

Global Risk in 2018



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Introduction

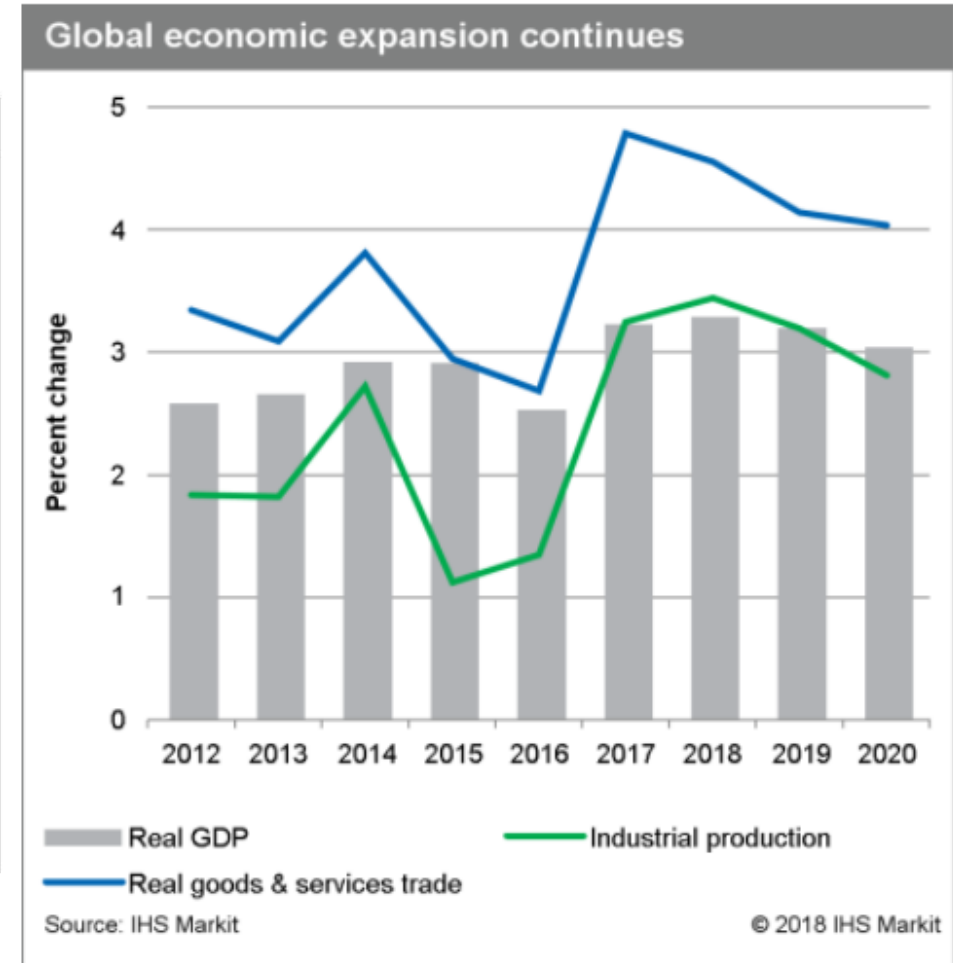
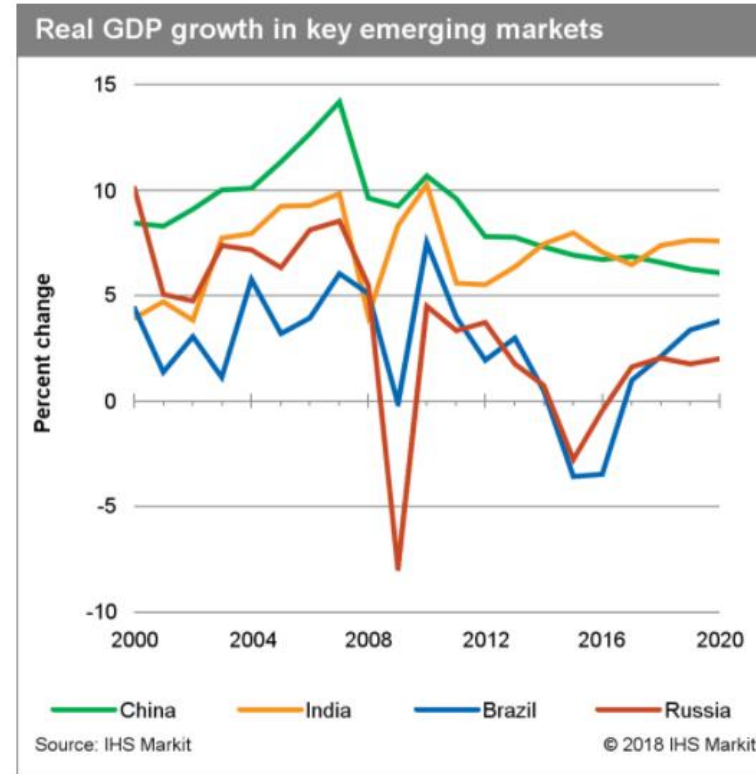
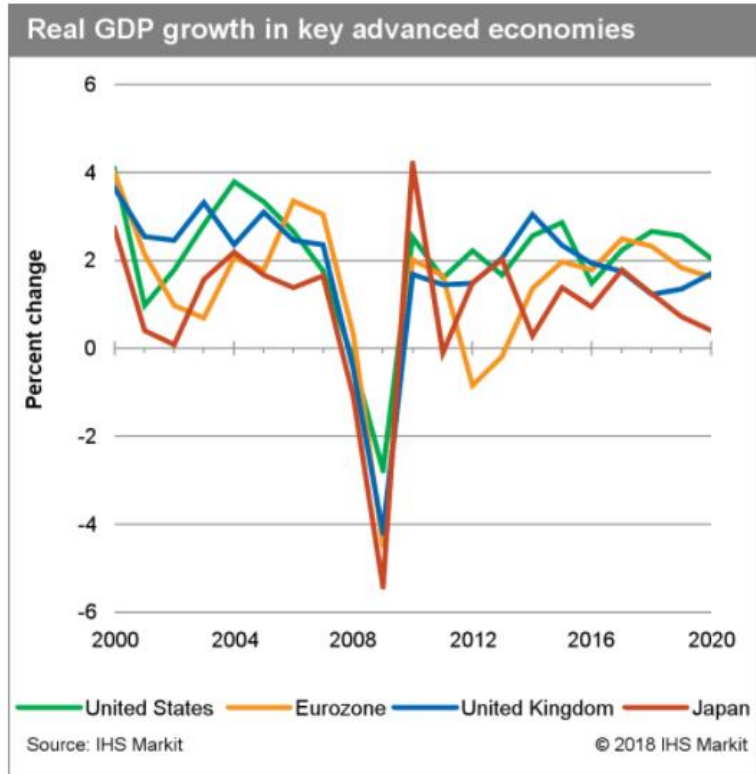
- **A World in Transition**
- **Korean thaw? Or continuing frost**
- **NAFTA Worries**
- **Brexit – Two steps forward... and Russia's Games**
- **Middle East Now – The Qatari Crisis**

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Introduction

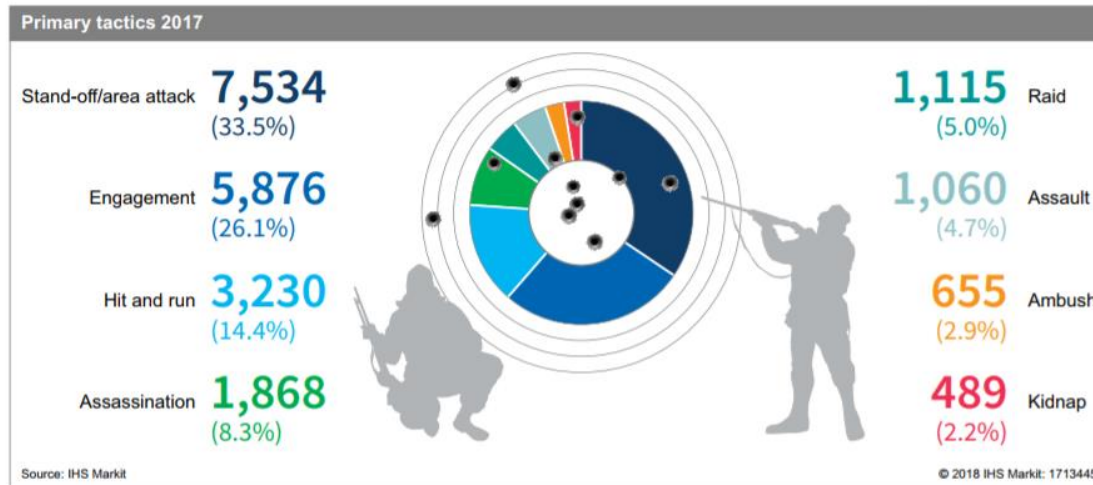
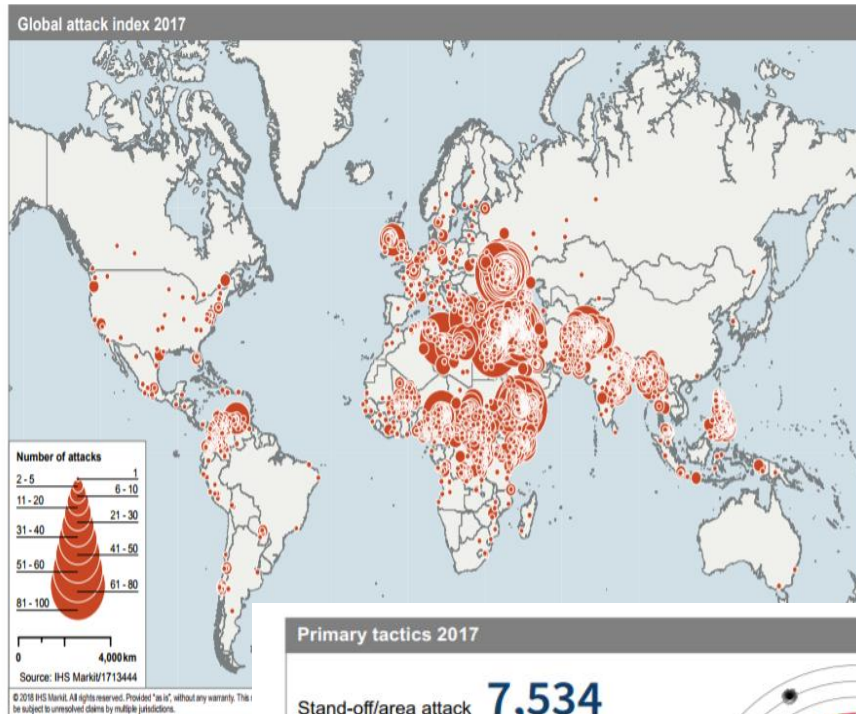
- **A World in Transition**

Trend lines – It was the best of times... Growth



Trends – It was at least better times... - Terrorism

Worldwide Trends



Terrorism attacks are down for the second straight year. To 18,475 deaths, a 33% drop.

Deaths associated with violent attacks are down 45%. such as a 44% decrease in fatalities in Syria and a 60% decline in Iraq

Indeed, of the top 10 most violent countries in 2017, attacks decreased in six countries, and fatalities decreased in eight.

Trends – It was the worst of times... - Democracy

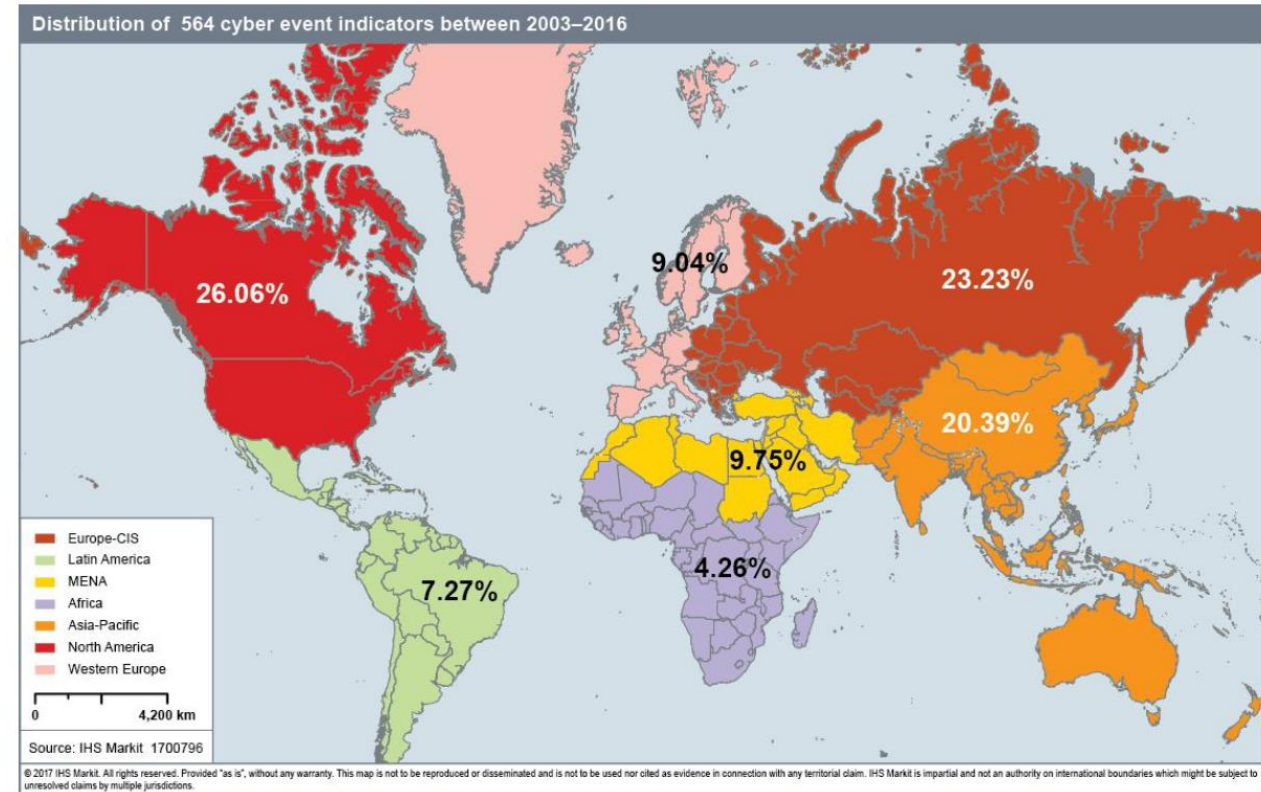
- Freedom House – 12th year in a row for declines in democracy
- 71 countries reporting declines and 35 registering gains
 - Voting rights
 - Rights for minorities
 - Rule of law.



Tang Chhin Sothy/AFP/Getty Images

Trends – It was the worst of times... - Cybercrime

- Major attacks across the globe: WannaCry, Petya/NotPetya, Equifax
- Crime-as-a-Service industry increasing in size
- Cost USD6 trillion annually by 2021, more profitable than illegal drug trade
- But defences account for only USD1 trillion annually
- Ransomware approaching £20 billion annually
- Banking and healthcare appear to be top targets, though all industries vulnerable
- New regulatory framework will help, but just the beginning



Korean thaw? Or continuing frost

- **A World in Transition**
- **Korean Thaw? Or continuing Frost**

South Korea is threatened by low-level violent incidents with North Korea, rather than North Korea's nuclear weapons and long-range missiles

History

- The uneasy truce is punctuated by regular and irregular periods of increased risk of escalation...

Diplomacy

- Compared to last January, in lieu of the Olympics, there exists additional channels of communication.

Politics

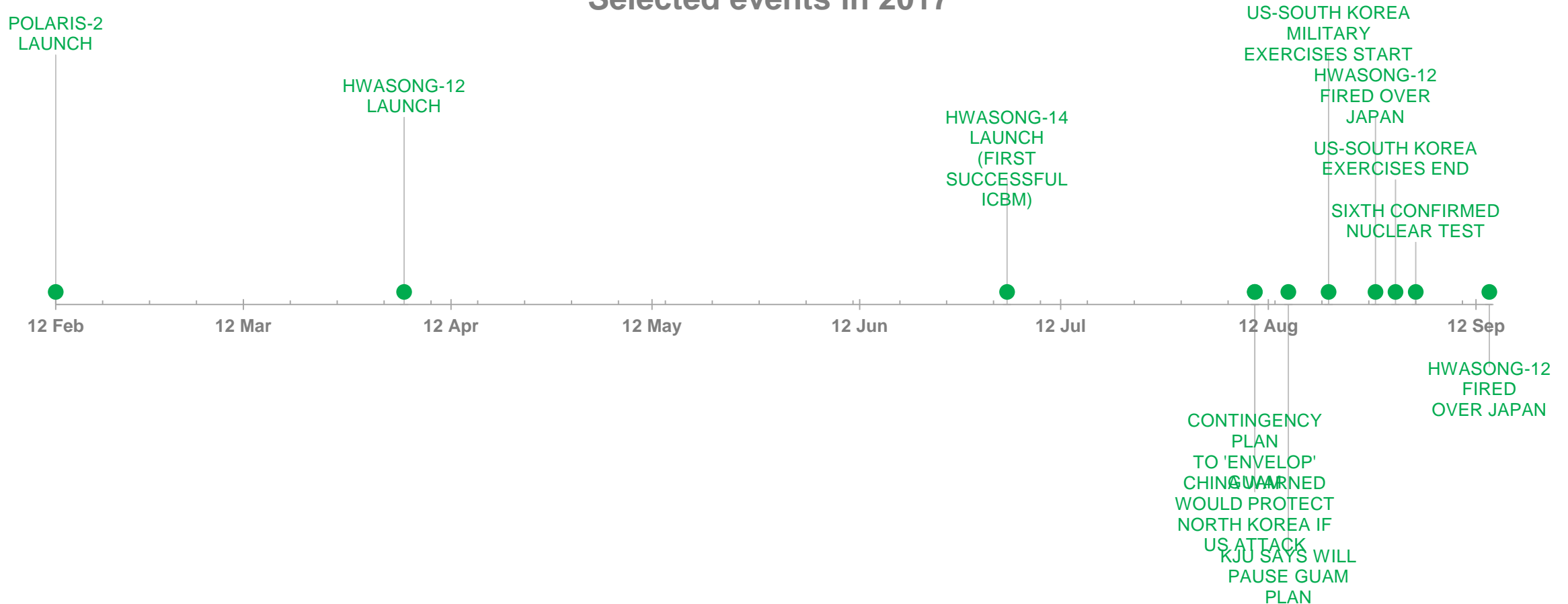
- Policy-makers have become more hardline when it comes to national security. In North Korea there has been a consolidation of power around Kim Jong Un.

Military

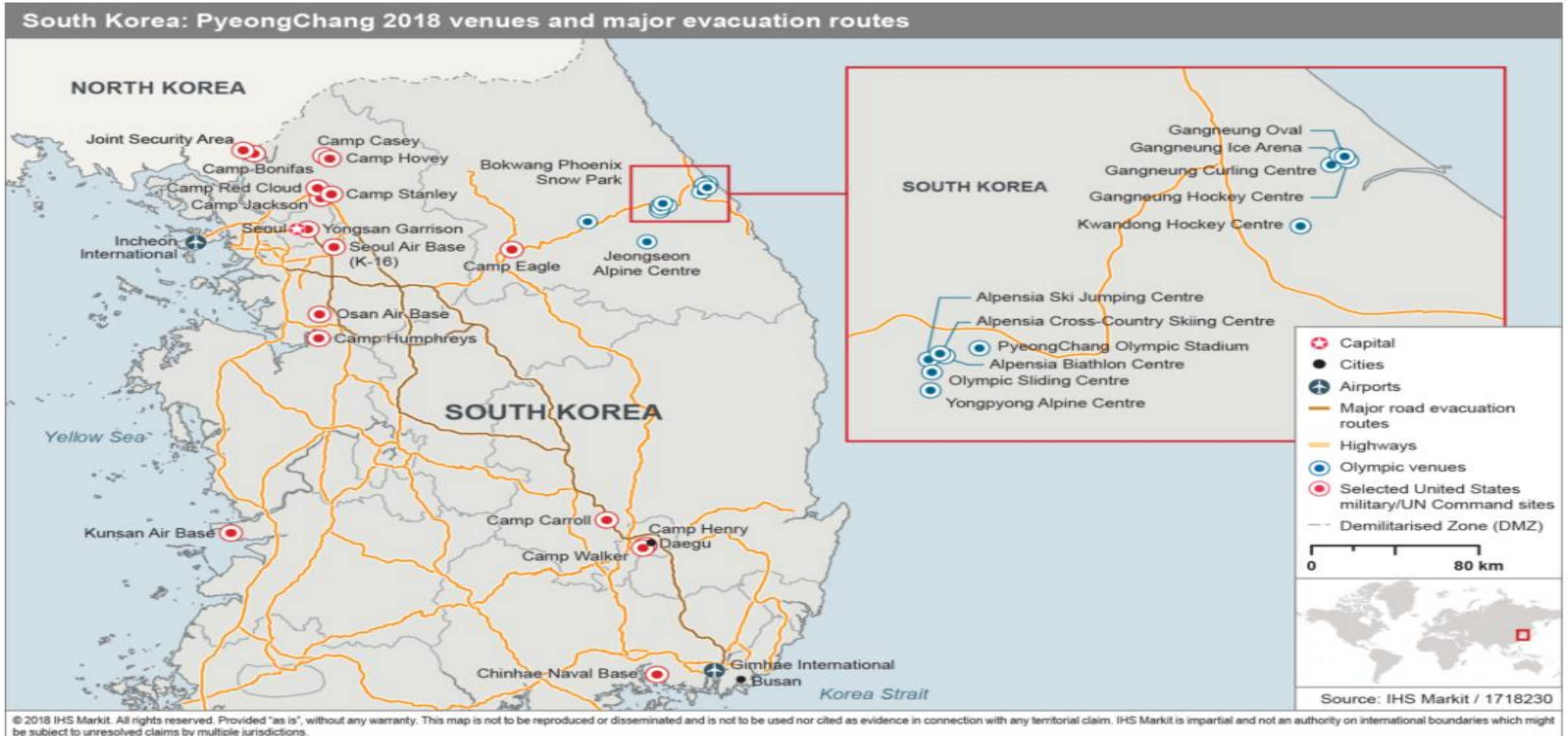
- North Korea's advanced and advancing weapons capabilities indirectly threaten South Korea by increasing the likelihood of conventional weapons use on the peninsula.

Having examined conflict and de-escalation scenarios, we assess that we are now in a “new normal” meaning a increased risk of unintended conflict

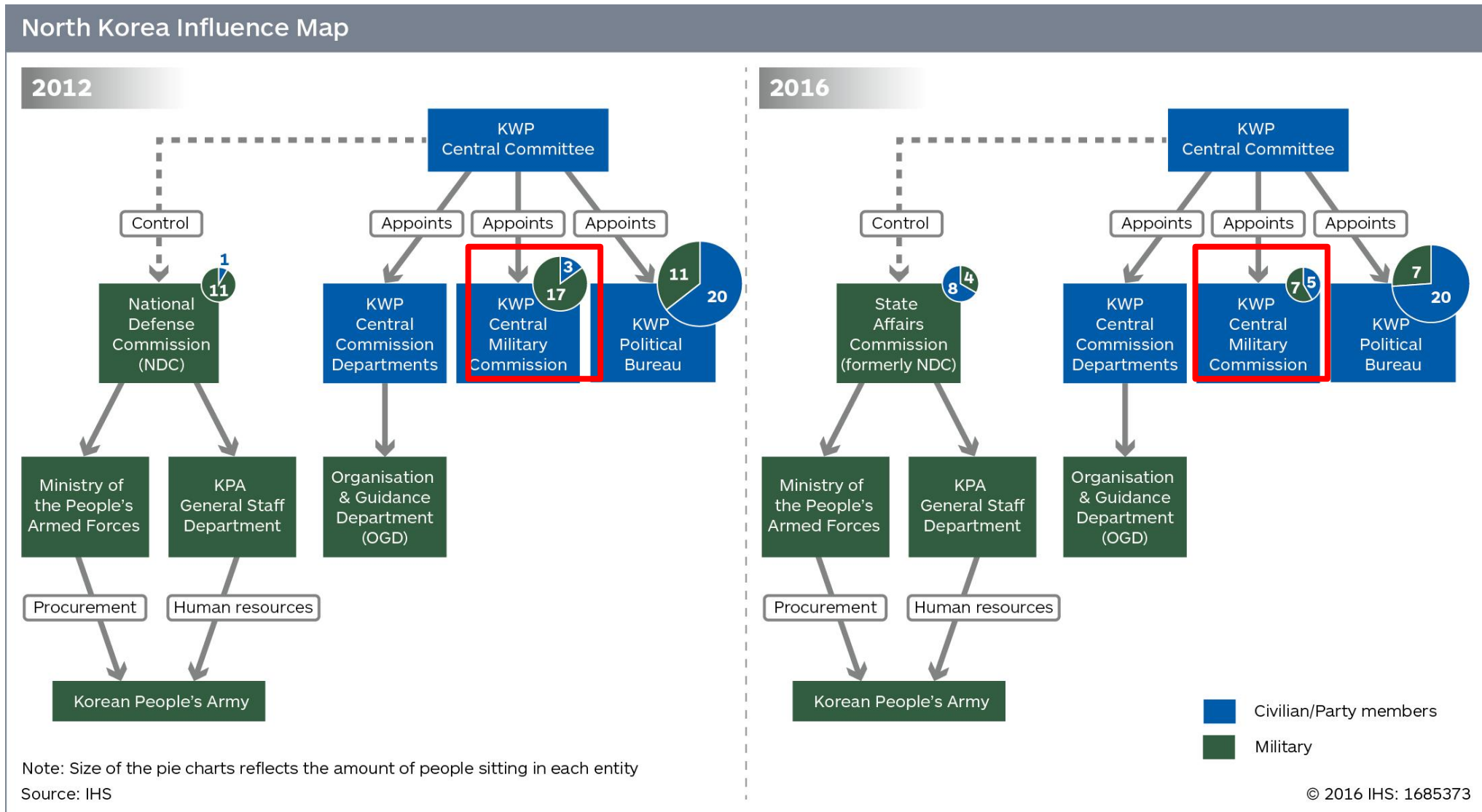
Selected events in 2017



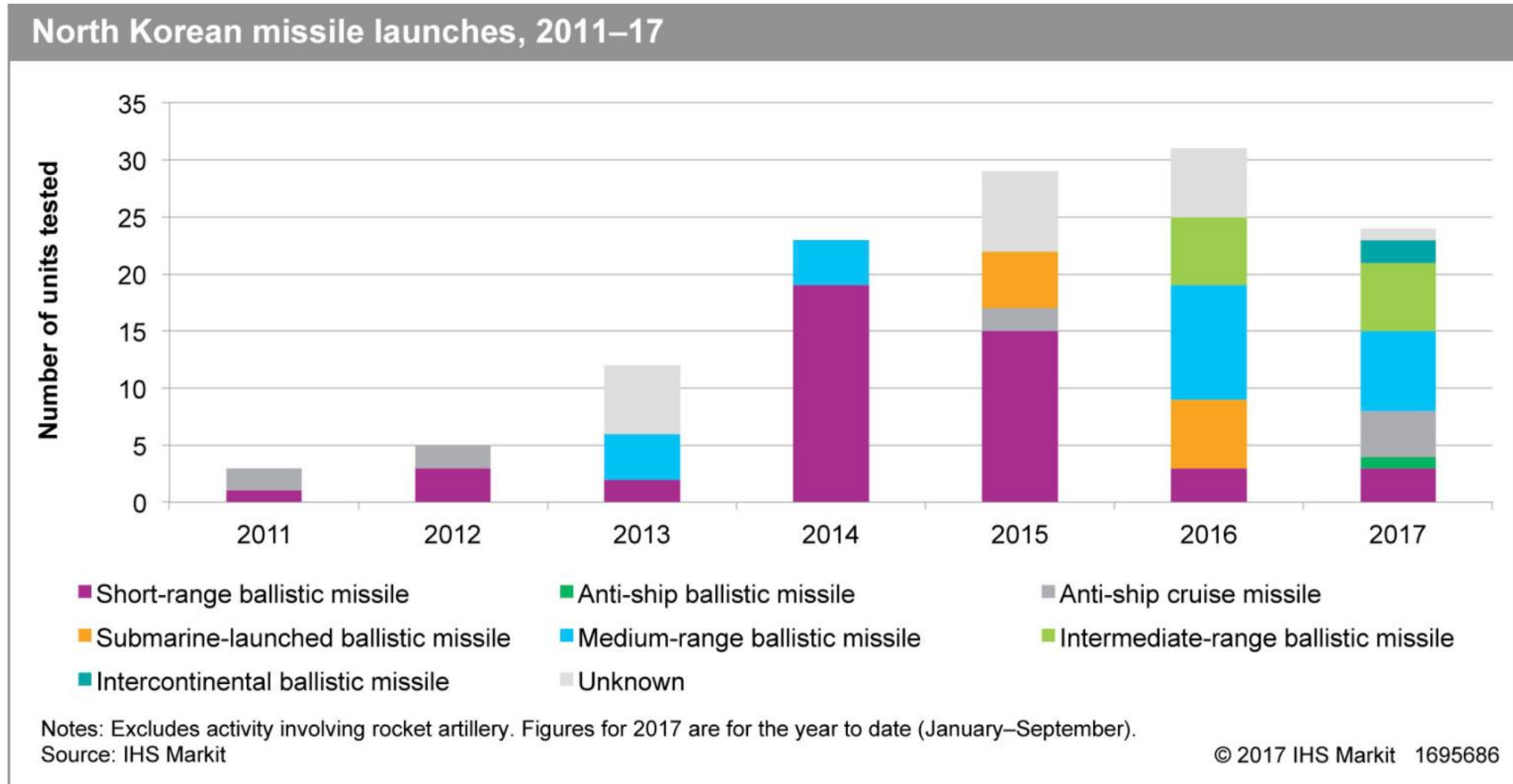
The Olympics – The Escape Routes



North Korea's political landscape has consolidated – and become more hard-line



North Korea's military landscape



Having examined conflict and de-escalation scenarios, we assess that we are now in a “new normal” meaning a increased risk of unintended conflict

“New normal” *Most probable*

Low-level incidents, North Korean weapons testing, bellicose rhetoric become more frequent and intense

All-out war is still unlikely. However, the risks of miscalculation and unintended conflict are greater.

South Korea is likely to seek to increase its domestic defensive and offensive capabilities

Conflict *Highest risk*

A low-level violent incident, or US-allied military response to a North Korean weapons test escalates

Fire exchanged over the NLL and DMZ; targeting of gov't and military facilities with cyber/kinetic attacks

Conflict lasting at least weeks involves China, the US, causing substantial human, economic loss

De-escalation *Most likely to reduce risks*

Back-channel talks between the two Koreas, or (better) between North Korea and the US/China bear fruit

Official negotiations begin on potential concessions by North Korea and the US for security

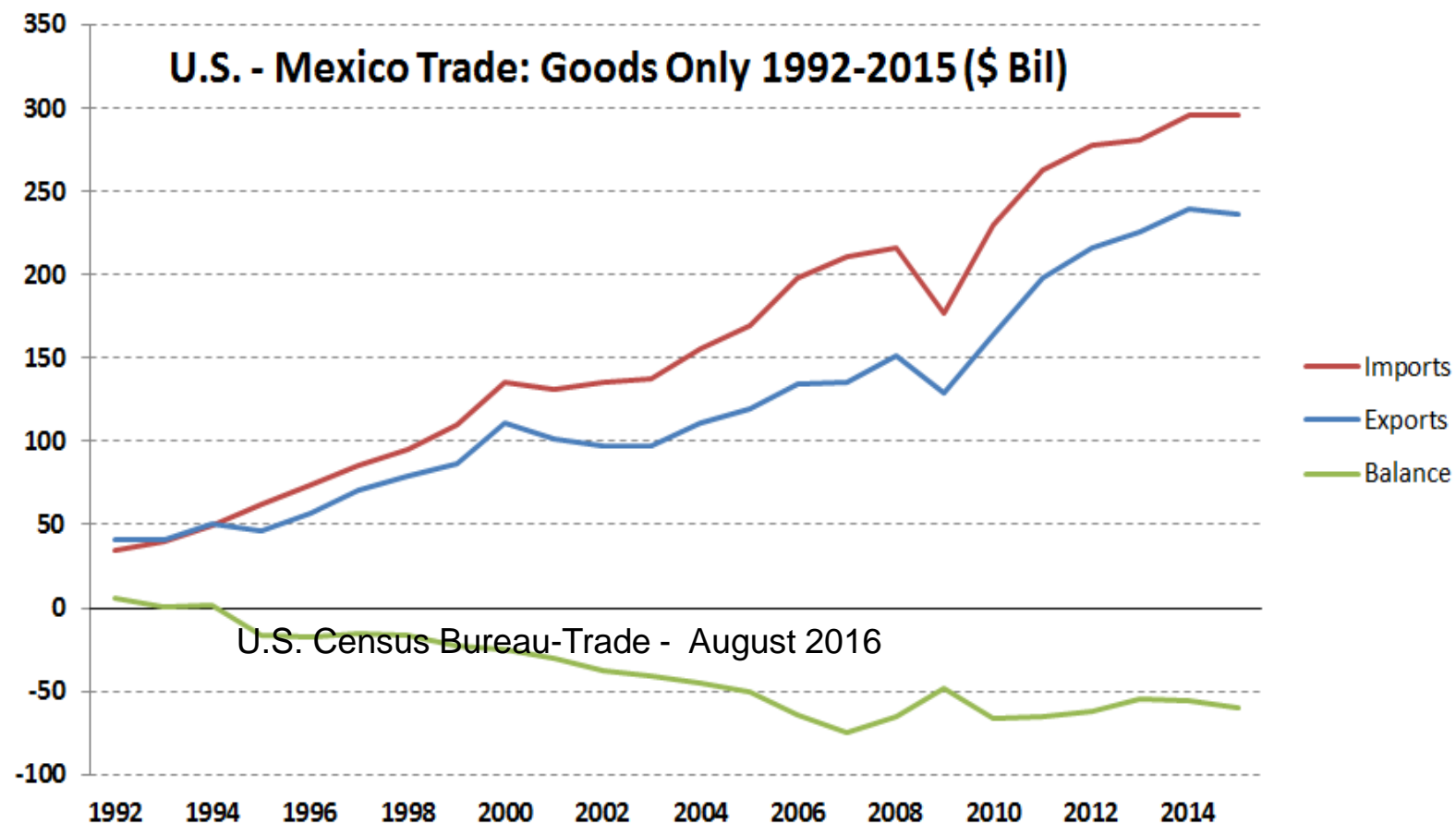
Reduction in frequency and intensity of North Korea weapons testing; conciliatory rhetoric on both sides

NAFTA Worries

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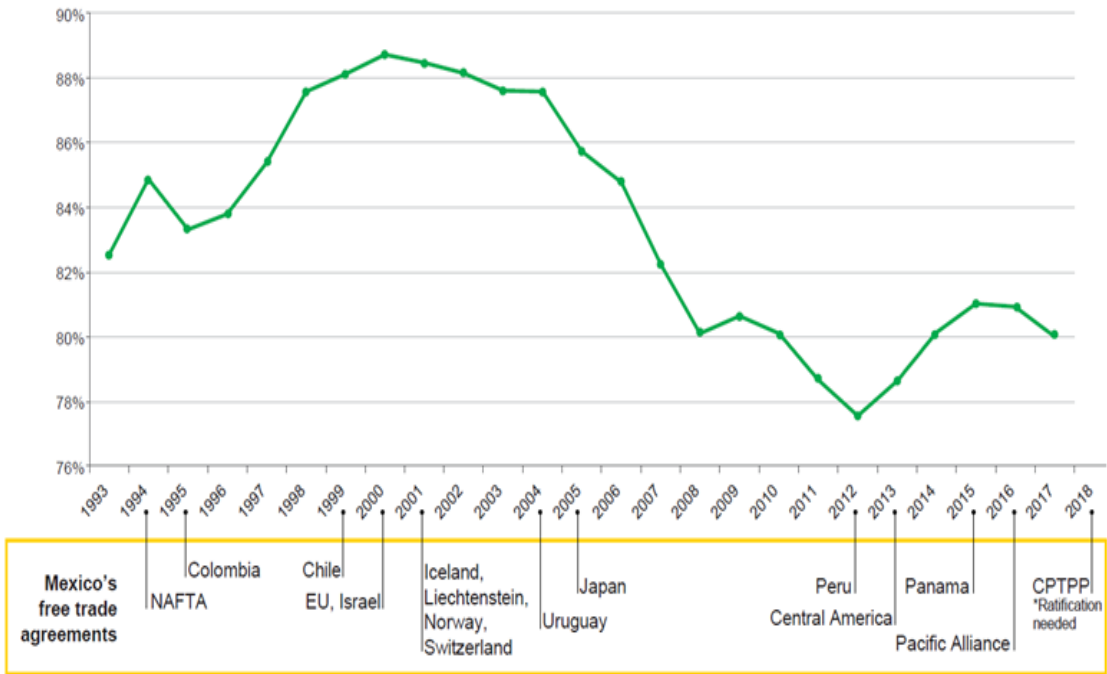
US authorities have shown an aggressive stance regarding NAFTA renegotiations

- The US priority will be to reduce its trade deficit with Mexico (USD64bn in 2016)
- The US administration appears to have left aside the imposition of immediate trade quotas or new tariffs
- Conflicts that have emerged related to:
 - Rules of Origin
 - Dispute Settlement Mechanism
 - Labour and environmental related issues
- Sixth round recently completed – Positive, but a long way to go, as controversial aspects not touched



Dependence: Mexico and the US economy

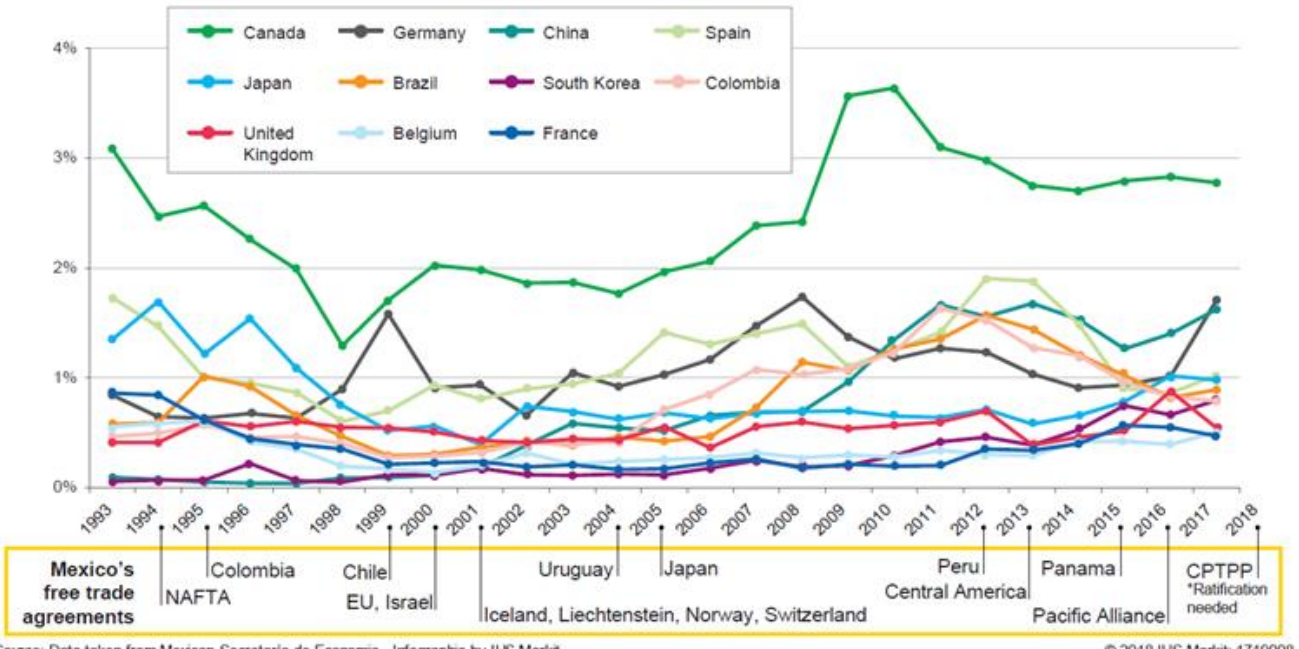
Mexican exports to the United States as a % of total exports



Source: Data taken from Mexican Secretaría de Economía - Infographic by IHS Markit

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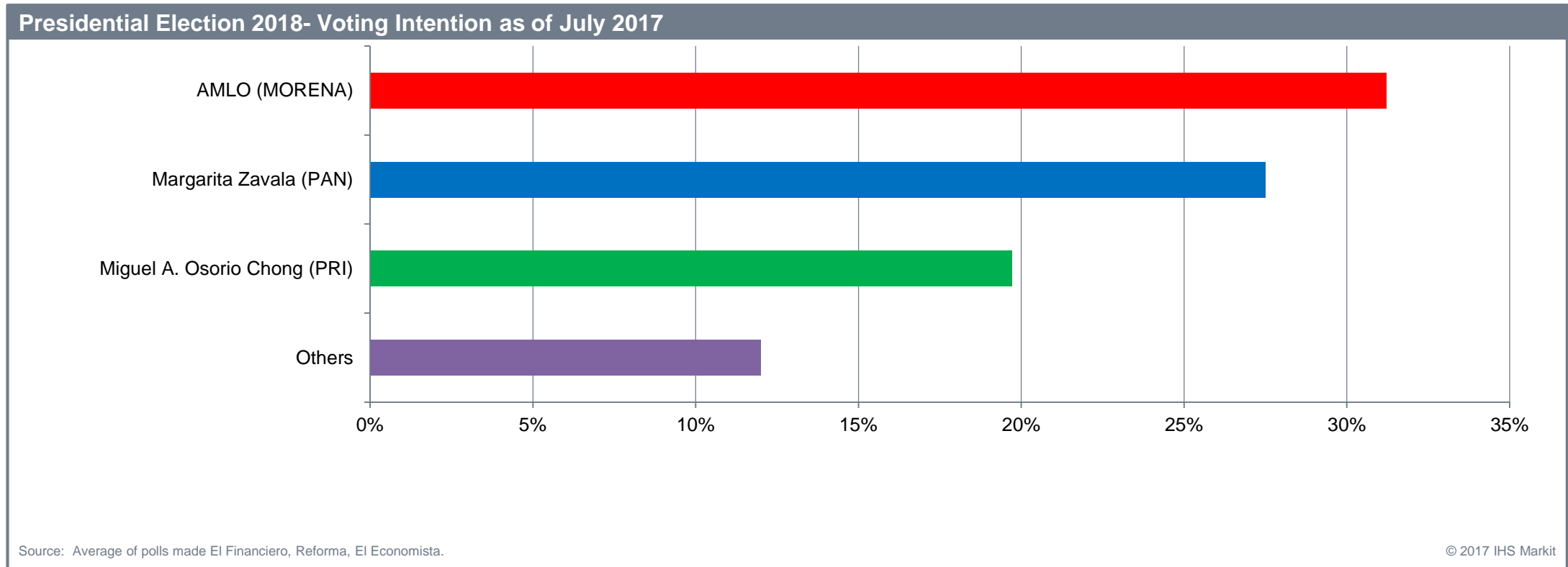
Mexican exports as a % of total exports excluding the United States



Source: Data taken from Mexican Secretaría de Economía - Infographic by IHS Markit

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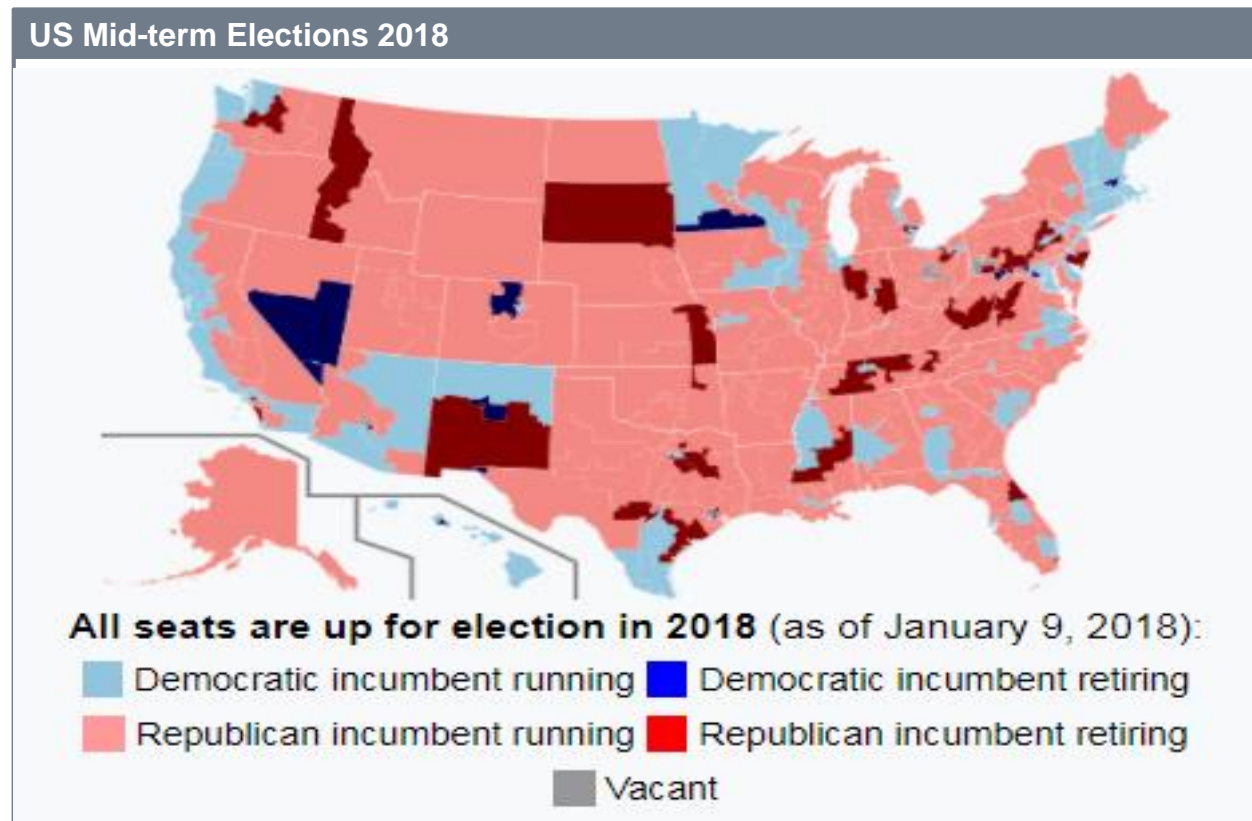
Ruling PRI's dominance is under threat; Left-wing MORENA with real chances of winning office in 2018



PRI government highly unpopular as a result of corruption and conflict of interests scandals, rising insecurity, inflation and sluggish economic growth

Impending US elections likely to push Trump to a moderately tougher line on trade in 2018

- 2018 Elections favour Democrats
 - Off-year elections favour party out of power
 - Democrat enthusiasm
 - Only two seats needed in Senate
- Midterms favour Republicans
 - GOP voters
 - Democrats defending many more Senate Seats
- Trump team needs to energize base: Tax reform, Trade policy
- Extreme protection would affect stock markets and growth, affecting good governance argument

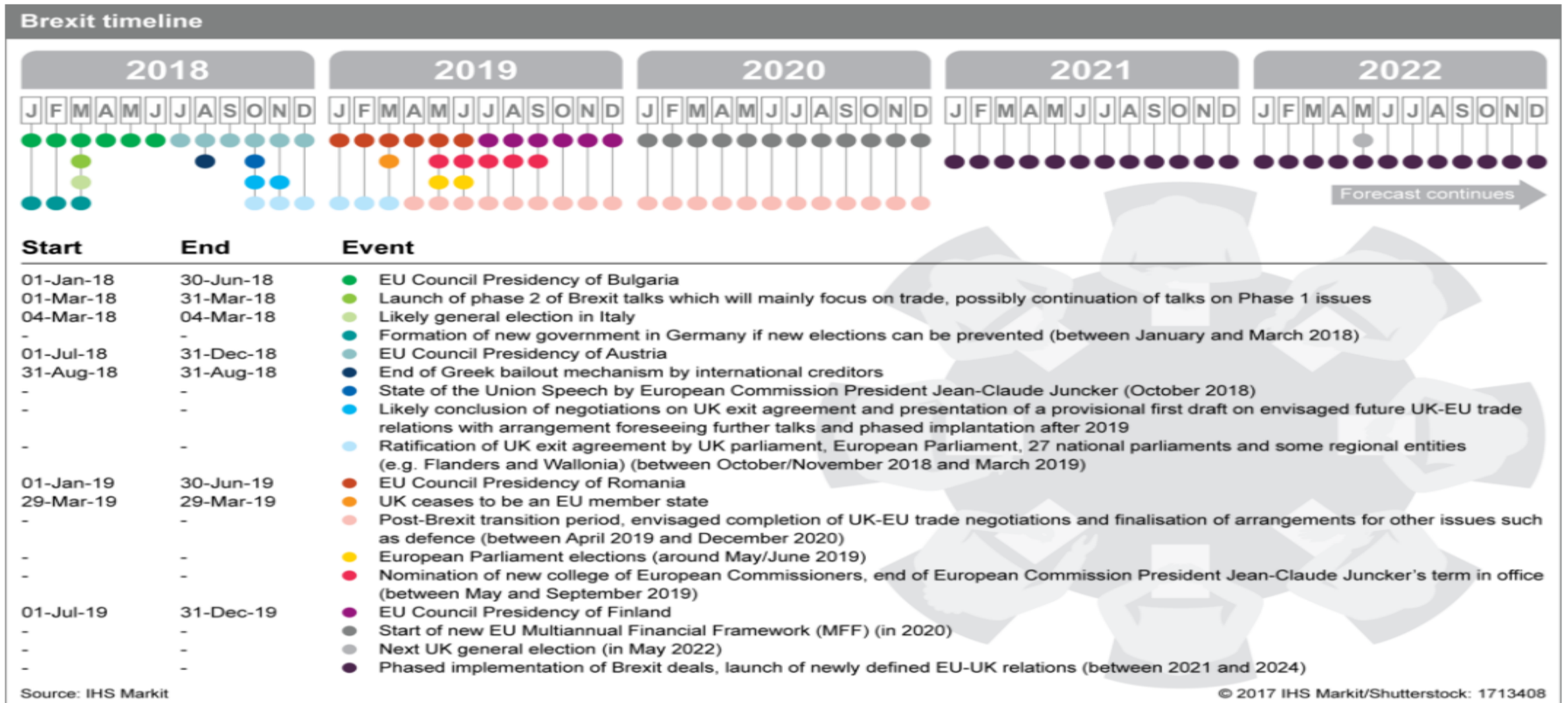


Current polls have Democrats ahead on the generic ballot by anywhere from 5% to 15%

Brexit and Russia – The Year Ahead

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Brexit – One year out...



Russia – Another year, another term... 18 March 2018

Controlled election with the incumbent running.

Putin running against "political stand-ins", representing parliamentary parties that are nominally in opposition but in reality are loyal to the Kremlin, such as LDPR or the Communists.

Putin would be very likely to achieve a strong result under these circumstances with some 70-80% of the vote and 70% turnout.

Social spending muted by reserve depletion.

No major policy changes expected, but selection of new Prime Minister a high probability in Q2 2018.



Sergey Mihailicenko/Anadolu Agency/Getty Images: 824439842

Russia – The World Cup



- Brawls and violence between rival football fans and fans and police are likely in the host cities; injury risks and collateral damage to property are likely to be elevated.
- Foreign visitors, especially those of non-white racial background, are likely to become targets of individual attacks by football fans or radical groups.
- Minor crimes, such as pick-pocketing, theft and robberies, are likely to be underreported by Russian authorities, with no or limited legal assistance provided.
- Cyber attacks aimed at breaching the information security of corporate visitors are also likely.



Fans clash after the UEFA EURO 2016 Group B match between England and Russia at Stade Velodrome on 11 June 2016 in Marseille, France.
Alex Livesey/Getty Images #539436040

The Qatari Crisis Revisited

Outlook for the Qatari Conflict

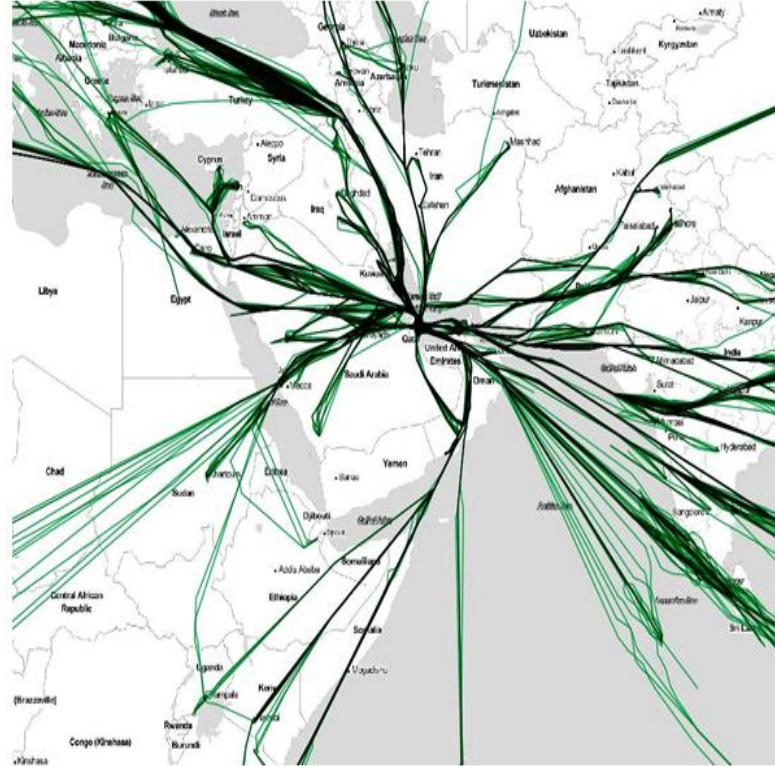
- Status quo remains
- Qatar has been hit economically, but survives with new trade routes (Iran, Turkey, Oman)
- Lower reserves, but most lost early on
- 2022 World Cup construction looks ok for now, but deadline will push actors to acquiesce
- Military option not on the table (yet)



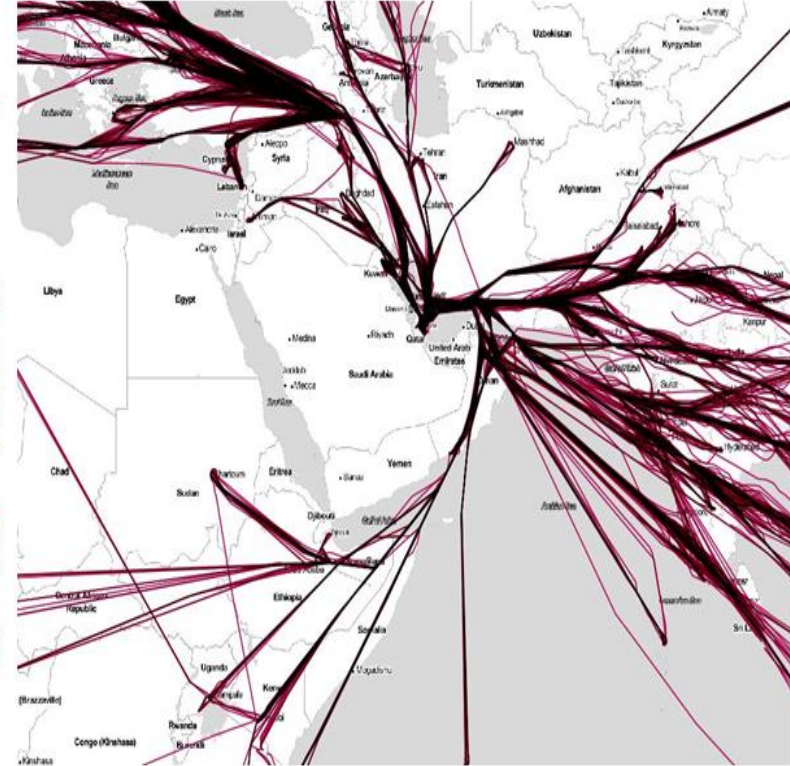
Saudi Crown Prince Mohammad bin Salman (left) and Qatari Emir Tamim bin Hamad al-Thani (right).

Fayez Nureldine/AFP/Getty images

Prior to June 5, flights to Africa, Southern Europe and Latin America were routed as follows



After 5 June, these flights take a longer route. This affects cost through higher mileage and different overflight fees

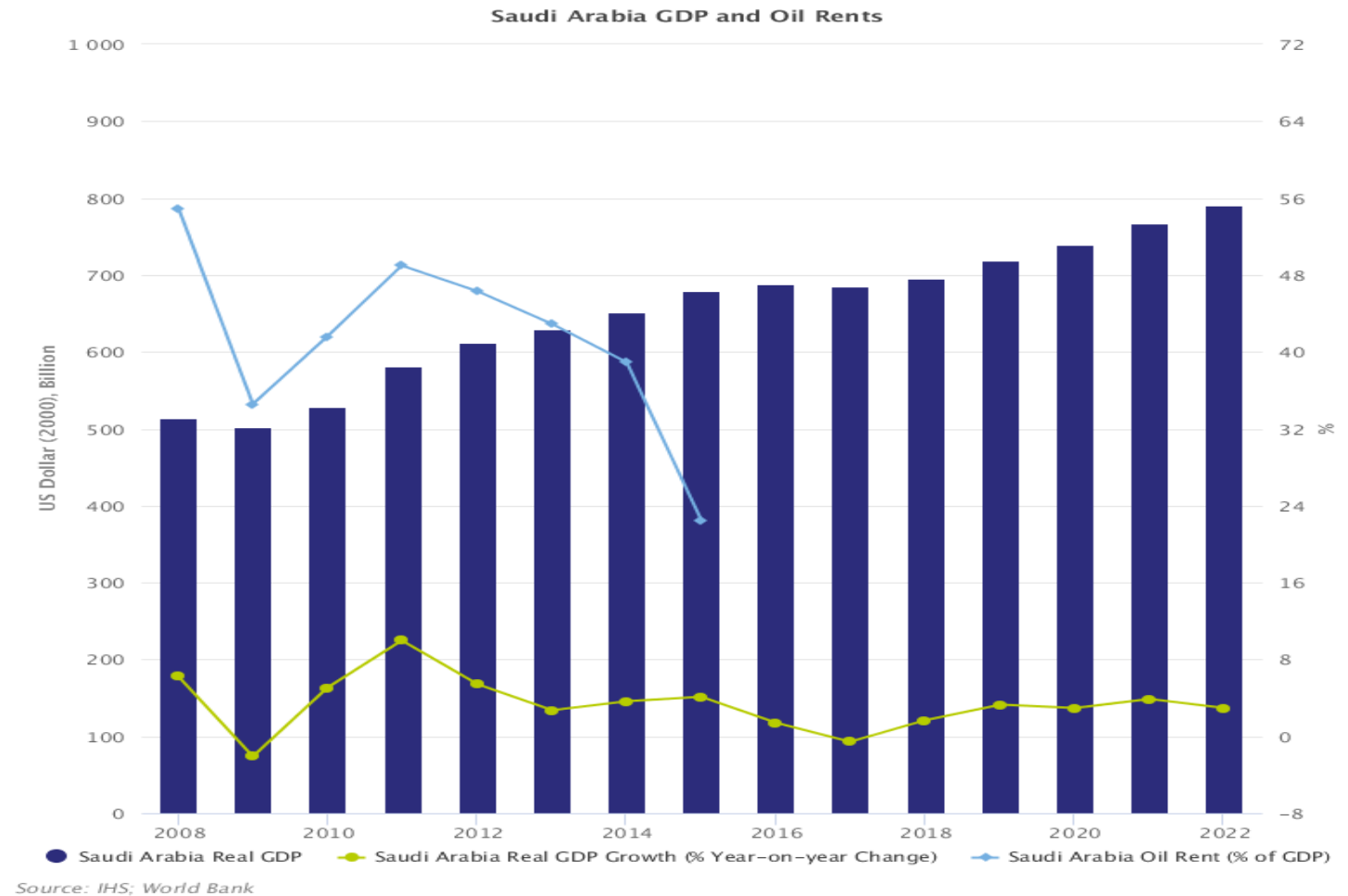


Saudi Arabia

- Crown Prince near-term succession now assured.
- An anti-corruption drive will eventually extend to target high-profile Saudis with assets in construction, hydrocarbons, telecoms and the media.
- Further austerity measures and economic restructuring.
- Reforms dependent upon oil prices??



Jonathan Ernst - Pool/Getty Images



Iran stability - indicators to watch

Indicators of increasing government instability risk

- **Indicators of JCPOA withdrawal:**
 - US seeking better relations with both Turkey and Iran
 - Ratcheting up the public diplomacy
 - Leaks by EU negotiating partners
- **Indicators for further civil unrest:**
 - Substantial cuts in subsidy programmes and visible increase in Iranian financial/military aid to regional proxies
 - Bankruptcy of non-legal credit institutions
 - Arrest of Ahmadinejad and his allies
 - Increase in scale of strikes in energy and auto sectors



Brendan Smialowski/AFP/Getty Images



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Your Questions...

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