

Political Risk Update: June 16, 2021

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Uzbekistan: Uzbek goodwill expands Tajikistan's external access

Event

Following President Shavqat Mirziyoyev's three-day visit to Tajikistan, a range of agreements announced on June 14 will improve Tajikistan's road and rail connections with Uzbekistan and onward transit to Russia and other destinations.

Outlook

Mirziyoyev's visit embodies a new approach to regional relations in which previous areas of bitter dispute, from trade to water, become opportunities for cooperation after a leadership change. The healing of Central Asia's deepest antagonism strengthens both Uzbekistan and Tajikistan, and may help them form a joint view about joining Russia's Eurasian Economic Union, on which both are hesitant. Positive bilateral relations are a particular help to Tajikistan at present, following its unexpected border conflict with Kyrgyzstan in April.

Analysis

Tajikistan's external access was constrained when the last Uzbek president, Islam Karimov, obstructed traffic and trade. Its other neighbours are war-torn Afghanistan plus China and Kyrgyzstan, accessible only by difficult high-altitude routes. Everything changed under President Shavqat Mirziyoyev, who had a rapturous welcome when he visited Tajikistan on June 10-13, his second trip there since replacing the late Karimov in 2016. Despite the pandemic, 2020 bilateral trade was more than double the 2016 figure. Mirziyoyev's visit generated multiple business connections, an agreement to build two Tajik hydroelectric plants to supply Uzbekistan, and plans for a railway from Samarkand (Uzbekistan) to Penjikent (Tajikistan).

Pakistan: Higher government spending will raise IMF concerns

Event

On June 11, Finance Minister Shaukat Tarin presented a budget of nearly 54.5 billion dollars for the fiscal year ending June 2022.

Outlook

As Pakistan counts on increased spending to help sustain the recovery of the pandemic-hit economy, the IMF may feel that Islamabad is not demonstrating the urgency it would like to see with regard to reducing the fiscal deficit. Resumption of Pakistan's latest Extended Fund Facility (EFF) could face further hold-ups.

Analysis

The new budget has expenditure at a level almost 19% higher than in 2020/21. Yet the government aims to narrow the fiscal deficit to 6.3% of GDP in 2021/22 from 7.1% in the year just ended, helped by a projected 24% increase in revenue collection. In its April 2021 fiscal monitor, the IMF -- which in March announced resumption of Pakistan's latest EFF following a hiatus of several months -- said the deficit should fall to 5.5% in 2021/22 and 3.9% in 2022/23. Islamabad and the IMF are in talks relating to the sixth review of the bailout programme. Pakistan targets 4.8% GDP growth in 2021/22. It estimates that the economy grew by close to 4.0% in 2020/21, following a contraction of nearly 0.5% in 2019/20.

Algeria: Low election turnout suggests political stagnation

Event

The Independent National Election Authority (ANIE) said the provisional turnout for the June 12 parliamentary elections was 30.2% -- a new low even for Algeria, which has historically seen low participation rates.

Outlook

It was widely expected that turnout would be low following calls for a boycott of the elections from the Hirak protest movement over the government's largely cosmetic responses to its demands for more representation. Although Islamists are unlikely to have won the elections, they are nonetheless expected to have done well.

Analysis

In the previous legislative elections in 2017, turnout was 35.7% (and 42.9% in 2012). Results are not expected for at least four days after the closing of the polls, but ANIE has already refuted assertions from the political Islamist Society for Peace Movement (MSP) on June 13 that it won the polls. Authorities will ignore the implications of the low turnout for the government's credibility, but a figure of 30% will undermine their legitimacy and help maintain the protest movement.

Argentina: Proposal to bring private sector into healthcare system risks conflict

Event

Speaking in the capital of Buenos Aires province on June 14, Vice-President Cristina Fernandez de Kirchner (CFK) reiterated earlier calls to "rethink the entire healthcare system" to integrate public, private and trade union-run health services.

Outlook

Any moves to bring health services under greater state control would prompt sharp conflicts between CFK's supporters and the trade unions, a traditional bastion of Peronist support, as well as middle-class private health patients. The government is likely to do poorly in mid-term elections, further weakening President Fernandez in particular.

Analysis

The proposal to overhaul the country's healthcare system, originally floated in December, had already raised tensions not only with both private health plans but also with the trade unions, as member healthcare contributions represent a significant source of union income. After that initial controversy, President Alberto Fernandez had promised not to advance with plans that would affect those groups. CFK's latest comments come amid a continuing rise in COVID-19 deaths, which have now exceeded 86,000, and indications of increasing discontent with the vaccination programme and other aspects of the government's performance. A new poll shows the government four percentage points behind the opposition for the forthcoming mid-term elections in the key Buenos Aires province, the main bastion of CFK and the La Campora youth movement that supports her.

Philippines: President Duterte will not scrap key US security pact

Event

On June 14, Foreign Secretary Teodoro Locsin said that President Rodrigo Duterte was suspending termination of the Philippine-US Visiting Forces Agreement (VFA), which was due to expire in August, for a further six months.

Outlook

The VFA provides a legal framework for US forces in the Philippines. Duterte knows that ending the pact would be unpopular with senior figures in his administration, such as Locsin, and the wider public. If he cannot bring himself to approve its renewal by February next year, he will again suspend the termination process so that he will not have to make a final decision on the matter before his presidential term ends.

Analysis

In February 2020, Duterte said he would scrap the VFA, which was set to end in August that year, but instead Manila extended the termination process twice. Earlier this year, Philippine

and US officials began negotiating revisions to the VFA. Duterte said Washington must "pay" if it wanted the pact renewed, underscoring his dissatisfaction with its terms. A draft renewal agreement was recently submitted to him for approval. Duterte's presidency will end in June 2022. Although the Philippine and US security-defence establishments will be disappointed that the VFA has not been renewed, they will now be confident that its scrapping is very unlikely.

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