Risks and Opportunities 2018: What does the New Year hold in prospect?

Oxford Analytica Conference Call summary - December 13, 2017

We do not believe that the business and investment risk drivers will diminish in 2018, but that they will be secondary to growing political and policy-driven risks from the global down to the sub-national level. To frame the year ahead, each of our regional desks has provided a summary of the main geopolitical risks and opportunities they see for their region in 2018.

1. Middle East

a) Turkey

Turkey's economy grew by an astonishing 11.1% year-on-year in the third quarter. Largely due to base effects (contraction after the July 2016 attempted coup), it implies growth of 6-7% for 2017. President Recep Tayyip Erdogan's popularity rides on economic success.

That could reverse if the economy tanks. Business confidence is shaky, inflation persistently high and the lira weak; US Fed and ECB monetary policy change could reverse the short-term capital inflows from which Turkey finances its chronic current-account deficit.

b) Iraq

There are also significant risks around the Iraqi parliamentary elections due in May 2018, with outstanding controversies over the election law and the political role of the Shia militias that fought Islamic State. Following the failed Kurdish referendum, the position of the Kurds within the federal legislature is also uncertain. Iran may oppose US efforts to secure the re-selection of incumbent Prime Minister Haider al-Abadi -- and that could call into question the future deal for Iraq's Sunnis.

c) Syria

Further west, as the Syrian civil war winds up, there are new risks of cross-border conflict. Israel is increasingly concerned about the presence of Iran-linked forces near the Golan Heights -- its air strikes will likely become more frequent.

As Hezbollah faces pressure to return home to Lebanon, it could return to its original rationale as a resistance movement against Israel.

US President Donald Trump's recognition of Jerusalem as the Israeli capital has heightened tensions at a critical moment.

d) Yemen

The death of former President Ali Abdullah Saleh heralds further fragmentation of the Yemen conflict in 2018. In the north, the Huthis' military wing could become increasingly oppressive and uncompromising; in the south, UAE-backed secessionists might be emboldened in their criticism of the Saudi-supported president. With 8 million people at extreme risk of famine, there could be a major humanitarian crisis, with a cross-border impact on Oman, Saudi Arabia and over the Red Sea.

e) Qatar, Saudi Arabia, UAE, Bahrain

In the Gulf, there is a possible opportunity for a rapprochement between Qatar and its enemies Saudi Arabia, the UAE and Bahrain. This is an extremely personalised conflict among rulers, which could make it enduring -- but also allows a few people to decide to resolve it. Objectively, there is scope for a deal, possibly US-mediated, whereby Doha makes some key concessions on support for Islamists and media policy, while Riyadh abandons other demands affecting Qatar's sovereignty.

f) Libya

There is also an opportunity in Libya, where there is some hope that the UN Special Envoy's Action Plan will be taken up by Libya's various factions to produce elections in September 2018. Earlier this month, the Libyan electoral commission launched voter registration. This scenario is rather optimistic, as the thorniest issues of the conflict remain unaddressed, such as the role of controversial eastern strongman Khalifa Haftar in a government and demobilising militias. Nonetheless, 2018 will see a big push in that direction.

2. Russia and the CIS

a) Russia

Vladimir Putin will be preoccupied from now until March 2018 with securing the maximum vote and the maximum turnout in the presidential election, which he will win without real opposition. The main opposition leader Alexey Navalny will almost certainly be prevented from running, and there are no other strong challengers. Afterwards Putin's administration may become more predictable and present more opportunities for diplomatic and commercial engagement.

Putin may also be less inclined to launch high-risk foreign interventions. The military operation in Syria is seen as a success with a relatively low cost, but it would be hard to repeat. Ukraine, by contrast, is delivering less and less in terms of positive gains for the Kremlin. Next year it is likely to be increasingly apparent that US President Donald Trump is not going to be able to improve relations with Moscow even if he wants to. There is a risk that in response, Putin adopts a more hostile stance and acts opportunistically to undermine US positions, creating further risk of escalation of rhetoric and military force build-ups in key areas around western Russia.

At home, Putin has been considering both conservative and liberal reform programmes. But there is a considerable risk that he will ultimately be reluctant to embark on serious reforms. This is both for fear that austerity measures would hurt his core electorate, and because the economy is now in a recovery phase.

A revival in domestic demand will improve opportunities in those sectors that attract foreign investment and are not subject to sanctions, automotive being one example.

b) Ukraine

Elsewhere in the former Soviet Union, Ukraine's political establishment is facing questions about its credibility; this will hamper its ability to pursue reforms including strengthening anti-corruption measures and also to achieve progress on its side of the peace process. That is a risk even if Moscow is willing to make concessions, which is also in doubt.

c) Belarus, Armenia, Kazakhstan, Uzbekistan

To turn to opportunities in the wider former Soviet space, Belarus and Armenia are likely to seek closer trade ties with the EU, even though both countries will stay close allies of Russia.

Another state, Kazakhstan, will benefit from trade and transport projects under China's Belt and Road Initiative. The effects will be multiplied by a much-improved regional atmosphere -- this is a direct result of Uzbekistan adopting a more cooperative attitude to neighbouring states.

3. Latin America

The biggest risks for Latin America for 2018 likely relate to election processes. Some of which are unusually uncertain. The two most significant ones will be in the two largest economies, Mexico and Brazil, which have general elections in July and October.

a) Mexico

Mexico will likely face a close-fought election between the leftist populist Andres Manuel Lopez Obrador, who is the current front runner and the candidate for the ruling PRI José Antonio Meade. The recent emergence of a Citizen Front for Mexico, a left-right coalition between the rightist National Action Party, the leftist Party of the Democratic Revolution, and the Citizen's Movement could turn the election into a three-horse race. It is most likely to take votes from the PRI and not from Lopez Obrador. Given that Mexico has a first-past-the-post system, and no majority is required to win, Lopez Obrador looks likely to be favoured this way. He is a pragmatist, and unlikely to pursue dramatic reversals of recent liberalising reforms, but his victory could spook Washington and international investors, and he would not have a majority in Congress.

b) Brazil

In Brazil, the fallout from the Petrobras/Odebrecht corruption scandal has hit every important party and most individual politicians, and the elections will take place in a very polarised atmosphere in which political figures lack credibility. The economy may start to recover, but unemployment is still very high, there is uncertainty over whether the unpopular pension reform can be passed in an effective form and, if not, how the budget deficit can be reduced. At the moment, the two main presidential candidates are former President Lula da Silva, who has already been convicted on corruption charges and is moving sharply to the left, and Jair Bolsonaro, a far-right legislator. Both have high rejection levels and would struggle to govern. Alternatives include the Social Democrat Geraldo Alckmin, who could yet be hit with corruption charges himself, and the environmentalist Marina Silva, both of whom are more committed to economic prudence than the leading candidates.

c) Colombia, Venezuela

Colombia and Venezuela are the other two worrying election processes next year. Venezuelan President Nicolas Maduro looks set to ban opposition parties that boycotted the local elections from participating and seems increasingly likely to bring forward elections he thinks he can win.

Colombia might present both a risk and an opportunity. The elections in Colombia could put the future of the peace processes with both the FARC (Common Alternative Revolutionary Force; formerly the Revolutionary Armed Forces of Colombia) and the ELN (National Liberation Army) at risk. The right-wing Centro Democrático (Democratic Centre) of former president Álvaro Uribe, who was staunchly opposed to the FARC peace deal, has announced Iván Duque as its presidential candidate this week. He will now face the Conservative Party's Marta Lucia Ramirez to decide who will lead a centre-right coalition into the election. Duque has said that he would not tear up the FARC agreement but has pledged to make alterations. If he wins, this could end talks with the ELN. His hard-line policies on Coca eradication and the possible neglect of peacebuilding processes would also be dangerous. So far, polls put him low in voting intentions, but as he becomes better known as Uribe's candidate, his popularity is likely to grow.

If the peace processes go on in a positive way, as they have up to now, this will increase opportunities for business and foreign investment in the country.

d) Argentina and regional

Given that growth is likely to be modest in most of Latin America next year, some of the main opportunities appear to revolve around trade and investment. Argentina is pinning its hopes on foreign investment to boost growth, especially in infrastructure, and the government is doing everything it can to reassure investors on policy continuity. Concessions and the dropping of import restrictions could represent opportunities in the coming year. Pressures from US protectionist noises and Brexit may also finally drive a Mercosur/EU trade deal, which is currently favoured by the alignment of the Argentine and Brazilian governments.

4. North America

a) NAFTA

The first risk is that the United States withdraws from the NAFTA trade deal. This would occur if the Trump administration feels its current renegotiation effort has failed. Withdrawal would disrupt trade and cause supply chain dislocations. It would also dent US relations with Canada and Mexico.

b) Iran

The second risk is a US military clash with Iran. This would occur if relations seriously deteriorate between Washington and Tehran, perhaps over the Iran nuclear deal or proxy conflicts in the Middle East. A conflict would have negative global economic effects and cause extreme instability in the Middle East.

c) Midterm elections

The third risk is domestic to the United States, and it is that the 2018 midterm elections produce a divided US government in 2019. This would occur if the Democrats win majorities in either the House of Representatives or the Senate. In this scenario, legislative gridlock could occur.

d) Infrastructure

The first opportunity is that the Trump administration successfully implements its infrastructure development package. This would create jobs and positive economic effects and could see foreign investment inflows.

e) Middle East

The second opportunity is that the campaign against the Islamic State group in the Middle East resolves. This will diminish the risk of accidental US clashes with Russia, which is helping to fight Islamic State, and with Iran.

f) Stability

The third opportunity is that the United States probe into personnel around the Trump presidential campaign and administration, and possible links with Russia, resolves without a Watergate-style constitutional crisis. This could provide more political stability, especially if the 2018 midterm elections see Democratic party gains.

5. Asia Pacific

Risks

a) Korean peninsula

Starting in East Asia, the most serious risk next year is the risk of war on the Korean peninsula. 2018 could well be the year in which North Korea demonstrates conclusively and beyond reasonable doubt that it has the ability to hit mainland US cities with nuclear weapons. It is also possible that the US under Donald Trump could decide to strike North Korea before that happens, which could escalate to full-scale war. This is very unlikely, but less unlikely than at any previous time since the Korean War.

b) China, India

The second risk -- which applies to several countries in the region -- is a crackdown on freedom of expression. This is happening most blatantly in China, where the government is censoring the internet more and more aggressively, regardless of the effect this has on businesses. It's also starting to demand that foreign businesses collaborate in this censorship. There are similar authoritarian trends in other countries too. In India, for instance, journalists and academics who criticise the government are increasingly facing legal pressure and are even being physically attacked.

c) Pakistan

A third risk involves Pakistan's general election, which is likely to happen in mid-2018. The election could see Prime Minister Shahid Khaqan Abbasi's government unseated by Imran Khan's Pakistan Tehreek-e-Insaf. Khan coming to power may elevate risks to two of Pakistan's key bilateral relations. Firstly, he wouldn't be afraid to defy the United States, which would potentially undermine military cooperation over Afghanistan; and secondly, he would be less inclined than former Prime Minister Nawaz Sharif to pursue cordial relations with India, increasing the chance of regional conflict.

Opportunities

d) Asia-Africa

India and Japan earlier this year formally launched the idea of an Asia-Africa Growth Corridor, as an implicit alternative to China's Belt and Road. The plans for the new Corridor are likely to mature in 2018. Reports suggest that Delhi could initially invest 10 billion dollars in the project, and Tokyo 30 billion dollars. That sort of money would create opportunities surrounding infrastructure projects for a whole ecosystem of businesses, from legal services, to finance, to raw materials.

e) India

With Rahul Gandhi now confirmed as the leader of the Congress party, India's main opposition may see a resurgence in 2018. Gandhi earned favourable reviews during his recent speaking tour of the United States and has a growing profile on social media. This suggests he may emerge as a more strident opponent to Prime Minister Narendra Modi. A stronger Congress may present a risk to the ruling Bharatiya Janata Party, but it also potentially provides an opportunity for greater scrutiny of Delhi's economic and developmental policy.

f) Regional

A third opportunity is what one might call 'the bright side of Brexit' for Asia. It now looks like the UK's going to leave the EU customs union and regain the ability to negotiate free trade deals on its own. Several governments in South-east Asia are already sounding out the prospects for post-Brexit trade deals with London.

6. Africa

a) Sub-Saharan Africa (DRC)

Flawed transitions will occur across sub-Saharan Africa. The most notable case with potential for spill-over is in the Democratic Republic of the Congo. Repeated and further election delays threaten to inflame various sub-national conflicts, reflecting a broader trend of rising authoritarianism and democratic backsliding.

Such political intrigues carry major risks to regional stability, particularly when coupled with the growing indebtedness of several economies. Debt burdens and debt-service costs are set to consume a rising proportion of government revenue.

b) Nigeria

Such economic and political pressures also risk providing a ready breeding ground for populism in Nigeria ahead of all-important presidential elections in 2019. While a partial economic rebound is forecast for next year, political elites will try to avoid difficult decisions and major new policies for fear of upsetting the electorate ahead of the poll.

This stance will curb the potential for important and much-needed structural reforms. It could also further complicate the federal government’s already problematic approach to growing regional and ethnic tensions nationwide, in addition to a resurgent Boko Haram threat in the north-east.

c) Regional

Despite such negative indicators, the growing interconnectivity of the continent, particularly among the African youth, is empowering local communities to hold their elected representatives and governments to account. This is also emboldening opposition parties and civil society movements to increase public scrutiny of notionally-independent institutions. They will be supported by a growing network of international activists.

Such action is putting national electoral commissions or anti-corruption bodies under greater domestic and international scrutiny than ever before. It is also simultaneously asking important questions about the actions of Western states and institutions in Africa.

At the same time, a combination of stabilising commodity prices and improving agricultural output is likely to underpin an improved economic outlook across a broad swathe of countries, after several hard years of drought and downturn. While this will not bring a return to the breakneck growth of the commodities boom era, it will significantly ease pressures.

d) South Africa

Struggling to escape recession amid recurring government scandals, the ruling ANC's national conference offers a choice between the reform-minded Deputy President Cyril Ramaphosa or his opponent Nkosazana Dlamini-Zuma’s embrace of vaguer goals of "radical economic transformation". While Ramaphosa cannot solve all South Africa's ills, his commitment to a new economic framework, coupled with his strong public support and backing from various stakeholders, offers potentially the best hope for the ANC – and the South African state – to reform.

7. Europe

a) EU, Britain

One of the largest risks for Europe next year is if Brexit negotiations fail. If talks break down acrimoniously, or no agreement can be reached within the time available and the withdrawal period is not extended, it would mean ‘no deal’. No outstanding legal and political issues will be resolved. The political and economic consequences would be extremely disruptive both for the EU and the United Kingdom. Trade would revert to WTO rules, supply chains would be interrupted, companies might relocate and EU-UK cooperation on a wide range of issues such as nuclear regulation, security and counterterrorism would come into question.

b) Italy

Another risk is a victory for the populist anti-establishment Five Star Movement or M5S in the Italian election in May. The uncertainty this would cause could destabilise Italy's banking system and thus the entire euro-area, potentially triggering a fresh crisis. M5S could hold a referendum on the euro and block any proposals for EU or euro-area reform.

c) EU, Germany

An opportunity is euro-area reform. EU leaders are aiming to agree concrete steps by the end of June. Much will depend on what the new German government will look like. A grand coalition involving Chancellor Angela Merkel's centre-right Christian Democrats and the centre-left Social Democrats could support deeper integration.

d) Poland

Poland's government is using its parliamentary majority to justify eroding constitutional checks and balances. It is rooting out supposed vestiges of the pre-1989 communist system and pursuing historical grudges against neighbours. However, the EU remains popular and Poland is still a country where the government can be voted out of office. The main opposition is in disarray but if its former leader Donald Tusk returns to Poland from EU high office in two years' time, more normal politics could resume.

e) Bosnia

In Bosnia, the recent furore over the Bosnian Croat wartime leader who committed suicide on film in The Hague protesting his innocence shows the country as divided as ever along ethnic lines. The Croats want their own constitutional entity. That would require revising the Dayton agreement that ended the Bosnian war in 1995. But other groups might also like to revise the agreement in their own favour, bringing the whole fragile system down. As the politicians bicker, exploiting ethnic loyalties for their own glory and to fend off accusations of corruption, the country limps along with one of the highest unemployment rates in Europe.

f) Greece

In Greece, Fofi Gennimata's new Movement for Change could occupy the centre-left ground once held by the Socialist movement Pasok and squeeze out the leftist Syriza, which has been carrying out necessary reforms with great reluctance.

8. Global Economy

For the first time in years, the world enters the new year with higher growth forecasts. Global growth will be close to 4% next year, slightly up on this year and far ahead of 2016's 3.2%.

a) Structural reforms

Stock markets are celebrating the improvement, up more than 20% this year. The recovery gives countries an opportunity to implement structural reforms to improve infrastructure, innovation policies and welfare provision. Awareness of rising income inequality is growing and in 2018 the newly launched Commission on Global Economic Transformation will look at ways of improving labour market flexibility, education and training, and social security.
Some countries may find budgets and political will limited, however.

b) Investment

A second opportunity is business investment. Commodity prices are higher, borrowing remains ultra-cheap and confidence is high, buoyed by asset prices. Investment is beginning to build momentum.

c) Trade and protectionism

Thirdly, despite the doomsday scenarios for trade under a Trump presidency, global trade has reasonable momentum. US protectionism against the G20 has increased but the rest of the G20 have been nicer to each other in terms of trade measures. Furthermore, Trump's team is not universally ultra-nationalist. Some of the team is aware that trade is important to US growth and Washington is expected to avoid worst-case scenarios.

Having said this, doomsday scenarios will linger throughout Trump's term. The US commitment to 'America first' has been reinforced at this week's World Trade Organisation meeting.

d) NAFTA renegotiation

Two sticking points on trade are: Firstly, the NAFTA renegotiation, which could be prolonged into 2019 by next year's elections in Mexico and the US. Secondly, Europe and Japan have joined the US in raising concerns about technology transfer. The US could rule on its probe into China and intellectual property transfer next year.

e) Inflation

A second risk is that inflation is edging up and could rise faster than expected. Tax reform could drive this in the US. This might trigger a bond market sell-off which would be especially dangerous in Europe given the substantial negative yielding debts and the upcoming elections in Italy.

In the US, the Fed's plan for unwinding QE and raising rates is clear but the number of vacancies and newcomers on the board creates uncertainty. If the Fed raises rates faster, dollar strength would weaken the growth prospects of countries with high dollar debts.

f) Market sentiment

A third risk is the stock market surge ending suddenly, inflating consumer and business confidence. Bitcoin is grabbing attention, rising towards $20,000 from less than $1,000 a year ago and less than $5,000 in October. A crash will be more contagious now it is trading on futures markets. Market confidence could also fall if tensions escalate between the US-China and North Korea, if the probe into Trump's campaign coordination with Russia shows clear rule breaking by Trump, or if Brexit negotiations deteriorate.

Questions

1. Terrorism

Do you think the defeat of ISIS will be followed by the bankruptcy of global Salafi-jihadi ideology and its followers worldwide?

No, we do not believe that Salafi-jihadi ideology will be eroded because of IS's loss. First of all, its defeat, despite being touted by a variety of governments, is far from assured. The group is likely to morph into a more traditional terrorist/insurgent organisation now that it has lost territory. Sunnis in Iraq and Syria are furthermore unlikely to get a good deal from governments, which means large swathes of the population will remain vulnerable to extremist messaging. Second, al-Qaida is still around. Not only is it undefeated, but it is looking poised to attract followers from IS. So, the threat from terrorism will stay elevated in the medium term.

Is terrorism likely to affect Christmas markets in Europe but also elsewhere?

Christmas markets will stay targets like last year, although most cities will have implemented mitigating measures, such as hard barriers and bollards. Other places with where lots of people aggregate, such a public transport, busy streets and symbolic locations, are also traditional targets and we wouldn't expect the threat against them to go away.

2. Middle East

What does the process of MBS's vision to diversify the Saudi economy look like, and what does it mean for the stability of the country?

Saudi Arabia's economic diversification plan is under review. The focus is still Vision 2030 and the associated National Transformation Programme.

However, some of the goals have been pushed back for a smoother fiscal adjustment. Because almost all private-sector activity is dependent on government contracts or salaries, the economy takes a double-hit from budget retrenchments (like the recent salary cuts and energy subsidy cuts) - at a time when OPEC cuts are already restraining growth.

Funding sources are being readjusted: the plan is still for the sale of a 5% stake in state oil firm Aramco, although there are difficulties. More immediate funds are coming to the budget from deals made with businessmen imprisoned under Mohammed bin Salman's new anti-corruption drive -- although there is little clarity on amounts and priorities. Moreover, there is a wider risk that new uncertainty among domestic and foreign companies as a result of the sudden purge will severely depress internal investment.

There are also other changes to the original programme, such as the grandiose NEOM (a new economic city in the Red Sea) and wider social reforms. Women driving, increased Saudi employment in malls, permission for cinemas and concerts -- all are supposed to contribute to economic diversification.

However, the fact that so many changes are being introduced simultaneously, without any obvious stakeholder analysis, does raise questions about stability. In the short term, Mohammed bin Salman is in a commanding position for succession and control over the whole country. However, in the longer term, he is making an ambitious effort to rewrite the whole social contract, replacing the patronage networks of the wider royal family, historic merchant clans and the religious establishment. If plans to boost employment and the private sector fall short of promises (which is quite likely), it is not clear that his new youth constituency will be able and willing to support the monarchy.

What are wider scenarios for GCC countries and succession issues there? Are the pegs under threat?

The Gulf Cooperation Council -- never really an activist institution -- is now effectively dead. This was evident at the last GCC Heads of State Summit, when only Qatar actually sent a Head of State and the meeting broke up early. Instead of trying to use the GCC as a means to bring Qatar into line, Saudi Arabia and the United Arab Emirates have decided to formalise their own bilateral economic, military and political partnership. They will work together to confront Iran in the region, with encouragement from Washington.

For the other Gulf states, Bahrain will tag along behind Riyadh and Abu Dhabi. It has much greater vulnerabilities, with an increasingly discontented Shia majority population and limited resources to defend its currency peg. However, its patrons are likely to provide both military and financial resources to maintain stability.

Oman and Kuwait will struggle to maintain neutrality despite continued pressure to side with Saudi Arabia. Both are facing uncertain successions of ageing rulers. Although these are likely to be smooth in themselves, they could bring out other weaknesses.
In Kuwait's case, ruling family rivalries have deepened divisions within the fractious parliament, making policy decisions extremely difficult -- this could get worse.
For Oman, the current sultan has been staving off economic crisis, but that cannot continue indefinitely: this is the country where the currency peg is most vulnerable.
Isolated Qatar, for its part, will hope for a deal but not make major concessions to achieve one. Links with the US will be paramount, but improved relations with Iran and Turkey will also be helpful.

Doha will step up LNG production and use reserves to fuel the economy -- plenty are available. The peg is not under huge pressure. However, Qatar could choose to abandon it under certain circumstances.

Are we seeing the beginning of the end of the “democratic experiment” across the Middle East?

We are seeing “the end of the end” – or at least greater fragmentation. Countries that resisted the ‘Arab uprisings’ of 2011 – such as Egypt and Bahrain – are becoming more autocratic. Those beset by or emerging from post-2011 conflicts – for example Syria and Yemen – show almost no signs of democratic opening (although the evidence is more ambiguous in Libya). Even in countries where there are important democratic processes – Lebanon, Iran, Iraq, Tunisia, Morocco – non-democratic forces can still have an over-riding say.

3. Korean peninsula

What scenarios for Korea? Germany-like reunification or full conflict: what drivers to look at?

I do not think that Germany-like reunification is possible. It is a tempting analogy but a potentially misleading one and we should try to put it aside and look at North Korea on its own terms. The most realistic scenario for unification is that it happens after an Arab Spring-type revolution in North Korea. It would be violent and chaotic. And it would end in Seoul ruling the North. If Chinese sanctions bite hard next year, then this outcome becomes plausible, but still very, very unlikely. The most likely scenario for the coming year is that both sides carry on as they are. Pyongyang will continue its tests. Washington will reinforce its military presence and try to find new things to sanction.

Conflict is unlikely, but it is possible. The most likely way it will start is with a US strike.

4. Multilateralism, resilience of global institutions

How resilient are global institutions against US hostility (e.g. Washington’s withdrawal from the climate accord, attempts to undermine the Iran nuclear deal, having few kind words for UN agencies or the WTO)? What is the state of multilateralism? To what extent is global trade at risk?

US withdrawal will not matter too much for many of these agreements and institutions because what we are already seeing happening is other countries stepping up, filling the void left by the US to keep things going, for example, China, the world’s biggest greenhouse gas emitter championing the Paris climate change agreement. Other countries, like Germany, have also been very much in support of that. In Asia, Japan has been pushing the Trans-Pacific Partnership to go ahead without the US.

In the Middle East, the Iran nuclear deal might not fare as well. Mostly, US withdrawal would undermine the benefits of the deal to Iran, in terms of investment and normalisation, especially if Washington were to impose or reinstate secondary sanctions.

In other areas, US rhetoric has outpaced reality. Despite Trump campaign speeches targeting the United Nations and promising massive funding cuts, the US has continued to work with UN institutions and reductions have not been nearly as severe as expected. Cuts to specific policy areas like family planning, impacting programmes such as maternal health and HIV/AIDS, have been most damaging.

In the long-term, the hostile rhetoric towards multilateral institutions could damage the credibility of the US, weaken its political capital, and reduce its leverage and ability to work with these institutions.

Worst-case scenarios, coming closer to global goods trade in particular, will remain on the horizon for the length of Trump’s term. Concerns about an exit from NAFTA, or an escalation of a World Trade Organisation (WTO) dispute will persist, but many governments are patiently waiting for the end of Trump’s tenure, realising that they need to play a longer game.

5. Europe

How quickly might Europe implement a more conservative agenda?

There is little sign that in Western Europe, countries are implementing more conservative moral agendas – quite the opposite. However, the current Polish government is devoutly Catholic. In a previous term in office, it wanted the EU to declare Christian values in the preamble to the EU constitution. Hungary presents itself as 'illiberal', following the Russian pattern of social conservatism. In the Czech Republic, it is the president, Milos Zeman, who espouses such causes, particularly in opposing Muslim immigration. Romania could follow suit, although I do not see many others doing so.

At what pace might governments around Europe start to regulate people's freedom?

Regulating people's freedom is already happening, however mainly in Eastern Europe, and is deeply resented -- but it is coming from the Christian right, in such matters as trying to limit Polish women's abortion rights and government control of the media. We should remember that although several right-wing governments are in office, many people have moved on from such attitudes closer towards West European norms.

Probability for snap election in UK, Corbyn victory, and reversal of Brexit process?

It seems unlikely for another snap election to be called in such close temporal proximity to the recent one. It is also doubtful whether Jeremy Corbyn would win in such an event. Analysts have posited that the fear of a Corbyn victory could serve to concentrate minds among the Conservative party. It is likely that Corbyn has 'shot his gold' and that his surprising popularity in the recent snap election can largely be attributed to Theresa May performing worse than expected. The Labour party's election platform could also be seen as having been intended to please everyone, which might be hard to pull off a second time.

In a second election, the Labour party might have to come off the fence and be asked to take a clear stance on Brexit, shedding any ambiguity, which might have served to please Northern constituencies. There are signs of them coming down on a soft Brexit, which would put them in a similar camp to Theresa May. A snap-election might be called if the DUP stopped supporting the government. This prospect, however, seems unlikely as the Conservatives and the DUP have upheld their coalition, even in the face of the contentious Irish border issue. It, therefore, seems unlikely that other issues could destabilise the alliance. It appears more likely at present that the parliament will serve out its term.

6. Africa

What are the prospects for democratic governance in Africa?

While it is always dangerous to make broad generalisations about an area as large as Africa, in which there is significant diversity, there are some broad trends and flashpoints that we should be watching in the year ahead, some of which are quite worrying.

After a year in 2017, where we had a disputed election in Kenya, a delayed election in the Democratic Republic of the Congo, a handover of power in the context of an election in Angola, and a coup in all but name in Zimbabwe, we are looking at more election-related risks in the year ahead.

The first on the horizon is in Zimbabwe, where some very cautious optimism about Emmerson Mnangagwa's democratic credentials appeared to have been dealt a blow by the naming of a rather narrow cabinet in the past few weeks. The apparent decision to go ahead with elections in June, suggests that they are trying to strike while the iron is hot and consolidate power within the ZANU–PF again.

In South Sudan and the Democratic Republic of the Congo, we have two scheduled elections, which are far more likely to become a focal point for conflict than improved democratic governance. The situation is quite different in both. In South Sudan, the government is keen to move ahead with elections, as this would allow it to renew its legitimacy after its official mandate expired back in 2015. However, after four years of conflict, including targeted killings of civilians based on ethnicity, and a deepening and fracturing set of opposition actors, South Sudan is in no position to go to democratic elections this year. If the government tries to push ahead, it is going to face opposition, externally and internally, and likely rising levels of conflict.

In the DRC, the government has no intention or desire to go towards elections. After President Joseph Kabila tried to move to change the constitution in his favour to run for a third term in 2015, he has faced growing domestic and international pressure, which has made this largely impossible. There are some within the ruling party, who still see this as a possible outcome and if elections can be delayed for long enough that the conditions are ripe for a referendum, they would go for that. However, the majority believe this is no longer a possibility. Now they need to find another solution. This could be the naming of a successor, who can hold things together for the ruling elites – however, there is no compromise consensus candidate yet -- or Medvedev-type-solution, where Kabila becomes prime minister. The government has not yet settled on a solution. However, the opposition is too divided to put much significant pressure on the government. The same is true of the international community. We are therefore likely to see the election slide back into 2019 but amid rising domestic unrest.

A second trend, the other big election to look at is Cameroon, where Paul Biya is expected to run for another term. At 84-years old, he has been in power for three decades. He changed the constitution back in 2008 to remove term limits, enabling him to run again. The idea to change the constitution to subvert term limits is one that has been around for a few years in Africa but continues to be used.

This week, a bill is expected before the Ugandan parliament, which would remove age limits for presidents, allowing Yoweri Museveni to run again. Burundi President Pierre Nkurunziza is expected to hold a referendum in early 2018 to try and change the constitution to allow him to run again. The prospects for democratic governance are therefore not good.

But if we separate 'democracy' and 'governance', we also see in places like Rwanda and Ethiopia, democratic deficits but increasingly strong governance, which potentially has downsides for democracy. Ethiopia has modelled itself on the Chinese model, as well on the East-Asian tigers in terms of close state intervention in the economy and has enjoyed an enormously successful economic transformation since the Ethiopian People's Revolutionary Democratic Front (EPRDF) came to power. It has been running around double-digit growth figures for many years now.

Rwanda, does not have quite as impressive growth figures but with significant state oversight has achieved broadly stable development that is benefitting all parts of society. This model has been noticed in other African states and is becoming increasingly seen as the way to go; tighter democratic controls but increasing government intervention in the economy. This is seen as the way to move to middle-income status.

We are seeing this in places like Tanzania, where we have a democratically elected president, who is narrowing the democratic space and tightening his control over the opposition, the media and multinational corporations but is also genuinely looking to make progress in anti-corruption and industrial development through state intervention. We are likely to see these kinds of trends continue.

7. Afghanistan

What is the outlook for Afghanistan in the coming year?

A parliamentary election is scheduled for July but that already looks uncertain – October or even later is looking like a safer bet. This will be a time of considerable uncertainty. An opposition coalition bringing together three senior politicians who are former warlords is likely to compete against President Ashraf Ghani's supporters. That raises the prospect of voting along basically ethnic lines: those Pashtuns who vote will back Ghani while the opposition will appeal to non-Pashtuns in the north. The opposing sides are engaging with potential external supporters: Pakistan of course, Iran and even Russia.

External governments have a long history of backing proxy groups in Afghanistan; their engagement increases the risks of conflict.

The same situation applies on the Taliban side, where different factions are seeking support from Pakistan, Iran, Russia and Saudi Arabia. The Taliban movement is divided. Some sections are more amenable to negotiations, but the downside could be that hard-line groups who refuse to make peace then consolidate and become more entrenched. The presence of Islamic State groups -- at least two exist in different parts of the country – is, of course, a risk factor in itself, and could attract some Taliban hardliners. The additional US military push announced in August offers a chance to stop and reverse Taliban advances around the country. If the Kabul government steps up efforts to engage the insurgents in talks, we could see the beginning of progress.

8. Mediterranean migration, Libya

What are the risks and opportunities in the year ahead in Libya with regard to migration?

Migration into Europe will likely decrease next year. Having said that, a lot of things depend on the Libyan political situation. One of the main reasons for the reduction in arrivals this year, which has been quite dramatic through the central Mediterranean towards Italy, is because of the actions that Italy and the EU have taken towards Libya. They have closed off the migration route through Niger, which was the main route into Libya. They have also largely closed-off the Mediterranean itself, by reducing the scope for NGOs to carry out rescues and by empowering the Libyan coast guard to return ships onto the coast. This has been very controversial. Video has shown, the Libyan coastguard taunting migrants picked up at sea. CNN has also recently produced a video showing Africans being sold as slaves inside Libya. The question then is: What will be the fallout of human rights abuses, which we know are rife in Libya, onto European governments, especially with elections coming up, particularly in Italy.

It is furthermore not clear whether the agreements that European governments currently have with Libyan actors to reduce migration will hold through the year. Already, we see that some migrant smugglers' trail routes have been adapting. We have seen an increase in migration from Morocco and an increase in departures through Tunisia. This will not reach the epic levels seen in Libya, because Morocco and Tunisia both have functioning governments and security forces.

The bottom line is that we do not expect this to go as high as we have seen in the past. We expect Mediterranean flows to reduce, but this is a very fragile state of affairs, which could reverse.

9. International economy

Impact of US tax reform on Europe and global Central Banks?

The tax cuts are expected to have a limited effect on US GDP growth, perhaps adding 0.2 or 0.3 percentage points. The bill may have more effect on inflation, which, having been under the Fed's 2% target for most of the year, rose to 2.2% in November. If inflation rises faster than expected, driven by the tax relief measures and boosted also by higher commodity prices, the Fed may raise rates more than the planned three times next year.

China immediately followed the Fed when it raised rates this month and faster Fed tightening would likely prompt other emerging markets to follow, dampening their growth prospects, especially those with high levels of dollar debts as robust US growth and inflation is likely to strengthen the dollar.

Bond markets across the world fear higher inflation and perhaps combined with a sudden rise in political risk, there is a risk that bond investors start selling off, causing yields to rise after many years at ultra-low rates. This would increase borrowing costs across the world, perhaps dampening the budding recovery we see in business investment.

Europe would be especially vulnerable as the ECB's ongoing asset purchase programme has underpinned the accumulation of large stocks of negative yielding debt in the major economies. Improvements are being made to increase banking stability, but public debt and non-performing loans are still dangerously high in several countries, most notably Italy, and a banking crisis could spread across the region. There is also a risk that in May Italy may elect a government in favour of a euro exit.

Will geopolitical risk affect stock markets?

Sanguinity in the face of elevated political risk particularly in the developed economies has been a notable feature of equities markets since at least the UK referendum on leaving the EU in June 2016. While investors are well used to pricing in political risk in emerging markets, doing the same for developed ones is a relatively new experience. However, accommodative macroeconomic policies, restored financial system stability and perhaps a (blind) faith that the worst outcomes will be avoided as they largely have since 1945 has enabled equity investors to absorb the rising geopolitical tensions and electoral uncertainties of the times with some equanimity.

The historical evidence is that stock markets quickly rebound from political shocks. However, this time, political-risk-induced volatility is surprisingly absent, although debt, commodity and foreign-exchange markets have shown greater sensitivity to political events.

One other factor to consider is that the effect of political shock on financial markets is a function of the risk directly affecting the United States as home of the deepest capital markets. The Trump administration's diminution of the United States' world role as before may thus act as a buffer in this regard. So, too, may the role of the dollar as a safe-haven currency; perversely, the more unpredictable US policy, the more capital flight there is to the country's currency.

Can the EU become a driver of global trade if the US stops its promotion of globalisation?

The EU can play a critical role in encouraging positive sentiment across the world towards global cooperation -- especially in climate change efforts, corporate governance, tax coordination and trade liberalisation and cooperation. There is evidence that although the United States has imposed more trade restriction on its G20 partners this year, the rest of the G20 has imposed fewer restrictions on each other. Moreover, China and Germany especially have redoubled their climate change cooperation efforts.

Two constraints are that the EU lags the United States in innovation and that the Brexit impact is uncertain.

It looks likely that the EU, focused as it is on its goods-export industries, will continue to lag the United States in harnessing newly emerging drivers of growth. While EU collaboration has encouraged research and development spending (R&D), it does not have the fundamental research drive or capacity of a large single state, with investment in innovation needing to be shared among 27 countries. In 2015, the EU spent less than 2% of GDP on R&D, far below the target of 3%. To compare, the OECD spent 2.4%, the United States spent 2.8% and Japan spent 3.5%.

There is also uncertainty over the Brexit negotiations and with Italian elections coming into view and the composition of the German government uncertain, Europe faces several risks that could escalate. European growth has been surprisingly strong this year, and this is expected to continue. However, a downturn could be accompanied by rising unemployment that could give renewed impetus to populist voting.