

Major uptick in terrorism threatens Africa's stability

Groups linked to Islamic State and al-Qaeda seek territorial supremacy

The stability of the Sahel in **West Africa** and northern **Mozambique** is being challenged by [terrorist groups](#) linked to al-Qaeda and the Islamic State (IS). The groups have used increasingly sophisticated techniques to capture territory – often exploiting pre-existing communal fissures. Tensions in the Sahel between al-Qaeda and IS – particularly on the **Mali-Burkina Faso** border – have resulted in a significant rise in violence.

Approximately [1,000 attacks](#) were recorded in Mali, **Niger** and Burkina Faso during the year ending March. Al-Qaeda-related attacks increased by 55 percent to 586 separate attacks from 2019. Attacks are reportedly carried out by a coalition of up to 2,000 al-Qaeda fighters. IS-linked attacks increased by 120 percent to 345. [UN](#) figures point to major displacement generated by the conflicts. 1.5 million people in these three countries have been displaced. In Mali, the perceived failure of the government to contain the violence contributed to the recent military coup. The elevated risk of terrorism is not isolated to the Sahel. In northern Mozambique last week, a group linked to IS captured a key port near [Mocimboa da Praia](#). The port city is proximal to natural gas projects worth US\$60 billion. Based on this success, militants may be emboldened to take other points of strategic infrastructure hostage. Group massacres and beheadings were carried out by militants in the same [province](#) in May. Failure to contain these insurgencies will result in further displacement, death and volatility. As previously reported, the deepening COVID19 crisis has distracted and debilitated government authority, creating vacuums that will continue to be exploited extremist groups.

Russian opportunism in the Middle East

President Putin is collecting friends across the region

President Vladimir Putin's proposition to convene a virtual summit of world leaders on **Iran** is another example of his opportunistic approach to building **Russia's** influence in the Middle East. His proposal follows the UN Security Council's [rejection](#) of a **US** motion to extend an arms embargo on Iran – an effective rebuttal of Washington's "maximum pressure" approach. More broadly, Russia has leveraged **President Trump's** hot and cold approach to the region to extend its relationships beyond **Syria** across the Levant, North **Africa** and Persian Gulf. Russia is a key security and investment partner of Iran. Prime Minister **Benjamin Netanyahu's** recent [visits](#) to Russia also signals Moscow's improving relationship with **Israel**. Beyond diplomacy and economics, Russia has used regional conflicts to project its influence. Bold displays of military power – although not always successful – have positioned it as an influential actor. In **Libya**, Russia has aligned with **Egypt** and the **UAE** to support General Haftar and has 2,000 Russian military contractors reinforcing Sirte. Russian influence has not proved to be the 'game-changer' that it was in Syria, but has nonetheless granted Moscow a seat at the table. Russia has also sought to play a mediating role in the **Yemen** conflict, engaging with the secessionist Southern Transitional Council. Planned adjustments to US troop levels in **Iraq** and **Afghanistan** in coming months may embolden Russia to further expand its influence. Russia's expansion is not necessarily automatically hostile to US interests. Rather, Russia seizes opportunities to insert itself, exploiting tactical opportunities but with no clear strategic objective. Ultimately, its weaknesses will never allow it to supplant US influence.

Protests hit Thailand

The protests are the biggest since the 2014 military coup

At least 20,000 people – mostly students – have taken to the streets of Bangkok. The protestors are calling for the dissolution of parliament, protection of free speech and the rewriting of aspects of the military-drafted constitution that grant the military authority to appoint the Senate. Controversially, the protestors are also seeking the rescindment of **Thailand's** infamous lese-majeste law – which had until very recently been liberally used to suppress criticism of the monarchy – and greater parliamentary oversight over the Crown.

The monarchy is normally beyond reproach in Thai political discourse. However, this has changed under the reign of the **Australian**-educated King **Maha Vajiralongkorn**, who has invited opposition in a way that his revered father never did. Vajiralongkorn's lavish playboy lifestyle, as well as his decisions to take direct control of several army units and the Crown's A\$40-70 billion property portfolio, have particularly ruffled feathers. The King also directly intervened in the drafting of the Constitution to ensure that he was allowed to spend more time in **Germany** – where he normally resides. The weakened state of the economy is fuelling popular discontent. GDP is expected to contract by 8.1 percent this year while youth unemployment is expected to [at least double](#). Thailand's history of protracted political unrest – 13 coups in the modern era and several mass protests led by students or having a strong student presence – means that decision-makers in Thailand will be desperate to prevent events from escalating.

Israel-UAE peace deal – diplomatic coup or concession?

While heralded as an achievement, the deal might hurt Netanyahu politically

The announcement of a peace deal between the **UAE** and **Israel** saw Abu Dhabi become just the third Arab state to normalise relations with Tel Aviv. For the UAE – which has long cultivated unofficial ties with Israel – the peace agreement has obvious benefits. Abu Dhabi has endeared itself further to **President Trump's** administration, gaining access to [cutting-edge](#) US and Israeli weapons and laying the groundwork for closer security cooperation with Israel on **Iran**. For Israeli Prime Minister **Benjamin Netanyahu**, the benefits are less clear cut. On one hand, he has seemingly cemented his legacy – especially if as expected, other Gulf states follow the UAE. However, it is [not necessarily](#) the legacy he wanted. The peace agreement was made on the condition that Israel "[suspend](#) annexing areas of the West Bank."

Opposition to Israeli's annexation plans was widespread both abroad and within Israel – although often for very different reasons. Crucially, the Trump administration was only willing to support annexation on the condition that Israel engaged in peace negotiations with the **Palestinians** and return parts of Area C to Palestinian control. This was unpalatable for Netanyahu and many of his supporters. Instead of defying the Americans and much of the international community, Netanyahu opted for the safer option of entering into a face-saving peace deal. While those to the left of Netanyahu may welcome the deal, they are still unlikely to vote for him. Most worryingly for Netanyahu – who appears to have quite spectacularly failed to keep his word on annexation – those to the right may take their votes elsewhere.

Renewed signs of financial challenges in China

Two separate incidents – wider problems?

Concerns about **China's** financial stability are not new. The growth of the shadow banking sector, the [rising](#) problem of non-performing loans and some of the [highest overall](#) debt levels in the world have long raised fears about China's economic sustainability. Under paramount leader **Xi Jinping**, Chinese officials have taken steps to de-leverage the

economy. However, the dual crises of the Sino-**US** trade war and COVID19 have seen these efforts slow. As recent events attest, these problems are not going away. Last Friday, State-owned carmaker Brilliance – which has a joint-venture with BMW – [saw](#) the price of its various bonds fall between 20 and 69 percent in just 24 hours. Brilliance has performed sluggishly recently and with approximately \$US1.66 billion in bonds set to mature over the next three years, there are concerns that the company may default – as several its peers have done.

In other news, China's banking sector will officially record its first formal bankruptcy, as regulators continue to clean up [Baoshang Bank](#). Baoshang – which was owned by missing tycoon Xiao Jianhua – was used by Xiao to misappropriate billions and was left with a financial blackhole of \$US32 billion. Baoshang is unlikely to be the only Chinese bank that has engaged in such practices but so far, regulators have prevented contagion. Going forward, Chinese authorities will have the difficult task of balancing financial risks with efforts to kickstart the economy.

Jokowi's budget

Indonesia is facing its most uncertain outlook since the 1997 Asian Financial Crisis

Last Friday, President **Jokowi** delivered his state of the nation address and unveiled his accompanying draft budget proposal for 2021. COVID19 and the economic recovery dominated proceedings. COVID19 has been handled poorly, with mixed messaging and confused chains of command. Economically, Indonesia has also taken a sharp hit. Growth contracted 5.32 percent in Q2 – the first quarterly contraction in over 20 years. With monetary policy already stretched to its limits, Jokowi's draft budget proposal included \$US186 billion in expenditure to revive the economy, with infrastructure and health care projects prioritised. Infrastructure spending is set to increase from \$US13 billion this year to \$US28 billion in 2021 as Indonesia's stimulus transitions from away from immediate consumption-boosting measures toward longer-term investment initiatives. Jokowi also used the occasion to make the case for [structural reform](#) across portfolios, including education, budgeting and taxation. Significantly, Jokowi also called for swift passage of his 'Omnibus Bill on Job Creation', currently before Parliament. The Omnibus Bill now appears to have very good prospects of passing. Getting the virus under control and passing meaningful reforms will be crucial to Indonesia's economic recovery.