

## Political Risk Update: October 21, 2020

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- **Iran:** Conservatives prepare to block any possible rapprochement under Biden
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### Iran: Conservatives prepare to block any possible rapprochement under Biden

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**Event:** Speaking on October 18, President Hassan Rouhani called for national unity in the face of foreign sanctions, blaming short-sighted factions for furthering the goals of foreign enemies.

**Outlook:** Supreme Leader Ali Khamenei will likely protect Rouhani from a disorderly impeachment process, but not from mounting conservative pressure. Even if Joe Biden wins the US election and seeks to rejoin the nuclear deal, Rouhani faces growing constraints on the concessions he can offer in return.

#### Analysis

The latest criticism of Rouhani came after comments he made on October 14 that included a religious example of making peace with enemies were interpreted by some conservatives as advocating an outreach to Washington. The chair of the parliamentary security and foreign policy committee said on October 17 that 44 MPs had signed a motion to impeach the president, although some later withdrew. Rising conservative

pressure, combined with another increase in COVID-19 cases and worsening currency deterioration, has limited Rouhani's ability to capitalise on the general agreement of the non-US world that the UN arms embargo on Iran expired on October 17. This is one of the few remaining 'wins' for Tehran from his 2015 nuclear deal, although in practice Iran cannot afford a weapons-buying spree.



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## Bolivia: Socialists surge back to power in presidential election

**Event:** On October 19, centrist candidate Carlos Mesa conceded the presidential election to Luis Arce of the Movement Towards Socialism (MAS), the party of former president Evo Morales.

**Outlook:** Although results await final confirmation, preliminary results suggest that the left has made a dramatic comeback after a year of right-wing rule. The period surrounding the election has been remarkably peaceful, and an emphatic win for MAS greatly reduces the possibility of post-election violence. Although a clear election result will foster stability, the pandemic presents the incoming government with major socioeconomic challenges.

### Analysis

Preliminary results from the presidential election held on October 18 showed Luis Arce with 52.4% of the vote, far ahead of his closest rival, Carlos Mesa of Comunidad Ciudadana, with 31.5%. The results are a surprise given that both pre-election polling and

early numbers from the count suggested either a second-round run-off or a Mesa win. Mesa's concession followed a call from the interim President Jeanine Anez, who is a fierce MAS critic, for him to acknowledge Arce's apparent win, although with only a quarter of the votes counted some in his party felt he had acted too soon. This presidential contest was held one year after contentious elections triggered widespread unrest, forcing then-President Evo Morales of the MAS to resign. Morales was prohibited from competing in the latest election but, although based in Argentina, has remained a vocal presence throughout the recent political tensions and the COVID-19 pandemic. Under a government headed by Arce, an economist who is close to the former president, Morales appears likely to return to Bolivia.

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## China: New export control law expands Beijing's retaliatory options

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**Event:** On October 17, China's legislature, the National People's Congress, passed new legislation that enables the government to restrict exports of materials, technologies or services on national security grounds.

**Outlook:** Simply passing the law amounts to issuing a threat, as it will expand Beijing's options for economic coercion or retaliation, principally and most immediately against the United States but potentially also against other rivals or countries with which it has disputes. In particular, it will allow China to use its economic leverage in the technology sector more openly than the export restrictions it has used in other sectors in the past.

### Analysis

The Export Control Law will introduce a blacklist similar to the US 'entity list', which the Trump administration has used against Beijing in an effort to hold back development of China's technology industry. It will cover all firms in China, including foreign ones, cover not just technology but also services and data. The move supplements and underpins the

Unreliable Entity List (UEL), a tool deployed by the Ministry of Commerce to punish foreign businesses that curtail supplies to Chinese enterprises for non-commercial reasons.

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## Zambia: Government misses payment as potential default looms

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**Event:** On October 15, Finance Minister Bwalya Ng'andu confirmed that Zambia did not make a 42.5 million dollar coupon payment on three billion dollars' worth of Eurobonds the previous day.

**Outlook:** The government has 30 days from October 14 to make the payment before an official default. However, serious mistrust exists between Zambia and its creditors, not least because of Lusaka's apparent poor communications, while various Chinese entities will be reluctant to soften their demand. Meanwhile, a long hoped-for IMF deal that would ease some creditor concerns remains elusive.

### Analysis

Lusaka had earlier flagged a potential default if its commercial creditors do not agree to a six-month interest payment deferral. However, bondholders maintain that they have yet to be shown a coherent plan to improve the country's fiscal position. The government requested a suspension last month but this was rejected by the Zambia External Bondholder Committee, which represents bodies holding some 40% of the outstanding Eurobonds; two-thirds of bondholders must agree for the deferral to go ahead. Bondholders have sought clarity on Zambia's Chinese debts amid concerns over unequal treatment of creditors, while questions persist over Zambia's consolidation plans before elections next year. Zambia has received relief under the G20's Debt Service Suspension Initiative, although some Chinese creditors are reportedly demanding that Lusaka agree to pay arrears owed to them before starting relief talks.

## **UAE: Gulf real estate markets face sharp, sustained decline**

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**Event:** Dubai announced a programme on October 15 that allows people with monthly salaries above 5,000 dollars to move to the emirate with their families while working remotely for their current employers abroad.

**Outlook:** Deep dependence on the expatriate property market, as well as the related aviation sector, is forcing Dubai to come up with innovative solution that take advantage of the growth of remote working during the pandemic. Although Dubai can offer beaches, malls and no local income tax, uptake may be deterred by the outlawing of voice-over-internet protocols needed for remote working, fears of judicial unpredictability and potentially high local COVID-19 case numbers.

### **Analysis**

This latest move to attract temporary residents follows the introduction in September of a five-year renewable 'retirement visa'. The UAE's already-troubled real estate sector has been hit hard by the pandemic, as jobs vanished and many foreign workers moved out. Property owners across the Gulf are suffering similarly. In Kuwait, where popular anti-expatriate feeling is rising, the chamber of commerce warned in September of the high risk to real estate. Ultimately, the wider Gulf trend will be more towards job nationalisation and a related decline in property values.

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