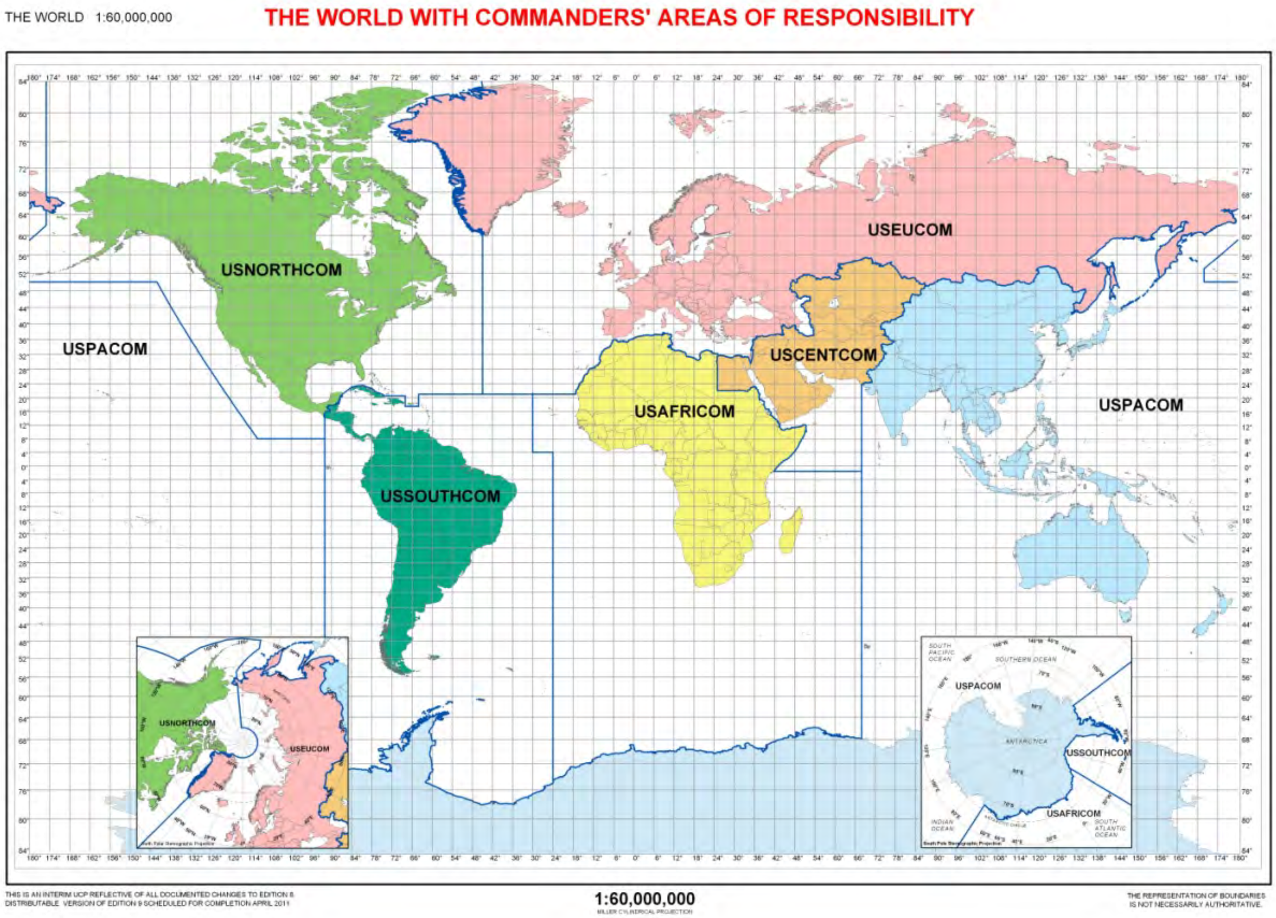

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U.S. Africa Command

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U.S. Army Training
and Doctrine Command
at Fort Eustis, Virginia

General
Stephen J. Townsend

Commanding General,
U.S. Army Training and Doctrine Command
Fort Eustis, Virginia

General Stephen J. Townsend assumed duties as Commander, United States Army Training and Doctrine Command on March 2, 2018, after serving as Commander, XVIII Airborne Corps, the U.S. Army's rapid deployment contingency corps, and Fort Bragg, North Carolina.

Raised in an Army family, General Townsend calls Griffin, Georgia, his hometown. He commissioned into the Infantry upon graduating from North Georgia College in 1982.

General Townsend has led and commanded troops at every echelon from platoon to corps and combined joint task force. He has soldiered with four regiments, the 505th Parachute Infantry, the 21st Infantry, the 31st Infantry, and the 75th Ranger Regiment, and with five divisions, the 82d Airborne Division, the 7th Infantry Division (Light), the 10th Mountain Division (Light), the 2d Infantry Division, and the 101st Airborne Division (Air Assault).

His key staff assignments include service as a planner and operations officer at battalion, brigade, division and joint task force levels. At U.S. Pacific Command, he was the J-5 strategy and plans officer for China and later Special Assistant to the Commander. At U.S. Central Command, he was the Executive Officer to the Commander. On the Joint Staff, he was the Director of the Pakistan-Afghanistan Coordination Cell.

General Townsend's combat and operational experience include Operation Urgent Fury, Grenada; Operation Just Cause, Panama; and Operation Uphold Democracy, Haiti. During Operation Iraqi Freedom, he led 3-2 Stryker Brigade, Task Force Arrowhead, on offensive operations across Iraq during "the Surge." He served four tours in Afghanistan during Operation Enduring Freedom culminating as Commander, 10th Mountain Division (Light). Most recently, General Townsend led all U.S. and multi-national troops fighting the Islamic State in Iraq and Syria as Commander, Combined Joint Task Force – Operation Inherent Resolve.

General Townsend holds a bachelor's degree, two master's degrees, the Air Assault Badge, the Master Parachutist Badge, the Ranger Tab, the Combat Action Badge and the Combat Infantryman's Badge with star.

General Townsend and his wife, Melissa, also from Georgia, have two grown children, one an Army Captain and the other an Army veteran and university student, as well as two large and unruly dogs.

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STATEMENT OF

GENERAL THOMAS D. WALDHAUSER, UNITED STATES MARINE CORPS

COMMANDER

UNITED STATES AFRICA COMMAND

BEFORE THE

SENATE COMMITTEE ON ARMED SERVICES

7 FEBRUARY 2019

A secure, stable, and prosperous Africa

is an enduring American interest.

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INTRODUCTION

Chairman Inhofe, Ranking Member Reed, and distinguished members of the committee, I am honored to represent the men and women of U.S. Africa Command and share with you their accomplishments over the past year. Since I last updated the committee, the new National Security, Defense, and Military Strategies, the U.S. Strategy Toward Africa, the National Strategy for Counterterrorism, the Department of Defense Strategy for Africa, and a new U.S. Africa Command Strategy and Campaign Plan have shaped our efforts on the continent. Each of these foundational documents acknowledges and underscores the strategic importance of Africa and the command's mission: *U.S. Africa Command, with partners, strengthens security forces, counters transnational threats, and conducts crisis response in order to advance U.S. national interests and promote security, stability, and prosperity.*

Africa is an enduring interest for the United States, and security is a pre-requisite for economic growth and development. As a partner-based command, U.S. Africa Command assists African nations in building capable and professional militaries subordinate to elected civilian authority and respectful of human rights, the laws of armed conflict, and international humanitarian law. By making deliberate investments in defense institutions, the U.S. can assist African partners in meeting the basic conditions needed for good governance, economic development, and stability.

During 2018, U.S. Africa Command commemorated its tenth year as a geographic combatant command, reaffirming Africa's importance to the U.S. global strategy for defending and ensuring the economic well-being of the U.S. homeland. Our network continues to focus on shared goals of a secure, stable, and prosperous Africa, which benefits not only our African partners and the U.S., but also the international community.

Headquarters U.S. Africa Command employs a team of military, civilian, interagency, and contract professionals to fulfill the mission. Moreover, U.S. Africa Command is supported by families who bring with them the spirit of community and teamwork, without which the command could not succeed. U.S. Africa Command has partnerships with the Department of State, U.S. Agency for International Development (USAID), and other interagency organizations who all work towards providing stability and prosperity on the continent. Globally, we collaborate with our European allies, the United Nations, the African Union and regional mechanisms, the European Union, non-governmental organizations, and other groups to pursue stability and security in Africa.

By employing a partner-centric approach, U.S. Africa Command complies with the specific direction in the National Defense Strategy to "support relationships to address significant terrorist threats in Africa." To address this directive, U.S. Africa Command builds on two strategic principles. First, very few, if any, of Africa's challenges can be resolved using only military force. Consequently, U.S. Africa Command emphasizes military support to diplomacy and development efforts. Our activities directly complement Department of State and USAID efforts to reduce the spread of harmful ideologies, strengthen governments who protect their citizens and foster security and economic successes.

Second, persistent pressure on terrorist networks—whether it be operational, financial, or political—is necessary to prevent the destabilization of our African partner nations. Our principal means for applying pressure is working through our African and with our international partners, increasing their security capabilities and, only when necessary, using kinetic force. Ultimately, our use of military force in Africa, for example in Libya and Somalia, supports the host government's effort to provide the security and economic growth required for long-term stability and prosperity.

By design, U.S. Africa Command military assistance and activities occur in partnership with the host government and within overlapping regional and global mandates. In Somalia, the command supports the Federal Government of Somalia, while operating in support of African Union and United Nations mandates. In the fight against Boko Haram and ISIS-West Africa (WA), we operate with partners in the African Union-endorsed Multinational Joint Task Force, which was established under the auspices of the Lake Chad Basin Commission. In the Sahel, we partner with five national governments and within the overlapping mandates of the G-5 Sahel and the United Nations. In Libya, our activities support the UN-led political reconciliation process and the UN-recognized Government of National Accord. Even when we operate unilaterally, those actions are firmly embedded in international law and international legitimacy.

U.S. Africa Command also plays a significant role in advancing the priorities outlined in the National Security and Defense Strategies, which emphasize the rise of China and Russia as key competitors. U.S. Africa Command has also observed increased engagement of non-traditional security actors, such as Qatar, Saudi Arabia, Turkey, and the United Arab Emirates, as both challenges and opportunities to our mission. U.S. Africa Command strives to ensure the U.S. remains the partner of choice, in Africa, by maintaining our high standards of professionalism, demonstrating commitment to addressing their security needs, and providing high-quality equipment.

Targeted investments in innovative, cost-effective, and sustainable approaches are common practices within Africa, and U.S. Africa Command endeavors to maximize the returns on our investments. For example, our strategy in Somalia features a distinct set of Advise, Assist, and Accompany authorities in support of the Federal Government of Somalia and the African Union Mission in Somalia (AMISOM) to provide the opportunity for the Somali National Security Forces to successfully assume security responsibilities. This carefully tailored level of operational support reduces risk to U.S. personnel and is a cost-effective way to further advance U.S. security interests.

Each day, we have approximately 7,000 personnel conducting their assigned tasks on the African continent. These include U.S. uniformed personnel, Department of Defense civilians, and contractors of all Services, career fields, and specialties working to address global security challenges and maintain strategic access and influence. These personnel perform duties in countries such as Cameroon, Djibouti, Kenya, Niger, and Somalia. Over the course of 2018, the command and our component commands conducted numerous engagements, exercises, security cooperation events, and operations across the continent. These activities strengthen mutually beneficial networks between the U.S. and partners and enhance the capability of partner nation defense forces to provide effective and legitimate security.

STRATEGIC ENVIRONMENT

For scale, Africa is over three times larger than the U.S. The U.S. Africa Command Area of Responsibility encompasses 53 countries with a population of 1.3 billion. By 2050, this figure is forecasted to almost double to over 2.54 billion, with one out of every four people on the planet living on the African continent. Additionally, the continent faces a large and growing youth population as Africa is home to 21 of the 22 countries in the world with the youngest average populations. Forty-one percent of Africans are under the age of 15, while 60 percent of the total population is under the age of 24. Economic development, leading to employment, is necessary in order to assist in preventing conflict, as Africa needs to add approximately 20 million jobs each year to keep pace with the growing population.

The lack of economic and educational opportunities, a large, disenfranchised youth population, and inadequate natural resources are potential drivers of extremism, which, when coupled with authoritarian, corrupt, or ineffective governments, contribute to persistent instability. According to the Fund For Peace's 2018 Fragility State Index, 33 of the 50 countries most at risk of becoming unstable are in Africa. This includes seven of the top ten most fragile states. According to the United Nations Development Programme's Human Development Index, 32 African countries are listed in the "Low Human Development" categories of health, education, security, and employment.

U.S. Africa Command employs the broad-reaching Diplomacy, Development, and Defense approach to foster interagency efforts and help negate the drivers of conflict and extremism. With the Department of State and USAID, U.S. Africa Command supports programs and initiatives fostering political reconciliation and elections in countries such as Libya. Our diplomatic and development partners work with African partners to provide jobs, food, clean water, and education, such as in Ethiopia and Nigeria, helping to counter incentives offered by violent extremists organizations (VEOs) or criminal networks.

In Africa, VEOs remain a serious threat to the shared interests of our partners, allies, and the U.S. These VEOs and criminal networks prey upon disenfranchised populations, creating a cycle of recruitment and allowing extremist ideology to fester. Extremist networks also exploit criminal networks for the illicit transport of narcotics, weapons, and persons. VEOs cultivate and encourage an environment of distrust, despair, and hopelessness to undermine governments, allowing for the expansion of their radical ideology.

Over the next decade, Africa will be shaped by the increased presence of external actors and the effects of environmental change. The U.S. welcomes those partners pursuing helpful and constructive interests in Africa to develop its economic, infrastructure, humanitarian, and security sectors. However, with emerging markets and a growing consumer class, external actors often employ exploitative tactics and "debt trap" diplomacy to garner undue influence.

Over the past decade, China has injected considerable amounts of financing into the continent, including offering key loans to strategically-located countries, like Djibouti, Senegal, and Angola. Chinese interests include gaining greater access to Africa's mineral and other natural resources, opening markets, and accessing naval ports. In the short term, the complete financial packages can make China appear to be an attractive partner for African nations. For example, African nations who become signatories to China's Belt and Road Initiative (the BRI) receive promises of development, defense, and cultural investments in their countries, further enhancing China's influence while challenging our own partnerships in Africa.

African leaders are growing increasingly wary of their business ventures with China. For example, the Nairobi-Mombasa Railway in Kenya has met with criticism for its high price and the relatively low number of African workers in dispatcher and locomotive driver positions, relative to Chinese workers. While Chinese officials say their business agreements come with no strings attached, construction work on the continent is often carried out by Chinese companies and Chinese workers failing to boost local employment. African countries, which can access financing through China's state-owned banks, often commit to contracts that can lead to debt-equity swap arrangements when debt obligations are unfulfilled. For Kenya, which financed 90% of the total $3.6 billion railway project from China in 2014, loan repayment rates are scheduled to triple in 2019 per the conditions of the loan agreement risking this scenario.

Russia is also a growing challenge and has taken a more militaristic approach in Africa. By employing oligarch-funded, quasi-mercenary military advisors, particularly in countries where leaders seek unchallenged autocratic rule, Russian interests gain access to natural resources on favorable terms. Some African leaders readily embrace this type of support and use it to consolidate their power and authority. This is occurring in the Central African Republic where elected leaders mortgage mineral rights—for a fraction of their worth—to secure Russian weapons. Russia also garners additional support at the United Nations and gains more customers for its military arms sales.

Russia is more deliberate in Libya as they invoke Qaddafi-era relationships and debts to obtain economic and military contracts. These agreements are aimed at accessing Libya's vast oil market, reviving arms sales, and gaining access to coastal territories on the Mediterranean Sea, providing Russia closer access to Europe's southern border.

Consequently, the cross-border and global nature of Chinese and Russian actions and influence in Africa necessitates collaboration between U.S. Africa Command, U.S. European Command, U.S. Central Command, and U.S. Indo-Pacific Command, amplifying the global complexity of this issue.

The second emergent challenge in Africa is the effect of environmental change on African security. A large number of Africans make their living on the land, whether they grow crops or raise livestock, and many live at a subsistence level. Settled farmers and nomadic herdsmen are increasingly engaged in land-use disputes, which are emerging as major driver of conflict in central Mali, through the Middle Belt Region of Nigeria, in South Sudan, and into the Central African Republic. More people are competing for less arable land, while both modern state institutions and customary institutions are failing or have failed to regulate this competition.

Poor land-use policies, changing weather patterns, rising temperatures, and dramatic shifts in rainfall contribute to drought, famine, migration, and resource competition. In the greater Sahel region, the Sahara Desert has expanded southward by over 10 percent since the 1920s, reducing the amount of productive land. Due to changes in weather patterns aggravated by poor resource management, Lake Chad has contracted 90 percent since the 1960s, significantly decreasing the region's largest source of fresh water. The reduction in arable land for crops and grazing land for livestock has created strong competition between the region's farmers and herders who migrate across borders searching for usable land. As each group seeks land for its own purposes, violent conflict can ensue. Armed groups and criminal networks exploit this situation, leading to human trafficking, slavery, and more violence.

Environmental degradation and the overuse of natural resources exacerbate weak or ineffective governments who are unable to respond and cope with their already serious, on-going political, economic, and social challenges. U.S. Africa Command and our partners are investing to build the capability and capacity of governance, infrastructure, and defense institutions, so African governments can mitigate the effects of environmental degradation. This can be accomplished with, for example, sustainable electric grids, viable water treatment facilities, environmentally-sound agricultural developments, and professional security forces.

Despite the challenges on the continent, Africans are eager and receptive to work with the U.S. to advance common strategic interests. Africa's future depends on urgent action to address the needs of growing populations, mitigate the influence of harmful activities, and combat the effects of environmental change. U.S. Africa Command's role within the Diplomacy, Development, and Defense construct supports partner efforts to enable economic growth and prosperity by providing a stable security environment.

U.S. AFRICA COMMAND STRATEGIC APPROACH

The successful advancement of U.S. interests in Africa is best achieved with stable nations on the continent. Accountable governments, well-trained and disciplined militaries with a respect for the rule of law and human rights, and growing economies are cornerstones to this stability. Over the past year, consistent with the updated national strategies, U.S. Africa Command revised our strategic approach to effectively strengthen our African partners by evolving our security cooperation from a focus on crisis response to capability and capacity building against our new strategic priorities: state fragility, increased involvement of China and Russia, VEO expansion, and threats to U.S. access and influence.

The U.S. Africa Command strategy prioritizes five objectives: 1) African Partners contribute to regional security, 2) threats from VEOs and transnational criminal organizations (TCOs) are reduced to a level manageable by internal security forces, 3) U.S. access and influence are ensured, 4) U.S. Africa Command sets the theater by aligning forces, authorities, capabilities, footprints, and agreements, and 5) U.S. personnel and facilities are protected. These objectives nest within the foundational strategies and provide the framework for the revised five-year focus in the U.S. Africa Command Campaign Plan and the U.S. Africa Command Theater Posture Plan.

FOUNDATIONAL STRATEGIES

For U.S. Africa Command, the 2018 National Defense Strategy underscore the importance of our African Partners, European, and international alliances to build partner capabilities and capacity in order to create a more secure, stable, and prosperous continent. Furthermore, the strategies emphasize the protection of the American people, homeland, and the American way of life.

The National Defense Strategy focuses on Great Power Competition and expanding the use of lethality, partnering, and process reform. Additionally, the National Defense Strategy continues to emphasize the threat posed by VEOs to the U.S. homeland, our allies, and our African Partners. Much like the National Defense Strategy, U.S. Africa Command links VEOs to instability in Africa. Hence, the importance of alliances and partnerships is amplified in the command's strategy and campaign plan and in the command's response to regional crises, whether humanitarian or security related.

Two other key foundational documents provide the policy guidance to synchronize U.S. Africa Command efforts with that of the whole of the U.S. Government. First, the Department of Defense Strategy for Africa mandates U.S. Africa Command strengthen African security forces and develop institutions at the national and regional levels. U.S. Africa Command's focus on security cooperation is a key component in the U.S. whole-of-government approach. Moreover, by seeking low-cost and resource-sustainable security solutions, the Department of Defense Strategy for Africa framework sets the conditions for U.S. Africa Command to adapt to current and emergent challenges in Africa.

Next, the National Strategy for Counterterrorism emphasizes the use of all instruments of American power, with a focus on non-military capabilities. The strategy's framework encourages working with a wide-range of partners in both the public and private sectors (e.g., technology, financial institutions) and allied governments to encourage counterterrorism burden-sharing. Information sharing, counter-finance, reintegration of returning foreign fighters, and counter-messaging promote positive narratives to increase partner awareness and strengthen partner capability to address the broader counterterrorism challenges within Africa. These foundational strategies are synchronized with the U.S. Africa Command Strategy and Campaign

Plan, promoting a consistent approach, over time, to strengthen relationships and enhance the capability of our African partners.

In December 2018, the President signed the U.S. Strategy Toward Africa, which focuses on economic partnerships to build self-reliance among our African partners in the era of great power competition with external actors, such as China and Russia. This strategy aims to advance trade and commercial ties with key African states to increase U.S. and African prosperity. Doing so helps to protect the U.S. from cross-border health and security threats, and supports African states' progress toward stability and citizen-responsive governance. The strategy also prioritizes foreign assistance to help our African partners achieve sustained economic growth and self-reliance to combat transnational threats. Ultimately, the U.S. Africa Command Strategy seeks to strengthen partnerships to increase U.S. influence, protect U.S. personnel and facilities, and ensure access, as specifically directed in the U.S. Strategy Toward Africa.

U.S. AFRICA COMMAND CAMPAIGN PLAN

Based on the National Security and Defense Strategies, and as indicated in our mission statement, the revised U.S. Africa Command Campaign Plan provides the command, and our component commands, strategic direction to advance our strategic goals on the continent. It does so in a burden-sharing and balanced approach, accounting for the increased presence of external actors, namely China and Russia, and the continued threat posed by VEOs.

To achieve the U.S. Africa Command Campaign Plan objectives, the command emphasizes six approaches: 1) Strengthen Partner Networks; 2) Enhance Partner Capability; 3) Develop Security in Somalia; 4) Contain Instability in Libya; 5) Support Partners in Sahel and the Lake Chad Region; and 6) Set the Theater to facilitate U.S. Africa Command day-to-day activities, crisis response, and contingency operations.

Strengthen Partner Networks

U.S. Africa Command strives to further U.S., allied, and partner interests and access to mitigate destabilizing influences on the continent. The Strengthen Partner Network approach is the primary effort in which the command seeks to establish new partnerships with countries and organizations, strengthen existing relationships through enhanced communication and synchronization, and counter the activities of external actors such as China and Russia. This approach focuses on maintaining the U.S. as the preferred security partner in Africa.

For example, in April 2018, U.S. Naval Forces Africa conducted Exercise Lightning Handshake with the Royal Moroccan Navy and Air Force. This was the most sophisticated bilateral exercise the U.S. conducted with an African partner. It included a U.S. Carrier Strike Group executing close air support and naval surface fire support missions at the Tan Tan live fire range in Morocco.

Enhance Partner Capability

This approach is applied continent-wide and includes building African partner capability focused on defense institution building, countering illicit trafficking, maritime security, counter-improvised explosive devices (IED) efforts, humanitarian assistance, infectious disease control, and counter-VEO efforts. Engagements and exercises, managed by U.S. Africa Command and its component commands, strengthen key partnerships and improve partner capabilities. Since challenges in Africa intersect the activities of a multitude of U.S. Government agencies and international organizations, U.S. Africa Command maintains a broad group of federal, allied, and partner command liaisons to coordinate our capability-building efforts. One of those mechanisms is our Multilateral Planning Group, tri-chaired by the U.S., France, and the United Kingdom, where we are able to discuss and synchronize our efforts on the continent.

Develop Security in Somalia

This approach supports not only AMISOM and Somali Security Forces, but also the United Nations, European Union, African Union, and other allies and partners contributing to the international effort to counter al-Shabaab and ISIS-Somalia. Anchored by the AMISOM Troop Contributing Countries of Burundi, Djibouti, Ethiopia, Kenya, and Uganda, this approach allows for creating the opportunity to build the capability, capacity, and willingness of the Somali Security Forces. The approach centers on security cooperation, engagements, and exercises, as well as Advise, Assist, and Accompany authorities, to strengthen the Somali Security Forces. Taken in concert with the Enhance Partner Capability approach, the effort also addresses the capacity-building needs of the Troop Contributing Countries. The cumulative effects of the two approaches aim to support Somalia and the Somali Security Forces as they work to achieve regional stability and to support the vision of the Federal Government of Somalia.

Contain Instability in Libya

This approach guides the command's efforts to contain instability brought on by the lack of a unifying government and the presence of VEOs in Libya, which include ISIS-Libya and al-Qaida in the Lands of the Islamic Maghreb (AQIM). The approach is focused on using the military tool to advance diplomacy, conduct operations to degrade VEOs, improve the security architecture of the Libyan Government of National Accord, and, once a political reconciliation is achieved, strengthen the national security forces of a recognized Libyan government. U.S. Africa Command, working with the Libya External Office of the U.S. Embassy to Libya, conducts engagements with Libyan political and military leaders to bolster relationships and maintain progress toward reconciliation. U.S. Africa Command stands firmly with and supports the efforts of the United Nations as it leads the political reconciliation process, the immediate next step for Libyan stability.

Support Partners in the Sahel and Lake Chad Regions

In West Africa, roughly the size of the continental United States, this approach provides capabilities and support to counter-VEO operations, primarily against Boko Haram, Jama'at Nusrat al-Islam wal Muslimin (JNIM), ISIS-Greater Sahara, and ISIS-West Africa. The command's efforts support the Multinational Joint Task Force countries of Benin, Cameroon, Chad, Niger, and Nigeria, and the G5 Sahel Joint Force countries of Burkina Faso, Chad, Mali, Mauritania, and Niger. To support the Multinational Joint Task Force, the G5 Sahel Joint Force, and their individual member states, the command conducts engagements, exercises, and limited operations, and provides appropriate security assistance to increase the partners' willingness and capabilities in counter-VEO efforts.

Set the Theater

The logistics challenges of supporting our engagements on the continent necessitate the command align with a whole-of-government approach to support national security interests. This whole-of-government approach ensures we have the authorities, capabilities, footprint, agreements, and understandings in place to maintain access and accomplish our missions. The U.S. Africa Command Theater Posture Plan details the command's footprint of forces and agreements on the continent. Posture initiatives focus on expanding strategic access to enable day-to-day activities, contingency operations, and crisis response. The backbone of access in Africa is our network of enduring contingency locations and agreements with key African partners, which provides freedom of action and status protection for U.S. personnel.

Ensuring strategic access requires complementary defense, diplomatic, and development efforts across the interagency and with our allied and African partners. An enduring mission of the command is to support the Department of State-led mission to protect U.S. personnel and facilities on the continent. We maintain defense cooperation agreements with several African nations allowing for forward staging locations to enable more efficient recovery and evacuation. As such, we maintain enduring locations and contingency locations throughout Africa, which provide a flexible and diverse posture for operational needs and the protection of U.S. personnel and facilities.

Our capable posture network also allows forward staging of forces to provide flexible and timely responses to crises involving U.S. personnel or interests. At Camp Lemonnier, Djibouti, the only forward and enduring U.S. military installation in Africa, U.S. forces engaged in security cooperation activities, contingency operations, and logistics support to five combatant commands: U.S. Africa Command, U.S. Central Command, U.S. European Command, U.S. Special Operations Command, and U.S. Transportation Command. Camp Lemonnier is our hub in East Africa and remains a vital link to build stability in this key region.

One of U.S. Africa Command's newest and most important posture initiatives is the development of the West Africa Logistics Network. The West Africa Logistics Network provides and positions right-sized aircraft throughout West and Central Africa to facilitate the distribution of supplies, personnel, and equipment to support locations.

IMPLEMENTING THE U.S. AFRICA COMMAND STRATEGIC APPROACH

ACHIEVING AND MAINTAINING INFLUENCE

U.S. Africa Command continues to advance U.S. strategic objectives through the execution of activities and the expenditure of resources to respond to both regional crises and instability, while prioritizing Great Power Competition efforts across the continent. This approach requires the U.S. to continue with our authorities to counter transnational threats, including terrorism and infectious diseases, which threaten African governments and the U.S. and its interests in Africa. It also strives to enhance security cooperation with our African partners, so they may become more stable, well-governed, and self-reliant, thereby setting the conditions for economic growth and development.

U.S. Africa Command aspires to achieve and maintain influence with our allies and African partners through security cooperation, exercises, engagements, operations, and efforts to mature the theater. This requires the synchronization of emerging policy and guidance from the National Defense Strategy and other strategic documents to drive U.S. Government activities and engagements across Africa, reinforced by the importance of capturing a return on investment. As such, the command and its component commands have a firm understanding of the necessity to coordinate a whole-of-government approach toward strengthening relationships and building partner capability in support of national defense objectives.

Consistency in resources is the most effective method for implementing our strategic approach in Africa, as U.S. Africa Command does not have an abundance of dedicated assigned forces. These resources include the authorities, capabilities, funding, and allocated personnel to further our international and interagency relationships and provide appropriate military support and security cooperation to diplomatic and development efforts with our African partners. This consistency allows for the planned execution and delivery of senior leader engagements, security capabilities, and multinational exercises necessary to bring about a secure environment for the advancement of U.S. national interests and sustainment of military advantages.

Additionally, various programs and funding allow U.S. Africa Command to further its campaign objectives. At its headquarters, U.S. Africa Command imbeds fifteen military personnel from allied and partner nations in the Multinational Coordination Center fostering an enduring relationships and increasing interoperability with allies and partners. The foreign military personnel do not command U.S. Forces or make final determinations on plans or directives but do assist in coordinating military engagement efforts and exercises to further U.S. multinational partnerships. Additionally, U.S. Africa Command leads and participates in multilateral planning groups for East Africa, North Africa, and the Sahel region. Likewise, our component commands host senior leader staff talks with their respective component equivalents. The U.S. Army Regionally Aligned Force also assists with the U.S. Africa Command mission. Working within the security cooperation framework, the Regionally Aligned Force executes a significant share of the military-to-military activities in Africa. Sustained access to the Regionally Aligned Force is critical to mission success.

The U.S. National Guard's State Partnership Program is by far one of U.S. Africa Command's most valuable implementing programs. The State Partnership Program pairs 14 African nations with 11 U.S. states and the District of Columbia and creates enduring relationships with their African partners to build and improve peacekeeping capacity, disaster management competency, and overall partner readiness. U.S. Africa Command continues to see a great return on investment with the State Partnership Program, conducting 120 events this past year and engaging over 3,000 partner nation personnel at a cost of four million dollars. We look forward to expanding this outreach as several more African countries have requested partnerships, which are currently under consideration.

Other programs mitigating the lack of dedicated forces and, in turn, building partner capability include the Department of State Global Peace Operations Initiative, the African Peacekeeping Rapid Response Partnership, and the Women, Peace, and Security Initiative. The Department of Defense also coordinates closely with the Department of State on programs in Africa including the Partnership for Regional East Africa Counterterrorism, Trans Sahara Counterterrorism Partnership, Africa Military Education Program, and Africa Maritime Security Initiative to support critical counterterrorism, maritime security and overall military professionalization efforts.

These programs continue to professionalize partner militaries and security forces through training and institution building, and their concepts are integrated into military-to-military engagements; training on human rights, rule of law, and prevention of gender-based violence; and exercises.

EAST AFRICA

In 1991, the United States closed the Embassy in Somalia as the country descended into rampant violence and insecurity. Al-Shabaab and al-Qaida eventually filled the security vacuum and, with Mogadishu firmly under their control, used this safe haven to plan and launch terror attacks not only inside Somalia, but also regionally throughout East Africa. Since al-Shabaab's first external attack in 2010, the group has killed hundreds through external operations, with the most lethal attacks occurring in Kenya and Uganda. Somali pirates have also disrupted commercial shipping lanes, reaching as far north as the Arabian Sea and as far south as Tanzania, while attacking and hijacking sea vessels for ransom.

By 2007, AMISOM was activated in Somalia, with Burundi, Djibouti, Ethiopia, Kenya, and Uganda contributing troops and conducting military operations, which eventually led to the return of the capital city to a newly formed Somali federal government. Today, a U.S. Ambassador is permanently located in Mogadishu and, along with the USAID Mission Director, is working with the Federal Government of Somalia to improve the security environment and promote stability. As such, U.S. military operations and activities are part of a whole-of-government approach working in support of diplomatic and development efforts.

Somalia remains key to the security environment of East Africa, and its long-term stability is important to advancing U.S. interests in the region. When assessing Somalia, it is important to understand incremental progress has been made over the last decade as the result of a truly international effort inside the country. The U.S. works closely with our international partners, which include the United Nations, European Union, African Union, AMISOM and the troop contributing countries, the United Kingdom, Turkey, and others, on security sector development efforts. Together, we remain committed to Somali-led progress on improving conditions for a well-trained Somali National Security Forces that can assume and sustain security within the country.

The U.S. also continues to target al-Shabaab and ISIS-Somalia. U.S. military activities in Somalia include remote or accompanied advise and assist missions, the building, training, and equipping of Somali combat units, and when necessary, kinetic action. The effects of our kinetic activities serve to disperse al-Shabaab and ISIS-Somalia leadership, disrupt how they communicate, and further decentralize how they conduct operations. Ultimately, our kinetic activities, encouraged and supported by the Federal Government of Somalia, create opportunities for governance to take hold.

Our actions are synchronized with AMISOM's mandate to reduce threats and support stabilization, reconciliation, and peacebuilding. We are supporting the AMISOM transition plan, which envisions conditions for an effective, responsible, and gradual handover of security responsibilities from AMISOM by 2021. Recent efforts by Somali security forces, working with AMISOM, to stabilize the area in and around Merka, is a positive step. However, the Federal Government of Somalia must continue to demonstrate sustained progress in implementing the federated security model, within its national security architecture, and increase coordination and cooperation with the Federal Member States.

The U.S. brings leadership and influence to Somalia, led by the U.S. Ambassador, to synchronize and support the international community's ongoing security and stability efforts. While U.S. military training and operations alone cannot defeat al-Shabaab and ISIS-Somalia, alongside U.S. diplomatic and development efforts, they provide legitimacy to the Federal Government of Somalia and create opportunity for political and economic growth, and security and stability in the broader region.

U.S. Africa Command's security cooperation is closely linked with the U.S. Mission to Somalia's political and economic initiatives targeting the root cause of instability. The Department of State and USAID provide effective tools to build and reinforce stabilization, democratic institution building, education, and health development programs. Somalia has held a credible federal presidential selection process, and political leaders have formed four Federal Member States and selected regional presidents and parliaments. While Somalia remains a fragile state, the gross domestic product has moderately increased over the past two years and, combined with other positive economic indicators, has the potential to lead to debt relief and additional international financing and investments.

While there have been signs of improvement in Somalia, progress is not irreversible and sustained international engagement will be necessary to keep the country on a positive trajectory.

The U.S., by virtue of our capabilities, influence, and credibility, is uniquely postured to support Somali efforts, including to help coordinate other international partner engagement. As such, the Federal Government of Somalia must now take advantage of the opportunities before them, with a clear understanding future assistance will depend on demonstrated progress.

In Djibouti, the U.S. remains a steadfast partner. In May 2018, members of the Djiboutian Army's first ever Rapid Intervention Battalion graduated from training. The Texas National Guard, assigned to Combined Joint Task Force-Horn of Africa, provided the Rapid Intervention Battalion with comprehensive individual and collective training in support of the unit's mission as a multi-purpose reaction force responsible to the leadership of the Djiboutian Army.

However, Djibouti's increasing partnership with China across defense, trade, and financial sectors encroaches on and, at times, diminishes U.S. access and influence. In 2018, Djibouti nationalized the Doraleh Container Port. Despite the increased presence of China within the port complex, Djibouti has retained control of the container port, increasing shipping volume and through-put since removing Dubai Ports World. Our continued access and unimpeded usage to this facility is critical to our logistical efforts in East Africa.

Additionally, China's first overseas naval base in Djibouti, only a few miles from Camp Lemonnier, creates air space and coordination challenges for all international partners. U.S. Africa Command considers access to Djibouti and to critical global shipping lanes through the Bab-el-Mandeb strait an imperative to ensure U.S. strategic interests are not compromised. We work closely with the U.S. Ambassador to Djibouti and his initiative to coordinate with the host nation, the Chinese, and other countries based in Djibouti to de-conflict operations, ensure the safety of forces, and maintain appropriate access for our military activities.

In Ethiopia last April, Abiy Ahmed Ali became Prime Minister, and his commitment to political reform, human rights, and unity has been a positive contribution to peace and stability in the region. By June, Abiy's government made significant progress implementing the 2000 Algiers Accord to end the war with its neighbor, Eritrea. Since then, both countries have taken numerous positive actions to conclude Africa's longest running border conflict. Commercial flights between the capitals of Addis Adaba and Asmara now occur daily, Ethiopian commercial vessels operate through Eritrean ports, communication channels are open between the populations reuniting families and friends, and military forces are withdrawing from contested territory.

Prime Minister Abiy's reform agenda represents an unprecedented attempt to comprehensively reset Ethiopian governance. The Government of Ethiopia is working with various ethnic factions inside the country to address root causes of conflict and expand the political discourse. Prime Minister Abiy restructured his cabinet, establishing a Ministry of Peace and appointed women to 50 percent of the positions, to include the Minister of Defense, a first for Ethiopia.

In partnership with the Government of Ethiopia and in support of our diplomatic mission, U.S. Africa Command is developing additional support options to improve security cooperation with this key partner. Ethiopia is already benefiting from security cooperation programs, including intelligence sharing initiatives, and we will identify avenues to enroll more personnel in U.S. military education and training programs. In July 2019, Ethiopia will host U.S. Africa Command Exercise Justified Accord in order to enhance AMISOM's Troop Contributing Countries' ability to conduct peace operations. Ethiopia is the largest contributor of United Nations peacekeeping forces and provides approximately 4,200 troops to AMISOM.

U.S. Africa Command will seek to expand our military-to-military relationship in support of Prime Minister Abiy's fast-paced internal reform efforts and regional outreach.

NORTH AFRICA

Since 2011, with the overthrow of Libyan dictator Muhammar Qaddafi and the rise of the Arab Spring, Libya has been in a constant state of turmoil. In 2014, Libyan militants began pledging allegiance to the Islamic State and its cause. By 2015, the Islamic State had infiltrated the coastal city of Sirte, shifted aspirations of the militia members there, and declared it a part of the caliphate. Soon militants from outside Libya joined the organization, now branded as ISIS-Libya, and their numbers swelled into the thousands.

In 2016, the Libyan Government of National Accord requested assistance from the U.S. and our European allies to rid the country of ISIS-Libya. Together, we assisted Libyan forces aligned to the Government of National Accord and conducted hundreds of kinetic strikes in support of its ground operations in Sirte. Within months, Sirte was liberated. Since then, the U.S. has remained engaged in the international efforts to stabilize Libya.

U.S. Africa Command focuses on three objectives for Libya. First, U.S. Africa Command assists in degrading terrorist groups, such as AQIM and ISIS-Libya, who pose threats to U.S. and Western interests and destabilize Libya and its neighbors. Second, every effort is made to prevent widespread civil conflict that would threaten security and stability. Finally, U.S. Africa Command supports the political reconciliation process by providing security to facilitate diplomatic engagements in Libya.

U.S. Africa Command continues to support the U.S. Libya External Office's diplomatic efforts to promote the United Nations-facilitated Libyan political reconciliation process. The recent return of a former Ambassador to Libya as the Chargé d'Affaires of the Libya External

Office offers a seasoned diplomat, who is familiar with the multi-layered problem set. The U.S. is now better positioned to manage the diplomatic and counterterrorism strategy. In 2018, U.S. Africa Command conducted kinetic strikes targeting the leadership and operational commanders of both ISIS-Libya and AQIM providing the opportunity for the Libyan Government of National Accord to continue its efforts to improve security and work towards political reconciliation.

Tunisia is one of our most capable and willing partners. In May 2018, U.S. Marine Corps Forces Africa conducted Exercise African Lion in Tunisia and Morocco. This annual, multinational exercise enabled U.S. forces and our African partners to increase interoperability and further refine tactics, techniques, and procedures for countering VEOs.

Furthermore, U.S. Africa Command-managed security cooperation programs work to develop Tunisian counterterrorism and border security capabilities. Through Fiscal Years 2017 to 2019, over $165 million in Title 10 and Title 22 funding will be invested in developing maritime and rotary-wing capabilities to bolster Tunisian border control forces. Tunisia is also developing its counter-IED awareness program through training provided by U.S. Army Africa and sponsored by the Defense Threat Reduction Agency. With this state-of-the-art training, Tunisian special operations forces will be better trained and equipped to counter IED attacks.

Tunisia is also capable of managing more advanced logistics training and maintaining increasingly complex intelligence, reconnaissance, and surveillance assets. For example, U.S. Air Forces Africa completed proof-of-principle flights with the Tunisian Air Force as part of an initiative to leverage their transport capability for rapid mobility requirements across the theater. Continued flights over time will serve as an opportunity to enhance the capability of the Tunisian Air Force, while reducing the stress on U.S. airlift assets and personnel. Tunisia remains a political and military leader in the region and a net exporter of security.

The Kingdom of Morocco remains a vital U.S. security partner and ranks in the top five of African countries providing peacekeepers to UN missions in Africa. Additionally, Morocco is a key exercise integrator serving as the permanent host of Exercise African Lion which focuses on counter-VEO, interoperability, and strengthening regional relationships. In 2019, Morocco will also host Exercise Phoenix Express, the premier U.S. Naval Forces Africa exercise emphasizing maritime security and counter-illicit trafficking.

Algeria is a capable partner in the fight against extremism. With the largest army in Africa, Algeria conducts frequent military-to-military engagements to build its border protection and counterterrorism forces. U.S. relations with Algeria continue to foster cooperation and further regional stability.

SAHEL AND LAKE CHAD REGIONS

Within the Sahel region of northern and western Africa, dangerous pockets of extremists control numerous under-governed spaces. The African-led, French-assisted, and U.S.-supported G5 Sahel Joint Force, comprised of forces from Burkina Faso, Chad, Mali, Mauritania, and Niger, is a successful example of burden sharing. The U.S. is providing bilateral security assistance for the countries of the G5 Sahel Joint Force, and U.S. Africa Command contributes operational planning support to compliment the funding and operational assistance provided by our European allies to the G5 Sahel Joint Force. U.S. Africa Command remains committed to assisting the African-led operations to degrade VEOs and to build the defense capabilities within the G5 Sahel Joint Force and, in turn, build the capabilities of individual countries within the joint force.

Mali remains the epicenter of instability and a haven for many terror groups to stage and launch attacks across the region. The United Nations Mission in Mali continues to support the stabilization of the country and implementation of the Algiers Accord for Peace and Reconciliation in Mali. Burkina Faso, Chad, Guinea, Niger, Senegal, and Togo are the leading African nations contributing to United Nations Mission in Mali, which has more than 11,000 military personnel. Our European allies provide military education, advice, and training to the Malian Armed Forces through the European Training Mission-Mali. This mission has trained over 12,000 personnel in an effort to strengthen the Malian Armed Forces to defend its territory and protect its people.

U.S. Africa Command lends critical support to partner counterterrorism efforts in the Sahel. This primarily takes the form of providing key enabling capabilities to the French and members of the G5 Sahel Joint Force. Furthermore, we continue to build military operational and defense institutional capabilities through measured security cooperation coordinated with other U.S. government agencies' diplomacy and development efforts. Through these actions, we complement the international effort to maintain persistent pressure on terror networks and increase security and stability in Mali.

In Burkina Faso, U.S. Africa Command finds a willing and capable partner in West Africa. With almost $40 million in U.S. Title 10 expenditures, the Burkinabe armed forces remain dependable exporters of security with trained security forces capable of contributing to the G5 Sahel Joint Force. Despite manpower and equipment challenges, the Burkinabe security forces continue to conduct counterterrorism operations in both the North and Eastern regions.

In Niger, serious governance and development issues are exacerbated by rapid population growth, environmental degradation, economic stagnation, and stressed infrastructure. Moreover, regional VEOs, such as ISIS-Greater Sahara, JNIM, Boko Haram, and ISIS-West Africa, overlap within Niger. As such, our policy goals aim to assist Niger's continued development as a stable democracy with accountable governance, become an increasingly capable partner against regional threats, and achieve social and institutional development and broad-based economic growth, which will further strengthen the population against VEO recruitment efforts. In spite of these challenges, Niger is an increasingly capable regional partner.

Over a three year period, U.S. Africa Command-managed Title 10 support has increased Nigerien counter-IED capability, as well as intelligence, surveillance, and reconnaissance asset sustainment, maintenance, and operations. This includes the Government of Niger-requested development of an expeditionary, contingency support location in Agadez, scheduled to be initially operationally capable in the summer of 2019.

In April 2018, Niger hosted Exercise Flintlock, the annual U.S. Special Operations Command-Africa exercise to develop capacity and interoperability among African, allied, and U.S. forces. Exercise Flintlock was entirely facilitated by the special operations force units of more than 20 African nations with the support of western nations. This successful multilateral event enhances coordination among partners and improves special operations force capabilities to combat violent extremist organizations.

Within the Lake Chad Region, the Multinational Joint Task Force comprises forces from Benin, Cameroon, Chad, Niger, and Nigeria, and remains a strategically significant organization in the efforts to counter Boko Haram and ISIS-West Africa. Boko Haram and ISIS-West Africa attack military and civilian targets throughout Northeast Nigeria and the Lake Chad Border areas of Niger, Chad and Cameroon, thus dominating large swaths of territory and displacing millions from their homes, contributing to a multi-border displaced persons crisis. U.S. Africa Command and USAID work with the Multinational Joint Task Force to deliver humanitarian support and facilitate international relief efforts to bring basic health care, clean drinking water, adequate sanitation, and food supplies to the hardest hit areas. However, the persistent violence and the growing number of displaced persons impact the ability for organizations to deliver the required assistance.

Nigeria has faced multiple setbacks in the volatile Northeast Borno State as ISIS-West Africa has seized military bases and materiel, including armored vehicles, weapons, and ammunition. This series of ISIS-West Africa high-profile attacks has placed tremendous strain on the Nigerian military's readiness and capabilities. The attacks also underscore the need for the contributing countries to the Multinational Joint Task Force to increase their commitments, resources, troop deployments, and regional operational coordination to counter ISIS-West Africa's momentum.

Nigeria also faces instability over the violent herder-farmer conflicts in the middle belt region, as these groups fight over the scarcity of resources and usable land required to feed the growing and, often due to conflict, displaced and transient population. By 2050, Nigeria will overtake the U.S. as the third most populous country in the world, further compounding the strain on natural resources and risking the disenfranchisement of a population increasingly dissatisfied by the lack of security and basic services.

U.S. Africa Command is working to assist the Nigerian military through a variety of security cooperation efforts. In April 2018, forty African senior military leaders represented their countries at the sixth annual African Land Forces Summit in Abuja, Nigeria. Co-hosted by the Nigerian Army and U.S. Army Africa, the African Land Forces Summit provided a forum to develop cooperative solutions for improved trans-regional security and stability.

Over the past year, we have expanded our intelligence support and are currently working with the Nigerian Air Force to increase their effectiveness in line with international standards. In the upcoming years, utilizing Title 10 and Title 22 funding, U.S. Africa Command will execute tailored programs to expand Nigerian intelligence, surveillance, and reconnaissance; intelligence; counter-IED; and air-ground integration capabilities. U.S. Africa Command will continue to work with Nigeria and seek additional partnership opportunities following Nigeria's planned presidential election in early 2019.

Cameroon has been the focus of long-term U.S. Department of State, U.S. Department of Defense, and U.S. Africa Command security cooperation efforts to boost the country's capacity to counter Boko Haram and ISIS-West Africa in the Lake Chad region. Cameroon has been an effective partner within the Multinational Joint Task Force. Cameroon also ensures security in the Gulf of Guinea and in neighboring Central African Republic, where it plays a valuable role in the UN Multidimensional Integrated Stabilization Mission in the Central African Republic.

The U.S. has urged the Cameroonian government to address human rights concerns, investigate allegations thoroughly, hold accountable perpetrators of abuse, and disclose the outcome of its investigations to the people of Cameroon. In accordance with the Leahy law, the U.S. government does not provide assistance to security force units or individuals against whom credible allegations of gross violations of human rights have been lodged.

The crisis and credible allegations of gross violations of human rights in the Anglophone Northwest and Southwest regions of Cameroon is a concern. The violence stem from a long-term sense of marginalization and political disenfranchisement among Anglophone Cameroonians, compounded by government suppression of moderates, and the government and separatists inability to enter into any constructive dialogue to resolve the conflict. The

Government of Cameroon has assured the U.S. no security assistance will be diverted from counter-Boko Haram and ISIS-WA efforts to the Anglophone regions.

GULF OF GUINEA AND CENTRAL AFRICA

In the Gulf of Guinea, maritime security remains crackdown a strategic priority due to its role in global oil markets, trade routes, and the residence of approximately 75,000 U.S. citizens. Piracy and other illicit maritime activities threaten development efforts, weaken state security, and rob states of precious resources required for greater economic growth and effective governance. In 2018, piracy incidents trended lower as cooperation increased among the Gulf of Guinea partners.

For example, last summer, U.S. Naval Forces Africa conducted Operation Junction Rain as part of the African Maritime Law Enforcement Partnership Program. Under this framework, U.S. Coast Guard law enforcement personnel partnered with Cabo Verdeans and Senegalese on board their naval vessels countering illicit trade and criminal activities. Capacity building remains paramount to continue the downward trend in piracy and address the growing threat of illicit trafficking of drugs, arms, and persons in the region.

In Central Africa, the most visible nontraditional threat this past year was an Ebola outbreak in an unstable region in eastern Democratic Republic of the Congo. The outbreak, which began in August 2018, is presently the second most lethal in history. Furthermore, the medical response has been hampered by armed conflict in the region.

External actors in Central Africa, such as Russia, have also undermined security and countered U.S. interests. For example, in the Central African Republic, Russia has bolstered its influence with increased military cooperation including donations of arms, with which it has gained access to markets and mineral extraction rights. With minimal investment, Russia leverages private military contractors, such as the Wagner Group, and in return receive political and economic influence beneficial to them.

Recently, the President of the Central African Republic installed a Russian civilian as his National Security Advisor. The President also promised the armed forces would be deployed nationwide to return peace to the country by forces likely trained, equipped, and in some cases, accompanied by Russian military contractors. Russia's ability to import harsh security practices, in a region already marred by threats to security, while systematically extracting minerals, is concerning. As Russia potentially looks to export their security model regionally, other African leaders facing similar instability and unrest could find the model attractive.

SOUTHERN AFRICA

In comparison to a large portion of Africa, many countries in Southern Africa have suffered fewer consequences from terrorism and violent conflict. However, it still struggles with economic, societal, governance, and environmental challenges, including poverty, crime, social inequality, corruption, and lack of water and is influenced by China's growing presence in the region. The majority of U.S. Africa Command's engagements with Southern Africa aim to strengthen partnerships and build partner capacity for peacekeeping and crisis response, including infectious disease outbreaks.

We work closely with our diplomatic and development partners to support and complement their efforts across Southern Africa. For example, the largest exporters of security in the region are Zambia, Malawi, and South Africa. Our primary investment in these countries is through Title 22, through such programs as the International Military Education and Training program and Global Peace Operations Initiative, which are designed to improve interoperability and develop long-term, sustainable peacekeeping capability and capacity.

Finally, in addition to our Title 22 commitments, the South Africa-New York State Partnership Program is the oldest on the continent and offers the most meaningful U.S. military-to-military engagements in South Africa. In 2018, South Africa hosted Africa's largest air show, the Aerospace and Defense Exposition, and the New York Air National Guard supported with two cargo airplanes, an unmanned aerial vehicle system, and 38 soldiers and airmen. Such engagements offer a low-cost solution to improve U.S. partnerships, particularly in a relatively accessible and neutral ground where our competitors seek influence in both the military and economic spheres.

ENSURING STRATEGIC ACCESS

Our efforts to ensure strategic access must also be viewed through the lens of competitor influence and coercive activities, which seek to gain advantages over the U.S. by moving faster in economic and security markets where we are constrained by our values and law. China is a strategic competitor which uses economic and security outreach to foster investment incentives, jobs, and infrastructure growth in return for access to Africa’s strategic locations, natural resources, and markets. China has most successfully employed this model in Djibouti, holding 80 percent of the Government of Djibouti’s debt, where access through the Bab-el-Mandeb Strait, the Red Sea, and the Suez Canal remains a U.S. strategic imperative.

Today, on the African side of the Red Sea and in the Bab-el-Mandeb strait, which encompasses Somalia, Djibouti, Eritrea, Sudan, and Egypt, the Great Powers and the Gulf States both cooperate and compete for real estate and port facilities.

Along Somalia’s northern coast, the semi-autonomous region of Somaliland is working with Dubai Ports World on developing its Gulf of Aden port city of Berbera. When development is complete, Berbera's location, close to the entry and exit point of the Bab-el-Mandeb strait, will be strategically valuable for both Somaliland and with whomever they choose to partner.

Djibouti, a nation about the size of New Jersey, remains congested with a preponderance of foreign forces from the U.S., France, Germany, Japan, and China maintaining bases and competing for access and airspace. Currently, the Djiboutians operate the Doraleh Port facility, through which passes 90 percent of all logistics and materiel for U.S. operations in East Africa. Continued access to the Doraleh Port Facility remains a U.S. strategic imperative.

Just north of Djibouti, other geopolitical developments have had ramifications on the future of the Red Sea. With the normalization of relations between Ethiopia and Eritrea and the United Nations Security Council lifting sanctions on Eritrea, other nations will undoubtedly look to Eritrea to unlock its coastline for Red Sea port access.

Given its strategic location, coupled with its already developed infrastructure, Sudan is also looking to develop its Red Sea coast. In fact, Sudan recently entered into an agreement to allow Russia to explore natural gas fields off Port Sudan.

Along with U.S. Central Command, the strategic evolution of the Red Sea remains a command priority, as we consider how Red Sea access can be maintained and expanded on the continent. It is imperative for the U.S. to not only maintain our status as the preferred security partner of choice, but also look to diversify our strategic access to the Red Sea.

In 2018, U.S. Naval Forces Africa continued its annual exercise series, which consisted of Exercises Phoenix Express, Cutlass Express, and Obangame Express. These exercises aim to build the maritime capabilities of African partner nations, and Exercise Obangame Express this past year included participation from the Somali Maritime Police. Their participation marked the first time in nearly 30 years Somalia has participated in a security event outside its borders.

U.S. Africa Command seeks to build partner networks and assist in establishing the security environment required for economic opportunity and trade to flourish. Through a whole-of-government approach, enhanced security fosters development and investment with initiatives such as The Better Utilization of Investments Leading to Development (BUILD) Act. The BUILD Act facilitates private-sector investments and institutional engagements with low and lower-middle income countries. It also opens the door for U.S. companies to compete overseas and respond to China's increased economic engagement in Africa, most notably the $60 billion, largely in loans with some security and development funding, recently promised during the 2018 Forum on China-Africa Cooperation.

Additionally, the Millennium Challenge Corporation, established by the U.S. Congress in 2004 to apply a new philosophy toward foreign aid, works with partner nations to promote growth in agriculture and irrigation, power and energy, and transportation infrastructure. In November 2018, the Millennium Challenge Corporation provided a $550 million investment into the Senegal Power Compact to increase electricity access and reliability for one of Africa's fastest growing economies.

The U.S. Institute for Peace (USIP) delivers skills training, education, grants, and research through local and international partnerships. USIP also serves as a conduit for various non-governmental organizations to interface with the broader diplomatic and development stakeholders in Africa. During 2019, USIP and U.S. Africa Command will host a symposium to discuss how non-governmental organizations can support and, when appropriate, integrate into the U.S. whole-of-government approach.

U.S. Africa Command's component commands engage every day on the continent to enhance partner capability, where an important aspect of maintaining relationships is continued engagement between senior leaders. In 2018, senior leaders from U.S. Africa Command and its components conducted numerous key leader engagements, including visits to Cabo Verde, Djibouti, Ethiopia, Ghana, Kenya, Liberia, Libya, Malawi, Mali, Niger, Senegal, Somalia, and Uganda.

U.S.-facilitated exercises and conferences offer the best return on investment for our security assistance efforts and provide our African partners with access to American values, expertise, and professionalism. In October 2018, senior military leaders from 28 African air forces and U.S. Air Forces Africa met in Morocco for the African Air Chiefs Symposium. This annual symposium provides a forum to discuss common defense issues, increase cooperation, and improve command and control of air operations.

Throughout 2018, U.S. Army Africa continued its annual exercise series, which included Exercise Unified Focus in Cameroon, Exercise Justified Accord in Uganda, Exercise United Accord in Ghana, and Exercise Shared Accord in Rwanda. These exercises provided integrated training opportunities, with a focus on respecting the rule of law and human rights, integrating women into peacekeeping operations, and responding to allegations of abuse.

Finally, in October 2018, led by the Command Senior Enlisted Leader, U.S. Africa Command hosted its second annual African Senior Enlisted Leader Conference with over 50 Africa enlisted leaders from 25 countries. African enlisted leaders engaged with senior US and NATO enlisted leaders on professional development, civilian control of the military, respect for human rights, and caring for Soldiers and their families. The conference advanced key professionalism concepts and training opportunities vital to sustaining African security and peacekeeping forces.

CONCLUSION

In summary, U.S. Africa Command remains poised to meet Africa's current and future challenges. The men and women of the command, our partners on the continent, and our collection of stakeholders understand how important Africa is to the global economy and security environments. The National Defense Strategy and its supporting foundational documents have outlined the importance of long-term Great Power Competition with China and Russia and the need to limit the harmful influence of non-African powers on the continent.

As the U.S. Africa Command Campaign Plan guides the command into the next decade, our partner-centric approach remains central to advancing U.S. interests in Africa. Much work remains, as U.S. Africa Command continues to contribute to the broad-reaching Diplomacy, Development, and Defense approach for further economic growth and prosperity in Africa.

Finally, it remains an honor to lead the Soldiers, Sailors, Airmen, Marines, Coast Guardsmen, civilians, contractors, and families of U.S. Africa Command. Together, their efforts have made the U.S. safer and kept Africa on the road towards prosperity.

Angola

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Ambassador Nina Maria Fite

Nina Maria Fite was appointed as the U.S. Ambassador to the Republic of Angola on November 20, 2017.

A career member of the Senior Foreign Service, Ms. Fite was most recently the U.S. Consul General in Montreal, Canada from September 2014 to August 2017. She also served as U.S. Consul General in Lahore, Pakistan from September 2011 to May 2014.

Ms. Fite's previous assignments include serving as the Deputy Economic Counselor in Kabul, Afghanistan; the Political/Economic Section Chief in Luanda, Angola; with the U.S. Trade Representative's Office; as Regional and Bilateral Environment, Science and Health Officer in Budapest, Hungary; and as the Director of the Policy Planning Office in the State Department's Bureau of Oceans, Environment and Science. She also served in Lisbon, Portugal and Kingston, Jamaica.

A native Pennsylvanian, Ambassador Fite completed a Bachelor of Architecture at Carnegie-Mellon University and holds a Master's in International Management from Thunderbird – The American Graduate School of International Management and a Master's of Science in National Resource Strategy (Distinguished Graduate) at the National Defense University's Eisenhower School in June 2011. She speaks Portuguese, French, Hungarian and Spanish.

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United States Department of State

U.S.-ANGOLA RELATIONS

The United States established diplomatic relations with Angola in 1993, which had become independent from Portugal in 1975. Post-independence, Angola saw 27 years of civil war among groups backed at various times by countries that included the United States, the Soviet Union, Cuba, China, and South Africa. Angola has had three presidents since independence. The first president came to power in 1975; upon his 1979 death, the second president assumed power. Multiparty elections were held in 1992 under a process supervised by the United Nations, but the results were disputed and civil war continued until the 2002 death of one holdout guerilla leader. A new constitution was adopted in 2010 and elections were held in 2012. The third president, Joao Lourenco, was elected in 2017.

Angola has a strong and capable military. Although the country is sub-Saharan Africa's second-largest oil producer and has great agricultural potential, two-thirds of the population live in poverty. U.S. foreign policy goals in Angola are to promote and strengthen Angola's democratic institutions, promote economic prosperity, improve health, and consolidate peace and security, including maritime security. The United States has worked with Angola to remove thousands of landmines and help war refugees and internally displaced people return to their homes.

U.S. Assistance to Angola

U.S. assistance seeks to focus on preventing major infectious diseases, strengthening health systems, increasing access to family planning and reproductive health services, and building capacity within nongovernmental organizations working in health advocacy and health service delivery. U.S. assistance also promotes stabilization and security sector reform.

Bilateral Economic Relations

Angola is the third-largest trading partner of the United States in sub-Saharan Africa, mainly because of its petroleum exports. U.S. exports to Angola include machinery, aircraft, poultry, and iron and steel products. Angola is a partner country with Power Africa. Angola is eligible for preferential trade benefits under the African Growth and Opportunity Act. The United States and Angola have signed a trade and investment framework agreement, which seeks to promote greater trade and investment between the two countries.

Angola's Membership in International Organizations

Angola and the United States belong to a number of the same international organizations, including the United Nations, International Monetary Fund, World Bank, and World Trade Organization. Angola also is an observer to the Organization of American States.

Bilateral Representation

The U.S. Ambassador to Angola is Nina Fite. Other principal embassy officials are listed in the Department's Key Officers List.

Angola maintains an **embassy** in the United States at 2100-2108 16th St., NW, Washington, DC 20009 (tel. 202-785-1156).

Country Report

Angola

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20 Cabot Square
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London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l’Athénée 32
1206 Geneva
Switzerland

Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

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Angola

Summary

Outlook for 2019-23

Data and charts

Summary

Recent analysis

Economy

Briefing sheet

Editor: **Nathan Hayes**

Forecast Closing Date: **June 15, 2019**

Political and economic outlook

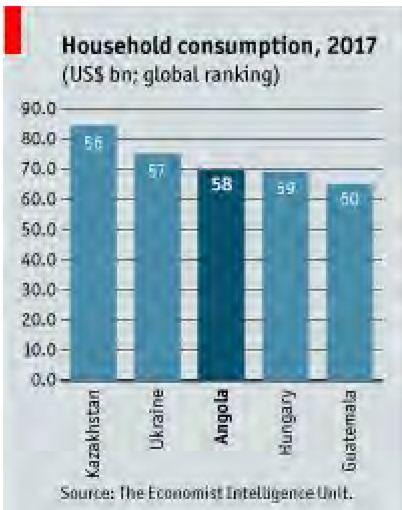
- The president, João Lourenço, will continue to reduce the influence and patronage network of his predecessor, but will be wary of a backlash from vested interests in the ruling Movimento Popular de Libertação de Angola and the wider population.
- The government is seeking to increase revenue and cut back on spending through the introduction of taxes and the elimination of a number of subsidy programmes, driven by Mr Lourenço's reform agenda and the fiscal constraints of an IMF programme.
- Ongoing reforms to the oil sector will attract investment in new licences. The corresponding exploratory activity will take several years to yield results, however, and therefore the effects will be felt after the end of our forecast period.
- The Economist Intelligence Unit expects growth to contract by 3.8% in 2019 and 3.6% in 2020, reflecting weaker oil prices. Growth will pick up in 2021-23, averaging 4.2% a year as non-oil activity improves, despite maturing oilfields tempering production volumes.
- The weak economic picture will continue to weigh on the kwanza in 2019, with the currency depreciating to an average of Kz325.5US$1. Downward pressure is expected throughout the forecast period, with the kwanza depreciating to Kz363.8:US$1 by 2023.
- Inflation surged in 2018 after the exchange rate was floated. We expect inflation to remain high throughout 2019-23, averaging 14.4% a year, owing to continued currency weakness.
- We expect a reduced surplus on the current account in 2019, with the balance moving into deficit in 2020, given subdued oil prices and declining oil output, combined with increasing imports from 2020 as oil investments come in.

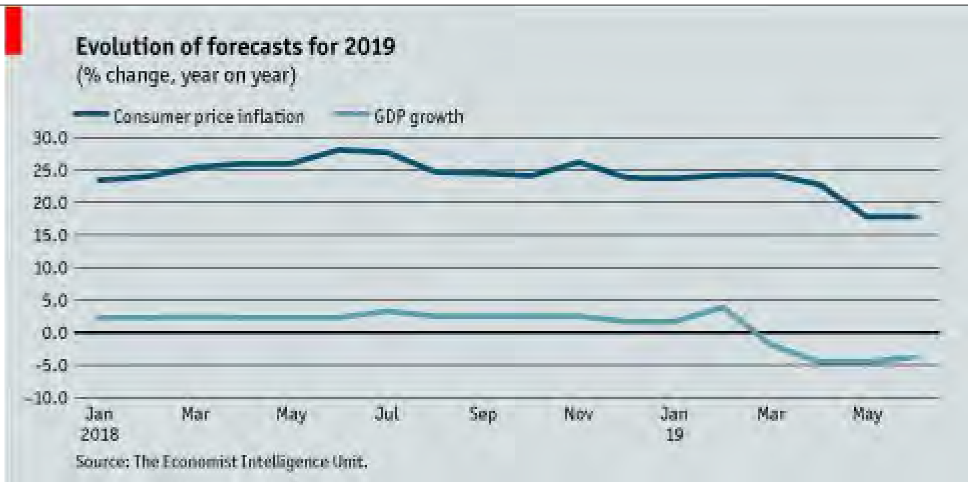
Key indicators

	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
Real GDP growth (%)	-0.9	-3.8	-3.6	4.2	4.1	4.3
Consumer price inflation (av; %)	20.2	17.8	17.3	14.1	12.2	10.8
Government balance (% of GDP)	0.1	2.0	-0.8	1.3	-0.5	0.6
Current-account balance (% of GDP)	7.6	2.9	-2.4	-1.4	-1.8	-2.2
Money market rate (av; %)	18.5	19.4	18.3	16.7	16.2	15.7
Exchange rate Kz:US$ (av)	252.9	325.6	342.5	349.3	357.1	363.8

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Market opportunities





Key changes since May 21st

- We have revised our government expenditure forecast for 2019 downwards to 30.6% of GDP, from 31.9% previously. Spending cuts (chiefly from capital expenditure, driven by low oil prices) continue to be implemented.
- As spending declines more than we previously estimated, the fiscal surplus will pick up slightly. We now forecast a fiscal surplus of 2.9% of GDP in 2019, from 0.8% previously.
- Interest rates were lowered slightly by the central bank, to 15.5% (from 15.75% previously). We expect inflation to remain elevated over 2019—averaging 17.8%—although at a lower clip than in previous years.

The month ahead

- **July 1st—Introduction of value-added tax (VAT):** The new tax, at 14%, will be levied on goods and services, albeit with some exemptions. VAT will apply initially only to designated large companies, large public enterprises, and banking and financial institutions.

Major risks to our forecast

Scenarios, Q2 2019	Probability	Impact	Intensity
Banking sector problems constrain the availability of local financing	High	High	16
Businesses cannot source skilled labour, either local or expatriate	High	Moderate	12
Courts fail to enforce contracts	High	Moderate	12
Urban and industrial areas are left without power	High	Moderate	12
João Lourenço fails to deliver on public expectations of substantial change	Moderate	High	12

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
Source: The Economist Intelligence Unit.

Outlook for 2019-23

Political stability

The president, João Manuel Gonçalves Lourenço, who took office in September 2017, is expected to continue to consolidate political power. He has pushed to reduce the influence of his predecessor, José Eduardo dos Santos, who stood down as president after 38 years. Mr Lourenço has made some key changes, including the management at the central bank and state-owned media groups and has dismissed the chiefs of police, military intelligence and the armed forces. He has also systematically weakened the influence of Mr dos Santos’s children, dismissing Isabel dos Santos as head of the state-owned energy company, Sonangol, and José Filomeno dos Santos as chief of the country's sovereign wealth fund. José Filomeno was arrested in late September 2018 on charges of corruption. However, in March 2019 he was released, owing to the expiration of his remand period. The failure to make progress with the case highlights potential limits to the president's political authority and his ability to tackle financial crime, as well as the capacity of the Angolan court system to manage highly politicised cases.

Mr Lourenço's popularity remains high, reflecting his commitment to tackling corruption and his efforts to deliver long-promised economic reforms such as introducing legislation to break up monopolies and repatriate illicit financial flows. However, this has boosted already high public expectations of change, which could prove problematic if the president's top-down policies fail to translate into tangible benefits for Angola's poorest. Entrenched corruption will prove difficult to address, despite the establishment of a new anti-corruption directorate with strict penalties, owing to strong vested interests and ingrained cultural practices. The judiciary is likely to struggle to achieve convictions or meaningful reform, given its limited resources and capacity.

The ruling Movimento Popular de Libertação de Angola (MPLA) maintains a comfortable majority in the National Assembly, holding 150 of the 220 seats, and can therefore pass legislation without difficulty. However, weak institutions will hamper policy implementation. Continued low-level social unrest underlines the fact that there are growing frustrations with entrenched corruption, limited economic opportunities and high levels of unemployment.

Election watch

Legislation to define the terms of Angola's first local elections is to be submitted to parliament in 2019, ahead of the proposed 2020 ballot, although this could be delayed if implementation proves difficult. More localised decision-making should improve accountability and service delivery. Angola's opposition groups will seek to use parliamentary sessions to develop their national profiles in the hope of building further momentum at the municipal elections. The local election will give opposition groups an opportunity to play a role in part of the government, although the MPLA is likely to maintain its dominance at the polls as it exerts a strong grip on the state apparatus and has the advantage of being in power at national level. The Economist Intelligence Unit expects the MPLA to retain power at the 2022 general election, as these dynamics remain in place.

International relations

Mr Lourenço will seek to maintain what Angola perceives as its position as a leading regional power. Economic and trade links with regional states are likely to continue to be consolidated, albeit gradually. In March Angola signed the African Continental Free-Trade Area (AfCFTA) agreement, which aims to create the world's largest single market of 1.2bn people through the reduction of tariffs. However, it is doubtful whether Angola will be prepared to open its markets fully to regional competitors. Although the AfCFTA came into force in May, regional protectionist sentiment and logistical bottlenecks will remain, hampering growth potential over the medium term.

We expect Angola and Portugal to continue to strengthen ties; 35 new co-operation agreements have been signed since August 2018 in areas including healthcare, education, maritime security, local government, and institutional development for Angolan business and government entities. The Portuguese authorities have also confirmed that they will support the Angolan government's efforts to repatriate funds earned from suspected fraudulent or corrupt deals held in Portuguese bank accounts.

Mr Lourenço has sought to diversify economic and diplomatic relations across Europe. Relations with global powers such as the US and China will also be given high priority. In October 2018 China extended a US$2bn credit line, which will be used mainly to fund infrastructure projects.

Policy trends

Policymaking is driven by efforts to boost the role of the private-sector in the economy and, ultimately, investment flows. In June it was announced that nine state-owned enterprises (SOEs) are to be sold off through initial public offerings (IPOs) in 2019. Selling off state assets will be a boon for the financial sector, but such a large number of IPOs will be logistically difficult to conduct, and willing buyers may also be difficult to find, particularly as Angola's financial sector is relatively shallow. Angola's hydrocarbons sector is a key pillar of the economy, but needs reform. The government is seeking to strengthen the sector in a bid to reverse declining production rates and generate revenue. In June the recently formed Agência Nacional de Petróleo, Gás e Biocombústiveis (ANPG), announced that it would be launching its first public tender of oil concessions for nearly a decade later in 2019, with a further 40 blocks due to be auctioned off by 2025. The ANPG will take over responsibility from Sonangol for the management of Angola's oil and gas concessions by the end of 2020. The break-up of Sonangol should help to make Angola a more attractive location for international oil operators. The country needs to increase exploration activity if it is to offset an expected production decline—and falling government revenue—arising from ageing wells. Such exploratory activity will take several years to yield results, however, and therefore the effects will be felt after the end of our forecast period.

In December 2018 Angola secured a US$3.7bn loan from the IMF, forming a three-year extended arrangement under the extended fund facility (EAEFF), with disbursements totalling US$1.24bn as of June 2019. Mr Lourenço has demonstrated a strong appetite to deliver sweeping changes, but he is likely to face challenges. Long-term engagement with the Fund will require tough reforms to boost external and fiscal sustainability, but if Mr Lourenço moves too fast, he is likely to create tensions within both the ruling elite and wider society as entrenched interests are compromised. Nonetheless, the confirmation of the EAEFF will boost Angola’s credibility among international lenders. The agreement has the potential to help to unlock funding from other official lenders, and—combined with ongoing business environment reforms—will send positive signals to investors.

Angola's macroeconomic stabilisation plan (Programa de Estabilidade Macroeconómica) targets tax reform—value-added tax (VAT) is to be phased in from July 1st—as well as measures to reduce subsidies on utilities, reassess credit schemes for small businesses and make public spending more efficient. Laws on private investment and competitive practices remain under review, and a "super agency" has been established to facilitate private and overseas investment, although broader weaknesses in the business environment will continue to constrain investment flows.

Fiscal policy

We expect annual average oil prices to slide in 2019 and 2020. As hydrocarbons constitute a major source of government revenue, this will weigh on fiscal receipts. We expect to see a recovery in oil prices in 2021-23, although this will provide modest support to government revenue as production volumes decline further. However, modest upward pressure will come from growth in non-oil tax revenue during the forecast period. Accordingly, revenue will rise modestly in 2021 (owing to upward price effects), remaining steady in 2022, before edging downwards in 2023 (as oil output drops further).

After approving the 2019 budget in December (based on higher oil prices), the government announced that it would seek a 30% cut in spending as the global oil outlook deteriorated. We expect spending reductions to come chiefly from capital expenditure, with a 55% cut in construction expenditure for 2019 announced in June. Wage cuts will be politically difficult, and subsidy cuts risk stoking social unrest, so we do not expect significant cuts to current expenditure during 2019. Debt servicing will be another inflexible burden. Expenditure is expected to uptick slightly in 2020; municipal elections are due and, following the austerity of 2019, there will be only limited political room and appetite for further cuts. Fiscal policy will remain constrained, in line with IMF loan conditions, however. In 2021 spending is expected to rise, followed by a sharper uptick in 2022 owing to national elections. In 2023 we expect spending as a share of GDP to fall as fiscal consolidation resumes.

From a surplus of 2% of GDP in 2019 as spending cuts are implemented, we expect a deficit of 0.8% of GDP in 2020 as revenue falls further and spending increases. In 2021 we expect the fiscal balance to move to a surplus of 1.3% of GDP as a result of higher revenue, before shifting to a deficit of 0.5% of GDP in 2022, owing to higher spending ahead of the national election that year. As fiscal consolidation resumes in 2023, the fiscal account will move to a surplus of 0.6% of GDP. The fiscal deficit will be financed largely through external borrowing. For example, the government is seeking to issue a US$2bn Eurobond in 2019 as it seeks to take advantage of relatively favourable interest rates and strong demand for emerging market assets.

Monetary policy

In May the Banco Nacional de Angola (BNA, the central bank) cut the reference rate to 15.5%, from 15.75% previously. Inflation has moderated since 2018, prompting the latest rate cut—following a larger cut in January—although price growth remains elevated, owing to further weakening of the kwanza as a result of low oil prices. We believe that the BNA will keep rates steady over the remainder of the year while it attempts to stimulate non-oil economic activity. The rate of depreciation in the kwanza will temper further from 2020, moderating inflation. This will provide some additional scope for monetary easing, with the authorities keen to bolster still relatively weak underlying economic growth, particularly in the non-oil economy as inflation remains below 2016 highs.

International assumptions

	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.2	1.7	1.8	2.0	1.7
OECD GDP	2.2	1.7	1.6	1.8	1.9	1.8
World GDP	2.9	2.6	2.6	2.8	2.9	2.8
World trade	4.4	3.3	2.9	3.9	4.0	4.1
Inflation indicators (% unless otherwise indicated)						
US CPI	2.4	2.2	1.4	2.2	2.1	1.8
OECD CPI	2.5	2.2	1.9	2.1	2.1	2.1
Manufactures (measured in US$)	4.9	2.1	3.3	3.5	3.2	3.0
Oil (Brent; US$/b)	71.1	66.5	60.5	69.8	75.6	75.0
Non-oil commodities (measured in US$)	1.9	-4.4	3.5	3.0	2.0	0.7
Financial variables						
US$ 3-month commercial paper rate (av; %)	2.0	2.6	2.2	2.1	2.5	2.9
Exchange rate Kz:US$ (av)	252.86	325.55	342.45	349.31	357.10	363.84
Exchange rate US$:€ (av)	1.18	1.13	1.18	1.21	1.24	1.24

Economic growth

Angola's economic prospects remain poor. Oil output fell by nearly 10% in 2018, to an average of 1.478m barrels/day (b/d), owing to maturing fields and a lack of investment. Despite the introduction of numerous tax incentives, Angola has struggled to attract international investment in its deep- and ultra-deepwater oil resources, where the break-even price is higher.

We expect oil output to decline further in 2019 and 2020 (remaining below the current OPEC-imposed cap of 1.481m b/d) as global prices weaken and investment is postponed. As a consequence, we expect real GDP to contract by 3.8% in 2019 and 3.6% in 2020 as the effects of reduced oil production are compounded by lower government revenue and, in turn, government spending and private consumption. We forecast that real GDP growth will average 4.2% a year in 2021-23, driven by resurgent growth in agriculture, mining, construction, manufacturing and services. These sectors will be supported by higher credit growth in the lower-inflationary environment. During this period, output levels from maturing oilfields will continue to dwindle, as new output coming on stream from deep and ultra-deep fields will be delayed by Angola's poor business environment, prohibitive exploration costs and high break-even prices. Fixed investment will also grow, although this will be largely offset by deepwater projects increasing imports.

Angola's operating environment remains extremely challenging. Ongoing moves to attract investment and reduce cronyism are encouraging, but efforts to tackle corruption, high levels of bureaucracy, low human capital, poor regulation, and the crowding-out of private investment by the public sector are necessary to generate gains in real GDP per head. The growth in the non-oil economy that we expect to see from 2021 will come as heavy falls in petroleum output will accentuate a more pro-business approach from the government. A key barrier to structural reform has historically been the political elite, who maintain a stranglehold on the economy and are generally opposed to changes that would improve transparency and reduce opportunities for rent-seeking and cronyism. Nonetheless, declining oil activity will necessitate development of the private sector.

Economic growth

%	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
GDP	-0.9	-3.8	-3.6	4.2	4.1	4.3
Private consumption	-8.0	-2.0	-1.0	2.3	4.2	4.3
Government consumption	-7.0	-2.0	-1.0	4.0	5.0	4.0
Gross fixed investment	-6.0	3.0	4.0	6.0	6.0	7.0
Exports of goods & services	2.5	-9.0	-12.0	6.5	2.3	2.1
Imports of goods & services	3.0	-1.1	-2.3	6.1	4.3	4.2
Domestic demand	-7.2	-0.4	0.6	3.8	4.9	5.2
Agriculture	-1.0	-3.5	-2.5	4.8	4.5	4.9
Industry	-2.0	-3.0	-2.5	5.0	4.3	4.2
Services	-2.0	-1.9	1.0	5.2	4.8	4.7

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Inflation

We forecast that inflation will average 17.8% in 2019, driven by weakness of the kwanza and lower interest rates. Measures to combat inflation—such as price limits for basic goods, centralised flour sales and a customs tariff regime that cuts import duties on a number of food and other items—will be undermined by these currency dynamics. The introduction of VAT on large taxpayers from July will also contribute. Lower oil revenue will reduce availability of US dollars and could weigh further on the kwanza (particularly on the parallel market, where it is significantly weaker). From 2020, a slowdown in the depreciation of the kwanza will lead to a broad downward trend in inflation, although rising consumer demand will keep prices elevated. We forecast that annual average inflation will decline to 10.8% in 2023.

Exchange rates

Since January 2018 the BNA has maintained a flexible exchange-rate strategy, ceasing direct sales of foreign exchange and instead holding auctions with commercial banks. After this move away from the Kz166.7:US$1 pegged rate, the kwanza averaged Kz252.9:US$1 in 2018. Further depreciation is expected in 2019; we forecast an average rate of Kz325.5:US$1 for the year, owing to interest-rate cuts in January and May and elevated inflation, combined with lower revenue from crude exports. The parallel market continues to be significantly weaker, owing to the paucity of US dollars. Currency weakness is expected to continue over the rest of the forecast period, although the rate of depreciation will slow. Modest relief will come from an uptick in economic activity from 2021. Increased export revenue (through rising crude prices) will lead to improved dollar availability, providing some relief for the kwanza. We forecast an average exchange rate of Kz349.3:US$1 in 2021, weakening to Kz363.8:US$1 in 2023.

External sector

Lower oil production will lead to a 9.5% drop in exports in 2019. A further decline in exports is expected in 2020 as global oil prices remain low. Exports are expected to recover in 2021 as oil prices rise—although declining volumes will temper export growth from 2022, with prices flattening in 2023 also dampening export growth in that year—with some support coming from growth in non-oil commodity exports. We expect imports to decline in 2019 as domestic demand shrinks and sustained kwanza weakness raises prices in local-currency terms. From 2020, however, we expect to see a slight recovery as the oil sector attracts more investment (and consumer demand picks up from 2021). The services deficit as a share of GDP will rise from 2020, as service imports increase as a result of oil exploration work following the issuance of new licences. Angola's income deficit as a share of GDP is expected to increase over the forecast period from 2019 to 2023, owing to higher debt-servicing outflows, although this will be moderated by rising profit repatriation from oil companies once oil prices increase from 2021. The secondary income account will remain in deficit throughout the forecast period, in part reflecting a decline in workers' remittances.

The current-account surplus is expected to shrink, from an estimated 7.6% of GDP in 2018 to 2.9% of GDP in 2019 as oil prices fall during the year. The current account is expected to swing into a deficit of 2.4% of GDP in 2020, as exports decline further. The deficit will narrow slightly in 2021, to 1.4% of GDP, as global oil prices recover (although production volumes will continue to decline). Declining production volumes will continue to weigh on the current-account deficit, which we forecast at 1.8% of GDP in 2022 and 2.2% of GDP in 2023.

Forecast summary

Forecast summary
(% unless otherwise indicated)

	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
Real GDP growth	-0.9	-3.8	-3.6	4.2	4.1	4.3
Crude oil production ('000 b/d)	1,478	1,410	1,300	1,200	1,100	1,100
Consumer price inflation (av)	20.2	17.8	17.3	14.1	12.2	10.8
Consumer price inflation (end-period)	18.2	16.1	17.3	12.1	12.0	10.4
Lending rate (av)	20.7	21.0	19.0	18.0	17.4	17.0
Government balance (% of GDP)	0.1	2.0	-0.8	1.3	-0.5	0.6
Exports of goods fob (US$ bn)	40.8	35.8	30.6	33.2	34.1	34.7
Imports of goods fob (US$ bn)	15.8	14.5	14.9	15.8	16.6	17.4
Current-account balance (US$ bn)	7.5	2.5	-2.3	-1.6	-2.2	-3.1
Current-account balance (% of GDP)	7.6	2.9	-2.4	-1.4	-1.8	-2.2
External debt (end-period; US$ bn)	38.1	39.2	38.2	31.4	28.5	25.3
Exchange rate Kz:US$ (av)	252.9	325.6	342.5	349.3	357.1	363.8
Exchange rate Kz:US$ (end-period)	308.6	340.8	343.2	351.1	359.7	365.8
Exchange rate Kz:¥100 (av)	229.0	295.8	315.0	333.1	355.5	378.7
Exchange rate Kz:€ (av)	298.7	369.1	404.1	421.8	441.9	451.2

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Data and charts

Annual data and forecast

	2014[a]	2015[a]	2016[a]	2017[a]	2018[b]	2019[c]	2020[c]
Gross domestic product							
Nominal GDP (US$ m)	145,712	116,194	101,124	122,124	98,689	88,849	93,575
Nominal GDP (Kz bn)	14,324	13,950	16,550	20,262	24,954	28,925	32,045
Real GDP growth (%)	4.8	0.9	-2.6	-0.1	-0.9	-3.8	-3.6
Expenditure on GDP (% real change)							
Private consumption	12.7	3.5	1.2	2.2	-8.0	-2.0	-1.0
Government consumption	-14.1	-4.9	2.6	4.0	-7.0	-2.0	-1.0
Gross fixed investment	3.5	2.2	2.7	3.0	-6.0	3.0	4.0
Exports of goods & services	0.7	-15.2	-1.8	6.4	2.5	-9.0	-12.0
Imports of goods & services	-5.2	-5.3	2.3	5.3	3.0	-1.1	-2.3
Origin of GDP (% real change)							
Agriculture	1.2	1.0[b]	-2.0[b]	-1.4[b]	-1.0	-3.5	-2.5
Industry	5.8	0.9[b]	0.5[b]	1.0[b]	-2.0	-3.0	-2.5
Services	7.5	1.0[b]	-5.0[b]	-1.0[b]	-2.0	-1.9	1.0
Population and income							
Population (m)	26.9	27.9	28.8[b]	29.8[b]	30.8	31.8	32.8
GDP per head (US$ at PPP)	7,205	7,103	6,764[b]	6,658[b]	6,531	6,205	5,903
Fiscal indicators (% of GDP)							
Central government budget revenue	31.2[b]	29.0[b]	27.8[b]	28.9[b]	36.3	32.6	29.8
Central government budget expenditure	37.4[b]	34.0[b]	33.2[b]	34.5[b]	36.2	30.5	30.7
Central government budget balance	-6.2[b]	-5.0[b]	-5.4[b]	-5.6[b]	0.1	2.0	-0.8
Net public debt	40.7	64.2	86.1[b]	76.9[b]	94.7	103.0	110.9
Prices and financial indicators							
Exchange rate Kz:US$ (end-period)	102.86	135.32	165.90	165.92	308.61	340.77	343.17
Exchange rate Kz:¥ (end-period)	0.86	1.13	1.42	1.47	2.81	3.09	3.20
Consumer prices (end-period; % change)	7.5	14.3	41.9	26.3	18.2	16.1	17.3
Stock of money M1 (% change)	19.8	10.4	12.7	-3.2	9.5	41.6	35.7
Stock of money M2 (% change)	16.1	11.8	14.4	-0.1	20.4	51.2	13.5
Lending interest rate (av; %)	16.4	16.9	15.8	15.8	20.7	21.0	19.0
Current account (US$ m)							
Trade balance	30,590	12,489	14,548	20,150	24,960	21,338	15,742
Goods: exports fob	59,170	33,181	27,589	34,613	40,758	35,800	30,638
Goods: imports fob	-28,580	-20,693	-13,041	-14,463	-15,798	-14,462	-14,896
Services balance	-23,276	-16,020	-11,906	-12,809	-9,456	-9,162	-7,982
Income balance	-8,850	-5,908	-5,274	-7,506	-7,733	-8,385	-8,814
Current transfers balance	-2,210.9	-833.9	-454.3	-468.8	-269.4	-1,257.5	-1,212.7
Current-account balance	-3,748	-10,273	-3,085	-633	7,502	2,533	-2,267
External debt (US$ m)							
Debt stock	28,903	27,991	35,365	37,202	38,129	39,217	38,169
Debt service paid	6,440	5,407	7,178	4,787	12,257	12,970	5,994
Principal repayments	5,393	4,309	5,763	4,008	10,466	11,075	4,299
Interest	1,047	1,098	1,415	779	1,791	1,895	1,695
Debt service due	6,440	5,407	7,178	4,787	12,405	12,977	5,994
International reserves (US$ m)							
Total international reserves	27,032	23,791	23,672	17,455	15,411	13,500	11,357

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.
Source: IMF, International Financial Statistics.

Quarterly data

	2017			2018				2019
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Prices								
Consumer prices (2005=100)	272.7	287.6	306.0	317.4	329.1	342.9	360.4	n/a
Consumer prices (% change, year on year)	34.0	27.8	27.6	23.6	20.7	19.2	17.8	n/a
Financial indicators								
Exchange rate Kz:US$ (av)	165.91	165.92	165.92	204.45	231.05	268.60	307.33	313.37
Exchange rate Kz:US$ (end-period)	165.92	165.92	165.92	214.12	249.26	294.47	308.61	318.12
Deposit rate (av; %)	6.2	6.3	6.9	6.4	7.2	6.9	7.0	6.8
Lending rate (av; %)	15.7	15.7	16.5	19.2	22.3	21.0	20.2	19.7
3-month money market rate (av; %)	20.3	19.2	18.9	19.9	19.9	17.0	17.1	16.4
M1 (end-period; Kz bn)	3,663.5	3,755.9	3,732.2	3,873.6	3,808.1	3,868.8	4,086.7	4,275.8
M1 (% change, year on year)	-8.2	-3.4	-3.2	7.1	3.9	3.0	9.5	10.4
M2 (end-period; Kz bn)	6,357.6	6,391.5	6,517.7	6,986.2	7,323.4	7,691.5	7,844.4	7,984.9
M2 (% change, year on year)	-3.2	-2.2	-0.1	11.5	15.2	20.3	20.4	14.3
Sectoral trends								
Crude oil production (m barrels/day)[a]	1.64	1.67	1.62	1.55	1.49	1.48	n/a	n/a
Foreign trade (US$ m)								
Exports fob	8,077.0	8,340.4	n/a	n/a	n/a	n/a	n/a	n/a
Imports fob	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign payments (US$ m)								
Reserves excl gold (end-period)	19,580	18,952	17,455	16,968	17,192	15,759	15,410	15,056

[a] Including production in Cabinda.

Sources: Banco Nacional de Angola; International Energy Agency, Oil Market Report; IMF, International Financial Statistics.

Monthly data

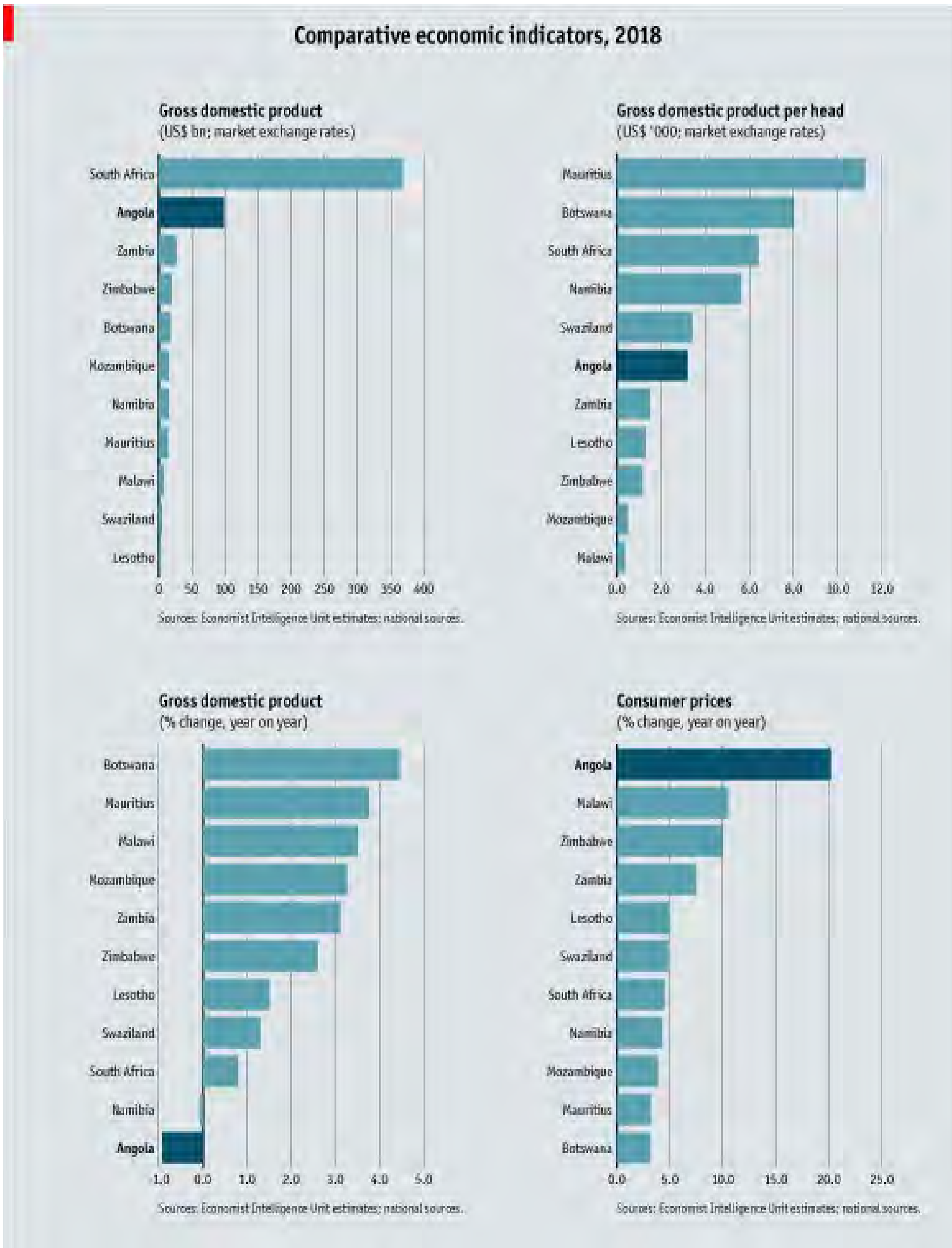
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Kz:US$ (av)												
2017	165.9	165.9	165.9	165.9	165.9	165.9	165.9	165.9	165.9	165.9	165.9	165.9
2018	189.0	210.2	214.1	218.3	232.6	242.2	253.2	266.6	286.0	303.1	310.0	308.9
2019	310.3	313.7	316.2	319.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate Kz:US$ (end-period)												
2017	165.9	165.9	165.9	165.9	165.9	165.9	165.9	165.9	165.9	165.9	165.9	165.9
2018	207.5	213.1	214.1	226.0	239.4	249.3	257.0	276.3	294.5	307.9	310.5	308.6
2019	312.3	314.2	318.1	323.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2017	5.9	5.8	6.0	6.1	6.4	6.2	6.0	6.3	6.5	6.8	6.8	7.3
2018	6.2	6.6	6.4	7.0	7.5	7.2	7.0	7.1	6.7	7.4	6.7	6.8
2019	6.9	6.9	6.8	6.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2017	15.2	15.3	15.4	15.8	15.7	15.7	15.7	15.9	15.5	15.5	15.3	18.6
2018	13.1	19.9	24.6	23.9	20.8	22.4	22.2	19.6	21.0	20.1	20.7	19.8
2019	20.5	17.5	21.2	21.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)												
2017	1.9	-3.4	-6.6	-4.7	-11.2	-8.2	-10.5	-4.7	-3.4	-7.4	-6.1	-3.2
2018	0.8	4.4	7.1	0.8	6.7	3.9	6.7	1.6	3.0	8.0	9.2	9.5
2019	7.7	8.4	10.4	13.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2017	6.5	4.1	-0.6	-0.8	-3.5	-3.2	-5.0	-2.4	-2.2	-2.5	-1.1	-0.1
2018	8.0	10.7	11.5	11.2	15.7	15.2	16.4	16.7	20.3	23.5	24.4	20.4
2019	12.4	12.3	14.3	13.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2017	40.4	39.5	37.9	36.3	34.1	31.9	29.0	27.0	27.5	29.0	27.6	26.3
2018	25.1	23.4	22.3	21.3	20.6	20.2	19.5	19.0	19.2	17.4	17.8	18.2
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total exports fob (US$ m)												
2017	2,784	2,806	2,694	2,777	2,730	2,570	2,548	2,782	3,011	n/a	n/a	n/a
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (US$ m)												
2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US$ m)												
2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2017	21,962	23,293	21,615	20,972	20,368	19,105	20,818	18,944	18,469	18,587	17,557	16,969
2018	16,532	16,291	16,470	15,864	17,739	16,711	17,200	15,909	15,282	15,007	15,226	14,940
2019	15,411	14,737	14,590	15,107	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

Annual trends charts

Monthly trends charts

Comparative economic indicators



Basic data

Land area

1,246,700 sq km

Population

29.8m (2017)

Main towns

Population estimates in ’000 (2009, Ministério da Administração do Território)

Luanda (capital): 4,500

Lubango: 1,011

Huambo: 904

Lobito: 737

Benguela: 469

Kuito-Bié: 424

Cabinda City: 399

Climate

Tropical and humid in the north, subtropical with lower rainfall in the south; temperatures are lower and rainfall higher in the central plateau than in the coastal lowlands; the rainy season lasts from October to April; the dry season is from May to September

Weather in Luanda (altitude sea level)

Hottest months, February-March, average maximum temperature 28°C; coldest months, July-August, average minimum temperature 23°C; average annual rainfall about 400 mm

Language

Portuguese (official), Umbundu, Kimbundu, Kikongo and other Bantu-group languages

Measures

Metric system

Currency

Kwanza (Kz); in January 2018 the central bank abandoned the peg to the US dollar and moved to an auction-based system; the currency subsequently declined, from Kz165.9:US$1 in December 2017 to Kz308.6:US$1 at the end of December 2018

Time

1 hour ahead of GMT

Public holidays

New Year’s Day (January 1st), Liberation Day (February 4th), Women’s Day (March 8th), Peace Day (April 4th), Labour Day (May 1st), National Heroes Day (September 17th), All Souls’ Day (November 2nd), Independence Day (November 11th), Christmas (December 25th and 26th)

Movable: Good Friday, Easter Monday

Political structure

Official name

República de Angola

Form of state

Unitary republic

Legal system

Based on the new constitution implemented in February 2010

National legislature

Assembleia Nacional (parliament), with 220 seats

National elections

August 23rd 2017 (legislative); the presidential election was abolished under the 2010 constitution, with the leader of the party with the most parliamentary seats automatically becoming president; the next legislative election is scheduled for 2022

Head of state

President: João Manuel Gonçalves Lourenço (came to power in September 2017)

National government

The government is composed exclusively of members of the ruling Movimento Popular de Libertação de Angola (MPLA); the office of the presidency operates parallel power structures that are generally independent of parliament and government

Main political parties

The MPLA has an absolute majority in parliament, with 150 seats; the main opposition party, the União Nacional para a Independência Total de Angola (UNITA), has 51 seats; the remaining 19 seats are divided between three smaller parties

Key ministers

President & head of government: João Manuel Gonçalves Lourenço

Vice-president: Bornito de Sousa

Agriculture & forestry: Marcos Alexandre Nhunga

Construction & public works: Manuel Tavares de Almeida

Defence: Salviano de Jesus Sequeira

Economy & planning: Pedro Luís da Fonseca

Education: Maria Cândida Pereira Teixeira

Electricity & water: João Baptista Borges

Environment: Paula Cristina Francisco Coelho

Finance: Archer de Sousa Mangueira

Foreign affairs: Manuel Domingos Augusto

Health: Silvia Paula Valentim Lutucuta

Hotels & tourism: Maria Ângela Teixeira de Alva Sequeira Bragança

Housing: Ana Paula de Carvalho

Interior: Ângelo de Barros Veiga Tavares

Media: João da Silva Melo

Mineral resources & oil: Diamantino Pedro Azevedo

Public administration, work & social security: António Rodrigues Afonso Paulo

Telecoms & IT: José Carvalho da Rocha

Territory & state reform: Adão de Almeida

Trade: Joffre Van-Dúnem Júnior

Transport: Augusto da Silva Tomás

Minister of state for economic & social development: Manuel José Nunes Júnior

Minister of state and chief of security in the presidency: Pedro Sebastião

Central bank governor

José de Lima Massano

Recent analysis

Generated on June 24th 2019

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

Economy

Forecast updates

Government puts forward revised budget

May 16, 2019: Economic growth

Event

The government has put forward a revised 2019 budget, cutting spending by 9% and reducing the benchmark oil rate to US$55/barrel owing to lower than expected global prices.

Analysis

The revised budget will be debated in parliament on May 22nd. Given the comfortable majority of the ruling Movimento Popular de Libertação de Angola (MPLA), it is likely to be approved. The government had previously indicated its intention to make the changes, although the timescale was pushed back. The revisions will further delay already slow processes within state institutions.

The 2019 Orçamento Geral do Estado (OGE), which was approved in December 2018, was based on a benchmark oil price of US$68/b and valued at Kz11.3trn (US$34.75bn), well above the current rate of around US$60/b. The new budget is projected at Kz10.47trn. It forecasts GDP growth of just 0.4%, a sharp downward revision from the original outlook of 2.8%, commensurate with figures released by the Ministry of Finance earlier in 2019. We consider even this revised outlook to be optimistic; we expect real GDP to contract by 4.5% in 2019 as the effects of reduced oil production are compounded by lower government revenue and, in turn, lower government spending and private consumption flows.

The government has reduced its oil production forecast from 1.57m barrels/day (b/d) to 1.43m b/d. This is in recognition of the continued sluggishness within the Angolan oil sector, caused by a combination of maturing fields, production issues, and reduced investor appetite stemming from lower global prices. We believe that the government needs to continue to open up more exploration opportunities (although investor interest may be muted in a relatively low-price environment) and intensify its focus on diversifying its revenue away from oil in order to be less vulnerable to future price shocks.

Reducing spending when revenue is lower is necessary, given Angola's large stock of debt, which rose to US$85.2bn, equivalent to 79.66% of GDP, at the end of 2018. However, cutting government spending may affect the delivery of much-needed infrastructure projects in the transport, energy, education and health sectors, which is likely to slow efforts to develop the non-oil sector.

Impact on the forecast

The revision to the OGE shows prudence on the part of the government, but we believe that its outlook remains too bullish. We maintain our forecast for a contraction of 4.5% in real GDP over the year.

Second rail strike in 2019 highlights economic weaknesses

May 16, 2019: Economic growth

Event

Striking workers have paralysed Angola's busiest railway for the second time in 2019.

Analysis

Staff at the Caminho de Ferro de Luanda (CFL), which connects the capital, Luanda, with the agricultural heartland of Malange, began a new round of industrial action on April 18th. This follows a shutdown in January.

The action in January ended after bosses at the loss-making and heavily subsidised state-owned railway agreed to address 18 of the 19 grievances raised by the labour unions. In addition to addressing concerns around working conditions, job descriptions and training, the management also agreed to initiate a salary review in response to calls for an 80% pay increase. However, at the end of March the CFL board announced that it would be able to increase wages only if the company's financial results were to improve, triggering the current walk-out.

At full capacity, the CFL's bi-weekly train serving Kwanza Norte and Malange moves large amounts of agricultural produce from farms in these provinces to urban markets. A prolonged shutdown could therefore dampen growth in the country's agricultural sector. Additionally, the CFL transports more than 6,000 passengers a day around Luanda.

According to the CFL's chief executive, Júlio Bango Joaquim, cited by Portuguese news agency Lusa, the strikes have so far cost the company Kz38m (US$116,000). On May 11th Mr Joaquim announced a plan to break the strike and resume some commuter services and fuel transportation within Luanda.

In addition to the inconvenience and the financial impact of this latest industrial action—which follows other recent walk-outs at hospitals, schools and courtrooms—it presents another political test for the government of João Lourenço. The president must balance accommodating workers' requests (in order to avoid social unrest and further interruptions to basic services) while retaining influence over the unions and not promising more than the government can afford, particularly as low crude oil prices mean that fiscal space is limited.

Impact on the forecast

Given the continued constraints on the economy and the emboldened mood within trade unions, we expect more industrial action across Angola. Continued industrial action could lead us to nudge down our GDP forecast as strikes hamper operations for businesses and the agricultural sector.

New co-operation framework will improve Angola-São Tomé ties

May 22, 2019: External sector

Event

On May 16th São Tomé and Príncipe and Angola announced a new framework of strategic co-operation in order to promote the free movement of goods and people between the two countries.

Analysis

The current coalition government, led by the Movimento de Libertação de São Tomé e Príncipe-Partido Social Democráta (MLSTP-PSD), is keen to cement economic ties with Angola in a bid to attract increased investment to the island. In late February São Tomé's prime minister, Jorge Bom Jesus, visited Angola in an effort to attract more investment into the transport, energy and water infrastructure sectors. The agreement follows a ruling on May 9th by a São Tomian court that the Rosema brewery (situated in the town of Neves on the north-western coast of São Tomé island) should be returned to Mello Xavier, an Angolan tycoon with close ties to his country's government. Following a legal dispute originating in Angola between Mr Xavier and JAR (an Angolan general merchandising firm), the businessman ultimately saw his Rosema brewery sold in 2009 to António and Domingos "Nino" Monteiro, two São Tomian brothers, who are local politicians and businessmen. The long-running case also became entangled in a conflict between the judiciary and the then-ruling Acção Democrática Independente party.

We believe that the São Tomian court ruled in Mr Xavier's favour in order to help strengthen bilateral trade between Angola and São Tomé. The judiciary is not completely independent from politics in São Tomé, and the judge who ruled in Mr Xavier's favour is considered close to the ruling MLSTP-PSD. Likewise, a 25-member Angolan government delegation headed by Domingos Custódio Vieira Lopes, the state secretary for international co-operation and Angolan communities, accompanied Mr Xavier when he returned to reclaim the Rosema brewery on May 13th—just ahead of the announcement of the new trade co-operation framework. However, the court's ruling is likely to cost the MLSTP-PSD coalition government (which has a one-seat majority) any further support from an opposition party, Movimento Cidadão Independente de São Tomé e Príncipe (MCISTP). The MCISTP, which is a vehicle for the Monteiro brothers, has two seats in São Tomé's parliament. If the party's two members of parliament vote with the rest of the opposition, the government will have only the smallest of majorities to pass future legislation.

Impact on the forecast

With Angola already a major investor in São Tomé, our forecast of modest improvements in diplomatic and trading relations between the two countries remains unchanged.

Two contracts linked to Dos Santos family to be renegotiated

May 30, 2019: Policy trends

Event

In mid-May the president, João Lourenço, ordered the renegotiation of two contracts, cutting out two firms owned by Isabel dos Santos, the eldest daughter of Mr Lourenço's predecessor, José Eduardo dos Santos.

Analysis

Two contracts worth a cumulative US$1.3bn were awarded by decree by Mr dos Santos to two consortiums in January 2016: Angola's Urbinveste—Promoção e Projectos Imobiliários and a Dutch dredging company, Van Oord; and Landscape—Promoções e Projetos Imobiliários with the Angolan subsidiary of the China Road and Bridge Corporation. However, a presidential decree issued on May 15th cited "overbilling" and high costs to the state which "violated the principles of morality, justice, transparency, economy and respect for public assets" as the reason for the cancellation.

The two Angolan firms, Urbinveste and Landscape—both majority-owned by Ms dos Santos, a businesswoman and former chair of Sonangol, the state oil firm—have been excluded from the renegotiation process. Owing to existing international financing agreements, however, Van Oord and China Road and Bridge Corporation will remain on the project, the decree said. In a statement, Urbinveste rejected the claim of overbilling and non-transparent practices, saying the allegations were false and unfounded.

This is not the first time Mr Lourenço has terminated contracts awarded by his predecessor or those involving firms linked to his family members or close allies. In July 2018 the president repealed a decree issued by Mr dos Santos (a week before he left office) for a state guarantee worth US$1.5bn for a new port at Barra do Dande and a 30-year concession allocated to Atlantic Ventures, reportedly part-owned by Ms dos Santos. Taking steps to improve contracts is positive, especially given Angola's current economic difficulties owing to the low price of oil, its main export and revenue source. However, for Mr Lourenço to retain credibility, it is important that interventions are legal and fair and that due process is followed. Too many sudden contract revocations may also be off-putting for overseas companies who may start to feel concerned about the security of their investments and the political standing of their local partners.

Impact on the forecast

We maintain our forecast that Mr Lourenço will continue to take bold action to tackle alleged corruption. He will also further limit business opportunities for members of the political elite closely associated with his predecessor in order to exert his authority and reduce the former president's financial and political influence. Our economic policy forecasts are therefore unchanged.

Date set for introduction of VAT

May 30, 2019: Policy trends

Event

Angola is preparing to introduce value added tax (VAT) of 14% from July 1st.

Analysis

Known in Portuguese as IVA (*Imposto sobre Valor Acrescentado*), the new tax will be levied on many goods and services, including gas and electricity, although books, medicines, property rentals, collective transport, and some oil products will be exempt. VAT will apply initially only to *grandes contribuentes* (designated large companies), large public enterprises, and banking and financial institutions. Companies with annual turnovers exceeding US$250,000 may also join on a voluntary basis ahead of the full roll-out in January 2021.

In addition to VAT, Angola is also introducing on July 1st a so-called sin tax, Imposto Especial de Consumo (IEC), which will add levies of between 2-16% on tobacco, alcohol, fireworks, jewellery and other designated luxury or harmful products. The introduction of VAT and IEC at the same time will lead to a rise in consumer prices. Inflation rose between March and April, to a year-on-year rate of 17.4%, due to the continued weakness of the kwanza and the country's reliance on imported goods.

VAT, which had been due to come into force from January this year but was delayed to July, will be a major challenge to both firms and the government in terms of paperwork and processes. Despite insistence from the country's tax authority, the Administração Geral Tributária (AGT), that it will be ready, a number of business leaders have called for more time to prepare. Raising tax revenue should help to offset Angola's shortfalls in oil revenue and reduce the government's debt-servicing commitments. Nonetheless, higher costs for individuals and businesses at a time of slow economic growth will not be popular with either the ruling elite or the wider population. The government must similarly balance its fiscal ambitions with the need to support its most vulnerable citizens and boost business confidence, as private-sector growth is central to reducing the economy's dependence on the oil sector.

Impact on the forecast

We maintain our forecast that inflation will average 17.8% in 2019, driven by the weakness of the kwanza and the introduction of the new taxes. The introduction of VAT and IEC will undermine government attempts to control prices through altered duties and fixed pricing regimes.

Africa-wide free-trade agreement comes into force

May 30, 2019: External sector

Event

On May 30th the Africa Continental Free-Trade Agreement (AfCFTA)—signed so far by 52 of the 55 African Union (AU) member states—legally came into force ahead of a planned launch of a continental single market on July 7th.

Analysis

A minimum of 22 signatories had to ratify the AfCFTA for it to come into effect 30 days after the final submission of the 22nd ratification instruments, which were submitted on April 29th. Eritrea, Nigeria and Benin are yet to sign the AfCFTA, while 24 of the 52 countries have ratified the agreement. The AfCFTA will create the world's largest continental free-trade area, provided that all 55 AU members join it, and has the potential to be economically transformative for the region in the long term by creating a single market of 1.2bn consumers and workers, with tariffs on 90% of goods set to be eliminated over the next five years.

The AU hopes that the free-trade area will open up new markets for African businesses, while also ushering in an era of industrialisation. Although the impact of an increase in intra-African trade might be felt over the next decade, any near-term benefits will be constrained by the non-complementarity of regional trade; African countries are currently not producing the goods and services that their neighbours import. Moreover, the persistently low levels of intra-African trade thus far, despite the existence of several subregional customs unions, are symptomatic of structural problems that cannot be addressed solely through free-trade pacts.

The next step will be the implementation of the wide-ranging pact, which is set to begin from July 7th. This will be a complex process, given the costs of phasing out intra-regional tariffs, implementing new customs procedures, creating new inter-country infrastructure and other barriers. Moreover, although signatories have pledged support for the deal, ensuring that countries follow through on opening up their domestic markets, and do not seek to protect critical industries through high non-tariff barriers, will be a challenge. More details on the process of streamlining legislation for the single market will be finalised during an upcoming AU summit in Niger in July. International financial support for the AfCFTA (for instance, €50m from the EU for 2018-20) should go some way towards facilitating implementation.

Impact on the forecast

With the impact on trade of the continental single market expected to be limited during the 2019-23 forecast period, our forecasts of low intra-African trade for most countries remain unchanged.

Nine companies selected for public tender

June 7, 2019: Policy trends

Event

Nine companies have been selected for consideration in the first public tender to sell off state-owned entities (SOEs).

Analysis

Seven factory units from the Zona Económica Especial Luanda-Bengo (ZEELB) were put out to public tender in March: Univitro (glass); Juntex (cement grout); Carton (cardboard); Absor (nappies and sanitary products); Indugidet (hygiene); Coberlen (household linen); and Saciagno (cement bags).

Only one of the units, Univitro, is currently functioning, albeit on a small scale, with just 17 employees, with the rest partly equipped but dormant. Nonetheless, the tender has attracted significant interest, with the nine Angolan firms making a total of 18 bids before the deadline of May 31st.

Altogether, 51 units from within the ZEELB are due to be put up for privatisation over the course of 2019, as part of a wider push by the government to sell off loss-making or stagnant companies to generate cash and to help to stimulate the non-oil economy by encouraging private investment. Nonetheless, we expect the government's fiscal position to remain strained.

The factories in question, which are expected to sell for between US$3m and US18m, have the potential to reduce Angola's reliance on imported goods, which should take pressure off the currency and create localised jobs. However, their future success and financial viability remains dependent on whether the government can ensure a reliable and affordable electricity supply to allow full production at a competitive price.

In May the new Lei de Bases das Privatizações was officially published in the state gazette, the *Diário da República*, three months after its parliamentary approval. The legislation allows for SOEs to be sold off directly through initial public offerings on Angola's stock exchange, the Bolsa de Dívida e Valores de Angola (which is yet to open), or via payments of government debt securities.

Another key aspect of the new law is the prohibition of individuals (and their spouses and direct relatives) with direct links to the entities and the sale process from being involved in purchase bids. This aims to address potential conflicts of interest surrounding sell-offs and widely held concerns that members of the political elite will be favoured, thus further entrenching vested interests at the cost of competition.

Impact on the forecast

We maintain our view that several SOEs will be sold off, but we continue to caution that entrenched vested interests are likely to prolong the process, despite apparent efforts to make the sell-offs more transparent.

OPEC quotas likely to be extended until end-2019

June 12, 2019: International assumptions

Event

On June 7th, at the St Petersburg International Economic Conference, the Saudi oil minister, Khalid al-Falih, said that OPEC members are likely to extend oil production cuts that are due to expire at end-June.

Analysis

Mr Falih mentioned that OPEC was close to agreeing to extend the production cuts and that further talks would be held with non-OPEC members. The OPEC deal is likely to be extended until the end of 2019. Russia is still undecided over whether to agree to the production cuts owing to concerns over losing market share to US shale producers.

Oil production has been constrained in the past couple of months because of US sanctions on Iran that aim to reduce Iranian oil exports to zero and the ongoing crisis in Venezuela. As a result, the price of dated Brent Blend increased from an average of US$59.3/barrel in January to an average of US$71.2/b in April, before sliding to about US$64/b at end-May mainly because of supply-side factors while global oil demand remains weak.

Following Mr Falih's announcement, the price of Brent rose by 3% on June 10th. However, this increase is small, suggesting that markets are still cautious about the prospects of sustained price increases and possibly have priced in the extension of OPEC cuts, given the potential for additional short-term investments by shale producers at the current price level, which would reinforce the global supply glut. Meanwhile, investment in the oil and gas sector in countries such as Iraq and Egypt is increasing and, in line with this, hydrocarbons output from these countries will edge up during the second half of our 2019-23 forecast period.

Saudi Arabia is pushing for an extension of OPEC-mandated oil production cuts for two main reasons: first, to keep global oil prices above US$60/b (the fiscal breakeven price for major oil producers) at a time when global demand is likely to remain weak given an expected slowdown in economic growth in the US, China and the EU in 2019-20; and second, to put pressure on Iran while its economy is going through a recession.

Impact on the forecast

We will revise our forecast to reflect our view that the quotas will now be extended until the end of 2019; we think that Saudi Arabia and OPEC will continue to be cautious about raising oil output, as all signs point to slower oil consumption growth in the second half of this year.

Angola to convert diesel thermal power plants to run on gas

June 12, 2019: Policy trends

Event

Angola intends to convert all its diesel-fed thermal power plants to run on gas within the next three years.

Analysis

According to Paulino Jerónimo, the president of the newly formed Agência Nacional de Petróleo, Gás e Biocombústiveis (ANPG), all the country's thermal generating facilities will be adapted to run on gas supplied by its liquefied natural gas (LNG) gas plant in Soyo. Currently, about one quarter of Angola's electricity comes from diesel-fed thermal plants, which consume about 70% of the country's available diesel at an annual cost of US$750m. Switching the facilities to run on gas will involve significant up-front costs, but in the long term the move is likely to bring cost-savings.

It is also an optimal way for Angola LNG (Angola's flagship LNG plant) to use its gas, which has struggled to find buyers, owing to falling demand for imported gas from the US and competitors who are better placed geographically to supply markets in Asia. Angola LNG's troubled Soyo plant, which was shut down for two years, owing to technical problems, currently produces 125mn cu ft of gas, some of which already powers two nearby electricity generation facilities.

The project to convert all power plants is set to take three years and will be jointly managed by the Ministry of Electricity and Water and the Ministry of Mineral Resources and Oil. Mr Jerónimo said that coastal facilities would be targeted first. The move is in line with Angola's existing energy policy to generate one-fifth of all electricity from gas by 2025 (an ambitious target, which the country may not achieve). It is also targeting hydropower output of 66% by the same year, owing to the roll-out of generation from several large dams, such as the recently launched Laúca dam in Malange province.

For most Angolan citizens and businesses, whose lives and economic output are severely restricted by a lack of reliable electricity (among other constraints), the source of power is less important than an assurance that it will be delivered. However, moves to wean Angola off expensive diesel-generated electricity, in favour of a reliable and lower-cost source, are positive and should also help to reduce the negative effects on the environment.

Impact on the forecast

This is a positive move by the government, but it will take several years to implement, and we therefore see no immediate effect on our existing forecast.

Analysis

EIU global forecast - Waiting for an elusive US-China deal

May 14, 2019

The Economist Intelligence Unit has long been forecasting a slowdown in global growth in 2019-20. However, recent data suggest that the world's three major economies proved surprisingly resilient in the first quarter of 2019. In the US, real GDP growth stood at a solid 3.2% year on year, a robust headline for an economy operating at near-full employment. In the euro zone, output expanded by 0.4% quarter on quarter over the same period, the strongest quarterly expansion in a year. The single currency area posts record-low unemployment rates, and the latest high-frequency data paint a positive picture in the services and construction sectors, offsetting softer manufacturing data. In China, a revival in the industrial sector stabilised economic growth, defying our expectations that the slowdown in economic growth that began in the third quarter of 2018 would extend further. Coupled with the roll-out of fifth-generation (5G) technology in a number of Asian countries this year, the recent solid Chinese performance will support global trade in the second half of 2019.

Detailed analysis of US growth data paints a contrasting picture

These rosier data will offer some respite to central bankers across developed economies who were previously weighing up whether a cautious "wait and see" approach was still appropriate, or whether it was time to brace for impact and prepare for more stimulus.

However, a more detailed analysis of the latest growth figures across developed markets does not alter our view that 2019-20 will be marked by a global slowdown. In the US the two main contributors to growth in the first quarter were external trade (owing to a sharp deceleration in import growth) and a surge in inventories. This is cause for serious concern. High inventories will later become a drag on growth; a slowdown in import growth hints at slowing consumer demand, in line with other high-frequency indicators.

Global trade is slowing sharply

The deceleration in US trade activity mirrors other data that all point to slowing global trade. The South Korean KOSPI-100 equity index, which is mainly made up of export-oriented companies, has been falling since mid-April; cargo volumes at Hong Kong's international airport contracted by 5% year on year in the first quarter; and the number of containers landing at the US port of Long Beach (one of the main trade hubs between the US and Asia) was down by 7% in January-March on an annual basis.

The slowdown in global trade reflects the slowdown in the Chinese economy, as well as uncertainty concerning trade policy. Against this backdrop, recent belligerent declarations by Donald Trump, the US president, cast doubts over the possibility of a US-China trade deal being concluded by late May or early June. Should a trade deal not be agreed (not our core scenario), investor sentiment would drop sharply and global growth prospects deteriorate. The latest trade data from China represent a stark warning: in April Chinese goods exports contracted by 2.7% year on year (in US-dollar terms), compared with a 13.8% increase in March.

The Brexit saga remains unsolved

Recent developments at the regional level also add cause for concern and hint at a deterioration in economic, political, and geopolitical stability. In Europe, almost three years after the Brexit referendum, this issue remains far from resolved. The range of potential outcomes varies from "no deal" to "no Brexit", compounding uncertainty, weighing on sentiment and depressing investment. The latest developments on the Brexit front include negotiations between the ruling Conservative Party and the left-wing opposition Labour Party. Given that the respective red lines of these parties are essentially incompatible, there is little chance that these negotiations will prove conclusive.

The EU has granted the UK an extension of the Brexit deadline to October 31st (from March 29th initially). It is far from guaranteed that the bloc will be willing to extend this timeline again should the UK parliament fail to ratify the Brexit deal by then. This would raise the risk of a no-deal scenario that would provoke catastrophic damage to the British economy.

Rerun of Istanbul mayoral election weighs on the lira

Also in Europe, the decision of Turkey's High Electoral Commission to bow to pressure from Recep Tayyip Erdogan, the Turkish president, to organise a rerun of the Istanbul mayoral election sent jitters through financial markets. Mr Erdogan's ruling Justice and Development Party (AKP) proceeded to lose this election in nationwide local polls at the end of March, causing another plunge in the lira against the US dollar.

This will remind financial markets that Turkey has not yet recovered from the severe currency crisis that it experienced less than a year ago. This will renew capital flight to perceived safe havens, fuelling volatility in emerging-market currencies across the globe. Even if it has been small up to now, the risk of contagion to other emerging-market currencies such as the Indian rupee, the South African rand and the Argentinian peso cannot be discounted. In fact, we believe that a full-blown emerging-markets crisis is the third-largest risk to global growth in 2019-20.

Argentina and Venezuela remain hotspots of volatility in Latin America

The risk of contagion to emerging-market currencies has been compounded by increased political uncertainty in Latin America in recent weeks. In Argentina the peso lost about 10% of its value against the US dollar between mid-April and early May as investors started to price in the risk of a victory by the left-wing populist, Cristina Fernández de Kirchner, in the presidential race in October. We continue to believe that the incumbent president, Mauricio Macri, will be re-elected. However, fears of a Fernández presidency will continue to weigh on the peso in the coming months, fuelling inflation and depressing consumption and sentiment.

Despite peaking at almost 55% in March, annual inflation in Argentina remains far from the levels seen in Venezuela: in the same month Venezuela's annualised consumer price inflation stood at more than 1,000,000%. To stabilise prices will be one of the main challenges that Juan Guaidó, the interim president of Venezuela, will face when he comes to power in the second half of the year, as we currently forecast. However, we also continue to acknowledge strong risks to this outlook: Nicolás Maduro, the leader of the incumbent regime, has managed to survive what he claimed was an attempted coup orchestrated by Mr Guaidó on April 30th, and has so far clung on to military support surprisingly well.

Iran sanctions will continue to fuel US-EU tensions

In the Middle East, Iran remains a hotspot of geopolitical volatility. On May 2nd the US administration let sanctions waivers expire for the eight countries that continued to import Iranian oil, in an attempt to deprive the Iranian regime of its main source of revenue. Shortly afterwards Iran announced that it would cease complying with some provisions of the nuclear deal, throwing the deal's future into doubt and raising tensions between the US (which has withdrawn from the deal) and the EU (which is trying to salvage it).

So far, this turn of events has not led to a surge in global oil prices, as an increase in tensions between the US and Iran had largely been priced in by global commodities markets. However, the risk of a potential miscalculation by the US or Iran in the Middle East has risen sharply. This, together with trade disputes, has heightened political volatility in emerging markets, and the growing tensions between the US and the EU will continue to weigh on the global economic outlook in the coming months.

World economy: Forecast summary										
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Real GDP growth (%)										
World (PPP[a] exchange rates)	**3.5**	**3.4**	**3.3**	**3.7**	**3.5**	**3.2**	**3.4**	**3.5**	**3.6**	**3.5**
World (market exchange rates)	**2.8**	**2.8**	**2.5**	**3.1**	**2.9**	**2.6**	**2.6**	**2.8**	**2.9**	**2.8**
US	2.5	2.9	1.6	2.2	2.9	2.2	1.7	1.8	2.0	1.7
Euro area	1.4	2.0	1.9	2.5	1.9	1.3	1.5	1.7	1.7	1.7
Europe	1.9	1.9	1.9	2.7	2.1	1.3	1.8	1.9	1.9	1.8
China	7.3	6.9	6.7	6.8	6.6	6.4	6.1	5.6	5.2	5.0
Asia and Australasia	4.4	4.5	4.5	4.9	4.5	4.5	4.2	4.3	4.2	4.1
Latin America	1.0	-0.3	-1.2	0.8	0.7	0.5	1.6	2.6	2.6	2.9
Middle East & Africa	2.8	2.3	4.7	1.5	1.3	1.8	2.4	3.0	3.2	3.2
Sub-Saharan Africa	4.6	2.7	0.7	2.4	2.4	2.4	0.9	3.8	4.1	4.3
World inflation (%; av)[b]	**3.4**	**3.0**	**3.1**	**3.2**	**3.5**	**3.7**	**3.1**	**3.2**	**3.2**	**3.0**
World trade growth (%)	**2.9**	**2.0**	**2.1**	**5.4**	**4.4**	**3.3**	**2.9**	**3.9**	**4.0**	**4.1**
Commodities										
Oil (US$/barrel; Brent)	98.9	52.4	44.0	54.4	71.1	66.5	60.5	69.8	75.6	75.0
Industrial raw materials (US$; % change)	-5.1	-15.2	-2.2	20.2	2.2	-2.8	1.9	1.6	3.4	0.6
Food, feedstuffs & beverages (US$; % change)	-5.3	-18.4	-3.5	-1.0	1.6	-5.8	4.8	4.1	0.9	0.8
Exchange rates (av)										

¥:US$	105.9	121.0	108.8	112.1	110.4	110.0	108.7	104.9	100.5	96.1
US$:€	1.3	1.1	1.1	1.1	1.2	1.1	1.2	1.2	1.2	1.2

[a] Purchasing power parity. [b] Excludes Venezuela.

Source: The Economist Intelligence Unit.

Sonangol chief executive fired as fuel shortages mount

May 14, 2019

The president, João Lourenço, has fired Carlos Saturnino, the chief executive of the state-owned oil company, Sonangol, and his board, following a countrywide fuel shortage resulting from a strain on the company's liquidity and other supply-side issues. The parastatal has come under significant pressure for its handling of the petrol and diesel crisis, which in April and May has led to long queues at fuel stations, stranded motorists, and led to electricity rationing for the many households and businesses that rely on diesel generators owing to poor electricity networks. Mr Saturnino's departure is significant, although given the wider changes ongoing within Sonangol, it may be more of a political move by the president to be seen as acting in the face of the crisis in order to win public favour.

Despite being one of Africa's leading oil producers, with an average daily output of 1.478m barrels/day (b/d) in 2018, Angola still imports 80% of its refined oil, as it has just one small and ageing refinery. Lower revenue from its crude exports have triggered a sharp devaluation of the kwanza and limited availability of foreign currency to pay external suppliers.

Long-running shortages

Shortages of foreign exchange have been an issue for nearly five years, since the fall in global oil prices, Angola's main export and revenue source, although recent policies (and a price recovery in 2017-18) had slightly improved the situation. This sudden fuel-supply crisis (whereby the impact of low oil prices exacerbates issues in local power networks, which were bad even prior to the price slump) highlights the vulnerability of Angola's oil-dependent economy and its systemic weaknesses, as well as a lack of mains electricity and continued reliance on diesel to power homes and businesses. The cost to the local economy of the fuel shortage will have been significant. The inconvenience also detracts from government efforts to promote the country as a place to invest and do business.

The situation has also highlighted the need for Angola to move forward with long-standing (but very slow-moving) projects to commission new refineries and reduce the country's reliance on imported fuel. The tendering processes are now nearing completion for new facilities in Cabinda and Lobito, but construction will take several years and some supply-side constraints will remain for the time being.

Foreign-exchange pressures

In a statement dated May 4th, Sonangol acknowledged "some constraints in supply", citing difficulties in obtaining sufficient foreign exchange to pay overseas suppliers, a problem exacerbated by its clients not paying their bills. It also blamed some technical problems with supply ships and bad weather, and it criticised the poor state of the national road network, which it said made it hard to transport fuel by truck.

The following week, as the queues at fuel stations grew even longer and local tensions rose, Mr Lourenço convened a meeting of senior government ministers and Sonangol officials, after which he issued a terse statement blaming a lack of dialogue between Sonangol and other state institutions. A day later he issued a shock decree announcing the dismissal of the oil company's chief executive and board.

Mr Saturnino was named chief executive of Sonangol by Mr Lourenço in 2017, shortly after he took over the presidency from José Eduardo dos Santos, who had controversially put his eldest daughter, Isabel dos Santos, in charge of the parastatal. The appointment was seen as a part of wider moves by Mr Lourenço to purge state institutions of backers of Mr dos Santos.

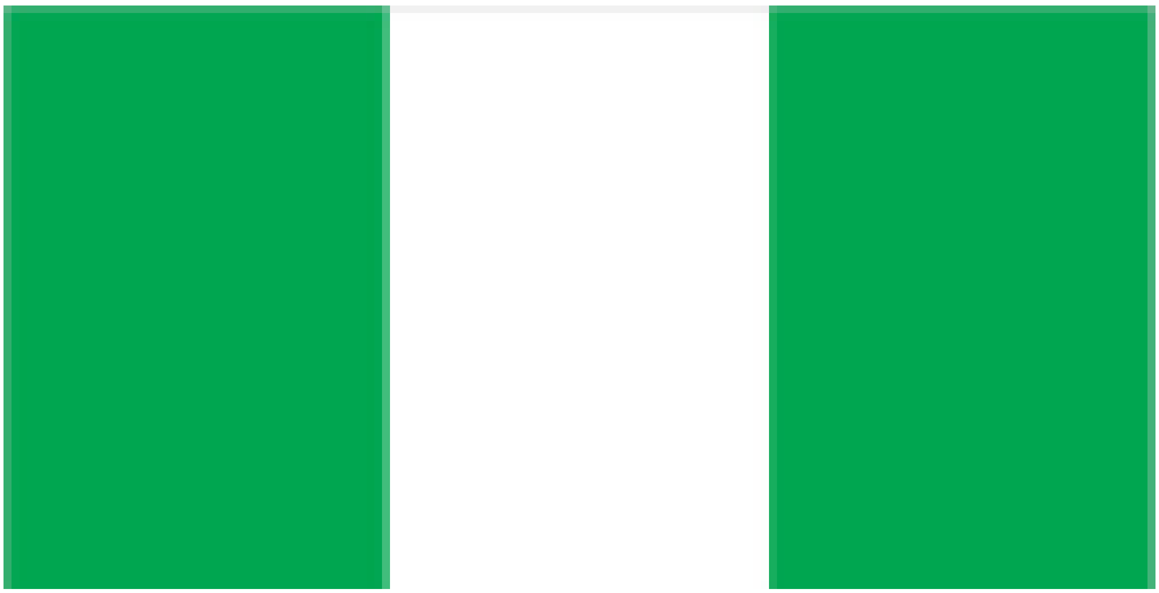
Under Mr Saturnino's leadership, Sonangol has been on a reform fast track to streamline the bloated company, sell off its loss-making non-core subsidiaries and make Angola's oil sector more attractive to international investors and operators. Progress was also finally being made on long-standing—but hitherto slow-moving—processes to increase the country's refining capacity and issue more exploration licences, although the company's financial position continued to be dragged down by lower output and global prices.

Mr Saturnino has been replaced by Sebastião Pai Querido Martins. A long-time Sonangol manager who led the company's production subsidiary, P&P, for ten years under the then Sonangol chief executive and former vice-president, Manuel Vicente, Mr Martins was also a non-executive director in Mr Saturnino's board. His experience will be valued, but his apparent connections to Mr Vicente and his recent spell (2015-17) as chairman of the board of Somoil, Angola's largest indigenous oil company, may also raise questions around Mr Lourenço's true commitment to reform. Mr Saturnino's sacking may have been politically expedient, but it is a backward step for future prospects for improvements in the power sector.

Political moves

This change in leadership at Sonangol will probably delay the reform processes under way, as the new management will take time to embed its structures. However, the disruption comes as the parastatal—once regarded as the engine of Angola's economy and, by some, as a parallel government—is set to have its powers and role greatly reduced. The recently-constituted Agência Nacional de Petróleos e Gás (ANPG), is scheduled to soon take over the role of concessionaire and regulator, leaving Sonangol to focus on core businesses of exploration, production and downstream management. Given this, Mr Saturnino's removal may in fact be more of a calculated political move by Mr Lourenço to demonstrate to increasingly frustrated Angolans that he is taking decisive action in response to the fuel crisis, rather than a practical one that will improve supply.

This fuel shortage underscores the continuing challenges of foreign-exchange availability and the country's limited domestic refining capacity. We have already factored these issues into our forecast but if the fuel shortage persists we may revise out outlook, especially in relation to social unrest, which we foresee could rise if the supply gaps are not met swiftly.



Nigeria

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Ambassador W. Stuart Symington

W. Stuart Symington
United States Ambassador to Nigeria

W. Stuart Symington has served as Ambassador to the Federal Republic of Nigeria since November 2016. At the time of his appointment, he was Deputy Assistant Secretary of State for Central Africa and African Security Affairs. Previously, Ambassador Symington was United States Special Representative for the Central African Republic, Ambassador to Rwanda, Ambassador to Djibouti, and Deputy Chief of Mission and Charge' d'affaires ad interim in Niger. In Nigeria, he leads the outstanding staff of the U.S. Embassy in Abuja and Consulate General in Lagos. Together they support the people of Nigeria and the region in their efforts to achieve broad-based prosperity and lasting security by defeating terrorist and criminal threats and ensuring inclusive democratic governance and justice. In addition to his posts in Africa, Symington served as the Foreign Policy Advisor to the Commander of United States Northern Command and North American Aerospace Command. There he worked with regional partners and other U.S. government departments and agencies to stop threats to our national and regional security. During his time in Rwanda, Symington's Mission team increased regional security cooperation and economic integration, strengthened democratic institutions, and accelerated improvements in health care and agricultural production. In Djibouti, Symington focused his Embassy's efforts on advancing regional economic integration, defusing humanitarian crises, and promoting democratic development and regional security.

Symington began his diplomatic career in Honduras, tracking protests and domestic politics. He then moved to Spain and worked on economic issues before serving as the Ambassador's aide during Desert Shield and Storm. In Mexico, he cultivated the political opposition, worked anti-drug issues, helped congressional visitors looking at

NAFTA, and reported from Chiapas during the Zapatista revolt. At the State Department, he worked for the Under Secretary for Political Affairs on Latin American and African issues, and also backed up his aide for Bosnia during the Dayton peace process. During a year-long Pearson Fellowship, he served on the staff of Congressman Ike Skelton studying U.S. military joint operations and education. He later traveled to Sudan and North Korea on teams negotiating to free American captives before finishing the year as an aide to the U.S. permanent representative to the United Nations. As a political officer in Ecuador, Symington forged ties to the political opposition, indigenous leaders, military commanders, and other government and private sector leaders. He joined efforts to end the century-old Peru/Ecuador border conflict, helped negotiate the agreement establishing an anti-drug Forward Operating Location, and, after protests toppled Ecuador's president, pressed for a return to civilian rule.

As Deputy Chief of Mission in Niger, Symington dealt with military mutinies, terrorist threats, and civil unrest. He mounted an outreach effort to Muslim leaders, fostered anti-terrorism cooperation, and buttressed Niger's democracy with a key food security program. He then returned to the State Department as the Deputy Director of West African Affairs in the Africa Bureau, working on the Trans-Sahara Counter Terrorism Initiative, humanitarian and development issues, and challenges to security and democratic stability.

From October 2004 to February 2005, Symington worked with Ambassador Negroponte in Iraq on the election process and political issues, managing pre-election political reporting from around the country and visiting reporting officers in six of our ten regional offices during the run-up to the election. On Election Day, January 30, 2005, Symington was based in Baqubah and observed voting there and in other cities of Diyala province in the Sunni Triangle. Before becoming Ambassador to Djibouti in 2006, Symington worked at the National Defense University's Joint Forces Staff College in Norfolk, studying and teaching how America's diplomats and warriors can cooperate best to advance U.S. interests abroad.

Ambassador Symington was raised in Missouri, earned a bachelor's degree from Brown University, and a Juris Doctorate from Columbia University. He clerked for the Chief Judge of the Eastern District of Missouri, then litigated and practiced corporate law in New York, London, Paris, and St. Joseph, Missouri, before becoming a Foreign Service Officer in 1986.

United States Department of State

U.S.-NIGERIA RELATIONS

The United States established diplomatic relations with Nigeria in 1960, following Nigeria's independence from the United Kingdom. From 1966 to 1999, Nigeria experienced a series of military coups, excluding the short-lived second republic between 1979 and 1983. The 30-month long civil war, which ended in January 1970, resulted in 1-3 million casualties. Following the 1999 inauguration of a civilian president, the U.S.-Nigerian relationship began to improve, as did cooperation on foreign policy goals such as regional peacekeeping.

Nigeria is the largest economy and most populous country in Africa with an estimated population of more than 190 million, which is expected to grow to 400 million by 2050 and become the third most populous country in the world after China and India. Nigeria had an estimated gross domestic product of 375 billion USD in 2018. Although Nigeria's economy has become more diversified, crude oil sales have continued to be the main source of export earnings and government revenues. Despite persistent structural weaknesses such as a deficient transportation infrastructure, the Nigerian economy grew briskly for the decade ending in 2013. The growth rate slowed in 2014, owing in large part to the fall in oil prices, and in 2016 and 2017 Nigeria experienced its first recession in over two decades before rebounding in 2018. The gains from economic growth have been uneven; more than 60% of the population lives in poverty.

In the 2015 presidential elections, for the first time in the country's history, an opposition party won the presidency and control of the National Assembly in generally clean and transparent elections. Notwithstanding important steps forward on consolidating democracy, the country continues to face the formidable challenges of terrorist attacks, inter-communal conflicts, crime and kidnapping, and public mistrust of the government. Nigeria has yet to develop effective systems to address corruption, poverty, and ineffective social service delivery.

The next presidential election is scheduled to take place in February 2019. President Muhammadu Buhari is seeking a second term. The United States continues to support Nigerian institutions and the Nigerian people in their efforts to conduct free, fair, transparent, and peaceful elections, the results of which reflect the will of the Nigerian people.

In April 2018, President Trump hosted President Muhammadu Buhari of Nigeria at the White House to discuss efforts to deepen our mutually beneficial relationship. Since 2010, under the U.S.-Nigeria Binational Commission (BNC), a forum for high-level discussions, the two countries have met regularly. The most recent BNC was held on November 9, 2017, in Abuja, Nigeria and attended by an inter-agency delegation headed by Deputy Secretary of State John Sullivan. The BNC meetings have focused on key areas of mutual interest, including good governance and anti-corruption; trade and investment; development and food security; and security and counter-terrorism efforts.

U.S. Assistance to Nigeria

Through U.S. assistance in Nigeria, the U.S. Government works to protect Americans from terrorism and disease, create opportunity for trade and investment, and support a more stable and prosperous country that is a partner in advancing our global priorities. Through U.S. foreign assistance, the U.S. Government is supporting Nigerian efforts to strengthen democratic institutions, promote good governance and counter corruption, and improve security while addressing the factors that drive conflict and providing life-saving assistance to those affected by terrorism. U.S. assistance also aims to build institutional capacity in the provision of health and education services and increase agricultural productivity and food security.

Bilateral Economic Relations

The United States is the largest foreign investor in Nigeria, with U.S. foreign direct investment concentrated largely in the petroleum/mining and wholesale trade sectors. At $2.2 billion in 2017, Nigeria is the second largest U.S. export destination in Sub-Saharan Africa. The United States and Nigeria have a bilateral trade and investment framework agreement. In 2017, the two-way trade in goods between the United States and Nigeria totaled over $9 billion. U.S. exports to Nigeria include wheat, vehicles, machinery, kerosene, lubricating oils, jet fuel, civilian aircraft, and plastics. Nigerian exports to the United States included crude oil, cocoa, cashew nuts, and animal feed. Nigeria is eligible for preferential trade benefits under the African Growth and Opportunity Act (AGOA).

Nigeria's Membership in International Organizations

Nigeria and the United States belong to a number of the same international organizations, including the United Nations, International Monetary Fund, World Bank, and World Trade Organization. Nigeria also is an observer to the Organization of American States.

Bilateral Representation

The U.S. Ambassador to Nigeria is W. Stuart Symington; other principal embassy officials are listed in the Department's Key Officers List.

Nigeria maintains an **embassy** in the United States at 3519 International Place, NW, Washington, DC 20008, (tel: 202-800-7201, ext 113).

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Country Report

Nigeria

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Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

The Economist Intelligence Unit

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London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l'Athénée 32
1206 Geneva
Switzerland

Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

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"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

Nigeria

Summary

Outlook for 2019-23

Data and charts

Summary

Recent analysis

Politics

Economy

Briefing sheet

Editor: **Benedict Craven**

Forecast Closing Date: **June 14, 2019**

Political and economic outlook

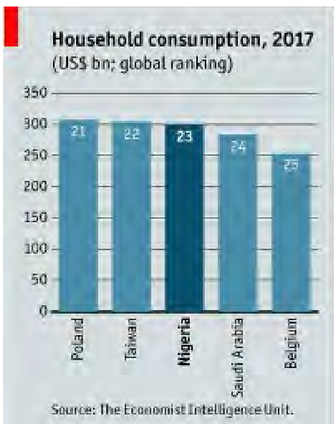
- Muhammadu Buhari, the president, will face a challenging second term in office with regards to political stability, with several localised conflicts bubbling away. The resources needed to tackle all of these effectively and simultaneously will be absent.
- Policy will avoid sweeping reform and essentially be founded on a shaky consensus between various political interest groups, lobbyists and consumers. For such a status quo to survive, the government's stance will have to be interventionist.
- Real GDP growth will trend up over the forecast period but only slowly given numerous structural constraints as well as weak oil prices in 2019-20, which will hold back some investment. We expect growth to average 2.8% in 2019-23.
- The naira will continue to be managed by the authorities with a significant spread between the official and market-determined rates. Strong portfolio inflows in 2019-20 and oil earnings in 2021-23 mean that the official naira rate will be kept broadly stable.
- We forecast that foreign-exchange restrictions as well as demand pressures from a rise in the minimum wage will keep annual inflation elevated at an average of 11.3% in 2019-20. Following this will be a period of disinflation in 2021-23 as demand pressures fade.
- Export earnings will broadly track global oil price movements, falling in 2019-20 but rising thereafter. As import demand will broadly follow suit, a surplus on the current account will be maintained, averaging 2% of GDP in 2019-23.

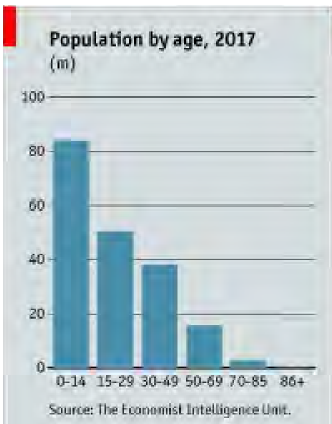
Key indicators

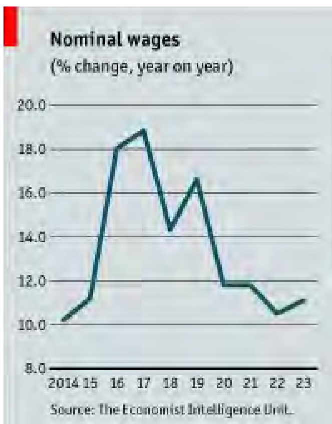
	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
Real GDP growth (%)	1.9	2.1	2.1	3.2	3.3	3.4
Consumer price inflation (av; %)	12.1	11.8	10.9	9.2	9.1	8.8
Government balance (% of GDP)	-2.6	-2.1	-1.9	-1.7	-1.7	-2.1
Current-account balance (% of GDP)	1.3	1.6	1.0	2.3	2.4	2.5
Money market rate (av; %)	10.1	10.5	10.4	10.1	9.8	9.7
Exchange rate N:US$ (av)	305.6	306.6	309.4	310.5	310.9	313.0

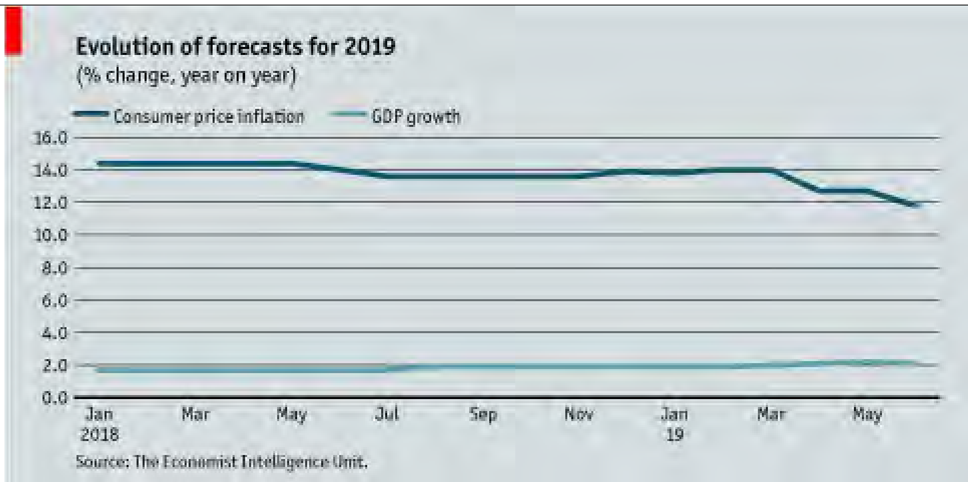
[a] Actual. [b] Economist Intelligence Unit forecasts.

Market opportunities









Key changes since March 29th

- Owing to robust portfolio inflows and the central bank's strong reserve position, we have revised our exchange-rate forecast for Nigeria over 2019-20.
- Previously we had anticipated two devaluations, taking the official rate from N306:US$1 to N337:US$1, but now expect a steady rate despite some decline in world oil prices.
- Greater exchange-rate stability has warranted a downward adjustment to our annual average inflation forecast for 2019 and 2020, to 11.8% and 10.9%, respectively, down from 12.7% and 11.4% formerly.

The month ahead

- **June 15th—Consumer price inflation (May):** Inflation rose to 11.4% in April and has proven sticky downwards since mid-2018, with high rises in local and domestic food prices. With import restrictions on staple grains in place, a fall to below 11% over 2019 seems unlikely.

Major risks to our forecast

Scenarios, Q1 2019	Probability	Impact	Intensity
Nigeria re-enters recession	Moderate	High	12
The authorities improve respect for contracts and private property in effort to boost foreign investment	Moderate	High	12
The banking sector undergoes another crisis	Moderate	High	12
There is a military coup	Low	Very high	10
Regulations change abruptly	Moderate	Moderate	9

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
Source: The Economist Intelligence Unit.

Outlook for 2019-23

Political stability

Muhammadu Buhari won a presidential election in February 2019 and will remain in power until his second (and final) term expires in 2023. For any Nigerian leader, managing the country's myriad security threats would be an insoluble challenge, but under Mr Buhari there are particular reasons to expect serious, albeit localised unrest.

The election revealed a deep sense of voter apathy in southern Nigeria—an economically vital region, although prone to militancy and separatism. In his first term Mr Buhari was seen by many in the southern region as absent, rarely making visits there. With the ruling All Progressives Congress (APC) vote share being heavily concentrated in Nigeria's north—and with that region facing various and urgent security issues—government attention will probably remain focused there. As a result, the disconnect between Nigeria's south and mainstream politics is unlikely to heal. Indeed, the government will give priority to containing banditry in the very far north-west and the Islamist militant group Boko Haram, which is resurgent in the north-east and is utilising new tactics and more sophisticated hardware. Mr Buhari's "zero tolerance" approach to terrorism was a major reason for the strong turnout and support for him in the affected regions, and steadily worsening security in states such as Borno means a concerted response is forthcoming. As was the case in his last tenure, substantial federal resources are likely to be channelled towards restoring law and order in the region. However, militants in the oil-producing south cite the use of oil earnings for far-flung causes such as combating Boko Haram—rather than for local development—as justification for the insurgency. Our assumption is that attacks by aggrieved militants on oil infrastructure will continue to be a major security problem in Delta state.

Boko Haram will probably be aggressively countered, but in the process the north-east of Nigeria will essentially become a low-level conflict zone. Just to the south of this region, in the agricultural Middle Belt of Nigeria, a more insoluble challenge will be addressing extremely violent clashes between settled farmers and nomads competing for increasingly scarce water and land resources. Formal land titling is a potential answer, but as it would in effect alienate one group from communal holdings in favour of another it would prove too contentious. Ultimately there is no foreseeable end to violence in the Middle Belt. Moreover, in Mr Buhari's first term, it was clear that military engagements in other parts of Nigeria have priority when it comes to deploying the army's thinly spread resources, and the same is likely to be true in his second. Again, the direct security impact of the conflict will be localised, with little spillover into the administrative capital, Abuja, or the economic capital, Lagos. The entire country will feel the secondary effects, however, in the form of constricted food supply and high consumer prices.

Election watch

The election in February 2019 reaffirmed a deep electoral divide between the APC-supporting north and southern Nigeria, a stronghold of the opposition People's Democratic Party (PDP). In the next general election in 2023, custom dictates that the candidates of both main parties will be southerners, giving the PDP a chance to improve on abysmally low turnout there in the 2019 presidential vote. This low participation is largely what cost them victory. Moreover, Nigeria's economic outlook is bleak, with growth barely keeping pace with a rapidly increasing population. Much of the cause of rising poverty and high unemployment will be political in origin; the parliamentary election gave the APC a large majority in both houses which in theory, should allow for the swift passage of legislation, but Mr Buhari's first term was marked by divisions between the executive and parliament (as had happened to presidents before him), and crucial bills including the national budget were delayed by months. As legislators typically prioritise the interests of their constituents over party and federation in Nigeria, similar tensions could easily reoccur in Mr Buhari's second stint which will prevent meaningful reform (for example on managing the oil sector). Inactivity on such fronts means the APC will be the subject of voter frustration. The PDP candidate should be able to capitalise from this, giving them an edge from the start.

International relations

Many of Nigeria's militant groups operate across land and sea borders, and international co-operation will therefore be needed to tackle the threat they pose. Stretched resources, vast territories and porous borders will prevent complete military victories. Relations with the US will be mixed; the administration of Donald Trump is willing to sell Nigeria military hardware, but Mr Trump's disapproval of the trade deficit the US runs with Nigeria (particularly owing to Nigerian import restrictions) could strain ties. Relations with the EU will be largely cordial but subject to tensions over Nigerian migrants seeking to enter Europe and Nigerian efforts to repatriate funds in European banks that were allegedly looted by former rulers.

India will remain important as the largest market for Nigerian oil and become a bigger source of foreign investment. China will also remain a significant source of investment, but actual inflows will fall short of the headline-grabbing pledges made, given an extremely challenging local business environment. Nigeria will remain an important player on the Sub-Saharan African stage given its size, but its domestic challenges tend to keep policymakers inwardly focused.

Policy trends

Economic policy during Mr Buhari's second and final term is likely to carry over the interventionist policies adopted during his first. Measures to liberalise and unify foreign-exchange markets or move to more market-led pricing in the energy sector will not be pursued. An overvalued official naira rate is critical for maintaining petrol subsidies, and Mr Buhari will not willingly attempt to dismantle consumer price caps and risk a popular backlash. Although in practice very little foreign exchange is traded at the official rate, the existence of a multiple-exchange-rate system will be off-putting to investors fearing a return of capital controls. Concerns about this will be heightened whenever global crude prices soften and foreign reserves decline (as The Economist Intelligence Unit expects in 2019-20).

Elsewhere, efforts will be made to cleanse and reboot inefficient state-owned industries such as the Nigerian National Petroleum Corporation (NNPC)—which dominates all segments of the oil sector—but again no structural reforms (such as full or partial privatisation) will take place. Generally, Mr Buhari's approach will be to make existing entities such as the NNPC become profitable rather than relinquish state control over them entirely. There will be some effort to reduce the NNPC's stake in the upstream oil joint-ventures that it has with international oil companies, but demand will be held back by the difficulty of operating in Nigeria and uncertainty about fiscal terms (with deep political divisions about how to distribute hydrocarbons revenue having stalled critical legislation). As a result, investor interest will be short of official expectations, and parliament will resist selling off assets for a low price. As a consequence, the NNPC will remain dominant, with politicians and other members of the political elite working to direct the flow of resources to favour specific geo-ethnic and political constituencies (as well as for illicit personal gain).

Fiscal policy

We expect small fiscal deficits throughout the forecast period. The government wants to diversify its revenue base away from oil, and non-oil revenue will rise through efforts to collect overdue taxes, but from an extremely low base. Instability in many parts of the country will also impede collection. Petrol subsidies (whereby losses incurred by the NNPC's retail arm are deducted from federal revenue) will be another drain, while budgeted revenue levels will be undermined by overambitious oil production targets. For example in 2019 the government expects output of 2.3m barrels/day (b/d)—a level not seen since the oil price slump, and one that will be unobtainable given underinvestment and OPEC production quotas. In all, federally retained revenue is not expected to rise above 3.9% of GDP, a ratio only attained in 2022 when oil prices are at their highest within the forecast period.

After some projected expansion in 2018, spending will decline as a proportion of GDP in 2019 with deep cuts to the capital budget. Partly offsetting this will be higher spending on wages and public-sector benefits, including via the roll-out of a new (increased) minimum wage. Generally, fiscal flexibility will be restricted by high levels of debt-servicing and pressing security needs. But with oil prices—and so revenue—under pressure and there being considerable political pressure to curb the fiscal deficit, we expect the spending/GDP ratio to dip again in 2020 and only increase materially as elections in 2023 approach. Altogether, we expect an average budget deficit averaging 1.9% of GDP over 2019-23.

Long-term public debt sustainability will remain in doubt. Central government debt is low as a proportion of GDP compared with other emerging markets, but it is set against a low revenue base. Debt service already takes up close to one-third of federal government income. A sovereign default is unlikely, but repayment difficulties are possible at state level, where revenue collection is weaker.

Monetary policy

Monetary policy will concentrate on fostering an economic recovery while limiting inflation and maintaining currency stability. However, this will generate contradictory pressures in the early part of the forecast period. The private sector is desperate for cheaper credit, but inflation will remain above the targeted upper limit of 9% set by the Central Bank of Nigeria (CBN). On balance, we expect interest rates not to move much in 2019-20, notwithstanding a small rate cut by the CBN in March (which was upheld in May). Rates will then fall in 2021 and stabilise over 2022-23 as economic activity picks up and inflation hovers above or around the target. However, real interest rates will be too high to be viable for much of the private sector.

International assumptions

	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.2	1.7	1.8	2.0	1.7
OECD GDP	2.2	1.7	1.6	1.8	1.9	1.8
World GDP	2.9	2.6	2.6	2.8	2.9	2.8
World trade	4.4	3.3	2.9	3.9	4.0	4.1
Inflation indicators (% unless otherwise indicated)						
US CPI	2.4	2.2	1.4	2.2	2.1	1.8
OECD CPI	2.5	2.2	1.9	2.1	2.1	2.1
Manufactures (measured in US$)	4.9	2.1	3.3	3.5	3.2	3.0
Oil (Brent; US$/b)	71.1	66.5	60.5	69.8	75.6	75.0
Non-oil commodities (measured in US$)	1.9	-4.4	3.5	3.0	2.0	0.7
Financial variables						
US$ 3-month commercial paper rate (av; %)	2.0	2.6	2.2	2.1	2.5	2.9
N:US$ (av)	305.6	306.6	309.4	310.5	310.9	313.0

Economic growth

The economy will for the most part be mired in a low-growth cycle, although there will be improvements over time. In 2019-20 the economy will be held back by power shortages, insecurity, high inflation and tight credit conditions, notwithstanding a recent 50-basis-point drop in the policy rate. Some sectors will benefit from targeted protectionist policies (via exchange-rate restrictions for imported goods), but this will be at the expense of preventing further rate cuts by the CBN and more broad-based growth. A slower global economy will also hold back export-oriented sectors. In 2021-23, as global markets strengthen and inflation gradually comes down (allowing for some monetary easing) the rate of growth will quicken, although remain well below potential at an annual average of 3.3%. This is still abnormally low for Nigeria, especially as we forecast population growth of 2.6% a year for the 2019-23 forecast period.

From a sectoral viewpoint, agriculture will record only lacklustre growth; although boosting food production is a key government objective, weak infrastructure and violent competition for access to land in the fertile Middle Belt will be severe impediments. Industrial production will be curtailed by militancy and labour agitation in the oil sector, and investment will be held back by uncertainty about future fiscal terms. Egina, a new offshore oilfield, will be a new driver of condensate output, but hydrocarbons production is not expected to return to levels prior to the 2015 commodity-price crash. That said, a private refinery coming on stream by 2021 will be a boost to downstream oil activity in the latter years of the forecast period. The manufacturing sector will continue to struggle in the face of cheap goods from abroad, which are often smuggled into the country to bypass import bans, as well as power supply gaps. The services sector is less affected by instability and so will be a stronger contributor to growth than industry, but it will nonetheless be held back by protectionism affecting trade, tight credit conditions affecting areas such as real estate and finance, and the struggle in the communications sector to profitably roll out data services beyond urban hubs.

Economic growth

%	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
GDP	1.9[c]	2.1	2.1	3.2	3.3	3.4
Private consumption	0.6	1.5	2.0	2.2	2.6	2.8
Government consumption	1.9	0.8	0.9	2.2	4.9	5.5
Gross fixed investment	1.8	2.0	3.1	4.1	4.3	3.0
Exports of goods & services	6.0	3.9	2.2	5.1	4.3	4.9
Imports of goods & services	4.4	6.6	3.6	4.5	4.7	5.4
Domestic demand	0.9	1.6	2.2	2.5	3.0	3.0
Agriculture	2.1[c]	1.9	2.9	2.8	3.0	3.4
Industry	1.8[c]	2.6	2.0	3.6	4.2	4.9
Services	1.8[c]	2.0	1.8	3.2	3.0	2.7

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual.

Inflation

From a rate of 12.1% in 2018, average inflation will remain elevated at 11.8% in 2019, as a 67% increase in the minimum wage combines with recently loosened monetary policy, disruptions to local food supply and widening import restrictions. In 2020 inflation will remain well above the CBN's targeted ceiling of 9%, at 10.9%, as demand-side forces from the minimum-wage rise continue. With the base effects from this fading, inflation will gradually ease over the rest of the forecast period, to an average of 8.8% in 2023. Conflict and supply disruptions in the Middle Belt—Nigeria's agricultural heartland—will prevent a faster slide, together with widening protectionist measures that limit relatively cheap imports from abroad, particularly of food and manufactured goods. Currently 43 items are barred from foreign-exchange access, the most recent addition being textiles, and the CBN wants to increase the list to 50 as a means of stimulating non-oil activity.

Exchange rates

We expect the multiple-exchange-rate system to persist throughout 2019-23, with an official rate used for government business and a market-determined rate applicable to investors and exporters, which will be broadly in line with retail rates and the parallel market. Such a system allows the government to subsidise sectors deemed important for economic or political reasons, including the NNPC, which budgets for petrol imports at the official rate. For this reason, the set-up is not expected to be tampered with. Although we anticipate a fall in exports over 2019-20, the decrease will not be steep enough or sustained to a point where devaluation of the official naira:US dollar exchange rate will be necessary. Over this period flat or declining interest rates in the US (we expect a 50-basis-point drop to be executed by the Federal Reserve, the US central bank, in 2020) will also support foreign-exchange supply via portfolio inflows. Higher world crude prices thereafter mean a flat official rate is likely throughout the forecast period. In real terms, currency stability (for both the official and more market-determined rates) means real appreciation of the naira against trading partners in 2019-20 as inflation remains high. For this reason there is a downside risk of policymakers opting to devalue or allowing more market-determined rates to weaken in order to regain international competitiveness. However, the CBN governor, Godwin Emefiele, is set against the idea and so devaluation is not included in the core forecast.

Forecasting the naira

Although The Economist Intelligence Unit forecasts both the official and the secondary market rates, it is the official rate that appears in most of our data presentations, as it is the longest-running and best-tracked variable. For example, the current market-determined rate, known as the Nigerian Autonomous Foreign Exchange Rate Fixing (Nafex), has only been in full operation since April 2017, making historical calculations challenging. However, indicators that are converted into US dollars at the official rate are essentially overvalued.

External sector

The profile of export earnings will move in tandem with oil production and price trends. In 2019-20, output gains will be outweighed by a drop in world crude prices, as well as periodic pipeline outages disrupting supply. Only in 2021-23 when prices recover and Nigeria begins to sell refined oil overseas (a new mega-refinery being developed is expected to be export-oriented) will export earnings grow.

Nigeria's government actively promotes import-substitution through foreign-exchange restrictions on certain goods (mainly manufactures and agricultural produce). However, this policy is oriented more around stimulating local industry than reducing imports per se, and an overvalued naira will contribute to fairly strong consumer demand. Imports will only fall slightly in 2019-20, however, reflecting lower world crude prices (Nigeria imports almost all its petrol requirement). As the economy gathers pace in 2021-23 and world oil prices rise, imports will then grow faster. Trade-related services imports and profit repatriation in the oil sector will keep the services and primary income balances firmly in deficit. Meanwhile, workers' remittances will remain an important source of hard currency, albeit dipping in 2020 as growth falters in the US (home to a large Nigerian diaspora). Overall, the current-account surplus will average 1.4% of GDP in 2019-20, widening again to 2.4% of GDP over 2021-23 as oil prices strengthen and the new refinery comes on stream.

Forecast summary

Forecast summary
(% unless otherwise indicated)

	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
Real GDP growth	1.9	2.1	2.1	3.2	3.3	3.4
Industrial production growth	-1.1	3.6	3.0	4.6	5.2	5.9
Petroleum production ('000 b/d)	1,607.5	1,719.2	1,748.2	1,770.2	1,815.2	1,816.2
Gross agricultural production growth	2.1	1.9	2.9	2.8	3.0	3.4
Consumer price inflation (av)	12.1	11.8	10.9	9.2	9.1	8.8
Consumer price inflation (end-period)	11.4	11.3	10.3	9.1	8.9	8.3
Commercial lending rate	16.9	16.2	16.1	15.5	14.5	14.5
Government balance (% of GDP)	-2.6	-2.1	-1.9	-1.7	-1.7	-2.1
Exports of goods fob (US$ bn)	63.1	61.7	60.0	74.0	83.0	89.8
Imports of goods fob (US$ bn)	40.8	40.0	39.9	45.9	51.8	56.2
Current-account balance (US$ bn)	5.3	8.3	5.9	14.6	17.2	20.5
Current-account balance (% of GDP)	1.3	1.6	1.0	2.3	2.4	2.5
External debt (end-period; US$ bn)	48.8[c]	52.1	55.9	58.5	61.2	64.0
Exchange rate N:US$ (av)	305.6	306.6	309.4	310.5	310.9	313.0
Exchange rate N:US$ (end-period)	306.5	307.7	309.5	310.6	311.1	313.0
Exchange rate N:¥100 (av)	276.7	278.6	284.5	296.1	309.5	325.8
Exchange rate N:€ (end-period)	350.9	353.8	371.5	380.5	387.3	391.3

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.

Data and charts

Annual data and forecast

	2014[a]	2015[a]	2016[a]	2017[a]	2018[a]	2019[b]	2020[b]
GDP							
Nominal GDP (US$ bn)	568.5	493.8	405.4	376.4	422.5	507.5	562.8
Nominal GDP (N bn)	90,137	95,178	102,575	114,907	129,113	155,596	174,119
Real GDP growth (%)	6.3	2.7	-1.6	0.8	1.9	2.1	2.1
Expenditure on GDP (% real change)							
Private consumption	0.6	1.5	-5.7	-1.0	0.6[c]	1.5	2.0
Government consumption	-7.0	-11.9	-15.1	-8.0	1.9[c]	0.8	0.9
Gross fixed investment	13.4	-1.3	-4.8	-3.0	1.8[c]	2.0	3.1
Exports of goods & services	24.1	0.1	11.5	8.7	6.0[c]	3.9	2.2
Imports of goods & services	6.0	-25.7	-10.4	4.8	4.4[c]	6.6	3.6
Origin of GDP (% real change)							
Agriculture	4.3	3.7	4.1	3.4	2.1	1.9	2.9
Industry	6.8	-2.2	-8.9	2.2	1.8	2.6	2.0
Services	6.8	4.8	-0.8	-0.9	1.8	2.0	1.8
Population and income							
Population (m)	176.5	181.2	186.0	190.9	195.9	201.0	206.2
GDP per head (US$ at PPP)	6,008	6,071	5,882	5,888	5,982[c]	6,074	6,158
Fiscal indicators (% of GDP)							
Public-sector revenue	4.1	3.7	3.1	2.6	3.2	3.2	3.3
Public-sector expenditure	5.0	4.8	5.2	5.3	5.9	5.3	5.2
Public-sector balance	-0.9	-1.1	-2.1	-2.7	-2.6	-2.1	-1.9
Net public debt	10.5	11.5	14.2	15.9	15.9[c]	16.5	17.6
Prices and financial indicators							
Exchange rate N:US$ (av)	158.55	192.73	253.00	305.29	305.58	306.62	309.38
Exchange rate N:US$ (end-period)	169.68	196.50	304.50	305.50	306.50	307.66	309.55
Consumer prices (av, %)	8.0	9.0	15.7	16.5	12.1	11.8	10.9
Stock of money M1 (% change)	-1.8	24.1	31.5	-0.9	5.2	4.7	6.2
Stock of money M2 (% change)	20.5	5.9	17.8	2.3	12.1	11.3	0.9
Lending interest rate (av; %)	16.5	16.8	16.9	17.6	16.9	16.2	16.1
Current account (US$ m)							
Trade balance	20,992	-6,447	-536	13,148	22,337	21,706	20,048
Goods: exports fob	82,586	45,888	34,704	45,818	63,090	61,748	59,989
Goods: imports fob	-61,594	-52,335	-35,240	-32,669	-40,754	-40,041	-39,941
Services balance	-22,466	-16,453	-8,015	-13,234	-26,066	-27,468	-27,112
Primary income balance	-19,166	-12,708	-8,616	-11,510	-15,070	-13,359	-13,603
Secondary income balance	21,918	20,169	19,889	21,996	24,134	27,463	26,519
Current-account balance	1,279	-15,439	2,722	10,399	5,334	8,342	5,852
External debt (US$ m)							
Debt stock	24,756	28,943	31,151	40,239	48,808[c]	52,143	55,936
Debt service paid	4,546	1,464	2,503	3,573	3,756[c]	4,257	4,322
Principal repayments	4,278	1,111	1,837	2,726	2,723[c]	2,860	2,891
Interest	268	353	666	846	1,033[c]	1,397	1,431
International reserves (US$ m)							
Total international reserves	34,242	28,285	26,991	39,353	43,117	43,121	42,738

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.
Source: IMF, International Financial Statistics.

Quarterly data

	2017			2018				2019
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Prices								
Consumer prices (2005=100)	230.3	239.2	244.8	250.4	257.4	266.0	272.5	278.7
Consumer prices (% change, year on year)	16.5	16.0	15.7	14.3	11.8	11.2	11.3	11.3
Financial indicators								
Exchange rate N:US$ (av)	305.3	305.3	305.4	305.3	305.3	305.5	306.2	306.3
Exchange rate N:US$ (end-period)	305.4	305.3	305.5	305.2	305.3	305.9	306.5	306.5
Lending rate (av; %)	17.5	17.7	17.8	17.5	17.0	16.7	16.4	15.7
Deposit rate (av; %)	9.3	10.0	9.8	10.1	9.7	9.5	9.5	9.6
Money market rate (av; %)	13.5	13.2	13.1	12.0	10.5	10.6	7.3	10.8
M1 (end-period; N bn)	10,190	10,064	11,176	11,034	10,701	10,758	11,753	10,944
M1 (% change, year on year)	7.1	2.4	-0.9	7.8	5.0	6.9	5.2	-0.8
M2 (end-period; N bn)	21,981	21,954	24,141	24,424	24,814	25,561	27,069	26,835
M2 (% change, year on year)	-0.4	-0.3	2.3	9.5	12.9	16.4	12.1	9.9
Stockmarket index (NSE all share; end-period; Jan 3rd 1984=100)	33,117	35,440	38,243	41,505	38,279	32,766	31,431	31,041
Stockmarket index (% change, year on year)	11.9	25.1	42.3	62.7	15.6	-7.5	-17.8	-25.2
Sectoral trends								
Crude oil production (m barrels/day)[a]	1.49	1.62	1.59	1.66	1.51	1.62	1.64	1.68
Crude oil production (% change, year on year)	-0.4	15.1	9.7	19.1	0.9	-0.2	3.4	1.0
Foreign trade (US$ m)								
Exports fob	10,811	11,984	13,057	14,463	15,772	16,199	16,655	16,752
Oil	7,945	9,734	10,654	11,725	12,346	13,571	13,811	n/a
Imports cif	9,486	9,266	8,280	10,860	9,057	13,427	10,655	10,011
Trade balance	1,325	2,717	4,777	3,603	6,715	2,773	6,000	6,741
Foreign reserves (US$ m)								
Reserves excl gold (end-period)	30,341	33,160	39,353	46,257	47,788	44,305	43,117	44,428

[a] Excluding condensates.

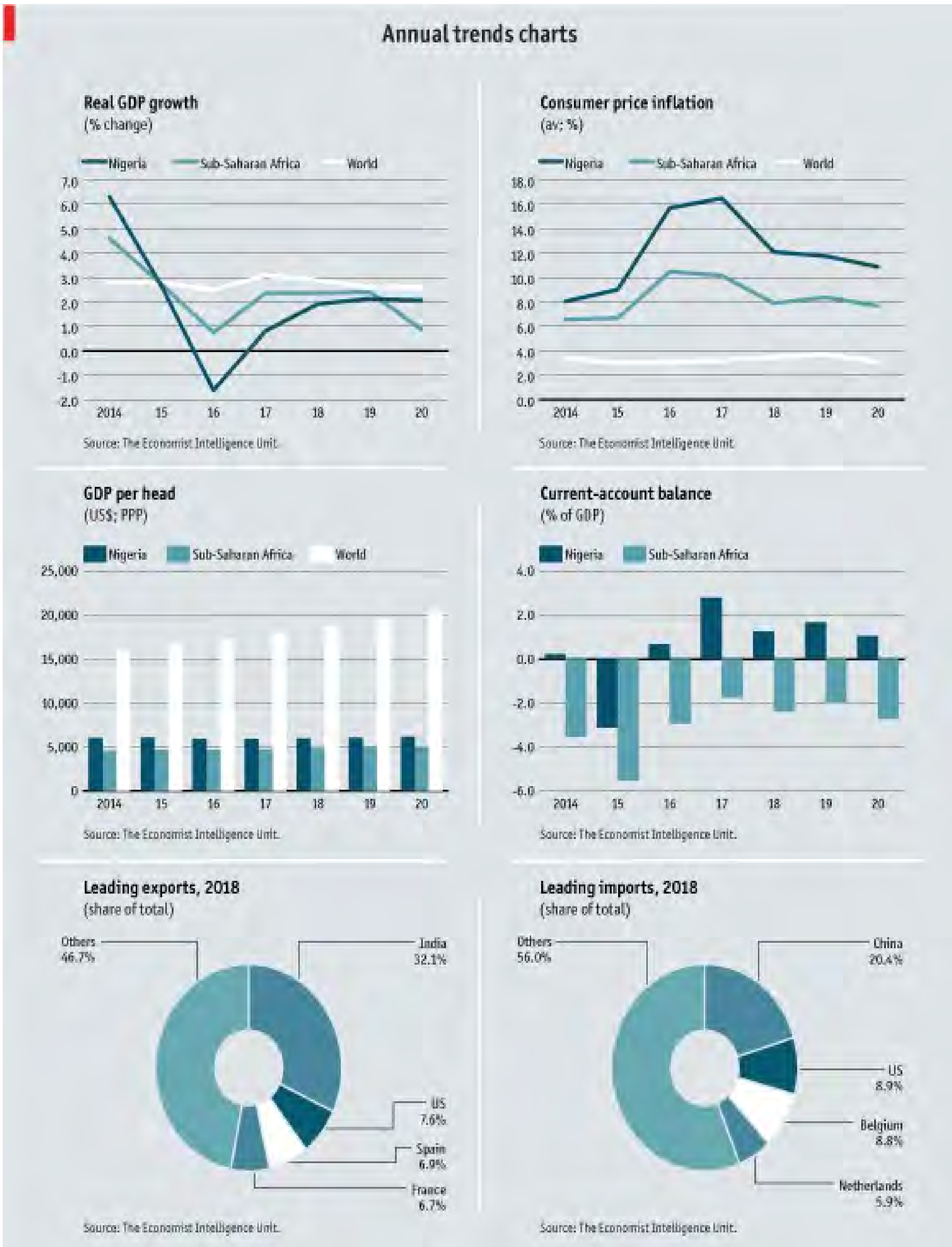
Sources: Central Bank of Nigeria; Nigeria National Bureau of Statistics; IMF, International Financial Statistics, Direction of Trade Statistics; International Energy Agency, Monthly Oil Market Report; Energy Intelligence Group, Oil Market Intelligence; Bloomberg.

Monthly data

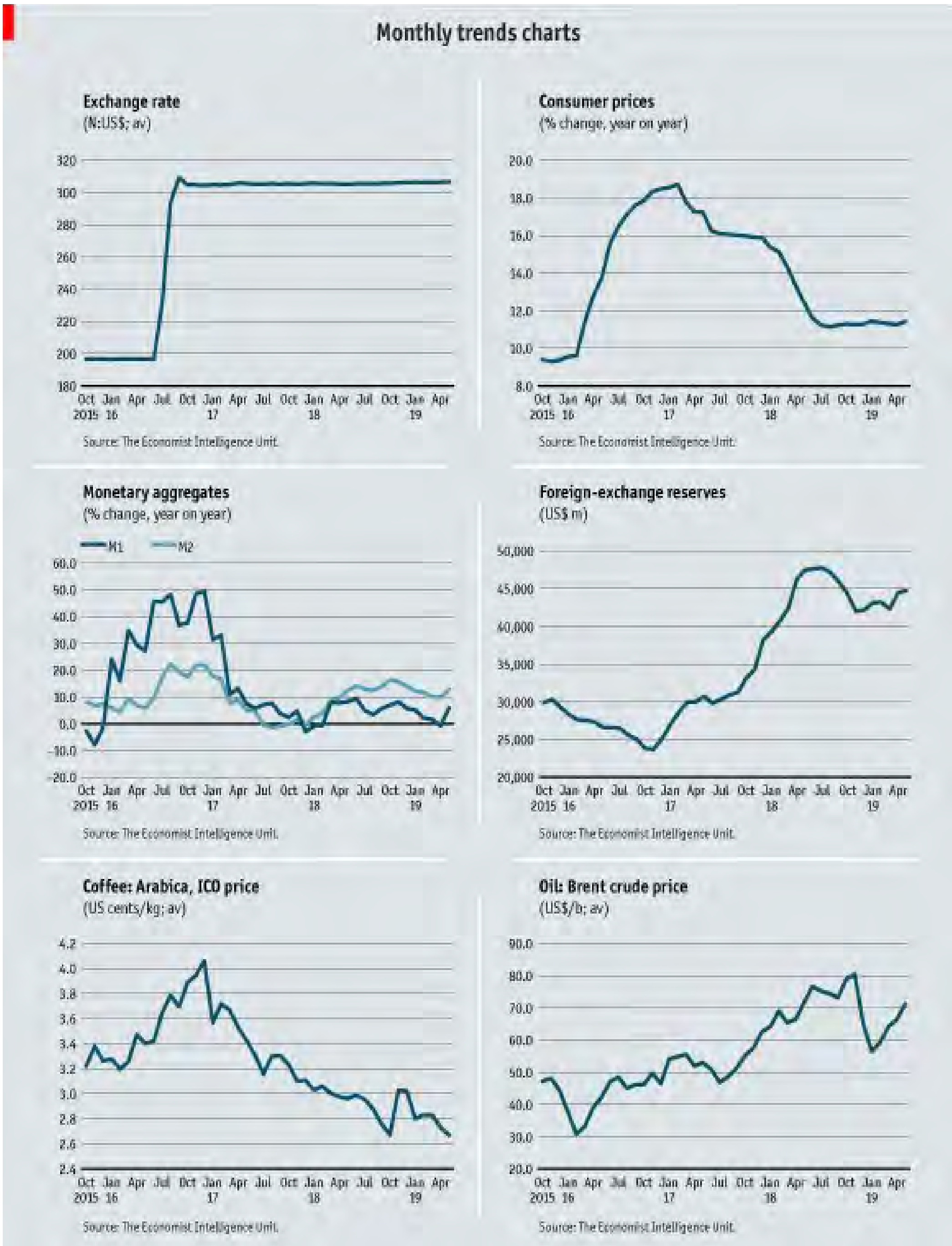
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate N:US$ (av)												
2017	304.70	304.81	305.90	305.55	305.04	305.21	305.36	305.17	305.39	305.12	305.40	305.81
2018	305.28	305.40	305.24	305.11	305.33	305.37	305.31	305.56	305.77	306.00	306.21	306.42
2019	306.35	306.27	306.42	306.46	306.45	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate N:US$ (end-period)												
2017	304.75	305.00	305.85	305.35	304.90	305.40	305.15	305.35	305.25	305.30	305.50	305.50
2018	305.20	305.40	305.15	305.20	305.45	305.25	305.35	305.65	305.85	306.10	306.30	306.50
2019	306.25	306.35	306.45	306.45	306.45	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (2000=100; CPI-based)												
2017	40.97	41.36	41.65	42.03	42.30	42.41	42.50	42.39	42.34	43.20	43.60	43.49
2018	42.79	42.62	42.92	43.25	44.29	45.12	46.30	47.44	47.99	48.68	49.20	49.49
2019	49.34	49.54	49.83	50.38	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)												
2017	33.1	10.9	13.2	7.4	5.7	7.1	7.7	3.7	2.4	4.7	-3.0	-0.9
2018	-0.7	7.9	7.8	8.2	9.4	5.0	3.4	5.6	6.9	8.2	5.7	5.2
2019	2.1	1.6	-0.8	5.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2017	16.7	7.7	9.0	5.0	4.8	-0.4	-1.5	-0.9	-0.3	1.4	-0.3	2.3
2018	3.8	8.7	9.5	12.4	14.2	12.9	12.5	13.8	16.4	15.7	14.1	12.1
2019	11.7	10.0	9.9	12.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (%)												
2017	8.9	9.1	9.1	9.5	9.4	9.0	9.7	10.1	10.3	10.1	9.8	9.6
2018	10.6	10.1	9.7	9.9	10.0	9.4	9.5	9.5	9.4	9.5	9.4	9.5
2019	9.7	9.7	9.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (%)												
2017	16.9	17.1	17.4	17.4	17.6	17.6	17.7	17.7	17.9	17.9	17.8	17.7
2018	17.5	17.5	17.4	17.2	17.0	16.8	16.8	16.7	16.6	16.5	16.6	16.2
2019	16.0	16.1	14.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Monetary policy rate (%)												
2017	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
2018	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
2019	14.0	14.0	13.5	13.5	13.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Stockmarket index (NSE all share; end-period; Jan 3rd 1984=100)												
2017	26,036	25,329	25,516	25,759	29,498	33,117	35,844	35,505	35,440	36,680	37,945	38,243
2018	44,344	43,331	41,505	41,268	38,105	38,279	37,018	34,848	32,766	32,466	30,874	31,431
2019	30,557	31,722	31,041	29,160	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (% change, year on year; av)												
2017	18.7	17.8	17.3	17.2	16.3	16.1	16.1	16.0	16.0	15.9	15.9	15.4
2018	15.1	14.3	13.3	12.4	11.6	11.2	11.1	11.2	11.3	11.3	11.3	11.4
2019	11.4	11.3	11.3	11.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (LCU/US$ m)												
2017	28,593	29,975	29,996	30,749	29,812	30,341	30,899	31,279	33,160	34,324	38,208	39,353
2018	40,685	42,493	46,257	47,493	47,605	47,789	47,120	45,839	44,305	41,995	42,167	43,117
2019	43,174	42,297	44,428	44,793	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

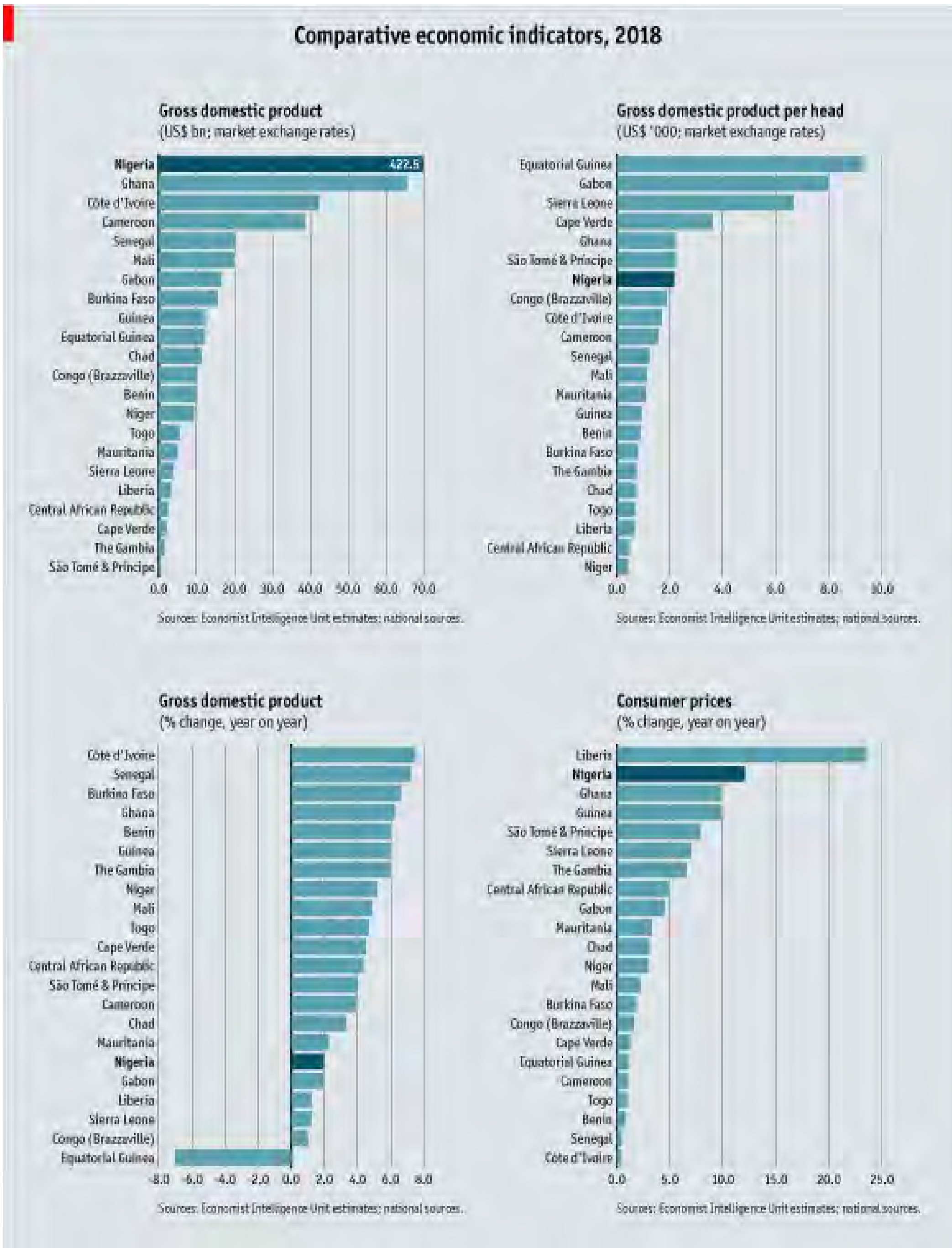
Annual trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

923,773 sq km

Population

193.4m (2016 National Bureau of Statistics estimate)

Main towns

Population in millions (2012 World Gazetteer estimates)

Lagos: 10.4 (a)

Ibadan: 5.5

Benin: 2.6

Kano: 2.4

Port Harcourt: 2.3

Abuja: 1.6

(a) There are large variations in estimates of the size of Lagos and other cities in Nigeria, reflecting the weakness of population statistics in general and failure to agree over city boundaries

Climate

Tropical; with a long wet season in the south, particularly the south-east, and a shorter wet season in the north

Weather in Lagos (altitude 3 metres)

Hottest month, March, 26-32°C; coolest month, August, 23-28°C; driest month, December, 25 mm average rainfall; wettest month, June, 460 mm average rainfall

Languages

widely spoken

Measures

Metric system

Currency

Naira (N) = 100 kobo; N305.6:US$1 (2018 average; official rate)

Time

One hour ahead of GMT

Public holidays

New Year's Day; Good Friday; Easter Monday; Worker's Day (May 1st); Democracy Day (May 29th); Eid al-Fitr; Eid al-Adha; Independence Day (October 1st); Mawlid al-Nabi; Christmas

Political structure

Official name

Federal Republic of Nigeria

Form of state

Federal republic, comprising 36 states and the Federal Capital Territory (FCT, Abuja)

Legal system

Based on English common law

National legislature

National Assembly, comprising the 109-seat Senate and the 360-seat House of Representatives; both are elected by universal suffrage for four-year terms

National elections

The last election was held in February 2019; the incumbent, Muhammadu Buhari won a second term in office and the ruling All Progressives Congress (APC) secured a majority in the lower and upper houses. The next general election will be held in 2023

Head of state

President, elected by universal suffrage to serve a four-year term

State government

State governors and state houses of assembly

National government

Federal Executive Council, which is chaired by the president

Main political parties

The APC, a merger between the All Nigeria People's Party (ANPP), the All Progressives Grand Alliance (APGA) and the Congress for Progressive Change (CPC); the People's Democratic Party, which ruled from 1999 until its defeat by the APC in 2015

Key ministers

President, petroleum minister: Muhammadu Buhari

Vice-president: Yemi Osinbajo

Agriculture & rural development: Audu Ogbeh

Budget & national planning: Udo Udoma

Defence: Manir Dan-Ali

Education: Adamu Adamu

Environment: Amina Mohammed

Finance: Kemi Adeosun

Foreign affairs: Gregory Onyeama

Health: Isaac Adewole

Information: Lai Mohammed

Interior: Abdulrahman Dambazau

Justice: Abubakar Malami

Labour & employment: Chris Ngige

Niger Delta: Usani Uguru

Power, works & housing: Babatunde Fashola

Solid minerals: Kayode Fayemi

Trade, investment & industry: Okechukwu Enelamah

Transport: Rotimi Amaechi

Youth & sports: Solomon Dalong

Central bank governor

Godwin Emefiele

Recent analysis

Generated on June 24th 2019

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

Politics

Forecast updates

Boko Haram attacks rise

May 3, 2019: Political stability

Event

In late April Boko Haram, a Nigerian-based jihadi group, killed at least four people in an attack in Kofia, a Cameroonian island on Lake Chad. The group also hit a Cameroonian military convoy in the attack.

Analysis

Boko Haram has stepped up attacks in northern Cameroon and the neighbouring countries (Chad, Niger and Nigeria) in the Lake Chad basin in recent months. The group has killed more than 30 Chadian soldiers since March in and around the same area in Chad. In an earlier attack, on April 18th, the group killed more than a dozen people in the village of Tchakarmari on Cameroon's northern border with Nigeria. The recent attack by Boko Haram has been considered as an act of retaliation, following a raid in mid-April by troops of the Multinational Joint Task Force (consisting of soldiers from Cameroon, Chad, Niger and Nigeria), which killed more than 40 members of the terrorist group.

Boko Haram's insurgency has left more than 27,000 people dead and about 1.8m people displaced in the past 10 years. We expect the attacks to continue and remain as lethal as ever, as was demonstrated by the attack in Tchakarmari village, which was reduced to ashes. We also expect the group to exploit the poor security situation in Cameroon, where the government is already confronting an insurgency led by anglophone separatists in the English-speaking North-West and South-West regions. The security situation will also remain highly vulnerable in Nigeria and Chad. In the former country the government is making efforts to control separatist movements and militancy, and in Chad the authorities are facing an increased risk of a coup from armed rebel groups. The latest incident is in line with our forecast of poor security conditions persisting in the Lake Chad Basin.

Impact on the forecast

We expect extremist groups, including Boko Haram, to remain a major threat throughout the 2019-23 forecast period. This also supports our expectation that the rising threat of terrorism in the region means that co-operation on fighting Boko Haram between Cameroon, Chad, Niger and Nigeria will continue to deepen.

EU promises Gulf of Guinea funding worth US$173m

May 8, 2019: International relations

Event

On May 6th the EU's head of co-operation of the delegation to Nigeria and ECOWAS, Kurt Cornelis, announced €155m (US$173m) worth of funding for regional maritime security programmes.

Analysis

The announcement was made at a two-day maritime stakeholders meeting in the Nigerian capital, Abuja, for Economic Community of West African States (ECOWAS) members and Mauritania. The EU's representative said that the money would be used to support programmes fighting piracy, drug-trafficking, smuggling and illegal fishing off Africa's most important sea route. Tackling maritime security challenges there has long been a policy priority for both the West African bloc's largest member, Nigeria, and European nations (especially France). NATO also operates the Maritime Domain Awareness for Trade—Gulf of Guinea (MDAT-GoG) mission to provide guidance on security risks facing the Gulf of Guinea maritime community.

The EU is encouraging greater co-operation between West African nations in the Gulf, where territorial disputes have historically been more common than co-operation (although limited resources have also played a role in the lack of joint initiatives between countries to tackle threats at sea). According to ECOWAS, however, West African states jointly lose US$2bn per year to illegal fishing and other forms of resource theft off the coast in the Gulf, in addition to the financial burdens of tackling maritime security threats from pirate gangs, drug-traffickers and militant groups such as Nigeria's Movement for the Emancipation of the Niger Delta. The Gulf of Guinea was reported by the International Maritime Bureau as the most dangerous region for international seafarers to travel through in its 2018 report on global piracy.

This has led to ECOWAS members drawing up joint policies such as the ECOWAS Integrated Maritime Security and Regional Strategy to fight illicit drug-trafficking and a West African Regional Policy for Fisheries; the EU's funding will go towards programmes that support these initiatives, such as the Improved Regional Fisheries Governance in Western Africa Programme to tackle illegal fishing. The Abuja meeting that Mr Cornelis attended was intended to ensure the various stakeholders present would discuss how best to co-ordinate their actions in the region in order to avoid the unnecessary duplication of effort. Facing so many challenges, however, ECOWAS will contain rather than eradicate illegal activities in the Gulf.

Impact on the forecast

Our forecast that pirate attacks and other forms of criminal activity will continue to disrupt economic activity in the Gulf of Guinea over 2019-20 remains unchanged.

Army bases in Borno State targeted in string of attacks

June 4, 2019: Political stability

Event

Islamic State West Africa Province (ISWAP), a militant group, has launched a string of attacks on military bases in Nigeria's north-eastern Borno State.

Analysis

The Nigerian authorities have been reticent about the attacks, which include an assault in late May on the army base in the town of Gubio, which reportedly left 20 soldiers dead. In early June there were co-ordinated assaults on military bases in the Lake Chad area. There has been confusion about who the exact perpetrators are. Some newspapers quoted unnamed military sources as saying that the attack in late May was carried out by Boko Haram and cited fewer casualties than claimed by ISWAP, which is a splinter group of Boko Haram. Whichever of the two Islamist groups launched the attack, it puts in doubt the claim of the authorities that the decades-old Islamist insurgency in the north-east has been largely brought under control. Although the military's counter-insurgency drive has succeeded in recapturing territories previously controlled by Boko Haram, the militants have continued to conduct guerrilla-style, highly disruptive raids.

There are signs of disagreement about the underlying causes of the seemingly intractable Islamist violence that has killed several thousand people and displaced millions of civilians. The former president, Olusegun Obasanjo, a former military ruler who was the elected president in 1999-2007, said that Boko Haram's violence was not dealt with initially as it should have been, and was allowed to develop beyond what Nigeria can now handle. This seems valid in some respects, with the group able to regroup and relaunch attacks despite having been beaten back in recent years. Assaults are becoming bolder and more deadly. The president, Muhammdu Buhari, has a clear electoral mandate to eradicate the group from northern Nigeria, and will have to channel considerable funds into making good on his commitment to instil law and order, because currently the security forces do not appear to have the upper hand. In his first term Mr Buhari took US$1bn from government savings held in an "excess crude account", but its deposits at the central bank are now negative, and the funds will probably have to be diverted from development or security initiatives elsewhere.

Impact on the forecast

We expect northern Nigeria to remain a conflict zone throughout the 2019-23 forecast period, and for resources to be directed to countering terrorist groups there to divert resources away from security threats in other parts of Nigeria, allowing other conflicts to worsen.

Economy

Forecast updates

Parliament passes amended budget with spending rise

May 3, 2019: Fiscal policy outlook

Event

The National Assembly passed a N8.92trn (US$29.2bn) federal budget for 2019 on April 30th.

Analysis

The 2019 spending plan, approved four months into the fiscal year, is slightly larger than the N8.83trn budget submitted to parliament by the president, Muhammadu Buhari, in December 2018. The enlargement chiefly reflects increased allocations to the security services to enable them to tackle rising insecurity, as well as the inclusion of severance allowances for outgoing legislators.

As a consequence, the official projection for the fiscal deficit has risen to N1.91trn (1.37% of GDP), from N1.86trn proposed by the president. The approved budget includes capital expenditure of N2.094trn, recurrent expenditure of N4.055trn, debt servicing of N2.254trn and a "special intervention fund" (for subsidised lending to small and medium-sized enterprises) of N500bn. The budget assumes total revenue of N775bn, based on oil production of 2.3m barrels/day (b/d), a US$60/b oil price benchmark and an official exchange rate of N305:US$1.

Oil production has not reached such a level since 2014, during the height of the commodity supercycle, and output on this scale will not materialise in 2019, given militant activity and closures of key pipelines (which have recently led two multinationals to declare force majeure on their export contracts). Crude production has averaged below 2m b/d so far during the year, even though the price of oil has mostly been above US$60/b.

Unrealistic revenue expectations have meant that under-implementation of the budget has been a recurrent issue in Nigeria. According to provisional data from the Central Bank of Nigeria, federal government expenditure in 2018 totalled N7.54trn, well below the budgeted figure of N9.12trn. Likewise, only N3.89trn of the N7.17trn in expected revenue was actually achieved—a massive undershoot. The deficit outturn was therefore N3.65trn, rather than the official projection of N1.95trn. Nonetheless, the administration is under pressure to increase spending.

The budget and national planning minister, Udo Udoma, said in early April that the government will propose a supplementary budget later this year to boost capital spending and fund a recent 67% increase in the national minimum wage. The approved 2019 budget includes N160bn provision for public-sector wage adjustments, although this may not be enough to cover the consequences of raising the wage floor from N18,000 to N30,000 per month.

Impact on the forecast

We expect revenue to fall considerably below official expectations, coming in at around N4.5trn. Even with some underspending, we continue to expect a fiscal deficit equivalent to 2.4% of GDP.

Nembe Creek Trunk Line shut down again just after reopening

May 7, 2019: Fiscal policy outlook

Event

A Nigerian energy company, Aitieo, had only just reopened the Nembe Creek Trunk Line, one of Nigeria's two main oil pipelines, when it had to temporarily halt supply through it again as a result of protests on May 5th.

Analysis

The Nembe Creek Line had originally been taken out of action by a fire, which the company has ascribed to criminality. Less than a day after reopening, there were protests at Aiteo's facilities, which caused another closure on April 5th. It is not currently clear when the pipeline will resume normal activity, or if it has done already. Protesters had been demanding a greater share of oil profits for local communities, which is a common refrain and a grievance shared by militants. Such groups are highly active in the Niger Delta, as underscored by the kidnapping of oil workers, including international staff, in late April. A pervasive mistrust of the government in the region only makes the situation worse. Nembe Creek Line's earlier closure had caused a British-Dutch oil major, Royal Dutch Shell, to declare force majeure on its Bonny Light crude exports. France's Total has separately halted production at its Amenam trunk line as a result of a shutdown at oil wells.

The impact of pipeline closures has already been material. According to The Economist Intelligence Unit's Oil Adequacy Index, which tracks seaborne cargoes, Nigerian crude exports have fallen to among their lowest levels since 2012, a period which includes the oil price crash of 2015-16. The implication of this is significant. Revenue projections in the federal budget for 2019 are based on 2.3m barrels/day being produced, sold at US$60/barrel. Prices have been considerably higher than this over the course of 2019, averaging closer to US$65/b, but the effect of lower volumes is currently offsetting this benefit. The shutdowns will be temporary, and exports will quickly be able to normalise (as they have done following previous outages) once the security situation improves. Even so, recent supply disruptions once again show how susceptible Nigeria's most important industry is to unpredictable and sudden disturbances. Moreover, we expect instability to be a continuing problem in the oil-producing south of the country for the foreseeable future.

Impact on the forecast

The supply disruptions are in line with our forecast for fiscal revenue to fall short of official projections in 2019 and for unrest to be intense in southern Nigeria, significantly holding down oil production over the 2019-23 forecast period.

Emefiele gets second term as CBN governor

May 10, 2019: Exchange rates

Event

The Central Bank of Nigeria (CBN) governor, Godwin Emefiele, has been nominated for a second five-year term.

Analysis

The nomination of Mr Emefiele by the president, Muhammadu Buhari, was announced in the Senate on May 9th. It is the first time in two decades that an incumbent CBN governor has been chosen for a second term. Mr Emefiele, who was appointed by the previous administration in June 2014, expanded on the interventionist tradition of Nigerian central bankers during his first term, introducing measures to control demand for foreign exchange and channelling funds to selected sectors of the economy. Mr Emefiele's attempt to steer the CBN not only to promote monetary stability, but also to act as a development agency, is in line with the president's own inclination towards state intervention in the economy, particularly to achieve economic self-sufficiency. Mr Buhari's nomination of Mr Emefiele to a second terms shows that there is little likelihood of a major shift in economic policy during the president's second term, which starts on May 29th.

Under Mr Emefiele, the CBN has maintained a multiple exchange-rate system that in reality has evolved into a dual exchange-rate regime, with an official rate of about N305:US1 in one segment, and, in the other, various windows with rates that are converging towards market-reflecting levels. Although portfolio flows for short-cycle investments such as Treasury bills have surged since the introduction of a market-determined "investor and exporter" foreign-exchange window in April 2017, long-term investors will remain concerned by the reluctance of the government to achieve a unified foreign-exchange system by scrapping the over-valued official rate. Under Mr Emefiele, the CBN temporarily brought in capital controls in 2016 to stem a decline in foreign liquidity caused by a decline in global oil prices. The lingering fear is that the same could happen again, causing capital or profits to be trapped in Nigeria. Investors will also be worried by the continuation of the CBN's trade-restrictive policy of denying access to foreign exchange to importers of certain categories of goods and services, which serves as a reminder of the CBN's general willingness to impose restrictions.

Impact on the forecast

We had expected Mr Emefiele to be appointed to a second term as governor of the central bank, and accordingly we had already forecast that the multiple exchange-rate system would remain in place over the 2019-23 forecast period. This will keep foreign direct investment well below pre-2016 levels.

Inflation ticks up in April as food prices rise

May 15, 2019: Inflation

Event

Inflation rose by 11.37% year on year in April, the latest consumer price index (CPI) data have shown.

Analysis

Core inflation has continued to fall in year-on-year terms, to 9.9% in April from 10.2% in March, but the headline inflation figure continues to be buoyed by high food prices, both for domestically produced and imported foodstuffs.

Local food supply is being disrupted by high levels of violence in Nigeria's agricultural heartland, while imported inflation has been a lingering issue since the Central Bank of Nigeria (CBN) began imposing foreign-exchange restrictions for importers of various staple goods in mid-2015. With a 51.8% weighting in the CPI, food generally shifts headline rate, and without improved domestic supply or improved access to imports, the category will continue to keep inflation elevated in 2019.

Moreover, core inflation is unlikely to remain on a gentle downtrend. In mid-April the president, Muhammadu Buhari, signed into law a 67% increase in the minimum wage. As this gets factored into monthly or weekly salaries, demand side pressures will build. On top of this the CBN has chosen to pursue economic growth over controlling prices, making a 50-basis-point cut to its policy rate in March despite the fact that inflation is well above its 9% target ceiling. The drop will, in itself, not have a material impact on prices, but it shows that the monetary authorities do not have inflation as their priority.

Impact on the forecast

We continue to expect inflation to average 12.7% in 2019 as the impact of a higher minimum wage begins to be felt.

Real growth slides back to 2% in the first quarter of 2019

May 23, 2019: Economic growth

Event

In annual terms Nigeria's economy grew by 2% in the first quarter of 2019, which is practically flat on levels the year before and down from a rate of 2.4% in the third quarter of 2018.

Analysis

Industry—which comprises 28% of GDP—slumped in the first quarter, with near zero growth. Manufacturing expanded by just 0.8%, with even subsectors targeted under protectionist policies continuing to struggle. An explanation could lie in tight monetary conditions over much of the quarter. The Central Bank of Nigeria (CBN) cut its policy rate by 50 basis points to 13.5% in March and a pick-up in lending to manufacturers has followed, but, as inflation is running persistently higher than the ceiling target of 9% set out by the CBN, there is no room for further monetary easing. So while growth may pick up, a major recovery is not likely.

Agriculture—a sector accounting for 19% of GDP—performed better, growing by 3.2%. Unlike many other sectors, credit growth to farmers expanded rapidly in the first quarter, by 27%. The CBN has in the past lauded the success of credit incentives aimed at commercial farmers, and investment in new productive technology is essential for growth, as land resources in Nigeria are becoming scarce. However, problems such as a lack of formal land titling are a major impediment to the spread of commercial agriculture in a sector that remains dominated (around 80%) by smallholder farms.

Services, Nigeria's largest sector at 53% of GDP, expanded by 2.4%, which is up from contraction in the corresponding period a year earlier but down from a rate of 2.9% in the fourth quarter of 2018. Trade—the largest subsector—grew by just 0.9% as the impact of import restrictions continued to bite; over the first quarter textile imports were added to a list of (now 43) items banned from accessing foreign exchange. With the CBN keen to deepen its protectionism over the coming years, trade will continue to post low growth. One bright spot is telecommunications, which grew by 9.5%. With major providers such as South Africa's MTN keen to expand, the telecoms sector is likely to remain a growth-driver for services over the coming years.

Impact on the forecast

Our forecast is for protectionism, insecurity and still-tight credit conditions to hold the economy back and the latest figures vindicate this. Overall, we continue to expect a growth rate of 2.2% in 2019, with a pick-up in credit to manufacturing being supportive.

Africa-wide free-trade agreement comes into force

May 30, 2019: External sector

Event

On May 30th the Africa Continental Free-Trade Agreement (AfCFTA)—signed so far by 52 of the 55 African Union (AU) member states—legally came into force ahead of a planned launch of a continental single market on July 7th.

Analysis

A minimum of 22 signatories had to ratify the AfCFTA for it to come into effect 30 days after the final submission of the 22nd ratification instruments, which were submitted on April 29th. Eritrea, Nigeria and Benin are yet to sign the AfCFTA, while 24 of the 52 countries have ratified the agreement. The AfCFTA will create the world's largest continental free-trade area, provided that all 55 AU members join it, and has the potential to be economically transformative for the region in the long term by creating a single market of 1.2bn consumers and workers, with tariffs on 90% of goods set to be eliminated over the next five years.

The AU hopes that the free-trade area will open up new markets for African businesses, while also ushering in an era of industrialisation. Although the impact of an increase in intra-African trade might be felt over the next decade, any near-term benefits will be constrained by the non-complementarity of regional trade; African countries are currently not producing the goods and services that their neighbours import. Moreover, the persistently low levels of intra-African trade thus far, despite the existence of several subregional customs unions, are symptomatic of structural problems that cannot be addressed solely through free-trade pacts.

The next step will be the implementation of the wide-ranging pact, which is set to begin from July 7th. This will be a complex process, given the costs of phasing out intra-regional tariffs, implementing new customs procedures, creating new inter-country infrastructure and other barriers. Moreover, although signatories have pledged support for the deal, ensuring that countries follow through on opening up their domestic markets, and do not seek to protect critical industries through high non-tariff barriers, will be a challenge. More details on the process of streamlining legislation for the single market will be finalised during an upcoming AU summit in Niger in July. International financial support for the AfCFTA (for instance, €50m from the EU for 2018-20) should go some way towards facilitating implementation.

Impact on the forecast

With the impact on trade of the continental single market expected to be limited during the 2019-23 forecast period, our forecasts of low intra-African trade for most countries remain unchanged.

Trade surplus narrows in Q1 2019

June 10, 2019: External sector

Event

Nigeria's merchandise trade surplus narrowed in the first quarter of 2019, to US$2.2bn, from US$6.8bn in the previous quarter and US$4.4bn recorded in the corresponding period of 2018.

Analysis

The large decline in the trade balance in January-March compared with the level in the first three months of 2018 stemmed from an increase in the value of imports and lower hydrocarbons earnings. Imports rose to US$12.9bn, from US$9.9bn in the preceding quarter and US$10.1bn in the first quarter of 2018. Imports of several types of goods increased, including agricultural products, solid minerals and manufactures. Officials seeking to make Nigeria self-reliant in food production in order to reduce overseas purchases will be disappointed by the increase in imports of agricultural products, led by wheat products, which increased by 28% from a year earlier. Violent competition for land in the breadbasket "Middle Belt" region of Nigeria offers explanation as to why—local supply has consistently fallen behind national demand, as reflected in rising food prices. However, officials will welcome a precipitous drop, of 73%, in imports of petroleum products against year-earlier levels. The National Bureau of Statistics gave no reason for this, although the latest monthly report of the state-owned Nigerian National Petroleum Corporation showed that capacity utilisation at its four refineries rose to 5.55% in January, from 3.57% in December.

Nigeria's exports totalled US$15.1bn in January-March, which is lower than the US$16.7bn registered in the quarter before, but higher than the US$14.5bn earned a year earlier. Crude sales totalled US$11bn, down from US$13.8bn in the previous quarter and US$11.7bn a year earlier. A slight drop in Nigeria's main export reflected lower global crude prices, as well as several impediments constraining output, including under-investment and outages at key pipelines, problems that are ongoing. Non-oil exports in January-March reached US$2.3bn—the highest level since the second quarter of 2014. This was due in part to a 511.2% jump in sales of manufactured goods, driven largely by the re-export of vessels and other floating structures.

Impact on the forecast

Our forecast is for a small drop in exports during 2019 as global oil prices broadly dip from levels in 2018. Our forecast is for imports to also fall as one-off capital expenditure over 2018 falls out of the picture. This was not the case in the first quarter of 2019, necessitating an upward revision to the annual figure, with knock-on implications for our current-account surplus projection, which is 1.8% of GDP.

Central bank quells rumours of exchange-rate unification

June 12, 2019: Exchange rates

Event

The Central Bank of Nigeria (CBN) has denied speculation that it is moving to liberalise the naira, and in effect end a multiple exchange-rate system that has held since April 2017.

Analysis

Over June the landing page of the CBN website had listed the naira's value as "market determined" when it typically posts the official exchange rate, currently N306.4:US$1. This caused some hubbub among international media, who took it as a signal that the CBN could be preparing to move towards a unified exchange-rate system. The CBN later told media sources that there was no plan to unify rates.

In fact, the tools needed by the CBN to maintain the existing dual exchange-rate system are largely adequate. Despite lower oil prices and a drop in hydrocarbons exports over the first quarter of 2019, which contributed to a current-account deficit (Nigeria's second since the oil price crash in 2015), foreign reserves increased and the parallel rate was stable at around N360:US$1. A surge in portfolio investment into short-dated securities was the main reason, with US$5.9bn entering into Nigeria through the Investors and Exporters (I&E) foreign-exchange window over the first quarter of 2019, over 500% up from the last quarter of 2018 and 67% higher than year-earlier levels. Long-term inflows remain generally subdued, despite some pick-up in foreign direct investment, with investors probably fearing a return of capital controls (as were introduced temporarily in 2016). But as long as the CBN is seen as able to provide liquidity to the I&E window, short-cycle investments into high-yielding Treasury bills evidently remain desirable, especially in a context of low interest rates in developed markets.

The CBN governor, Godwin Emefiele, who had his term renewed in May, is also adamant that the multiple exchange-rate system brings value to the economy. By channelling cheap US dollars to targeted sectors, the CBN can in effect subsidise the development of labour-intensive industries such as manufacturing. An overvalued official rate also underpins important consumer subsidies such as petrol prices, with the state importer, the Nigerian National Petroleum Corporation, budgeting for bulk cargo purchases at around N306:US$1.

Impact on the forecast

We are not forecasting a liberalisation of the naira. Rather we are considering a revision to our forecast for a devaluation of the official rate in 2019 and 2020; external liquidity appears ample to maintain a rate close to current levels, which points to exchange-rate stability.

OPEC quotas likely to be extended until end-2019

June 12, 2019: International assumptions

Event

On June 7th, at the St Petersburg International Economic Conference, the Saudi oil minister, Khalid al-Falih, said that OPEC members are likely to extend oil production cuts that are due to expire at end-June.

Analysis

Mr Falih mentioned that OPEC was close to agreeing to extend the production cuts and that further talks would be held with non-OPEC members. The OPEC deal is likely to be extended until the end of 2019. Russia is still undecided over whether to agree to the production cuts owing to concerns over losing market share to US shale producers.

Oil production has been constrained in the past couple of months because of US sanctions on Iran that aim to reduce Iranian oil exports to zero and the ongoing crisis in Venezuela. As a result, the price of dated Brent Blend increased from an average of US$59.3/barrel in January to an average of US$71.2/b in April, before sliding to about US$64/b at end-May mainly because of supply-side factors while global oil demand remains weak.

Following Mr Falih's announcement, the price of Brent rose by 3% on June 10th. However, this increase is small, suggesting that markets are still cautious about the prospects of sustained price increases and possibly have priced in the extension of OPEC cuts, given the potential for additional short-term investments by shale producers at the current price level, which would reinforce the global supply glut. Meanwhile, investment in the oil and gas sector in countries such as Iraq and Egypt is increasing and, in line with this, hydrocarbons output from these countries will edge up during the second half of our 2019-23 forecast period.

Saudi Arabia is pushing for an extension of OPEC-mandated oil production cuts for two main reasons: first, to keep global oil prices above US$60/b (the fiscal breakeven price for major oil producers) at a time when global demand is likely to remain weak given an expected slowdown in economic growth in the US, China and the EU in 2019-20; and second, to put pressure on Iran while its economy is going through a recession.

Impact on the forecast

We will revise our forecast to reflect our view that the quotas will now be extended until the end of 2019; we think that Saudi Arabia and OPEC will continue to be cautious about raising oil output, as all signs point to slower oil consumption growth in the second half of this year.

Analysis

EIU global forecast - Waiting for an elusive US-China deal

May 14, 2019

The Economist Intelligence Unit has long been forecasting a slowdown in global growth in 2019-20. However, recent data suggest that the world's three major economies proved surprisingly resilient in the first quarter of 2019. In the US, real GDP growth stood at a solid 3.2% year on year, a robust headline for an economy operating at near-full employment. In the euro zone, output expanded by 0.4% quarter on quarter over the same period, the strongest quarterly expansion in a year. The single currency area posts record-low unemployment rates, and the latest high-frequency data paint a positive picture in the services and construction sectors, offsetting softer manufacturing data. In China, a revival in the industrial sector stabilised economic growth, defying our expectations that the slowdown in economic growth that began in the third quarter of 2018 would extend further. Coupled with the roll-out of fifth-generation (5G) technology in a number of Asian countries this year, the recent solid Chinese performance will support global trade in the second half of 2019.

Detailed analysis of US growth data paints a contrasting

picture

These rosier data will offer some respite to central bankers across developed economies who were previously weighing up whether a cautious "wait and see" approach was still appropriate, or whether it was time to brace for impact and prepare for more stimulus.

However, a more detailed analysis of the latest growth figures across developed markets does not alter our view that 2019-20 will be marked by a global slowdown. In the US the two main contributors to growth in the first quarter were external trade (owing to a sharp deceleration in import growth) and a surge in inventories. This is cause for serious concern. High inventories will later become a drag on growth; a slowdown in import growth hints at slowing consumer demand, in line with other high-frequency indicators.

Global trade is slowing sharply

The deceleration in US trade activity mirrors other data that all point to slowing global trade. The South Korean KOSPI-100 equity index, which is mainly made up of export-oriented companies, has been falling since mid-April; cargo volumes at Hong Kong's international airport contracted by 5% year on year in the first quarter; and the number of containers landing at the US port of Long Beach (one of the main trade hubs between the US and Asia) was down by 7% in January-March on an annual basis.

The slowdown in global trade reflects the slowdown in the Chinese economy, as well as uncertainty concerning trade policy. Against this backdrop, recent belligerent declarations by Donald Trump, the US president, cast doubts over the possibility of a US-China trade deal being concluded by late May or early June. Should a trade deal not be agreed (not our core scenario), investor sentiment would drop sharply and global growth prospects deteriorate. The latest trade data from China represent a stark warning: in April Chinese goods exports contracted by 2.7% year on year (in US-dollar terms), compared with a 13.8% increase in March.

The Brexit saga remains unsolved

Recent developments at the regional level also add cause for concern and hint at a deterioration in economic, political, and geopolitical stability. In Europe, almost three years after the Brexit referendum, this issue remains far from resolved. The range of potential outcomes varies from "no deal" to "no Brexit", compounding uncertainty, weighing on sentiment and depressing investment. The latest developments on the Brexit front include negotiations between the ruling Conservative Party and the left-wing opposition Labour Party. Given that the respective red lines of these parties are essentially incompatible, there is little chance that these negotiations will prove conclusive.

The EU has granted the UK an extension of the Brexit deadline to October 31st (from March 29th initially). It is far from guaranteed that the bloc will be willing to extend this timeline again should the UK parliament fail to ratify the Brexit deal by then. This would raise the risk of a no-deal scenario that would provoke catastrophic damage to the British economy.

Rerun of Istanbul mayoral election weighs on the lira

Also in Europe, the decision of Turkey's High Electoral Commission to bow to pressure from Recep Tayyip Erdogan, the Turkish president, to organise a rerun of the Istanbul mayoral election sent jitters through financial markets. Mr Erdogan's ruling Justice and Development Party (AKP) proceeded to lose this election in nationwide local polls at the end of March, causing another plunge in the lira against the US dollar.

This will remind financial markets that Turkey has not yet recovered from the severe currency crisis that it experienced less than a year ago. This will renew capital flight to perceived safe havens, fuelling volatility in emerging-market currencies across the globe. Even if it has been small up to now, the risk of contagion to other emerging-market currencies such as the Indian rupee, the South African rand and the Argentinian peso cannot be discounted. In fact, we believe that a full-blown emerging-markets crisis is the third-largest risk to global growth in 2019-20.

Argentina and Venezuela remain hotspots of volatility in

Latin America

The risk of contagion to emerging-market currencies has been compounded by increased political uncertainty in Latin America in recent weeks. In Argentina the peso lost about 10% of its value against the US dollar between mid-April and early May as investors started to price in the risk of a victory by the left-wing populist, Cristina Fernández de Kirchner, in the presidential race in October. We continue to believe that the incumbent president, Mauricio Macri, will be re-elected. However, fears of a Fernández presidency will continue to weigh on the peso in the coming months, fuelling inflation and depressing consumption and sentiment.

Despite peaking at almost 55% in March, annual inflation in Argentina remains far from the levels seen in Venezuela: in the same month Venezuela's annualised consumer price inflation stood at more than 1,000,000%. To stabilise prices will be one of the main challenges that Juan Guaidó, the interim president of Venezuela, will face when he comes to power in the second half of the year, as we currently forecast. However, we also continue to acknowledge strong risks to this outlook: Nicolás Maduro, the leader of the incumbent regime, has managed to survive what he claimed was an attempted coup orchestrated by Mr Guaidó on April 30th, and has so far clung on to military support surprisingly well.

Iran sanctions will continue to fuel US-EU tensions

In the Middle East, Iran remains a hotspot of geopolitical volatility. On May 2nd the US administration let sanctions waivers expire for the eight countries that continued to import Iranian oil, in an attempt to deprive the Iranian regime of its main source of revenue. Shortly afterwards Iran announced that it would cease complying with some provisions of the nuclear deal, throwing the deal's future into doubt and raising tensions between the US (which has withdrawn from the deal) and the EU (which is trying to salvage it).

So far, this turn of events has not led to a surge in global oil prices, as an increase in tensions between the US and Iran had largely been priced in by global commodities markets. However, the risk of a potential miscalculation by the US or Iran in the Middle East has risen sharply. This, together with trade disputes, has heightened political volatility in emerging markets, and the growing tensions between the US and the EU will continue to weigh on the global economic outlook in the coming months.

World economy: Forecast summary

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP growth (%)										
World (PPP[a] exchange rates)	**3.5**	**3.4**	**3.3**	**3.7**	**3.5**	**3.2**	**3.4**	**3.5**	**3.6**	**3.5**
World (market exchange rates)	**2.8**	**2.8**	**2.5**	**3.1**	**2.9**	**2.6**	**2.6**	**2.8**	**2.9**	**2.8**
US	2.5	2.9	1.6	2.2	2.9	2.2	1.7	1.8	2.0	1.7
Euro area	1.4	2.0	1.9	2.5	1.9	1.3	1.5	1.7	1.7	1.7
Europe	1.9	1.9	1.9	2.7	2.1	1.3	1.8	1.9	1.9	1.8
China	7.3	6.9	6.7	6.8	6.6	6.4	6.1	5.6	5.2	5.0
Asia and Australasia	4.4	4.5	4.5	4.9	4.5	4.5	4.2	4.3	4.2	4.1
Latin America	1.0	-0.3	-1.2	0.8	0.7	0.5	1.6	2.6	2.6	2.9
Middle East & Africa	2.8	2.3	4.7	1.5	1.3	1.8	2.4	3.0	3.2	3.2
Sub-Saharan Africa	4.6	2.7	0.7	2.4	2.4	2.4	0.9	3.8	4.1	4.3
World inflation (%; av)[b]	**3.4**	**3.0**	**3.1**	**3.2**	**3.5**	**3.7**	**3.1**	**3.2**	**3.2**	**3.0**
World trade growth (%)	**2.9**	**2.0**	**2.1**	**5.4**	**4.4**	**3.3**	**2.9**	**3.9**	**4.0**	**4.1**
Commodities										
Oil (US$/barrel; Brent)	98.9	52.4	44.0	54.4	71.1	66.5	60.5	69.8	75.6	75.0
Industrial raw materials (US$; % change)	-5.1	-15.2	-2.2	20.2	2.2	-2.8	1.9	1.6	3.4	0.6
Food, feedstuffs & beverages (US$; % change)	-5.3	-18.4	-3.5	-1.0	1.6	-5.8	4.8	4.1	0.9	0.8
Exchange rates (av)										
¥:US$	105.9	121.0	108.8	112.1	110.4	110.0	108.7	104.9	100.5	96.1

US$:€	1.3	1.1	1.1	1.1	1.2	1.1	1.2	1.2	1.2	1.2

[a] Purchasing power parity. [b] Excludes Venezuela.

Source: The Economist Intelligence Unit.

The long wait for hydrocarbons sector reform

May 23, 2019

Successive rulers have for more than a decade sought to reform Nigeria's inefficient but pivotal oil and gas industry. However, little progress has been made on enacting the laws that are needed to overhaul a sector that is the government's main source of income and the country's main source of export revenue. The inability to revise the legal framework stems partly from the inherent indecisiveness of the Nigerian federal government as well as from the differences between the various stakeholders vying for control of country's hydrocarbons assets and for bigger shares of oil profits.

The current administration, whose term ends on May 29th, will be the third to fail to enact the landmark Petroleum Industry Bill (PIB), which was initially submitted to the National Assembly in 2008. Nigerian officials and civil society advocates have for years complained that the current fiscal regime under-rewards the country and needs to be updated, especially with respect to offshore production. For example, the Nigeria Extractive Industries Transparency Initiative (NEITI), a government-funded watchdog, said in a study in March 2019 that the government lost out on at least US$16bn over a ten-year period between 2008 and 2017 because of a failure to revise the 1993 production-sharing contracts (PSCs) with oil companies. There was some fitful progress over the four years of the current government, but it did not amount to much. After years of being marooned in parliament, the hugely complex piece of legislation, which aimed to transform the national oil company into a competitive, profit-oriented commercial enterprise, was broken into four separate bills to ease its passage. The first of these bills, the Petroleum Industry Governance Bill (PIGB), was passed by members of parliament (MPs) in January 2018. Although it deals with less controversial aspects of the PIB (mainly the creation of new oil-related state entities), it at first appeared to be a milestone in the huge task of overhauling the oil sector. However, even the progress of the PIGB eventually stalled. The president, Muhammadu Buhari, refused to sign the bill into law, possibly in part because it would reduce the power of the oil minister to award and revoke oil licences and contracts.

Current government's interventionism is at odds with the liberalising aspects of the PIB

Getting the three other petroleum bills onto the statute books will be even more challenging. The more revolutionary Petroleum Industry Administration Bill (PIAB), another segment of the PIB, outlines the responsibilities of a proposed petroleum regulatory commission, which includes the power to grant, amend and revoke oil licences. The bill also calls for a transition towards a full market pricing of petroleum products within one year of its enactment. Although price deregulation is vital for the growth of Nigeria's under-performing downstream oil sector, legislating for this is controversial in a country where people are accustomed to buying subsidised petrol and powerful trade unions fight to retain these subsidies. It would take a huge effort to bring about this level of liberalisation, and the interventionist Buhari administration has shown no inclination to drive it forward.

A conclusion to the legislative process is years away, but private oil companies operating in Nigeria have been bracing themselves for the prospect that, when it happens, sectoral reform could trim their return on equity. The Petroleum Industry Fiscal Bill (PIFB), which deals with taxes and royalties as well as allowances in relation to oil and gas production, seeks to increase the tax take from hydrocarbons earnings. The proposal introduces a combination of price-based and production-based royalties with rates scaled according to daily production. The bill requires all petroleum and gas production to be subject to royalty payment. Under the current regime, upstream companies operating in deep waters pay no royalty when operating in depths in excess of 1,000 metres. The PIFB also includes provision for a marginal petroleum income tax of 0.5% for every US$1 increase in the price of crude above a threshold price of US$60/barrel, and the same applies to gas for every US$1 increase above a price of US$6/mmBtu. The marginal tax will increase up to a maximum of 60%, and would enable the government to capture a larger portion of any oil bonanzas. Since the government indicated a desire for a bigger share of oil profits over a decade ago, multinational oil companies have argued that big tax hikes risk deterring much-needed investment in exploration. However, such warnings have a limited impact on nationalist politicians and activists who contend that the recent low levels of private investment in Nigeria's oil sector has been caused by the uncertainty created by the delay in passing the oil reform legislation rather than opposition to its proposed new fiscal terms.

The fourth bill from the PIB is the Petroleum Host and Impacted Communities Development Bill (PHICDB), which provides for the establishment of a Petroleum Host and Impacted Communities Development Trust, which would be ring-fenced for development initiatives in Nigeria's oil-producing regions. Under the PHICDB, oil companies would have to contribute 2.5% of their annual operating expenditure in the licence or lease areas they operate to the fund. The money will be for development projects in areas such as infrastructure, economic empowerment, education and healthcare as well as local initiatives to protect the environment and enhance security. This bill is an attempt to appease disgruntled poor communities in the Niger Delta that have for decades complained of neglect and about the devastating environmental impact that oil production has had. The federal government also hopes the bill will help to reduce the activity of militants who have for years attacked oil facilities and seriously disrupted oil production in a campaign for local control of mineral resources. However, oil firms may not welcome being lumbered with the full financial burden of developing the areas in which they operate; the onus falling on them is partly the by-product of an unusually low tax take in Nigeria, where federal revenue typically comes in at less than 4% of GDP because tax collection is notoriously poor and value-added tax (VAT) is so low, at just 5%. The envisaged host community trust would also result in less oil revenue flowing to Nigeria's non-oil states, many of which are poor and oppose an increase in the share of petroleum revenue going to oil-producing areas, which already benefit from a 13% oil derivation payment. This is another source of contention that has left the PIB bogged down in parliament, with MPs representing different regions at odds over the issue. Mr Buhari's northern voter base would be especially riled by any attempt to divert fiscal resources from that region, where poverty is among the most pervasive in Nigeria.

Opportunity costs will continue to mount

Meanwhile, the inability of the Nigerian state to agree on oil reform is costing the nation in lost or deferred investment in crucial oil projects as investors await clarity, especially with respect to future fiscal terms. The prevailing uncertainty also affects the value of the state's oil assets and what prices the government can command when it embarks on its recently announced plan to reduce its equity in existing joint-venture oil companies to 40% from the current average of 57.5%—a privatisation programme that will flounder until fiscal terms for the sector are sorted out. Clearly, the finalisation of the PIB legislative process is something that all stakeholders would like to see, but as Mr Buhari's rejection of the PIGB bill demonstrated, a resolution is not going to be straightforward under his presidency.

UAE-African gold trade in the spotlight

May 29, 2019: External sector

Imports of gold into the UAE from Africa have soared in the past decade—from just 67 tonnes in 2006 to nearly 450 tonnes in 2016. However, major discrepancies between the amount officially exported to the UAE by African countries and the amount imported by the UAE from African countries have raised questions about possible transfer pricing fraud and tax evasion schemes. The discrepancies have also reignited concerns that weak compliance in the UAE is facilitating the laundering of so-called conflict gold from mines controlled by militias in countries like the Democratic Republic of Congo (DRC) and South Sudan.

Figures from Comtrade, a UN database, show that in 2017 (latest available data), the UAE imported gold worth just under US$12bn from 41 African countries (excluding Libya and Egypt) and the UAE has now overtaken China as the leading importer of gold from Africa. However, only 20 of these countries have declared gold exports to the UAE, worth a cumulative value of US$3.1bn in 2017, thereby leaving a significant asymmetry in the figures for the trade in gold; 21 countries did not declare any gold exports to the UAE. Moreover, Togo, for example, a country where there is minimal gold production, is listed as the seventh-largest source gold imports (of the 41 African countries) by the UAE. This appears to indicate significant illicit crossborder movement of gold within Africa before it is officially exported to the UAE.

Data discrepancies

Data discrepancies—listed in detail in an EU-funded study on African artisanal mining by the non-governmental organisation ENACT—appear to indicate a failure by African governments to adequately regulate mining exports, leading to a major loss of potential revenue from tax and royalties. In The Economist Intelligence Unit's Global Illicit Trade Environment Index 2018, the country ranks poorly in terms of its governance of free-trade zones, and in March 2019 the UAE was added to the EU's tax-haven blacklist for its non-co-operative tax jurisdiction policies.

Discrepancies over gold exports from Africa are not new. In 2017 data from the Bank of Uganda (the central bank) revealed that, in the 2015/16 financial year, the country exported more gold than it had in the entire preceding decade. Since 2016 the country's gold exports have continued to soar, rising by 23% year on year to US$514m in 2018 and for the first time overtaking coffee as the East African country's single-largest export commodity. Amid flat global gold prices during these years, growth in gold exports was driven by rising volumes. Most of this is attributed to the operations of a single gold refinery, the African Gold Refinery (AGR) in the city of Entebbe (southern Uganda), which opened in 2017. Although AGR has committed to rigorous due diligence procedures, the lack of border controls will make it almost impossible to guarantee that output from the refinery did not originate from nearby conflict zones.

This sustained increase in Uganda's gold exports since 2016 has fuelled speculation from human rights groups that the country is a major transit route for illegally imported gold from countries such as the DRC, South Sudan and Burundi. Indeed, several investigations by UN experts have reported significant volumes of artisanal DRC gold being smuggled into Uganda. Crossborder smuggling from these artisanal mines not only potentially funds non-state armed actors, but the unregulated nature of the trade denies governments much-needed tax revenue. It also puts artisanal miners at risk because of poor safety standards in illegal mines, and exposes communities to long-term environmental damage. In 2017 the Ugandan central bank launched an investigation into the source of imported gold for the refinery, but its results have so far remained inconclusive.

Crackdown on illegal mining

Some African governments are trying to curb unregulated artisanal mining, which carries serious risks for those involved—often children—because of the use of dangerous leaching chemicals such as mercury and generally poor safety standards at mines. Ghana and Zambia, for example, have tried to stop all unregulated gold mining by creating new licensing systems for artisanal miners. Earlier this year, Ghana (a key source of gold for the UAE) also banned the import of excavator equipment to stem a surge in illegal mining using heavy machinery.

Sudan and Tanzania are also trying to regulate the export and trade of gold with plans to centralise buying and ensure gold only flows through official markets. These steps are positive but are too late to address the scale of unregulated mining and the now well-established illicit-smuggling channels being used to move the gold. Moreover, the high market price of gold continues to make its mining attractive to impoverished Africans with few other livelihood options, despite the legal, health and safety risks.

Improving regulations would benefit the UAE and Africa

The Dubai Multi Commodities Centre (DMCC) is the government entity within the Jebel Ali Free Zone (JAFZA) that promotes, oversees and regulates the gold trade in the UAE, and the Dubai Gold and Commodities Exchange (DGCX), a subsidiary of the DMCC, is its trading platform. Following past criticism from UN experts about its compliance standards around gold importing, the UAE has sharpened its regulatory environment with a new risk-based due diligence framework. The framework is in accordance with OECD recommendations that all companies must meet these standards in order to be able to import, refine and trade gold in the UAE through the DMCC. According to the 2019 Dubai Good Delivery (DGD) list, which was published in April, there are currently 13 certified members and 17 firms have been "delisted" for non-compliance.

Among the delisted entities is Goetz Gold, which is owned by the same Belgian business network that controls Uganda's AGR. Kaloti Gold, a UAE-based refinery, which was in the spotlight in 2012 for its high volumes of cash transactions and lack of paperwork, has also been removed from the approved list. The fact that companies are being delisted shows the UAE is sensitive to concerns about supply chains and regulatory paperwork. The transparency around the list is also encouraging.

Nonetheless, despite these efforts, none of the UAE's refineries have achieved accreditation from the London Bullion Market Association (LBMA)—regarded as the global standard—and few large-scale mining operations send their metals to be refined or traded in Dubai. An LMBC official told international media that it was "not comfortable dealing with the region" because of concerns about weaknesses in customs, cash transactions and hand-carried gold. DMCC officials have also acknowledged that some quantities of gold are hand-carried into the country.

Further toughening the compliance regime for companies importing, refining and trading gold would help the UAE to improve its image as a trading hub and counter allegations that it is used to launder illicit minerals and cash. Meanwhile, more stringent paperwork requirements and strict enforcement in Africa should help governments there to better manage their gold and capital outflows. This will improve tax collection and should assist in curbing the illicit business dealings of criminal and militia networks that fuel instability and tensions in many countries.

ECOWAS considers Automotive Industry Policy Framework

June 3, 2019: Investment

Ministers and commissioners responsible for trade, industry and investment in the Economic Community of West African States (ECOWAS) met in May to consider the implementation of the Automotive Industry Policy Framework (AIPF). The policy is designed to promote investment across the supply chain, increasing domestic vehicle and parts manufacturing in the region.

Currently, countries in the subregion import some 450,000 vehicles each year, of which around 80% are used vehicles. Developing some domestic manufacturing would help reduce vehicle and component imports (strengthening the current-account balance), increase the level of value-added in these economies and also create a number of relatively high-skilled jobs. However, there are a number of political and structural barriers to the successful implementation of such a regional policy.

The Nigeria model

The ECOWAS AIPF is based on the Nigerian Automotive Industry Development Plan, which started in 2013. Under Nigeria's policy, high taxes were placed on the import of fully assembled vehicles, also called fully built units (FBUs), while lower taxes were imposed on completely knocked down (CKD) or semi knocked down (SKD) kits. In addition, incentives—such as value-added tax (VAT) exemption and other tax breaks—are offered to part and equipment manufacturers, such as companies making tyres or other components.

Such CKD and SKD kits allow for the assembly of vehicles. It should, however, be noted that such sites are assembly plants rather than full-scale domestic manufacturing, and will require the import of the constituent components. Policies to encourage the manufacturing of components are necessary to maximise the spillover effects for potential value-added for the economy, as well as the number of high-skilled jobs created in the country. Nevertheless, even basic vehicle assembly from CKD or SKD kits are green shoots towards developing a domestic automotive sector, and other vehicle and part manufacturers will probably invest if these first movers are successful. In addition, the import tariffs will also continue to incentivise domestic investment.

A number of auto and component manufacturers have invested in Nigeria on the back of this policy. The country has a large and growing middle-class, and vehicle ownership rates are rising on the back of this. Under the Automotive Industry Development Plan, importing vehicles becomes more expensive, but the market is too large for many car manufacturers to ignore. The supportive tax breaks facilitate investment for basic vehicle assembly and component manufacturing, helping to create greater value-added in the country.

Easy to replicate?

The AIPF would aim to replicate this model, facilitating investment along the vehicle manufacturing supply chain across the region. However, for this to work fully, there needs to be greater trade liberalisation within the bloc (such as the removal of tariff and non-tariff barriers for many products) to better facilitate the free movement of goods.

If the ECOWAS member states can agree to greater regional harmonisation of policies under the AIPF, it would greatly increase co-operation in the sector. Nevertheless, we believe that some competition would still exist as different member states compete for investment. Many auto manufacturers invest in West Africa with the view to develop a "regional manufacturing hub", if their initial operations are successful. The AIPF could help facilitate some component manufacturing across the ECOWAS bloc once manufacturing is established in one member state. However, the spoils will not be shared equally; the greatest employment creation and value-added is higher up the value chain. Member states may be unhappy with investments at the lower end if others are getting greater benefits, potentially jeopardising co-operation and therefore the growth opportunities of the AIPF. Indeed, a number of countries across the ECOWAS bloc are relatively protectionist, implementing barriers to competition to protect their own domestic industries and sectors.

Logistical barriers

Even if the political will to implement such an industrial policy is there, there remain a large number of logistical barriers to successfully creating a regional auto manufacturing base. Infrastructure links between many of the 15 member states in ECOWAS are fairly poor. This has been a key driver of the current low levels of trade between members of the bloc. Similarly, there are high levels of bureaucratic border controls, delaying the flow of goods and increasing costs for traders. Such barriers would need to be overcome to make the bloc an attractive place to invest for auto and parts manufacturers.

State intervention

Private-sector development and industrialisation takes time and requires a supportive business environment, among other things. In addition, skills shortages among the domestic workforce across the ECOWAS region remain an issue, as the quality of education and technical skills training is low. Many domestic firms continue to struggle in such a weak business climate, as can be seen by the need for the government to support businesses in Ghana's One District One Factory (1D1F) initiative.

Government programmes—such as the AIPF—address the results of the weak business environment (that is, low levels of investment and industrialisation, reducing value-added in the economy), rather than the causes, such as the low quality of education and poor connecting infrastructure. This is a suboptimal use of resources, and broader efforts to improve the business environment would be more effective. However, such structural changes are far more challenging to undertake and would take a long time to bear fruit.

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Algeria

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Ambassador John P. Desrocher

John Desrocher is the U.S. Ambassador to the People's Democratic Republic of Algeria. From September 2014 until August 2017 he served as the Deputy Assistant

Secretary of State for Egypt and Maghreb Affairs. Prior to that, he served as Deputy Chief of Mission at the U.S. Embassy in Baghdad. He also served in Baghdad from 2009-2010 as Minister Counselor for Economic Coordination, responsible for U.S.-Iraq economic policy issues. In the interim he served in the Department of State as the Director of the Office of Iraq Affairs and briefly as Acting Deputy Assistant Secretary of State for Maghreb Affairs. Between 2006 and 2009 he served as the U.S. Consul General in Auckland.

Ambassador Desrocher has extensive experience in international trade and in the Arab world. Immediately prior to his assignment to Auckland he served as Counselor for Economic and Political Affairs at the U.S. Embassy in Cairo. He participated in Palestinian-Israeli economic negotiations while serving at the U.S. Consulate General in Jerusalem in the late 1990s and served as State Department desk officer for Iraq in the mid-1990s. While detailed to the Office of the U.S. Trade Representative, he led portions of free trade negotiations with Chile and Singapore. He also served in the U.S. Embassies in Monrovia and Bonn as well as in the State Department Operations Center and Office of European Union Affairs.

Ambassador Desrocher, a graduate of the Edmund A. Walsh School of Foreign Service at Georgetown University, is a multiple recipient of the State Department's Superior and Meritorious Honor Awards. He speaks French and German.

Ambassador Desrocher is married to Ms. Karen Rose.

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United States Department of State

U.S.-ALGERIA RELATIONS

The United States and Algeria established diplomatic relations in 1962 following Algeria's independence from France. Algeria severed relations with the United States in 1967 in the wake of the Arab-Israeli War, but reestablished relations in 1974.

Algeria is a strategically located and capable partner with which the United States has strong diplomatic, law enforcement, economic, and security cooperation. The United States and Algeria conduct frequent civilian and military exchanges. Most recently, Deputy Secretary of State John Sullivan visited Algiers in June 2018 and opened the fifth annual Algeria-U.S. Counterterrorism Dialogue with Foreign Minister Abdelkader Messahel.

Algeria plays a constructive role in promoting regional stability, particularly in Libya and Mali.

U.S. Assistance to Algeria

U.S. engagement in Algeria has three primary objectives: expanding our security and military partnership, growing economic and commercial links, and building educational and cultural ties between Algerians and Americans.

Exchanges of expertise play a valuable role in strengthening the U.S.-Algeria law enforcement and security partnership at both the senior and working levels. These relationships have never been stronger, in part as a result of a recently-concluded Mutual Legal Assistance Treaty. Programming from the State Department's Bureau of Counterterrorism (CT) enables us to partner with Algerian law enforcement and security agencies to help interdict and investigate a wide variety of crimes and terrorist activities occurring in Algeria's border region by focusing on three strategic areas of capability: forensics, criminal investigations, and border security.

Our Middle East Partnership Initiative (MEPI) has supported the work of Algeria's civil society through programming that provides training to journalists, business people, female entrepreneurs and parliamentarians, legal professionals, and the heads of leading non-governmental organizations.

There are close to 5,000 alumni of U.S. government exchange programs throughout Algeria. Our programs support youth entrepreneurship and English language learning and teaching, women's empowerment, media engagement, and cross-cultural dialogue.

Bilateral Economic Relations

The United States is one of Algeria's top trading partners, and Algeria is one of the top U.S. trading partners in the Middle East/North African region. Most U.S. direct investment in Algeria has been in the hydrocarbon sector. The main U.S. import from Algeria is crude oil. The two countries have signed a trade and investment framework agreement that provides a platform to address impediments in the economic relationship and identify paths to broader commercial interaction. The United States supports Algeria's desire to diversify its economy, accede to the World Trade Organization, move toward transparent economic policies, and liberalize its investment climate.

In April 2018, the United States and Algeria signed a ten-year extension to their Agreement on Science and Technology Cooperation.

Algeria's Membership in International Organizations

Algeria and the United States belong to a number of the same international organizations, including the United Nations, International Monetary Fund, and World Bank. Algeria is an active member of the Global Counterterrorism Forum (GCTF) and serves as the co-chair of the organization's West Africa Working Group. Algeria is also a Partner for Cooperation with the Organization for Security and Cooperation in Europe, an observer to the

Organization of American States, and an observer to the World Trade Organization. It also occasionally provides airlift and other logistical support to UN and AU peacekeeping operations.

Bilateral Representation

The U.S. Ambassador to Algeria is John P. Desrocher; other principal embassy officials are listed in the Department's Key Officers List.

Algeria maintains an embassy in the United States at 2118 Kalorama Rd NW, Washington, DC 20008 (tel. 1-202-265-2800).

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Country Report

Algeria

Generated on June 24th 2019

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide. The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l'Athénée 32
1206 Geneva
Switzerland

Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

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Symbols for tables

"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

Algeria

Summary

Outlook for 2019-23

Data and charts

Summary

Recent analysis

Politics

Economy

Briefing sheet

Editor: **Keren Uziyel**

Forecast Closing Date: **June 12, 2019**

Political and economic outlook

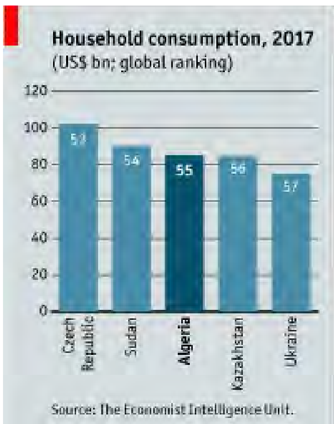
- A prolonged delay to the presidential election—probably to 2021—is likely, following the resignation of Abdelaziz Bouteflika. Given the divided opposition, we believe that elements of the establishment (le pouvoir) will retain power, despite ongoing protests.
- Jostling among the elite over the presidential succession will prompt instability and delay economic reforms. This will hamper efforts to diversify the economy away from energy, but a clear-out of vested interests could facilitate progress later in the forecast period.
- Public-sector stimulus will fail to lift real GDP growth in 2019-20, as private investment will weaken until there is greater clarity about the political outlook. GDP growth will pick up from 2021, mainly reflecting firmer exports as gas output accelerates.
- After rising in 2019, amid political uncertainty and populist measures the fiscal deficit as a proportion of GDP will trend more significantly downward from 2021. However, at an annual average of 6.8% in 2019-23 the deficit will remain high. Public debt will rise.
- We expect the Algerian dinar to continue to depreciate (albeit slowly) in 2019-23, given political instability and the weak external position. The currency is forecast to reach AD131:US$1 at the end of 2023.
- Despite a sharp fall in the current-account deficit, to 5.8% of GDP a year in 2022-23, modest investment growth and drawdowns for fiscal financing mean that foreign reserves will drop, cutting import cover to 12 months at end-2023, from 16.3 months at end-2018.

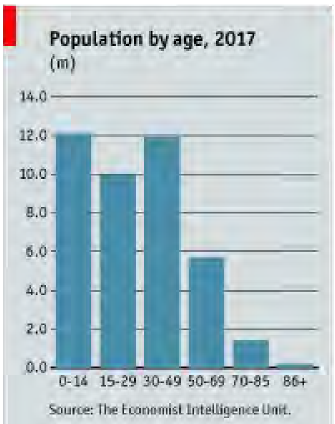
Key indicators

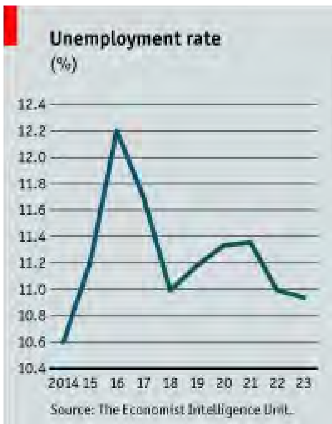
	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
Real GDP growth (%)	1.5	2.0	2.3	2.9	3.4	3.3
Consumer price inflation (av; %)	3.5[c]	3.9	4.4	5.5	5.7	4.9
Government balance (% of GDP)	-6.0	-8.4	-7.8	-6.6	-5.4	-5.7
Current-account balance (% of GDP)	-9.5	-8.3	-9.5	-7.4	-5.9	-5.7
Money market rate (av; %)	4.4[c]	2.9	3.6	3.0	3.3	3.6
Unemployment rate (%)	11.0	11.2	11.3	11.4	11.0	10.9
Exchange rate AD:US$ (av)	116.6[c]	120.3	125.0	127.7	129.3	130.5

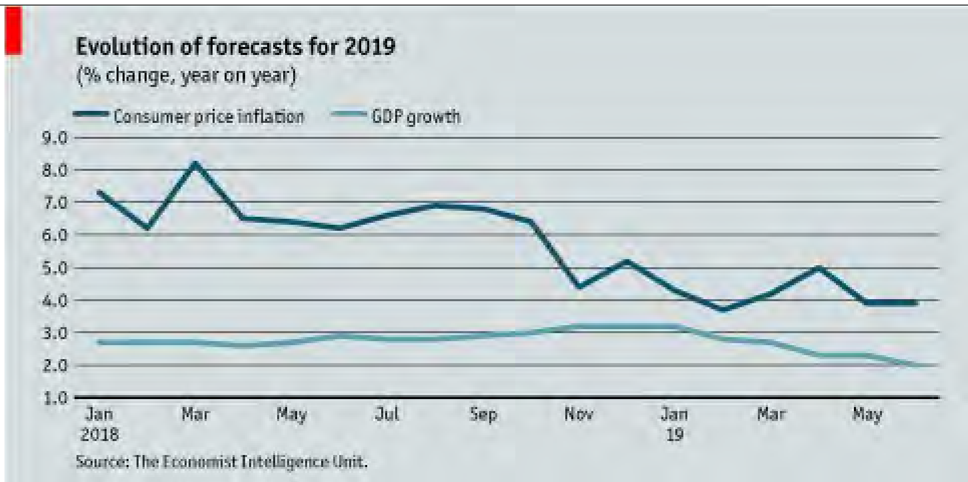
[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual.

Market opportunities









Key changes since May 13th

- Following the resignation of Mr Bouteflika in April, a new election was scheduled to be held within 90 days, but the constitutional court has ruled that it cannot take place on July 4th as planned. We now expect the vote to be delayed until 2021.
- The replacement of the head of the state oil firm, Sonatrach, the postponement of a new election and a likely delay in approving a new hydrocarbons law mean that progress in attracting greater foreign participation will be pushed back to later in forecast period.
- We have altered our fiscal forecasts to reflect the shift in the election date and a bigger deficit in the first half of the forecast period, as the regime tries to spend to alleviate political pressures and as the interim government fails to address its finances.

The month ahead

- **June 14th—Oil output, IEA's Oil Monthly Report (May 2019):** Algeria has been producing just above 1.02m barrels/day—within its OPEC quota—but even if quotas are lifted or eased, output capacity remains constrained. Growth in hydrocarbons output will come from the gas sector, with a range of new projects coming on stream.
- **TBC—Confirmation of presidential election date:** Following Mr Bouteflika's resignation a proposed date of July 4th was given for the rescheduled presidential election, but the constitutional court has ruled that this date would not be achievable. However, it has yet to offer an alternative, and a long delay is likely given ongoing instability.

Major risks to our forecast

Scenarios, Q2 2019	Probability	Impact	Intensity
Efforts towards a democratic transition fail and result in a full military takeover	Very High	High	20
Further mass protests against the new transitional government or its successor continue to disrupt policymaking	Very High	High	20
Vested interests block or reverse the already limited deregulation in their sectors	Very High	High	20
Algeria continues to suffer from shortages of specialised labour	High	Very High	20
Ongoing protests spiral out of control and a harsh crackdown by security forces provokes further confrontations and violent political upheaval	High	Very High	20

Note: Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
Source: The Economist Intelligence Unit.

Outlook for 2019-23

Political stability

The near-term political outlook is highly uncertain after the resignation on April 2nd of the long-serving but ailing president, Abdelaziz Bouteflika. According to the constitution, his departure should have precipitated a fresh election within 90 days (the vote was originally scheduled for April 18th), but the constitutional court has ruled that the scheduled date of July 4th was not achievable. Public discontent with the nature of the transition, specifically with regard to the continued dominance of traditional elites, suggests that further obstacles to a new election are likely.

The speaker of the upper house of parliament, Abdelkader Bensalah, is the interim president. However, it is the military, under the leadership of the chief of staff, General Ahmed Gaïd Salah, that has taken the pre-eminent role in the political transition, pushing Mr Bouteflika towards his resignation and subsequently influencing a clear-out of many political and business leaders regarded as closest to the previous regime, as well as potential political rivals. Protesters view both the military and Mr Bensalah as too closely linked to the old system of government, where a coterie of politicians, business leaders and military figures, known as le pouvoir, held power and will therefore continue to push for substantive political change. However, the opposition remains fragmented, and it is unclear whether it has the capability to counter the influence of the military in dominating the political agenda. This is likely to lead to an extended period of political uncertainty and policy deadlock—with the occasional populist measure—and continued political opacity.

Power has long rested with le pouvoir. The members of this group have essentially determined official policy in recent years, given that Mr Bouteflika's health was so poor. There is some consensus among the members about the need for a managed political transition, but they will compete over the preferred candidate, with significant jostling for position. Protesters will continue to take to the streets to demand genuine political change, with ongoing resistance to the type of transition that le pouvoir would prefer.

The opposition is divided and without a clear choice of candidate for the presidential election. Given that elections in Algeria are neither fully free nor fair, the uneven playing field makes it more likely that the regime's candidate will secure victory, despite recent protests. This will increase the risk of prolonged social unrest, but The Economist Intelligence Unit's central forecast is that the powerful security forces will mean that the country avoids a violent upheaval. However, the fear of a repeat of the civil conflict of the 1990s is beginning to lose its restraining effect in a country where a youthful population is pressing for meaningful political change.

Regardless of the election outcome, transnational militant groups operating in North Africa and the Sahel will pose a domestic security threat in 2019-23, exacerbated by security problems in neighbouring Libya, Mali and Tunisia. An escalation of domestic political tensions in Algeria may even heighten the risk posed by these groups. Despite the army's intensive anti-terrorism operations, the return of jihadis from fighting in Libya, Iraq and Syria—as well as the country's vast desert regions, rugged mountainous terrain and porous borders—sustain the risk of terrorist attacks.

Election watch

Mr Bouteflika was succeeded by Mr Bensalah, who was constitutionally mandated to act as interim president until a fresh election could be held within 90 days of Mr Bouteflika's resignation. However, the constitutional court has ruled that holding the election by then would not be achievable. This leaves Mr Bensalah's position uncertain, given that he lacks a popular mandate but must also keep the military onside. In view of the prolonged delay to the election, which we are now forecasting may not be held until 2021, we expect Mr Bensalah to be replaced. Opposition groups have yet to coalesce around a strong candidate or a clear policy platform, but there is also no obvious candidate from within the regime, with General Gaïd Salah and his political circle likely to select a comparatively less well-known candidate with fewer ties to Mr Bouteflika, but still sufficiently malleable for existing power-brokers to retain effective control.

There is in theory scope for an opposition candidate to win the presidential election, capitalising on public disquiet about the regime's efforts to select a hand-picked successor (as well as existing frustrations about rising prices, a lack of access to public services, poor public-sector pay, high unemployment and a shortage of housing). However, we expects that the opposition will struggle to secure a victory, even with further delays to the eventual election date. Despite deep-seated public frustration with Mr Bouteflika and the regime he formed, our central forecast is that elements of the ruling elite will retain power, reflecting a strong incumbency bias and an uneven electoral playing field.

The next parliamentary election is not due until 2022 and is likely to produce another pro-regime majority. Elections are not fully competitive, and parliament serves more to formalise regime decisions than to act as an independent source of or major influence on legislation.

International relations

The threat to Algeria's security from transnational militant Islamist groups, including cells operating from Libya and Mali, will remain a key consideration of foreign policy. The government will back international measures aimed at fostering reconciliation in those two countries and deepening regional co-operation on a multilateral and bilateral basis on a range of issues, especially security. Maintaining a constructive relationship with the EU will also be a priority for Algeria, as Europe is a major destination for Algerian natural gas exports, although there will be differences over illegal migrants and human rights. Algeria will also try to build commercial ties with Turkey—a major trading partner—and its Sub-Saharan African neighbours in a bid to improve security and migration co-ordination. It will also seek greater trade and investment ties with China. Algerian-US relations are focused on dealing with militant Islamism and on US firms' interest in the hydrocarbons sector; given these common interests, relations are likely to remain cordial under Donald Trump's US presidency. Algeria's ties with neighbouring Morocco will remain complicated by the countries' opposing views on the status of the disputed territory of Western Sahara, despite an increasingly conciliatory approach over bilateral ties. However, military confrontation is highly unlikely, even if reconciliation proves to be an arduous process.

Policy trends

Political volatility will lead to disruptions in already convoluted decision-making and policy implementation well into the forecast period. In this context, the government's extremely ambitious targets—average annual growth of 6.5% in the non-oil economy in 2020-30, compared with about 1.5-2% in recent years, as well as a doubling of the contribution of manufacturing as a proportion of GDP to 10% by 2030—appear to be completely out of reach. Any efforts to improve the weak business environment will stall until there is further clarity on the political transition. There will be small and piecemeal initiatives aimed at demonstrating a change in approach and attempts to maintain momentum in attracting new investment into hydrocarbons, but overall, policy will remain inconsistent and too centred on the business interests of the political elite to achieve these goals. Policy implementation will remain poor.

The authorities will focus on maximising income from hydrocarbons, especially gas, through the state energy firm, Sonatrach. However, Sonatrach has also been hit by the political transition, although the new director of Sonatrach has committed to continue efforts to bring in greater foreign participation. Nevertheless, the planned reform to hydrocarbons legislation is likely to be put on hold in the coming months. Sonatrach will still maintain a minimum 51% stake, but a more attractive production-sharing agreement framework is likely. Assuming that it is eventually passed in 2020-21, it will probably herald greater foreign investment in the sector in the longer term, as well as strengthen output, albeit beyond the 2019-23 forecast period. Economic diversification will be hit by frequent politically motivated policy reversals, although there will be limited efforts to attract greater foreign participation, especially in the mining, infrastructure and renewable energy sectors, and particularly from China. Policy uncertainty will continue to weigh heavily on the business environment.

Although global oil prices are expected to average US$69.5/barrel in 2019-23, this price stabilisation comes after a major drawdown of government resources in 2014-17. Political instability is likely to result in a considerable weakening of fiscal discipline. Public discontent and opposition from powerful business elites, who feel that their interests would be threatened by structural reforms that would boost competition and address import monopolies, will hinder such reform.

Fiscal policy

Political uncertainty is likely to lead to a sharp rise in fiscal expenditure (and the overall deficit) in 2019, and the deficit will remain high, given prolonged political uncertainty and likely further delays to the new election. In the aftermath of the election the winner will seek to bolster his position, limiting serious fiscal consolidation efforts, although higher oil prices will boost revenue, leading to a reduction in the deficit later in the forecast period. Nevertheless, the deficit will remain fairly large throughout 2019-23. The authorities will struggle to trim spending, as they remain under pressure to increase public-sector pay, and given the troubled security situation in the region, defence spending (currently about 16% of the total) will stay high. Spending will rise in nominal terms throughout the forecast period.

Non-oil revenue growth will be hampered by the effects of policy uncertainty and will be further constrained by the small formal private sector, as well as by capacity constraints. The government will continue to rely heavily on energy income. The 2019 budget assumes an oil price of US$50/b and therefore for revenue to weaken markedly, but we expect prices to average US$69.5/b in 2019-23, supporting stronger oil revenue on average, with rising gas production—after several years of decline—also boosting fiscal earnings. Banque d'Algérie (BdA, the central bank) will continue its unconventional funding programme of buying Treasury bills and hence monetising the fiscal deficit. We expect the fiscal deficit to widen to 8.4% of GDP in 2019 and to remain high in 2020, at 7.8%. The deficit will narrow more sharply in 2021-22, to reflect higher global oil prices but widen slightly again in 2023 amid falling oil prices. It will average 6.8% of GDP in 2019-23. Sizeable annual deficits mean that public debt will edge up but remain modest, at 45.6% of GDP in 2023.

Monetary policy

Despite relatively high energy prices and the part-monetisation of the fiscal deficit through a quantitative easing (QE) programme in place since September 2017, which is pushing up the money supply, overall liquidity levels in the financial system are expected to remain relatively low, and as a result we expect the BdA to maintain its QE programme in the first half of our forecast period. The central bank will begin to make more active use of its discount rate, which has stayed unchanged since it was raised to 3.75% in early 2017, to signal its more assertive monetary policy stance. The BdA is also planning to increase its reliance on open market operations as a key monetary tool. Despite continued currency vulnerability, we expect the BdA to maintain a relatively loose monetary stance in 2019-23 as it seeks to sustain lending to the private sector to support the economic diversification process. With government borrowing easing, private-sector credit will become more accessible later in the forecast period, even though interest rates will creep up marginally as the economy stabilises.

International assumptions

	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.2	1.7	1.8	2.0	1.7
OECD GDP	2.2	1.7	1.6	1.8	1.9	1.8
World GDP	2.9	2.6	2.6	2.8	2.9	2.8
World trade	4.4	3.3	2.9	3.9	4.0	4.1
Inflation indicators (% unless otherwise indicated)						
US CPI	2.4	2.2	1.4	2.2	2.1	1.8
OECD CPI	2.5	2.2	1.9	2.1	2.1	2.1
Manufactures (measured in US$)	4.9	2.1	3.3	3.5	3.2	3.0
Oil (Brent; US$/b)	71.1	66.5	60.5	69.8	75.6	75.0
Non-oil commodities (measured in US$)	1.9	-4.4	3.5	3.0	2.0	0.7
Financial variables						
US$ 3-month commercial paper rate (av; %)	2.0	2.6	2.2	2.1	2.5	2.9
Exchange rate AD:US$ (av)	116.6	120.3	125.0	127.7	129.3	130.5
Exchange rate US$:€ (av)	1.18	1.13	1.18	1.21	1.24	1.24

Economic growth

Real GDP growth was hit in 2018 by declining oil output, although this trend reversed later in the year. Growth will recover slightly in 2019, to 2%, as new gas fields come on stream (OPEC-mandated quotas and aging fields will constrain oil output growth in 2019). However, weaker private consumption, reflecting higher inflation, and lower private-sector investment (as a consequence of political volatility) will take the edge off overall GDP growth in 2019-20, but we forecast an acceleration to an annual average GDP growth rate of 3.2% in 2021-23, as hydrocarbons investment rises and domestic demand increases.

Private consumption growth will remain fairly subdued until later in the forecast period as a result of political uncertainty and low wage growth, which will dent consumer confidence and disposable income. Exports will be stronger than in recent years as stagnating oil output is offset by higher natural gas production. Efforts to diversify the economy away from hydrocarbons will proceed haltingly, with the operating environment for private business remaining restrictive and policy remaining inconsistent, which will discourage investment in non-oil sectors. Domestic private investment will be constrained by continuing inadequacies in local financing, exacerbated by heavy government borrowing in recent years, which will crowd out the private sector, despite supportive interest rates.

As a result, energy-related developments will continue to have a significant effect on overall growth. Little new oil is set to come on stream, although the authorities will seek to develop the downstream subsector. Natural gas production will rise again during the forecast period, with several projects coming on stream, providing some support for GDP growth.

Economic growth

%	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
GDP	1.5	2.0	2.3	2.9	3.4	3.3
Private consumption	3.3	2.4	2.1	2.5	3.3	3.4
Government consumption	3.3	4.0	3.2	2.9	2.2	2.0
Gross fixed investment	5.3	1.0	2.3	3.0	4.4	4.0
Exports of goods & services	1.4	1.3	2.1	2.5	3.1	3.5
Imports of goods & services	-1.3	1.8	2.9	3.4	4.2	4.4
Domestic demand	0.6	2.2	2.6	2.6	2.6	2.6
Agriculture	6.0	2.0	3.2	4.0	3.5	2.6
Industry	-1.5	3.3	2.4	4.0	3.0	4.0
Services	2.5	1.1	2.0	1.8	3.6	3.0

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Inflation

Price pressures dipped in early 2019 owing to a brief strengthening of the currency, with money supply growth accelerating as a result of the ongoing part-monetisation of the fiscal deficit and currency weakening. However, we expect inflation to increase in the first half of the forecast period, despite modest demand growth. Price pressures will be especially high in 2020-21, aggravated by the effects of more significant dinar depreciation and more robust domestic demand pressures. We forecast average inflation of 4.9% in 2019-23.

Exchange rates

Driven by a recovery in global oil prices the Algerian dinar stabilised at AD118-119:US$1 from early October 2018, but some downward pressure has been felt amid increasing political uncertainty and weaker oil prices compared with 2018. A still-large current-account deficit will also exert downward pressure on the dinar. The BdA will seek to buttress the currency in order to contain imported price pressures, with the large stock of foreign reserves providing some scope for doing so in the short term. However, the sharp fall in reserves, from a peak of US$195bn at end-2013 to around US$76bn in February 2019, means that the BdA's longer-term scope for intervention will be more limited, particularly since the continued sharp fall in reserves will itself be a source of speculative pressure. We expect the dinar to end 2023 at AD131:US$1, compared with an average of AD120:US$1 in 2019.

External sector

The external accounts will continue to be driven by developments in oil and gas exports, so a fall in average energy prices will keep the current-account deficit elevated in 2019-20, despite higher export volumes. A recovery in energy prices, coupled with firmer growth in export volume growth, will narrow the merchandise deficit (except in 2020) and contribute to a fall in the current-account deficit as a proportion of GDP in 2021-23. Payments to international energy and construction firms are the main debit on the services account, which will remain in deficit. As a share of GDP, the services deficit will narrow slightly in 2019-23, reflecting weak import demand. The primary income deficit surged in 2018 but will narrow as a proportion of GDP over the forecast period, owing to rising foreign income and slow growth in interest payments, and the secondary income surplus will be fairly stable. The current-account deficit (which we expect to average 7.4% a year in 2019-23) will be covered primarily by drawing down Algeria's significant (but declining) international reserves, which will start to pick up again only in 2022-23. A smaller proportion of the shortfalls will be covered by foreign direct investment inflows, but the authorities will remain reluctant to borrow from abroad in large amounts.

Forecast summary

Forecast summary
(% unless otherwise indicated)

	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
Real GDP growth	1.5	2.0	2.3	2.9	3.4	3.3
Crude oil ('000 b/d)	1,043[c]	1,033	1,039	1,046	1,055	1,065
Natural gas production (bn cu metres)	100	105	111	116	122	128
Hydrocarbon exports (US$ bn)	38.3	39.1	39.5	44.8	49.5	51.5
Unemployment rate (av)	11.0	11.2	11.3	11.4	11.0	10.9
Consumer price inflation (av)	3.5[c]	3.9	4.4	5.5	5.7	4.9
Consumer price inflation (end-period)	2.4[c]	5.0	4.9	5.1	5.2	4.4
Government balance (% of GDP)	-6.0	-8.4	-7.8	-6.6	-5.4	-5.7
Exports of goods fob (US$ bn)	40.0	40.7	41.0	46.5	51.5	53.6
Imports of goods fob (US$ bn)	48.3	49.1	51.0	53.7	56.6	59.0
Current-account balance (US$ bn)	-16.7	-15.6	-17.4	-14.7	-12.6	-13.3
Current-account balance (% of GDP)	-9.5	-8.3	-9.5	-7.4	-5.9	-5.7
External debt (end-period; US$ bn)	6.0	6.3	7.5	8.9	10.2	11.3
Exchange rate AD:US$ (av)	116.61[c]	120.29	124.98	127.74	129.33	130.50
Exchange rate AD:US$ (end-period)	118.29[c]	122.73	126.66	129.14	129.82	130.99
Exchange rate AD:¥100 (av)	105.59[c]	109.30	114.95	121.81	128.74	135.83
Exchange rate AD:€ (av)	137.77[c]	136.40	147.48	154.25	160.05	161.82

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual.

Data and charts

Annual data and forecast

	2014[a]	2015[a]	2016[a]	2017[a]	2018[b]	2019[c]	2020[c]
GDP							
Nominal GDP (US$ bn)	213.8	163.7	160.2	170.5	174.8[a]	186.7	183.6
Nominal GDP (AD bn)	17,229	16,713	17,525	18,907	20,385[a]	22,461	22,944
Real GDP growth (%)	3.8	3.8	3.3	1.6	1.5	2.0	2.3
Expenditure on GDP (% real change)							
Private consumption	3.8	3.7	3.0	1.8	3.3	2.4	2.1
Government consumption	1.1	3.1	1.3	1.3	3.3	4.0	3.2
Gross fixed investment	6.4	5.7	3.5	3.4	5.3	1.0	2.3
Exports of goods & services	0.2	0.6	8.7	-5.3	1.4	1.3	2.1
Imports of goods & services	8.4	6.4	-3.0	-5.5	-1.3	1.8	2.9
Origin of GDP (% real change)							
Agriculture	2.5	6.0	1.8	1.0	6.0	2.0	3.2
Industry	3.3	3.2	5.6	2.1	-1.5	3.3	2.4
Services	7.4	4.9	2.7	3.4	2.5	1.1	2.0
Population and income							
Population (m)	39.1	39.9	40.6	41.3	42.1	42.9	43.7
GDP per head (US$ at PPP)	14,247	14,658	15,025[b]	15,548[b]	15,856	16,198	16,576
Recorded unemployment (av; %)	10.6	11.2	12.2	11.7	11.0	11.2	11.3
Fiscal indicators (% of GDP)							
Public-sector balance	-7.3	-15.3	-13.0	-6.4	-6.0	-8.4	-7.8
Public-sector debt interest payments	0.2	0.3	0.3	0.8	1.0	1.1	1.5
Public debt	7.2	14.9	19.4	27.0	30.1	34.8	38.4
Prices and financial indicators							
Exchange rate AD:US$ (av)	80.57	102.11	109.37	110.89	116.61[a]	120.29	124.98
Exchange rate AD:€ (av)	107.06	113.30	121.03	125.23	137.77[a]	136.40	147.48
Consumer prices (av; %)	3.9	4.4	5.8	5.9	3.5[a]	3.9	4.4
Stock of money M1 (% change)	16.1	-3.3	1.6	9.1	9.8	12.6	11.4
Stock of money M2 (% change)	14.4	0.3	0.8	8.4	10.0	12.0	11.2
Lending interest rate (end-period; %)	8.0	8.0	8.0	8.0	8.0[a]	8.0	8.1
Current account (US$ m)							
Trade balance	450	-18,080	-20,130	-14,410	-8,310	-8,396	-9,985
Goods: exports fob	60,130	34,570	29,310	34,580	39,996	40,655	41,026
Goods: imports fob	-59,670	-52,650	-49,430	-48,990	-48,305	-49,051	-51,012
Services balance	-8,140	-7,520	-7,340	-8,000	-7,460	-7,344	-7,434
Primary income balance	-4,810	-4,450	-1,570	-2,590	-3,958	-3,204	-3,233
Secondary income balance	3,220	2,770	2,820	2,950	3,070	3,392	3,243
Current-account balance	-9,280	-27,280	-26,220	-22,060	-16,657	-15,552	-17,409
External debt (US$ m)							
Debt stock	5,521	4,671	5,463	5,699	5,954	6,272	7,516
Debt service paid	299	691	357	233	245	327	520
Principal repayments	235	582	302	169	184	260	447
Interest	65	109	55	64	61	66	73
Debt service due	299	691	357	233	245	327	520
International reserves (US$ m)							
Total international reserves	179,901	144,948	114,653	97,891	80,499[a]	70,535	63,084

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.
Sources: IMF, International Financial Statistics; Banque d'Algérie.

Quarterly data

	2017			2018				2019
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Prices								
Consumer prices (2010=100)	206.2	206.7	209.5	210.2	215.2	214.7	216.6	216.9
Consumer prices (% change, year on year)	5.3	5.0	5.6	2.4	4.3	3.9	3.4	3.2
Petroleum prices Saharan-46 (US$/barrel)	49.2	51.9	62.0	67.6	74.3	75.4	67.5	63.3
Financial indicators								
Exchange rate AD:US$ (av)	109.1	110.0	114.8	114.1	115.7	118.0	118.6	118.7
Exchange rate AD:US$ (end-period)	107.8	113.2	114.9	114.1	116.3	117.9	118.6	119.5
Deposit rate (av; %)	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Discount rate (end-period; %)	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Lending rate (av; %)	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Treasury bill rate (av; %)	1.6	2.0	2.2	2.3	2.3	2.5	2.5	2.9
M1 (end-period; AD bn)	9,828	9,920	10,266	4,921	10,868	10,995	n/a	n/a
M1 (% change, year on year)	3.1	2.1	9.1	10.2	10.6	10.8	n/a	n/a
M2 (end-period; AD bn)	14,406	14,574	14,975	15,638	15,995	16,159	n/a	n/a
M2 (% change, year on year)	3.7	3.5	8.4	9.3	11.0	10.9	n/a	n/a
Sectoral trends								
Crude petroleum production ('000 barrels/day)	1,093	960	988	1,013	1,027	1,063	1,067	1,026
Foreign trade (US$ m)								
Exports fob	8,097	8,095	9,487	10,124	10,140	9,231	9,757	n/a
Imports cif	-11,306	-10,628	-11,200	-10,550	-10,893	-10,068	-12,839	n/a
Trade balance	-3,209	-2,533	-1,713	-426	-753	-837	-3,082	n/a
Foreign reserves (end-period; US$ m)								
Reserves excl gold (end-period)	106,554	102,666	97,614	94,817	88,958	86,427	80,228	n/a

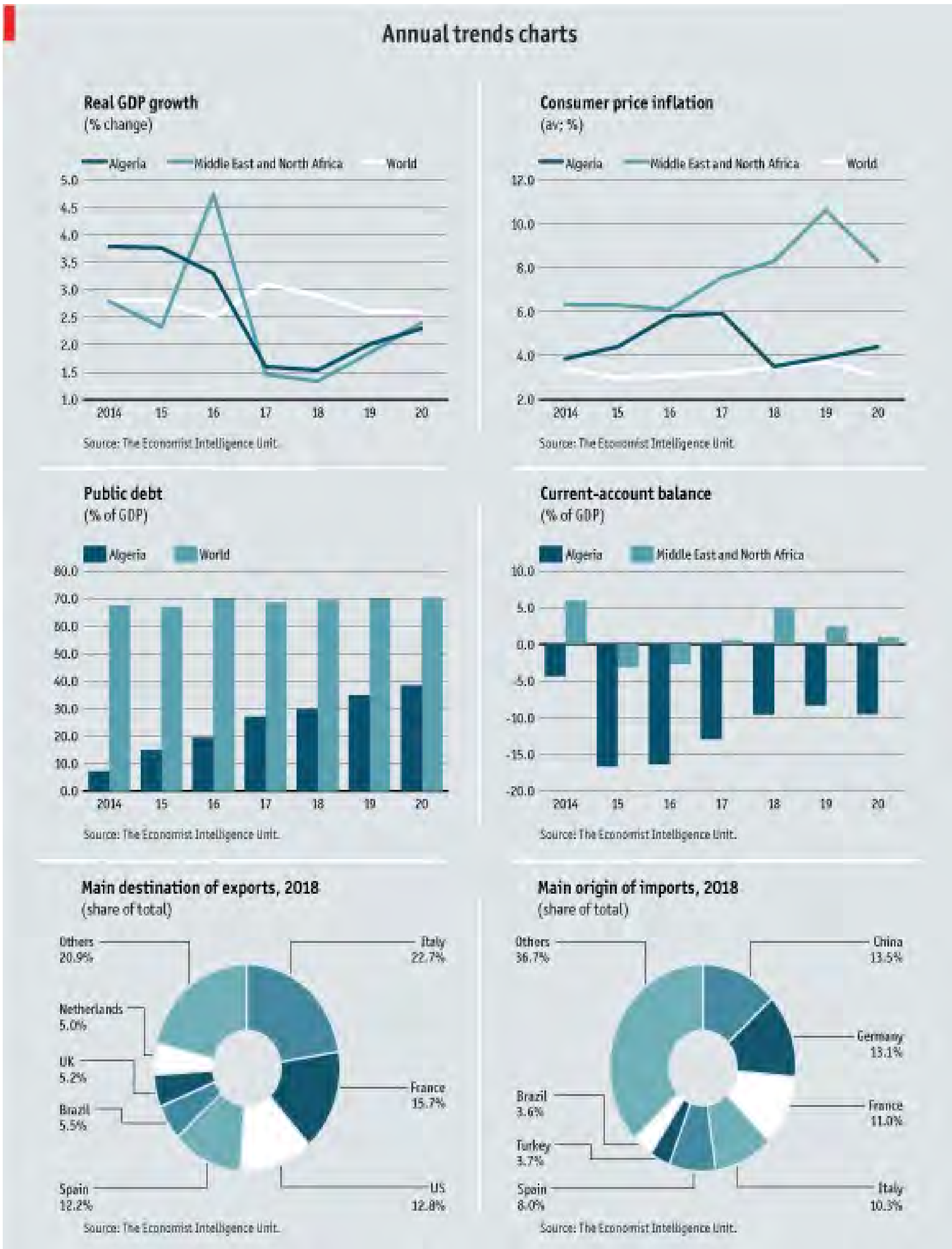
Sources: IMF, International Financial Statistics; Oil Market Intelligence; International Energy Agency, Oil Market Report; Office national des statistiques, Statistiques Algérie.

Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate AD:US$ (av)												
2017	110.05	109.93	109.88	109.95	108.94	108.40	108.72	109.62	111.74	114.13	115.07	115.24
2018	114.30	113.86	114.04	114.22	115.97	116.97	117.68	118.40	117.99	118.67	118.52	118.52
2019	118.33	118.62	119.05	119.41	119.63	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate AD:US$ (end-period)												
2017	109.69	110.18	110.01	109.35	108.58	107.85	108.44	110.89	113.21	115.22	115.04	114.93
2018	113.43	114.44	114.08	114.89	116.45	117.67	117.70	117.88	118.16	118.99	118.47	118.29
2019	118.00	118.43	119.48	119.58	119.87	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (2010=100; CPI-basis)												
2017	79.36	78.98	79.13	79.00	78.05	77.50	75.93	74.86	73.23	72.55	72.42	72.01
2018	70.53	70.09	70.07	70.64	72.64	73.36	72.97	73.73	73.78	74.18	74.54	73.88
2019	73.36	73.32	73.45	73.67	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)												
2017	-0.3	1.6	3.2	-0.7	-4.6	3.1	4.9	3.3	2.1	3.5	6.9	9.1
2018	11.3	13.5	10.2	13.0	15.8	10.6	10.5	10.5	10.8	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2017	-0.5	0.9	2.2	0.4	-4.2	3.7	5.3	4.5	3.5	4.6	6.9	8.4
2018	10.1	11.3	9.3	11.4	17.2	11.0	10.7	10.5	10.9	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Industrial production (% change, year on year)												
2017	-6.1	-5.2	-3.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Crude petroleum production ('000 barrels/day)												
2017	1,050	1,050	1,050	1,060	1,060	1,060	1,070	1,060	1,060	1,010	1,010	1,040
2018	1,020	1,040	980	990	1,040	1,050	1,060	1,060	1,070	1,070	1,070	1,060
2019	1,030	1,030	1,020	1,020	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2017	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
2018	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
2019	1.8	1.8	1.8	1.8	1.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2017	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
2018	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
2019	8.0	8.0	8.0	8.0	8.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2017	8.3	8.2	7.1	6.4	5.5	4.0	3.7	5.1	6.2	7.3	4.9	4.6
2018	3.0	2.5	1.8	2.5	4.7	5.9	4.7	4.1	2.9	3.7	4.0	2.4
2019	3.1	2.9	3.5	2.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total exports fob (US$ m)												
2017	2,923	2,737	3,033	2,906	2,979	2,212	2,740	2,583	2,772	2,803	3,247	3,437
2018	3,780	3,113	3,231	3,207	3,394	3,539	3,496	3,171	2,564	3,537	3,205	3,014
2019	3,116	3,418	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (US$ m)												
2017	4,011	3,808	3,780	4,087	3,968	3,251	3,792	3,828	3,008	3,926	3,615	3,659
2018	3,645	3,435	3,469	3,828	3,926	3,139	3,813	3,203	3,051	4,160	4,237	4,442
2019	3,471	4,229	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US$ m)												
2017	-1,088	-1,071	-747	-1,181	-989	-1,039	-1,052	-1,245	-236	-1,122	-369	-222
2018	134	-322	-238	-620	-532	399	-317	-33	-488	-622	-1,031	-1,428
2019	-354	-811	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ bn)												
2017	112.7	110.2	108.8	108.2	107.4	106.6	106.1	103.7	102.7	99.7	98.6	97.6
2018	98.3	95.7	94.8	93.2	90.9	89.0	88.7	87.5	86.4	84.4	82.5	80.2
2019	78.6	76.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

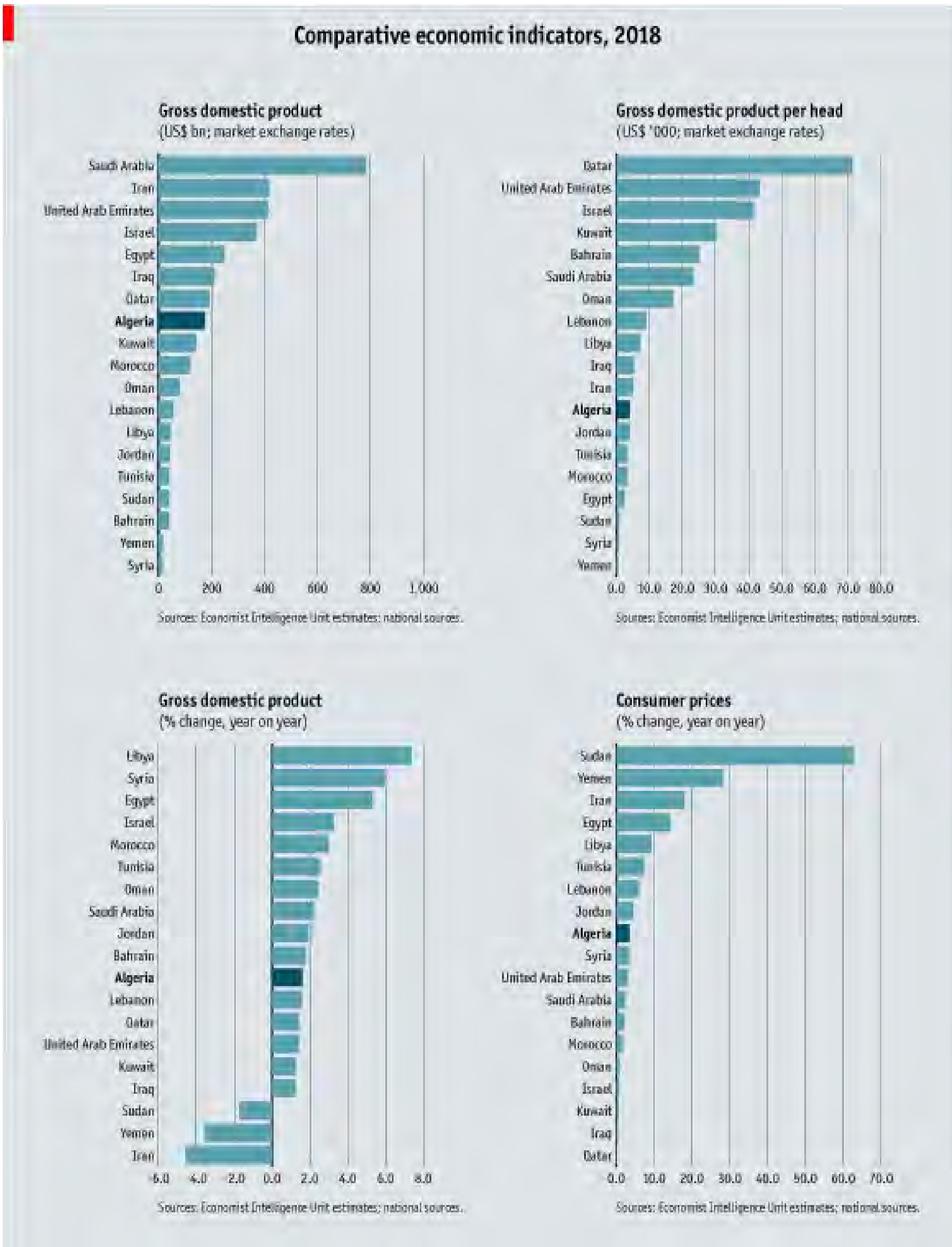
Sources: IMF, International Financial Statistics, Direction of Trade Statistics; Haver Analytics.

Annual trends charts



Monthly trends charts

Comparative economic indicators



Basic data

Land area

2,381,741 sq km

Population

42.2m (January 2018; Office national des statistiques)

Main towns

Population of main urban areas in '000s (2008; Office national des statistiques)

Algiers (capital): 2,947

Oran: 1,443

Constantine: 943

Annaba: 640

Climate

Temperate on the coast, hot and dry in the south

Weather in Algiers (altitude 59 metres)

Hottest month, August, 22-29°C; coldest month, January, 9-15°C (average daily minimum and maximum); driest month, July, 1 mm average rainfall; wettest month, December, 140 mm average rainfall

Language

Arabic (official); Berber language (Tamazight) and French are also used

Measures

Metric system

Currency

Algerian dinar (AD) = 100 centimes or 20 douros; AD118:US$1 (2018 average)

Time

GMT in the winter months; GMT plus one hour in the summer

Public holidays

All Muslim holidays are observed in accordance with the lunar calendar and the dates in 2019 are therefore approximate: Eid al-Fitr (June 4th-5th); Eid al-Adha (August 11th-12th); Islamic New Year (September 1st); Day of Ashura (September 9th); Prophet's birthday (November 10th)

Fixed public holidays: New Year's Day (January 1st); Labour Day (May 1st); Independence Day (July 5th); Anniversary of the Revolution (November 1st)

Political structure

Official name

People's Democratic Republic of Algeria

Legal system

Based on the constitution of 1976; revised in 1989, 1997 and 2016

Legislature

Bicameral: the lower house, the Assemblée populaire nationale, with 462 members, was first elected in June 1997; the upper house, the Conseil de la nation, which has 144 seats, was formed in December 1997, with two-thirds of its members elected through municipal polls and the remainder appointed by the president

National elections

April 2014 (presidential); May 2017 (legislative); November 2017 (provincial and municipal councils); a presidential election due to be held on April 18th was later delayed to July, and that date has again been postponed. The next legislative election is due in May 2022

Head of state

The president, Abdelaziz Bouteflika, resigned on April 2nd; the speaker of the upper house of parliament, Abdelkader Bensalah, will serve as interim president until fresh elections are held (these are constitutionally due within 90 days)

Executive

Council of Ministers presided over by the prime minister, appointed by the head of state

Main political parties

Front de libération nationale (FLN), previously the sole legal party; Rassemblement national démocratique (RND); Front des forces socialistes (FFS); Rassemblement pour la culture et la démocratie (RCD); Mouvement de la réforme nationale (El Islah; Islamist); Mouvement de la société pour la paix (MSP; Islamist); Parti des travailleurs (Labour Party)

The government

Prime minister: Noureddine Bedoui

Vice-minister of national defence, army chief of staff: Ahmed Gaïd Salah

Key ministers

Agriculture, fisheries & rural development: Cherif Amari

Communication: Hassene Rabhi

Defence: Vacant

Energy: Mohamed Arkab

Finance: Mohamed Loukal

Foreign affairs & international co-operation: Sabri Boukadoum

Health, population & hospital reform: Mohamed Miraoui

Higher education & scientific research: Bouzid Tayeb

Housing & urban development: Kamel Belhoud

Industry: Djamila Tamazirt

Interior & local government: Salah Eddine Dahmoune

Justice: Slimane Brahmi

Labour & social security: Hassan Tidjani Haddam

Moudjahidine (war veterans): Tayeb Zitouni

National education: Abdelhakim Belabed

National solidarity, family & women: Ghania Eddalia

Postal services, telecommunications, technology & digital affairs: Iman Houda Feraoun

Public works & transport: Mustapha Kouraba

Relations with parliament: Fethi Khouil

Recent analysis

Generated on June 24th 2019

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

Politics

Forecast updates

Ambush near Malian border kills 28 Nigerien troops

May 17, 2019: Political stability

Event

On May 15th a jihadi attack killed 28 Nigerien soldiers near Tongo Tongo, an area near the border with Mali where a group affiliated to Islamic State (IS) killed four US soldiers and five Nigerien troops in October 2017.

Analysis

The high-security Koutoukalé prison, located about 40 km north-west of Niger's capital, Niamey, is considered to be Niger's most secure prison. It holds convicted members from various jihadi groups active in the Sahel region, as well as militants from Boko Haram and high-risk inmates from neighbouring Mali. The prison is therefore a high-value target and was attacked in 2016. The authorities claim that they quickly repelled the latest raid (in which one injured soldier later died of his wounds) after being warned in advance. Subsequently, militants were able to lure the troops, who were pursing them, into an ambush at Tongo Tongo. The attack, in which the militants planted improvised explosive devices that damaged at least one vehicle before they opened fire, killed a further 28 troops.

The Islamic State in the Greater Sahara is the likeliest group to have carried out the attack. The group was responsible for the ambush in Tongo Tongo in October 2017 and operates across the border areas where Mali, western Niger and eastern Burkina Faso meet. Moreover, an IS-affiliated news agency, Amaq, claimed responsibility for the attack on May 16th, which would indicate that an IS affiliate was responsible (although Amaq has made false and unverified claims in the past).

The Koutoukalé prison attack and subsequent ambush came shortly after a visit to Niger by Karim Khan, a special adviser and the head of the UN Investigative Team to promote accountability for crimes committed by Daesh/Islamic State in Iraq and the Levant. Mr Khan publicly encouraged the Nigerien government to gather evidence that would enable IS leaders in West Africa to be prosecuted for war crimes. Moreover, his visit nearly coincided with the first video in several years from the IS leader, Abu Bakr al-Baghdadi, who emerged in late April to announce that he had received pledges of allegiance from militant leaders in Burkina Faso and Mali (and mentioned protests in Algeria and Sudan). The IS leader called for more attacks to demonstrate that his group had survived its defeat in Iraq and Syria, which may have spurred the recent violence.

Impact on the forecast

Our forecast that jihadi violence will continue in the Sahel region in 2019-20 remains unchanged.

Protests continue to put pressure on the authorities

May 23, 2019: Political stability

Event

On May 20th the chief of the Algerian armed forces, Ahmed Gaïd Salah, said that he believed that elections remained the best option for resolving the political crisis arising from the country's ongoing anti-regime uprising.

Analysis

His statement came as it has become increasingly apparent that protesters oppose holding elections under current conditions and are demanding that all elements of the former regime (*le pouvoir*) be replaced, which Mr Salah described as "unreasonable and dangerous". A presidential election is currently due to take place on July 4th, although media speculation over a possible postponement has grown. The local media have reported that at least 400 of Algeria's approximately 1,500 municipal authorities are refusing to help to organise elections.

Mr Salah's statement underscores the stand-off between the general—who appears to be Algeria's leading political power, despite nominally being subordinate to civilian authorities—and the protest movement, indicating the risks of an eventual destabilising confrontation between the two. In recent weeks the interim authorities have taken a harder line towards various forms of opposition, potentially adding to such risks. On May 9th the leader of the opposition Workers' Party, Louisa Hanoune, was arrested on charges of conspiring—together with with figures already in custody such as Saïd Bouteflika, the brother of the former president, Abdelaziz Bouteflika—against the army and state. Ms Hanoune admitted to having met Saïd Bouteflika, but her arrest also comes after she (unfavourably) compared Mr Salah to the Egyptian president, Abdel Fattah el-Sisi, appearing to suggest that Mr Salah was derailing the country's revolution. Despite her party's participation in the Bouteflika-era political system and her ties to the Bouteflika family, her arrest soon after such criticism nonetheless suggests a hardening in approach. A journalist for a state-owned broadcaster was also recently dismissed after commenting positively on the uprising, and security forces appear to be taking measures to block access to prominent protest venues.

Large protests have taken place in major cities every Friday since early February. Demonstrations in recent weeks have appeared to have fallen in size, suggesting that the protest may be losing momentum, although the advent of the Islamic holy month of Ramadan is also probably contributing to the decline.

Impact on the forecast

Protests demanding genuine political change will continue, resisting the type of transition that *le pouvoir* would prefer, making further delays to the electoral timetable likely, which we will incorporate in our forecasts. However, elements of *le pouvoir* will remain dominant.

Court rules that conditions for July election date not met

June 4, 2019: Political stability

Event

On June 2nd the Constitutional Council announced that the conditions for proceeding with a planned presidential election on July 4th had not been met, and called on the acting president, Abdelkader Bensalah, to relaunch the process.

Analysis

The Council said that it had reached the decision after examining the two presidency candidacy applications—from Abdelhakim Hamadi and Hamid Touahri (relatively obscure figures with no history of political activity)—and rejecting them both as invalid. We had expected the July election date to prove untenable. However, Mr Bensalah's mandate is set to expire on July 8th, which renders it improbable that he will be able to order a fresh election without an extension to his interim term. The other option is to create a transitional body to run Algeria, as has been recommended by some prominent opposition figures, although that would almost certainly lead to friction over its composition, between protesters and the military, the latter of which is currently the dominant political power.

Mr Bensalah had called for the election to take place on July 4th after he assumed his position on April 9th in accordance with Article 102 of the constitution, which specifies that the speaker of the upper house of parliament should assume the role of head of state for a maximum of 90 days in the event of a presidential vacancy. The former president, Abdelaziz Bouteflika, stepped down on April 2nd following mass protests against his bid to stand for a fifth term.

Protesters and opposition politicians have called for Mr Bensalah and the government of the prime minister, Noureddine Bedoui, to step down because of their association with the Bouteflika regime, and for a broad-based administration to oversee a national consultation on constitutional reform. The army commander, Ahmed Gaïd Salah, supported the plan for an election on July 4th, but he has also recognised the importance of Articles 7 and 8 of the constitution, which affirm the sovereignty of the people, and which appears to be an acknowledgement of public pressure for a delay.

Impact on the forecast

Given the depth of the opposition to the idea of holding elections under the current interim regime, it seems likely that Mr Bensalah and the armed forces will seek to explore the possibility of holding a national dialogue to resolve the political crisis, with elections likely to be delayed until late 2019 or beyond, as we had expected, but with the military retaining a strong influence.

Analysis

Political turmoil exposes impact of corruption on economy

June 3, 2019

Although levels of petty corruption in Algeria's public services appear to be relatively low by regional standards, graft remains a significant threat to business and the national economy. The issue has come under the spotlight in recent months, as the interim authorities have launched a wide-ranging and ongoing crackdown on alleged past instances of high-level corruption. However, the drive appears to be politicised, targeting figures associated with the former president, Abdelaziz Bouteflika, while leaving various other circles of influence and prominent institutions more or less untouched, and a significant rapid improvement in the situation appears unlikely under most circumstances.

In some respects, Algeria appears to perform relatively well by regional standards in terms of the extent of corruption, at least in its lower-level forms. Only 14% of Algerian respondents to a Transparency International survey in 2016 reported having paid a bribe to use a public service in the past 12 months—well below the figures of 48% and 50% registered in North African peers Morocco and Egypt respectively (although slightly above Tunisia, on 9%). Rates appear to be broadly consistent across different types of public service, at between 6% and 9% for each major service.

Petty corruption less of a problem than overall government oversight

Nonetheless, 69% of respondents to the 2016 survey rated the government as doing badly in the fight against corruption. Furthermore, the country appears to perform worse when it comes to the sorts of corruption more likely to affect business: Algeria is ranked joint 105th (together with Egypt) out of 180 countries (with the first-placed country the least corrupt) in Transparency International's 2018 Corruption Perceptions Index (CPI), which is based on the perceptions of businesspeople and country experts rather than public service users, with a score of 35 out of 100 (100 indicating no corruption). The country's score has improved only slightly compared with a decade ago, and its ranking has fallen from 92nd place since then, as other countries have made strides in addressing corruption.

Underscoring the risks posed to business by high levels of local corruption, in 2018 the UK's Serious Fraud Office launched a probe into alleged graft involving a UK firm's participation in a tender for Algiers' new airport terminal. However, only two US Foreign Corrupt Practices Act-related enforcement measures have been made in relation to activities in Algeria, although the small number may in part relate to the low level of foreign investment activity in the country outside of the energy sector.

Post-Bouteflika crackdown puts graft under the spotlight

Since the large protests that overthrew Mr Bouteflika erupted earlier in the year, the issue has been in the spotlight, as numerous public figures and businessmen—mostly associates of the deposed president—have been arrested on corruption-related charges (often in relation to the alleged rigging of public tenders). For example, on May 26th a prosecutor requested that the Supreme Court investigate two of the country's three most recent prime ministers, as well as eight other former ministers, on corruption charges. The current interim authorities also appear to be trying to demonstrate that they are taking the issue seriously, with the interim president, Abdelkader Bensalah, having dismissed the head of the country's Anti-Corruption Bureau (Office central pour la répression de la corruption) in mid-May.

Although it is possible that some of the figures recently detained on corruption-related charges were indeed involved in graft, the arrests are also likely to have been driven by political considerations and jockeying for leadership positions. The extent to which this is a genuine anti-corruption campaign by the country's interim rulers and the now-dominant military, as opposed to a round-up of Bouteflika associates aimed at appeasing popular grievances and eliminating prominent factional rivals, is still unclear.

Military insulated from latest campaign

That few senior army officers have been arrested as part of the crackdown (one senior figure has been detained on charges of improperly diverting military weapons, according to local press reports, to a prominent Bouteflika-linked oligarch) suggests that the anti-corruption efforts are being driven by political interest. Given that elements of the military are widely thought to be involved in corruption and to hold illicit business interests, this would also be in keeping with the nature of many past corruption crackdowns. Following the partial liberalisation of the economy in the late 1980s, numerous senior Algerian military figures are thought to have enriched themselves by using their influence to secure operating licences for favoured firms and privileged access to state contracts in return for a share of profit. Others are also thought to have directly monopolised various legal and illegal markets (in particular of imported and smuggled goods).

Under Mr Bouteflika, the economic influence of the military waned, with a coterie of civilian businessmen (widely described as oligarchs) linked to the president taking over the role of senior army officers to an extent, but the armed forces' influence is unlikely to have fully disappeared. A number of senior military officials were prosecuted on corruption charges in 2018, while Mr Bouteflika was still in power, but this also appears likely to have been more about factional political battles in the run-up to the now postponed April 2019 elections and amid regime jockeying as Mr Bouteflika's prospects of standing again faltered, rather than a genuine move to root out graft from the military. This is highlighted by the fact that head of the armed forces, General Ahmed Gaïd Salah, who appears to be leading the transitional authorities in practice, and his family appear to have ties of their own to prominent business figures, most of whom have so far escaped scrutiny.

Little likelihood of rapid progress under any political scenario

The military's past involvement in graft and croneyism in business practices and the fact that it appears so far to have been the main political beneficiary of Mr Bouteflika's overthrow, suggests that recent political developments are unlikely to herald a major corruption-related improvement in the local business environment. Indeed, the arrest of many of the major oligarchs linked to the Bouteflika clan might even allow for the army to reassert its past economic dominance.

Even if the continuing protest movement succeeds in bringing about genuinely democratic change as opposed to the continued dominance of elements of the ruling elite as we expect, it is far from certain that this would ensure a rapid improvement in corruption, given the extent to which it is entrenched in the economy, as well as the unpromising nature of recent developments in other regional countries. For example, Tunisia's performance in the CPI (in terms of both score and international rank) deteriorated in the years following its 2011 revolution, and although the situation has appeared to be improving again more recently, this has only taken its score back to where it was in 2010.

Economy

Forecast updates

Car import ban to be lifted

May 14, 2019: Policy trends

Event

The government announced on May 9th that it had decided to authorise the import of passenger cars, overturning a ban that had been in place for three years.

Analysis

Under the recent directive, imported cars must be no more than three years old, and the importer must finance the purchase from their own foreign-currency account. Further details, including financing mechanisms and the tariffs and taxes to be applied, are to be provided by the Ministry of Trade and the Ministry of Finance.

The government said that it had decided to take this measure because of concerns about the escalating costs of imports of completely or semi-knocked down kits. Imports of these kits reached US$3bn in 2018, according to customs data, as automotive firms have used this method to circumvent the finished vehicle ban and make cars available to the domestic market. A number of international car manufacturers have entered the market in recent years, but have had to deal with shifts in policy and taxation related to local content. The trade minister, Saïd Djellab, said that the lifting of the ban would bring external pressure on local assembly plants to lower their prices, which would benefit both consumers and the balance of payments.

Several dozen car assembly plants have been set up over the past five years as local business groups have taken advantage of both the import ban and the availability of tax exemptions on such projects. In June 2018 the government proposed to lift the value-added tax (VAT) exemption on car assembly, but this measure was rejected by parliament.

It is not clear why the government has chosen to take this measure during a period of extreme political turbulence. The prime minister, Noureddine Bedoui, was appointed on March 11th during the final days of the presidency of Abdelaziz Bouteflika. The replacement of the cabinet of Mr Bedoui by a new, broad-based government is among the demands of protesters who continue to press for a radical overhaul of the political system. Allowing car imports could be seen as a potentially popular measure, in the sense that it puts pressure on the assembly plant companies, which are widely perceived as being part of the privileged business nexus that emerged under the patronage of the Bouteflika regime.

Impact on the forecast

We will factor in some steps toward market liberalisation in certain sectors to help to contain popular demands, but more significant structural reform is unlikely.

Government introduces new measures to reduce imports

May 22, 2019: Policy trends

Event

Algérie Presse Service, the official news agency, reported that the government had decided to take various measures to reduce the country's import bill and maintain foreign-exchange reserve levels.

Analysis

The new measures include indefinitely extending a measure that permits deferred payments for imports (up to a maximum of one year) in some sectors. The government also plans to speed up the formulation of new rules on the import of knocked-down kits for car assembly (Algeria has banned imports of vehicles) and electronic goods, including minimum local integration requirements, local labour content requirements and a requirement for local producers to export a portion of their production.

Algeria imported US$920.9m worth of automotive knocked-down kits in the first quarter of 2019, according to recently released Customs Authority data, up by 21.4% year on year. The value of such imports has risen rapidly because of various measures the authorities have taken to restrict car imports (although the authorities announced in early May that they were relaxing a ban on used-car imports) and to encourage local production, including requiring local car dealers to enter into manufacturing partnerships. Given the lack of a developed local components industry, assembly has relied heavily on imported kits, and critics have argued that local assembly amounts to little more than a disguised import scheme.

Given this and other challenges, such as the difficulties faced by commodity exporters generally in developing local industry and Algeria's difficult business environment, measures aimed at reducing overall imports have had little success in recent years, and have been subject to rapid reversals. There is little reason to believe that the latest measures will have a substantially greater impact on imports or on international reserves, which have been steadily eroding since the post-2014 oil price slump, from a peak of close to US$200bn to US$76.2bn in February 2019. Furthermore, ongoing uncertainty over the political transition suggests that trade policy is likely to remain subject to sudden changes.

Impact on the forecast

We retain our external sector forecast that the current-account deficit (driven by the merchandise trade deficit) will narrow in the final years of the 2019-23 forecast period thanks to a recovery in energy prices and expanding gas exports, averaging 7.4% of GDP in 2019-23, but that foreign-exchange reserves will not recover to the levels seen prior to the post-2014 oil price slump.

Africa-wide free-trade agreement comes into force

May 30, 2019: External sector

Event

On May 30th the Africa Continental Free-Trade Agreement (AfCFTA)—signed so far by 52 of the 55 African Union (AU) member states—legally came into force ahead of a planned launch of a continental single market on July 7th.

Analysis

A minimum of 22 signatories had to ratify the AfCFTA for it to come into effect 30 days after the final submission of the 22nd ratification instruments, which were submitted on April 29th. Eritrea, Nigeria and Benin are yet to sign the AfCFTA, while 24 of the 52 countries have ratified the agreement. The AfCFTA will create the world's largest continental free-trade area, provided that all 55 AU members join it, and has the potential to be economically transformative for the region in the long term by creating a single market of 1.2bn consumers and workers, with tariffs on 90% of goods set to be eliminated over the next five years.

The AU hopes that the free-trade area will open up new markets for African businesses, while also ushering in an era of industrialisation. Although the impact of an increase in intra-African trade might be felt over the next decade, any near-term benefits will be constrained by the non-complementarity of regional trade; African countries are currently not producing the goods and services that their neighbours import. Moreover, the persistently low levels of intra-African trade thus far, despite the existence of several subregional customs unions, are symptomatic of structural problems that cannot be addressed solely through free-trade pacts.

The next step will be the implementation of the wide-ranging pact, which is set to begin from July 7th. This will be a complex process, given the costs of phasing out intra-regional tariffs, implementing new customs procedures, creating new inter-country infrastructure and other barriers. Moreover, although signatories have pledged support for the deal, ensuring that countries follow through on opening up their domestic markets, and do not seek to protect critical industries through high non-tariff barriers, will be a challenge. More details on the process of streamlining legislation for the single market will be finalised during an upcoming AU summit in Niger in July. International financial support for the AfCFTA (for instance, €50m from the EU for 2018-20) should go some way towards facilitating implementation.

Impact on the forecast

With the impact on trade of the continental single market expected to be limited during the 2019-23 forecast period, our forecasts of low intra-African trade for most countries remain unchanged.

Central bank tightens reserve requirements

June 3, 2019: Monetary policy outlook

Event

Banque d'Algérie (the central bank) has tightened monetary policy by ordering a further increase in the statutory reserve ratio that it applies to the balance sheet of commercial banks. This comes as central bank recent data show fiscal monetisation has picked up pace in early 2019.

Analysis

The obligatory statutory reserve ratio has been increased to 12% of total deposit liabilities, from 10% previously, as part of the central bank's effort to manage the surge in liquidity that has resulted from the government's unconventional finance programme. In a recent note, the central bank said that as of end-January 2019 the government had borrowed AD6.56trn (US$55bn) through the unconventional finance programme since it was launched in September 2017. The programme entails the central bank purchasing long-maturity securities issued by the government and yielding 0.5% in annual interest. The government has allocated these funds to financing its fiscal deficit (for 2017-18 and part of 2019), paying off debts to state-owned enterprises, and covering the deficits of the state pension fund and the national investment fund. Just over half of the amount raised has been kept as reserves or used for financial sterilisation, which means that AD3.11trn had entered the real economy, the central bank said.

Increasing the statutory reserve requirement is one of the methods used by the central bank to manage the extra liquidity and mitigate its potential inflationary effects. It was doubled to 8% in January 2018, and raised further to 10% four months later. The most recent increase to 12% from mid-February came after the central bank noted a surge in excess liquidity in the banking system in early 2019.

The unconventional borrowing balance remained stable at AD3.59trn during the first eight months of 2018, before rising to AD4.01trn in September, AD5.19 in November and rising again by end-January 2019. The release of fresh data follows the appointment of Mohamed Loukal, who had served as governor of the central bank since mid-2017, as the finance minister in the new government. His replacement, appointed on an interim basis, is Amar Hiouani, who was previously deputy governor. A combination of faltering international oil prices—Algeria relies heavily on hydrocarbon revenue for government finances—and the recent political instability has helped increase monetisation following the mid-2018 lull.

Impact on the forecast

Fiscal monetisation is likely to be maintained in 2019-20 given the lack of political capacity to address structural fiscal issues and weak government finances; our monetary forecast is unchanged.

Authorities attempt to cap imports

June 7, 2019: External sector

Event

On May 29th local media, citing a Ministry of Energy and Mines document, reported that the Algerian government had decided to cap the value of imports of knock-down kits for car assembly at US$2bn annually, as well as to allocate import quotas to major local-assembly vehicle operations.

Analysis

In 2018 local-assembly plants imported nearly twice the value of knock-down kits permitted under the new cap, suggesting that it will have a major effect on assembly operations. The decision reportedly applies to imports in 2019, with those already made this year counting towards the full-year quota, although some assembly operations will be given a 12-month adjustment period. Under the new arrangements, the government will also reportedly specify which particular vehicle models that local-assembly plants are allowed to assemble. According to local media reports, some local-assembly plants suspended their operations in response to a ministry letter outlining the plans that had been sent to them earlier in the month.

The measures appear to be intended to bolster local integration rates and stimulate the local automotives component industry, and come in addition to rules due to enter into effect in 2020, requiring increased integration rates and components exports. However, the overall automotives ecosystem remains poorly developed, and some industry figures have expressed concerns that the new measures will undermine the viability of the nascent assembly industry.

The plans also represent the latest in a long series of government changes to vehicle import and assembly rules, underscoring an unstable economic and investment policy environment. In the wake of the 2014 oil price slump, the authorities took several measures to limit car imports and stimulate local assembly and production, including initially implementing a system of import licences before replacing it with an outright import ban, as well as requirements for local car dealerships to enter into assembly and production partnerships in order to maintain their distribution licences. However, amid rapidly rising imports of knock-down kits, which critics argue are merely disguised imports, the authorities have reversed some import restrictions, including allowing some imports of used vehicles since May (which are cheaper and therefore have a lesser effect on the trade balance than kits for new vehicles). Current high levels of political uncertainty are probably adding to such policy volatility.

Impact on the forecast

The development underscores our existing forecast that economic management will be hit by frequent politically motivated policy reversals and that the high current-account deficit will remain a concern.

Gas exports fell in 2018

June 10, 2019: Economic growth

Event

Gas exports fell to 51.5bn cu metres in 2018, from 54bn cu metres the previous year, according to figures released in late May by Sonatrach, the state hydrocarbons firm.

Analysis

The decline underscores the challenges that Algeria faces in maintaining the level of hydrocarbons exports, including maturing oilfields (which are putting pressure on gas as well as oil exports, via growing requirements for reinjected gas) and rapidly rising domestic consumption of both oil and gas. The fall in gas exports is also in line with longer-term trends; gas exports, although up sharply since 2014, are substantially lower than they were a decade ago.

Nonetheless, although the sector will remain under pressure in the coming years, gas exports will increase because of several new gas projects due to come online. Supporting the positive outlook for gas, on May 27th the energy minister, Mohamed Arkab, announced the discovery of a gasfield in the southern province of Tindouf, the first to be found there.

However, despite the anticipated rise in exports, significant challenges to the sector's development mean that it is nonetheless likely to underperform its potential. International oil companies view local conditions as unattractive, which has hampered investment. A statement by Mr Arkab on May 26th that the government would exercise a right of first refusal to block the sale of the US energy company Anadarko's Algerian assets to the French oil major Total (as part of a wider agreed sale of Anadarko's African assets to the French firm) is likely to reinforce foreign firms' concerns about investing in Algeria (although sensitivities about the deal are particularly high because Algeria is a former French colony). Currently high levels of political uncertainty are probably putting further downward pressure on potential investment, although Mr Arkab subsequently appeared to partly backtrack on his statement about blocking the sale. Media have cited local industry sources to the effect that any decision on the sale will probably take months because of the interim, provisional nature of the government. A recent decision to scrap the presidential election scheduled for July 4th will prolong such uncertainty.

Impact on the forecast

Despite the fall in exports, we maintain our economic growth and external sector forecasts that both gas production and exports will rise in 2019-23 as new projects come on stream, which, coupled with higher global prices compared with 2014-16, will help narrow the current-account deficit in the second half of the 2019-23 forecast period.

Analysis

Economic growth remains sluggish in 2018

May 16, 2019

In late April Algeria's state statistics body, the Office national des statistiques (ONS), released data showing that real GDP growth was 1.5% in 2018, little changed from the previous year. The figure was slightly above our estimate of 1.3%. The weak level of growth came despite the recovery in oil prices in 2018. Deep-seated problems in the management of the sector, which have only recently started to be addressed, and declining oilfields have continued to damage hydrocarbons sector performance.

Non-oil GDP growth stood at 3.4%, up from 2.2% the previous year, suggesting that stronger domestic liquidity brought on by the higher international oil prices (which averaged US$71.1/barrel in 2018) did help boost economic performance. The fastest-growing non-oil sector was transport and communications, which expanded by 6.5%, followed by agriculture on 6% and construction on 5.7%. Encouragingly, industry performed substantially better than expected, growing by 3.7%, bolstered by chemical and petrochemical industry growth of 4.9%. The only non-oil sectors to witness negative growth were the wood and paper and textile industries, contracting by 1.9% and 1.4% respectively.

Diversification remains a challenge

The improvement in non-oil GDP growth, and in particular the better than expected performance of industry, is encouraging in terms of diversifying the economy away from hydrocarbons production. Nevertheless, the pace of such growth remains too slow to significantly change the structure of the economy in the medium term. Furthermore, while several petrochemicals projects and upgrades are in the pipeline, these will not be enough to allow the sector to consistently drive non-oil growth (as it helped to do in 2018) in the coming years. Meanwhile, although the previous government had taken some steps to try to bolster manufacturing industries, some of these were poorly conceived and/or subject to reversal (such as various import restrictions) and have not been accompanied by much in the way of measures to bolster the services sector, which will further limit the pace of non-oil growth. The comparatively slow pace of non-oil growth also underscores challenges facing private-sector development, such as a difficult business environment, even prior to the latest political developments. This stems from factors such as high levels of bureaucracy and the broadly statist (and unpredictable) nature of government economic policy, as well as broader difficulties faced by commodity-export-reliant countries in developing other sectors.

Hydrocarbons contraction underscores low investment

Meanwhile the hydrocarbons sector contracted by 6.2% in real terms in 2018. Nominal hydrocarbons revenue nonetheless rose, owing to a substantial recovery in oil prices over the previous year (the average daily closing price for Brent oil was 30.4% higher than in 2017). However the real-terms contraction of the sector underscores a long-term trend of stagnant or declining overall hydrocarbons production, with OPEC quota limits further restricting potential growth in oil output. Although the drop in 2018 was mainly due to a sharp drop in output in the early months of the year, after which production recovered, it nonetheless highlights challenges facing the sector—in particular given that output fell back again in early 2019 as capacity constraints were felt in Algeria's ageing fields. These problems include a lack of hydrocarbons investment—stemming from both the post-2014 fall in oil prices as well as what are perceived to be poor investment terms by international energy companies—and the maturing nature of many of the country's major oilfields.

Risks tilted downwards

Ongoing political uncertainty, resulting from the large-scale anti-regime protests that have taken place regularly since February and continued even after the president, Abdelaziz Bouteflika, stepped down, is likely to weigh on GDP growth in 2019. We currently forecast slightly stronger growth in 2019 than in 2017-18 owing to higher hydrocarbons output, but risks are tilted to the downside. The removal of key business figures and economic decision-makers may be beneficial in the long term given the predominance of vested interests and a statist policy mindset, but in the short term, the uncertainty is likely to hinder investment. The change in leadership at the state energy firm, Sonatrach, could also be disruptive, despite pledges to continue the efforts of the previous leadership to make the sector more welcoming to foreign investors again and to develop downstream capabilities.

In the longer term, we expect a rise in gas production to more than offset further declines in oil output, which should support an increase in GDP growth in the second half of our 2019-23 forecast period. However the uncertain political situation means that downside risks remain. Furthermore, even at the higher levels we expect towards the end of the forecast period, GDP growth will remain comparatively constrained for an emerging market at Algeria's level of economic development, and well below levels needed to quickly address entrenched socioeconomic problems such as high youth unemployment.

UAE-African gold trade in the spotlight

May 29, 2019: External sector

Imports of gold into the UAE from Africa have soared in the past decade—from just 67 tonnes in 2006 to nearly 450 tonnes in 2016. However, major discrepancies between the amount officially

exported to the UAE by African countries and the amount imported by the UAE from African countries have raised questions about possible transfer pricing fraud and tax evasion schemes. The discrepancies have also reignited concerns that weak compliance in the UAE is facilitating the laundering of so-called conflict gold from mines controlled by militias in countries like the Democratic Republic of Congo (DRC) and South Sudan.

Figures from Comtrade, a UN database, show that in 2017 (latest available data), the UAE imported gold worth just under US$12bn from 41 African countries (excluding Libya and Egypt) and the UAE has now overtaken China as the leading importer of gold from Africa. However, only 20 of these countries have declared gold exports to the UAE, worth a cumulative value of US$3.1bn in 2017, thereby leaving a significant asymmetry in the figures for the trade in gold; 21 countries did not declare any gold exports to the UAE. Moreover, Togo, for example, a country where there is minimal gold production, is listed as the seventh-largest source gold imports (of the 41 African countries) by the UAE. This appears to indicate significant illicit crossborder movement of gold within Africa before it is officially exported to the UAE.

Data discrepancies

Data discrepancies—listed in detail in an EU-funded study on African artisanal mining by the non-governmental organisation ENACT—appear to indicate a failure by African governments to adequately regulate mining exports, leading to a major loss of potential revenue from tax and royalties. In The Economist Intelligence Unit's Global Illicit Trade Environment Index 2018, the country ranks poorly in terms of its governance of free-trade zones, and in March 2019 the UAE was added to the EU's tax-haven blacklist for its non-co-operative tax jurisdiction policies.

Discrepancies over gold exports from Africa are not new. In 2017 data from the Bank of Uganda (the central bank) revealed that, in the 2015/16 financial year, the country exported more gold than it had in the entire preceding decade. Since 2016 the country's gold exports have continued to soar, rising by 23% year on year to US$514m in 2018 and for the first time overtaking coffee as the East African country's single-largest export commodity. Amid flat global gold prices during these years, growth in gold exports was driven by rising volumes. Most of this is attributed to the operations of a single gold refinery, the African Gold Refinery (AGR) in the city of Entebbe (southern Uganda), which opened in 2017. Although AGR has committed to rigorous due diligence procedures, the lack of border controls will make it almost impossible to guarantee that output from the refinery did not originate from nearby conflict zones.

This sustained increase in Uganda's gold exports since 2016 has fuelled speculation from human rights groups that the country is a major transit route for illegally imported gold from countries such as the DRC, South Sudan and Burundi. Indeed, several investigations by UN experts have reported significant volumes of artisanal DRC gold being smuggled into Uganda. Crossborder smuggling from these artisanal mines not only potentially funds non-state armed actors, but the unregulated nature of the trade denies governments much-needed tax revenue. It also puts artisanal miners at risk because of poor safety standards in illegal mines, and exposes communities to long-term environmental damage. In 2017 the Ugandan central bank launched an investigation into the source of imported gold for the refinery, but its results have so far remained inconclusive.

Crackdown on illegal mining

Some African governments are trying to curb unregulated artisanal mining, which carries serious risks for those involved—often children—because of the use of dangerous leaching chemicals such as mercury and generally poor safety standards at mines. Ghana and Zambia, for example, have tried to stop all unregulated gold mining by creating new licensing systems for artisanal miners. Earlier this year, Ghana (a key source of gold for the UAE) also banned the import of excavator equipment to stem a surge in illegal mining using heavy machinery.

Sudan and Tanzania are also trying to regulate the export and trade of gold with plans to centralise buying and ensure gold only flows through official markets. These steps are positive but are too late to address the scale of unregulated mining and the now well-established illicit-smuggling channels being used to move the gold. Moreover, the high market price of gold continues to make its mining attractive to impoverished Africans with few other livelihood options, despite the legal, health and safety risks.

Improving regulations would benefit the UAE and Africa

The Dubai Multi Commodities Centre (DMCC) is the government entity within the Jebel Ali Free Zone (JAFZA) that promotes, oversees and regulates the gold trade in the UAE, and the Dubai Gold and Commodities Exchange (DGCX), a subsidiary of the DMCC, is its trading platform. Following past criticism from UN experts about its compliance standards around gold importing, the UAE has sharpened its regulatory environment with a new risk-based due diligence framework. The framework is in accordance with OECD recommendations that all companies must meet these standards in order to be able to import, refine and trade gold in the UAE through the DMCC. According to the 2019 Dubai Good Delivery (DGD) list, which was published in April, there are currently 13 certified members and 17 firms have been "delisted" for non-compliance.

Among the delisted entities is Goetz Gold, which is owned by the same Belgian business network that controls Uganda's AGR. Kaloti Gold, a UAE-based refinery, which was in the spotlight in 2012 for its high volumes of cash transactions and lack of paperwork, has also been removed from the approved list. The fact that companies are being delisted shows the UAE is sensitive to concerns about supply chains and regulatory paperwork. The transparency around the list is also encouraging.

Nonetheless, despite these efforts, none of the UAE's refineries have achieved accreditation from the London Bullion Market Association (LBMA)—regarded as the global standard—and few large-scale mining operations send their metals to be refined or traded in Dubai. An LMBC official told international media that it was "not comfortable dealing with the region" because of concerns about weaknesses in customs, cash transactions and hand-carried gold. DMCC officials have also acknowledged that some quantities of gold are hand-carried into the country.

Further toughening the compliance regime for companies importing, refining and trading gold would help the UAE to improve its image as a trading hub and counter allegations that it is used to launder illicit minerals and cash. Meanwhile, more stringent paperwork requirements and strict enforcement in Africa should help governments there to better manage their gold and capital outflows. This will improve tax collection and should assist in curbing the illicit business dealings of criminal and militia networks that fuel instability and tensions in many countries.

National Security Strategy

of the United States of America

DECEMBER 2017

THE WHITE HOUSE

WASHINGTON, DC

My fellow Americans:

The American people elected me to make America great again. I promised that my Administration would put the safety, interests, and well-being of our citizens first. I pledged that we would revitalize the American economy, rebuild our military, defend our borders, protect our sovereignty, and advance our values.

During my first year in office, you have witnessed my America First foreign policy in action. We are prioritizing the interests of our citizens and protecting our sovereign rights as a nation. America is leading again on the world stage. We are not hiding from the challenges we face. We are confronting them head-on and pursuing opportunities to promote the security and prosperity of all Americans.

The United States faces an extraordinarily dangerous world, filled with a wide range of threats that have intensified in recent years. When I came into office, rogue regimes were developing nuclear weapons and missiles to threaten the entire planet. Radical Islamist terror groups were flourishing. Terrorists had taken control of vast swaths of the Middle East. Rival powers were aggressively undermining American interests around the globe. At home, porous borders and unenforced immigration laws had created a host of vulnerabilities. Criminal cartels were bringing drugs and danger into our communities. Unfair trade practices had weakened our economy and exported our jobs overseas. Unfair burden-sharing with our allies and inadequate investment in our own defense had invited danger from those who wish us harm. Too many Americans had lost trust in our government, faith in our future, and confidence in our values.

Nearly one year later, although serious challenges remain, we are charting a new and very different course.

We are rallying the world against the rogue regime in North Korea and confronting the danger posed by the dictatorship in Iran, which those determined to pursue a flawed nuclear deal had neglected. We have renewed our friendships in the Middle East and partnered with regional leaders to help drive out terrorists and extremists, cut off their financing, and discredit their wicked ideology. We crushed Islamic State of Iraq and Syria (ISIS) terrorists on the battlefields of Syria and Iraq, and will continue pursuing them until they are destroyed. America's allies are now contributing more to our common defense, strengthening even our strongest alliances. We have also continued to make clear that the United States will no longer tolerate economic aggression or unfair trading practices.

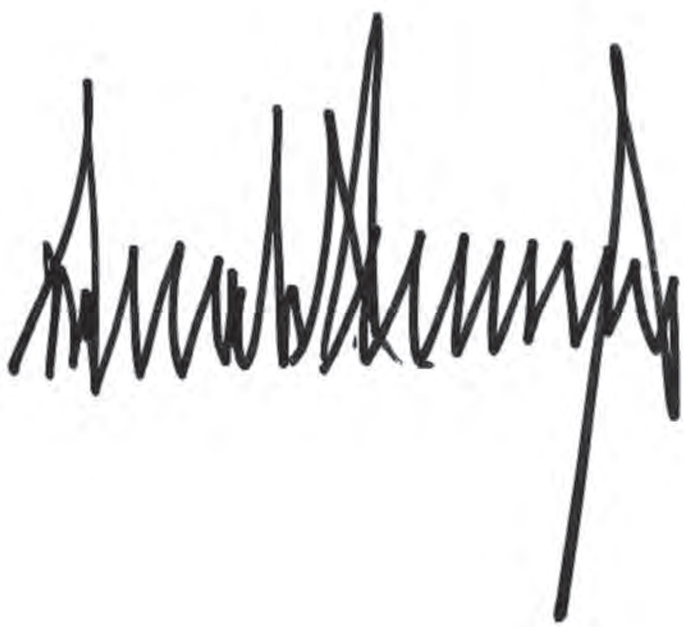
At home, we have restored confidence in America's purpose. We have recommitted ourselves to our founding principles and to the values that have made our families, communities, and society so successful. Jobs are coming back and our economy is growing. We are making historic investments in the United States military. We are enforcing our borders, building trade relationships based on fairness and reciprocity, and defending America's sovereignty without apology.

The whole world is lifted by America's renewal and the reemergence of American leadership. After one year, the world knows that America is prosperous, America is secure, and America is strong. We will bring about the better future we seek for our people and the world, by confronting the challenges and dangers posed by those who seek to destabilize the world and threaten America's people and interests.

My Administration's National Security Strategy lays out a strategic vision for protecting the American people and preserving our way of life, promoting our prosperity, preserving peace through strength, and advancing American influence in the world. We will pursue this beautiful vision—a world of strong, sovereign, and independent nations, each with its own cultures and dreams, thriving side-by-side in prosperity, freedom, and peace—throughout the upcoming year.

In pursuit of that future, we will look at the world with clear eyes and fresh thinking. We will promote a balance of power that favors the United States, our allies, and our partners. We will never lose sight of our values and their capacity to inspire, uplift, and renew.

Most of all, we will serve the American people and uphold their right to a government that prioritizes their security, their prosperity, and their interests. This National Security Strategy puts America First.



President Donald J. Trump

The White House
December 2017

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Introduction

An America that is safe, prosperous, and free at home is an America with the strength, confidence, and will to lead abroad. It is an America that can preserve peace, uphold liberty, and create enduring advantages for the American people. Putting America first is the duty of our government and the foundation for U.S. leadership in the world.

A strong America is in the vital interests of not only the American people, but also those around the world who want to partner with the United States in pursuit of shared interests, values, and aspirations.

This National Security Strategy puts America first.

An America First National Security Strategy is based on American principles, a clear-eyed assessment of U.S. interests, and a determination to tackle the challenges that we face. It is a strategy of principled realism that is guided by outcomes, not ideology. It is based upon the view that peace, security, and prosperity depend on strong, sovereign nations that respect their citizens at home and cooperate to advance peace abroad. And it is grounded in the realization that American principles are a lasting force for good in the world.

"We the People" is America's source of strength.

The United States was born of a desire for life, liberty, and the pursuit of happiness—and a conviction that unaccountable political power is tyranny. For these reasons, our Founders crafted and ratified the Constitution, establishing the republican form of government we enjoy today. The Constitution grants our national government not only specified powers necessary to protect our God-given rights and liberties but also safeguards them by limiting the government's size and scope, separating Federal powers, and protecting the rights of individuals through the rule of law. All political power is ultimately delegated from, and accountable to, the people.

We protect American sovereignty by defending these institutions, traditions, and principles that have allowed us to live in freedom, to build the nation that we love. And we prize our national heritage, for the rare and fragile institutions of republican government can only endure if they are sustained by a culture that cherishes those institutions.

Liberty and independence have given us the flourishing society Americans enjoy today—a vibrant and confident Nation, welcoming of disagreement and differences, but united by the bonds of history, culture, beliefs, and principles that define who we are.

We are proud of our roots and honor the wisdom of the past. We are committed to protecting the rights and dignity of every citizen. And we are a nation of laws, because the rule of law is the shield that protects the individual from government corruption and abuse of power, allows families to live without fear, and permits markets to thrive.

Our founding principles have made the United States of America among the greatest forces for good in history. But we are also aware that we must protect and build upon our accomplishments, always conscious of the fact that the interests of the American people constitute our true North Star.

America's achievements and standing in the world were neither inevitable nor accidental. On many occasions, Americans have had to compete with adversarial forces to preserve and advance our security, prosperity, and the principles we hold dear. At home, we fought the Civil War to end slavery and preserve our Union in the long struggle to extend equal rights for all Americans. In the course of the bloodiest century in human history, millions of Americans fought, and hundreds of thousands lost their lives, to defend liberty in two World Wars and the Cold War. America, with our allies and partners, defeated fascism, imperialism, and Soviet communism and eliminated any doubts about the power and durability of republican democracy when it is sustained by a free, proud, and unified people.

The United States consolidated its military victories with political and economic triumphs built on market economies and fair trade, democratic principles, and shared security partnerships. American political, business, and military leaders worked together with their counterparts in Europe and Asia to shape the post-war order through the United Nations, the Marshall Plan, the North Atlantic Treaty Organization (NATO), and other institutions designed to advance our shared interests of security, freedom, and peace. We recognize the invaluable advantages that our strong relationships with allies and partners deliver.

Following the remarkable victory of free nations in the Cold War, America emerged as the lone superpower with enormous advantages and momentum in the world. Success, however, bred complacency. A belief emerged, among many, that American power would be unchallenged and self–sustaining. The United States began to drift. We experienced a crisis of confidence and surrendered our advantages in key areas. As we took our political, economic, and military advantages for granted, other actors steadily implemented their long-term plans to challenge America and to advance agendas opposed to the United States, our allies, and our partners.

We stood by while countries exploited the international institutions we helped to build. They subsidized their industries, forced technology transfers, and distorted markets. These and other actions challenged America's economic security. At home, excessive regulations and high taxes stifled growth and weakened free enterprise—history's greatest antidote to poverty. Each time government encroached on the productive activities of private commerce, it threatened not only our prosperity but also the spirit of creation and innovation that has been key to our national greatness.

A Competitive World

The United States will respond to the growing political, economic, and military competitions we face around the world.

China and Russia challenge American power, influence, and interests, attempting to erode American security and prosperity. They are determined to make economies less free and less fair, to grow their militaries, and to control information and data to repress their societies and expand their influence. At the same time, the dictatorships of the Democratic People's Republic of Korea and the Islamic Republic of Iran are determined to destabilize regions, threaten Americans and our allies, and brutalize their own people. Transnational threat groups, from jihadist terrorists to transnational criminal organizations, are actively trying to harm Americans. While these challenges differ in nature and magnitude, they are fundamentally contests between those who value human dignity and freedom and those who oppress individuals and enforce uniformity.

These competitions require the United States to rethink the policies of the past two decades—policies based on the assumption that engagement with rivals and their inclusion in international institutions and global commerce would turn them into benign actors and trustworthy partners. For the most part, this premise turned out to be false.

Rival actors use propaganda and other means to try to discredit democracy. They advance anti-Western views and spread false information to create divisions among ourselves, our allies, and our partners. In addition, jihadist terrorists such as ISIS and al-Qa'ida continue to spread a barbaric ideology that calls for the violent destruction of governments and innocents they consider to be apostates. These jihadist terrorists attempt to force those under their influence to submit to Sharia law.

America's military remains the strongest in the world. However, U.S. advantages are shrinking as rival states modernize and build up their conventional and nuclear forces. Many actors can now field a broad arsenal of advanced missiles, including variants that can reach the American homeland. Access to technology empowers and emboldens otherwise weak states. North Korea—a country that starves its own people—has spent hundreds of millions of dollars on nuclear, chemical, and biological weapons that could threaten our homeland. In addition, many actors have become skilled at operating below the threshold of military conflict—challenging the United States, our allies, and our partners with hostile actions cloaked in deniability. Our task is to ensure that American military superiority endures, and in combination with other elements of national power, is ready to protect Americans against sophisticated challenges to national security.

The contest over information accelerates these political, economic, and military competitions. Data, like energy, will shape U.S. economic prosperity and our future strategic position in the world. The ability to harness the power of data is fundamental to the continuing growth of America's economy, prevailing against hostile ideologies, and building and deploying the most effective military in the world.

We learned the difficult lesson that when America does not lead, malign actors fill the void to the disadvantage of the United States. When America does lead, however, from a position of strength and confidence and in accordance with our interests and values, all benefit.

Competition does not always mean hostility, nor does it inevitably lead to conflict—although none should doubt our commitment to defend our interests. An America that successfully competes is the best way to prevent conflict. Just as American weakness invites challenge, American strength and confidence deters war and promotes peace.

An America First National Security Strategy

The competitions and rivalries facing the United States are not passing trends or momentary problems. They are intertwined, long-term challenges that demand our sustained national attention and commitment.

America possesses unmatched political, economic, military, and technological advantages. But to maintain these advantages, build upon our strengths, and unleash the talents of the American people, we must protect four vital national interests in this competitive world.

First, our fundamental responsibility is to **protect the American people, the homeland, and the American way of life**. We will strengthen control of our borders and reform our immigration system. We will protect our critical infrastructure and go after malicious cyber actors. A layered missile defense system will defend our homeland against missile attacks. And we will pursue threats to their source, so that jihadist terrorists are stopped before they ever reach our borders.

Second, we will **promote American prosperity**. We will rejuvenate the American economy for the benefit of American workers and companies. We will insist upon fair and reciprocal economic relationships to address trade imbalances. The United States must preserve our lead in research and technology and protect our economy from competitors who unfairly acquire our intellectual property. And we will embrace America's energy dominance because unleashing abundant energy resources stimulates our economy.

Third, we will **preserve peace through strength** by rebuilding our military so that it remains preeminent, deters our adversaries, and if necessary, is able to fight and win. We will compete with all tools of national power to ensure that regions of the world are not dominated by one power. We will strengthen America's capabilities—including in space and cyberspace—and revitalize others that have been neglected. Allies and partners magnify our power. We expect them to shoulder a fair share of the burden of responsibility to protect against common threats.

Fourth, we will **advance American influence** because a world that supports American interests and reflects our values makes America more secure and prosperous. We will compete and lead in multilateral organizations so that American interests and principles are protected. America's commitment to liberty, democracy, and the rule of law serves as an inspiration for those living under tyranny. We can play a catalytic role in promoting private-sector-led economic growth, helping aspiring partners become future trading and security partners. And we will remain a generous nation, even as we expect others to share responsibility.

Strengthening our sovereignty—the first duty of a government is to serve the interests of its own people—is a necessary condition for protecting these four national interests. And as we strengthen our sovereignty we will renew confidence in ourselves as a nation. We are proud of our history, optimistic about America's future, and confident of the positive example the United States offers to the world. We are also realistic and understand that the American way of life cannot be imposed upon others, nor is it the inevitable culmination of progress. Together with our allies, partners, and aspiring partners, the United States will pursue cooperation with reciprocity. Cooperation means sharing responsibilities and burdens. In trade, fair and reciprocal relationships benefit all with equal levels of market access and opportunities for economic growth. An America First National Security Strategy appreciates that America will catalyze conditions to unleash economic success for America and the world.

In the United States, free men and women have created the most just and prosperous nation in history. Our generation of Americans is now charged with preserving and defending that precious inheritance. This National Security Strategy shows the way.

PILLAR I

Protect the American People, the Homeland, and the American Way of Life

"We will defend our country, protect our communities, and put the safety of the American people first."

PRESIDENT DONALD J. TRUMP | JULY 2017

This National Security Strategy begins with the determination to protect the American people, the American way of life, and American interests. Americans have long recognized the benefits of an interconnected world, where information and commerce flow freely. Engaging with the world, however, does not mean the United States should abandon its rights and duties as a sovereign state or compromise its security. Openness also imposes costs, since adversaries exploit our free and democratic system to harm the United States.

North Korea seeks the capability to kill millions of Americans with nuclear weapons. Iran supports terrorist groups and openly calls for our destruction. Jihadist terrorist organizations such as ISIS and al-Qa'ida are determined to attack the United States and radicalize Americans with their hateful ideology. Non-state actors undermine social order through drug and human trafficking networks, which they use to commit violent crimes and kill thousands of American each year.

Adversaries target sources of American strength, including our democratic system and our economy. They steal and exploit our intellectual property and personal data, interfere in our political processes, target our aviation and maritime sectors, and hold our critical infrastructure at risk. All of these actions threaten the foundations of the American way of life. Reestablishing lawful control of our borders is a first step toward protecting the American homeland and strengthening American sovereignty.

We must prevent nuclear, chemical, radiological, and biological attacks, block terrorists from reaching our homeland, reduce drug and human trafficking, and protect our critical infrastructure. We must also deter, disrupt, and defeat potential threats before they reach the United States. We will target jihadist terrorists and transnational criminal organizations at their source and dismantle their networks of support.

We must also take steps to respond quickly to meet the needs of the American people in the event of natural disaster or attack on our homeland. We must build a culture of preparedness and resilience across our governmental functions, critical infrastructure, and economic and political systems.

Secure U.S. Borders and Territory

State and non-state actors place the safety of the American people and the Nation's economic vitality at risk by exploiting vulnerabilities across the land, air, maritime, space, and cyberspace domains. Adversaries constantly evolve their methods to threaten the United States and our citizens. We must be agile and adaptable.

Defend Against Weapons of Mass Destruction (WMD)

The danger from hostile state and non-state actors who are trying to acquire nuclear, chemical, radiological, and biological weapons is increasing. The Syrian regime's use of chemical weapons against its own citizens undermines international norms against these heinous weapons, which may encourage more actors to pursue and use them. ISIS has used chemical weapons in Iraq and Syria. Terrorist groups continue to pursue WMD-related materials. We would face grave danger if terrorists obtained inadequately secured nuclear, radiological, or biological material.

Strengthening control over our borders and immigration system is central to national security, economic prosperity, and the rule of law.

As missiles grow in numbers, types, and effectiveness, to include those with greater ranges, they are the most likely means for states like North Korea to use a nuclear weapon against the United States. North Korea is also pursuing chemical and biological weapons which could also be delivered by missile. China and Russia are developing advanced weapons and capabilities that could threaten our critical infrastructure and our command and control architecture.

Priority Actions

ENHANCE MISSILE DEFENSE: The United States is deploying a layered missile defense system focused on North Korea and Iran to defend our homeland against missile attacks. This system will include the ability to defeat missile threats prior to launch. Enhanced missile defense is not intended to undermine strategic stability or disrupt longstanding strategic relationships with Russia or China.

DETECT AND DISRUPT WEAPONS OF MASS DESTRUCTION: At our borders and within our territory, we will bolster efforts to detect nuclear, chemical, radiological, and biological agents and keep them from being used against us. We will also better integrate intelligence, law enforcement, and emergency management operations to ensure that frontline defenders have the right information and capabilities to respond to WMD threats from state and non-state actors.

ENHANCE COUNTERPROLIFERATION MEASURES: Building on decades of initiatives, we will augment measures to secure, eliminate, and prevent the spread of WMD and related materials, their delivery systems, technologies, and knowledge to reduce the chance that they might fall into the hands of hostile actors. We will hold state and non-state actors accountable for the use of WMD.

TARGET WMD TERRORISTS: We will direct counterterrorism operations against terrorist WMD specialists, financiers, administrators, and facilitators. We will work with allies and partners to detect and disrupt plots.

Combat Biothreats and Pandemics

Biological incidents have the potential to cause catastrophic loss of life. Biological threats to the U.S. homeland—whether as the result of deliberate attack, accident, or a natural outbreak—are growing and require actions to address them at their source.

Naturally emerging outbreaks of viruses such as Ebola and SARS, as well as the deliberate 2001 anthrax attacks in the United States, demonstrated the impact of biological threats on national security by taking lives, generating economic losses, and contributing to a loss of confidence in government institutions.

Advancements in life sciences that benefit our health, economy, and society also open up new avenues to actors who want to cause harm. Dedicated state actors are likely to develop more advanced bioweapons, and these capabilities may become available to malicious non-state actors as well.

Priority Actions

DETECT AND CONTAIN BIOTHREATS AT THEIR SOURCE: We will work with other countries to detect and mitigate outbreaks early to prevent the spread of disease. We will encourage other countries to invest in basic health care systems and to strengthen global health security across the intersection of human and animal health to prevent infectious disease outbreaks. And we will work with partners to ensure that laboratories that handle dangerous pathogens have in place safety and security measures.

SUPPORT BIOMEDICAL INNOVATION: We will protect and support advancements in biomedical innovation by strengthening the intellectual property system that is the foundation of the biomedical industry.

IMPROVE EMERGENCY RESPONSE: At home, we will strengthen our emergency response and unified coordination systems to rapidly characterize outbreaks, implement public health containment measures to limit the spread of disease, and provide surge medical care—including life-saving treatments.

Strengthen Border Control and Immigration Policy

Strengthening control over our borders and immigration system is central to national security, economic prosperity, and the rule of law. Terrorists, drug traffickers, and criminal cartels exploit porous borders and threaten U.S. security and public safety. These actors adapt quickly to outpace our defenses.

The United States affirms our sovereign right to determine who should enter our country and under what circumstances. The United States understands the contributions immigrants have made to our Nation throughout its history. Illegal immigration, however, burdens the economy, hurts American workers, presents public safety risks, and enriches smugglers and other criminals.

The United States recognizes that decisions about who to legally admit for residency, citizenship, or otherwise are among the most important a country has to make. The United States will continue to welcome lawful immigrants who do not pose a security threat and whose entry is consistent with the national interest, while at the same time enhancing the screening and vetting of travelers, closing dangerous loopholes, revising outdated laws, and eliminating easily exploited vulnerabilities. We will also reform our current immigration system, which, contrary to our national interest and national security, allows for randomized entry and extended-family chain migration. Residency and citizenship determinations should be based on individuals' merits and their ability to positively contribute to U.S. society, rather than chance or extended family connections.

Priority Actions

ENHANCE BORDER SECURITY: We will secure our borders through the construction of a border wall, the use of multilayered defenses and advanced technology, the employment of additional personnel, and other measures. The U.S. Government will work with foreign partners to deter, detect, and disrupt suspicious individuals well before they enter the United States.

ENHANCE VETTING: The U.S. Government will enhance vetting of prospective immigrants, refugees, and other foreign visitors to identify individuals who might pose a risk to national security or public safety. We will set higher security standards to ensure that we keep dangerous people out of the United States and enhance our information collection and analysis to identify those who may already be within our borders.

ENFORCE IMMIGRATION LAWS: We will enforce immigration laws, both at the border and in the interior, to provide an effective deterrent to illegal immigration. The apprehension and swift removal of illegal aliens at the border is critical to an effective border security strategy. We must also increase efforts to identify and counter fraud in the immigration process, which undermines the integrity of our immigration system, exploits vulnerable individuals, and creates national security risks.

BOLSTER TRANSPORTATION SECURITY: We will improve information sharing across our government and with foreign partners to enhance the security of the pathways through which people and goods enter the country. We will invest in technology to counter emerging threats to our aviation, surface, and maritime transportation sectors. We will also work with international and industry partners to raise security standards.

Pursue Threats to Their Source

There is no perfect defense against the range of threats facing our homeland. That is why America must, alongside allies and partners, stay on the offensive against those violent non-state groups that target the United States and our allies.

The primary transnational threats Americans face are from jihadist terrorists and transnational criminal organizations. Although their objectives differ, these actors pose some common challenges. First, they exploit our open society. Second, they often operate in loose confederations and adapt rapidly. Third, they rely on encrypted communication and the dark web to evade detection as they plot, recruit, finance, and execute their operations. Fourth, they thrive under conditions of state weakness and prey on the vulnerable as they accelerate the breakdown of rules to create havens from which to plan and launch attacks on the United States, our allies, and our partners. Fifth, some are sheltered and supported by states and do their bidding.

Defeat Jihadist Terrorists

Jihadist terrorist organizations present the most dangerous terrorist threat to the Nation. America, alongside our allies and partners, is fighting a long war against these fanatics who advance a totalitarian vision for a global Islamist caliphate that justifies murder and slavery, promotes repression, and seeks to undermine the American way of life. Jihadist terrorists use virtual and physical networks around the world to radicalize isolated individuals, exploit vulnerable populations, and inspire and direct plots.

Even after the territorial defeat of ISIS and al-Qa'ida in Syria and Iraq, the threat from jihadist terrorists will persist. They have used battlefields as test beds of terror and have exported tools and tactics to their followers. Many of these jihadist terrorists are likely to return to their home countries, from which they can continue to plot and launch attacks on the United States and our allies.

The United States also works with allies and partners to deter and disrupt other foreign terrorist groups that threaten the homeland—including Iranian-backed groups such as Lebanese Hizballah.

We will give our frontline defenders—including homeland security, law enforcement, and intelligence professionals—the tools, authorities, and resources to stop terrorist acts before they take place.

Priority Actions

DISRUPT TERROR PLOTS: We will enhance intelligence sharing domestically and with foreign partners. We will give our frontline defenders—including homeland security, law enforcement, and intelligence professionals—the tools, authorities, and resources to stop terrorist acts before they take place.

TAKE DIRECT ACTION: The U.S. military and other operating agencies will take direct action against terrorist networks and pursue terrorists who threaten the homeland and U.S. citizens regardless of where they are. The campaigns against ISIS and al-Qa'ida and their affiliates demonstrate that the United States will enable partners and sustain direct action campaigns to destroy terrorists and their sources of support, making it harder for them to plot against us.

ELIMINATE TERRORIST SAFE HAVENS: Time and territory allow jihadist terrorists to plot, so we will act against sanctuaries and prevent their reemergence, before they can threaten the U.S. homeland. We will go after their digital networks and work with private industry to confront the challenge of terrorists and criminals "going dark" and using secure platforms to evade detection.

SEVER SOURCES OF STRENGTH: We will disrupt the financial, materiel, and personnel supply chains of terrorist organizations. We will sever their financing and protect the U.S. and international financial systems from abuse. We will degrade their ability to message and attract potential recruits. This includes combating the evil ideology of jihadists by exposing its falsehoods, promoting counter-narratives, and amplifying credible voices.

SHARE RESPONSIBILITY: Our allies and partners, who are also targets of terrorism, will continue to share responsibility in fighting these barbaric groups. We will help our partners develop and responsibly employ the capacity to degrade and maintain persistent pressure against terrorists and will encourage partners to work independently of U.S. assistance.

COMBAT RADICALIZATION AND RECRUITMENT IN COMMUNITIES: The United States rejects bigotry and oppression and seeks a future built on our values as one American people. We will deny violent ideologies the space to take root by improving trust among law enforcement, the private sector, and American citizens. U.S. intelligence and homeland security experts will work with law enforcement and civic leaders on terrorism prevention and provide accurate and actionable information about radicalization in their communities.

Dismantle Transnational Criminal Organizations

The United States must devote greater resources to dismantle transnational criminal organizations (TCOs) and their subsidiary networks. Some have established global supply chains that are comparable to Fortune 500 corporations. Every day they deliver drugs to American communities, fuel gang violence, and engage in cybercrime. The illicit opioid epidemic, fed by drug cartels as well as Chinese fentanyl traffickers, kills tens of thousands of Americans each year. These organizations weaken our allies and partners too, by corrupting and undermining democratic institutions. TCOs are motivated by profit, power, and political influence. They exploit weak governance and enable other national security threats, including terrorist organizations. In addition, some state adversaries use TCOs as instruments of national power, offering them territorial sanctuary where they are free to conduct unattributable cyber intrusions, sabotage, theft, and political subversion.

Priority Actions

IMPROVE STRATEGIC PLANNING AND INTELLIGENCE: We will establish national-level strategic intelligence and planning capabilities to improve the ability of agencies to work together to combat TCOs at home and abroad.

DEFEND COMMUNITIES: We will deny TCOs the ability to harm Americans. We will support public health efforts to halt the growth of illicit drug use in the United States, expand national and community-based prevention efforts, increase access to evidenced-based treatment for addiction, improve prescription drug monitoring, and provide training on substance use disorders for medical personnel.

DEFEND IN DEPTH: U.S. agencies and foreign partners will target TCO leaders and their support infrastructure. We will assist countries, particularly in the Western Hemisphere, to break the power of these organizations and networks.

COUNTER CYBER CRIMINALS: We will use sophisticated investigative tools to disrupt the ability of criminals to use online marketplaces, cryptocurrencies, and other tools for illicit activities. The United States will hold countries accountable for harboring these criminals.

Keep America Safe in the Cyber Era

America's response to the challenges and opportunities of the cyber era will determine our future prosperity and security. For most of our history, the United States has been able to protect the homeland by controlling its land, air, space, and maritime domains. Today, cyberspace offers state and non-state actors the ability to wage campaigns against American political, economic, and security interests without ever physically crossing our borders. Cyberattacks offer adversaries low-cost and deniable opportunities to seriously damage or disrupt critical infrastructure, cripple American businesses, weaken our Federal networks, and attack the tools and devices that Americans use every day to communicate and conduct business.

America's response to the challenges and opportunities of the cyber era will determine our future prosperity and security.

Critical infrastructure keeps our food fresh, our houses warm, our trade flowing, and our citizens productive and safe. The vulnerability of U.S. critical infrastructure to cyber, physical, and electromagnetic attacks means that adversaries could disrupt military command and control, banking and financial operations, the electrical grid, and means of communication.

Federal networks also face threats. These networks allow government agencies to carry out vital functions and provide services to the American people. The government must do a better job of protecting data to safeguard information and the privacy of the American people. Our Federal networks must be modernized and updated.

In addition, the daily lives of most Americans rely on computer-driven and interconnected technologies. As our reliance on computers and connectivity increases, we become increasingly vulnerable to cyberattacks. Businesses and individuals must be able to operate securely in cyberspace.

Security was not a major consideration when the Internet was designed and launched. As it evolves, the government and private sector must design systems that incorporate prevention, protection, and resiliency from the start, not as an afterthought. We must do so in a way that respects free markets, private competition, and the limited but important role of government in enforcing the rule of law. As we build the next generation of digital infrastructure, we have an opportunity to put our experience into practice.

The Internet is an American invention, and it should reflect our values as it continues to transform the future for all nations and all generations. A strong, defensible cyber infrastructure fosters economic growth, protects our liberties, and advances our national security.

Priority Actions

IDENTIFY AND PRIORITIZE RISK: To improve the security and resilience of our critical infrastructure, we will assess risk across six key areas: national security, energy and power, banking and finance, health and safety, communications, and transportation. We will assess where cyberattacks could have catastrophic or cascading consequences and prioritize our protective efforts, capabilities, and defenses accordingly.

BUILD DEFENSIBLE GOVERNMENT NETWORKS: We will use the latest commercial capabilities, shared services, and best practices to modernize our Federal information technology. We will improve our ability to provide uninterrupted and secure communications and services under all conditions.

DETER AND DISRUPT MALICIOUS CYBER ACTORS: The Federal Government will ensure that those charged with securing critical infrastructure have the necessary authorities, information, and capabilities to prevent attacks before they affect or hold at risk U.S. critical infrastructure. The United States will impose swift and costly consequences on foreign governments, criminals, and other actors who undertake significant malicious cyber activities. We will work with allies and friends to expand our awareness of malicious activities. A stronger and more resilient critical infrastructure will strengthen deterrence by creating doubt in our adversaries that they can achieve their objectives.

IMPROVE INFORMATION SHARING AND SENSING: The U.S. Government will work with our critical infrastructure partners to assess their informational needs and to reduce the barriers to information sharing, such as speed and classification levels. We will also invest in capabilities that improve the ability of the United States to attribute cyberattacks. In accordance with the protection of civil liberties and privacy, the U.S. Government will expand collaboration with the private sector so that we can better detect and attribute attacks.

DEPLOY LAYERED DEFENSES: Since threats transit globally, passing through communications backbones without challenge, the U.S. Government will work with the private sector to remediate known bad activities at the network level to improve the security of all customers. Malicious activity must be defeated within a network and not be passed on to its destination whenever possible.

Promote American Resilience

Despite our best efforts, our government cannot prevent all dangers to the American people. We can, however, help Americans remain resilient in the face of adversity. Resilience includes the ability to withstand and recover rapidly from deliberate attacks, accidents, natural disasters, as well as unconventional stresses, shocks, and threats to our economy and democratic system. In the event of a disaster, Federal, state, and local agencies must perform essential functions and have plans in place to ensure the continuation of our constitutional form of government.

Reducing risk and building more resilient communities are the best ways to protect people, property, and taxpayer dollars from loss and disruption. Through risk-informed investments, we will build resilient communities and infrastructure to protect and benefit future generations.

Should tragedy strike, the U.S. Government will help communities recover and rebuild. Citizens must be confident in our government, but also recognize that response and recovery begins with individuals and local communities. In difficult times, the true character of the American people emerges: their strength, their love, and their resolve. Our first responders selflessly run toward danger, and volunteers rally to the aid of neighbors when disaster strikes.

A democracy is only as resilient as its people. An informed and engaged citizenry is the fundamental requirement for a free and resilient nation. For generations, our society has protected free press, free speech, and free thought. Today, actors such as Russia are using information tools in an attempt to undermine the legitimacy of democracies. Adversaries target media, political processes, financial networks, and personal data. The American public and private sectors must recognize this and work together to defend our way of life. No external threat can be allowed to shake our shared commitment to our values, undermine our system of government, or divide our Nation.

Priority Actions

IMPROVE RISK MANAGEMENT: The United States will improve its ability to assess the threats and hazards that pose the greatest risks to Americans and will prioritize resources based on the highest risks.

BUILD A CULTURE OF PREPAREDNESS: This Administration will take steps to build a culture of preparedness, informing and empowering communities and individuals to obtain the skills and take the preparatory actions necessary to become more resilient against the threats and hazards that Americans face.

IMPROVE PLANNING: State and local governments must conduct realistic exercises that test existing plans to make sure that they are sound and can be executed. Agencies from all levels of government must coordinate better and apply lessons learned from exercises to pinpoint the areas and capabilities that require improvement.

INCENTIVIZE INFORMATION SHARING: To improve the coordination among the private sector and all levels of government that is needed to improve resilience, we must make a stronger commitment to protecting sensitive information so that all partners actively identify and share vulnerabilities and work collaboratively to reduce them.

PILLAR II

Promote American Prosperity

"Economic security is national security."

PRESIDENT DONALD J. TRUMP | NOVEMBER 2017

A strong economy protects the American people, supports our way of life, and sustains American power. American workers thrive when they are free to innovate, develop and access our abundant natural resources, and operate in markets free from excessive regulations and unfair foreign trade practices. A growing and innovative economy allows the United States to maintain the world's most powerful military and protect our homeland.

We must rebuild our economic strength and restore confidence in the American economic model. Over decades, American factories, companies, and jobs moved overseas. After the 2008 global financial crisis, doubt replaced confidence. Risk-aversion and regulations replaced investment and entrepreneurship. The recovery produced anemic growth in real earnings for American workers. The U.S. trade deficit grew as a result of several factors, including unfair trading practices.

For 70 years, the United States has embraced a strategy premised on the belief that leadership of a stable international economic system rooted in American principles of reciprocity, free markets, and free trade served our economic and security interests. Working with our allies and partners, the United States led the creation of a group of financial institutions and other economic forums that established equitable rules and built instruments to stabilize the international economy and remove the points of friction that had contributed to two world wars.

That economic system continues to serve our interests, but it must be reformed to help American workers prosper, protect our innovation, and reflect the principles upon which that system was founded. Trading partners and international institutions can do more to address trade imbalances and adhere to and enforce the rules of the order.

Today, American prosperity and security are challenged by an economic competition playing out in a broader strategic context. The United States helped expand the liberal economic trading system to countries that did not share our values, in the hopes that these states would liberalize their economic and political practices and provide commensurate benefits to the United States. Experience shows that these countries distorted and undermined key economic institutions without undertaking significant reform of their economies or politics. They espouse free trade rhetoric and exploit its benefits, but only adhere selectively to the rules and agreements.

We welcome all economic relationships rooted in fairness, reciprocity, and faithful adherence to the rules. Those who join this pursuit will be our closest economic partners. But the United States will no longer turn a blind eye to violations, cheating, or economic aggression. We must work with like-minded allies and partners to ensure our principles prevail and the rules are enforced so that our economies prosper.

The United States will pursue an economic strategy that rejuvenates the domestic economy, benefits the American worker, revitalizes the U.S. manufacturing base, creates middle-class jobs, encourages innovation, preserves technological advantage, safeguards the environment, and achieves energy dominance. Rebuilding economic strength at home and preserving a fair and reciprocal international economic system will enhance our security and advance prosperity and peace in the world.

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Rejuventate the Domestic Economy

Economic challenges at home demand that we understand economic prosperity as a pillar of national security. Despite low unemployment rates and stock market gains, overall economic growth has, until recently, been anemic since the 2008 recession. In the past five years, gross domestic product (GDP) growth hovered barely above two percent, and wages stagnated. Taxes increased, and health insurance and prescription drug costs continued to rise, albeit at a slower pace. Education costs climbed at rates far above inflation, increasing student debt. Productivity growth fell to levels not seen in decades.

Significant government intrusion in the economy slowed growth and job creation. Regulatory and corporate tax policies incentivized businesses to invest overseas and disadvantaged American companies against foreign competitors. Excessive regulation burdened small businesses. Banking regulations squelched new bank formation and caused hundreds of small banks to close. Regulation decreased credit availability to consumers and decreased product choice. Excessive environmental and infrastructure regulations impeded American energy trade and the development of new infrastructure projects.

Moreover, the poor state of our physical infrastructure stultified the economy, reduced the profitability of American small businesses, and slowed the productivity of American workers. America's digital infrastructure also fell behind. Improvements in bandwidth, better broadband connectivity, and protection from persistent cyberattacks are needed to support America's future growth. Economic and personal transactions are dependent upon the ".com world," and wealth creation depends on a reliable, secure Internet.

The Administration is dedicated to rejuvenating the U.S. economy, unleashing the potential of all Americans, and restoring confidence in our free market system. Promoting American prosperity makes America more secure and advances American influence in the world.

Priority Actions

REDUCE REGULATORY BURDENS: Departments and agencies will eliminate unnecessary regulations that stifle growth, drive up costs for American businesses, impede research and development, discourage hiring, and incentivize domestic businesses to move overseas. We will balance our reduction in regulations with adequate protections and oversight.

PROMOTE TAX REFORM: This Administration will work with the Congress to create a simpler, fairer, and pro-growth tax code that encourages the creation of higher wage jobs and gives middle-income families tax relief. Reduced business tax rates and a territorial system for foreign subsidiary earnings will improve the competitiveness of American companies and encourage their return to the United States.

IMPROVE AMERICAN INFRASTRUCTURE: Federal, state, and local governments will work together with private industry to improve our airports, seaports and waterways, roads and railways, transit systems, and telecommunications. The United States will use our strategic advantage as a leading natural gas producer to transform transportation and manufacturing. We will improve America's digital infrastructure by deploying a secure 5G Internet capability nationwide. These improvements will increase national competitiveness, benefit the environment, and improve our quality of life.

REDUCE THE DEBT THROUGH FISCAL RESPONSIBILITY: The national debt, now over $20 trillion, presents a grave threat to America's long-term prosperity and, by extension, our national security. By restraining Federal spending, making government more efficient, and by modernizing our tax system and making our businesses globally competitive, our economy will grow and make the existing debt more serviceable.

SUPPORT EDUCATION AND APPRENTICESHIP PROGRAMS: We will support apprenticeships and workforce development programs that prepare American workers for high-wage manufacturing and science, technology, engineering, and mathematics (STEM) jobs of the 21st century.

The Administration is dedicated to rejuvenating the U.S. economy, unleashing the potential of all Americans, and restoring confidence in our free market system.

Promote Free, Fair, and Reciprocal Economic Relationships

For decades, the United States has allowed unfair trading practices to grow. Other countries have used dumping, discriminatory non-tariff barriers, forced technology transfers, non-economic capacity, industrial subsidies, and other support from governments and state-owned enterprises to gain economic advantages.

Today we must meet the challenge. We will address persistent trade imbalances, break down trade barriers, and provide Americans new opportunities to increase their exports. The United States will expand trade that is fairer so that U.S. workers and industries have more opportunities to compete for business. We oppose closed mercantilist trading blocks. By strengthening the international trading system and incentivizing other countries to embrace market-friendly policies, we can enhance our prosperity.

The United States distinguishes between economic competition with countries that follow fair and free market principles and competition with those that act with little regard for those principles. We will compete with like-minded states in the economic domain—particularly where trade imbalances exist—while recognizing that competition is healthy when nations share values and build fair and reciprocal relationships. The United States will pursue enforcement actions when countries violate the rules to gain unfair advantage. The United States will engage industrialized democracies and other like-minded states to defend against economic aggression, in all its forms, that threatens our common prosperity and security.

Priority Actions

ADOPT NEW TRADE AND INVESTMENT AGREEMENTS AND MODERNIZE EXISTING ONES: The United States will pursue bilateral trade and investment agreements with countries that commit to fair and reciprocal trade and will modernize existing agreements to ensure they are consistent with those principles. Agreements must adhere to high standards in intellectual property, digital trade, agriculture, labor, and the environment.

COUNTER UNFAIR TRADE PRACTICES: The United States will counter all unfair trade practices that distort markets using all appropriate means, from dialogue to enforcement tools.

COUNTER FOREIGN CORRUPTION: Using our economic and diplomatic tools, the United States will continue to target corrupt foreign officials and work with countries to improve their ability to fight corruption so U.S. companies can compete fairly in transparent business climates.

WORK WITH LIKE-MINDED PARTNERS: The United States will work with like-minded partners to preserve and modernize the rules of a fair and reciprocal economic order. Together we will emphasize fair trade enforcement actions when necessary, as well as multinational efforts to ensure transparency and adherence to international standards within trade and investment projects.

FACILITATE NEW MARKET OPPORTUNITIES: The United States will partner with countries as they build their export markets, promote free market competition, and incentivize private sector growth. We will expand U.S. trade and investment opportunities and increase the market base for U.S. goods and services.

Lead in Research, Technology, Invention, and Innovation

The United States will build on the ingenuity that has launched industries, created jobs, and improved the quality of life at home and abroad. To maintain our competitive advantage, the United States will prioritize emerging technologies critical to economic growth and security, such as data science, encryption, autonomous technologies, gene editing, new materials, nanotechnology, advanced computing technologies, and artificial intelligence. From self-driving cars to autonomous weapons, the field of artificial intelligence, in particular, is progressing rapidly.

The United States must continue to attract the innovative and the inventive, the brilliant and the bold. We will encourage scientists in government, academia, and the private sector to achieve advancements across the full spectrum of discovery, from incremental improvements to game-changing breakthroughs. We will nurture a healthy innovation economy that collaborates with allies and partners, improves STEM education, draws on an advanced technical workforce, and invests in early-stage research and development (R&D).

Priority Actions

UNDERSTAND WORLDWIDE SCIENCE AND TECHNOLOGY (S&T) TRENDS: To retain U.S. advantages over our competitors, U.S. Government agencies must improve their understanding of worldwide S&T trends and how they are likely to influence—or undermine—American strategies and programs.

ATTRACT AND RETAIN INVENTORS AND INNOVATORS: The U.S. Government must improve our collaboration with industry and academia and our recruitment of technical talent. We will remove barriers to the full use of talent across Federal agencies, and increase incentives for hiring and retaining Federal STEM employees. Initiatives will include rapid hiring, swift adjudication of national security clearances, and offers of competitive salaries. We must create easier paths for the flow of scientists, engineers, and technologists into and out of public service.

LEVERAGE PRIVATE CAPITAL AND EXPERTISE TO BUILD AND INNOVATE: The U.S. Government will use private sector technical expertise and R&D capabilities more effectively. Private industry owns many of the technologies that the government relies upon for critical national security missions. The Department of Defense and other agencies will establish strategic partnerships with U.S. companies to help align private sector R&D resources to priority national security applications.

RAPIDLY FIELD INVENTIONS AND INNOVATIONS: The United States must regain the element of surprise and field new technologies at the pace of modern industry. Government agencies must shift from an archaic R&D process to an approach that rewards rapid fielding and risk taking.

Promote and Protect the U.S. National Security Innovation Base

America's business climate and legal and regulatory systems encourage risk taking. We are a nation of people who work hard, dream big, and never give up. Not every country shares these characteristics. Some instead steal or illicitly acquire America's hard-earned intellectual property and proprietary information to compensate for their own systemic weaknesses.

Every year, competitors such as China steal U.S. intellectual property valued at hundreds of billions of dollars. Stealing proprietary technology and early-stage ideas allows competitors to unfairly tap into the innovation of free societies. Over the years, rivals have used sophisticated means to weaken our businesses and our economy as facets of cyber-enabled economic warfare and other malicious activities. In addition to these illegal means, some actors use largely legitimate, legal transfers and relationships to gain access to fields, experts, and trusted foundries that fill their capability gaps and erode America's long-term competitive advantages.

We must defend our National Security Innovation Base (NSIB) against competitors. The NSIB is the American network of knowledge, capabilities, and people—including academia, National Laboratories, and the private sector—that turns ideas into innovations, transforms discoveries into successful commercial products and companies, and protects and enhances the American way of life. The genius of creative Americans, and the free system that enables them, is critical to American security and prosperity.

Protecting the NSIB requires a domestic and international response beyond the scope of any individual company, industry, university, or government agency. The landscape of innovation does not divide neatly into sectors. Technologies that are part of most weapon systems often originate in diverse businesses as well as in universities and colleges. Losing our innovation and technological edge would have far-reaching negative implications for American prosperity and power.

Priority Actions

UNDERSTAND THE CHALLENGES: The U.S. Government will develop a capability to integrate, monitor, and better understand the national security implications of unfair industry trends and the actions of our rivals. We will explore new ways to share this information with the private sector and academia so they better understand their responsibilities in curtailing activities that undercut America's NSIB.

PROTECT INTELLECTUAL PROPERTY: The United States will reduce the illicit appropriation of U.S. public and private sector technology and technical knowledge by hostile foreign competitors. While maintaining an investor-friendly climate, this Administration will work with the Congress to strengthen the Committee on Foreign Investment in the United States (CFIUS) to ensure it addresses current and future national security risks. The United States will prioritize counterintelligence and law enforcement activities to curtail intellectual property theft by all sources and will explore new legal and regulatory mechanisms to prevent and prosecute violations.

For the first time in generations, the United States will be an energy-dominant nation.

TIGHTEN VISA PROCEDURES: The United States will review visa procedures to reduce economic theft by non-traditional intelligence collectors. We will consider restrictions on foreign STEM students from designated countries to ensure that intellectual property is not transferred to our competitors, while acknowledging the importance of recruiting the most advanced technical workforce to the United States.

PROTECT DATA AND UNDERLYING INFRASTRUCTURE: The United States will expand our focus beyond protecting networks to protecting the data on those networks so that it remains secure—both at rest and in transit. To do this, the U.S. Government will encourage practices across companies and universities to defeat espionage and theft.

Embrace Energy Dominance

For the first time in generations, the United States will be an energy-dominant nation. Energy dominance—America's central position in the global energy system as a leading producer, consumer, and innovator—ensures that markets are free and U.S. infrastructure is resilient and secure. It ensures that access to energy is diversified, and recognizes the importance of environmental stewardship.

Access to domestic sources of clean, affordable, and reliable energy underpins a prosperous, secure, and powerful America for decades to come. Unleashing these abundant energy resources—coal, natural gas, petroleum, renewables, and nuclear—stimulates the economy and builds a foundation for future growth. Our Nation must take advantage of our wealth in domestic resources and energy efficiency to promote competitiveness across our industries.

The United States also anchors the North American energy system, which is one of the most highly integrated in the world. Our vibrant cross-border energy trade and investment are vital for a robust and resilient U.S. economy and energy market. We are committed to supporting energy initiatives that will attract investments, safeguard the environment, strengthen our energy security, and unlock the enormous potential of our shared region.

Climate policies will continue to shape the global energy system. U.S. leadership is indispensable to countering an anti-growth energy agenda that is detrimental to U.S. economic and energy security interests. Given future global energy demand, much of the developing world will require fossil fuels, as well as other forms of energy, to power their economies and lift their people out of poverty. The United States will continue to advance an approach that balances energy security, economic development, and environmental protection. The United States will remain a global leader in reducing traditional pollution, as well as greenhouse gases, while expanding our economy. This achievement, which can serve as a model to other countries, flows from innovation, technology breakthroughs, and energy efficiency gains, not from onerous regulation.

As a growing supplier of energy resources, technologies, and services around the world, the United States will help our allies and partners become more resilient against those that use energy to coerce. America's role as an energy exporter will also require an assessment of our vulnerabilities and a resilient American infrastructure.

Finally, the Nation's long-term energy security future rests with our people. We must invest in our future by supporting innovation and R&D, including through the National Laboratories.

Priority Actions

REDUCE BARRIERS: The United States will promote clean and safe development of our energy resources, while limiting regulatory burdens that encumber energy production and constrain economic growth. We will streamline the Federal regulatory approval processes for energy infrastructure, from pipeline and export terminals to container shipments and gathering lines, while also ensuring responsible environmental stewardship.

PROMOTE EXPORTS: The United States will promote exports of our energy resources, technologies, and services, which helps our allies and partners diversify their energy sources and brings economic gains back home. We will expand our export capacity through the continued support of private sector development of coastal terminals, allowing increased market access and a greater competitive edge for U.S. industries.

ENSURE ENERGY SECURITY: The United States will work with allies and partners to protect global energy infrastructure from cyber and physical threats. The United States will support the diversification of energy sources, supplies, and routes at home and abroad. We will modernize our strategic petroleum stocks and encourage other countries to develop their own—consistent with their national energy security needs.

ATTAIN UNIVERSAL ENERGY ACCESS: The United States will seek to ensure universal access to affordable, reliable energy, including highly efficient fossil fuels, nuclear, and renewables, to help reduce poverty, foster economic growth, and promote prosperity.

FURTHER AMERICA'S TECHNOLOGICAL EDGE: We will improve America's technological edge in energy, including nuclear technology, next-generation nuclear reactors, better batteries, advanced computing, carbon-capture technologies, and opportunities at the energy-water nexus. The United States will continue to lead in innovative and efficient energy technologies, recognizing the economic and environmental benefits to end users.

PILLAR III

Preserve Peace Through Strength

"As long as I am President, the servicemen and women who defend our Nation will have the equipment, the resources, and the funding they need to secure our homeland, to respond to our enemies quickly and decisively, and, when necessary, to fight, to overpower, and to always, always, always win."

PRESIDENT DONALD J. TRUMP | DECEMBER 2017

A central continuity in history is the contest for power. The present time period is no different. Three main sets of challengers—the revisionist powers of China and Russia, the rogue states of Iran and North Korea, and transnational threat organizations, particularly jihadist terrorist groups—are actively competing against the United States and our allies and partners. Although differing in nature and magnitude, these rivals compete across political, economic, and military arenas, and use technology and information to accelerate these contests in order to shift regional balances of power in their favor. These are fundamentally political contests between those who favor repressive systems and those who favor free societies.

China and Russia want to shape a world antithetical to U.S. values and interests. China seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor. Russia seeks to restore its great power status and establish spheres of influence near its borders. The intentions of both nations are not necessarily fixed. The United States stands ready to cooperate across areas of mutual interest with both countries.

For decades, U.S. policy was rooted in the belief that support for China's rise and for its integration into the post-war international order would liberalize China. Contrary to our hopes, China expanded its power at the expense of the sovereignty of others. China gathers and exploits data on an unrivaled scale and spreads features of its authoritarian system, including corruption and the use of surveillance. It is building the most capable and well-funded military in the world, after our own. Its nuclear arsenal is growing and diversifying. Part of China's military modernization and economic expansion is due to its access to the U.S. innovation economy, including America's world-class universities.

Russia aims to weaken U.S. influence in the world and divide us from our allies and partners. Russia views the North Atlantic Treaty Organization (NATO) and European Union (EU) as threats. Russia is investing in new military capabilities, including nuclear systems that remain the most significant existential threat to the United States, and in destabilizing cyber capabilities. Through modernized forms of subversive tactics, Russia interferes in the domestic political affairs of countries around the world. The combination of Russian ambition and growing military capabilities creates an unstable frontier in Eurasia, where the risk of conflict due to Russian miscalculation is growing.

The scourge of the world today is a small group of rogue regimes that violate all principles of free and civilized states. The Iranian regime sponsors terrorism around the world. It is developing more capable ballistic missiles and has the potential to resume its work on nuclear weapons that could threaten the United States and our partners. North Korea is ruled as a ruthless dictatorship without regard for human dignity. For more than 25 years, it has pursued nuclear weapons and ballistic missiles in defiance of every commitment it has made. Today, these missiles and weapons threaten the United States and our allies. The longer we ignore threats from countries determined to proliferate and develop weapons of mass destruction, the worse such threats become, and the fewer defensive options we have.

The United States continues to wage a long war against jihadist terrorist groups such as ISIS and al-Qa'ida. These groups are linked by a common radical Islamist ideology that encourages violence against the United States and our partners and produces misery for those under their control. Although the United States and our partners have inflicted defeats on ISIS and al-Qa'ida in Syria and Iraq, these organizations maintain global reach with established branches in strategic locations. The threat from jihadist terrorists will persist, even as we intensify efforts to prevent attacks on Americans, our allies, and our partners.

Protecting American interests requires that we compete continuously within and across these contests, which are being played out in regions around the world. The outcome of these contests will influence the political, economic, and military strength of the United States and our allies and partners.

To prevail, we must integrate all elements of America's national power—political, economic, and military. Our allies and partners must also contribute the capabilities, and demonstrate the will, to confront shared threats. Experience suggests that the willingness of rivals to abandon or forgo aggression depends on their perception of U.S. strength and the vitality of our alliances.

The United States will seek areas of cooperation with competitors from a position of strength, foremost by ensuring our military power is second to none and fully integrated with our allies and all of our instruments of power. A strong military ensures that our diplomats are able to operate from a position of strength. In this way we can, together with our allies and partners, deter and if necessary, defeat aggression against U.S. interests and increase the likelihood of managing competitions without violent conflict and preserving peace.

Renew America's Competitive Advantages

The United States must consider what is enduring about the problems we face, and what is new. The contests over influence are timeless. They have existed in varying degrees and levels of intensity, for millennia. Geopolitics is the interplay of these contests across the globe. But some conditions are new, and have changed how these competitions are unfolding. We face simultaneous threats from different actors across multiple arenas—all accelerated by technology. The United States must develop new concepts and capabilities to protect our homeland, advance our prosperity, and preserve peace.

Since the 1990s, the United States displayed a great degree of strategic complacency. We assumed that our military superiority was guaranteed and that a democratic peace was inevitable. We believed that liberal-democratic enlargement and inclusion would fundamentally alter the nature of international relations and that competition would give way to peaceful cooperation.

Instead of building military capacity, as threats to our national security increased, the United States dramatically cut the size of our military to the lowest levels since 1940. Instead of developing important capabilities, the Joint Force entered a nearly decade long "procurement holiday" during which the acquisition of new weapon systems was severely limited. The breakdown of the Nation's annual Federal budgeting process, exemplified by sequestration and repeated continuing resolutions, further contributed to the erosion of America's military dominance during a time of increasing threats.

The United States will seek areas of cooperation with competitors from a position of strength, foremost by ensuring our military power is second to none and fully integrated with our allies and all of our instruments of power.

Despite decades of efforts to reform the way that the United States develops and procures new weapons, our acquisition system remained sclerotic. The Joint Force did not keep pace with emerging threats or technologies. We got less for our defense dollars, shortchanging American taxpayers and warfighters.

We also incorrectly believed that technology could compensate for our reduced capacity—for the ability to field enough forces to prevail militarily, consolidate our gains, and achieve our desired political ends. We convinced ourselves that all wars would be fought and won quickly, from stand-off distances and with minimal casualties.

In addition, after being dismissed as a phenomenon of an earlier century, great power competition returned. China and Russia began to reassert their influence regionally and globally. Today, they are fielding military capabilities designed to deny America access in times of crisis and to contest our ability to operate freely in critical commercial zones during peacetime. In short, they are contesting our geopolitical advantages and trying to change the international order in their favor.

Moreover, deterrence today is significantly more complex to achieve than during the Cold War. Adversaries studied the American way of war and began investing in capabilities that targeted our strengths and sought to exploit perceived weaknesses. The spread of accurate and inexpensive weapons and the use of cyber tools have allowed state and non-state competitors to harm the United States across various domains. Such capabilities contest what was until recently U.S. dominance across the land, air, maritime, space, and cyberspace domains. They also enable adversaries to attempt strategic attacks against the United States—without resorting to nuclear weapons—in ways that could cripple our economy and our ability to deploy our military forces. Deterrence must be extended across all of these domains and must address all possible strategic attacks.

In addition, adversaries and competitors became adept at operating below the threshold of open military conflict and at the edges of international law. Repressive, closed states and organizations, although brittle in many ways, are often more agile and faster at integrating economic, military, and especially informational means to achieve their goals. They are unencumbered by truth, by the rules and protections of privacy inherent in democracies, and by the law of armed conflict. They employ sophisticated political, economic, and military campaigns that combine discrete actions. They are patient and content to accrue strategic gains over time—making it harder for the United States and our allies to respond. Such actions are calculated to achieve maximum effect without provoking a direct military response from the United States. And as these incremental gains are realized, over time, a new status quo emerges.

The United States must prepare for this type of competition. China, Russia, and other state and nonstate actors recognize that the United States often views the world in binary terms, with states being either "at peace" or "at war," when it is actually an arena of continuous competition. Our adversaries will not fight us on our terms. We will raise our competitive game to meet that challenge, to protect American interests, and to advance our values.

Our diplomatic, intelligence, military, and economic agencies have not kept pace with the changes in the character of competition. America's military must be prepared to operate across a full spectrum of conflict, across multiple domains at once. To meet these challenges we must also upgrade our political and economic instruments to operate across these environments.

Bureaucratic inertia is powerful. But so is the talent, creativity, and dedication of Americans. By aligning our public and private sector efforts we can field a Joint Force that is unmatched. New advances in computing, autonomy, and manufacturing are already transforming the way we fight. When coupled with the strength of our allies and partners, this advantage grows. The future that we face is ours to win or lose. History suggests that Americans will rise to the occasion and that we can shift trends back in favor of the United States, our allies, and our partners.

Renew Capabilities

Given the new features of the geopolitical environment, the United States must renew key capabilities to address the challenges we face.

Military

U.S. military strength remains a vital component of the competition for influence. The Joint Force demonstrates U.S. resolve and commitment and provides us with the ability to fight and win across any plausible conflict that threatens U.S. vital interests.

The United States must retain overmatch—the combination of capabilities in sufficient scale to prevent enemy success and to ensure that America's sons and daughters will never be in a fair fight. Overmatch strengthens our diplomacy and permits us to shape the international environment to protect our interests. To retain military overmatch the United States must restore our ability to produce innovative capabilities, restore the readiness of our forces for major war, and grow the size of the force so that it is capable of operating at sufficient scale and for ample duration to win across a range of scenarios.

We must convince adversaries that we can and will defeat them—not just punish them if they attack the United States. We must ensure the ability to deter potential enemies by denial, convincing them that they cannot accomplish objectives through the use of force or other forms of aggression. We need our allies to do the same—to modernize, acquire necessary capabilities, improve readiness, expand the size of their forces, and affirm the political will to win.

Priority Actions

MODERNIZATION: Ensuring that the U.S. military can defeat our adversaries requires weapon systems that clearly overmatch theirs in lethality. Where possible, we must improve existing systems to maximize returns on prior investments. In other areas we should seek new capabilities that create clear advantages for our military while posing costly dilemmas for our adversaries. We must eliminate bureaucratic impediments to innovation and embrace less expensive and time-intensive commercial off-the-shelf solutions. Departments and agencies must work with industry to experiment, prototype, and rapidly field new capabilities that can be easily upgraded as new technologies come online.

Support for a vibrant domestic manufacturing sector, a solid defense industrial base, and resilient supply chains is a national priority.

ACQUISITION: The United States will pursue new approaches to acquisition to make better deals on behalf of the American people that avoid cost overruns, eliminate bloated bureaucracies, and stop unnecessary delays so that we can put the right equipment into the hands of our forces. We must harness innovative technologies that are being developed outside of the traditional defense industrial base.

CAPACITY: The size of our force matters. To deter conflict and, if deterrence fails, to win in war, the Nation must be able to field forces capable of operating in sufficient scale and for ample duration to defeat enemies, consolidate military gains, and achieve sustainable outcomes that protect the American people and our vital interests. The United States must reverse recent decisions to reduce the size of the Joint Force and grow the force while modernizing and ensuring readiness.

IMPROVE READINESS: The United States must retain a ready force that is capable of protecting the homeland while defending U.S. interests. Readiness requires a renewed focus on training, logistics, and maintenance. We must be able to get to a theater in time to shape events quickly. This will require a resilient forward posture and agile global mobility forces.

RETAIN A FULL-SPECTRUM FORCE: The Joint Force must remain capable of deterring and defeating the full range of threats to the United States. The Department of Defense must develop new operational concepts and capabilities to win without assured dominance in air, maritime, land, space, and cyberspace domains, including against those operating below the level of conventional military conflict. We must sustain our competence in irregular warfare, which requires planning for a long-term, rather than ad hoc, fight against terrorist networks and other irregular threats.

Defense Industrial Base

A healthy defense industrial base is a critical element of U.S. power and the National Security Innovation Base. The ability of the military to surge in response to an emergency depends on our Nation's ability to produce needed parts and systems, healthy and secure supply chains, and a skilled U.S. workforce. The erosion of American manufacturing over the last two decades, however, has had a negative impact on these capabilities and threatens to undermine the ability of U.S. manufacturers to meet national security requirements. Today, we rely on single domestic sources for some products and foreign supply chains for others, and we face the possibility of not being able to produce specialized components for the military at home. As America's manufacturing base has weakened, so too have critical workforce skills ranging from industrial welding, to high-technology skills for cybersecurity and aerospace. Support for a vibrant domestic manufacturing sector, a solid defense industrial base, and resilient supply chains is a national priority.

Priority Actions

UNDERSTAND THE PROBLEM: We will evaluate the strengths and weaknesses of our defense industrial base, including the identification of materials essential to national security, contingencies that could affect supply chains, and technologies that are likely to be critical for the future.

ENCOURAGE HOMELAND INVESTMENT: The United States will promote policies and incentives that return key national security industries to American shores. Where possible, the U.S. Government will work with industry partners to strengthen U.S. competitiveness in key technologies and manufacturing capabilities. In addition, we will reform regulations and processes to facilitate the export of U.S. military equipment.

PROTECT AND GROW CRITICAL SKILLS: The United States must maintain and develop skilled trades and high-technology skills through increased support for technical college and apprenticeship programs. We will support STEM efforts, at the Federal and state levels, and target national security technology areas.

Nuclear Forces

Nuclear weapons have served a vital purpose in America's National Security Strategy for the past 70 years. They are the foundation of our strategy to preserve peace and stability by deterring aggression against the United States, our allies, and our partners. While nuclear deterrence strategies cannot prevent all conflict, they are essential to prevent nuclear attack, non-nuclear strategic attacks, and large-scale conventional aggression. In addition, the extension of the U.S. nuclear deterrent to more than 30 allies and partners helps to assure their security, and reduces their need to possess their own nuclear capabilities.

Following the Cold War, the United States reduced investments in our nuclear enterprise and reduced the role of nuclear weapons in our strategy. Some parts of America's strategic nuclear Triad of bombers, sea-based missiles, and land-based missiles are over 30 years old, and much of our nuclear infrastructure dates to the World War II era. At the same time, however, nuclear-armed adversaries have expanded their arsenals and range of delivery systems. The United States must maintain the credible deterrence and assurance capabilities provided by our nuclear Triad and by U.S. theater nuclear capabilities deployed abroad. Significant investment is needed to maintain a U.S. nuclear arsenal and infrastructure that is able to meet national security threats over the coming decades.

Priority Actions

SUSTAIN U.S. NUCLEAR WEAPONS: The United States will sustain a nuclear force structure that meets our current needs and addresses unanticipated risks. The United States does not need to match the nuclear arsenals of other powers, but we must sustain a stockpile that can deter adversaries, assure allies and partners, and achieve U.S. objectives if deterrence fails.

MODERNIZE U.S. NUCLEAR FORCES AND INFRASTRUCTURE: We will modernize our nuclear enterprise to ensure that we have the scientific, engineering, and manufacturing capabilities necessary to retain an effective and safe nuclear Triad and respond to future national security threats. Modernization and sustainment require investing in our aging command and control system and maintaining and growing the highly skilled workforce needed to develop, manufacture, and deploy nuclear weapons.

MAINTAIN STABLE DETERRENCE: To avoid miscalculation, the United States will conduct discussions with other states to build predictable relationships and reduce nuclear risks. We will consider new arms control arrangements if they contribute to strategic stability and if they are verifiable. We will not allow adversaries to use threats of nuclear escalation or other irresponsible nuclear behaviors to coerce the United States, our allies, and our partners. Fear of escalation will not prevent the United States from defending our vital interests and those of our allies and partners.

Space

The United States must maintain our leadership and freedom of action in space. Communications and financial networks, military and intelligence systems, weather monitoring, navigation, and more have components in the space domain. As U.S. dependence on space has increased, other actors have gained access to space-based systems and information. Governments and private sector firms have the ability to launch satellites into space at increasingly lower costs. The fusion of data from imagery, communications, and geolocation services allows motivated actors to access previously unavailable information. This "democratization of space" has an impact on military operations and on America's ability to prevail in conflict.

Many countries are purchasing satellites to support their own strategic military activities. Others believe that the ability to attack space assets offers an asymmetric advantage and as a result, are pursuing a range of anti-satellite (ASAT) weapons. The United States considers unfettered access to and freedom to operate in space to be a vital interest. Any harmful interference with or an attack upon critical components of our space architecture that directly affects this vital U.S. interest will be met with a deliberate response at a time, place, manner, and domain of our choosing.

Priority Actions

ADVANCE SPACE AS A PRIORITY DOMAIN: America's newly re-established National Space Council, chaired by the Vice President, will review America's long-range space goals and develop a strategy that integrates all space sectors to support innovation and American leadership in space.

PROMOTE SPACE COMMERCE: The United States will simplify and update regulations for commercial space activity to strengthen competitiveness. As the U.S. Government partners with U.S. commercial space capabilities to improve the resiliency of our space architecture, we will also consider extending national security protections to our private sector partners as needed.

MAINTAIN LEAD IN EXPLORATION: To enable human exploration across the solar system and to bring back to Earth new knowledge and opportunities, we will increase public-private partnerships and promote ventures beyond low Earth orbit with allies and friends.

Cyberspace

Malicious state and non-state actors use cyberattacks for extortion, information warfare, disinformation, and more. Such attacks have the capability to harm large numbers of people and institutions with comparatively minimal investment and a troubling degree of deniability. These attacks can undermine faith and confidence in democratic institutions and the global economic system.

Many countries now view cyber capabilities as tools for projecting influence, and some use cyber tools to protect and extend their autocratic regimes. Cyberattacks have become a key feature of modern conflict. The United States will deter, defend, and when necessary defeat malicious actors who use cyberspace capabilities against the United States. When faced with the opportunity to take action against malicious actors in cyberspace, the United States will be risk informed, but not risk averse, in considering our options.

Priority Actions

IMPROVE ATTRIBUTION, ACCOUNTABILITY, AND RESPONSE: We will invest in capabilities to support and improve our ability to attribute cyberattacks, to allow for rapid response.

ENHANCE CYBER TOOLS AND EXPERTISE: We will improve our cyber tools across the spectrum of conflict to protect U.S. Government assets and U.S. critical infrastructure, and to protect the integrity of data and information. U.S. departments and agencies will recruit, train, and retain a workforce capable of operating across this spectrum of activity.

IMPROVE INTEGRATION AND AGILITY: We will improve the integration of authorities and procedures across the U.S. Government so that cyber operations against adversaries can be conducted as required. We will work with the Congress to address the challenges that continue to hinder timely intelligence and information sharing, planning and operations, and the development of necessary cyber tools.

Intelligence

America's ability to identify and respond to geostrategic and regional shifts and their political, economic, military, and security implications requires that the U.S. Intelligence Community (IC) gather, analyze, discern, and operationalize information. In this information-dominant era, the IC must continuously pursue strategic intelligence to anticipate geostrategic shifts, as well as shorter-term intelligence so that the United States can respond to the actions and provocations of rivals.

The ability of the United States to modernize our military forces to overmatch our adversaries requires intelligence support. Intelligence is needed to understand and anticipate foreign doctrine and the intent of foreign leaders, prevent tactical and operational surprise, and ensure that U.S. capabilities are not compromised before they are fielded. In addition, virtually all modern weapon systems depend upon data derived from scientific and technical intelligence.

The IC, as well as the law enforcement community, offer unique abilities to defend against and mitigate threat actors operating below the threshold of open conflict. Both communitites have exceptionally strong liaison relationships throughout the world, allowing the United States to cooperate with allies and partners to protect against adversaries.

Priority Actions

IMPROVE UNDERSTANDING: To prevent the theft of sensitive and proprietary information and maintain supply chain integrity, the United States must increase our understanding of the economic policy priorities of our adversaries and improve our ability to detect and defeat their attempts to commit economic espionage.

HARNESS ALL INFORMATION AT OUR DISPOSAL: The United States will, in concert with allies and partners, use the information-rich open-source environment to deny the ability of state and non-state actors to attack our citizens, conduct offensive intelligence activities, and degrade America's democratic institutions.

FUSE INFORMATION AND ANALYSIS: The United States will fuse our analysis of information derived from the diplomatic, information, military, and economic domains to compete more effectively on the geopolitical stage.

Diplomacy and Statecraft

Competitive Diplomacy

Across the competitive landscape, America's diplomats are our forward-deployed political capability, advancing and defending America's interests abroad. Diplomacy catalyzes the political, economic, and societal connections that create America's enduring alignments and that build positive networks of relationships with partners. Diplomacy sustains dialogue and fosters areas of cooperation with competitors. It reduces the risk of costly miscommunication.

Diplomacy is indispensable to identify and implement solutions to conflicts in unstable regions of the world short of military involvement. It helps to galvanize allies for action and marshal the collective resources of like-minded nations and organizations to address shared problems. Authoritarian states are eager to replace the United States where the United States withdraws our diplomats and closes our outposts.

Diplomacy is indispensable to identify and implement solutions to conflicts in unstable regions of the world short of military involvement. It helps to galvanize allies for action and marshal the collective resources of like-minded nations and organizations to address shared problems.

We must upgrade our diplomatic capabilities to compete in the current environment and to embrace a competitive mindset. Effective diplomacy requires the efficient use of limited resources, a professional diplomatic corps, modern and safe facilities, and secure methods to communicate and engage with local populations.

Priority Actions

PRESERVE A FORWARD DIPLOMATIC PRESENCE: Our diplomats must be able to build and sustain relationships where U.S. interests are at stake. Face-to-face diplomacy cannot be replaced by technology. Relationships, developed over time, create trust and shared understanding that the United States calls upon when confronting security threats, responding to crises, and encouraging others to share the burden for tackling the world's challenges. We must enable forward-deployed field work beyond the confines of diplomatic facilities, including partnering with military colleagues in conflict-affected states.

ADVANCE AMERICAN INTERESTS: In the ongoing contests for power, our diplomats must build and lead coalitions that advance shared interests and articulate America's vision in international forums, in bilateral relationships, and at local levels within states. Our diplomats need additional flexibility to operate in complex conflict-affected areas.

CATALYZE OPPORTUNITIES: Diplomats must identify opportunities for commerce and cooperation, and facilitate the cultural, educational, and people-to-people exchanges that create the networks of current and future political, civil society, and educational leaders who will extend a free and prosperous world.

Tools of Economic Diplomacy

Retaining our position as the world's preeminent economic actor strengthens our ability to use the tools of economic diplomacy for the good of Americans and others. Maintaining America's central role in international financial forums enhances our security and prosperity by expanding a community of free market economies, defending against threats from state-led economies, and protecting the U.S. and international economy from abuse by illicit actors.

We want to create wealth for Americans and our allies and partners. Prosperous states are stronger security partners who are able to share the burden of confronting common threats. Fair and reciprocal trade, investments, and exchanges of knowledge deepen our alliances and partnerships, which are necessary to succeed in today's competitive geopolitical environment. Trade, export promotion, targeted use of foreign assistance, and modernized development finance tools can promote stability, prosperity, and political reform, and build new partnerships based on the principle of reciprocity.

America's competitors weaponize information to attack the values and institutions that underpin free societies, while shielding themselves from outside information.

Economic tools—including sanctions, anti-money-laundering and anti-corruption measures, and enforcement actions—can be important parts of broader strategies to deter, coerce, and constrain adversaries. We will work with like-minded partners to build support for tools of economic diplomacy against shared threats. Multilateral economic pressure is often more effective because it limits the ability of targeted states to circumvent measures and conveys united resolve.

Priority Actions

REINFORCE ECONOMIC TIES WITH ALLIES AND PARTNERS: We will strengthen economic ties as a core aspect of our relationships with like-minded states and use our economic expertise, markets, and resources to bolster states threatened by our competitors.

DEPLOY ECONOMIC PRESSURE ON SECURITY THREATS: We will use existing and pursue new economic authorities and mobilize international actors to increase pressure on threats to peace and security in order to resolve confrontations short of military action.

SEVER SOURCES OF FUNDING: We will deny revenue to terrorists, WMD proliferators, and other illicit actors in order to constrain their ability to use and move funds to support hostile acts and operations.

Information Statecraft

America's competitors weaponize information to attack the values and institutions that underpin free societies, while shielding themselves from outside information. They exploit marketing techniques to target individuals based upon their activities, interests, opinions, and values. They disseminate misinformation and propaganda.

Risks to U.S. national security will grow as competitors integrate information derived from personal and commercial sources with intelligence collection and data analytic capabilities based on Artificial Intelligence (AI) and machine learning. Breaches of U.S. commercial and government organizations also provide adversaries with data and insights into their target audiences.

China, for example, combines data and the use of AI to rate the loyalty of its citizens to the state and uses these ratings to determine jobs and more. Jihadist terrorist groups continue to wage ideological information campaigns to establish and legitimize their narrative of hate, using sophisticated communications tools to attract recruits and encourage attacks against Americans and our partners.

Russia uses information operations as part of its offensive cyber efforts to influence public opinion across the globe. Its influence campaigns blend covert intelligence operations and false online personas with state-funded media, third-party intermediaries, and paid social media users or "trolls."

U.S. efforts to counter the exploitation of information by rivals have been tepid and fragmented. U.S. efforts have lacked a sustained focus and have been hampered by the lack of properly trained professionals. The American private sector has a direct interest in supporting and amplifying voices that stand for tolerance, openness, and freedom.

Priority Actions

PRIORITIZE THE COMPETITION: We will improve our understanding of how adversaries gain informational and psychological advantages across all policies. The United States must empower a true public diplomacy capability to compete effectively in this arena.

DRIVE EFFECTIVE COMMUNICATIONS: We will craft and direct coherent communications campaigns to advance American influence and counter challenges from the ideological threats that emanate from radical Islamist groups and competitor nations. These campaigns will adhere to American values and expose adversary propaganda and disinformation.

ACTIVATE LOCAL NETWORKS: Local voices are most compelling and effective in ideological competitions. We must amplify credible voices and partner with them to advance alternatives to violent and hateful messages. Since media and Internet companies are the platforms through which messages are transported, the private sector should lend its creativity and resources to promoting the values that inspire and grow a community of civilized groups and individuals.

SHARE RESPONSIBILITY: The United States will urge states where radicalism thrives to take greater responsibility for countering violent messaging and promoting tolerant and pluralistic worldviews.

UPGRADE, TAILOR, AND INNOVATE: We will reexamine legacy delivery platforms for communicating U.S. messages overseas. We must consider more cost-effective and efficient ways to deliver and evaluate content consistent with U.S. national security interests.

PILLAR IV

Advance American Influence

"Above all, we value the dignity of every human life, protect the rights of every person, and share the hope of every soul to live in freedom. That is who we are."

PRESIDENT DONALD J. TRUMP | JULY 2017

Our America First foreign policy celebrates America's influence in the world as a positive force that can help set the conditions for peace and prosperity and for developing successful societies.

There is no arc of history that ensures that America's free political and economic system will automatically prevail. Success or failure depends upon our actions. This Administration has the confidence to compete to protect our values and interests and the fundamental principles that underpin them.

During the Cold War, a totalitarian threat from the Soviet Union motivated the free world to create coalitions in defense of liberty. Today's challenges to free societies are just as serious, but more diverse. State and non-state actors project influence and advance their objectives by exploiting information, democratic media freedoms, and international institutions. Repressive leaders often collaborate to subvert free societies and corrupt multilateral organizations.

Around the world, nations and individuals admire what America stands for. We treat people equally and value and uphold the rule of law. We have a democratic system that allows the best ideas to flourish. We know how to grow economies so that individuals can achieve prosperity. These qualities have made America the richest country on earth—rich in culture, talent, opportunities, and material wealth.

The United States offers partnership to those who share our aspirations for freedom and prosperity. We lead by example. "The world has its eye upon America," Alexander Hamilton once observed. "The noble struggle we have made in the cause of liberty, has occasioned a kind of revolution in human sentiment. The influence of our example has penetrated the gloomy regions of despotism."

We are not going to impose our values on others. Our alliances, partnerships, and coalitions are built on free will and shared interests. When the United States partners with other states, we develop policies that enable us to achieve our goals while our partners achieve theirs.

Allies and partners are a great strength of the United States. They add directly to U.S. political, economic, military, intelligence, and other capabilities. Together, the United States and our allies and partners represent well over half of the global GDP. None of our adversaries have comparable coalitions.

We encourage those who want to join our community of like-minded democratic states and improve the condition of their peoples. By modernizing U.S. instruments of diplomacy and development, we will catalyze conditions to help them achieve that goal. These aspiring partners include states that are fragile, recovering from conflict, and seeking a path forward to sustainable security and economic growth. Stable, prosperous, and friendly states enhance American security and boost U.S. economic opportunities.

We will continue to champion American values and offer encouragement to those struggling for human dignity in their societies. There can be no moral equivalency between nations that uphold the rule of law, empower women, and respect individual rights and those that brutalize and suppress their people. Through our words and deeds, America demonstrates a positive alternative to political and religious despotism.

There is no arc of history that ensures that America's free political and economic system will automatically prevail. Success or failure depends upon our actions.

Encourage Aspiring Partners

Some of the greatest triumphs of American statecraft resulted from helping fragile and developing countries become successful societies. These successes, in turn, created profitable markets for American businesses, allies to help achieve favorable regional balances of power, and coalition partners to share burdens and address a variety of problems around the world. Over time, the United States has helped create a network of states that advance our common interests and values.

This historical record is unprecedented and exceptional. American support to aspiring partners enabled the recovery of the countries of Western Europe under the Marshall Plan, as well as the ongoing integration of Central and Eastern Europe into Western institutions after the Cold War. In Asia, the United States worked with South Korea and Japan, countries ravaged by war, to help them become successful democracies and among the most prosperous economies in the world.

These achievements were products of patient partnerships with those who aspired to build prosperous societies and join the community of democratic states. They resulted in mutually beneficial relationships in which the United States helped states mobilize their own resources to achieve transitions to growth and stability. Working with these countries made the United States wealthier and more competitive. This progress illustrates how effective foreign assistance programs should reach their natural endpoint.

Today, the United States must compete for positive relationships around the world. China and Russia target their investments in the developing world to expand influence and gain competitive advantages against the United States. China is investing billions of dollars in infrastructure across the globe. Russia, too, projects its influence economically, through the control of key energy and other infrastructure throughout parts of Europe and Central Asia. The United States provides an alternative to state-directed investments, which often leave developing countries worse off. The United States pursues economic ties not only for market access but also to create enduring relationships to advance common political and security interests.

The United States will promote a development model that partners with countries that want progress, consistent with their culture, based on free market principles, fair and reciprocal trade, private sector activity, and rule of law. The United States will shift away from a reliance on assistance based on grants to approaches that attract private capital and catalyze private sector activity. We will emphasize reforms that unlock the economic potential of citizens, such as the promotion of formal property rights, entrepreneurial reforms, and infrastructure improvements—projects that help people earn their livelihood and have the added benefit of helping U.S. businesses. By mobilizing both public and private resources, the United States can help maximize returns and outcomes and reduce the burden on U.S. Government resources. Unlike the state-directed mercantilism of some competitors that can disadvantage recipient nations and promote dependency, the purpose of U.S. foreign assistance should be to end the need for it. The United States seeks strong partners, not weak ones.

U.S. development assistance must support America's national interests. We will prioritize collaboration with aspiring partners that are aligned with U.S. interests. We will focus on development investments where we can have the most impact—where local reformers are committed to tackling their economic and political challenges.

Within this framework, the United States will also assist fragile states to prevent threats to the U.S. homeland. Transnational threat organizations, such as jihadist terrorists and organized crime, often operate freely from fragile states and undermine sovereign governments. Failing states can destabilize entire regions.

Across Africa, Latin America, and Asia, states are eager for investments and financing to develop their infrastructure and propel growth. The United States and its partners have opportunities to work with countries to help them realize their potential as prosperous and sovereign states that are accountable to their people. Such states can become trading partners that buy more American-made goods and create more predictable business environments that benefit American companies. American-led investments represent the most sustainable and responsible approach to development and offer a stark contrast to the corrupt, opaque, exploitive, and low-quality deals offered by authoritarian states.

Priority Actions: Developing Countries

MOBILIZE RESOURCES: The United States will modernize its development finance tools so that U.S. companies have incentives to capitalize on opportunities in developing countries. With these changes, the United States will not be left behind as other states use investment and project finance to extend their influence. In addition, the U.S. Government must not be an obstacle to U.S. companies that want to conduct business in the developing world.

CAPITALIZE ON NEW TECHNOLOGIES: We will incorporate innovative technologies in our diplomatic and development programs. For example, digital technologies enable millions to access financial services through their cell phones and can connect farmers to markets. Such technologies can reduce corruption, increase transparency, and help ensure that money reaches its intended destination.

INCENTIVIZE REFORMS: The United States will use diplomacy and assistance to encourage states to make choices that improve governance, rule of law, and sustainable development. We already do this through the Millennium Challenge Corporation, which selects countries that are committed to reform and then monitors and evaluates their projects.

Priority Actions: Fragile States

COMMIT SELECTIVELY: We will give priority to strengthening states where state weaknesses or failure would magnify threats to the American homeland. For instance, engagement in Afghanistan seeks to prevent the reemergence of terrorist safe havens.

WORK WITH REFORMERS: Political problems are at the root of most state fragility. The United States will prioritize programs that empower reform-minded governments, people, and civil society. As the United States designs its efforts, inputs from local actors improve the likelihood of enduring solutions, reduce costs, and increase accountability to the American taxpayer.

SYNCHRONIZE ACTIONS: The United States must use its diplomatic, economic, and military tools simultaneously when assisting aspiring partners. We will place a priority on economic support that achieves local and macroeconomic stability, helps build capable security forces, and strengthens the rule of law.

Achieve Better Outcomes in Multilateral Forums

The United States must lead and engage in the multinational arrangements that shape many of the rules that affect U.S. interests and values. A competition for influence exists in these institutions. As we participate in them, we must protect American sovereignty and advance American interests and values.

A range of international institutions establishes the rules for how states, businesses, and individuals interact with each other, across land and sea, the Arctic, outer space, and the digital realm. It is vital to U.S. prosperity and security that these institutions uphold the rules that help keep these common domains open and free. Free access to the seas remains a central principle of national security and economic prosperity, and exploration of sea and space provides opportunities for commercial gain and scientific breakthroughs. The flow of data and an open, interoperable Internet are inseparable from the success of the U.S. economy.

Authoritarian actors have long recognized the power of multilateral bodies and have used them to advance their interests and limit the freedom of their own citizens. If the United States cedes leadership of these bodies to adversaries, opportunities to shape developments that are positive for the United States will be lost. All institutions are not equal, however. The United States will prioritize its efforts in those organizations that serve American interests, to ensure that they are strengthened and supportive of the United States, our allies, and our partners. Where existing institutions and rules need modernizing, the United States will lead to update them. At the same time, it should be clear that the United States will not cede sovereignty to those that claim authority over American citizens and are in conflict with our constitutional framework.

Priority Actions

EXERCISE LEADERSHIP IN POLITICAL AND SECURITY BODIES: The United States will strive for outcomes in political and security forums that are consistent with U.S. interests and values—values which are shared by our allies and partners. The United Nations can help contribute to solving many of the complex problems in the world, but it must be reformed and recommit to its founding principles. We will require accountability and emphasize shared responsibility among members. If the United States is asked to provide a disproportionate level of support for an institution, we will expect a commensurate degree of influence over the direction and efforts of that institution.

SHAPE AND REFORM INTERNATIONAL FINANCIAL AND TRADE INSTITUTIONS: The United States will continue to play a leading role in institutions such as the International Monetary Fund (IMF), World Bank, and World Trade Organization (WTO), but will improve their performance through reforms. These reforms include encouraging multilateral development banks to invest in high-quality infrastructure projects that promote economic growth. We will press to make the WTO a more effective forum to adjudicate unfair trade practices.

ENSURE COMMON DOMAINS REMAIN FREE: The United States will provide leadership and technology to shape and govern common domains—space, cyberspace, air, and maritime—within the framework of international law. The United States supports the peaceful resolution of disputes under international law but will use all of its instruments of power to defend U.S. interests and to ensure common domains remain free.

PROTECT A FREE AND OPEN INTERNET: The United States will advocate for open, interoperable communications, with minimal barriers to the global exchange of information and services. The United States will promote the free flow of data and protect its interests through active engagement in key organizations, such as the Internet Corporation for Assigned Names and Numbers (ICANN), the Internet Governance Forum (IGF), the UN, and the International Telecommunication Union (ITU).

Champion American Values

The extraordinary trajectory of the United States from a group of colonies to a thriving, industrialized, sovereign republic—the world's lone superpower—is a testimony to the strength of the idea on which our Nation is founded, namely that each of our citizens is born free and equal under the law. America's core principles, enshrined in the Declaration of Independence, are secured by the Bill of Rights, which proclaims our respect for fundamental individual liberties beginning with the freedoms of religion, speech, the press, and assembly. Liberty, free enterprise, equal justice under the law, and the dignity of every human life are central to who we are as a people.

For much of the world, America's liberties are inspirational, and the United States will always stand with those who seek freedom. We will remain a beacon of liberty and opportunity around the world.

These principles form the foundation of our most enduring alliances, and the United States will continue to champion them. Governments that respect the rights of their citizens remain the best vehicle for prosperity, human happiness, and peace. In contrast, governments that routinely abuse the rights of their citizens do not play constructive roles in the world. For example, governments that fail to treat women equally do not allow their societies to reach their potential.

No nation can unilaterally alleviate all human suffering, but just because we cannot help everyone does not mean that we should stop trying to help anyone. For much of the world, America's liberties are inspirational, and the United States will always stand with those who seek freedom. We will remain a beacon of liberty and opportunity around the world.

The United States also remains committed to supporting and advancing religious freedom—America's first freedom. Our Founders understood religious freedom not as the state's creation, but as the gift of God to every person and a fundamental right for our flourishing society.

And it is part of our culture, as well as in America's interest, to help those in need and those trying to build a better future for their families. We aid others judiciously, aligning our means to our objectives, but with a firm belief that we can improve the lives of others while establishing conditions for a more secure and prosperous world.

Priority Actions

SUPPORT THE DIGNITY OF INDIVIDUALS: We support, with our words and actions, those who live under oppressive regimes and who seek freedom, individual dignity, and the rule of law. We are under no obligation to offer the benefits of our free and prosperous community to repressive regimes and human rights abusers. We may use diplomacy, sanctions, and other tools to isolate states and leaders who threaten our interests and whose actions run contrary to our values. We will not remain silent in the face of evil. We will hold perpetrators of genocide and mass atrocities accountable.

DEFEAT TRANSNATIONAL TERRORIST ORGANIZATIONS: There can be no greater action to advance the rights of individuals than to defeat jihadist terrorists and other groups that foment hatred and use violence to advance their supremacist Islamist ideologies. We will continue to join with other states to defeat this scourge of all civilized peoples.

EMPOWER WOMEN AND YOUTH: Societies that empower women to participate fully in civic and economic life are more prosperous and peaceful. We will support efforts to advance women's equality, protect the rights of women and girls, and promote women and youth empowerment programs.

PROTECT RELIGIOUS FREEDOM AND RELIGIOUS MINORITIES: We will advocate on behalf of religious freedom and threatened minorities. Religious minorities continue to be victims of violence. We will place a priority on protecting these groups and will continue working with regional partners to protect minority communities from attacks and to preserve their cultural heritage.

REDUCE HUMAN SUFFERING: The United States will continue to lead the world in humanitarian assistance. Even as we expect others to share responsibility, the United States will continue to catalyze international responses to man-made and natural disasters and provide our expertise and capabilities to those in need. We will support food security and health programs that save lives and address the root cause of hunger and disease. We will support displaced people close to their homes to help meet their needs until they can safely and voluntarily return home.

The Strategy in a Regional Context

The United States must tailor our approaches to different regions of the world to protect U.S. national interests. We require integrated regional strategies that appreciate the nature and magnitude of threats, the intensity of competitions, and the promise of available opportunities, all in the context of local political, economic, social, and historical realities.

Changes in a regional balance of power can have global consequences and threaten U.S. interests. Markets, raw materials, lines of communication, and human capital are located within, or move among, key regions of the world. China and Russia aspire to project power worldwide, but they interact most with their neighbors. North Korea and Iran also pose the greatest menace to those closest to them. But, as destructive weapons proliferate and regions become more interconnected, threats become more difficult to contain. And regional balances that shift against the United States could combine to threaten our security.

The United States must marshal the will and capabilities to compete and prevent unfavorable shifts in the Indo-Pacific, Europe, and the Middle East. Sustaining favorable balances of power will require a strong commitment and close cooperation with allies and partners because allies and partners magnify U.S. power and extend U.S. influence. They share our interests and responsibility for resisting authoritarian trends, contesting radical ideologies, and deterring aggression.

In other regions of the world, instability and weak governance threaten U.S. interests. Some governments are unable to maintain security and meet the basic needs of their people, making their country and citizens vulnerable to predators. Terrorists and criminals thrive where governments are weak, corruption is rampant, and faith in government institutions is low. Strategic competitors often exploit rather than discourage corruption and state weakness to extract resources and exploit their populations.

Regions afflicted by instability and weak governments also offer opportunities to improve security, promote prosperity, and restore hope. Aspiring partner states across the developing world want to improve their societies, build transparent and effective governments, confront non-state threats, and strengthen their sovereignty. Many recognize the opportunities offered by market economies and political liberties and are eager for partnership with the United States and our allies. The United States will encourage aspiring partners as they undertake reforms and pursue their aspirations. States that prosper and nations that transition from recipients of development assistance to trading partners offer economic opportunities for American businesses. And stability reduces threats that target Americans at home.

Indo-Pacific

A geopolitical competition between free and repressive visions of world order is taking place in the Indo-Pacific region. The region, which stretches from the west coast of India to the western shores of the United States, represents the most populous and economically dynamic part of the world. The U.S. interest in a free and open Indo-Pacific extends back to the earliest days of our republic.

Although the United States seeks to continue to cooperate with China, China is using economic inducements and penalties, influence operations, and implied military threats to persuade other states to heed its political and security agenda. China's infrastructure investments and trade strategies reinforce its geopolitical aspirations. Its efforts to build and militarize outposts in the South China Sea endanger the free flow of trade, threaten the sovereignty of other nations, and undermine regional stability. China has mounted a rapid military modernization campaign designed to limit U.S. access to the region and provide China a freer hand there. China presents its ambitions as mutually beneficial, but Chinese dominance risks diminishing the sovereignty of many states in the Indo-Pacific. States throughout the region are calling for sustained U.S. leadership in a collective response that upholds a regional order respectful of sovereignty and independence.

Sustaining favorable balances of power will require a strong commitment and close cooperation with allies and partners because allies and partners magnify U.S. power and extend U.S. influence.

In Northeast Asia, the North Korean regime is rapidly accelerating its cyber, nuclear, and ballistic missile programs. North Korea's pursuit of these weapons poses a global threat that requires a global response. Continued provocations by North Korea will prompt neighboring countries and the United States to further strengthen security bonds and take additional measures to protect themselves. And a nuclear-armed North Korea could lead to the proliferation of the world's most destructive weapons across the Indo-Pacific region and beyond.

U.S. allies are critical to responding to mutual threats, such as North Korea, and preserving our mutual interests in the Indo-Pacific region. Our alliance and friendship with South Korea, forged by the trials of history, is stronger than ever. We welcome and support the strong leadership role of our critical ally, Japan. Australia has fought alongside us in every significant conflict since World War I, and continues to reinforce economic and security arrangements that support our shared interests and safeguard democratic values across the region. New Zealand is a key U.S. partner contributing to peace and security across the region. We welcome India's emergence as a leading global power and stronger strategic and defense partner. We will seek to increase quadrilateral cooperation with Japan, Australia, and India.

In Southeast Asia, the Philippines and Thailand remain important allies and markets for Americans. Vietnam, Indonesia, Malaysia, and Singapore are growing security and economic partners of the United States. The Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC) remain centerpieces of the Indo-Pacific's regional architecture and platforms for promoting an order based on freedom.

Priority Actions

POLITICAL: Our vision for the Indo-Pacific excludes no nation. We will redouble our commitment to established alliances and partnerships, while expanding and deepening relationships with new partners that share respect for sovereignty, fair and reciprocal trade, and the rule of law. We will reinforce our commitment to freedom of the seas and the peaceful resolution of territorial and maritime disputes in accordance with international law. We will work with allies and partners to achieve complete, verifiable, and irreversible denuclearization on the Korean Peninsula and preserve the non-proliferation regime in Northeast Asia.

ECONOMIC: The United States will encourage regional cooperation to maintain free and open seaways, transparent infrastructure financing practices, unimpeded commerce, and the peaceful resolution of disputes. We will pursue bilateral trade agreements on a fair and reciprocal basis. We will seek equal and reliable access for American exports. We will work with partners to build a network of states dedicated to free markets and protected from forces that would subvert their sovereignty. We will strengthen cooperation with allies on high-quality infrastructure. Working with Australia and New Zealand, we will shore up fragile partner states in the Pacific Islands region to reduce their vulnerability to economic fluctuations and natural disasters.

MILITARY AND SECURITY: We will maintain a forward military presence capable of deterring and, if necessary, defeating any adversary. We will strengthen our long-standing military relationships and encourage the development of a strong defense network with our allies and partners. For example, we will cooperate on missile defense with Japan and South Korea to move toward an area defense capability. We remain ready to respond with overwhelming force to North Korean aggression and will improve options to compel denuclearization of the peninsula. We will improve law enforcement, defense, and intelligence cooperation with Southeast Asian partners to address the growing terrorist threat. We will maintain our strong ties with Taiwan in accordance with our "One China" policy, including our commitments under the Taiwan Relations Act to provide for Taiwan's legitimate defense needs and deter coercion. We will expand our defense and security cooperation with India, a Major Defense Partner of the United States, and support India's growing relationships throughout the region. We will re-energize our alliances with the Philippines and Thailand and strengthen our partnerships with Singapore, Vietnam, Indonesia, Malaysia, and others to help them become cooperative maritime partners.

Europe

A strong and free Europe is of vital importance to the United States. We are bound together by our shared commitment to the principles of democracy, individual liberty, and the rule of law. Together, we rebuilt Western Europe after World War II and created institutions that produced stability and wealth on both sides of the Atlantic. Today, Europe is one of the most prosperous regions in the world and our most significant trading partner.

Although the menace of Soviet communism is gone, new threats test our will. Russia is using subversive measures to weaken the credibility of America's commitment to Europe, undermine transatlantic unity, and weaken European institutions and governments. With its invasions of Georgia and Ukraine, Russia demonstrated its willingness to violate the sovereignty of states in the region. Russia continues to intimidate its neighbors with threatening behavior, such as nuclear posturing and the forward deployment of offensive capabilities.

China is gaining a strategic foothold in Europe by expanding its unfair trade practices and investing in key industries, sensitive technologies, and infrastructure. Europe also faces immediate threats from violent Islamist extremists. Attacks by ISIS and other jihadist groups in Spain, France, Germany, Belgium, the United Kingdom, and other countries show that our European partners continue to face serious threats. Instability in the Middle East and Africa has triggered the movement of millions of migrants and refugees into Europe, exacerbating instability and tensions in the region.

The United States is safer when Europe is prosperous and stable, and can help defend our shared interests and ideals. The United States remains firmly committed to our European allies and partners. The NATO alliance of free and sovereign states is one of our great advantages over our competitors, and the United States remains committed to Article V of the Washington Treaty.

European allies and partners increase our strategic reach and provide access to forward basing and overflight rights for global operations. Together we confront shared threats. European nations are contributing thousands of troops to help fight jihadist terrorists in Afghanistan, stabilize Iraq, and fight terrorist organizations across Africa and the greater Middle East.

The NATO alliance will become stronger when all members assume greater responsibility for and pay their fair share to protect our mutual interests, sovereignty, and values.

Priority Actions

POLITICAL: The United States will deepen collaboration with our European allies and partners to confront forces threatening to undermine our common values, security interests, and shared vision. The United States and Europe will work together to counter Russian subversion and aggression, and the threats posed by North Korea and Iran. We will continue to advance our shared principles and interests in international forums.

ECONOMIC: The United States will work with the European Union, and bilaterally with the United Kingdom and other states, to ensure fair and reciprocal trade practices and eliminate barriers to growth. We will encourage European foreign direct investment in the United States to create jobs. We will work with our allies and partners to diversify European energy sources to ensure the energy security of European countries. We will work with our partners to contest China's unfair trade and economic practices and restrict its acquisition of sensitive technologies.

MILITARY AND SECURITY: The United States fulfills our defense responsibilities and expects others to do the same. We expect our European allies to increase defense spending to 2 percent of gross domestic product by 2024, with 20 percent of this spending devoted to increasing military capabilities. On NATO's eastern flank we will continue to strengthen deterrence and defense, and catalyze frontline allies and partners' efforts to better defend themselves. We will work with NATO to improve its integrated air and missile defense capabilities to counter existing and projected ballistic and cruise missile threats, particularly from Iran. We will increase counterterrorism and cybersecurity cooperation.

Middle East

The United States seeks a Middle East that is not a safe haven or breeding ground for jihadist terrorists, not dominated by any power hostile to the United States, and that contributes to a stable global energy market.

For years, the interconnected problems of Iranian expansion, state collapse, jihadist ideology, socio-economic stagnation, and regional rivalries have convulsed the Middle East. The United States has learned that neither aspirations for democratic transformation nor disengagement can insulate us from the region's problems. We must be realistic about our expectations for the region without allowing pessimism to obscure our interests or vision for a modern Middle East.

The region remains home to the world's most dangerous terrorist organizations. ISIS and al-Qa'ida thrive on instability and export violent jihad. Iran, the world's leading state sponsor of terrorism, has taken advantage of instability to expand its influence through partners and proxies, weapon proliferation, and funding. It continues to develop more capable ballistic missiles and intelligence capabilities, and it undertakes malicious cyber activities. These activities have continued unabated since the 2015 nuclear deal. Iran continues to perpetuate the cycle of violence in the region, causing grievous harm to civilian populations. Rival states are filling vacuums created by state collapse and prolonged regional conflict.

Despite these challenges, there are emerging opportunities to advance American interests in the Middle East. Some of our partners are working together to reject radical ideologies, and key leaders are calling for a rejection of Islamist extremism and violence. Encouraging political stability and sustainable prosperity would contribute to dampening the conditions that fuel sectarian grievances.

Terrorists and criminals thrive where governments are weak, corruption is rampant, and faith in government institutions is low.

For generations the conflict between Israel and the Palestinians has been understood as the prime irritant preventing peace and prosperity in the region. Today, the threats from jihadist terrorist organizations and the threat from Iran are creating the realization that Israel is not the cause of the region's problems. States have increasingly found common interests with Israel in confronting common threats.

Today, the United States has the opportunity to catalyze greater economic and political cooperation that will expand prosperity for those who want to partner with us. By revitalizing partnerships with reform-minded nations and encouraging cooperation among partners in the region, the United States can promote stability and a balance of power that favors U.S. interests.

Priority Actions

POLITICAL: We will strengthen partnerships, and form new ones, to help advance security through stability. Whenever possible, we will encourage gradual reforms. We will support efforts to counter violent ideologies and increase respect for the dignity of individuals. We remain committed to helping our partners achieve a stable and prosperous region, including through a strong and integrated Gulf Cooperation Council. We will strengthen our long-term strategic partnership with Iraq as an independent state. We will seek a settlement to the Syrian civil war that sets the conditions for refugees to return home and rebuild their lives in safety. We will work with partners to deny the Iranian regime all paths to a nuclear weapon and neutralize Iranian malign influence. We remain committed to helping facilitate a comprehensive peace agreement that is acceptable to both Israelis and Palestinians.

ECONOMIC: The United States will support the reforms underway that begin to address core inequities that jihadist terrorists exploit. We will encourage states in the region, including Egypt and Saudi Arabia, to continue modernizing their economies. We will play a role in catalyzing positive developments by engaging economically, supporting reformers, and championing the benefits of open markets and societies.

MILITARY AND SECURITY: We will retain the necessary American military presence in the region to protect the United States and our allies from terrorist attacks and preserve a favorable regional balance of power. We will assist regional partners in strengthening their institutions and capabilities, including in law enforcement, to conduct counterterrorism and counterinsurgency efforts. We will help partners procure interoperable missile defense and other capabilities to better defend against active missile threats. We will work with partners to neutralize Iran's malign activities in the region.

South and Central Asia

With over a quarter of the world's population, a fifth of all U.S.-designated terrorist groups, several fast-growing economies, and two nuclear-armed states, South and Central Asia present some of the most complicated national security challenges and opportunities. The region spans the terrorist threats emanating from the Middle East and the competition for power unfolding in Europe and the Indo-Pacific. The United States continues to face threats from transnational terrorists and militants operating from within Pakistan. The prospect for an Indo-Pakistani military conflict that could lead to a nuclear exchange remains a key concern requiring consistent diplomatic attention.

U.S. interests in the region include countering terrorist threats that impact the security of the U.S. homeland and our allies, preventing cross-border terrorism that raises the prospect of military and nuclear tensions, and preventing nuclear weapons, technology, and materials from falling into the hands of terrorists. We seek an American presence in the region proportionate to threats to the homeland and our allies. We seek a Pakistan that is not engaged in destabilizing behavior and a stable and self-reliant Afghanistan. And we seek Central Asian states that are resilient against domination by rival powers, are resistant to becoming jihadist safe havens, and prioritize reforms.

Priority Actions

POLITICAL: We will deepen our strategic partnership with India and support its leadership role in Indian Ocean security and throughout the broader region. We will press Pakistan to intensify its counterterrorism efforts, since no partnership can survive a country's support for militants and terrorists who target a partner's own service members and officials. The United States will also encourage Pakistan to continue demonstrating that it is a responsible steward of its nuclear assets. We will continue to partner with Afghanistan to promote peace and security in the region. We will continue to promote anti-corruption reform in Afghanistan to increase the legitimacy of its government and reduce the appeal of violent extremist organizations. We will help South Asian nations maintain their sovereignty as China increases its influence in the region.

ECONOMIC: We will encourage the economic integration of Central and South Asia to promote prosperity and economic linkages that will bolster connectivity and trade. And we will encourage India to increase its economic assistance in the region. In Pakistan, we will build trade and investment ties as security improves and as Pakistan demonstrates that it will assist the United States in our counterterrorism goals.

MILITARY AND SECURITY: We are committed to supporting the Afghan government and security forces in their fight against the Taliban, al-Qa'ida, ISIS, and other terrorists. We will bolster the fighting strength of the Afghan security forces to convince the Taliban that they cannot win on the battlefield and to set the conditions for diplomatic efforts to achieve enduring peace. We will insist that Pakistan take decisive action against militant and terrorist groups operating from its soil. We will work with the Central Asian states to guarantee access to the region to support our counterterrorism efforts.

Western Hemisphere

Stable, friendly, and prosperous states in the Western Hemisphere enhance our security and benefit our economy. Democratic states connected by shared values and economic interests will reduce the violence, drug trafficking, and illegal immigration that threaten our common security, and will limit opportunities for adversaries to operate from areas of close proximity to us.

In the last half century, parts of this hemisphere were marred by dictatorships and insurgencies that killed tens of thousands of people. Today, this region stands on the cusp of prosperity and peace, built upon democracy and the rule of law. U.S. trade in the region is thriving and market opportunities for American goods and services, energy and infrastructure projects, and foreign direct investment continue to expand.

Challenges remain, however. Transnational criminal organizations—including gangs and cartels—perpetuate violence and corruption, and threaten the stability of Central American states including Guatemala, Honduras, and El Salvador. In Venezuela and Cuba, governments cling to anachronistic leftist authoritarian models that continue to fail their people. Competitors have found operating space in the hemisphere.

China seeks to pull the region into its orbit through state-led investments and loans. Russia continues its failed politics of the Cold War by bolstering its radical Cuban allies as Cuba continues to repress its citizens. Both China and Russia support the dictatorship in Venezuela and are seeking to expand military linkages and arms sales across the region. The hemisphere's democratic states have a shared interest in confronting threats to their sovereignty.

Canada and the United States share a unique strategic and defense partnership. The United States also has important and deepening relations with key countries in the region. Together, we will build a stable and peaceful hemisphere that increases economic opportunities for all, improves governance, reduces the power of criminal organizations, and limits the malign influence of non-hemispheric forces.

Priority Actions

POLITICAL: We will catalyze regional efforts to build security and prosperity through strong diplomatic engagement. We will isolate governments that refuse to act as responsible partners in advancing hemispheric peace and prosperity. We look forward to the day when the people of Cuba and Venezuela can enjoy freedom and the benefits of shared prosperity, and we encourage other free states in the hemisphere to support this shared endeavor.

ECONOMIC: We will modernize our trade agreements and deepen our economic ties with the region and ensure that trade is fair and reciprocal. We will encourage further market-based economic reforms and encourage transparency to create conditions for sustained prosperity. We will ensure the U.S. financial system does not serve as a haven or transit point for criminal proceeds.

MILITARY AND SECURITY: We will build upon local efforts and encourage cultures of lawfulness to reduce crime and corruption, including by supporting local efforts to professionalize police and other security forces; strengthen the rule of law and undertake judicial reform; and improve information sharing to target criminals and corrupt leaders and disrupt illicit trafficking.

Africa

Africa remains a continent of promise and enduring challenges. Africa contains many of the world's fastest growing economies, which represent potential new markets for U.S. goods and services. Aspiring partners across the continent are eager to build market-based economies and enhance stability. The demand for quality American exports is high and will likely grow as Africa's population and prosperity increase. People across the continent are demanding government accountability and less corruption, and are opposing autocratic trends. The number of stable African nations has grown since the independence era as numerous countries have emerged from devastating conflicts and undergone democratic transitions.

Despite this progress, many states face political turbulence and instability that spills into other regions. Corruption and weak governance threaten to undermine the political benefits that should emerge from new economic opportunities. Many African states are battlegrounds for violent extremism and jihadist terrorists. ISIS, al-Qa'ida, and their affiliates operate on the continent and have increased the lethality of their attacks, expanded into new areas, and targeted U.S. citizens and interests. African nations and regional organizations have demonstrated a commitment to confront the threat from jihadist terrorist organizations, but their security capabilities remain weak.

China is expanding its economic and military presence in Africa, growing from a small investor in the continent two decades ago into Africa's largest trading partner today. Some Chinese practices undermine Africa's long-term development by corrupting elites, dominating extractive industries, and locking countries into unsustainable and opaque debts and commitments.

The United States seeks sovereign African states that are integrated into the world economy, able to provide for their citizens' needs, and capable of managing threats to peace and security. Improved governance in these states supports economic development and opportunities, diminishes the attraction of illegal migration, and reduces vulnerability to extremists, thereby reducing instability.

Priority Actions

POLITICAL: The United States will partner with governments, civil society, and regional organizations to end long-running, violent conflicts. We will encourage reform, working with promising nations to promote effective governance, improve the rule of law, and develop institutions accountable and responsive to citizens. We will continue to respond to humanitarian needs while also working with committed governments and regional organizations to address the root causes of human suffering. If necessary, we are prepared to sanction government officials and institutions that prey on their citizens and commit atrocities. When there is no alternative, we will suspend aid rather than see it exploited by corrupt elites.

> *We will encourage reform, working with promising nations to promote effective governance, improve the rule of law, and develop institutions accountable and responsive to citizens.*

ECONOMIC: We will expand trade and commercial ties to create jobs and build wealth for Americans and Africans. We will work with reform-oriented governments to help establish conditions that can transform them into trading partners and improve their business environment. We will support economic integration among African states. We will work with nations that seek to move beyond assistance to partnerships that promote prosperity. We will offer American goods and services, both because it is profitable for us and because it serves as an alternative to China's often extractive economic footprint on the continent.

MILITARY AND SECURITY: We will continue to work with partners to improve the ability of their security services to counter terrorism, human trafficking, and the illegal trade in arms and natural resources. We will work with partners to defeat terrorist organizations and others who threaten U.S. citizens and the homeland.

Conclusion

This National Security Strategy sets a positive strategic direction for the United States that is meant to reassert America's advantages on the world stage and to build upon our country's great strengths. During the Trump Administration, the American people can be confident that their security and prosperity will always come first. A secure, prosperous, and free America will be strong and ready to lead abroad to protect our interests and our way of life.

America's renewed strategic confidence is anchored in our recommitment to the principles inscribed in our founding documents. The National Security Strategy celebrates and protects what we hold dear—individual liberty, the rule of law, a democratic system of government, tolerance, and opportunity for all. By knowing ourselves and what we stand for, we clarify what we must defend and we establish guiding principles for our actions.

This strategy is guided by principled realism. It is realist because it acknowledges the central role of power in international politics, affirms that sovereign states are the best hope for a peaceful world, and clearly defines our national interests. It is principled because it is grounded in the knowledge that advancing American principles spreads peace and prosperity around the globe. We are guided by our values and disciplined by our interests.

This Administration has a bright vision of America's future. America's values and influence, underwritten by American power, make the world more free, secure, and prosperous.

Our Nation derives its strength from the American people. Every American has a role to play in this grand, national effort to implement this America First National Security Strategy. Together, our task is to strengthen our families, to build up our communities, to serve our citizens, and to celebrate American greatness as a shining example to the world. We will leave our children and grandchildren a Nation that is stronger, better, freer, prouder, and greater than ever before.

Notes