriya, demonstrated in response to Allawi’s appointment, as he is a compromise candidate representing the sectarian power-sharing political system which they want to change.

Significance: Allawi lacks a power base of his own and is, therefore, unlikely to be able to implement reforms that reduce the influence of political parties, and hence will not satisfy demonstrators’ demands. His appointment is likely an attempt by the leading Shia factions to appease protesters until new elections are held later in 2020. Allawi will be beholden to the interests of Ameri and Sadr, with Sadr increasingly supporting the policy aims of Iran-aligned Ameri, and Iran. Consequently, Ameri will likely support US troop withdrawal, but refer the decision to parliament, where ultimately a reduced presence will be agreed upon. Allawi has
stated that he supports the protesters and that he would call for new elections, pass a new electoral law, restore the ‘prestige’ of the security forces, improve the economy, and fight corruption; however, he will likely be curtailed in any efforts that threaten the political establishment. Thousands of demonstrators are likely to maintain protests in central areas of Baghdad, the capital, and across southern Iraq despite leading Shia political leaders, notably Sadr, withdrawing their support from the protests. As such, security forces led by Iran-aligned factions of the Popular Mobilisation Units (PMUs) are highly likely to amplify their campaign to discourage protests, using smoke and tear gas, rubber bullets and live ammunition, assassinations of prominent protesters and indiscriminate arrests, and credible reports of torture while in custody. Indicators of decreasing protest risk include Grand Ayatollah Ali al-Sistani expressing support for Allawi, and Sadr supporters successfully removing demonstrators from their de-facto headquarters at an abandoned commercial centre, popularly referred to as the ‘Turkish restaurant’, by Baghdad’s Tahrir Square.

Risks: Government stability; Policy direction; Protests and riots

Sectors or assets affected: Security forces

Renewed missile and UAV attacks into Saudi Arabia likely to continue as fighting in Yemen intensifies

31 Jan 2020 - Country Risk | Headline Analysis

Houthi forces claimed they mounted successful ballistic missile and unmanned aerial vehicle (UAV) attacks targeting Saudi Aramco oil facilities in Jizan region in southwestern Saudi Arabia and Jizan airport on January 29 2020. Saudi officials said that air defences intercepted the missiles and the UAVs. This was the first attack since the Houthi leadership announced in September 2019 that it would cease military operations into Saudi Arabia.

- The attack in Jizan came in the context of a sudden escalation in fighting between Saudi-backed forces loyal to internationally recognised president Abd Rabbu Mansour Hadi and the Houthis in central and northern Yemen. After a year of relative calm on the central and northern frontlines, Houthi militants launched a ballistic missile and drone attack targeting a military training camp housing forces loyal to President Hadi in Ma'rib province in north-central Yemen on January 18 2020. The attack, one of the deadliest since Yemen's civil war started in 2015, killed at least 116 people and triggered a resumption of fighting in central Yemen for the first time since 2018. On 20 January, the Yemeni army started a ground offensive supported by coalition airstrikes towards Nihm and Khulan districts in eastern Sanaa province, where the Yemeni army was halted by Houthi defences and where fighting is currently ongoing. On 28 January, Saudi airstrike targeted the Daylami airbase, adjacent to Sanaa airport, the first strike since September 2019.

- The current escalation in central Yemen is endangering the December 2018 Hodeidah ceasefire agreement. UN-backed Yemeni Foreign Minister Mohammad Abdullah al-Hadrami stated on 23 January that the government was considering halting its obligations to the Hodeidah agreement, which stopped military operations to capture the Houthi-held port city, and blamed the Houthis for threatening to derail the peace efforts. According to Yemeni media, this view is shared by coalition officials frustrated by the fact that current talks with the Houthis have not broken the political stalemate, and who are ready to increase military pressure on the movement. That the Yemeni army offensive originated in the city of Ma'rib, which in recent months has become a pro-Hadi stronghold where pro-Hadi groups from northern and southern Yemen have coalesced, and focused on Nihm district, a strategic gateway to Sanaa, indicates that the coalition is likely testing Houthi defences in central Yemen for a potential offensive around Sanaa. Such a
move would likely push the Houthis to send reinforcements to the capital from Hodeidah, allowing the coalition to resume its military push along the Yemeni Red Sea coastline.

- Houthi attacks into Saudi Arabia using ballistic missiles and weaponised unmanned aerial vehicle (UAVs) are likely to intensify over the next two months. The resumption of Saudi airstrikes in Yemen, especially around Sanaa, coupled with the likely Houthi concern that an offensive on the capital is imminent, is expected to lead the movement to resume its cross-border attacks into Saudi Arabia with missiles and armed UAVs. Airports in the south of Saudi Arabia are at highest risk, particularly Jizan, Abha, and Najran, and further north towards hydrocarbon facilities around Jeddah. Considering the Houthis' intent to target commercially relevant assets in Saudi territory, such as airports, the increasing sophistication of their UAVs, and Saudi Arabia’s inability to intercept all Houthi drones entering their airspace, such targets are likely to face significant structural damage when Houthi attacks are carried out with a combination of drones, ballistic missiles, and cruise missiles.

**Indicators of changing risk environment**

**Increasing risk**

- The coalition starting to re-deploy troops from southern Yemen into Ma’rib and al-Jawf, signalling that preparations to launch the offensive on Sanaa are underway.
- Houthi militants expanding missile and drone attacks on Yemeni army military bases in southern Yemen.

**Decreasing risk**

- The Houthi demobilise in Hodeidah and hint their willingness to fully implement the ceasefire agreement there.

**Shelling of Tripoli’s airport by Libyan National Army highlights fragility of truce and likely resumption of hostilities**

23 Jan 2020 - Country Risk | Headline Analysis

Forces supporting the UN-recognised Government of National Accord (GNA) reported on 22 January that the Libyan National Army (LNA) had shelled Tripoli’s Mitiga airport with six Grad rockets, leading to suspension of flights and the imposition of a no-fly zone over Tripolitania. The attack was the latest in a series of reported violations of the truce formally agreed by the Tripoli-based GNA and the eastern-based LNA on 13 January, which failed to translate into a permanent ceasefire during the UN-led conference in Berlin on 19 January, given ongoing mistrust between the two sides. This was also followed by the LNA’s shutting down of oil fields and ports in eastern and southern Libya on 20 January, with Libya's National Oil Company announcing that oil production, which has averaged 1.2 million barrels per day (bpd), was reduced to almost 70,000 bpd.

**Significance:** The attack on Mitiga coincided with the arrival in Libyan territory of further weapons shipments from Turkey and the United Arab Emirates, which politically and militarily support the GNA and the LNA respectively. The shipments were in contravention of the document signed in Berlin that called for an end to foreign involvement in the Libyan conflict, highlighting both sides’ tenuous adherence to the truce, and the LNA’s preparedness to resume its offensive on Tripoli. By shutting down oil production, the LNA is likely attempting to economically isolate the GNA, as oil revenues are deposited into the Tripoli-based Central Bank, and increase pressure on European countries dependent on Libyan energy supplies to shift their support in favour of the LNA. Further LNA airstrikes across Tripolitania or LNA troops movements towards Misratah in the short term would indicate the imminent and formal breakdown of the truce.
Taliban offer indicates phased US withdrawal agreement increasingly likely, reducing threat to foreigners and air bases in Afghanistan

27 Jan 2020 - Country Risk | Headline Analysis

Senior Afghan politicians – including Chief Executive and presidential candidate Abdullah Abdullah and former president Hamid Karzai – held a meeting in the Afghan capital Kabul on 25 January 2020 to establish a mechanism for intra-Afghan peace talks that are likely to follow a US-Taliban agreement. Unlike President Ashraf Ghani, who was not involved in the meeting, Abdullah and Karzai welcomed the Taliban's offer in mid-January for a "reduction in violence" to secure a deal with the US.

- **The Taliban’s offer to reduce violence and deteriorating ties with Al-Qaeda increases the likelihood of a US-Taliban deal being reached.** Although it falls short of the US and Afghan governments' demand for a full ceasefire, IHS Markit assesses that the Taliban's offer to reduce violence is likely to be an acceptable compromise for Washington, if not Kabul. After talks were abruptly suspended in September 2019 (before resuming in December) following a Taliban attack that killed a US soldier in Kabul, US negotiators will likely welcome a public Taliban commitment to reduce attacks. More importantly for US interests in Afghanistan, however, IHS Markit sources in Kabul suggest that the relationship between the Taliban and militant Islamist group Al-Qaeda is deteriorating, particularly following the killing of an unnamed Al-Qaeda operative in Taliban-controlled territory in late 2019. If this development is true, US negotiators will likely perceive it as an indication of the Taliban severing its ties with transnational Islamist groups, therefore driving US intent to secure a phased and likely condition-based US troop withdrawal deal ahead of the US presidential election in November 2020.

- **A finalised US-Taliban agreement will likely reduce the threat of insurgent attacks against NATO air bases, suicide attacks in Kabul, and blockades of key highways.** Although a reduction of violence has not been officially outlined, IHS Markit expects that the offer will involve a Taliban commitment to reduce attacks against US personnel and bases, including Bagram air base in Parwan and Kabul airport, while also reducing Taliban blockades of key national highways. More broadly, the Taliban would probably pledge to reduce if not completely stop suicide vehicle-born improvised explosive device (VBIED) attacks in Kabul in particular. The Taliban had to some degree already implemented this to facilitate negotiations with the US during 2019, when there were only 30 suicide attacks across Afghanistan compared with 68 in 2018. Only two suicide attacks were reported in the country following the suspension of US-Taliban talks in September 2019. Taliban attacks against Afghan security forces and government assets, however, will likely continue.

- **The Taliban leadership's ability to implement a reduction in violence has strengthened, but factions opposed to the peace process will pose a residual threat of continued attacks.** Taliban leader Haibatullah Akhunzada has invested most of his political capital in securing a US withdrawal deal. Haibatullah likely risks forced removal or assassination from internal opposition groups should negotiations with the US fail. This, together with IHS Markit sources reporting that the Taliban's northern faction has reconciled with Haibatullah's leadership, indicates that Taliban commitments under a deal with the US are likely to be broadly implemented. However, the Haqqani Network – a key section of the Taliban that holds senior positions within the insurgent group's structure, including the deputy leadership and head of military operations – remains sceptical of the peace process, and poses a likely threat of VBIED attacks in Kabul and complex ground assaults against US air bases.

- **A full nationwide ceasefire will be discussed during intra-Afghan negotiations, which are likely to be more challenging than US-Taliban talks.** A full ceasefire is likely to be discussed during intra-Afghan negotiations, which are planned to begin after a US-Taliban deal is finalised, as is increasingly likely. Intra-Afghan talks are likely to be complicated given the myriad of domestic stakeholders that will
be involved in the negotiations, and are therefore more liable to break down. With wide scope for challenges in negotiations – including over constitutional disputes, such as the role of Sharia law and women's rights – there will be a very high risk of the Taliban resuming attacks, specifically sophisticated VBIED operations in Kabul, should intra-Afghan negotiations break down.

**Indicators of changing risk environment**

**Increasing risk**

- Haibatullah's removal or killing would likely trigger a suspension of the peace process, given that his successor would most probably be associated with the Haqqani Network and therefore less amenable to negotiations.
- A Haqqani Network split from the Taliban would likely trigger sophisticated insurgent attacks in Kabul and against US interests in the country.

**Decreasing risk**

- Al-Qaeda statements criticising the Taliban for negotiating or co-operating with the US would indicate a permanent severing of ties between the groups, solidifying US intent to agree a deal with the Taliban and ensure successful intra Afghan talks.
- The formation of a temporary Kabul government or a cross-political Afghan team to negotiate with the Taliban would increase the likelihood of an intra-Afghan deal being reached, given that a team exclusively picked by Ghani would have stricter and likely unacceptable demands of the Taliban.

**Islamic State activity in Iraq and Syria unaffected by Baghdadi's death, Turkish incursion, or US partial-withdrawal**

24 Jan 2020 - Country Risk | Headline Analysis

Nine months after the end of the Islamic State's so-called 'Caliphate' in March 2019, when the jihadist group lost its final remaining territory in Baghuz, it remains active across much of the territory it formerly governed in Iraq and Syria. It continues to conduct a campaign of sophisticated improvised explosive device attacks, assassinations, and hit-and-run raids against any actor attempting to govern Sunni Arab-majority territory.

- **The overall level of Islamic State activity has remained relatively stable since the end of the Caliphate in March 2019.** The group's activity does not yet appear to have been significantly affected by events such as the killing of 'Caliph' Abu Bakr al-Baghdadi in October 2019, or the partial withdrawal of US forces from northern Syria to make way for Turkey's incursion into northern Syria. This is in line with IHS Markit's previous assessment that the structured organisation that was necessary for its governance project has fractured into a more decentralised array of local factions, which now operate largely independently under the umbrella label of the Islamic State.
Iraq’s central provinces remain the centre of gravity for the Islamic State’s ongoing insurgency. Since the end of the Caliphate, 69% of Islamic State activity recorded by IHS Markit was in Iraq, compared with 31% in Syria. The provinces most affected are Diyala, Ninawa, and Anbar in Iraq, and Deir al-Zour in Syria, where the Islamic State poses a severe risk to security forces, transportation, and critical infrastructure. Attacks consist primarily of raids against security forces, and the use of improvised explosive devices (IEDs), often concealed in cars or motorcycles, to target political offices, police stations, and security checkpoints in urban areas. There is also a severe risk to critical infrastructure, including oil and gas installations, and to all ground cargo.

The Islamic State will maintain the local support base it needs to sustain and grow its insurgency in the three-year outlook. The Islamic State’s jihadist ideology remains prevalent among Sunni Arab communities in the more conservative tribal areas of Iraq and Syria. These militants are the most capable fighting force defending the Sunni Arabs against the increasing Iran-backed Shia influence. Although IHS Markit has not yet recorded any significant increase in the frequency of Islamic State activity, there are indications that the group's capability is increasing in eastern Syria, where hit-and-run attacks in December and January succeeded in overrunning and temporarily holding several government outposts in Deir al-Zour province.
Indicators of changing risk environment

Increasing risk

• The United States withdraws training and air support for the Iraqi government, reducing the ability of the Iraqi security forces to control the Islamic State insurgency.
• Islamic State prisoners and their families currently held in Kurdish detention centres in northern Syria are released or escape, returning to their hometowns to support the insurgency.
• The US completes its withdrawal from Syria, enabling Iranian-backed forces to cross the Euphrates to take control of Syria’s eastern oil fields, and pushing Sunni Arab tribal forces towards reconciliation with the Islamic State to fight a common enemy.

Decreasing risk

• Turkey expands its incursion into northern Syria, in an attempt to incorporate Syria’s Sunni Arab tribes along the Euphrates river and deter an Iranian-backed Syrian government advance.
• An agreement between the Iraqi government and the Kurdistan Regional Government that allows for security co-ordination between ISF and Peshmerga, particularly in border areas where neither force has a presence.

Tripartite talks indicate little progress with regional integration, but Eritrean-Ethiopian border likely to reopen after August elections

31 Jan 2020 - Country Risk | Headline Analysis

The heads of government of Eritrea, Ethiopia, and Somalia met in Asmara, Eritrea, on 27 January for a third round of talks on the Tripartite Agreement signed in September 2018 to improve regional co-operation. The leaders agreed on a Joint Plan of Action for 2020. This focuses on security and economic development, while floating the idea of creating a new regional co-operation bloc, similar to the Intergovernmental Authority on Development. However, the plan lacks specific actionable policies or defined targets.
**Significance:** Although the joint statement emphasises progress already made on the Tripartite Agreement (specifically on improved trade), the Eritrean-Ethiopian border remains closed and efforts to increase co-operation remain primarily at presidential level. Although we assess that the leaders of all three countries are personally committed to increasing regional co-operation, their respective domestic political situations limit immediate action. In Ethiopia, Prime Minister Abiy Ahmed has consolidated the ruling coalition into a single party ahead of legislative elections provisionally scheduled for August. This has driven the formerly dominant Tigray People’s Liberation Front (TPLF) party to leave the coalition and consolidate its support in Tigray region. This move is likely to be viewed with suspicion by the Eritrean government, which regards the TPLF as the principal remaining external threat to its administration now that relations are closer with Ethiopian Prime Minister Ahmed. Buy-in from Tigrayan elites remains key to the scope to implement trade agreements with Eritrea and guarantee security in the border region, and for the development of nearby potash mining projects. Consequently, the Eritrean-Ethiopian border is likely to remain closed until after Ethiopia’s legislative elections, although it is then likely to be opened. In Somalia, President Mohamed Abdullahi faces significant opposition from regional states and his government has limited control outside of central Somalia. This limits the viability of the 2020 action plan’s proposal to improve security, particularly regarding cross-border smuggling and terrorism risks. However, the continuation of talks indicates that Eritrea is unlikely to return to isolation, with this providing encouragement for engagement by and funding from multilateral organisations and European governments. This would potentially benefit regional infrastructure, including ports in Eritrea, and regional road and telecoms networks.

**Risks:** Interstate war; Ground; Regulatory burden

**Sectors or assets affected:** Transport infrastructure; Mining

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Indian protests likely to drive intensified skirmishes with Pakistan, risking property damage in Kashmir and aviation disruption

20 Jan 2020 - Country Risk | Headline Analysis

India’s new army chief, General Manoj Mukund Naravane, delivered a speech on 15 January in which he emphasised the Indian military’s capability to capture Pakistan-administered Kashmir if India’s political leadership ordered it to do so.

- **Although full Indian military offensive in Pakistan-administered Kashmir is unlikely, intensified skirmishes along the Line of Control (LoC) are highly probable in 2020.** IHS Markit assesses that there is limited appetite within India’s Bharatiya Janata Party (BJP) government for a full military offensive in Pakistan-administered Kashmir, given that such a conflict would risk wider military escalation and international diplomatic criticism of India. However, the rhetoric is likely to remain heightened. Growing student-led protests and India’s slowing economy will particularly compel the BJP government to continue its more confrontational foreign policy towards Pakistan, which has resonated with the BJP’s core nationalist support base, in order to consolidate the ruling party’s domestic popularity. As a manifestation of this, cross-border fighting – incidents of which doubled in 2019 according to government data, with India revoking autonomous privileges for Indian-administered Kashmir in August and the first air-to-air dogfight between the two countries in 50 years in February – is likely to further intensify in 2020.

- **Cross-border fighting is likely to involve artillery and mortar exchanges, probably threatening collateral damage to major commercial assets in Pakistan-administered Kashmir.** Skirmishes are likely to mainly involve artillery and mortar exchanges, but India is also likely to conduct air and missile strikes against alleged targets associated with Kashmiri separatist groups and the Pakistani military in
Pakistan-administered Kashmir. Although accidental escalation would be a significant risk in this scenario, we assess that both the Indian and Pakistani leaderships would probably seek to de-escalate should hostilities risk expanding beyond a localised conflict in the Kashmir region. It is therefore unlikely that intensified skirmishes will expand to the international border along Pakistan's provinces of Punjab and Sindh and India's states of Punjab and Rajasthan. Although commercial assets and infrastructure projects – most notably operational and under-construction hydropower plants – are unlikely to be targeted, skirmishes during the past year have demonstrated that these types of assets are at risk of collateral damage in the Kashmir region. For example, in July 2019 local officials evacuated Chinese workers from an unidentified dam project in Pakistan-administered Kashmir after (according to social media reports) an Indian artillery shell landed close to the site. No damage was reported.

- **India-Pakistan skirmishes risk triggering several months of disruption to airspace over the subcontinent and would increase the risk of accidental shootdowns.** The February 2019 dogfight triggered the closure of Indian and Pakistani airspace, which was partially imposed for another four months before being lifted. We expect the Pakistani government to impose similar measures should hostilities entail the use of air force or ballistic missiles during intensified skirmishes along with heightened alert levels for both countries’ air defence systems. Airspace closures would particularly affect the operations of flights connecting Europe to Asia, and the Middle East to East Asia. Major civilian airports, however, would only be targeted in the unlikely scenario of a full military confrontation. Although we assess that India's and Pakistan's advanced radar capabilities and strong command and control structures render an accidental shootdown of a civilian airliner over Indian and Pakistani airspace unlikely, the risk is not negligible and would increase if skirmishes intensified. India relies on indigenous and the Russian S-200 air defence systems, which are probably deployed on the border with Pakistan. The S-200 has a history of accidental shootdowns due to its automatic target re-acquisition system, including an incident in September 2018 when Syrian S-200s accidentally shot down a Russian surveillance aircraft. Notably, Indian air defence systems accidently shot down an Indian Air Force Mi-17 helicopter during the February 2019 dogfight.

### Indicators of changing risk environment

**Increasing risk**

- A deterioration of the BJP's domestic political standing in India – for example through a further slowdown in the economy (particularly worsening unemployment figures) or violent anti-government protests continuing beyond the one- to two-month outlook – would increase the risk of targeted air or missile attacks by India.
- A major Kashmiri separatist attack in Indian-administered Kashmir – or within the Indian mainland – without even a symbolic Pakistani punitive reaction would increase domestic pressure on the BJP government to respond militarily against Pakistan.

**Decreasing risk**

- Initiation of bilateral talks between India and Pakistan, even at an informal stage, would indicate growing appetite for rapprochement and decreasing interstate war risks.
- A recovery in the Indian economy (albeit only a moderate one, according to IHS Markit expectations) will provide the government space to focus on its domestic policy agenda.
Protest risk increases in Argentina’s agribusiness sector, likely disrupting supply chains in Buenos Aires, Córdoba, Santa Fe

30 Jan 2020 - Country Risk | Headline Analysis

The Confederation of Rural Associations of Buenos Aires and La Pampa (Confederación de Asociaciones Rurales de Buenos Aires y La Pampa: CARBAP) has threatened to carry out protests and suspend the sale of grain and meat over the government’s decision to raise export taxes (“retenciones”) for the sector. CARBAP has demanded a response by 31 January. President Alberto Fernández, who has been in office since December 2019, has raised export taxes for soybeans from 24.5% to 30%, for corn and maize from 6.5% to 12%, and for milk and meat from 4.5% to 9%. Separately, in late December 2019, Congress approved an economic emergency law that allows the president to implement a further 3% increase. Export taxes were reinstated temporarily by the previous government in 2018. Agribusiness associations are also demanding export tax reductions, claiming that the current tax burden is making the activity “unsustainable”; agribusiness is Argentina’s main export sector.

Significance: The government is unlikely to concede to a significant tax reduction for the agribusiness sector in 2020 as it is seeking to increase tax revenue to control the fiscal deficit without deepening spending cuts. Agribusiness associations, including the Argentine Rural Society (Sociedad Rural Argentina: SRA) and the Argentine Agrarian Federation (Federación Agraria Argentina: FAA), are likely to stage further “tractorazos” (tractor protests) that include parking tractors alongside roads for several hours or driving convoys slowly around city centres. Hundreds of tractors are likely to gather in agribusiness provinces, such as Buenos Aires, Córdoba, Santa Fe, and La Pampa, likely disrupting sale and supply chains. However, agricultural producers are likely to pile grain in silos and wait for potential tax cuts, mitigating the risk of escalation at least until mid-2020. Fiscal-deficit widening will indicate an increased likelihood of the government increasing export taxes by the additional 3%, enhancing protest action, such as roadblocks and the suspension of shipping of produce to ports and processing plants. A government-proposed concrete calendar of tax reduction will reduce protests risks.

Risks: Protests and riots; Labour strikes

Sectors or assets affected: Agribusiness

RISK NOTE: Iran unlikely to shut Strait of Hormuz short of full-scale war, but increased risk of vessel seizure

7 Jan 2020 - Country Risk | Headline Analysis

The Royal Navy deployed Type 23 frigate HMS Montrose and Type 45 destroyer HMS Defender to the Gulf on 4 January to escort UK-flagged vessels through the Strait of Hormuz and support the US-led naval coalition Operation Sentinel. The move came a day after Iran's Islamic Revolutionary Guards Corps (IRGC) Qods Force (QF) General Qassem Soleimani was killed by a US airstrike in Iraq. Iran's Supreme Leader Ali Khamenei promised ‘harsh vengeance’. IHS Markit assesses that Iran is likely to retaliate, at a time and manner of its choosing.

- IHS Markit has increased the assessed probability of a full-scale war between the United States and Iran from 25% to 35% in the 12-month outlook. A full-scale war would most likely involve Iranian ballistic missile and unmanned aerial vehicle (UAV) strikes causing major structural damage to ports throughout the Gulf, and US airstrikes on Iranian ports. Iran would most likely launch anti-ship missiles
aimed at sinking commercial vessels in the Gulf, and deploy sea mines to shut the Strait of Hormuz, resulting in US-led clearance operations lasting up to several months. The killing of Soleimani shows US readiness to use kinetic force in response to recent Iranian-backed attacks, despite President Donald Trump’s previously stated reluctance to go to war. It is unclear what the next steps for the US would be in response to further Iranian actions, but they are almost certain to be escalatory, if not deliberately disproportionate, as threatened by Trump.

- **Iran remains very unlikely to shut the Strait of Hormuz short of full-scale war.** The main objective for Iran to shut the Strait would be to cause US allies and rivals alike who are economically reliant on the flow of oil through the Strait to pressure the US to halt a war. Outside of a war scenario, Iran shutting the Strait would likely have the opposite effect, driving US allies and rivals alike to put pressure on the US into re-opening the Strait by force to permit the flow of oil. Shutting the Strait outside of a full-scale war scenario would also be counterproductive for Iran’s efforts to portray itself internationally as the victim of US aggression.

- **Even in a scenario short of war, Iranian retaliation is likely to involve targeting of commercial port facilities of US allies in the Gulf, particularly of Saudi Arabia and the United Arab Emirates.** Iranian retaliation is likely to focus on demonstrating Iran’s ability to hurt the US and its allies’ economic interests in the region, rather than seeking to inflict large numbers of US casualties, which would carry a far higher risk of escalating into a full-scale war. This is likely to involve further attacks, sometimes attributed to the Houthi and probably comprising of cruise missile or attack UAVs, against ports and offshore facilities, energy, desalination, and aviation assets. Unlike the Iranian-backed attacks between May and September 2019, IHS Markit assesses that, given the willingness of the US to strike such a high-level Iranian target, the UAE and Saudi Arabia are more likely to respond against Iran if attacked, raising the risk of escalation and full-scale confrontation.

- **Iran is now more likely to seize commercial vessels, particularly from European countries, to hold as bargaining chips to deter US airstrikes.** The presence of the US-led maritime security force, Operation Sentinel, comprising of Albania, Australia, Bahrain, Saudi Arabia, the UAE, the United Kingdom, and the US, mitigates the risk of harassment attempts, but is insufficient to deter Iran from seizing vessels if it chooses to do so. This is most likely to occur in or near the Strait of Hormuz and disputed waters such as around the Tunb Islands, where Iran can claim that vessels strayed illegally into Iranian waters. The presence of naval escorts, particularly when these are small patrol boats, also increases the risk of incidents escalating into an unintended military confrontation, or of military personnel being taken hostage by Iran.