

## Political Risk Update: November 18, 2020

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### **Zambia: Sovereign default increases external trust deficit**

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**Event:** After bondholders refused the Zambian government's request for a six-month deferral of debt interest payments on November 13, Lusaka failed to make a 42.5mn USD coupon payment on 3bn USD worth of Eurobonds within a 30-day grace period, so triggering a sovereign default.

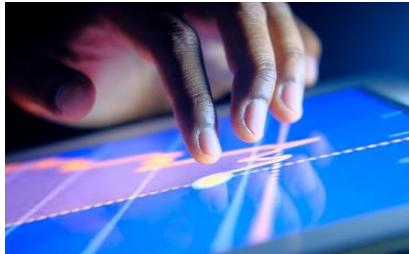
**Outlook:** Holders of its three Eurobonds can now request immediate repayment, although fraught restructuring negotiations are the more probable outcome. Lusaka's touting of a potential breakthrough with the IMF look unrealistic as neither Zambia nor its Chinese lenders appear likely to provide sufficient transparency to satisfy bondholders or the Fund.

#### **Analysis**

In an interview with state media on November 15, Finance Minister Bwala Ng'andu alleged that bondholders, who want greater information on debts owed to Chinese entities amid fears that the latter will receive preferential treatment, had refused to sign confidentiality agreements in return for more details on loans and outstanding debts. The Zambia

External Bondholder Committee, which represents investors holding some 40% of the outstanding Eurobonds, said on November 16 that Lusaka's plans to continue borrowing on commercial terms over the coming three years, and to service the resulting debts, meant that they would not be treated on an equitable basis.

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## Peru: Merino resignation leaves government in doubt

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**Event:** Amid mounting protests against his appointment, Interim President Manuel Merino and most of his business-friendly cabinet resigned on November 15 less than a week after taking office.

**Outlook:** Congress struggled to confirm a new interim president before picking Francisco Sagasti from the centrist Morado Party, an engineer who was only elected to Congress this year. Appointing a new cabinet is likely to prove even more difficult and investors will be cautious in the face of the current political instability, especially if the protests against Congress continue. Congress will come under increasing pressure to guarantee that the elections due in April 2021 will be held on time, and that the winner will be sworn in as scheduled in July.

### Analysis

Merino's departure followed widespread protests against the impeachment of President Martin Vizcarra, with at least two deaths and numerous injuries. The Constitutional Tribunal may rule this week on the definition of "permanent moral incapacity" that justified

Vizcarra's removal. Congress failed in its first attempt to elect a new interim president when an apparent agreement to back legislator Rocio Silva-Santisteban of the leftist Frente Amplio was voted down under pressure from right-of-centre legislators. Protests continue, largely involving middle-class youths organised by social media and lacking leadership from traditional groupings such as political parties or trade unions.

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## **India: Rejecting key trade pact may come with a strategic cost for Delhi**

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**Event:** Following eight years of negotiations, ASEAN's ten members together with China, Japan, South Korea, Australia, and New Zealand signed the Regional Comprehensive Economic Partnership (RCEP) on November 15.

**Outlook:** India was a participant in RCEP talks until November 2019, when it withdrew because of concerns about market access and trade imbalances. Snubbing RCEP will deprive India of an opportunity to boost export volumes and integrate itself more deeply into regional supply chains, although Delhi will say that joining the trade pact would put its economy at risk from cheap imports. Rejecting the pact is likely to dent India's strategic ambitions in the Indo-Pacific, as doing so effectively cedes more influence in the region to China.

### **Analysis**

The free trade agreement, which will progressively lower tariffs, takes effect once member countries have ratified it. This is likely within the next two years. India withdrew from discussions last year because it was especially wary about dumping of cheap Chinese imports and, although RCEP countries have reiterated that the pact remains open to Delhi, the Modi government says that its position on joining has not changed. This is despite the recent strengthening of security ties with its partners in the 'Quad' grouping that also includes Japan and Australia.

## Brazil: Local elections see traditional parties return

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**Event:** Early results from the round of local elections that began on November 15 suggested that candidates aligned with President Jair Bolsonaro are performing poorly, while those from traditional parties are gaining ground.

**Outlook:** Although these elections are fought largely on local rather than national issues, there are signs that the rise of voter rejection of traditional parties that brought Bolsonaro to power may be reversing as his original anti-corruption platform fades. Local concerns of interest to voters will increasingly include pandemic responses.

### Analysis

Bolsonaro left the Social Liberal Party (PSL) last year and so in practice he has no party. The PSL itself has been largely absent from this round of local elections after becoming the second-largest party in Congress in general elections two years ago. Candidates associated with Bolsonaro have failed to reach runoffs in Sao Paulo, where the Social Democrats have performed well, while in Rio de Janeiro, the pro-Bolsonaro incumbent now faces a runoff against a former mayor from the Democrat (DEM) party. DEM also won mayoral races in Salvador, Curitiba and Florianopolis, while the Social Democrat mayor of Belo Horizonte was re-elected after pursuing strong COVID-19-related restrictions that were opposed by Bolsonaro.

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## Morocco: Operation to re-open border crossing raises Western Saharan risk

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**Event:** On November 16, Mauritanian and Moroccan media reported that the border crossing in the village of Guerguerat between Western Sahara and Mauritania was operating normally after a Moroccan military operation lifted a Sahraoui blockade of the village on November 13.

**Outlook:** Rabat may have intended its use of military force as a reminder to the incoming US administration to put Western Sahara back on the agenda. Morocco controls three quarters of Western Sahara, and Guerguerat connects Morocco to Mauritania.

## **Analysis**

Reports on November 15 indicated that the Polisario Front, which has sought independence for Western Sahara for decades, had attacked Moroccan positions after the military action in Guerguerat. If so, this marks the end of its adherence to a 30-year ceasefire. However, its leaders may find it difficult to de-escalate the crisis as young Sahraouis are getting impatient with the glacial pace of efforts to resolve the dispute. The return to action may reflect Polisario's concern that the international environment has been tilting in favour of Morocco in recent years as Rabat embarked on a series of diplomatic initiatives. Last month, the United Arab Emirates established a consulate in the Sahraoui capital of Laayoune in a move that, in effect, recognises Morocco's sovereignty over the region.

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