

Political Risk Update: November 11, 2020

- **Ethiopia:** Prime Minister reshuffles security officials as conflict with Tigray intensifies
 - **Turkey:** Economic recovery will need new policies as well as new people
 - **Russia:** Alexander Novak will continue to run energy policy after promotion
 - **India:** WhatsApp move signals government's approach to digital regulation
 - **China:** New legislation will authorise the use of weapons by the China Coast Guard
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Ethiopia: Prime Minister reshuffles security officials as conflict with Tigray intensifies

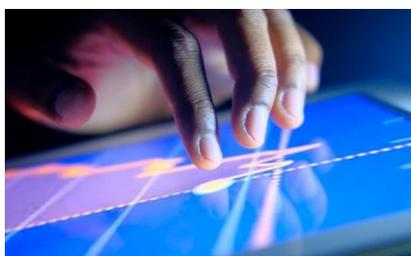
Event: Prime Minister Abiy Ahmed announced sweeping changes to the federal government's security hierarchy on November 8.

Outlook: The reshuffle embeds Abiy loyalists across the top echelons of the security apparatus. The move should dampen internal dissent over the operation against the Tigray People's Liberation Front (TPLF), which controls the Tigray region, while signalling Abiy's intent to prosecute the conflict forcefully, supported by like-minded leaders. Nevertheless, a quick military victory looks increasingly unlikely as reports of federal airstrikes against heavy weaponry being used by Tigrayan forces suggest that at least part of Northern Command, one of the army's strongest elements, has fallen into Tigray's hands. Abiy is also aware that deploying the military to Tigray will weaken its presence elsewhere, potentially unleashing deadly instability in other areas of the country. However, he regards curbing the power of the TPLF, the dominant political force in Ethiopia for

almost three decades before he came to power in 2018, as crucial to the success of his reforms.

Analysis

The changes came as military operations against Tigray's regional government entered their fifth day. Deputy Prime Minister Demeke Mekonnen has been named foreign minister, replacing Gedu Andargachew, who becomes a security adviser to Abiy. Deputy army chief General Birhanu Jula replaces General Adem Mohammed as head of the army. Outgoing Amhara President Temesgen Tiruneh becomes intelligence chief, replacing Demelash Gebremichael. Details of the conflict are scant as local communications are being blocked but fighting appears to be fierce and both sides are claiming major successes. Tigrayan authorities have expressed their openness to dialogue but Abiy has ignored growing calls for talks. Meanwhile, the national parliament has voted to establish a transitional administration in Tigray that would replace the current authorities.



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Turkey: Economic recovery will need new policies as well as new people

Event: The Turkish lira rose against the US dollar on November 9 after the new governor of the central bank, Naci Agbal, said all policy tools would be used to achieve price stability.

Outlook: Agbal, a former finance minister, replaced Murat Uysal at Turkey's central bank last week following another lira plunge, after which Treasury and Finance Minister Berat Albayrak, an opponent of Agbal's, announced his resignation on the grounds of ill-health. However, the departure of Uysal and Albayrak will achieve little unless President Erdogan allows their successors to reassure investors with a more conventional economic policy.

Analysis

The lira has fallen by about 30% against the dollar this year amid monetary policy confusion. The central bank had been tightening the money supply indirectly and raised its main interest rate in September, only to leave it unchanged in October. President Erdogan, echoed by Albayrak, who is also his son-in-law, has opposed using higher interest rates as a means to tame inflation and steady the exchange rate. However, Erdogan's first priority is not rescuing the economy but maintaining support through foreign policy gestures and stepped-up confrontations that deepen Turkey's isolation.

Russia: Alexander Novak will continue to run energy policy after promotion

Event: Alexander Novak was promoted from energy minister to deputy prime minister in a cabinet reshuffle announced on November 9.

Outlook: The reshuffle looks like an opportunity for the prime minister, Mikhail Mishustin, to fine-tune the government after he took up the post in January. The number of deputy prime ministers rises from nine to ten following the reshuffle, making them something of an inner cabinet. One important aspect of Novak's continuing hold on the energy portfolio is that he will remain Russia's lead negotiator with OPEC.

Analysis

Novak has been energy minister since 2012. Although his promotion means that Nikolay Shulginov, head of hydroelectricity company RusGidro, becomes energy minister,

Moscow has been clear that Novak will remain fully engaged with the energy sector and continue to lead relations with OPEC. Other changes see Transport Minister Yevgeny Ditrikh, Construction Minister Vladimir Yakushev, and Natural Resources and Environment Minister Dmitry Kobylkin replaced by, respectively, Aeroflot chief Vitaly Savelyev, Deputy Construction Minister Irek Fayzullin, and Far East and Arctic Development Minister Alexander Kozlov, whose current post goes to Alexey Chekunkov, head of the Far East Development Fund. Yakushev becomes presidential representative for the Urals Federal District, a 'super-region' encompassing several provinces.

India: WhatsApp move signals government's approach to digital regulation

Event: On November 5, the National Payments Corporation of India (NPCI) announced that Facebook can expand the use of NPCI's Unified Payments Interface to offer WhatsApp Pay to up to 20 million WhatsApp users in India.

Outlook: As Reliance, with which Facebook has recently partnered, builds out its multi-vector operations in India's digital economy, it will compete against global players such as Amazon in e-commerce and Google in digital wallets. The regulatory preference of Indian Prime Minister Narendra Modi's government is to advance the interests of domestic players and the regulatory approval of WhatsApp Pay, which was contingent upon Facebook's agreement to comply with data localisation laws, should help Reliance to strengthen its market position.

Analysis

Facebook has been trialling this digital wallet in India since 2018, but its nationwide rollout was blocked by the competition regulator due to the dominance of WhatsApp in the social messaging sector. With some 400 million users, India is WhatsApp's largest market. The regulatory approval advances Facebook's strategy to gain a foothold in India's burgeoning digital economy, at least initially through its partnership with Reliance Jio, in which it

recently acquired a 9.99% equity stake. Reliance wants to dominate digital commercial mediation in India by connecting its physical retail stores, smaller retailers and customers via its digital platform and telecoms services. Facebook provides it with digital payments technology and WhatsApp users.

China: New legislation will authorise the use of weapons by the China Coast Guard

Event: Draft legislation released for public comment by the National People's Congress on November 4 will, once enacted, expand the powers of the China Coast Guard, whose vessels are often used in situations where other countries would use naval forces.

Outlook: By creating a clear legal basis for the use of force against foreign ships and installations in disputed waters, the bill increases the risk of a clash and a subsequent violent escalation.

Analysis

Among other measures, the new legislation will authorise Coast Guard personnel to use firearms against vessels and to forcibly demolish foreign structures on Chinese-claimed reefs. China Coast Guard vessels frequently enter waters whose sovereignty is disputed, such as those around the Japan-administered Senkaku/Diaoyu islands, and proceed to confront foreign vessels there. The most recent occurrence came last month, when two China Coast Guard vessels entered the waters around the islands and approached a Japanese fishing boat.

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