

## Political Risk Update: July 8, 2020

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- **Ukraine:** Central bank resignation hits President Zelensky's claim to be a reformer
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### Ukraine: Central bank resignation hits President Zelensky's claim to be a reformer

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**Event:** The head of the National Bank of Ukraine (NBU) submitted his resignation on July 1, claiming "systematic political pressure" prevented him from doing his job as governor.

**Outlook:** The resignation of Yakiv Smoly is a disastrous blow to President Volodymyr Zelensky, whose reformist claims have so far been given the benefit of the doubt from foreign lenders and Ukrainian voters since his election last year. His office has reaffirmed his commitment to central bank independence but there is little Zelensky can do to limit the damage to his administration's reputation and to the international goodwill that is essential for ensuring the continuation of external financial support.

#### Analysis

Smoly described his resignation as a protest against "systematic political pressure" on the bank to take decisions that were not based on economics and which prevented him doing his job as governor. Speaking to parliament on July 3, when it voted to accept his resignation, he spoke of pressure to cut interest rates and allow inflation to rise, as well as

to let the hryvnya fall. The IMF has insisted that central bank independence must be safeguarded and warned that this was a requirement for continuation of the recently agreed lending programme with the Fund. G7 ambassadors in Kyiv said undermining the bank would be "a big step back" for Ukraine.

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## Iran: Series of unexplained fires and explosions may see Tehran move against Israel

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**Event:** Iran's Atomic Energy Organisation spokesman said on July 5 that Tehran would not immediately reveal the cause of the July 2 explosion at its Natanz nuclear facility but admitted that the incident could slow production of advanced centrifuges.

**Outlook:** With worsening economic and COVID-19 crises, Tehran is unlikely to relish a major escalation of tension with Israel, particularly before the US presidential election in November. However, with every new industrial accident now set to generate headlines and suspicion, it may be forced to act. The Islamic Revolution Guard Corps has stepped up its rhetoric to put pressure on President Rouhani to take action, urging more cyberattacks despite Israel's evident superiority in this area or the activation of nearby proxy groups.

### Analysis

The Natanz event, which seems to have destroyed a new above-ground centrifuge production facility, was one in a recent series of unexplained fires and explosions. It follows a large fire on June 26 at the Parchin military complex, linked to the ballistic missile programme, that the government attributed to a gas leak, and then fires at a power plant and a petrochemical plant in Khuzestan on July 5 and on a cargo ship in Bushehr port on July 6. There are some indications from the Israeli side of a role in the Natanz

event, with Foreign Minister Gabi Ashkenazi saying that the country is taking actions "better left unsaid" to ensure that Iran is not allowed a nuclear capability. Iranian nuclear development will continue, however, but within limits defined by Tehran's need for Chinese and Russian protection in the Security Council.

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## **Ethiopia: opposition trials will deepen tensions following murder of Oromo icon**

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**Event:** Three prominent opposition leaders appeared in court on July 2. They were arrested amid the mass unrest that followed the June 29 murder of the Oromo singer and former political prisoner Haacaaluu Hundeessaa, who gained prominence as the 'voice' of the Oromo protest movement that dominated Ethiopian politics between 2015 and 2018.

**Outlook:** Even if authorities believe those now on trial planned to instigate further violence, prosecuting them is likely to have the same outcome as the one they are charged with seeking, as all the government's opponents are likely to condemn a crackdown that is targeted at just one part of the opposition spectrum. Consequently, popular anger that has so far been diffused may increasingly be focused on the federal government itself.

### **Analysis**

Two of those on trial are from the Oromo nationalist Coalition for Democratic Federalism and were arrested on June 30 during a confrontation with police over Haacaaluu's burial place. They may also face charges stemming from violent protests last October that left almost 100 people dead. Meanwhile, some accuse ethnic Amhara activists of targeting the singer for recent controversial remarks about former Emperor Menelik II, a cult figure in Amhara. Others suggest the killing may have been perpetrated by supporters of the Tigray People's Liberation Front or the Egyptian security services to stir domestic tensions and

further their disputes with Ethiopian authorities. Although there is so far little evidence of a motive for the killing, the government has shut down the internet to try to contain the rumours. Given the fragility of the domestic political context, the situation could quickly escalate.

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## **ASEAN: Hanoi and Manila stand out for challenging Beijing on South China Sea**

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**Event:** On July 2, the Philippines and Vietnam criticised China for holding military drills in a disputed area of the South China Sea.

**Outlook:** ASEAN is struggling to present a united front on the South China Sea dispute, and the latest condemnation of China's operation manoeuvres from Hanoi and Manila underscore the fact that the two countries remain significant outliers on this issue within the ASEAN bloc.

### **Analysis**

China, Vietnam, and the Philippines, together with Malaysia, Brunei, and Taiwan, have conflicting territorial and jurisdictional claims in the South China Sea. The latest Chinese drills that have drawn a critical response from Manila and Hanoi began on July 1 near the Paracel Islands, over which Hanoi and Beijing dispute sovereignty. Vietnam and the Philippines have in recent years stepped up pushback on China's assertiveness in the South China Sea. This is significant as ASEAN and Beijing are attempting to negotiate a Code of Conduct for the waters, although talks have been held up amid the COVID-19 crisis. At the conclusion of a (virtual) ASEAN summit last week, the customary statement issued by the organisation's chair, which is currently Vietnam, noted "concerns" among members about developments in the South China Sea that had "eroded" trust and confidence.

## Russia: Putin secures new constitution without offering clear path forward

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**Event:** On July 3, final results from the 'people's vote' on constitutional change were released showing 77.9% for and 21.3% against, with official figures showing that even liberal Moscow and St Petersburg recorded 'yes' votes of 65.3% and 77.7% respectively.

**Outlook:** The government's pre-vote campaigning for approval of the new constitution focused on bolstering the Russian state, but the Kremlin is now presenting the result as a personal victory for President Putin and suggesting that he will be in power for the long term. Neither narrative will have lasting traction for a population focused on its own hardship, or for a government trying to steer Russia's economy through adverse circumstances with no prospect of rapid improvement. For Putin, the central question remains what he can actually do to improve the lives of the Russian population.

### Analysis

Only one of Russia's 85 provinces, the Nenets autonomous region, said 'no', almost certainly because of a plan -- later withdrawn -- to merge it with neighbouring Arkhangelsk. Nationwide turnout was 68%, much higher than the 57% reported half-way through the final day. This is a surprising increase given that total turnout encompasses five previous days of in-person and online voting, suggesting an unprecedented mobilisation effort by the authorities. Reports of electoral fraud are supported by statistical analysis that showed large anomalies in vote distribution.

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