Brexit outlook

5 Jan 2018 - Country Risk | Strategic Report

Following the European Union's recent agreement with the United Kingdom to move ongoing Brexit negotiations to the second phase, talks about future trade relations are envisaged to commence in March 2018. Negotiators will be severely pressed for time in order to make sufficient progress before the UK ceases to be an EU member state in March 2019.

- As it is politically, legally, and technically unfeasible to reach a fully fledged free trade agreement during the second phase of Brexit talks, it is likely that negotiations will continue during a post-Brexit transition period after March 2019. The UK government's recent acknowledgement that the country will likely accept wide-reaching equivalence of current relations with the EU during that time is a risk-positive development. However, levels of uncertainty remain heightened as the UK's initial proposal that transitional arrangements could last for up to two years was opposed by EU Chief Negotiator Michel Barnier who would like to launch new relations with the UK on 1 January 2021.

- In 2018, progress in Brexit negotiations is at risk of being hampered by domestic political developments in the UK. Major risks include the Conservative minority government's parliamentary weakness, its dependency on the support from the Northern Irish Democratic Unionist Party (DUP), and the very pronounced internal divisions over Brexit. In this context, there is also potential for a leadership challenge to Prime Minister Theresa May and the resultant risk of new elections before March 2019 or during the early stages of the post-Brexit transition phase. These would interrupt Brexit talks with the EU while possibly paving the way for a centre-left Labour Party government or triggering significant change in the Conservative Party's Brexit strategy.

- In addition, there is an elevated risk that the EU's current strength in negotiations translates into limited willingness for compromise to accommodate UK priorities. This was most recently demonstrated by Barnier's statement on the duration of transitional arrangements and his announcement not to accept any preferential deal for the UK's financial sector outside the EU's free trading Single Market. Another risk is posed by the diverging interests of EU member states which are likely to become more prominent during the upcoming
trade talks and the ratification process for the UK exit agreement, covering the UK's final EU budget contributions, citizens' rights, and future arrangements for the border between Northern Ireland and the Republic of Ireland.

- **It is most likely that the UK’s post-Brexit relations with the EU will include elements that are pushed for by hard-line Brexiteers and arrangements either favoured by the UK’s pro-EU faction or which are unavoidable to regain political and economic stability in the country.** As a result, the UK is for instance likely to leave the Single Market while accepting some degree of post-Brexit legal oversight by the European Court of Justice in the UK and agreeing on a very comprehensive free trade deal with the EU.

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### Indicators to watch

- Internal Brexit-related splits within the Conservative Party leading parliamentary and cabinet members to openly reject May's Brexit strategy, indicating the UK government's potential lack of preparedness for upcoming EU trade talks.

- Another UK government defeat over Brexit-related legislation in the first quarter of 2018, which would weaken May's negotiating power in Brussels while hampering progress in domestic policymaking.
• Any formal statements from the UK government or the EU that provide clarity on the exact details for a likely post-Brexit transition period, which would help businesses to better implement their Brexit mitigation plans.
• Crucial developments across the EU such as government formation in Germany and a general election in Italy as these events have the potential to change the dynamics and priorities of the EU’s negotiating team.

Outlook for US-North Korean confrontation

3 Jan 2018 - Country Risk | Strategic Report

On 1 January 2018, Supreme Leader Kim Jong Un delivered a New Year’s Day address, reiterating North Korea's "completion" of a nuclear deterrent against attack by the United States, stating that he had a "nuclear button" on his desk in case of the need for a nuclear weapons strike, and offering to discuss with South Korea by sending a delegation to the PyeongChang Winter Olympics and Paralympics. In response, South Korea's Ministry of Unification on 2 January 2018 proposed high-level bilateral talks to take place on 9 January 2018.
North Korean soldiers attending a mass rally at Kim Il Sung Square, Pyongyang, on 1 December 2017 to celebrate the 29 November 2017 test-launch of an intercontinental ballistic missile and Supreme Leader Kim Jong Un’s declaration that North Korea had achieved full nuclear statehood.

Kim Won-Jin/AFP/Getty Images

- Apart from Supreme Leader Kim Jong Un’s highlighting of his personal authority to launch North Korea’s nuclear weapons, it did not indicate a substantial shift in policy relative to previous addresses that Kim has given since 2013. Building on statements in 2016 and 2017 highlighting North Korea’s status as a “nuclear power” and its need to develop its “self-defence” capabilities to carry out pre-emptive strikes, Kim’s 2018 address emphasised the readiness of North Korea’s nuclear forces to deter or retaliate against any US first strike. In contrast to his offer of bilateral talks with South Korea, Kim showed no readiness to engage in talks with the United States on North Korea’s nuclear weapon/missile programmes. This approach is probably an attempt to drive a wedge between South Korea and the United States, drawing on the allies’ contrasting attitudes to dealing with North Korea.

- The United States has not yet responded to South Korean President Moon Jae-in’s public call to delay the upcoming joint US-South Korea military exercises if North Korea carries out no further provocations before the PyeongChang Olympics and Paralympics (scheduled on 9–25 February 2018 and 9–18 March 2018, respectively). The annual “Key Resolve” exercises held during spring, usually starting around the end of February, involve tens of thousands of US service personnel. North Korea routinely criticises these exercises as training to attack and launches short- or medium-range missiles in response. Consequently, ambiguity around North Korea’s – and importantly the United States’ – redlines drives the very high risk of interstate war.

- China is unlikely to support a full oil embargo on North Korea, although United Nations Security Council consensus will probably coalesce on sanctions that impose further restrictions on oil exports and on measures that reduce the illegal smuggling of commodities and weapons. On 2 December 2017, US National Security Adviser H.R. McMaster said, “We are in a race to be able to solve this problem,” and noted China’s “tremendous coercive economic power”, calling for the cessation of its oil exports to North Korea. China has not responded to the US’s calls to halt crude oil shipments to North Korea, emphasising instead support for UN resolutions and the goal of denuclearising the Korean Peninsula. On 31 December 2017, South Korean intelligence and customs officials claimed
that Chinese and Russian shipping firms had violated UN sanctions by providing fuel or oil products to North Korea. Deteriorating relations between China and North Korea since Kim succeeded in December 2011 have increased China's willingness to increase pressure on Kim and bring North Korea to the negotiating table. However, co-operation from China will most probably stop short of meeting US expectations.

**Indicators of changing risk environment**

**Increased risk**

- Wholesale deportations of North Korean workers from China – more than just isolated factories shutting down and sending workers home, as reported by South Korean media in November 2017.
- China taking action to substantially reduce trade with North Korea – for example, the "Friendship Bridge" that accounts for about 80% of trade between China and North Korea remains closed for more than three months.
- The United States and its allies, Japan and South Korea, carry out demonstrations of their ballistic missile defence (BMD) capabilities, PAC-3, Aegis, and Terminal High Altitude Area Defense (THAAD).
- South Korea or the United States changes its defence readiness condition (DEFCON) level.
- North Korea announces or indicates a mobilisation of its military.
- North Korea demonstrates further progress towards a nuclear-capable intercontinental ballistic missile, such as firing one on a flatter trajectory into the Pacific, carrying out an above-ground nuclear test, or demonstrating duplication of viable re-entry vehicles.
- China increases military deployments to its border region.
- South Korea and the United States announce an increase in the scale, or ratio of command-post to air/ground/maritime manoeuvres, of the next routine US-South Korea joint military exercises, scheduled for the first quarter of 2018.

**Reduced risk**

- North Korea and South Korea hold official talks at the vice-minister or minister level (for the first time since December 2015).
- North Korea and South Korea reinstate a hotline used for regular contact at least daily before the closure of the Kaesong Industrial Zone in February 2016.
• Back-channel talks between North Korea and the United States (either through the New York channel at the United Nations or hosted by a third country) gain traction.
• The United States offers talks without the precondition of agreement to, and action on, denuclearisation and formal negotiations beginning.
• Release of one or more of the remaining three US citizens detained in North Korea.
• Increased diplomatic engagement by China reduces confrontational US-North Korean rhetoric.
• North Korea announces the temporary suspension of missile launches/tests, or more than six months pass without further launches.
• North Korea confirms the participation of a delegation to the PyeongChang Winter Olympics and Paralympics.
• South Korea and the United States announce the reduction in scale, or ratio of command-post to air/ground/maritime manoeuvres, of the next routine US-South Korea joint military exercises, scheduled for the first quarter of 2018, or their postponement.

Latin America in 2018: Political outlook

4 Jan 2018 - Country Risk | Strategic Report

Several important developments will significantly affect political risks in Latin America in 2018. Major elections are taking place in Brazil, Colombia, and Mexico, while the likelihood of US-instated sanctions on the Venezuelan energy sector is increasing. This year will also prove pivotal for Argentina, whose president currently has the required momentum to further improve the business environment and pursue tax and labour changes.
Members of the Honduran Supreme Electoral Tribunal count deputies’ votes in Tegucigalpa on 6 December 2017.
Orlando Sierra/AFP/Getty Images

- **In Brazil’s critical October 2018 election, the candidates leading in the opinion polls – former Brazilian president Luiz Inácio Lula da Silva, on the left, and Jair Bolsonaro on the far right – are unlikely to endorse the fiscal and pension reforms Brazil urgently needs to restore business confidence.** At stake is the continuation of the economic reform started under President Michel Temer and the economic recovery observed through 2017. The centre-right is struggling to field a credible candidate. Although São Paulo Governor Geraldo Alckmin, of the Brazilian Social Democracy Party (PSDB), is presently the party favourite, his low approval rating (8%) is likely to force the centre-right to field another candidate, increasing the likelihood of splitting the vote.

- **Colombia’s 2018 election will affect the successful implementation of the peace agreement with the Fuerzas Armadas Revolucionarias de Colombia (FARC).** Legislative and presidential elections are scheduled in March and May 2018 respectively, where President Juan Manuel Santos cannot seek re-election and his Unidad Nacional coalition is unlikely to survive. Addressing communal opposition to extractive industries will be a priority for the outgoing administration and its successor when it assumes office in August.
• **A win by the current frontrunner in the July 2018 Mexican presidential election would increase state contract alteration risks for oil-related contracts.** If elected, Presidential candidate Andrés Manuel López Obrador also would likely postpone the involvement of state-run company PEMEX in future farm-out agreements. If the United States withdraws from the North American Free Trade Agreement (NAFTA) – which would have significant adverse effect on Mexico's economy as over 80% of its exports are destined to the US – this would improve the prospect of an Obrador victory, who is likely to run on a hard-line nationalist platform.

• **President Nicolás Maduro is likely to secure re-election in 2018, increasing the likelihood of provoking the imposition of US sanctions on Venezuelan oil exports.** Maduro's government is likely to schedule the presidential election in 2018, but without accepting any of the opposition's demands of having international observers, and forbidding some opposition parties from participating. This will likely deepen divisions within the opposition and increase the likelihood of the government which controls the electoral authority being re-elected. Such a scenario would increase the risk of the US imposing sanctions on Venezuela's oil exports, further reducing foreign-exchange reserves and raising state non-payment and sovereign default risks.

• **There is an increasing likelihood of tax and labour changes being introduced in 2018, following Argentinean President Mauricio Macri's success in the October 2017 legislative elections.** The implementation of broader austerity measures intended to control the expanding fiscal deficit are expected to go ahead; adjustments to the tax system, approved in December 2017, are likely to be implemented in 2018, while easing labour regulations is also likely.

**Indicators of changing risk environment**

• Brazilian appeal judges ratify prison sentence against former president Lula, preventing him from running in the October 2018 election.

• Brazilian president Temer’s government refuses to endorse Alckmin's candidacy, splitting the centre right vote.

• The election of a Colombian candidate opposed to the peace agreement, such as Germán Vargas Lleras – Radical Change (Cambio Radical: CR) – and Iván Duque – Democratic Centre (Centro Democrático: CD) – indicating reduced likelihood of successful implementation and alienating factions within the FARC.
• The presentation of legislation in Colombia that clarifies the rights to approve and reject extractive-sector projects, indicating reduced regulatory burden, contract enforcement, and state contract alteration risks.
• Confrontational statements from US President Donald Trump towards Mexico, related either to NAFTA or the construction of a border wall, which would likely benefit López Obrador in the upcoming Mexican 2018 presidential election.
• The Venezuelan moderate opposition’s coalition, Democratic Unity Roundtable (Mesa de la Unidad Democrática: MUD), agrees on electoral conditions in negotiations with the government taking place in the Dominican Republic, improving prospects of approval of an opposition presidential candidate.
• Statements of support and/or of restructuring of debt from China and Russia increasing the prospect of these countries playing a major role as lenders of last resort in the event the US imposes sanctions on the oil sector or a formal Venezuelan default is declared in 2018.
• Moderate Peronist factions in Argentina falling out with the Macri government would hinder the passing of a labour reform.
• Argentine Labour unions staging persistent nationwide strikes would force the government to backtrack or slow down on austerity measures.

Yemen conflict escalates

29 Dec 2017 - Country Risk | Strategic Report

Former Yemeni president Ali Abdullah Saleh was killed on 4 December by Houthi militants in Sanaa, after having announced that his alliance with the Zaydi-Shia movement had ended.

• The break-up of the Houthi-Saleh alliance has triggered an escalation of the conflict in Yemen. Until the alliance’s break-up, the front lines of the Yemeni civil war had remained largely static since mid-2016, with the Saudi-led coalition unable to achieve a decisive victory against the Houthi-Saleh bloc in central Yemen. The coalition will likely try to seize the momentum and prioritise the creation of a common front against the Houthi Movement, advancing on the capital, Sanaa, increasing support to local tribal proxies, and intensifying the campaign of airstrikes on Houthi-controlled territory. Forces aligned with the internationally recognised Yemeni government of President Abd-Rabbu Mansour Hadi will also try to open multiple fronts in central Yemen, while the offensive on the port city of Hodeidah has already
resumed. The Houthis will likely continue to consolidate their position in Sanaa, arresting and executing Saleh loyalists and dismantling the former president’s network, a process that will extend the ongoing fighting in the capital.

- **A political compromise to end the conflict now appears highly unlikely.** Saleh had been involved in back-channel negotiations with the coalition since early 2017 over the price for his withdrawal of support for the Houthi government. His decision to break publicly with the Houthis, and Saudi coalition air support for his forces, likely indicates a deal with the coalition, probably including guarantees on his safety and that of his son, Ahmed. Saleh’s death means that the coalition now lacks any interlocutor in Sanaa. A deal between Saudi Arabia and the Houthis is unlikely, as Saudi Arabia has hitherto insisted on a Houthi withdrawal from Sanaa as a precondition for a settlement and is unlikely to compromise on this demand, given the weakening of the insurgency. Conversely, the Houthis’ current dominance of the capital is likely to intensify their resistance.

- **Saleh’s death has created instability among his former supporters, and the Saudi coalition will seek to establish a controlling influence through backing his son.** The coalition will likely attempt to place Ahmed Saleh, Ali Abdullah Saleh’s son and former commander of the Republican Guard, in his father’s position, in the hope of retaining the large patronage network shaped over three decades by the former president. The outcome will largely depend on the tribes and military units formerly loyal to Saleh, including the Republican Guard, which will have to decide where their loyalties now lie. Members of the Yemeni political elite such as Vice-President Ali Mohsen al-Ahmar will also seek to dominate the political scene following Saleh’s death.

- **Iranian influence over the Houthi Movement will likely increase.** While the Houthis are now the sole insurgent actor in northern Yemen, the emergence of a common front against the movement will further isolate the Houthis, which in turn will likely seek a stronger relationship with Iran. The fact that Saleh is no longer in the alliance also means that there is at present no internal counterweight to stop the Houthis from further escalating against the coalition or obstruct the ascendancy of a more militant wing within the movement. Further ballistic missiles are likely to be launched both at targets deep inside Saudi Arabia and against coalition forces stationed in Yemen, as well as coalition vessels off Yemen’s Red Sea coastline.
Indicators of changing risk environment

Escalation

- A successful ballistic missile strike against urban or infrastructure targets in Saudi territory or attacks on coalition maritime assets from Yemen territory increase pressure for Saudi retaliation against the Houthis.
- Deployment of coalition special forces in Yemeni territory to co-ordinate ground offensives on Sanaa or Hodeidah by local proxies, or preparations for a coalition amphibious landing on the Hodeidah coast.
- Ahmed Saleh arrives in Yemen from the United Arab Emirates to take command of the Republican Guard and special forces still loyal to Saleh’s clan.
- Tribes in Ma’rib, al-Bayda, and around Sanaa announce their support for the Saudi-led coalition and express their willingness to take part in an offensive on Sanaa.
- In the process of their purge of Saleh loyalists, Houthi militants detain innocent civilians and use live ammunition to disperse mass protests against their rule, potentially triggering a popular uprising in the capital.
De-escalation

- Contrary to IHS Markit's current expectations, Houthi forces withdraw from Sanaa and indicate their readiness to negotiate.
- Houthi militants start to defect in the key battlefronts of Hodeidah, Sanaa, and Taiz.

South Africa’s ANC elective conference

20 Dec 2017 - Country Risk | Strategic Report

South African Deputy President Cyril Ramaphosa was elected the new leader of the ruling African National Congress (ANC) on 18 December at the party’s elective conference in Johannesburg. Ramaphosa scored a narrow victory, backed by 2,440 delegates to the 2,261 voting for Nkosazana Dlamini-Zuma, the former wife and strongly favoured candidate of President Jacob Zuma. Despite Ramaphosa’s victory, the Dlamini-Zuma camp secured three of the six leadership positions on the National Executive Committee (NEC), including the post of NEC deputy president for Mpumalanga provincial premier David Mabuza.
South African opposition supporters in Pretoria on 7 April on a march calling for the ousting of controversial President Jacob Zuma, who had just removed finance minister Pravin Gordhan, triggering a ratings downgrade.

Brent Stirton/Getty Images: 668608490

- **Ramaphosa’s victory was well received by the international markets as the ANC voted for a successful businessman who has promised to rebuild investor confidence and promote growth, and he is now likely to quickly articulate a comprehensive reform plan.** Although it may be some time before Zuma can be removed as South African president and Ramaphosa can implement his policy package, he will aim to provide reassurance on how he intends to repair the damage Zuma has done, and may yet do. This includes details of how to create a promised million jobs in five years, to sack and replace incompetent ministers and managers of parastatals, and tackle graft. However, the prospect of an eventual dismantling of a culture of corruption,crony capitalism, influence peddling, populist politics, and racially charged rhetoric will be an enduring positive, as well as the defeat of a candidate who had alarmed investors by repeatedly calling for radical economic transformation and wealth redistribution.

- **Now that he has secured the ANC leadership, Ramaphosa is likely to prioritise a swift removal of Zuma as head of state.** After becoming ANC president himself in December 2007, Zuma engineered a no-confidence vote by the NEC in President Thabo Mbeki, prompting his resignation in September 2008. Zuma is now likely to suffer a similar fate, only sooner. Zuma remains national president, with considerable power, and both Ramaphosa and a large constituency of the ANC are aware of the need to remove him as soon as possible before he can take further actions damaging to the economy and use his position to protect himself from possible corruption charges and a judicial inquiry into allegations of state capture. Removing Zuma’s influence will also be critical to Ramaphosa’s chances in the 2019 election. Although his ascension to ANC president boosts the party’s chances of securing a poll victory, Ramaphosa would further improve those odds by taking over from Zuma before 2019. This would give him time to start implementing his economic policies and remove Zuma appointees in order to rebuild the damaged image of the ANC.

- **The presence on the NEC of three key figures from the Dlamini-Zuma camp suggests that Ramaphosa will have some difficulties building unity around key policies and campaigns.** New deputy ANC president David Mabuza, secretary-general Ace Magashule, and deputy secretary-general Jessie Duarte are likely to favour some of the more populist
wealth redistribution policies promoted by Dlamini-Zuma. The former two are also provincial premiers who achieved their prominence in the era of influence-peddling and patronage with a more aggressive and intimidatory style of politics that sits uncomfortably with Ramaphosa and his supporters, particularly new party chairman Gwede Mantashe. An initial battle for influence seems likely to be fought over Magashule's controversial victory over the Ramaphosa camp’s Senzo Mchunu, who initially believed he had won a race in which the results did not add up to the number of delegates initially announced to have voted.

**Indicators of changing risk environment**

- Calls from Ramaphosa or senior figures close to him for Zuma to resign as quickly as possible.
- Formal reaction to the outcome from Zuma, and policy statements including whether he will try to partially salvage his reputation with populist policies such as free tertiary education.
- A swift appointment by Ramaphosa of a new state prosecutor, who will rule on whether to reinstate 783 corruption charges against Zuma.
- The announcement of a judicial inquiry into state capture, which Zuma was ordered by a court on 13 December to appoint within 30 days.
- A formal challenge by Mchunu to his defeat, and the outcome of a possible recount which could indicate vote-rigging.

**China's 19th Party Congress**

8 Dec 2017 - Country Risk | Strategic Report

The Communist Party of China (CPC) concluded its week-long 19th Party Congress on 25 October. During the event, the CPC's new leadership changes were announced and CPC General Secretary Xi Jinping's second five-year term as President of the People's Republic of China was confirmed. Furthermore, the party agreed on the agenda outlined by Xi for the next five years, and the CPC's constitution was amended.

**Key findings**

- Xi Jinping has significantly consolidated his status, power, and influence through the appointments of key officials to the CPC’s political core. The majority of the 25-member Politburo consist of Xi’s close allies and future policies will probably be driven by his personal priorities.
- Zhao Leji, a close ally of Xi, has replaced Wang Qishan as China's anti-corruption head. Zhao
intends to continue the momentum established by Wang in a national anti-corruption campaign, and there is an increased risk that businesses will face continued difficulties in dealing with local governments.

- The ongoing "supply-side structural reform" will remain central to China's economic policy in Xi's second term. This means that the government's drive to reduce excess industrial capacity, lower financial leverage, and digest the surplus housing inventory will continue.

Major developments from the Party Congress

Xi Jinping is the most powerful Chinese leader in decades

The enshrinement of "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era" (Xi Jinping Thought) in the constitution of the Communist Party of China (CPC) signals an apparent elevation of President Xi Jinping to equivalent status to former chairman Mao Zedong. This indicates Xi's anticipated consolidation of power following the Party Congress, and an incremental elevation of stature over his predecessors – Jiang Zemin and Hu Jintao – who also wrote their signature ideological contributions into the party constitution but were not explicitly named.

Within the line-up for the Politburo Standing Committee (PBSC) announced on 24 October, the majority of the 25 members are known allies of the president: Li Xi and Li Qiang, who were promoted to the Politburo and have taken the positions of Party Secretary of Guangdong Province and Shanghai Municipality respectively, were particularly significant appointments. These personnel changes, in addition to the current party secretaries of Beijing (Cai Qi), Tianjin (Li Hongzhong), and Chongqing (Chen Min'er), means that all four of China's municipalities are now governed by the president's confidants. Xi's control of Shanghai – China's biggest economic powerhouse and the base for the "Jiang-clique" camp within the CPC – further consolidates his power.

Maintaining factional balance

Five of the seven previous PBSC members, including top disciplinary watchdog Wang Qishan, retired from office, with only Xi Jinping and Premier Li Keqiang remaining for another five-year term. The five new members bring a comprehensive repertoire of policy and regional expertise – but more significantly, they represent a careful maintenance of factional balance within the party's top leaders and a constraint on Xi in terms of following party conventions for PBSC nominations. The new PBSC includes Li Zhanshu, Xi's de facto chief of staff and a close confidant of the
president; Wang Yang, a protégé of former president Hu Jintao, who rose to fame as party secretary of Guangdong province; Wang Huning, a prominent party ideologue and propagandist with strong ties to all major factions within the party; Zhao Leiji, a party organisation specialist now in charge of the party’s disciplinary watchdog; and Han Zheng, the Shanghai party chief and protégé of former president Jiang Zemin.

No clear succession plans

Two senior officials widely considered top candidates to succeed Xi were notably absent from the PBSC lineup: Guangdong Party Secretary Hu Chunhua, and Chongqing Party Secretary Chen Min’er. Although new general secretaries are normally chosen from among incumbent PBSC members, none of the PBSC newcomers are clear presidential successor candidates. This will increase Xi’s options at the end of his second term – including the possibility of a third term, which would break the CPC’s customary two-term limit for party general secretaries. However, we consider this scenario to be unlikely, as such a move would provoke a backlash among party officials. Xi is highly sensitive to resistance within the party, remaining careful not to overextend his political capital. Party insiders suggest that the president actively sought to retain his close ally, Wang Qishan, as the party’s top disciplinary watchdog, despite Wang having reached the customary retirement age; however, the suggestion provoked vehement objections, and the president abandoned the attempt in favour of party unity and stability.

Structure of the CPC leadership

Organisational outline

During the 19th Party Congress 2,287 delegates selected the 204 members (and 172 alternative members) of the 19th CPC Central Committee and the Central Commission for Discipline Inspection (CCDI). The Central Committee consists of the highest-ranking leaders within the CPC, while the CCDI is the highest anti-corruption body, tasked with enforcing internal rules and combating corruption in the party.

Twenty-five members from the Political Bureau of the CPC Central Committee ( Politburo) oversee the entire Central Committee. Seven members of the Politburo, including General Secretary Xi Jinping, form the Politburo Standing Committee that controls the Central Committee. This is the highest level of decision-making in China.
Structure of the Communist Party of China leadership

Secretariat of the Communist Party of China
First-ranked member: Wang Huning
Other members: Ding Xuexiang, Yang Xiaodu, Chen Xi, Guo Shengjun, Huang Kunming, You Quan

Central Military Commissions
Chairman: Xi Jinping
Vice-chairmen: Air Force General Xu Qiliang, General Zhang Youxia

Central Discipline Inspection Commission
Secretary: Zhao Leji
Deputy secretaries: Yang Xiaodu, Zhang Shengmin, Liu Jingguo, Yang Xiaochun, Li Shulei, Xu Longji, Xue Pei, Chen Xiaoliang

Politburo (25 members)

Central Committee of the Communist Party of China
(204 members and 172 alternative members)

19th Party Congress of the Communist Party of China
(2,287 delegates)

Comintern of the Communist Party of China
(89.5 million members)

Politburo Standing Committee (seven members)

1. Xi Jinping
Age: 64
Current position: General Secretary of the Central Committee of the Communist Party of China, Chairman of the Central Military Commission, President of the People's Republic of China
Areas of influence: China's anti-corruption campaign, supply-side structural reforms, Belt and Road Initiative (BRI)

2. Li Keqiang
Age: 62
Current position: Premier of the National Congress
Areas of influence: China's market-oriented economic reforms, internationalisation of the currency and financial markets

3. Li Zhanshu
Age: 67
Current position: Politburo Standing Committee
Areas of influence: Strong administrator with experience in regional governance, close ties to Xi Jinping and his family

4. Wang Yang
Age: 62
Current position: Politburo Standing Committee
Areas of influence: Bold reformer with administrative experience in Guangdong Province, economic powerhouse of China

5. Wang Huning
Age: 67
Current position: Politburo Standing Committee, Director of Central Committee Policy Research Office
Areas of influence: Top political theorist who helped develop “Xi Jinping Thought”, believer of ‘neo-authoritarianism’ in China

6. Zhao Leji
Age: 63
Current position: Politburo Standing Committee, Party Secretary of Central Commission for Discipline Inspection
Areas of influence: Top anti-corruption watchdog under Xi Jinping, with deep knowledge of party personnel

7. Hang Zheng
Age: 63
Current position: Politburo Standing Committee
Areas of influence: In-depth knowledge of Shanghai's local bureaucracy and commercial development

Remaining Politburo members (8 members)

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Members of the Politburo Standing Committee

1. Xi Jinping

![Image of Xi Jinping](image)

**Xi Jinping**

Getty Images / 1712602

**Age:** 64 (Born 1953)

**Current positions:** President of the People's Republic of China, General Secretary of the Central Committee, Chairman of the Central Military Commission, Leader of the Financial Leading Group of the Central Committee, Leader of the Central Leading Group for Comprehensively Deepening Reforms, Chairman of the National Security Committee of the Central Committee, Director of the Central Military and Citizens Integration Development Committee

**Previous positions:** Graduated from Tsinghua University, 18th Central Committee General Secretary, Chairman of the Central Military Commission, 17th CPC Central Committee Political Bureau Standing Committee

**Background:** Xi has successfully secured a second term in the most powerful political office in China. A charismatic leader born into the exclusive "princeling" circle of elite senior CPC officials, he has successfully cultivated an image of a political strongman and a leader of the people. Xi has consolidated significant political power within the party since 2012, and has secured firm control over the CPC's leadership and the Chinese military.
Xi is the son of Xi Jinping Zhongxun, one of the CPC's founding fathers and a vice-premier. His father was later purged and imprisoned prior to the Cultural Revolution under Mao, and Xi Jinping was subsequently sent to the countryside for "re-education" and hard labour: this experience would go on to define much of his image as a "son of the yellow earth". He joined the CPC in 1974 and quickly rose to power in 2012 as general secretary.

Xi's presidency has been marked by a resurgence in patriotic nationalism, highlighted by his vision of the "China Dream" and a "rejuvenation of the Chinese nation". He has vowed to bring China into a "new era" of building a moderately prosperous society and greater national presence in international relations. Xi has received widespread public support among ordinary Chinese citizens despite significant restrictions under his tenure, such as online censorship and crackdowns on human rights activities.

2. Li Keqiang

Li Keqiang
Getty Images / 1712601

**Age:** 62 (Born 1955)

**Current positions:** Premier of the State Council, Director of the Central Organisation Commission, Director of the National Defence Mobilisation Committee, Director of the National Energy Commission, Deputy Leader of Financial Leading Group of the Central Committee, Deputy Leader of the Central Leading Group for Comprehensively Deepening Reforms, Vice Chairman of
the National Security Committee of the Central Committee, Deputy Director of the Central Military
and Citizens Integration Development Committee

**Previous positions:** Bachelor of Law and PhD in Economics from Peking University, General
Secretary of the Communist Party of China, 17th Standing Committee of the Political Bureau,
Governor of Henan Province, Party Secretary of Henan Province, Party Secretary of Liaoning
Province

**Background:** China's current second-in-command, Li Keqiang has been a member of the
Politburo Standing Committee since 2007. He has strong ties with the Chinese Communist Youth
League, a reformist wing of the party that launched the careers of prominent leaders including
former general-secretary Hu Jintao. Li has substantial experience as a provincial leader and is an
advocate for continued economic reforms.

However, Li has endured an embattled premiership. He has been widely regarded as a weak
premier due to Xi Jinping's aggressive concentration of power; moreover, he has been held
responsible in many quarters for a controversial interventionist attempt to rescue China from a
stock-market crash in July 2015. In addition, there was wide speculation in 2015 that Li had been
marginalised following a statement he made at the time that China did not desire a weaker
renminbi – only for the currency to be devalued later that year.

3. Li Zhanshu

![Li Zhanshu](https://via.placeholder.com/150)

**Li Zhanshu**

Getty Images / 1712599

**Age:** 67 (Born 1950)
Current position: Politburo Standing Committee

Previous positions: 16th and 17th alternate member of the Central Committee, 18th Central Committee and member of the Political Bureau, Director of the General Office of the Communist Party of China, Chief of Provincial Committee in Shanxi Province, Party Secretary of Heilongjiang Province, Party Secretary of Guizhou Province, Party Secretary of Xi’an City

Background: Li Zhanshu has been the director of the General Office of the Central Committee since 2012. A strong administrator, Li has served as party chief in four provinces (Heilongjiang, Guizhou, Shaanxi, and Xi’an) and maintains extensive personal networks within the party.

Most importantly, he is one of Xi’s most trusted allies and has a close working relationship with the president. Li has worked with Xi since the 1980s, and governed Shaanxi, Xi’s home province, from 1998 to 2003. Since joining the central committee, he has accompanied the president on domestic inspection tours and foreign visits. In 2015, Li travelled to Moscow in lieu of Xi as his "special representative" and has been a prominent figure in Sino–Russian relations.

4. Wang Yang

Wang Yang

Age: 62 (Born 1955)

Current position: Politburo Standing Committee
**Previous positions:** 16th Central Committee alternative member, Party Secretary of Chongqing Municipal, 17th and 18th Central Committee Politburo, Party Secretary of Guangdong Province

**Background:** As with Li Keqiang, Wang Yang began his political career in the Communist Party Youth League. A major contender for a seat in the politburo Standing Committee since 2012, he has overseen Sino–US trade relations and Xi's poverty alleviation programme. Wang has accumulated extensive administrative experience at the provincial and national levels. He has served as vice-governor of Anhui, party secretary of Chongqing, and party secretary of Guangdong, and has also held the positions of deputy secretary-general of the State Council and vice-premier of the State Council.

In southeast China, Wang gained a reputation as a bold reformer. During his tenure in Guangdong, he was credited with helping the provincial capital Guangzhou, a major economic powerhouse, to achieve more sustainable and environmentally sound economic growth. His administration imposed stringent environmental rules that forced older, heavily polluting industries to give way to new development. He also oversaw the construction of a number of cultural attractions, including the Guangzhou Opera House.

Wang's appointment as a member of the Politburo signals a moderately increased emphasis on economic reform in Xi's second term – although the nature and the scope of such reform will remain strictly on Xi’s terms.

5. Wang Huning

![Wang Huning](https://www.gettyimages.com/detail/photo/wang-huning-chinese-politician-head-shot-eyes-1712598?method=download&mediaType=photo&size=1200x1200)

**Wang Huning**

Getty Images / 1712598

**Age:** 62 (Born 1955)
Current positions: Politburo Standing Committee, Director of Central Committee Policy Research Office

Previous positions: 16th, 17th, 18th Central Committee

Background: Wang Huning heads the Central Policy Research Centre, and is the only senior official to have served under three consecutive general secretaries (Jiang Zemin, Hu Jintao, and Xi Jinping). A political theorist by training, he garnered widespread respect as the "chief think-tank of Zhongnanhai" and contributed to formulating Xi Jinping Thought, as well as the ideological contributions of Xi's predecessors.

He is one of the few PBSC members without any provincial leadership experience, and will head the party's ideology, propaganda, and party organisation. Wang's ascension reflects Xi's need for a top-ranking ally to provide ideological backing for his ambitious reform programmes.

Wang is a firm believer in the application of "neo-authoritarianism" in China, making the case that an "enlightened autocracy" with strong political leadership is more effective in distributing social resources to promote economic growth compared with Western-style democracy. This notion is reflected in Xi's policies, in which the president has centralised power, tightened control of society, and emphasised the need to maintain a strong grip on the party.

6. Zhao Leji

Age: 60 (Born 1957)
Zhao Leji
Getty Images / 1712603

**Current positions:** Politburo Standing Committee, Party Secretary of the Central Commission for Discipline Inspection (CCDI)

**Previous positions:** 18th Central Committee, Head of the Central Committee Organisation Department, Party Secretary of Shaanxi Province, Party Secretary of Qinghai Province, Party Secretary of Xining City

**Background:** At 60 years old, Zhao Leji is one of the youngest members of the Politburo Standing Committee, providing him with a strong chance of a second term in 2022. Zhao was formerly head of the party's Organisation Department, overseeing top appointments including many of Xi's protégés and like-minded officials in all state-run institutions. Widely regarded as one of Xi's closest allies and part of the rising "Shaanxi clique" of leaders from the northwestern province, Zhao takes over from Wang Qishan, China's top anti-corruption official, as head of the CCDI.

7. Han Zheng

Han Zheng
Getty Images / 1712600

**Age:** 63 (Born 1954)

**Current position:** Politburo Standing Committee

**Previous position:** Party Secretary of the Shanghai Municipality
**Background:** Han Zheng has been a member of the Politburo and the party secretary of Shanghai since 2012. He oversaw Shanghai’s ascension to a global financial and shipping centre, the launch of a high-profile free-trade zone, and the city's development into an innovation hub.

Han is regarded as a political survivor, and has emerged from potentially career-ending crises including a pension fund corruption scandal in 2008, a fatal blaze that killed 58 people in 2010, and a catastrophic stampede that led to 36 deaths in 2014. He is a stanch advocate for the party line, and maintains close control over local-government-controlled media. In addition, he endeavours to prevent local authorities from any action that would contradict the desires of top officials in Beijing.

Han has accumulated extensive knowledge of Shanghai’s local bureaucracy, urban development, and business relations but has been criticised for a lack of experience outside the city. His elevation to the Politburo Standing Committee is partly a result of personal charisma, and of party convention: all party secretaries of Shanghai have been elevated to China’s top body, a tradition initiated by Deng Xiaoping.

**Outlook and implications**

In a lengthy keynote address to the congress on 18 October, Xi heralded a "new era" of Chinese resurgence, but repeated most of the policy guidelines that his administration had issued during the previous five years. Over the next five years, the leadership will pursue highly similar economic policies to those of the preceding period. Xi’s continued wariness of factional rivals within the party will probably lead to a continuation of his gradualist, risk-adverse approach to structural economic reforms, balancing cautious liberalisation and the party’s interventionist instincts against market activities deemed risky or difficult to monitor.

**Anti-corruption drive**

Xi’s promotion of CCDI Vice-ChairmanYang Xiaodu to the Politburo alongside Zhao Leji signals his intent to maintain momentum in China's anti-corruption drive. The CCDI's first "monthly report" findings since Zhao took over has recorded about 6,200 officials having been disciplined for violating party austerity rules, similar to the reported figures in previous monthly reports. On 21 November the CCDI announced an investigation into Lu Wei, former deputy head of the Propaganda Department and one of the major architects of China's internet censorship regime. Lu is the first “fallen tiger” – a term used to describe top party officials ensnared in the anti-corruption campaign – since the 19th Party Congress.
However, maintaining the current rate of allegations will be challenging, as the anti-corruption movement is likely to face headwinds from the party and commercial sectors. Business groups have reported that the campaign is negatively affecting commercial operations: although national-level decision-making has not been significantly affected, local officials have become far more hesitant towards such tasks as outreach programmes to businesses, approving permits, and maintaining inter-departmental relationships. The CCDI’s efforts will probably shift from targeted campaigns against political rivals to an increasingly institutionalised, law-based approach in reducing corruption, as expressed by Zhao on numerous occasions since taking office (see China: 16 November 2017: China’s anti-corruption campaign affecting business operations, including permit approvals, but rate of accusations likely to decrease).

More ambitious foreign policy

Xi’s second term will probably see China adopt a far more robust international stance and an increased likelihood of intervention on diplomatic issues involving Chinese interests. China’s top diplomat, Yang Jiechi, has been promoted to the Politburo; he is the first diplomat to hold such a post since Qian Qichen, who served as vice-premier from 1993 to 2003. Moreover, it is significant that the "Belt and Road Initiative" (BRI), one of Xi’s flagship initiatives during his first term, has been incorporated into the CPC’s constitution as a specific party priority.

Recent international interventions by China would seem to evidence this more ambitious stance. For example, in 2015 the Chinese foreign minister compelled South Sudan’s government and rebel groups to negotiate and guarantee the safety of Chinese oil infrastructure; in addition, earlier in 2017 China extended its influence in the Horn of Africa by establishing a military base in Djibouti to protect its economic interests. On November 2017, China intervened in brokering a solution to the crisis in Myanmar’s Rakhine State and the return of Rohingya Muslim refugees to Myanmar.

It is likely that China’s international influence will be reflected through BRI projects. Prominent examples include the China-Pakistan Economic Corridor (CPEC), which will probably lead to deepening Sino–Pakistani economic co-operation within and beyond the energy and infrastructure sectors (see Pakistan: 2 November 2017: Long-term CPEC plan will indicate deepening economic co-operation with China beyond energy and infrastructure sectors); the China-Myanmar Economic Corridor, which was recently proposed by China as a strategy to increase connectivity and stabilise Myanmar’s turbulent Rakhine region; and financing infrastructure projects in South Asia, which is likely to improve the region’s operational reliability for businesses (see Bangladesh: 17 October 2016: Chinese investment in Bangladesh’s infrastructure and
energy sectors positive for operational risks but delayed implementation likely). The figure below provides a geographic outline of existing routes under the BRI.

![China's One Belt One Road Regional Economic Integration Initiative](image)

Economic policy focus on continuing supply-side structural reforms

Liu He, a 65-year-old former old former classmate of Xi Jinping, has also been promoted to the Politburo. He is currently the director of the Central Committee's Leading Group of Financial and Economic Affairs, and will probably be in charge of Xi's economic reforms. Liu rose to prominence in May 2016 when an anonymous "person in authority" – believed to be Liu He himself – gave an interview in the People's Daily expressing dissatisfaction with delays in supply-side reforms, and suggesting a need for existing investment-driven development to be replaced by a more stable consumption-based growth. The graphs below provide IHS Markit forecasts on a number of China's key indicators.
During the Party Congress, Xi set medium-term goals and a long-term vision for China's economic development:

- **2020**: China to complete "the building of a moderately prosperous society in all respects".
- **2035**: Development of China's economy into a system where "socialist modernisation is basically realised".
- **2050**: China to become a "great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious, and beautiful".

In the short-to-medium term, ongoing "supply-side structural reforms" will remain the centerpiece of China's economic policy in terms of addressing structural issues. This means that the government's drive to reduce excess industrial capacity, lower financial leverage, and digest
China's surplus housing inventory will continue. The government will also sustain its efforts to reduce business costs through reduction of administration fees and taxes, and removing red tape.

China's long-term policy prescriptions are significantly more generalised. These include encouraging innovation, revitalising the rural economy, adopting co-ordinated regional development, allowing the market to allocate resources, encouraging private-sector development, reforming the state-owned sector, opening up the services sector, reforming the financial system, and modernising the public finance system, in addition to eliminating monopolies and providing equal treatment to foreign businesses operating in China, among other priorities. Although the long-term provisions represent a series of sensible economic-reform policy pronouncements, they closely resemble the reform agenda outlined at China's 2013 Third Plenum summit, which Xi Jinping's administration has largely failed to execute.

Iran unrest

3 Jan 2018 - Country Risk | Strategic Report

The on-going protests in Iran that began on 28 December 2017 represent an unprecedented challenge to the Islamic Republic and highlight the inability of the traditional political class, consisting of the clergy and the Islamic Revolution Guards Corps (IRGC), to deliver on widespread economic and social expectations, especially among young people. Protests have been held in more than 60 cities, leaving at least 21 people dead.

- The protests so far are generally leaderless, disorganised, disparate, and heterogeneous, limiting their effectiveness and the government’s ability to contain them. Although the size and duration of each protest remains unverified, many protests demand better economic conditions, others demand less foreign "adventures" and more internal investment, while some oppose the Islamic Republic itself and attack the clerical establishment. Unlike the 2009 protests contesting the presidential election results, these protests extend to many peripheral cities, apparently involving poorer and working-class Iranians, a core constituency of the Islamic Republic's conservative political establishment. This makes it harder for the security forces to resort to forceful repression, except as a measure of last resort. Efforts by the exiled opposition group Mujahedin-e Khalq to claim leadership of the protests feed the government's narrative that the unrest is externally directed and gives greater political cover to
suppress the protesters and split the opposition. Nevertheless, any perceived ineffectiveness by the security forces would increase hardliners fears that the Islamic Republic is under existential threat and in their eyes justify the most draconian measures.

Iranian students protest at the University of Tehran during a demonstration driven by anger over economic problems, in the capital Tehran on 30 December 2017. Students protested in a third day of demonstrations, videos on social media showed, but were outnumbred by counter-demonstrators.

STR/AFP/Getty Images

- **The government's response is divided, making it vulnerable to external pressure.**

  Supreme Leader Ali Khamenei has claimed that the protesters are working on behalf of foreign agents; the head of the Tehran Revolutionary Court has threatened to try protesters for "waging war against God", which carries the death penalty. The IRGC's response, meanwhile, has been relatively muted – unlike during the 2009 protests – offering to help local police as requested, but saying that it would not be deployed against economic protesters, only against those opposed to the Islamic Republic. President Hassan Rouhani has emphasised the people's right to protest peacefully, while condemning rioting. The government has tried to shut down social media, something which Rouhani had previously promised not to do. The fact that
many of the protesters are from working-class backgrounds that form the backbone of the IRGC's paramilitary Basij force would make violent repression of protests highly divisive in a way that the repression of the 2009 protests was not.

- **Even if the protests subside in the coming days, Rouhani is unlikely to be capable of implementing the kind of economic changes that would lead to widespread improvement in living conditions, indicating that there will be a residual increased risk of potentially destabilising protests for the foreseeable future.** Even if at least elements of the government have the political will to address the protesters’ grievances, this would require major structural economic reforms to improve government efficiency and transparency, and reduce unemployment. All of these reforms would require Supreme Leader Ali Khamenei and the IRGC to accept significant restrictions on their economic influence, at the expense of their extensive commercial interests and ultimately their political power.

- **An increase in government use of lethal force to put down the unrest would increase the risk of exploitation of Iran’s domestic difficulties by Iran's regional adversaries through covert support for separatist insurgents, increasing inter-state and civil war risks.** If the protests do not subside in response to economic concessions or conciliatory pronouncements by the leadership, hard-line elements would feel under pressure to resort to lethal force to eliminate the unrest. This would carry multiple risks, including radicalising some protesters and encouraging them to accept arms from outside the country and pushing elements of the leadership into stepping up regional escalation through their proxies (for example Hamas and Islamic Jihad in Gaza) to distract international attention and provoke another Israeli operation in Gaza or increased Israeli strikes on Hizbullah and other targets in Syria. It would also probably strengthen those within the Trump administration who advocate for stronger US sanctions on Iran, including potentially refusing to renew Iran's nuclear sanctions waivers in mid-January. Failure to sign these sanction waivers would effectively constitute a US withdrawal from the Joint Comprehensive Plan of Action (JCPOA). This in turn would increase the risk of Iran resuming its nuclear programme and the corresponding risk of US military action against Iran.

**Indicators of changing risk**

**Escalation**

- A strike called for on Iranian social media gains traction, leading to a prolonged shutdown of industrial assets; any strikes in the oil sector would be especially destabilising by disrupting
Iran’s oil production and revenues, and by potentially inspiring a general strike spilling to government employees.

- Former President Mahmoud Ahmadinejad emerges as a rallying leader for the protests, challenging Iran’s conservative faction and calling for defections from Iran’s hard-line security apparatus.
- Protests split along ethnic lines, with calls for an end to "Persian" rule, empowering Iran’s existing separatist insurgents and drawing a more heavy-handed IRGC response.
- Protests recur during the 40 day anniversary of dead protesters.
- Basij forces are deployed across the country, indicating the state adopting a more hard-line stance against the protests.
- Protests remain leaderless, leaving the government unable to identify interlocutors to at least make a show of meeting some protesters' demands.
- Low-ranking members of the security forces refuse to obey orders to put down unrest, should such orders be issued.
- Mass shootings of protesters take place, increasing the opportunity for exploitation by Iran’s rivals, particularly Saudi Arabia and Israel to arm local insurgencies in Iran.
- The clerical establishment begins to split more publicly, with some clerics condemning Khamenei's role and questioning his religious credentials.

De-escalation

- Popular IRGC Quds Force (extraterritorial branch of IRGC) commander Qassem Soleimani steps in to impose a compromise, encouraging Rouhani’s moderating tone while speaking to the concerns of the poor.
- The government makes limited economic concessions to the protesters, including higher subsidies and promises of investment, bringing down unrest for a while.
Sustained fragmented governance and localized fighting likely in Libya in year ahead

29 Dec 2017 - Country Risk | Headline Analysis

Despite tentative progress in the United Nations-backed peace process, fundamental differences remain between Libya's main factions, with governance likely to remain split between east and west, and localised fighting to continue. IHS Markit considers the political and security outlook in the year ahead.

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<th>IHS Markit perspective</th>
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<tr>
<td><strong>Outlook and implications</strong></td>
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<tr>
<td>• Libyan governance is likely to remain split between east and west, even should elections be held; although the central bank and the National Oil Corporation are likely to maintain their political neutrality.</td>
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<tr>
<td>• East-west fighting is unlikely to resume on a significant scale, although localised fighting between rival militias will continue to generate high risks to personnel and property, particularly in Tripolitania and around high-value assets such as airports.</td>
</tr>
<tr>
<td>• If left unchecked, the Islamic State is likely to expand its attacks against rural infrastructure and those militias providing security, with increasingly bold attacks likely in urban areas, particularly Misratah and Tripoli.</td>
</tr>
<tr>
<td><strong>Risks</strong></td>
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<tr>
<td>Government instability; State failure; Terrorism; Civil war; Protests and riots</td>
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<tr>
<td><strong>Sectors or assets</strong></td>
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<td>All</td>
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The Libyan Political Agreement (LPA) formally expired on 17 December, the second anniversary of its signing in the Moroccan town of Skirat. On the same day, Field Marshal Khalifa Haftar of the Libyan National Army (LNA) militia coalition announced that he no longer accepted the legitimacy of any institutions stemming from the agreement. This was an explicit reference to the Tripoli-based Presidency Council (PC), which heads the Government of National Accord (GNA), and the State Council legislature.
Prospects for peace

Despite the technical expiration of the LPA, supporters of the agreement have argued that as it was only formally ratified by the House of Representatives, Libya's parliament, on 21 November 2017, it should run from that date (see Libya: 22 November 2017: Parliamentary approval of UN peace proposal represents only minor progress towards resolution of Libya’s civil war). While this is likely to satisfy the United Nations and the international community, the decision will further undermine the GNA's political and legal legitimacy inside Libya. It is in this context that Haftar made his announcement.

For Haftar and the LNA, the focus now is likely to be the holding of new elections in 2018, as agreed at the Paris summit between the field marshal and PC head Fayez Serraj in July 2017. This does not necessarily support the LPA, and highlights the complications caused by foreign powers, such as France, Italy, and the United Kingdom, pursuing bilateral talks with Haftar (and other factions including Misratah), separate from the UN-backed LPA process.

Should elections be held, Haftar would probably secure strong support for his preferred candidates. Nonetheless, the security environment in Libya is unlikely to permit a free and fair vote, and would leave large areas of the country effectively disenfranchised or subject to armed duress – particularly in marginalised areas such as Bani Walid, Sirte, and much of the south. This would undermine the legitimacy of any elections, including any referendum in support of the draft new constitution, and encourage continued military confrontation. Elections also risk muddying still further Libya's political and institutional landscape, already replete with parallel officials and groups, so ensuring no swift resolution to the country's political crisis.

Haftar probably remains committed to taking military control of Tripoli, as he initially pledged upon launching Operation Dignity in 2014. The LNA made significant advances in 2017, consolidating its control over eastern Libya, and taking control of key bases in the south. Militias associated with the group, although not under its direct control and probably of questionable loyalty, have occupied territory in the far west between Tripoli and the Tunisian border.

Nonetheless, the LNA remains too weak to militarily defeat the Tripolitanian and Misratan militias that hold the Tripoli region, making a broad LNA offensive unlikely in the first half of 2018. Instead, Haftar is likely to continue attempting to forge alliances with the western tribes, while using his Madkhali Salafist allies to persuade western Madkhali groups in key positions, such as the RADA Deterrence Force in Tripoli, and 604 Brigade in Sirte, to abandon the GNA and switch sides, so avoiding a concerted fight. It was by using this strategy that the LNA took control of the Gulf of
Sirte oil terminals in December 2016 with minimal fighting. This would become far more likely should public discontent with the GNA prompt significant street protests in the capital.

**Security environment**

While eastern Libya is unlikely to see major fighting as long as the alliance between the LNA and the tribes endures, the security situation in the west will remain problematic throughout 2018, ensuring very high risks to personnel and property. Political dynamics relating to support for the GNA, and opposition to Haftar, will continue to put existing militia coalitions under strain (as highlighted by the assassination of Misratan mayor Mohamed Eshtewi on 17 December).

In the absence of a broader LNA offensive, or other significant unifying threat, the western militias are likely to continue to fight among themselves in flashpoint areas including Tripoli city centre, Garabulli, Warshefana, and along the southern approaches to Tripoli, and at strategic assets including Mitiga Airport and Tripoli International Airport. Terrorism and war risks in Misratah are likely to increase. If left unchecked, as currently seems likely, the Islamic State will be able to launch increasingly bold attacks against militia and public assets in the city, including the airport. Although tensions between the Misratan municipal and military councils are likely to prompt further targeted killings and localised fighting in the city, widespread fighting remains unlikely in 2018.

Given the breakdown of the western militia alliances, any rekindling of the western offensive against the Sirte Basin oil fields and terminals is unlikely in 2018. The town of Sirte lies on the front line of the east-west divide, although its military value is questionable given the extensive damage suffered during the 2011 revolution and the 2016 campaign against the Islamic State. Nonetheless, infrastructure in the centre of the country will remain vulnerable to attacks by the Islamic State and other armed groups, particularly oil pipelines and exposed elements of the Great Man-Made River.

The south will remain governed at the local level by largely autonomous municipalities and tribes, regardless of which faction is in power in Tripoli. This will ensure continued disruption to southern oil fields by tribal groups and militias seeking money from the National Oil Corporation (NOC). These factors mean the NOC’s production target of 1.7 million barrels per day (bpd) is probably unachievable in 2018, although political and security dynamics have shifted to the extent that a return to the February 2015 low of 200,000 bpd is equally unlikely.
Outlook and implications

Only tentative progress was made in 2017 to bring Libya's warring factions together, despite high-profile events such as the Paris summit. Although key actors such as Haftar and Misratah have shown an increased willingness to engage in diplomacy, this remains explicitly on their terms, with no substantive concessions yet made by either side. This and fundamental disagreements over the future balance of power and institutional make-up of the country (particularly how the military is reconstituted) mean that the political crisis is likely to continue throughout 2018, even in the unlikely event that elections were successfully held. Governance is likely to remain effectively split between east and west, although the central bank and NOC will continue to ensure that ‘business as usual’ is largely maintained in the oil sector.

Armed groups are likely to continue to pose very high risks to personnel and property, particularly in western urban areas, and in the south. Localised disruption lasting up to several weeks will intermittently shut down oil fields and terminals, although a return to the systemic disruption seen from 2012–15 is unlikely. Jihadist groups, particularly the Islamic State, will continue to pose a severe threat of attack to isolated rural infrastructure, public buildings, militia checkpoints, and workers in transit, particularly in western and central regions.

Russia to increase its military capabilities in Arctic region to project power and protect its commercial opportunities

28 Dec 2017 - Country Risk | Headline Analysis

During his annual public press conference on 14 December, Russian President Vladimir Putin emphasised that Arctic exploration is a priority for the country, stressing the need to ensure the region’s military security.

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<tr>
<td><strong>Outlook and implications</strong></td>
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<tr>
<td>• Russia will probably expand its military presence in the Arctic, opening military bases and conducting frequent exercises in the increasingly ice-free waters.</td>
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<tr>
<td>• Such increased military activities will probably increase hostility between Russia and other littoral states, especially the United States.</td>
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</table>
• Direct military confrontation between littoral states is unlikely.
• Russia is interested primarily in developing commercial infrastructure, especially serving marine cargo, but this will be limited by the government's restricted financial capabilities.

<table>
<thead>
<tr>
<th>Risks</th>
<th>Interstate war; State contract alterations; Cargo</th>
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<td>Sectors or assets</td>
<td>Defence and security forces; Construction and projects; Oil and gas; Maritime cargo</td>
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Servicemen of the Russian Navy Northern Fleet's naval infantry unit taking part in an exercise at the newly opened mountain warfare training range for ground and coastal defence troops in the village of Sputnik in the Murmansk region on 23 November. Lev Fedoseyev/TASS/Getty Images

In February 2016, Russia officially presented to the United Nations its claims to the Arctic Ocean's seabed, despite similar claims made in 2002 having been rejected because of the lack of evidence. Russia continues to claim that its continental shelf extends north more than 650 kilometres from the shore, including an area under the North Pole (see Russia: 5 July 2011: Russia Launches Fresh Expedition to Prove Territorial Claims in Arctic). If, as seems unlikely, the United Nations were to accept the claim, the ruling would add up to 1.2 million square
kilometres, potentially containing large hydrocarbon deposits, to the Russian Exclusive Economic Zone.

Some sections of this area are also claimed by Canada, Denmark, and the United States. The issue of overlapping territorial claims in the Arctic is becoming increasingly pertinent as the region's ice cover recedes. This is opening up the possibility of using sea routes that were previously difficult to navigate, as well as opening up access to new oil and gas reserves for prospecting and exploitation. Russia attempts to secure its claims by increasing its investments in the Arctic region in military installations and economic infrastructure such as new ports, its ice-breaking fleet, and pipelines. Russia is also establishing domestic legal provisions aimed at securing its long-term commercial interests in the Arctic.

**Military expansion**

In December 2014, Russia established a special North Unified Strategic Command covering all Russian territories in the Arctic, as well as its offshore islands, bringing all branches of the military under a single command. Since then, the Russian Northern Fleet based near Murmansk in the far northwest of Russia has regularly conducted exercises in the Arctic region. In September 2017, the Northern Fleet held large-scale manoeuvres in the Arctic, involving 50 naval and supply vessels, 30 aircraft, and nuclear and diesel submarines. These exercises were held mostly in parallel with the strategic Zapad-2017 (West-2017) in western Russia and Belarus (see **Belarus – Russia: 7 September 2017:**Russia to use "Zapad-2017" exercise to intimidate its neighbours but permanent military basing in Belarus unlikely**). On 1 December 2017, the Northern Fleet announced plans for similar large-scale exercises in 2018.

To allocate increased military personnel, Russia has already reopened or created and equipped six military facilities in the Arctic, with plans to set up an arctic brigade, as well as a coastal defence division. One of the facilities is a new base on Alexandra Land island, part of the Franz Josef Land archipelago, opened in April 2017, which is able to house 150 military servicemen and survive autonomously for 18 months (see **Russia: 18 April 2017:**New military base on Franz Josef Land likely designed to demonstrate Russian control of its Arctic territories**). Overall, Moscow is to reopen around 50 former Soviet Arctic military bases, including search-and-rescue stations, deep-water ports, airfields, and air-defence radar stations in the Arctic region. On 22 December, Russian Defence Minister Sergei Shoigu designated the Arctic as one of the three priority areas for military capital investments (together with the Pacific coast and Russia-Ukraine border). According to a June report by a credible Russian news agency RBC, the Russian
government intends to invest RUB34 billion (USD589 million) into its military projects in the Arctic during the coming years. Specific details of these investments are classified.

**New shipping lanes**

On 8 December, Russia officially opened the first plant of its Yamal liquefied natural gas (LNG) project located in Sabetta, Yamal-Nenets Autonomous District, with two more plants to be open in the region until 2021 and their total capacity of 16.5 million tonnes of LNG annually. The project costs are estimated at USD27 billion. The first shipment of 170,000 cubic metres of LNG, dispatched from Sabetta port on 8 December 2017, was sent to the United Kingdom.

The Russian government partially funded the project, providing RUB150 billion from the National Welfare Fund. This government investment was needed because the Yamal LNG project was banned from accessing loans from Western banks because of the sectoral economic sanctions introduced by the European Union and the United States in July 2014.

Russian commercial investments in improved port infrastructure are triggered by Moscow’s interest to develop the Northern Sea Route (NSR), a shipping route linking the North Atlantic and the North Pacific via the Russia’s Exclusive Economic Zone in the Arctic. In 2016, only 18 transits were completed through the NSR, seven of which by Russia.

Because of global climate change, some experts believe that by 2030, the NSR will be accessible for nine months per year. This route could reduce travel time by up to 60% compared with current routes via the Panama or Suez Canals. To protect domestic commercial interests, especially in oil and gas transportation, on 20 December 2017, the State Duma, the lower chamber of the Russian parliament, approved amendments to the Merchant Shipping Code, prohibiting foreign vessels from carrying oil and gas via the NSR.

Although Russian authorities claimed to intensify investments into Arctic commercial infrastructure projects, Russia failed to provide adequate funds. In 2015, the Russian government pledged to invest nearly USD3 billion into commercial projects in the Arctic until 2025. However, 90% of these pledges were already postponed to the 2021–25 budget period, which has not been planned yet. In July 2017, the Russian media reported that Moscow decreased financial support of the 2017 Arctic programmes by 94%, investing USD200 million. Another big project – a launch of three nuclear-powered ice-breakers providing all-year navigation via the NSR – was also postponed, with the first vessel to be completed in 2019 instead of 2017, because of the change of a contractor from Ukrainian to a Russian company.
Outlook and implications

Russia will probably prioritise spending on improved military facilities in the Arctic regions, expanding existing and establishing new military bases, and testing new weapons during increasingly frequent exercises. However, the risk of a direct military confrontation with other littoral Arctic states is low. Nevertheless, the Russian military build-up in the Arctic would probably increase hostility in bilateral relations between Russia and its Arctic neighbours, including the United States. The risk of such hostility would especially grow if the United States were to perceive Russian military activities in the region as the revitalisation of the Soviet plans to use Arctic islands as staging posts for long-range bombers to fly to the United States.

The Russian government will also probably pledge financial support to commercial infrastructure projects in the region, providing companies with tax-breaks or some government funding. However, dwindling financial resources caused by the depletion of the Reserve Fund make the allocation of significant government funds unlikely in the three-year outlook. Nevertheless, Russia will probably increasingly adopt its own domestic regulations to benefit Russian firms investing in the Arctic or conducting commercial activity in the region, such as the restrictions on access to the NSR. In the medium term, Russia will probably use its commercial projects in the Arctic (such as access to the Yamal LNG or the NSR) as leverage in any future negotiations on easing or removing the Western sectoral sanctions, which currently prevent Russia from Arctic deep-water oil and gas exploration and production.

Formal closure of Saudi border with Qatar indicates prolonged embargo and focus on developing alternatives to GCC

27 Dec 2017 - Country Risk | Headline Analysis

The Saudi Arabian customs directorate formally closed the Salwa border crossing with Qatar on 18 December. The border had been closed to all but essential medical and Gulf Cooperation Council (GCC) employee travel since a diplomatic and trade boycott of Qatar was initiated by Saudi Arabia, the United Arab Emirates (UAE), Bahrain, and Egypt (GC3+1) on 5 June. This follows the conclusion of the most recent GCC summit on 5 December without participation from Saudi or Emirati leadership, which had announced their intention to form an alternative organisation, excluding Qatar, to co-operate in “military, political, economic, trade and cultural fields”. The Qatari government has largely absorbed the initial economic impact of the boycott and is seeking to diversify its trade relationships away from prior dependence on Saudi ground cargo
and imports from Emirati ports. Qatar, meanwhile, signed a tripartite agreement with Turkey and Iran on 26 November, with the intention of facilitating trade via land and sea. This is likely to mitigate the risk of construction materials and basic commodities shortages, necessary to complete ongoing infrastructure projects related to the 2022 World Cup.

**Significance:** The formal closure of the Salwa crossing and Qatar’s tripartite agreement with Turkey and Iran indicate that mediation attempts have failed and that no resolution of the GC3+1 embargo is likely at least in the three-month outlook. Support for a Qatari 2018 bond issuance and enthusiastic demand for debt refinancing of Qatar National Bank’s USD3-billion loan by international lenders will be indicators that GC3+1 attempts at undermining confidence in the Qatari economy have been unsuccessful. A sustained formal closure of the border over the coming three months would signal likely Saudi and UAE intent to proceed with development of an alternative body to the GCC. Although IHS Markit’s economic growth forecast for Qatar has slowed from 2.1% to 1.7% for 2018, the 2018 budget identifies investment in sectors that would support domestic sustainability and provide further buffers to the impact of the boycott, such as food production, agriculture, industrial manufacturing, transport infrastructure and port logistics.

**Risks:** Policy direction; State contract alteration

**Sectors or assets affected:** All

**Violent protests likely to continue in Iraqi Kurdistan in six-month outlook; elevated risk of federal government intervention**

22 Dec 2017 - Country Risk | Headline Analysis

Violent protests broke out across the Sulaimaniya and Halabja provinces of Iraqi Kurdistan on Monday 18 December 2017, leaving at least six protesters dead and more than 100 injured.

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<th>IHS Markit perspective</th>
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<td><strong>Outlook and implications</strong></td>
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<td>• With a KRG-Baghdad agreement unlikely until after Iraq’s May 2018 elections, violent protests in Iraqi Kurdistan are likely to intensify in the six-month outlook.</td>
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<td>• The concentration of protests in Patriotic Union of Kurdistan (PUK)-administered areas increases the likelihood of the PUK agreeing to a direct deal with Baghdad, allowing them to resume public sector salary</td>
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payments, open border crossings, and resume flights to Sulaimaniya International Airport.

- There is an elevated risk that the Baghdad government, overconfident after the easy recovery the majority of the Kirkuk oilfields, overplays its hand by seeking to capture the Khurmala oil field; this scenario carries high risk of cargo disruption and collateral damage to oil infrastructure in the disputed territories.

<table>
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<th>Risks</th>
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The protests, which as of 22 December were continuing, have been concentrated in areas controlled by the Talabani family’s Patriotic Union of Kurdistan (PUK). Hotspots have included Sulaimaniya, Halabja, Penjwen, Koye, Rania, Chemchemal, Kifri, Kalar, Taqtqaq, Sa’d Sadiq, Qaladze, Takiya, Sangasar, and Piramagroon, with participation numbering in the thousands in the larger cities of Sulaimaniya and Halabja. Spates of violence have broken out between the protesters and the Peshmerga and Asayish security forces. Protests in some smaller towns have targeted local government and party offices with arson and small-arms fire, to which the security forces have responded with tear gas, water cannon, and even live rounds, killing a total of six people and wounding more than 100.
Consisting of mainly students and public sector employees, the protests represent a reaction to a two-month cessation of public sector salary payments in Iraqi Kurdistan, coming on top of already existing salary arrears and combined with crumbling state services and endemic corruption. Crucially, the protests do not appear to have been driven by any of the established political factions: the attacks on party offices included the offices of all recognised parties, including the opposition parties Change Movement (Gorran) and Kurdistan Islamic Group (Komal), as well as the Kurdistan Democratic Party (KDP) and PUK. Nevertheless, both Gorran and Komal announced on 20 December that they were withdrawing from the KRG and Kurdistan Parliament in protest at the disproportionate use of force by the security services, which are controlled exclusively by the KDP and PUK.

**The KRG’s fiscal crisis**

The Kurdish Regional Government (KRG) has been facing a fiscal crisis since the Iraqi government’s recapture of Kirkuk and its oil fields in October 2017, following the region’s independence referendum and the Iraqi government’s subsequent use of force to recapture the disputed territories which had been under de facto KRG control since 2014 (see *Iraq: 17 October 2017: Iraqi government’s recapture of Kirkuk undermines Kurdish independence prospects*). Since then, the KRG’s oil exports have dropped from an average of 630,000 to 340,000 barrels per day (bpd). With oil accounting for approximately 95% of KRG revenues, this entails a near-50% cut in the KRG’s budget, according to IHS Markit Energy. A large portion of this is diverted to debt claimants, given the large debt burden already accrued from numerous prepayment deals with oil companies. This means that the KRG has now been unable to pay 1.4 million public sector employees for more than two months, while burning through its limited reserves to continue payments for its security services, which is reportedly no larger than USD2 billion.

**The Baghdad government’s stance and options**

Iraqi Prime Minister Haider al-Abadi announced on 19 December that Baghdad would “not stand and watch as our citizens get attacked in the Kurdish region”. Meanwhile, the KRG’s Security Council reported that Iraqi government forces, including the army’s Emergency Response Division and the predominantly Shia Hashd al-Shaabi militias, were concentrating near Makhmour, near the de facto border with the KRG, southwest of the KRG’s capital Erbil, in possible preparation for an attack. This was denied by the Iraqi government.
IHS Markit assesses that a direct advance aimed at taking over the KRG administration in Erbil is highly unlikely, with the Baghdad government unlikely to want to trigger a Kurdish insurgency, which would be likely to emerge in the event of an encroachment into core Kurdish territories beyond the pre-2014 borders of the KRG. Such an attempt would also risk provoking US military intervention in support of the Kurds.

Any military operation is far more likely to involve an attempt to capture the Khurmala oil field, which is situated just inside the border, near Makhmour. Khurmala currently accounts for approximately one-third of the KRG’s revenue, meaning that losing control of the field would push the KRG into immediate bankruptcy. This would make it more likely for the KRG to acquiesce to the federally-controlled State Oil Company retaining control of all sales of Iraqi oil, including from the Kurdish region. This is likely to remain the federal government’s priority at least until the 2018 election.

**Outlook and implications**

The KRG’s fiscal crisis is unlikely to be alleviated without an agreement with the federal government allowing the resumption of budget transfers and/or direct public sector salary payments to the KRG. Such an agreement is unlikely until after the May 2018 election. As such, there is a sustained elevated risk of violent protests in Kurdish cities in the six-month outlook. The entrenchment of the KDP and PUK’s patronage networks and their control over the Peshmerga and Asayish security forces mean that a successful challenge to their dominance by the Kurdish opposition parties Gorran, Komel, or by a Baghdad-supported alternative party potentially led by the former KRG Prime Minister Barham Salih, remains unlikely.

The concentration of protests in PUK-administered areas increases the likelihood of the PUK agreeing to an independent deal with Baghdad, bypassing the KRG, allowing them to resume salary payments in Sulaimaniya and Halabja, open border crossings, and resume international flights to Sulaimaniya Airport. This would result in the emergence of a new de facto Kurdish region, which is closer politically to the federal government and Iran, with the consequence of further isolating the Barzani-led KDP.

There is an elevated risk of the federal government seeking to take control of the Khurmala oil field. Presented with the existential threat of facing total bankruptcy, in the absence of an agreement with the federal government, the KRG would be likely to strongly resist such an attempt. Meanwhile, the KRG would be likely to provoke ethnic fighting in the disputed territories
recently recovered by Baghdad, entailing high risks of disruption and collateral damage to the oil infrastructure in the areas affected.

Islamic State attack on al-Arish airport highlights militant intelligence capabilities, reducing likelihood of resumption of Russian commercial flights

On 19 December, militants of the Islamic State’s affiliate in the Sinai Peninsula (Wilayat Sinai) attacked al-Arish International Airport in Egypt’s North Sinai governorate while it was being visited by the Minister of Defence, Sedky Sobhi, and the Minister of Interior Magdy Abdel-Ghaffar. The attack was claimed in a statement the following day on the Amaq News Agency. The statement claimed that Wilayat Sinai militants targeted a landing helicopter with a Kornet anti-tank guided missile system, killing two officers and damaging the helicopter. The Egyptian Army’s statement disputes this figure, claiming only one soldier was killed.

**Significance:** This is the first reported use of the Kornet system against helicopters, rather than naval vessels or ground vehicles, in the Sinai theatre. Pro-Islamic State media claimed in December 2016 that its fighters were still being trained in Kornet usage, which has an effective range of 4 km. The targeting of a landing helicopter indicates that Wilayat Sinai had infiltrated the military defences of al-Arish city from such close proximity to the airport and was able to fire over the airport’s security wall. That they did so during an unpublicised visit of senior government ministers makes it highly likely that the group has access to compromised intelligence sources within the military’s bases, which Wilayat Sinai also claimed in their online statement. It is unclear how many functional Kornet missiles are still available to militants in Sinai, but previous targeting of helicopters resulted in a greater reliance on ground transport for military and government officials. This would, in turn, increase the risk of ground casualties from road-based improvised explosive devices (IEDs). For the aviation sector, the attack will likely also deter Russian confidence in resuming direct flights to Sinai in 2018, although the resumption of direct flights to Cairo is unlikely to be affected.

Risks: Terrorism

Sectors or assets affected: Defence and security forces; Aviation; Tourism
Ukraine–Russia cargo facing railway suspension likely to be rerouted via Belarus, increasing costs and regulatory burden

19 Dec 2017 - Country Risk | Headline Analysis

On 13 December 2017, Ukraine’s Infrastructure and Transport Minister Volodymyr Omelyan said that UkrZaliznytsia (UZ), Ukraine’s state-owned railway company, “was considering” a total ban on all railway transportation with Russia, to be introduced at some point in 2018. Such a ban would extend to all passenger and cargo traffic crossing the Russian–Ukrainian border, including that transiting from third countries, such as the EU, Western Balkans and Central Asia. Omelyan said that the Ukrainian government would support the UZ’s imitative, once it was proposed. Railway cargo in both directions across the Russian–Ukrainian border has been subject to restrictions by both countries since 2015, due to the impact of bilateral sanctions (see Russia – Ukraine: 5 October 2015: Reciprocal bans on cargo rolling stock between Russia and Ukraine exacerbate cargo disruption in one-year outlook). Despite these current restrictions, anecdotal evidence suggests that they are not fully enforced and are evaded by the use of third-party rolling stock. Intentionally ineffective implementation of the restrictions by both Russia and Ukraine is likely driven by bilateral commercial interests. According to the Russian customs service, bilateral trade in January-October 2017 was up by 23% year on year (y/y) to USD10.1 billion.

Significance: IHS Markit sources in Kiev consider that the Transport Minister’s comment is a strong indicator of the government’s intention to suspend direct railway traffic with Russia; such a decision would likely reflect the government’s aim of reducing Russia’s share in Ukraine’s external trade, so that Moscow would be less able to exploit Ukrainian economic dependence on Russia to advance its security interests. The new restrictions, if approved in 2018, would force trade transiting the border, whether destined for Russia, Ukraine, or countries to the West, to be rerouted either by road cargo, or by rail via Belarus. A diversion of trade by rail would benefit Belarus and its railway operator, Belaruskaja Čyhunka (BC), but would increase costs and time for those shipping goods due to the roundabout route. Since Ukraine and Russia introduced mutual bans on direct flights in 2015, Belarus benefited from its transit position (see Russia - Ukraine: 28 September 2015: Disruption of aviation likely to extend to Western airlines if Ukraine prosecutes Russia through Western courts). In the past two years, passenger numbers at Minsk airport, the major transit point between Russia and Ukraine currently, increased by 46%. The key driver for Ukraine’s cargo policy will be the state of bilateral relations with Russia, as reflected in the conflict in eastern Ukraine. Any new escalations of fighting in eastern Ukraine would be likely to result in further restrictive measures by the Ukrainian government against
Russian commercial interests in the country, including in trade and transportation, with the government prioritising strategic interests over the commercial impact on Ukrainian firms.

**Risks:** Regulatory burden; Cargo/Ground

**Sectors or assets affected:** Ground cargo; Trade