

# Analysis selection for JCC

May 2022

## Russia's invasion of Ukraine

30 May 2022 - Country Risk | Strategic Report

On 18 April Russia began the so-called 'Phase 2' of its 'special military operation' in Ukraine, the Kremlin's stated objective of which is to capture all of the Donbas – Donetsk and Luhansk regions. If successful, it would enable Russian President Vladimir Putin to claim 'victory' and call for a ceasefire. In the absence of mass mobilisation in Russia and putting the country on a war footing, the limited and much-degraded Russian ground forces committed in Ukraine are unlikely to be capable of achieving a decisive victory in Donbas, given their performance to date, substantial losses and combat fatigue; that said, the limited objective of taking all of the Luhansk region now appears imminent. Separately, the securing of a Black Sea coast land corridor to the borders of Moldova and Romania is a likely ultimate Russian objective, but also looks unachievable with current resources.

- **Russia is now seeking a decisive victory in Donbas.** Following the failure of its initial 'blitzkrieg', Russia has regrouped its ground forces in preparation for an offensive aimed at securing all of the Donbas region. Recourse to chemical weapons (CW) is a likely escalatory pathway, particularly if the Russian offensive in the Donbas becomes bogged down. Given their logistic and command and control shortcomings, and their demoralising losses, the Russian ability to achieve this in Donbas is in doubt. Unconfirmed international media reports of Putin being involved in tactical decisions on Russia's campaign in Ukraine, if correct, suggest his continued dissatisfaction with the slow progress being made and the heavy losses incurred. It also increases Putin's personal stake in achieving a 'victory'. Russia is likely to orchestrate the annexation of the Donetsk and Luhansk regions of Ukraine in the next few months, probably no later than September 2022, even if it is unable to take all the territory involved militarily. The Russian reliance on overwhelming firepower, used indiscriminately to 'soften up' their limited objectives, enables armoured units to make slow and incremental advances, as demonstrated near Sievierodonetsk in Luhansk region, which is likely to fall to the Russians in the coming days.
- **Ukrainian armed forces and civilians continue to resist Russian advances, thanks to increasing weapons resupply from the West.** Ukrainian forces have demonstrated their capability to repel penetration by Russian forces into major cities, helped by the use of modern Western-supplied weapons, such as anti-tank guided missiles and attack UAVs. Since the beginning of May, Ukrainian forces have successfully conducted counterattacks near Kharkiv, the effect of which has been to put the city out of range of most Russian tubed artillery and multiple rocket launchers (MRLS). On 29 May, Ukrainian forces reportedly began a counteroffensive in the Kherson region, advancing by approximately 10 km. Russian ground forces are making slow progress in their main effort in Donbas, with the Ukrainian positions near Sievierodonetsk and Lysychansk, both Luhansk region, under imminent threat of encirclement. In the coming weeks in Donbas, the Ukrainian forces are likely to fall back to prepared defensive positions near Bakhmut, Kramatorsk and Sloviansk, all in Donetsk region. This was demonstrated by the Ukrainian withdrawal on 24 May from Svitlodarsk, Donetsk region, which fell under Russian control. Ukrainian ability to defend these key positions in Donetsk region will depend on the ability to deploy new Western weapons transferred by the US, UK, Poland, and other allies. Despite Russia conducting strikes on Ukrainian air defences and air force early in the campaign, Russia has not yet achieved air superiority, with Ukrainian aircraft still conducting sorties over the eastern and southern regions. Russian missile strikes on key weapons supply routes from

NATO countries into western Ukraine have increased the risk of accidental strikes on NATO countries' territories, and/or killing NATO military personnel involved. The supply of potentially 'game-changing' advanced weapon systems, including long-range artillery and armour, to Ukraine has substantially increased since the security summit chaired by US Defense Secretary Lloyd Austin in Ramstein air base (Germany) on 26 April; however these weapons have not yet been deployed in the numbers needed to stop, still less push back, the Russian offensive in the Donbas.

- **The humanitarian situation is likely to deteriorate further in cities near the frontlines, with Russian forces using indiscriminate bombardment to terrorise the civilian population to force their surrender.** Mariupol is now under full control of Russian forces. Russian offers of 'humanitarian corridors' are, as already seen, likely to be part of this strategy, with Russian forces likely to open fire on civilians using supposedly safe routes. According to the United Nations High Commissioner for Refugees (UNHCR), as of 29 May, more than 6.8 million people have left Ukraine, mostly to EU neighbours (Poland, Hungary, Romania, and Slovakia) and Moldova. It is estimated that a further 10 million Ukrainians are displaced internally within the country.
- **Cargo risks across Ukraine are likely to remain severe, especially in eastern, southern, and northern regions affected by the fighting.** Since the Russian invasion of Ukraine in February, the Russian Navy has opened fire on several commercial vessels in the northwestern Black Sea and in the Sea of Azov, with at least 12 ships damaged and two ships sunk. The reported Ukrainian missile strike on Russia's *Moskva* cruiser on 13 April off the coast of Odesa region, which led to its subsequent sinking on 14 April, is a confirmation of high risk for marine assets. The continued Russian military operation against Ukraine, including potential Russian amphibious landings near Odesa, will further increase risks to commercial marine cargo in the northwestern Black Sea, both at ports and at sea. If amphibious operations develop, both Russian and Ukrainian forces are likely to be exchanging missiles and Russian naval infantry would attempt to take control of major Ukrainian seaports. That said, the sinking of the *Moskva* cruiser is likely to have reduced Russian appetite for an amphibious operation. Airspace over Ukraine is likely to remain closed for the time being. Risks to ground cargo are likely to be severe, especially in regions in the south, east, and north, where fighting continues.
- **The Russian military's use of force in taking over nuclear power plants (NPPs) in Ukraine represents an elevated risk of nuclear contamination.** The Zaporizhaska NPP in Enerhodar has been under de-facto Russian control since early March. There is an elevated risk of deliberate or accidental incidents at any nuclear power plants affected by the fighting, leading to radioactive materials being released into the environment, and potentially across the region.
- **Both sides are currently committed to achieving mutually exclusive objectives, calculating that success on the battlefield will strengthen their position in any eventual negotiations.** Under pressure from the expenditure of 'blood and treasure', and the growing impact of more robust and wide-ranging sanctions than anticipated, modified Russian objectives are likely to include Kyiv's recognition of Russian sovereignty over Crimea and the likely incorporation of the two separatist entities in Donbas into Russia. For its part, the Ukrainian government rejects any settlement that would leave Russian forces in occupation of Ukraine's sovereign territory (it is unclear whether this would include Crimea). The impact of unprecedented Western sanctions on the Russian economy, likely to be expanded in the case of further Russian territorial gains in Ukraine, is also likely to have a moderating influence on the Russian position, especially over the three-month outlook. At the same time, a continued high-intensity but indecisive war of attrition in Donbas will increase the likelihood of Russia and Ukraine agreeing on temporary ceasefires, potentially leading to a stalemate 'frozen conflict', with some territories in Ukraine, especially in Donbas and the south, remaining under de-facto Russian occupation.

## Indicators of changing risk environment

### Increasing risk

- If the estimated total of 60–70,000 Ukrainian forces in the Donbas conflict zone are cut off, this would prevent their redeployment, significantly restricting Ukraine's ability to fight a conventional war in other regions, including Kyiv and the south.
- If Russian forces manage to successfully advance from Popasna to Bakhmut and take Lyman, establishing bridgeheads across the Siverskyi Donets river, this would indicate near encirclement of Ukrainian forces in the Sivierodonetsk–Lysychansk area in the Donbas region.
- If reinforced Russian forces take or bypass Mykolaiv and capture the bridge or establish pontoon crossings across the Southern Buh river, this would increase the likelihood of Russia conducting ground and amphibious operations to capture Odesa.
- If Ukrainian armed forces conduct missile/air strikes or insurgent activity on Russian territory or in Crimea, this would elevate the scale and depth of punitive Russian strikes in Ukraine, including against civilian targets (activated 1 April).
- Leaked intelligence/commercial satellites showing additional formations in Russia's Central and Southern Military Districts preparing for additional heavy equipment to be moved by rail would most likely indicate their commitment to the campaign in Ukraine.
- Increased aircraft activity at airfields across the Russian border would indicate that Russian special forces and airborne units are preparing for new operations aimed at taking key airfields in areas currently outside their control for use as airheads through which 'heavy' forces can be air landed.
- Russian government warnings about alleged plans by Ukrainian forces planning to use CBRN weapons against Russian forces would indicate a growing likelihood of Russian forces using chemical weapons against both Ukrainian combatants and civilians.
- Resignation of senior Russian government or central bank officials further narrows in the short term the options for alternative internal views moderating the conduct of the war, but potentially creates a new internal political grouping to challenge Putin.
- If Russia conducts air or missile strikes on main roads and railways in western Ukraine, near the Polish and Romanian borders, which are used by Western allies to resupply Ukraine, the severity of Western responses to Russian actions will be further elevated, particularly if there are casualties among NATO personnel involved in transporting critical supplies.
- Further Russian allegations that Ukraine or the US are using sites in Ukraine to develop chemical or biological weapons would increase the likelihood of Russia using chemical weapons against either Ukrainian troop concentrations or, more likely, population centres.
- Reports of Russian mobilisation of reservists and/or of delays in demobilisation of conscripts would imply a renewed major offensive by reinforced and fresh ground forces, coupled with an intensification of targeting of population centres and civil infrastructure by long-range missiles and artillery.

### Decreasing risk

- Further successful Ukrainian counterattacks in the north or south, especially near key urban centres such as Kharkiv or Kherson, would be likely to modify Russian war objectives, pushing Moscow towards reaching a ceasefire agreement.
- Continuing Russian failure to achieve a decisive victory in Donbas would increase the likelihood of the Kremlin offering negotiations aimed to consolidate current gains, moderating risks to people, infrastructure, and assets should an agreement on a ceasefire be made.
- Leaked intelligence reports and/or increasing bilateral contacts signal that Putin is coming under diplomatic pressure from Russia's key partners, China and/or India, to agree to a ceasefire.
- Evidence of the Russian Defence Ministry's failure to generate sufficient trained manpower to sustain its operations in Ukraine, either for gaining new territory or for protracted occupation, would force the Russian leadership to further moderate its strategic objectives. This was activated on 25 May, with Russian media reports of criticism from retired officers' associations and defence think tanks about the conduct of the war, and the government's failure to generate the resources needed to win the war.
- Social and other media circumvent Russian government control, disseminating alternative information and messages about the on-the-ground situation in Ukraine, as economic impacts of sanctions affect Russians, sparking a wider protest movement and diluting Putin's political support base.



## Potential Odesa–Bosphorus marine cargo corridor, if implemented, would significantly reduce risk to escorted vessels in Ukrainian EEZ

7 Jun 2022 - Country Risk | Headline Analysis

Russian daily newspaper *Izvestiya* reported on 6 June, citing sources in the Russian government, that Russia, Turkey and Ukraine had allegedly agreed to open a maritime corridor allowing Ukrainian exports, especially grain shipments, to resume between Ukraine’s Odesa port and Turkey’s Bosphorus strait. There has been no independent verification of this plan from other sources, including from the Ukrainian government. According to the news report, the Turkish navy would be deployed to the northwestern Black Sea to identify and remove any drifting sea mines in the proposed corridor to Odesa port, including in Ukrainian waters. The Turkish navy would escort commercial cargo vessels through waters of the Ukrainian Exclusive Economic Zone (EEZ), while the Russian navy would escort them through the de-facto Russian EEZ west of Crimea and the Turkish EEZ to the Bosphorus. The news report claimed that the proposed corridor is expected to be finalised on 8–9 June during the planned visits by Russian Defence Minister Sergei Shoigu and Foreign Minister Sergei Lavrov to Ankara.

**Significance:** Although there is no independent verification for the reported plan, the Ukrainian government has strong incentives to support it as such a cargo corridor between Odesa and the Bosphorus, if implemented, would allow Ukraine to resume some exports, most significantly of grains, by sea. Turkey is also likely to approve this plan as it would strengthen President Recep Tayyip Erdoğan’s role as a key diplomatic intermediary between the West and Russia. The volume of marine cargo passing through this corridor would be limited by the ability of Turkey and Russia to provide naval escorts. Certain goods, such as agricultural exports, are therefore likely, at least initially, to be prioritised over other exports. There is no information available on whether Ukraine will be allowed to use the same route for imports. The ability of marine cargo operators to serve this route will also depend on the cost of marine war insurance; additional premiums for vessels passing through waters of the Ukrainian EEZ have risen to around 5% of the value of the ship, from 0.025% before Russia’s invasion. Commercial vessels traveling through the Ukrainian EEZ with Turkish naval escorts would be at much lower risk of being targeted by Ukrainian or Russian forces, or coming into contact with drifting sea mines. There does remain, however, an elevated risk of Russian attacks or mine strikes against these commercial vessels, particularly in the de-facto Russian EEZ, which would likely be blamed on Ukraine and used as a reason to suspend shipments through the corridor. If the corridor is approved, this would also reduce the risk of Russian missile and airstrikes against Odesa port.



## Mozambican insurgent activity spreads to Ancuabe, Quissanga, and Meluco districts after displacement from Macomia by Rwandan troops

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10 Jun 2022 - Country Risk | Headline Analysis

On 8 June, at least two workers at an Australian-owned mine were killed during an attack in Ancuabe district, Cabo Delgado province. This followed a raid by Islamic State-affiliated insurgents on 5 June at Nanduli village in Ancuabe district, in which at least one person was killed. The same group is highly likely to be responsible for the 8 June attack. President Filipe Nyusi confirmed that the 5 June attack was the first in Ancuabe district since the insurgency in Cabo Delgado began. In late May and early June, there was a spate of attacks in Meluco and Quissanga districts, neighbouring the insurgents' main stronghold of Macomia district.

**Significance:** It is likely that recent insurgent activity in Ancuabe, Quissanga, and Meluco districts is a result of insurgents vacating Macomia district following the deployment of Rwandan troops there since April. IHS Markit sources state that Rwandan troops are more effective than the Mozambican troops and Southern African Development Community Mission in Mozambique (SAMIM) troops already based in Macomia. Rwandan troops are deployed in Mozambique primarily to secure the operations of the large TotalEnergies liquefied natural gas (LNG) project on the Afungi peninsula. They probably extended their area of operations southward to Macomia district because TotalEnergies' chief executive officer said that the project would not progress without a "stabilised" security situation. Rwandan troops are unlikely to significantly extend their area of operations beyond its current scope, instead focusing on securing territory necessary for TotalEnergies' return. This indicates that insurgent small arms attacks are likely to continue in heavily forested parts of Ancuabe, Meluco, and Quissanga districts where they can evade the security forces. Remote villages are likely to be attacked most frequently, but mining operations and trucks carrying goods are also established targets for the insurgents. At-risk routes include the major N380 road, which reopened in early June to cargo with military escorts after being closed for roughly three years due to the threat of attack by insurgents.

**Risks:** Terrorism

**Sectors or assets affected:** Cargo (ground); Defence and security forces; Individuals; UN and peacekeeping missions

## Sri Lanka's anti-government protests

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17 May 2022 - Country Risk | Strategic Report

Ranil Wickremesinghe was appointed interim prime minister on 12 May after his predecessor, Mahinda Rajapaksa, resigned under pressure from intensifying nationwide protests against his government. Sri Lanka declared a temporary moratorium on its international debt liabilities on 12 April after foreign exchange reserves had reached critical levels, driving shortages of essential supplies. Despite the appointment of a new prime minister, protesters continue to demand President Gotabaya Rajapaksa's resignation, presenting an 'Extreme' risk of further violent unrest across the country.

- **Anti-government protests calling for the resignation of the Rajapaksa brothers have escalated to fighting between rival political supporters and attacks against parliamentarians.** Anti-government unrest began in late March 2022, driven by shortages of food, fuel, gas, and medicine – a result of Sri Lanka's lack of foreign reserves that limited the government's capacity to import essential goods. Violence was localised until alleged pro-Rajapaksa supporters attacked anti-government protest sites at Galle Face and outside the Parliament building in Colombo district on 9 May, shortly after Mahinda Rajapaksa announced his resignation as prime minister. These attacks triggered an escalation that led to anti-government protesters attacking parliamentarians, their homes, and associated businesses – mostly in Colombo but also across the country. Domestic reports indicated that more than 500 people have been wounded and nine killed in violence since 9 May, including during fighting between rival political supporters. In one incident in Colombo on 9 May, a parliamentarian from the Rajapaksas' Sri Lanka Podujana Peramuna (SLPP) shot dead a protester after his vehicle was attacked, before apparently committing suicide. The escalation in violence comes despite the government's imposition of a state of emergency on 6 May, enabling the deployment of additional security forces and the imposition of widespread, geographically delineated

curfews.

- **President Gotabaya Rajapaksa's continued reluctance to resign means that protests are likely to continue and threaten his position.** Ranil Wickremesinghe's appointment as prime minister on 12 May is part of President Gotabaya's attempt to placate protesters' demands through the formation of a unity government open to all political parties. Local reporting, corroborated by IHS Markit sources among anti-government protesters based in Sri Lanka, suggests that Wickremesinghe and his designated government have been widely rejected by protesters. This is probably because attacks against anti-government protesters, allegedly by pro-Rajapaksa supporters, have further entrenched public opinion against the president, while Wickremesinghe lost significant political capital following his last term as prime minister from 2015–18. The main opposition Samagi Jana Balawegaya (SJB), whose leader Sajith Premadasa is popular among anti-government protesters, has so far rejected President Gotabaya's invitation to join the unity government. Overall, this indicates that further violent unrest is likely in the coming weeks and months, especially if – as is likely – the impasse between the president and protesters deepens. In addition to fighting between rival protesters, this is likely to include further attacks on parliamentarians, their homes, and associated businesses (typically including local hotel chains, small manufacturing units, and local retailers) while security forces increasingly employ potentially lethal use of force. Diplomatic and international assets – such as major hotel chains – located near key protest sites in Colombo are unlikely to be targeted directly but face an increasingly high risk of collateral damage.
- **Despite the moratorium on its external debt liabilities, government finances remain insufficient to maintain essential services, increasing the likelihood of sustained anti-government protests during 2022.** Even if anti-government protesters eventually accept compromises proposed by President Gotabaya, or if he is forced to resign, Sri Lanka's weak external and fiscal position implies that shortages of essential commodities are likely to continue. Prime Minister Wickremesinghe on 16 May warned of challenging months ahead, with the country needing at least USD75 million immediately to ensure some supply of essential services, including food, electricity, and fuel. Sri Lanka's economic situation therefore suggests that supply shortages are likely to persist, driving protests and general strikes across whole sectors in the coming months, and to extend throughout the remainder of 2022. Protests will probably take place across the country but are particularly likely in Southern and Western provinces – particularly in Colombo, where thousands of protesters have gathered at Galle Face Green, near hotels and diplomatic assets, since 9 April. There is also a high risk of impromptu protests and rioting around fuel stations, food stores, pharmacies, and hospitals.
- **Broader government instability appears inevitable, hindering negotiations with the International Monetary Fund (IMF).** It is unclear whether President Gotabaya will remain in power or if a unity government would represent a sustainable solution. Persistent government instability is therefore likely, indicating a delay to negotiations for debt restructuring with creditors including bondholders, and for an IMF programme. Despite initial reluctance to engage the IMF, driven by the Rajapaksas' historical hostility towards the West, the leadership now appears to perceive a fresh programme as key to its strategy of bolstering fiscal and debt sustainability. Wickremesinghe's appointment as prime minister is positive in this respect, as his previous tenures in power have shown strong political will to engage the IMF and more broadly, with the West.
- **An IMF programme would improve government and economic stability, but would exacerbate tax and state contract alteration risks in Sri Lanka.** The IMF's approach towards imposing austerity measures in its programmes in emerging-market countries appears to have softened, largely because of its desire to avoid triggering social unrest and a public backlash against incumbent governments. While this might limit the stringency of IMF conditionality in Sri Lanka's proposed programme, the IMF is likely to seek the restoration of previously agreed increases in value-added tax (VAT) that were withdrawn after President Gotabaya came to power in 2019, and it has also stated in its latest Article IV report that income tax should be increased. The severe pressure on government finances and the likely requirement for austerity measures indicate the likelihood of cuts in budget expenditure, increasing the risk of the government postponing or cancelling state contracts. Chinese infrastructure projects have faced significant domestic criticism and would be vulnerable to scrutiny during broader state cost cutting. The government is also likely to attempt to increase tax revenues, increasing the fiscal burden on the private sector. Parliament had already passed legislation in

February 2022 that imposed a 25% retrospective 'surcharge tax' on groups of companies, partnerships, and individuals earning more than LKR2.0 billion (USD6.2 million).

### Indicators of changing risk environment

#### Increasing risk

- Further deployment of the military to contain unrest would indicate an increasingly likely lethal use of force by security forces, increasing the risk of fatal confrontations with protesters.
- Protesters' explicit rejection of a unity government as a compromise would increase the risk of continued protests and political uncertainty, hindering orderly debt renegotiation.

#### Decreasing risk

- Buddhist clergy support for a unity government would encourage protesters to accept the administration's proposal and conclude or reduce protests.
- Further lines of credit from India and China would reduce short-term food and electricity shortages, reducing the protest risk.

## US president's expression of support for Taiwan exacerbates risk of unintended escalation, but all-out war unlikely

24 May 2022 - Country Risk | Headline Analysis

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US President Joe Biden on 23 May unilaterally expressed a verbal commitment to defend Taiwan militarily during a summit with Japanese Prime Minister Fumio Kishida. Biden's comments followed announcements that the US administration would take a more active role in crafting Taiwan's defence policy and weapons procurement, as well as previous comments made in October and August 2021 indicating that the United States would respond militarily to an invasion of Taiwan by mainland China.

- **While full military conflict between mainland China and Taiwan remains unlikely in the next year, the consequences of Biden's comments are in line with incrementally increasing war risks in and around the Taiwan Strait.** Although the White House later clarified that the US still subscribes to the existing One China Policy and the Taiwan Relations Act (TRA), at a minimum the statement demonstrates Biden's intention to defend Taiwan in the event of an attack. The comments – even if they do not represent an official change in US foreign policy – will fuel Beijing's perception of a confrontational US posture over Taiwan. Mainland China's Foreign Minister Wang Wenbin expressed "strong dissatisfaction" with Biden's remark, commenting that "on issues touching on China's core interests of sovereignty and territorial integrity, China has no room for compromise or concession." While Biden's comments do not cross any of Beijing's "red lines" – including the presence of foreign soldiers in Taiwan or a declaration of Taiwan's independence – they will reinforce mainland China's resolve to exercise its perceived rights to undertake further incursions by the People's Liberation Army Air Force in Taiwan's self-proclaimed Air Defense Identification Zone (ADIZ), increasing the risk of unintended military escalation affecting both sides. At the same time, the US Navy is likely to continue, and even intensify, Taiwan Strait transit exercises – also raising the risk of maritime incidents between the two countries' navies that would similarly widen the prospect of unintended escalation.
- **Both the US Biden administration and Taiwan's Ministry of Defence (MOD) have committed to a "porcupine" defence strategy, indicating closer US–Taiwan security co-operation within the existing TRA framework and affecting future defence procurement.** The US State Department announced on 14 May that it would no longer authorise the sale of defence equipment to Taiwan that does not contribute to the island's "asymmetrical defense", indicating that the US wants Taiwan to adopt a defensive strategy focused entirely on repelling a mainland Chinese military invasion, modelled on the US strategy developed to support Ukraine's defences. The announcement and subsequent cancellation of a USD1-billion order for Seahawk helicopters prompted complaints from the Taiwan–US Business Council and the American Chamber of Commerce in Taiwan. On 18 May,

officials from Taiwan's MOD issued a statement mirroring the US State Department's position, indicating that future weapons procurement would be "based on need", according to Taiwan's asymmetrical defence strategy, and would not be influenced by business groups or "individual arms dealers". Future weapons sales are likely to prioritise an expedited delivery schedule and focus on stockpiling large quantities of uncrewed aerial vehicles (UAVs), anti-tank guided weapons, and sea-mines, while sales of more complex and offensive weapons systems – such as helicopters, aircraft, or main battle tanks – are likely to be amended, delayed, or cancelled by the US. While the Biden administration has indicated a greater interest in crafting Taiwan's defence strategy compared with its predecessors, its actions are still consistent with the framework provided by the TRA that has guided US–Taiwan relations since 1979, and which commits the US to providing Taiwan with defensive weapons based on US threat assessments.

- **Biden's repeated verbal commitments to defend Taiwan are unlikely to encourage Taiwan's ruling Democratic Progressive Party (DPP) government to adopt a more aggressive "pro-independence" position.** Following Biden's 24 May statement, officials from Taiwan's Ministry of Foreign Affairs downplayed its significance, thanking Biden for his support and affirming Taiwan's commitment to improving its defensive capabilities. The tepid response from the DPP government reflects its commitment to maintain the Taiwan–mainland China status quo instead of pursuing de jure independence. This was reaffirmed as recently as October 2021 by President Tsai Ing-wen during her National Day address and was previously outlined by Tsai during a January 2020 interview, in which she stated, "We have no need to declare ourselves an independent state."

## Indicators of changing risk environment

### Increasing risk

- Electoral gains for the DPP in Taiwan's 2022 midterms or the 2024 general election would foreclose the opportunity for a KMT-mediated normalisation of relations with mainland China, as occurred under the previous Ma Ying-jeou government, and would be likely to worsen cross-strait relations.
- Increased diplomatic or military support for Taiwan from neighbouring countries, primarily Japan, South Korea, and Australia, would indicate greater alignment in the Indo-Pacific on an overall security approach to Taiwan and lead to greater risks of escalation and naval altercations.
- Taiwan's inclusion, even as an observer, in more Indo-Pacific initiatives such as security dialogues, working groups of the Quadrilateral Framework (Quad), military exercises led by Quad members, and/or Rim of the Pacific Exercises (RIMPAC) would indicate increasing international support for Taiwan, thus worsening relations between mainland China and Taiwan and the other participating countries.

### Decreasing risk

- The Biden administration's decision to ease import tariffs placed on mainland China since the previous administration of former president Donald Trump would indicate improving US–mainland China relations and reduced motivation for raising the public profile of US–Taiwan ties.

## Former Pakistani PM's attempt to force elections will drive violent unrest in Islamabad, Lahore, and Karachi

26 May 2022 - Country Risk | Headline Analysis

Former prime minister and leader of the opposition Pakistan Tehreek-e-Insaf (PTI) party, Imran Khan, led a "long march" to the capital Islamabad on 25 May to force the government to hold early elections. Thousands of PTI supporters joined the march from various locations in the country, including Lahore and Peshawar. Khan and his PTI-led government were ousted from power in April 2022 after a no-confidence motion in parliament organised by a coalition of parties opposed to the PTI, leading to the formation of a government led by the Pakistan Muslim League–Nawaz (PML-N). Ahead of the march, the PML-N government directed local police and the military to increase security in the capital and deploy ad hoc barricades using cargo containers along key highways to Islamabad from Lahore and Peshawar to prevent protesters from gathering. Local

media reported widespread fighting between PTI supporters and security forces throughout the day, with security forces using tear gas to disperse protesters, particularly in Lahore. According to the PTI, at least five of its supporters were killed. Although Khan had initially planned for his supporters to hold an indefinite sit-in at D-Chowk in Islamabad, near the capital's diplomatic areas, he announced on 26 May that he was suspending the protest for six days, but warned that the sit-in would resume if the PML-N government failed to announce early elections (parliament's term is set to expire in mid-2023).

**Significance:** The widespread use of force by security forces indicates that the likelihood of the government accepting Khan's demands is low, notably because of the enmity between the PTI and the PML-N. This carries a very high risk of protests by Khan and the PTI resuming over the next week, leading to further fighting between PTI supporters and security forces, particularly in Islamabad, Lahore, Karachi, and Peshawar. It is likely that Khan's protest would be sustained for weeks, and potentially months, if the government remains entrenched in its position, exacerbating the risk of violent confrontations. However, the likelihood of the PML-N government resigning would increase should the military intervene to broker a compromise. The military's impetus to do so would increase if policy paralysis around unpopular economic reforms demanded by the International Monetary Fund (IMF) – including reduced fuel subsidies – continue. Continued IMF assistance is crucial in the context of Pakistan's declining foreign exchange reserves and upcoming debt repayments. If the government resigns, an interim neutral government would take charge to oversee elections within three months, as per Pakistan's constitution.

**Risks:** Government instability; Protests and riots

**Sectors or assets affected:** All

## Ongoing security operation in Ethiopia's Amhara region likely to increase frequency of anti-government protests, militia violence, banditry

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30 May 2022 - Country Risk | Headline Analysis

Ethiopia's Amhara Regional State Peace and Security Bureau chief Desalegn Tassew announced on 23 May the arrest of 4,552 suspects who authorities allege have attempted to "destabilise the region", including members of the regional security forces. There have also been unconfirmed reports of fatalities in Motta, East Gojjam zone, when security forces attempting to disarm and detain Fano militia members were met with hostile protests by the local population and allegedly opened fire on the crowds. Motta was the site of a previous deadly confrontation between Fano elements and Amhara security forces, escalating from an attempted arrest, on 6 March 2022. The Ethiopian government used the 'Fano' informal ethnic Amhara militias to fight the insurgent Tigray Defence Forces (TDF) armed group during 2021. Amhara Regional President Yilkal Kefale has stated that his administration has "no intentions of disarming or attacking Fano".

**Significance:** The ongoing mass arrests in Amhara region probably are intended to facilitate the restructuring, disarmament, and demobilisation of the Fano militias. The Ethiopian national government regards dismantling, restructuring, or disarming "irregular security forces" as a security priority, and our sources indicate that the Fano militias are very likely the priority target of this. These efforts will likely trigger sporadic but increasingly frequent fighting with security forces, protests, and increasing rural banditry. Elements of the Fano militias are very likely to resist violently, and to receive support from parts of the local Amhara population. Consequently, incidents of exchanges of small-arms fire between security forces carrying out enforcement operations and Fano elements will likely become more frequent, as will protests escalating to violence between civilian crowds and security forces. Resisting Fano elements are also likely to engage increasingly in banditry in rural areas of Amhara region as an alternative source of funds, including along major roads, posing death, injury, and robbery risks to road travellers. Successful dismantling or disarming of Fano militias in southern Amhara region would decrease the frequency of currently sporadic raids by these elements into northern Oromia region, which largely target local civilians and Oromo militias.

**Risks:** Protests and riots; Terrorism; Civil war; Death and injury

**Sectors or assets affected:** All

## Attempted disruption of Libyan oil production and export likely to increase in frequency as political impasse extends

25 May 2022 - Country Risk | Headline Analysis

On 19 May 2022, Government of National Stability (GNS)-affiliated protesters held a demonstration at the Hariga oil terminal in protest against the export of oil to the United Kingdom by a tanker operated by Ridgebury. Several media sources reported that shots were fired in the vicinity of the port at the time of the protests but details of intent are unclear. No damage was reported to the port or the tanker as a result of the protest and reported shooting. GNS-backed protesters have launched a series of demonstrations since April 2022 demanding the resignation of the Tripoli-based Government of National Unity (GNU). A number of these have been held at oil fields including El-Feel, Abuatufol, Al-Intisar, Anakhla and Nafura, and Al-Sharara. Force Majeure was declared at these facilities as well as Marsa el-Brega and Zuwaitina oil export terminals due to the disruption in supply, and in most cases lasted several weeks. The protests are occurring as a result of a dispute over how and when to conduct presidential elections, delayed since December 2020. Negotiations between the High Council of State and House of Representatives are currently being held in Cairo and the UN has sponsored a plan to hold elections in December 2022. The GNS has proposed delaying elections until 2023 and governing alone until then.

**Significance:** The electoral dispute is unlikely to be resolved for several months as negotiations in Cairo continue. The dispute will be prolonged until at least the end of the year if the GNS continues to object to UN-backed elections, despite broad backing from other stakeholders. Disruption to oil production and export, as a tool of exerting political pressure on the GNU, is likely to increase the longer the matter remains unresolved. GNS-affiliated protests are likely to involve road and facility blockades, as well as sit-ins. As the LNA draws important sources of funding from oil revenues, and its GNS allies are keen to showcase themselves as legitimate political representatives, it is unlikely that full military action or attributable attacks would target oil facilities. From the ceasefire signed in December 2020 up until 19 May 2022, the GNS and its LNA allies refrained from disruptions targeting tankers carrying oil on behalf of the National Oil Company (NOC), from which they depend on as an important source of funding. This was likely in response to GNS Prime Minister Fathi Bashagha's failed attempt on 17 May 2022 to take over the city of Tripoli. Although it is unlikely that full military action or attributable attacks would target oil facilities, the increased protests signify a higher tolerance on the part of the GNS/LNA to funding disruptions as they attempt to increase their political sway.

**Risks:** Civil war; Protests and riots

**Sectors or assets affected:** Maritime transport; Oil and gas

## Ecuadorian indigenous organisation CONAIE announces nationwide protests in June, threatening increased supply chain disruption and property damage

26 May 2022 - Country Risk | Headline Analysis

As President Guillermo Lasso was giving Ecuador's yearly national address on 24 May, Leonidas Iza, leader of Ecuadorian umbrella indigenous organisation, the Confederation of Indigenous Nationalities of Ecuador (Confederación de Nacionalidades Indígenas del Ecuador: CONAIE), gave an address criticising government policies and inaction on social issues affecting indigenous communities. During the speech, Iza announced that CONAIE will call for nationwide protests over the issues from 13 June. Legislators from political party Pachakutik, the political branch of CONAIE, attended Iza's speech rather than Lasso's. The Opposition party Union for Hope (Unión por la Esperanza: UNES), which holds the largest bloc in Ecuador's National Assembly, and over half of other opposition legislators also did not attend Lasso's speech. Lasso has been blocked from passing legislation as his party holds only 17 out of 137 seats in Ecuador's National Assembly.

**Significance:** The timing of Iza's address was likely to have been designed to weaken the president's address, and the attendance of some Pachakutik legislators at Iza's address rather than Lasso's indicates a growing rejection of the political process. Divisions within Pachakutik mean that CONAIE is becoming the stronger of the two branches of the organisation, with the organisation opting for protest action instead of seeking to achieve its aims in the National Assembly. CONAIE has significant mobilisation power and calls for protests are likely to gain support from unions, student organisations, and the wider public. The delay of

nearly three weeks between the announcement and the start of protests suggests that CONAIE is likely to seek co-ordination with other groups, increasing the risk of larger scale disruption, potentially triggering supply chain disruption lasting for up to a week at a time. Protests are likely to involve roadblocks in urban centres and on major intercity roads. Widespread violence is unlikely, although there is an elevated risk of localised confrontations between protesters and security forces, with security forces being likely to use tear gas to disperse large gatherings and protesters burning debris and throwing projectiles. If Lasso introduces new measures or seeks to pass unpopular proposed legislation by decree before 13 June, it would trigger more widespread violence and increase the risk of looting and arson during protests, affecting small businesses, including pharmacies and petrol stations.

**Risks:** Government instability; Protests and riots; Property damage

**Sectors or assets affected:** All, particularly Ground cargo

## Fuel shortages likely to widen in Mexico, prompting high risk of transport-sector protests and export disruption

25 May 2022 - Country Risk | Headline Analysis

Unionised taxi drivers in Mexico reported on 17 May that up to 100 petrol stations across Nuevo León state were facing fuel shortages. By 21 May, local media also reported petrol and diesel shortages at several stations in Aguascalientes and Jalisco states. In response to these reports, the National Organisation of Petrol Distributors (Organización Nacional de Expendedores de Petróleo: ONEXPO) claimed that the cause was an artificial increase in demand by retailers on state-owned company Pemex, resulting in resupply problems. According to ONEXPO, several stations were trying to fill up their spare storage capacity to protect themselves from potential scarcity as private fuel imports are declining, and more petrol stations are turning to Pemex for procurement.

**Significance:** President Andrés Manuel López Obrador (AMLO) has given a commitment that despite rising international energy prices, domestic fuel prices will not increase. To honour this commitment, the government ceased collecting USD0.25 per litre tax on fuels and also added a subsidy of about USD0.25 per litre. When buying from private fuel importers, filling stations must absorb the cost of subsidy temporarily and have it refunded later by the government as a tax credit. This, together with the AMLO administration's policy direction of strengthening the state energy sector, which has severely restricted the issuance of new fuel import permits to private firms, increases incentives for stations to shift to Pemex for fuel procurement. If purchasing from Pemex, retailers pay for the fuel at already subsidised prices. Further attempts by retailers to take up spare fuel storage capacity and turn to Pemex would exacerbate pressure on its logistical capabilities and increase the risk of widespread shortages. The states that are most likely to face supply disruption given recent precedents and market share distribution between Pemex and private importers include Baja California, Guanajuato, Aguascalientes, Jalisco, and Nuevo León. Border cities in Baja California face particularly high petrol shortage risks since US-based consumers commonly cross into Mexico to take advantage of the lower prices. Where shortages develop, it would increase the likelihood of localised protests, probably by taxi drivers or delivery company workers. Diesel shortages, for their part, would also increase risks of export disruption by causing up to one-day delay in cargo deliveries, given the wider use of diesel in the ground cargo sector.

**Risks:** Supply chain; Protests and riots

**Sectors or assets affected:** Oil and gas; Ground; Transport

## Probable further Uruguayan port strikes to cause severe disruption to cargo movement in one-to-three-month outlook

23 May 2022 - Country Risk | Headline Analysis

Uruguay's Trade Union of Port Workers (Sindicato Único de Trabajadores Portuarios y Ramas Afines: SUPRA) staged a third 24-hour strike in the Port of Montevideo on 17 and 18 May. SUPRA has to date

carried out strikes on 9, 10, 12, and 13 May, and has expressed its intent to carry out another 72-hour strike in the coming weeks. The strikes are in response to an announcement made on 3 May by Montecon, the main operator of the Port of Montevideo, of its plan to dismiss 150 workers by the end of May. The decision was reportedly made following its financial losses, which the company said were a result of a 2021 government decree that gave operational priority in the Port of Montevideo to the Cuenca del Plata container terminal (TCP), which is partially owned by Katoen Natie.

**Significance:** Further strikes are probable in the one-to-three-month outlook given the likely failure of the parties involved to reach an agreement in the coming month. Montecon is unlikely to back down from its decision to dismiss the employees, as the 2021 government decree has resulted in Montecon losing 180,000 container movements each year, leading to financial losses that, according to the company, make current employee numbers unsustainable. The government has offered special unemployment benefits beyond the standard to those dismissed and the absorption of some of the workers by the TCP. The proposal, however, has been rejected by SUPRA, which has demanded that no employees be dismissed. Further strike actions are therefore likely, probably carried out for one to three days at a time and disrupting imports and exports, particularly pharmaceuticals, meat, dairy, grains, and cereals, which are handled by Montecon. Significantly longer delays are unlikely as only Montecon workers are striking. However, given that Montecon is one of the largest operators in the Port of Montevideo, other companies are unlikely to completely make up for the reduction in movement of goods; an estimated 70% of imports and 60% of exports pass through the port of Montevideo.

**Risks:** Labour strikes

**Sectors or assets affected:** Ports; Maritime trade

## Bolivian maize shortages raise protest risk in Santa Cruz department and customs delays at Peruvian border

18 May 2022 - Country Risk | Headline Analysis

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Several mayors from southern Santa Cruz department in Bolivia stated on 16 May that local agricultural producers had lost up to 95% of their maize crops after cold temperatures added to severe drought. The president of the maize and sorghum producers' association, Mario Moreno, said on 8 May that Charagua, Gutiérrez, Lagunillas, and Yacuiba (Tarija) municipalities normally produce around 600,000 tonnes of maize per year, but that for this year, only 200,000 tonnes are expected: the area supplies around 50% of the maize crops for national consumption. Local producers and mayors have declared the situation an emergency, pointing to closures of farms and chicken production sites caused by the lack of maize to feed animals, and are asking for government intervention and loans. Some livestock producers are requesting emergency imports of genetically modified maize, which is currently banned. However, the government has denied that there are insufficient supplies of maize, with several ministers attributing the problem to price speculation and accusing large business owners or intermediaries of hiding maize crops to restrict supply.

**Significance:** While the government continues to refuse financial support for affected producers or dialogue with firms demanding access to grain supplies, farms and medium-sized food production sites are likely to continue to close in affected areas, increasing unemployment and protest risks in Santa Cruz department, an opposition stronghold. If they continue, maize shortages will exacerbate rising food prices and related shortages of milk, chicken, and pork products, increasing protest risk nationally in the coming months. Such protests are likely to involve roadblocks in urban centres and on inter-city routes, causing disruption for up to several days, although widespread violence remains unlikely. The general manager of the Association of Producers of Oilseeds and Wheat has previously highlighted a trend of decreasing crop yield, as a result of climate factors, which will threaten food security and lead to further price increases. Over the next six months, however, the government's accusations towards the private sector of creating the shortages are likely to damage their future mutual co-operation, as well as with local government officials in Santa Cruz and Tarija departments. Importers and exporters should also expect delays at customs along the border with Peru in the coming weeks, particularly at Desaguadero, because of increased checks on goods in transit to prevent producers from smuggling maize crops to secure higher prices in neighbouring countries.

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