

GLOBAL RISK 2018

CHINA'S REACH
PUTIN AGAIN
TURKEY RISING
CRYPTOZUELA

YOUR GUIDE TO THE YEAR AHEAD



KNOW YOUR WORLD

WHO WE ARE

Global Risk Insights (GRI) is a world-leading publication for political risk news and analysis. We help businesses and individuals stay ahead of the competition by illuminating unseen risks and highlighting undiscovered opportunities.

Founders Emil Graesholm, Basim Al-Ahmadi, Evan Abrams, Sammy Halabi

Editor in Chief Alisa Lockwood

Managing Editors Wiliam Christou, Robyn Kelly-Meyrick

Senior Editors Riccardo Dugulin, Jacob Purcell, Gwen Schwartz, Yesenia Lugo, Nicholas Trickett

Contributors Konrad Petraitis, Jeremy Luedi, Benedetta di Matteo, Lorena Valente, Niall Walsh, Sam Schofield, Friederike Andres, Alexander Brotman, Nicola Bilotta, Steven Spinello, Dean Klovens, Alexander MacLeod, Qi Lin, James Tunningley, Joanna Eva, Ryan Steele, Chris Solomon, Leo Kabouche, Mauro Lubrano

Design Gwen Schwartz, Alisa Lockwood

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- Kerim Derhalli, CEO & Founder of Invstr, Former Head of Equity Trading at Deutsche Bank

GLOBAL RISK INSIGHTS

Political Risk for the 21st Century





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FROM THE EDITOR IN CHIEF

WHAT IS THE NEW POLITICAL RISK?

Welcome to GRI's take on some of the key risks - and opportunities - facing us in 2018.

It's becoming a cliché to say that the world is changing fast - but it's also a truth we can't ignore. What's happening in Iran on the cusp of the New Year is a case in point. As our societies and technologies inexorably evolve, so does the nature of risk.

That's why GRI's approach to analysis is different. It's rooted in the concept of ***Political Risk for the 21st century***: Connection, Innovation, Style, and Purpose.

Ever-increasing **interconnection** and complexity define the modern age. GRI's unique, decentralised structure - with hundreds of analysts around the world - reflects the new economy.

From a political risk perspective, connectedness means that social movements propagate faster - and so does instability. Shifts in public opinion are more dramatic, and political outcomes less predictable. Many of the challenges faced by governments span across borders.

A 21st century approach to political risk can't be restricted to the nation state. Transnational and global issues, how governments are addressing them, and the regulatory and other impacts, must also feature.

CONNECTION

Risk analysis needs to keep up with the rapid pace of **innovation** that dominates our tech-enabled economy.

We're always looking for new ways to put cutting-edge technology and data in the service of good analysis - with collaborations like Future Generator and Risk Pulse.

We also recognise that the so-called Fourth Industrial Revolution carries huge implications for the nature of political risk itself.

We seek to produce analysis that examines this transformation, on topics like emerging technologies, internet privacy, the blockchain, and cyber threats.

INNOVATION

STYLE

Raise your hand if you have more than one tab open in your browser right now. Yes - you're not alone. The 21st century reader is overwhelmed with information, and time is a luxury.

So we see it as our duty to get to the point. GRI filters out the noise to bring you the most important insights of the day, in a concise, engaging format - with personality and humour. We like to call it the **CEO briefing style**.

We want our analysis to be clear, straightforward, and above all, an informative and enjoyable read. Because we value your time as much as you do.

PURPOSE

We shine a light of objectivity, expert insight, and critical thinking on political risk and international relations. We're independent, so we don't have to shy away from the tough questions. Our analysis goes beyond conventional notions of risk to look at human rights, the environment, and Under the Radar issues. Our Power Brokers segment often highlights influencers having a *positive* impact.

An understanding of risk and global affairs not only helps our readers make better strategic decisions, it's a step towards building a better world. Which is why we're **democratising political risk**. We want everyone to have equal access to our analysis - from big companies, to small businesses, to individuals.



AND THE WINNER IS...

We asked GRI analysts to nominate the people they think will have the biggest influence on political risk - for good or ill - in 2018. Here are their top picks:

1. THE REFORMER



Crown Prince Mohammed bin Salman is spearheading what GRI analyst Alex Damianou calls 'autocratic liberalization' in Saudi Arabia. In 2017, he forged ahead with Vision 2030 reforms, launched a controversial anti-corruption drive, and consolidated power - and he's only just getting started. Watch out for the influence of his more aggressive approach to foreign policy.

2. THE STRATEGIST



Vladimir Putin has weathered the low oil price, sanctions, anti-corruption protests - and apparently still found time to engineer the US elections and Brexit. Putin's Middle East play should continue to be very interesting in 2018 - and of course, it's the year he is almost certain to be re-elected President. Ryan Steele explains what this means for Russia on page 21.

3. THE EMINENCE GRISE



In 2017, Vox dubbed **Robert Lighthizer** "the most powerful Trump official you've never heard of". Trump's Trade Representative, a staunch protectionist and China skeptic with decades as a "fierce negotiator" under his belt, will have a big say on where NAFTA goes in 2018. But Lighthizer has some unorthodox views on trade, effectively prioritising exporters over consumers, and focusing on bilateral trade deficits while ignoring global context.

4. THE BANKER



Henrique Meirelles, Brazil's Minister of Finance and former central bank president, is the brains behind Brazil's economic recovery. Meirelles keeps edging closer to declaring candidacy in the 2018 presidential elections, where he would introduce much-needed centrism to a field dominated by outliers (see page 12). He would favour a balanced budget, privatizations, and reduction and simplification of taxes as well as pension reform.

5. THE THINKER



An unconventional pick, Professor **Rory Medcalf's** influence is in the realm of ideas. Head of the National Security College at Australia National University, he coined the term 'Indo-Pacific' nearly a decade ago, and sounded the alarm on Chinese influence in Australia's politics - two ideas that are now being taken seriously in Washington and around the world. Take note, these days he worries about transnational cyber threats and the destruction of the rules-based global order.



THE PURPLE ELEPHANT IN THE ROOM

Regardless of mainstream reservations, rampant speculation, and near-certain odds of a bust, Bitcoin is here to stay. Cryptocurrencies are capable of changing how we identify, manage and mitigate political risks across borders. [Konrad Petraitis](#) brings us a case study in the risks and promise of cryptocurrencies - Venezuela.

Regular descent into what is only retrospectively described as insanity has been a feature of capitalism for centuries.

Speculative euphoria is not new. In any boom or bust cycle, there is always a period of exceptionalism. In other words, there is always a timely excuse why a product is different and why it can't be like anything else. Today, Bitcoin is that product. The hype surrounding initial coin offerings, mining, blockchains and crypto assets is unprecedented – and incredibly complicated. We speculate on assets like bitcoin, however, because it's part of our human nature.

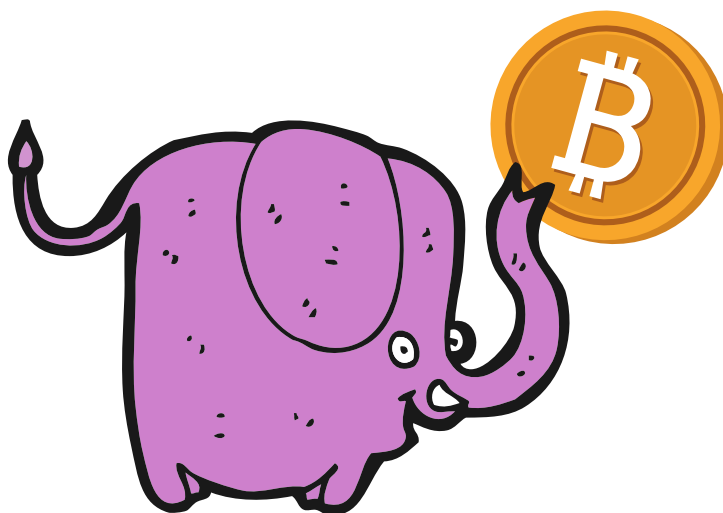
Bitcoin holders are doubling and tripling their initial investment in weeks. Our tendency to believe good times will last forever is frequently magnified by confirmation biases - the impulse to collect only the data that confirms one's existing beliefs. Which explains why Bitcoin holders are swayed by Saxo Bank's 2018 forecast predicting Bitcoin will hit US\$60,000, instead of listening to warnings from a Wall Street CEO.

The habit is compounded by what Nobel laureate Daniel Kahneman, describes as *intuitive heuristic*. When faced with a difficult question, we often answer an

easier one instead, usually without noticing the substitution. For instance, "should I invest in Bitcoin?" (which entails understanding blockchain and price discovery momentum) is replaced by "do I like Bitcoin?" (an appealingly anti-establishment product that everyone is making money on).

This period can continue for as long as people believe that there is something magical or new about the valuation of cryptocurrencies. There's no guarantee Bitcoin won't reach US\$1 million, just as there's no guarantee the bubble won't burst tomorrow. But even if it bursts – and it most likely will – it's very unlikely to go away.

The Dutch tulip mania in 1673, did not do away with the flower. The dot-com bubble in 2001 did not eliminate the internet. The one exception, however, might be Beanie Babies – the 1990's craze that saw one purple stuffed elephant sold for US\$3,000.



Bitcoin and Venezuela

Venezuelans are not newcomers to cryptocurrencies. The country has one of the highest concentrations of Bitcoin miners in the world thanks to electricity subsidies that render the power-crunching practice widely affordable. Yet electricity is perhaps one of the few things Venezuelans are able to afford in a country grappling with widespread food and medicine shortages.

Venezuelans are living through the worst hyperinflation since post-WWI Germany. A third of all Venezuelans reported an average of 8kg in weight loss this year due to rising food prices. The International Monetary Fund further estimates 2018's inflation rate will reach 2,3000% alongside a 12% contraction in gross domestic product.

Adding to hyperinflation and food shortages is the scarcity of cash in the country. Hence, even when accounting for recent volatility in Bitcoin and its many offshoots, it is not difficult to understand why Venezuelans are trading Bolivars (Bs.F) for Bitcoin.

Cryptocurrencies are widely available to anyone with a smartphone, unwound from central banks, who regulate the overall availability of cash. They also allow remittances to bypass state mandated transfer and



convertibility laws that would either prohibit the transfer or set a conversion rate that would discourage remittances. Bitcoin likewise trades in public spaces: anyone can readily see what a Bitcoin is worth at any point in time (this particular feature resonates in Venezuela, where it is illegal to publish the free-market value of the Bolivar).

Setting aside the potential that cryptocurrencies afford average Venezuelans, they are also, and for different reasons, extremely enticing for authoritarian regimes.

Meet the Petro

President Nicolas Maduro announced in early December 2017, his intent to launch an oil-backed cryptocurrency, the 'Petro'. He made no attempt to hide the fact that the Petro would circumvent US financial sanctions on Venezuelan government officials and the country's debt issuance.

The Petro could theoretically help President Maduro get around current and future sanctions because it provides an alternative path for sending money. This doesn't mean global oil and commodity contracts will be based on the Petro anytime soon, but President Maduro's desire to avoid dollar transactions is certainly shared by other countries, such as Russia and China.

Another reason why it probably won't be the Petro is due to a separate political risk, in that the Petro will likely be a hotbed of corruption. This is also, by the way, what makes mainstream investors wary of Bitcoin - its perceived vulnerability to corruption inside the community, and to cyber-attacks able to compromise its value.

The rise of peer-to-peer currencies will have an indelible effect on country risk.

Exchange rates, interest rates and rollover risks are all likely to be affected. International monetary regulations will now have to factor in a currency outside a state's financial policy, or a central bank without a chairperson. The scope of these risks has yet to become clear, for much the same reason the bubble continues to grow: Bitcoin is unprecedented.



5 AFRICA STORIES TO WATCH IN 2018

From murder cults to fictional states, [Jeremy Luedi](#) - editor of [Asia by Africa](#) - brings you the five developing stories to watch as we head into 2018.

1 ZIMBABWE

THE FALL OF (GRACE) MUGABE

The ageing Robert Mugabe's departure was only a matter of time. It was accelerated by the very public factionalism and succession squabbling within ZANU-PF - and by the seeming rise of Grace Mugabe.

Forty years Mugabe's junior, Grace could have been in power for decades to come. However, she faced levels of intra-party disdain akin to Jiang Qing (aka Madame Mao) and public hatred a la Elena Ceausescu. Indeed, the general dislike of Grace arguably played a bigger role in catalysing the regime's downfall than her husband's popularity (or lack thereof).

Going into 2018, the prospects for Zimbabwean democracy are uncertain, as President Emmerson Mnangagwa is no ardent democrat. A long-time supporter of Mr. Mugabe, he has held various cabinet positions in the last three decades, and boasts his own list of links to state crimes.

Moreover, at 75 Mnangagwa represents the same kind of generational divide that alienated Mugabe from Zimbabwe's young population. Having a leader 55 years older than the country's median age could easily result in the same kind of disenchantment and resentment engendered by the nonagenarian Mugabe - watch this space.



TRUMP DUMPS CHAD

The Trump administration was lambasted for its decision to add Chad - a regional counter-terror ally - to the infamous travel ban. Political opponents and Pentagon hawks alike criticized the move, arguing that it undermines America's efforts to fight extremism in North Africa.

Chad is seen as the anvil to Nigeria's hammer in the latter's north-eastern offensives against Boko Haram. Former U.S ambassador to Nigeria, John Campbell, has praised Chad, stating that the Chadian military "is one of the toughest around, particularly in West Africa."

But the country is not an ideal partner. Idriss Déby's regime uses its carefully cultivated image as an anti-terror ally to wrangle aid from the West while downplaying domestic human rights and economic concerns. Instability in Chad in 2018, and whether the government uses the same Western-sponsored security forces currently fighting extremists to subdue the populace, could validate Trump's decision.

The contested 2016 election (which saw Déby win by the lowest margin to date), and the disappearance of several senior military members for allegedly voting against Déby, show that he is still consolidating power. Fiscal belt-tightening will continue into 2018, and has already seen mass anti-austerity protests, with Déby threatening to dissolve public sector unions.

Military setbacks for ISIS in the Middle East will also see the group increase its presence in less contested regions such as the Sahel. Spotty funding for the Sahel G5 security organ and the ripple effects from Trump's travel ban do not put Chad on the best of footings heading into 2018.

2

CHAD

OPPORTUNITIES IN THE HORN OF AFRICA?

Arguably the most African important election of 2017 happened in a country that technically doesn't exist.

As Somalia sleepwalks down the path of failed statehood, one part - Somaliland - has been working hard to break this cycle. Having declared independence in 1991, Somaliland leads an alternate existence within the ostensible borders of Somalia.

Somaliland's peaceful election bolsters its efforts to nurture a democracy and gain recognition. Its success makes the case for a reworking of international approaches in the Horn of Africa. Its situation demonstrates the need for less rigid adherence to ideas of territorial integrity, and more pragmatism in 2018.

Some investment is already taking place, such as the UAE's \$90 million naval base: Dubai has also announced a \$442 million deal to modernize Berbera Port. Given its strategic location, Somaliland is competing with Djibouti to host international military and logistical centres. This is part of a larger plan aiming at economic diversification, especially in response to the decimation of the country's main economic engine, cattle exports, due to drought.

3

SOMALILAND

THE INTERVENTION NO ONE IS TALKING ABOUT

Completely surrounded by South Africa, Lesotho threatens to become a pocket of instability in the heart of Africa's second largest economy. Factionalism in the nation's military and high-profile assassinations have led to a security crisis. The Southern African Development Community (SADC) is sending troops to Lesotho to stabilize the region.

This is not the first time. In 1998, Nelson Mandela, in conjunction with the SADC, authorized a military intervention in Lesotho after post-election violence saw parts of the Lesotho Defence Force (LDF) back the opposition.

Now, LDF officers face trials for conspiracy and murder, and it was recently discovered that three individuals were killed by the LDF in May. The fact that the LDF is taking out ads in newspapers promising not to kill its critics demonstrates the bizarre and tenuous security situation in the country. With the SADC force reduced from 1,200 to 258 soldiers and repeatedly delayed, it's not clear that the situation will be effectively contained in 2018.



4

LESOTHO

THE RETURN OF NIGERIA'S MURDER CULT

A gang of blood magic cultists known as the Badoo, who murdered some 100 people over the past two years, have made a comeback. What makes this story important is not only the sensational nature of the killings but what it says about Nigeria. Take note, this is not happening in some remote valley infested with Boko Haram fighters - it's happening in a city of half a million (Ikorodu), less than a thirty minute drive from Lagos.

The situation in Ikorodu highlights the serious security deficit facing Africa's largest economy, known for having the worst police force in the world. Corruption and incompetence erode the rule of law, with mistrust of security forces leading to vigilante justice. Faced with random killings and a seemingly powerless police force, Nigerians in Ikorodu and elsewhere are resorting to lynch mobs and public executions of suspected Badoo and petty criminals alike.

If the Badoo resume their killing spree in earnest in 2018, Nigerian security forces will have another, very public failure to contend with. If the government cannot even keep the environs of its largest city safe, it seriously undermines President Buhari's efforts to court investors and bring stability to Nigeria. Already a divisive figure, the last thing Buhari needs is slumping support in Lagos State ahead of the 2019 elections.

NIGERIA

5



WILL MIDTERMS BE THE END OF #MAGA?

Friederike Andres asks: could Trump's low approval ratings and lack of major legislation clear the path to a Democratic majority in Congress - and derail his vision for America? With inputs from Steven Spinello.

OUTLOOK FOR THE REPUBLICANS



OUTLOOK FOR THE DEMOCRATS

Since 2014, Republicans have held a majority in both houses, with 51 seats in the Senate and 239 seats in the House of Representatives. In 2018, all 435 seats in the House of Representatives will be up for election, as well as 33 of the Senate's 100 seats. Although races for both houses will be highly contested, Republicans will maintain a majority in the Senate. Out of the eight seats the GOP will be defending next year, only two could potentially flip: Jeff Flake, Senator of Arizona, and Dean Heller, Senator of Nevada. Both were highly contested in 2016. While Trump won Arizona with a slim margin of 49.5%, Clinton carried Nevada with 47.9% of the votes.

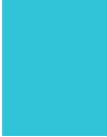
In the House of Representatives, the Republicans will have a fight on their hands. Key seats the party will be defending include California's 49th district, Rep. Darrell Issa's seat. Hillary Clinton won the district in 2016 with 50.7%. Overall, around 20 districts are regarded as contested.

The Republicans will face several challenges. They'll have to decide whether to run on a pro-Trump agenda or whether to distance themselves from the President. So far, Trump-style messaging failed them in elections in Virginia and Alabama in 2017. They'll also have to confront President Trump's historically low approval ratings, which remain below 40% through his first year. Finally, Republicans' credibility suffers from the administration's failure to repeal and replace the Affordable Care Act, and the seeming unpopularity of the tax bill.

On the other side of the aisle, Democrats will have to defend a significant number of seats in both houses. Out of the 25 seats Democrats will be defending in the Senate in 2018, the seats of John Donnelly (D-IN), Claire McCaskill (D-MO), Heidi Heitkamp (D-ND), and Joe Manchin (D-VA) are all in states that Trump won by large margins over Clinton. The challenge is made even greater in these states by the fact that Trump's approval ratings have stayed above the national average. In West Virginia, which he carried with 68%, Trump's approval is at 60%.

The Democrats have more of a fighting chance in the House of Representatives. They'll need at least 24 seats in order to reach the majority. And although Hillary Clinton had 23 districts currently represented by the GOP, the Democrats will need to defend 12 districts Trump carried in 2016.

Campaigns such as MoveOn.org, Indivisible, and Run for Something could help with the Dems' low turnout problem. Millennials seem to have been mobilised: while overall voter turnout increased from 42.7% in 2013 to 47.7% this year across party lines, voter participation among millennials increased by 8%. In November's gubernatorial election in Virginia, where Lieutenant Governor Ralph Northam beat Republican candidate Ed Gillespie with 53.9%, some 81% of millennials voted for Northam.



A VIABLE CHALLENGE?

Roughly a year out from the elections, in a generic congressional poll 49.1% of voters stated that they would vote for the Democratic Party while just 36.1% are leaning towards the GOP. Although a majority in both the Senate and House of Representatives would be difficult to realize, a Democrat majority in the House of Representatives may have a significant impact on the course of the country.

US MIDTERMS: KEY ISSUES

BUDGET	Republicans are determined to cut non-defence and increase defence spending. Going into the election year, collaboration between the Democrats and President Trump on the budget is at an all-time low, with Senate minority leader Chuck Schumer and House Democratic leader Nancy Pelosi pulling out of a meeting with Trump after he said a compromise was unlikely.
ECONOMY	In an effort to appeal to America's working base, Democrats introduced "A Better Deal", which includes minimum wage provision, and protection of American workers' rights from foreign competition. In the context of the NAFTA renegotiations, this could facilitate collaboration between the White House and Democrats in the House of Representatives.
INFRASTRUCTURE	Infrastructure is another issue where President Trump and Democrats agree, and which will likely be pushed forward by Democrats. In January, Senate Democrats introduced their "Blueprint to Rebuild America's Infrastructure". In addition to the proposed \$1 trillion in federal investments, Democrats launched an effort to win bipartisan support for \$500 billion in infrastructure improvements.
GERRYMANDERING	Elections in 2018 and 2020 will determine who will be allowed to redraw district lines after the 2020 census. In 43 states, the party controlling a state legislature will be able to shape politics for decades to come. The GOP has already raised \$125 million for its RedMap 2020 campaign, while Democrats have raised \$70 million for their own campaign, Advantage 2020.
IMPEACHMENT	A Democratic majority in the House of Representatives could start an impeachment against President Trump. In December, Rep. Al Green (D-TX) introduced articles of impeachment but suffered a defeat after most House Democrats voted against the initiative. Future impeachment efforts could still flounder in the Senate, which is likely to remain Republican-dominated.

On the other hand, the continuation of a Republican majority in both Houses might reinvigorate the GOP's political agenda. The announced retirement of Jeff Flake (R-AZ) and Bob Corker (R-TN) will remove two of Trump's most ardent critics and make it easier to push ahead – Bob Corker was the only Senate Republican to vote against the tax bill when it was first introduced in the Senate.

However, chances are high that Democrats will be able to regain the majority in the House of Representatives, allowing them to pursue an even more fervent role as the opposition party. A significant portion of Trump's agenda could be affected, including budget, trade agreements, immigration reform, infrastructure, and deregulation of Wall Street. A Democratic majority in Congress will also have an influence on redistricting after the 2020 census and may even provide the opportunity - however remote - to impeach Trump. There is also, in this scenario, a risk of further political gridlock.

See the full analysis on the GRI site.



THE CHANGING FACE OF LATIN AMERICA

GRI experts [Benedetta di Matteo](#), [Lorena Valente](#), [Niall Walsh](#) and [Sam Schofield](#) have produced a forthcoming Special Report on the series of crucial elections in the region in 2018. Here, they share some of their key forecasts.

Latin American voters are not a happy bunch. Discontent with mainstream political parties is rising in a region plagued by corruption, organized crime and economic stagnation. And another trend seems to be rising on this tide: populism.

In Mexico, leftist candidate Andres Manuel Lopez Obrador (AMLO) is leading the polls for the July 2018 presidential elections. In Colombia, the left-wing politician Gustavo Petro is supported by a significant part of the Colombian electorate, which will vote for President in May 2018. Recent polls also show right-wing presidential candidate and former military officer Jair Bolsonaro in second place in Brazil. In Venezuela, President Maduro's position is strengthening against all odds, making his re-election likely.

Support for President Maduro may also increase regionally, due to ideological affinities with some of the other candidates. Shifting politics could have a divisive effect on neoliberal regional initiatives such the Lima Group and the Pacific Alliance. By 2019, we could be looking at a very different Latin America.

NIALL ON MEXICO

Mexicans will likely be choosing between a continuity candidate (Yale economist and Finance Minister Jose Antonio Meade) - and one who vows to break down the current order (AMLO).

Echoing the populist rhetoric north of the Rio Grande, AMLO has vowed to 'drain the swamp' and obliterate corruption in government 'from top to bottom'. There is growing support for his populist agenda: in a recent poll by El Universal, he is the front-runner with up to 31% planning to vote for him.

Considering his anti-trade and anti-privatisation stances, one of the major areas of concern will be AMLO's opposition to NAFTA. He sees the agreement as another attempt to internationalise the Mexican economy at the expense of its people. Given his 'Mexico First' stance, coupled with economic nationalism in the United States, the election of AMLO could seriously threaten the future of NAFTA and change Mexico's role in the global economy.



LORENA ON BRAZIL

In 2017, Brazil experienced a political roller-coaster with corruption accusations against its current President Michel Temer, a massive corruption scandal that continues to engulf high level political figures, and a divided Congress that has challenged the President's economic reform package. Brazilians, tired of business-as-usual, seem to be turning to candidates at the political extremes. Leftist former President, Luiz Inacio 'Lula' da Silva, leads the polls with 36%. In second place is right wing Congressman, Jair Bolsonaro. In a scenario without Lula, who may not be allowed to run under the Clean Slate Law, Bolsonaro leads with 21%. Both Silva and Bolsonaro would bring market uncertainty, slowing investment, growth, and job creation at a critical time of economic recovery.

SAM ON COLOMBIA

The race has recently narrowed, but remains highly competitive and could result in a weak mandate. Current VP German Vargas Lleras, is a strong contender, while two former Conservative presidents - Alvaro Uribe and Andres Pastrana - have joined forces to nominate candidates.

A victory by Lleras or the Uribe-Pastrana candidate would result in similar economic policies. Where they differ is the FARC peace plan. Uribe has been a vocal opponent and lobbied to kill the deal. Right wing parties do see the agreement as law, but threaten to adjust it on the margins, which carries destabilising risks.

Lleras is committed to the peace deal. His popularity stems from his plans to cut taxes for corporations, dividends and other profits for foreign boldhonders, aimed at boosting FDI. However, these cuts could also limit the ability of the government to plug the deficit and stay within fiscal targets domestically.



BENEDETTA ON VENEZUELA

Nicolas Maduro's victory in the October 2017 regional elections has reduced the opposition's hope for a victory in the 2018 presidential elections. While likely to stay in power through 2018, Maduro's administration will continue to suffer from a legitimacy crisis and to face enormous obstacles, casting doubt on its long-term durability. The country's economy is in a critical state, with hyperinflation and high foreign debt. Sanctions against the regime by US and European governments are unlikely to be lifted with Maduro in power. A glimmer of hope comes from the ongoing engagement between the ruling Socialist party and the opposition, who last met on 15 December to discuss resolving the economic and political crisis.





PRESSURE FROM PYONGYANG

With Obama's policy of 'strategic patience' effectively replaced by Trump's policy of 'limited patience', [Alexander MacLeod](#) asks - will the Korean crisis boil over in 2018?

Pyongyang's latest test, on 29 November, was an important turning point.

Launched over the Japanese island of Hokkaido and into the Sea of Japan, the new Hwasong-15 intercontinental ballistic missile (ICBM) reached an altitude of 4,500km – higher than the International Space Station.

According to state broadcasts, the regime is nearing completion of its missile and nuclear weapons programme. This is most likely mere propaganda churned out by the regime. Still, most of the US would have been within range had the missile been launched at a shallower trajectory.

How far will the North push?

Estimations of Pyongyang's missile and nuclear technology vary, but its capabilities are likely overblown. In the unlikely

event that Pyongyang's missile technology is as advanced as the regime claims, there would be, as a next step, a need to conduct a missile test using a live nuclear warhead. However, the risks attached to such an action would be probably calculated as too high. Continued missile testing around the sea of Japan is a likelier option in the next year.

Although conservatives in the United States and South Korea believe otherwise, Kim most probably views his missile programme as a deterrent, not an offensive measure. It offers a means of ensuring his domestic legitimacy, and likely would be difficult to contain even if Kim wanted to. Recall that the military is the largest and most important institution in North Korean society, as dictated by the *songun* or 'military first' policy.

All of this means stabilisation on the Korean Peninsula will be elusive in 2018. That said, the risk of an outright nuclear attack by North Korea will remain low, since this would throw off the balance Kim is treading domestically. The key thing for the regime is to maintain an appearance of aggressive posturing. The question then becomes, will this prompt the US to pull the trigger on a pre-emptive strike?

Trump's bark worse than his bite

North Korea-US relations have fluctuated between relatively low-level tension and periods of high tension, when dangerous rhetoric and demonstrations of military strength abound. Under Trump, the latter is becoming more common. Washington regularly cranks up its rhetoric against Pyongyang, most recently threatening that the regime would be "utterly destroyed" in the event of war.



Donald J. Trump
@realDonaldTrump

Follow

Why would Kim Jong-un insult me by calling me "old," when I would NEVER call him "short and fat?" Oh well, I try so hard to be his friend - and maybe someday that will happen!

12:48 AM - 12 Nov 2017 from Vietnam

This caveat - in the event of war - is important. For now, the threats are all hypothetical, intended to show the North Koreans that the US means business - as well as playing to Trump's base - but without crossing the line into conflict.

Trump plays the bad cop, while Rex Tillerson plods along as the good cop. He reiterated the US' offer of talks without preconditions as recently as 12 December, stating that Trump himself was 'realistic' about the fact that the North could not be expected to give up its WMD programme.

That seemed to change on 20 December. The UK's Telegraph ran a story claiming it had information from sources about plans for a 'bloody nose' attack on the North. Looking more closely at the report however, the caveats are still there: the Pentagon is 'trying to find options' and 'preparing plans'.

More sanctions on the way?

Amid the loud rhetoric, it's easy to miss the fact that US strategy remains guided (and restricted) by broader UN consensus. In August, secondary sanctions were introduced against Chinese and Russian firms and individuals accused of aiding North Korea's weapons programme in accordance with a UN decision to target the rogue regime's foreign exchange earnings.

"Kim views his missile programme as a deterrent, not an offensive measure."

Trump has also insisted that all sovereign nations sever diplomatic links with the North, or face consequences. In November, Singapore suspended trade ties with Pyongyang, while Sudan and the United Arab Emirates cut off diplomatic relations the month before. However, a variety of African countries remain supportive of Kim – and will likely be targeted under future UN sanctions.

The role of China

The main obstacle to Trump's sanctions strategy is the power of UN Security Council member China. China maintains close relations with North Korea, which acts as a buffer between China and South Korea. So far, China has vetoed the strongest sanctions – such as cutting off the North's oil supply or freezing Kim's assets – as it is wary of the effects that economic instability could bring. Aside from significantly watering down the UN's sanctions proposals, persistent

vetoed or even abstentions from Beijing signal to Pyongyang that China is unwilling to dance to the tune of the UN when it comes to punishing North Korea. However, if the North continues to present a security dilemma for China over the next 12 months, Beijing's North Korea policy could become increasingly stringent, as indicated by reports in December that China had finally agreed to an embargo on oil trade with Pyongyang.

In November, China had called for an end to joint South Korea-US military exercises in return for a de-nuclearisation commitment from North Korea. This is highly unlikely, but we can expect Beijing to continue to push the issue, which it sees as the best way to de-escalate tensions.

Outlook

Overall, the most likely scenario is that little will change in the danger North Korea's neighbours face. Any military confrontation would remain localised. As a minimum, South Korea and the US will be keen to avoid escalation in the first months of 2018 due to the Olympics. The enduring source of risk will be from sporadic incidents of violence along the demilitarised zone.



CHINA'S BELT AND ROAD TO NOWHERE?

GRI Senior Editor [Nicholas Trickett](#) argues that the Belt and Road Initiative (BRI) is laden with risks as projects face headwinds or fail to deliver promised growth. Here are the top 5 takeaways from the forthcoming GRI report on the topic, co-authored by [Qi Lin](#), [Joanna Eva](#) and [James Tunningley](#).

1 EURASIA

MULTIMODAL HARD CEILING

The growth of China-Europe rail transit has sparked intense interest as new routes have created new openings for trade set to compete with slower shipping routes. China is predicting 15% annual growth in container volumes exported by rail to Europe every year for the next 10 years.

But there is a hard ceiling approaching on China-Europe rail transit via Russia due to budgetary and infrastructural strain in Russia, and a refusal to allow Chinese firms or other concessionaires to negotiate terms for projects. Barring significant network upgrades, which are not likely in the near term, bottlenecks will hinder growth.

The Trans-Caspian route seems to set to compensate. In reality, the volume of trade it can handle will always be constrained. Large container ships can't access the Caspian and it makes little sense to build them there. This limits the economies of scale that can be achieved and means that trade will largely be driven by the countries along the route based on the sectors of their economies showing growth. But the BTK railway has made it China's preferred option for transshipment to Europe. China Harbor Engineering Company (CHEC) has also expressed interest in investing into the Bulgarian ports of Varna and Burgas, but political obstacles have stalled these investments so far.



SUSPICION IN SOUTH ASIA

In 2015, China and Pakistan launched the China-Pakistan Economic Corridor (CPEC), signing 49 agreements to finance a variety of projects with a total expected value of \$46 billion, including upgrades to Pakistan's Gwadar Port, oil and gas pipelines, road and railway infrastructure, and a series of energy projects.

Besides Pakistan, Sri Lanka has been the leading beneficiary of Chinese infrastructure investment in South Asia, with nearly \$15 billion worth of projects between 2009 and 2014. China has also financed the modernization of Chittagong Port, which handles around 92% of Bangladesh's trade.

The trajectory of CPEC and Chinese investments in other South Asian countries has not been without hiccups and roadblocks. There are many critics of Chinese involvement, reflecting a rising trend of internal disagreements among China and its BRI partners. The high interest rates, strict commercial conditions and lack of transparency are some of the biggest drawbacks of Chinese financing. Typical conditions attached to Chinese loans include Chinese companies to be project contractors and at least 50% of material, equipment, technology or services to be sourced from China. Loans extended by the Chinese government-owned Chinese Exim Bank are mainly to purchase Chinese products and services and to use Chinese labor and raw material.

In Pakistan, BRI and CPEC's feasibility face growing criticism. The CPEC projects have remained completely under the control of Chinese companies and banks and the project bidding, contracting, and financing processes lack transparency. China's alleged predatory behavior has created suspicion in other countries in the region.

2

SOUTH ASIA

SOUTH CHINA SEA STRATEGY

Southeast Asia's BRI projects include the China-Laos high-speed railway, hydropower plants in Cambodia, and Indonesia's first high-speed railway, connecting the cities of Jakarta and Bandung. This region's growing markets, numerous manufacturing hubs and abundant natural resources offer Beijing considerable economic opportunities.

China is particularly trying to forge maritime links southward and establish more secure connections through the critical waterways of the South China Sea and Strait of Malacca. These efforts include ambitious port projects in the countries involved - Indonesia, Malaysia, Singapore and the Philippines.

China uses its involvement in these countries to shape the contentious maritime sphere in its interests. This has raised the concern that China would use its clout over BRI to assert claims over disputed territories in the South China Sea. It is likely that certain ASEAN claimant states would be constrained in their reactions to Chinese assertive steps in the South China Sea if they become large beneficiaries of China's BRI investments.

4

ENERGY

EXPANDING ENERGY INVESTMENT

China's general approach of hedging against over-dependence on maritime routes via the Strait of Malacca, or on any one supplier of oil and gas, has not changed. Chinese firms are everywhere globally and will continue to buy up assets to guarantee access to resources. Look for China's commodities traders to focus on deepening access and control of supplies in Russia and Central Asia while China's petroleum sector hopes to draw in Saudi investment.

It's also likely that China will begin seeking export opportunities for nuclear power projects, a move that would free up more oil for export in states like Saudi Arabia. At the edges, China Inc will also buy up downstream projects in Eastern Europe and the Balkans to establish beachheads in the EU.

China's hydrocarbons import dependence is large now - 65-66% of needs are met by imports - and are set to rise to as much as 80% by 2030 due to falling domestic production alongside continued economic growth. Energy investments are increasingly important to ensure access to supply as China slowly expands its international presence.



EXACERBATING FRAGILITY IN AFRICA?

China has invested in 293 FDI projects since 2005 to the value of some US\$66.4 billion. In 2016, China became the largest source of foreign funds for African projects, due in no small part to Chinese attempts to wrest the east of the continent into the OBOR's embrace.

Despite the fanfare, 2018 presents very real challenges to Chinese attempts to secure alliances throughout the African continent. Local discontent with rising Chinese influence on the continent will need to be managed effectively; commodity prices and rising debt levels are a concern along the entirety of the OBOR, and Africa is no different. China's propensity to hire Chinese firms and Chinese workers on overseas infrastructure investments has not gone unnoticed; paired with a never-ending, and seemingly unquestioning, line of credit from Chinese banks to African governments, the question of repayment is less sexy than the overall OBOR hype- but no less important. Africa is weary of colonial-style inflows, and China must constantly manage domestic perceptions and ensure stability if OBOR projects are to succeed in the long-term.

Finally, it must be noted that a pervasive infrastructure deficit in Africa has not emerged simply out of a global blindspot; there are broader societal and political barriers at play that China's cash-heavy approach may be failing to address. China's disinterest in ensuring the transparency of local governance may ultimately backfire, exacerbating existing fragility instead of ensuring the stability China so desperately seeks.



FRANCE UNDER THREAT

Although the French security posture increasingly mitigates the risk of complex attacks, the country will face an elevated risk of crude terrorist incidents in 2018. GRI Senior Editor [Riccardo Dugulin](#) explains how radical Islamist militants will almost certainly view France as a high priority target as part of their European strategy.

In 2017, France suffered five terrorist attacks

by radical Islamist militants. These incidents left five dead and 12 injured - substantially fewer than in 2016, when Islamist radicals killed more than 90 people and left 435 injured. It's also fewer than in 2015, when France was struck by the worst attacks in its modern history.

Despite lower casualty figures, French public authorities, security services and intelligence agencies all assess the terrorist threat associated with Sunni extremist militancy as a major risk in the coming year.

"Now, Sunni extremists are staying in France instead of going abroad."

France at the heart of the Islamic State strategy

The Islamic State (IS), echoing al-Qaeda, has repeatedly identified France as a major target, making it a high priority for attacks in Western Europe.

The Islamic State has also devoted substantial resources to publishing propaganda messages in French, directly targeting specific segments of the French population. Evidence that the strategy is working? France has been the Western European country with the highest number of citizens leaving to fight alongside Sunni extremist insurgents in Syria and Iraq.

This IS strategy also capitalises on the large number of radical Islamist networks and cells present in France. According to French intelligence, there are approximately 15,000 radicalised individuals in the country, and rising. Despite the military defeats of the Islamic State, self-radicalised supporters of the organisation continue to be able to find large amounts of propaganda material online.

A growing internal issue

Recent statements released by the French internal intelligence (DGSI) provide indicators of a changing terrorist threat. The number of militants leaving the country is dropping, and Sunni extremists are increasingly staying in France to plot attacks and make new recruits.

In 2018, radical Islamist cells will seek to develop small and dynamic networks on French territory. Sunni extremists may also try to infiltrate major French private and public institutions. French officials have also expressed concerns over the growing risk generated by the insider threat. Employees of local or national public transportation and railway networks have been dismissed due to their radical Islamist views.

French radical Islamist networks are also likely to maintain a certain level of communication with other European groups, especially in Spain, Belgium and Germany.



An evolution of the threat

Given these changes to the tactical realities and strategic outlook of radical Islamist cells, it's fair to say that the terrorist threat in the country has been evolving over the last 12 months.

Militants maintain strong intent to conduct attacks in France. However, authorities have become more proficient in disrupting complex plots that necessitate coordination, communication and planning between a squad involving a large group of people.

As such, it is highly likely that in 2018, France will be exposed to further lone-assailant attacks in which militants use crude weapons such as knives or cars to cause casualties and score propaganda victories.

It's also possible that Sunni extremists may try to manufacture low grade improvised explosive devices or use firearms. Current indicators suggest that successful attacks are likely to be the ones against large soft-targets such as transportation hubs, commercial streets, public gatherings or other venues that are difficult to fully secure.

The fight against terror and the end of the state of emergency

In November 2017, the two-year old state of emergency was lifted, and replaced by a new anti-terrorism law.

The legislation provides police prefects with an increased capacity to deploy police around key touristic and commercial spaces as well as major mass events. It also extends the duration and scope

of border controls. It foresees the potential closure of religious spaces used for recruitment and incitement purposes, the possibility of conducting anti-terrorist raids leading to the temporary detention of suspects prior to an actual accusation, and the broadening of house arrest criteria.

The new legislation caused heated debate over the balance between security and public liberties. It will increase the capability of security and intelligence forces to disrupt complex terrorist plots and challenge propaganda networks in the country. However, as demonstrated by the attacks that took place in France under the state of emergency, these laws continue to provide only a partial answer to crude attacks that necessitate a limited planning and coordination phase.

"France will be exposed to the risk of further lone assailant attacks."



ITALY'S ELECTORAL EQUATIONS

As Italy readies itself for parliamentary elections, the country faces heightened political uncertainty. It is likely that none of the major parties will garner sufficient votes to govern. GRI's [Alexander Brotman](#) and [Nicola Bilotta](#) calculate the probability - and risks - of various scenarios.

Uncertainty has always been queen of the Italian political scene, and under new electoral rules, instability looks like the only possible winner once again. Any political party will need to establish a coalition to be able to govern and even then, none will be sure to have the numbers to effectively lead the country.

As the third-largest economy in the eurozone, Italy's future is important to how ongoing debates - such as the migrant crisis and Brexit negotiations - shape European politics. The March 2018 elections carry risks from left- and right-wing Eurosceptic parties, which seek to undermine Franco-German alliance building.

With the Czech Republic, Slovakia, Hungary and Poland drifting in a similarly populist direction, the outcome of Italy's vote will be key.

For more on the challenges Europe as a whole will face in 2018, check out [Axel Hellman's analysis](#) on the GRI site.

Forza Italia + Lega Nord + Fratelli d'Italia = Right-wing alliance

Policy stance	<ul style="list-style-type: none"> <input type="checkbox"/> Populist agenda, raising public investments and retirement benefits <input type="checkbox"/> Tax reform – flat tax system <input type="checkbox"/> Strong on terrorism and security, but reluctant to join US-led coalitions <input type="checkbox"/> Hard immigration stance and possible reluctance to accept EU quotas
Risks	<ul style="list-style-type: none"> <input type="checkbox"/> Threat to European fiscal compact from strong Euroscepticism and anti-austerity economic reforms <input type="checkbox"/> Nationalization of strategic companies <input type="checkbox"/> Potential drift towards Russia



Partito Democratico + Leftwing Parties = Left-leaning partnership

Policy stance	<ul style="list-style-type: none"> <input type="checkbox"/> Movement away from Partito Democratico's so-called 'conservative' reforms towards more leftist policies <input type="checkbox"/> Focus on labour market and migrant crisis
Risks	<ul style="list-style-type: none"> <input type="checkbox"/> Unpredictable balance between stability and radical reforms, depending on PD's strength within a coalition <input type="checkbox"/> Anti-establishment measures <input type="checkbox"/> Possibly in favour of 'controlled disintegration of the Eurozone'



Movimento Cinque Stelle + Leftwing Parties = The Populists

Policy stance	<ul style="list-style-type: none"> <input type="checkbox"/> More state investment to support industry and public services such as healthcare and security <input type="checkbox"/> Universal Basic Income <input type="checkbox"/> Funds freed up by cutting waste in state-owned firms and bureaucracy
Risks	<ul style="list-style-type: none"> <input type="checkbox"/> Renegotiate international trade agreements and treaties <input type="checkbox"/> End sanctions against Russia <input type="checkbox"/> Possible referendums on leaving the Euro and NATO



Partito Democratico + Forza Italia = Status Quo

Policy stance	<ul style="list-style-type: none"> <input type="checkbox"/> Commitment to EU economic rules <input type="checkbox"/> Fiscal stability <input type="checkbox"/> No drastic changes on Russia, Islamic State or asylum seekers
Risks	<ul style="list-style-type: none"> <input type="checkbox"/> Instability due to divergent political views





PUTIN 4.0: THE LEGACY EDITION

Putin enters the Presidential election year of 2018 in arguably the strongest-ever position internationally - and the weakest he has been domestically. [Ryan Steele](#) examines the consequences.



Putin will win the 2018 Presidential election - this would be the case even without voting fraud. The most recent polls by the Fund for Public Opinion (FOM) and the Levada Center currently have Putin at 68% and 53%, respectively. Quite simply, the roster of legitimate challengers to Putin is short, and this is unlikely to change before the election in 2018.



While the final list of candidates has yet to be decided – with Putin only formally declaring his candidacy on 6 December – there are also-rans who invariably serve as foils. The two stalwarts are the Communist Gennady Zyuganov and the Liberal Democrat – who is neither a liberal nor a democrat – Vladimir Zhirinovskiy.



Then there are those who truly wish to **challenge Putin**, but have no chance. The most interesting in this category are former socialite Ksenia Sobchak, and the perennial whipping boy of Putin's rigged legal system and former Moscow mayoral runner-up, Aleksey Navalny. The Federal Electoral Commission has stated that he will not be allowed to run for the presidency, stemming from a past embezzlement conviction of dubious veracity. Still, Navalny's influential anti-corruption videos and blog posts have done damage to Putin and members of his inner circle. His video exposing the wealth that Dmitry Medvedev has amassed when in power has potentially even delegitimized the Prime Minister from further government service after his term ends in 2018.

Indeed, as pointed out by Aaron Schwartzbaum, **a key indicator to watch** is whom Putin chooses as his running mate. Should he choose a reformer, such as ex-finance minister Aleksey Kudrin, it's a sign that he is prepared to move the Russian economy away from state subsidization of private industry and unwieldy social spending. On the other hand, should he stick with Medvedev, it would be a show of force against the anti-corruption campaigners and a vote for the status quo.

However, **there is a third option** where Putin does not aim for change or continuity, instead selecting a successor. In that case, while it is far more likely that Putin selects a stable hand, there is always a chance that he plays a joker and picks a young up-and-coming Prime Minister that he can mold in his image. The candidate with perhaps the most potential in this regard is the 37 year-old Nataliya Pokolonskaya, who serves as a Duma member from Crimea and was formerly the prosecutor for the region.

FIFA WORLD CUP 2018: SECURITY RISKS

Russia will host the FIFA 2018 World Cup between 13 June and 16 July. Given the April 2017 bombing in the St Petersburg metro, security risks will be a concern. Riccardo Dugulin assesses how realistic the threats are. Read the full article on the GRI site

Putin's priorities

Putin's next – and last – term as President is likely to see him attempt to cement a legacy, closely enmeshed with Russian power on the international stage.

Putin's **domestic policy** in the new year will be reliant on delivering the Russian people pyrrhic victories that help bolster national pride, while doing very little to actually provide the structural adjustments Russia so desperately needs. This will undoubtedly be made easier by the fact that Russia is hosting the world's biggest cultural event, the FIFA World Cup.

UNREST

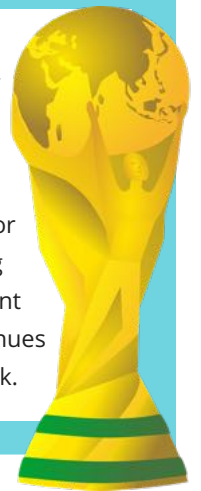
With Putin set to win elections in March, the opposition may seek to capitalise on media attention to organise localised protests. They will be small and tightly controlled; with all eyes on Russia, police violence is unlikely.

HOOLIGANISM

Clashes involving Russian football hooligans such as those witnessed at UEFA 2016 may be repeated, along with racially-motivated attacks. Russian ultra-nationalists may target foreign supporters or tourists with verbal abuse or physical altercation.

TERRORISM

Russia managed to prevent any attacks on the Sochi Olympics with a massive security lockdown, but the World Cup takes place in 11 cities, making it harder to secure. In addition to the known threat from North Caucasus-based groups, Islamic State has also issued calls to attack the World Cup. A rising number of recent foiled plots, against New Year celebrations and the 2018 elections, give particular cause for concern, indicating attack intent - but on the plus side, demonstrating intelligence successes. Stadiums themselves are likely to have stringent measures in place, but gathering places and transit points around venues in Moscow, St Petersburg, Rostov, and Volgograd will be at highest risk.



Meanwhile, the **international arena** will continue to provide successes for Russia. Russia is increasing its portfolio of pragmatic allies in the **Middle East**, and is working to counterbalance the previously hegemonic role of the Sunni-led US-aligned monarchies in the region. While Russia's cooperation with Tehran has always been pragmatic, the two sides will see ever more reason to work together to undermine the Sunni monarchies; especially as the Islamic State enters its post-territory holding phase. Similarly, cooperation with Turkey has always been pragmatic, and as Erdogan continues to move further away from the democratic promise of his earlier years in power, he and Putin will continue to see each other as useful allies.

In many ways the more interesting development is the new agreement the Russian armed forces have to use an airbase in **Egypt**. While it is unlikely 2018 will see a rebirth of the Nasser-era Soviet-Egyptian alliance, Cairo is receptive to the role that Russia can play domestically. With Trump in the White House, Moscow is beginning to look like a more reliable partner in the fight against Islamic State, despite the human cost that always comes with Russian military assistance.

In 2018, **Ukraine** will be the wildcard in Russian foreign policy. Neither Kiev nor Moscow want to fund the cost of reconstructing the eastern portion or lose the symbolic significance of the conflict for domestic political gain. Ultimately, Putin's Ukraine policy will remain the same barring a drastic change of the facts on the ground. With current domestic chaos in Ukraine and the developing Poroshenko-Saakashvili feud, there is always the possibility that Ukraine could enter into a new phase of domestic political crisis that Russia will look to exploit.

Read the full story, with more on economic outlook, on the GRI site



ALL TOMORROW'S PARTIES

Islamist, nationalist, leftist, reformist, pro-Western and anti-Imperialist, protesting the ruling order or forging new coalitions - *Chris Solomon* presents the ten political parties that will have an impact on political risks in the Middle East in 2018.

1. ENNAHDA (TUNISIA)



A mainstream Islamist party that has seen success despite a climate of doubt around the future of political Islam in the region - and skepticism in secular Tunisia - Ennahda's view of religion as a vehicle for peace and justice, along with its close relationship with Turkey, will make it a key player in North Africa's political discourse. Expect it to be vocal on plans for unpopular economic reforms.

2. BREAD AND FREEDOM (EGYPT)

A small leftist party persecuted by the government, it's led by Khaled Ali, a human rights lawyer and political activist. Ali has announced he will run in the 2018 presidential elections. Though his chances are slim, his presence in the race could galvanise public dissatisfaction with the dismal state of the economy and continued problems with terrorism.



3. SADRIST MOVEMENT (IRAQ)



Once branded "the most dangerous man in Iraq", Shi'ite cleric Muqtada al-Sadr remains a dynamic political force. A staunch nationalist, he calls for U.S. troops to be withdrawn, and is critical of Iran. Sadr rallies large-scale demonstrations to demand political reforms and protest corruption. In a key development for the balance of power in Iraq, he recently offered to disarm his militia and is currently exploring electoral alliances, including with the National Accord Party headed by Ayad Allawi.

4. SYRIAN SOCIAL NATIONALIST PARTY (SYRIA)

The SSNP has fought alongside Assad from the start of the civil war, and is part of the regime's "tolerated opposition." Staunchly secular and favored by sectarian minorities, the SSNP has forged a close relationship with Russia. Its leader, Ali Haidar, is State Minister for Reconciliation and frequently features in the Western press. The party will be sure to flex its ultra-nationalist credentials as a voice within the regime camp for maintaining Syria's territorial integrity in the face of Kurdish autonomy.



5. PATRIOTIC UNION OF KURDISTAN (IRAQ)



The PUK is a left-wing party that split from the Kurdistan Democratic Party (KDP) in the mid-1970s. Relations between the PUK and the KDP are tense over allegations that the PUK negotiated a quiet withdrawal of their forces ahead of Baghdad's capture of the oil-rich city of Kirkuk. The party has a close relationship with Iran and will use this to repair relations with Baghdad. In Iraqi Kurdistan's post-independence political landscape, it will seek to position itself as a facilitator for access to oil pipelines.

6. LABOR PARTY (ISRAEL)



Last July, Avi Gabbay took the Labor Party by storm. Despite his pro-business credentials, his strong rhetoric risks alienating the left wing of the party along with Israeli Arabs. Not everyone is happy with Labor's new leadership, due to Gabbay's religious outlook. As a result, 2018 could see Labor undergo a dramatic transformation in a bid to win centrist and undecided voters. Early elections may present a new opportunity for Labor in 2018, as Netanyahu faces multiple investigations and likely indictment.

7. DEMOCRATIC UNION PARTY (SYRIA)

The US-backed, Kurdish PYD's militia, the YPG (People's Protection Units), dominates the Syrian Democratic Forces coalition and has established its own zone of control stretching along the east side of the Euphrates River. Damascus has expressed willingness to negotiate limited autonomy for Syria's Kurds - but Turkey views this as a threat, seeing PYD as linked to Turkey's domestic Kurdish militants, the PKK. The PYD will be a key player to watch as the locus where interests collide: the regime, the Turks, Russia, and the United States.



8. FUTURE MOVEMENT (LEBANON)

The shocking exit, exile, and reinstatement of PM Saad Hariri in late 2017 marked a flurry of diplomatic intrigue between Lebanon's main pro-Western party and Saudi Arabia. Hariri and the Future Movement will face an uphill battle in the Lebanese parliamentary elections in 2018. They are suffering from declining support from Lebanon's Sunnis, the party's financial hardships, and uncertainty over Saudi Arabia's political support. The Movement's fate will be critical to the future of American and European influence in Lebanon.

9. GOOD PARTY (TURKEY)

Meral Aksener, a former Interior Minister and parliamentary speaker, founded the İyi Party in 2017. She aims to form a coalition of secular nationalists, liberals, and moderate conservatives to take hold of Turkey's political center. Rather than completely overhaul the country's politics, she emphasizes restoring the rule of law and restoring ties with the West. Aksener is hoping to peel away AKP voters especially in urban centres, and build a formidable opposition in the two years before the November 2019 elections.



10. FATAH (THE PALESTINIAN TERRITORIES)

Questions surrounding Mahmoud Abbas' health, Fatah's leadership succession, and the Palestinian Authority's (PA) failure to hold elections since 2005 have been looming. One possibly positive development was the reconciliation between Fatah and its long-time rival, Hamas, which runs the Gaza Strip. How Fatah and Hamas move forward with joint-control over Gaza will be important in 2018. Abbas' next moves on Jerusalem are also critical; a violent and costly intifada is the last thing the PA needs. Fatah will likely turn back to Arab partners, shunning the U.S. for a time, and further explore a budding friendship with Russia.



ERDOGAN UPS THE ANTE

In April 2017, the narrow victory of the ‘yes’ camp in the constitutional referendum paved the way for President Recep Tayyip Erdogan’s plan to install a presidential system of government after the 2019 elections. [Leo Kabouche](#) explains how 2018 will set the stage for that transition.

Turkey’s 2018 political agenda will be shaped by three ballots that are due in 2019: the municipal elections in March, and the parliamentary and presidential elections in November. Following these votes, the current parliamentary system will be replaced by an executive presidential system of government that will significantly increase President Recep Tayyip Erdogan’s powers. Among the changes introduced by the constitutional reform, the President will become head of the executive as well as head of state. Erdogan will be able to appoint ministers, prepare the budget, choose the majority of senior judges and enact certain laws by decree.



Erdogan’s party, the ruling religiously conservative Justice and Development Party (AKP) will likely win the elections and remain in power until 2024. Although the AKP suffers from a popularity deficit since the referendum, Erdogan still has considerable political capital. Moreover, it is likely the government will use the state of emergency law to intensify its policy of arbitrary arrests in the run-up of the 2019 elections. This will result in the imprisonment of political opponents at home and the implementation of clandestine networks to target dissidents abroad.

The political opposition is too disunited and marginalized to pose a serious threat to the AKP’s dominance. The right-wing Nationalist Action Party (MHP) has flip-flopped, and gave its support to the constitutional reform; the pro-Kurdish People’s Democratic Party (HDP) has been weakened by successive waves of arrests and runs the risk of falling below the 10% national vote threshold for parliamentary representation. In this context, President Erdogan’s only credible challenger seems to be Meral Aksener, also known as Turkey’s ‘Iron Lady’ (see *Parties*, above). However, her hopes of winning are slight, as she would need the support of the Republican People’s Party (CHP) and has to attract votes from Kurds and nationalists, who currently vote for the AKP.

Shifting foreign policy

Turkish diplomacy shifted focus in 2017. The country drew closer to Russia, China and Iran, while relations with its Western allies deteriorated, a trend that is expected to continue into 2018. Turkey is well placed to expand its role in the region while Saudi Arabia and Iran are preoccupied with internal and external challenges.



NEO-OTTOMAN AMBITIONS

2018 will mark a century since the Ottoman Empire lost control of the areas now known as Syria and Iraq - and Turkey is pursuing an increasingly nationalistic and assertive foreign policy that's being called 'Neo-Ottomanism'.

GRI analyst [Ben Abbs](#) believes that political instability, foreign interference and the Kurdish independence movement in Syria and Iraq present challenges and opportunities that are likely to drive Turkey to weaponize water to extend its political influence. *Discover where that ambition might lead [on the GRI site](#).*

Concern over the risk of Turkey leaving NATO is growing, after the country purchased Russian S-400 anti-aircraft missiles, which are not inter-operable with NATO's air-defense system. Sanctions could be imposed by the US: Russian arms companies involved in the deal have recently been blacklisted by the State Department, over Russia's alleged 2016 election meddling.

US aid to Syrian Kurdish militias which Turkey considers to be affiliates of the PKK terrorist group, and Washington's refusal to extradite Fethullah Gülen (who Erdogan believes is behind the 2016 failed coup) are sticking-points that are unlikely to change in 2018.

Despite these issues, and tensions with the EU over the detention of European human rights activists in Turkey, a complete breakdown of Turkey's relations with Western allies is unlikely. This would compromise vitally important policies and strategic interests on both sides. These include the EU-Turkey migrant deal, the presence of the US-led coalition forces at Incirlik air base, and the fight against terrorism in the Middle East.

Economic outlook

Since the coup attempt in July 2016 and the proclamation of martial law, the business environment has been unpredictable: the government has seized more than 800 companies worth 40.3 billion lira (\$11.32 billion). Turkey's economy has held up relatively well, mainly thanks to the country's diversified private business sector, its robust public finances, and its well-regulated banking sector.

However, it is still threatened by rising inflation and high interest rates. In November 2017, the Turkish Central Bank announced it would start auctioning foreign exchange hedging instruments that would allow companies with foreign currency liabilities to protect themselves against any drops in the lira. The Central Bank is likely to maintain a restrictive monetary policy to address the acceleration of inflation and to prevent another decline of the lira's value.

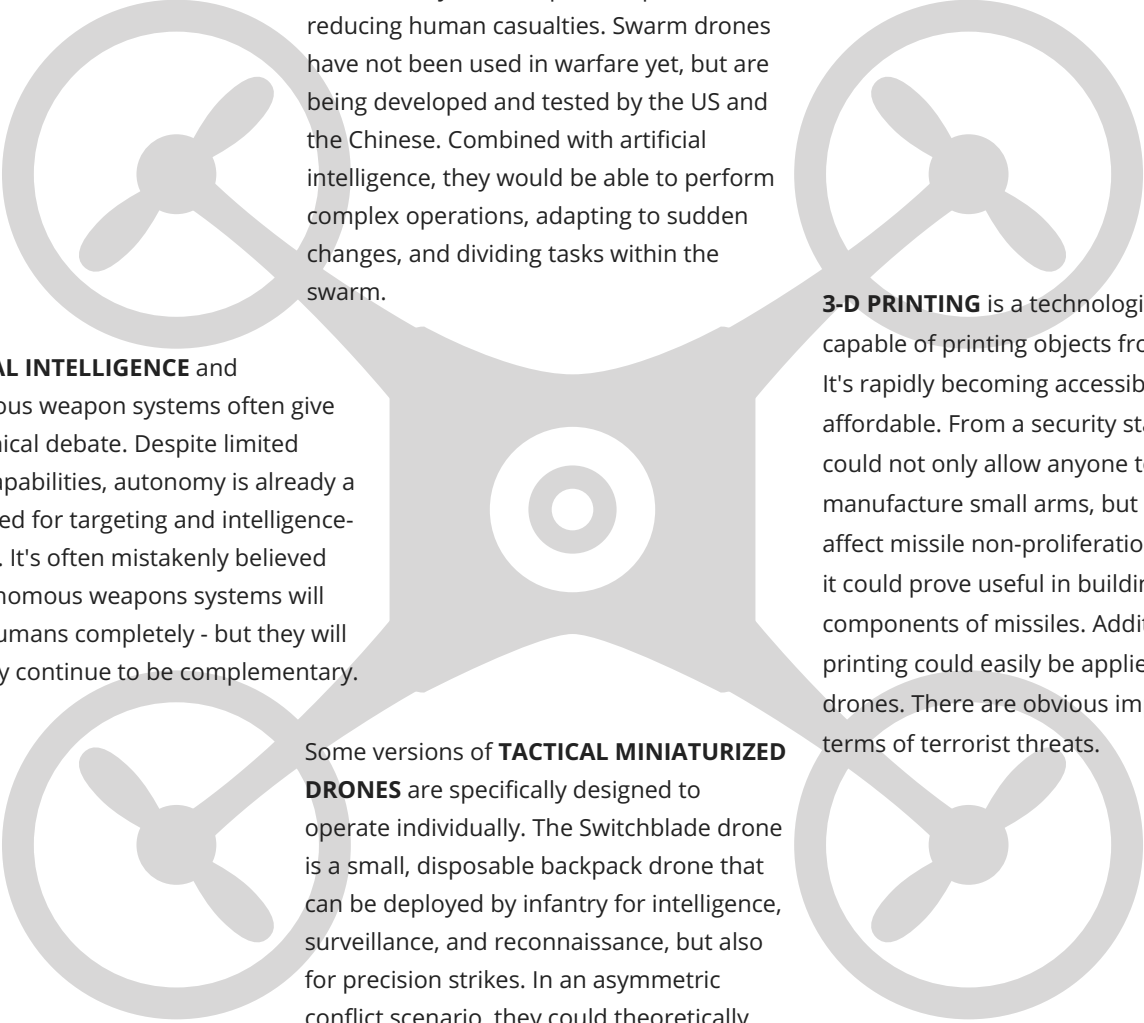
A weaker lira would make Turkish goods and services relatively cheaper, which might boost the country's exports of goods and services. Moreover, the lifting in 2017 of Russian sanctions that had been imposed on Turkey after the fighter jet incident, will boost the tourism industry.

[Read the full story on the GRI site](#)



PRINT YOUR OWN DRONE

The new era of conflict and security will continue to evolve rapidly in 2018, as we see progress on emerging technologies such as additive manufacturing, autonomous weapons, swarming, and artificial intelligence. [Mauro Lubrano](#) explains.



SWARMING DRONES refer to collaborative systems made up of small, unmanned aircraft. They are cheap and capable of reducing human casualties. Swarm drones have not been used in warfare yet, but are being developed and tested by the US and the Chinese. Combined with artificial intelligence, they would be able to perform complex operations, adapting to sudden changes, and dividing tasks within the swarm.

ARTIFICIAL INTELLIGENCE and autonomous weapon systems often give rise to ethical debate. Despite limited current capabilities, autonomy is already a reality, used for targeting and intelligence-gathering. It's often mistakenly believed that autonomous weapons systems will replace humans completely - but they will most likely continue to be complementary.

Some versions of **TACTICAL MINIATURIZED DRONES** are specifically designed to operate individually. The Switchblade drone is a small, disposable backpack drone that can be deployed by infantry for intelligence, surveillance, and reconnaissance, but also for precision strikes. In an asymmetric conflict scenario, they could theoretically replace airstrikes and cut down the related costs.

3-D PRINTING is a technological system capable of printing objects from scratch. It's rapidly becoming accessible and affordable. From a security standpoint, it could not only allow anyone to manufacture small arms, but could also affect missile non-proliferation regimes, as it could prove useful in building vital components of missiles. Additionally, 3-D printing could easily be applied to produce drones. There are obvious implications in terms of terrorist threats.

The history of warfare is a history of technological innovation. The war chariots from the Eurasian steppes mowed down the bronze-armored infantry of Mesopotamia and Egypt in 1800 BC, just as easily as the German motorized divisions cut down the defenses of Continental Europe during the Blitzkrieg. The last century witnessed the rise of nuclear weapons and their ICBM delivery system, which has triggered the era of deterrence. Yet, technologies are advancing at an exponential pace and major breakthroughs are being achieved in fields that will have a great impact on military doctrines. As warfare and international security enter a new stage, keeping an eye on the development of emerging technologies will be instrumental in grasping the nature of future conflict.

STAY IN TOUCH

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