

Political Risk Update: September 2, 2020

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Australia: New law allows Canberra to cancel state deals with foreign governments

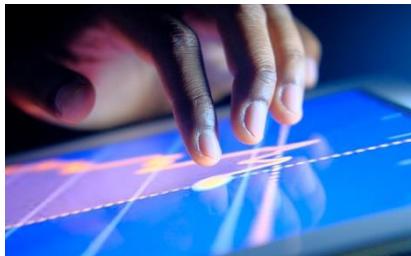
Event: Prime Minister Scott Morrison's government plans to introduce legislation this week that allows the federal government to review and cancel agreements reached by Australia's state governments and government-related bodies with foreign governments.

Outlook: The legislation is consistent with other recent measures to safeguard Australia from overseas influence (meaning Chinese influence), and will pass into law as the opposition Labor party has already expressed support. The exclusion of state-owned enterprises and commercial firms should limit the potential negative commercial and investment fallout from the law, but the risk of cancelled government-to-government agreements and contracts will remain, and businesses and local economies could still lose out as a result of its provisions.

Analysis

The legislation will cover many sectors, such as tourism, infrastructure, trade, and university partnerships. Deputy Prime Minister Michael McCormack has already said that

it could be used to cancel Victoria's deal with Beijing to be part of the infrastructure-developing Belt and Road Initiative. Morrison says that the intent is to enable the federal government to ensure Australia's "national interest" is safeguarded across all government levels. This comes as Australian ties with China have worsened this year, partly because Canberra pushed for an independent probe into the origins of COVID-19. However, state-owned enterprises and commercial firms would not fall under the new legislation.



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Sudan: Absent groups limit impact of major peace deal

Event: Sudan's transitional government, together with the armed opposition Sudan Revolutionary Front (SRF) and Sudan People's Liberation Movement-North/Malik Agar (SPLM-N/Agar), initialled a 'comprehensive' peace agreement on August 31.

Outlook: The absence from the agreement of Sudan's two most powerful rebel groups, the SPLM-N/Abdel Aziz al-Hilu faction and the Sudan Liberation Army/Abdel Wahid al-Nur (SLA/AW) faction, leaves a huge gap. Even if they can be brought to the table, which is by no means certain, this could require the renegotiation of some provisions of the deal that has just been signed.

Analysis

The deal is a product of almost a year of negotiations and includes agreements covering Darfur, the 'Two Areas' (South Kordofan and Blue Nile), and central, eastern, and north Sudan. The deal's eight protocols cover significant ground, including on power-sharing,

security arrangements and the integration of rebel forces, distribution and management of resources, transitional justice, durable solutions for displaced persons, and land rights, among others. However, it also leaves much scope for the continuation of existing disputes, especially on power-sharing, security sector reform, investment pledges, and land.

Argentina: Long-awaited debt deal will not guarantee quick recovery

Event: On August 31, Economy Minister Martin Guzman announced overwhelming acceptance of the government's debt restructuring proposal that expired on August 28, with holders of instruments accounting for 99% of the 65 billion dollars of debt involved accepting the government's offer.

Outlook: The debt swap represents a major victory that will ease the repayment burden in coming years, but the positive impact will be diluted by what is likely to be a slow and fragile post-pandemic recovery.

Analysis

The debt swap will result in extended maturities and a fall in average interest from 7% to just over 3%, implying a reduction in debt payments of some 37.7 billion dollars over the next decade. The government last week began talks with the IMF on some 44 billion dollars in debt, which is the bulk of the 70 billion owed to multilateral lenders that will now have to be renegotiated. With the 2021 budget due to be presented to Congress in mid-September, Guzman is now preparing an economic plan aimed at recovery and fiscal sustainability as the country faces a contraction in GDP of some 12.5% this year due to the COVID-19 pandemic. Pandemic-related restrictions have again been extended, most recently until September 20, as case numbers rise rapidly. Argentina now has the world's tenth-highest number of confirmed cases.

Japan: Yoshihide Suga will probably be the next prime minister

Event: On September 1, the ruling Liberal Democratic Party (LDP) decided the process for selecting its next leader, who will become the country's new prime minister as Shinzo Abe steps down.

Outlook: Yoshihide Suga, 71, will probably succeed Abe as a de facto caretaker prime minister and his term will serve as an extended leadership contest for a 'real' successor who would stay in post longer and have a mandate for introducing new policies. However, if the party performs well under Suga's leadership in the general election that is due by October 2021 then he might introduce an agenda of his own and attempt to remain in post.

Analysis

Shinzo Abe announced his resignation as prime minister on August 28, citing poor health. The interim leader will be elected by the party's 394 lawmakers and 141 representatives from its prefectoral chapters. He will serve as prime minister until the next scheduled party leadership election in September next year, when Abe's three-year term as party leader was due to expire. The frontrunner is Yoshihide Suga, who has been chief cabinet secretary throughout Abe's eight-year premiership. Suga's association with Abe and his allies probably ensures him the support of the largest party factions in the LDP. The scheduled leadership election next year will include a vote by the party's rank-and-file members, which broadens the range of feasible contenders.

Egypt: Leader's arrest is new blow to the Muslim Brotherhood

Event: Police detained Mahmoud Ezzat, the interim leader of the Muslim Brotherhood, during a raid on a flat on the outskirts of the capital on August 28.

Outlook: The government crackdown on its activities over several years has left the Brotherhood as a shadow of its former self, and its operational capabilities have been severely reduced. Nonetheless, Ezzat's arrest will be major setback. The material collected during the raid in which he was arrested will also give authorities information on what remains of the Brotherhood's organisational structure, making further arrests likely.

Analysis

Security officials allege that Ezzat commanded an armed wing of the Muslim Brotherhood, something the group denies, and that he played a role in several high-profile assassinations. Ezzat is said to have assumed temporary control of the Brotherhood in 2013 after the arrest of leader Mohammed Badie in the aftermath of the military coup that ousted a Brotherhood-led government. Since then, President Abdel Fatah el-Sisi (who led the coup) has branded the Brotherhood a terrorist organisation, imprisoning hundreds of its members and forcing most of its remaining leadership into exile. Indeed, Ezzat himself was widely believed to have fled the country.

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