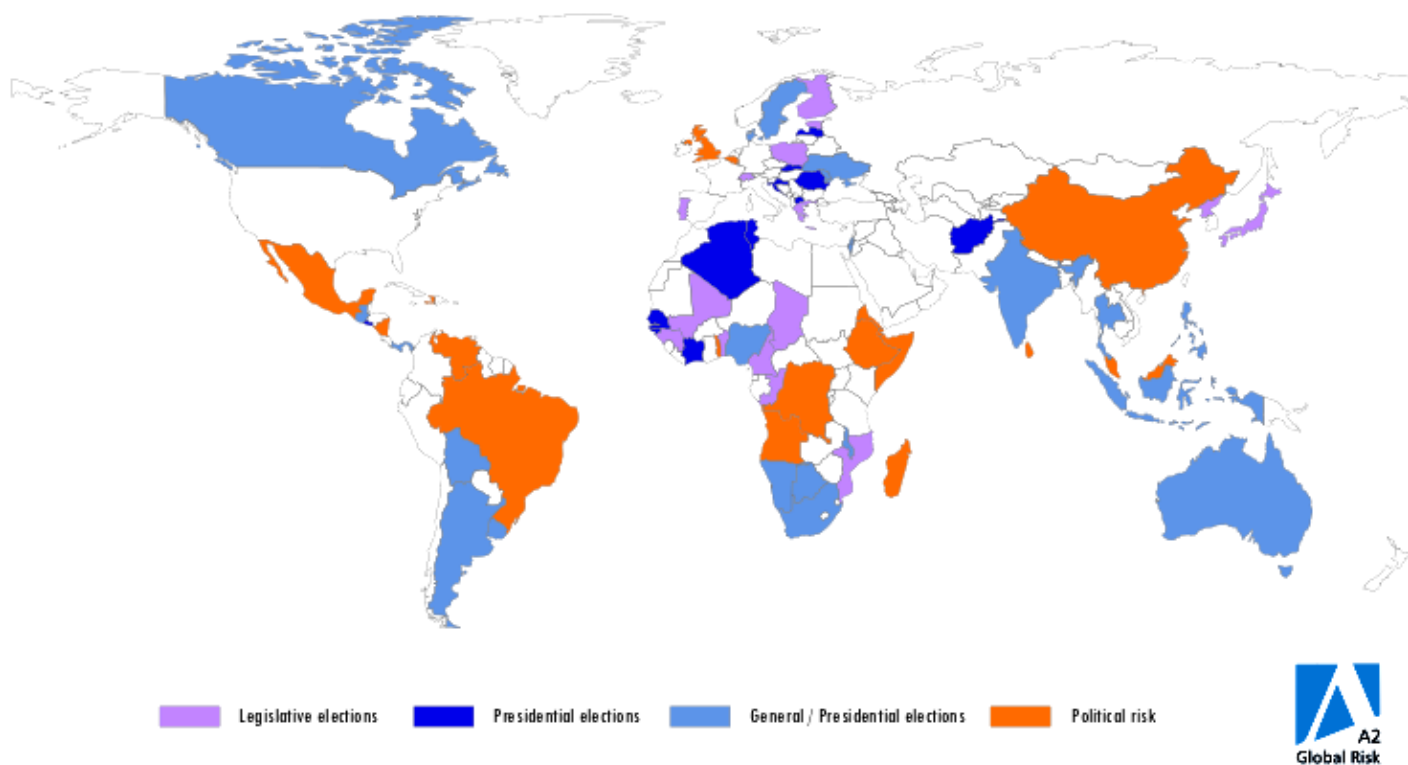


### EXECUTIVE SUMMARY



#### AMERICAS

- New leftist president Andrés Manuel López Obrador will attempt to tackle root causes of violence, poverty in Mexico
- Bolsonaro, Brazil's new president, will attempt to kickstart the economy with tax cuts and privatisation
- Mueller investigation in the U.S. will raise political risks and prospects of Trump impeachment

#### EUROPE

- Uncertainty for businesses will continue as the lack of a political consensus in London on the U.K.'s relationship with the E.U., prolongs concerns of a 'no deal' Brexit
- Next year will see renewed interest in the Balkans as the E.U., China, and Russia compete for influence in the region
- Terrorism will continue to present a key security risk in 2019 and will be compounded by an increase in violent extreme right-wing activity

#### SUB-SAHARAN AFRICA

- Increasing protectionism worldwide, fuels currency volatility and hampers African resource-rich countries' revenue-generating capabilities
- Political uncertainty and probable conflict will result from political transitions in the DRC and Ethiopia, potentially spilling over to their neighbouring countries
- Stability and civil unrest risks will rise during turbulent election cycles in Nigeria, South Africa, Côte d'Ivoire, Senegal and Chad

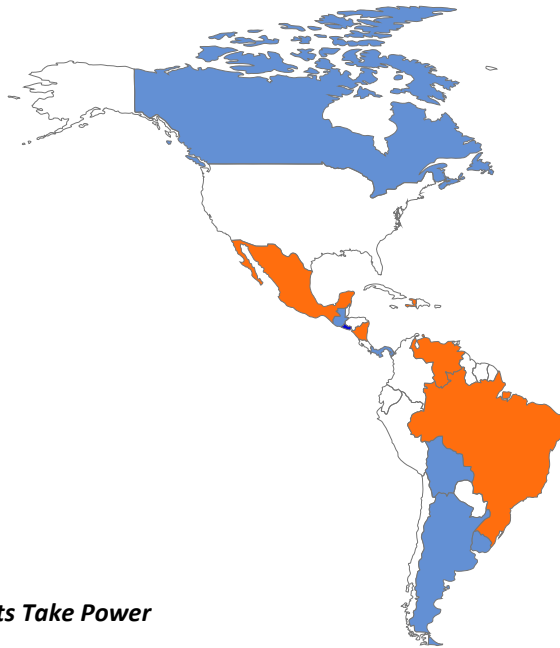
#### ASIA

- The Taiwan Strait will remain a critical flashpoint as China seeks to influence Taiwan's 2020 elections
- U.S.- China trade war set to intensify as the Chinese economy slows and Chinese President Xi Jinping seeks to consolidate his power
- Economic slowdown, wage decline and terrorism will be key factors in India's 2019 election, potentially dislodging Modi from office

#### MENA & CENTRAL ASIA

- Socio-economic pressures, elections and burgeoning 'Yellow Vest' protests elevate political and civil unrest risks
- Competition for water resources and inadequate infrastructure to drive communal and cross-border tensions, elevating the civil unrest and stability risks across the region.
- U.S. foreign policy will compound stability and security threats

# AMERICAS



## ***The Americas—New Governments Take Power***

### *Executive summary*

**Mexico** and **Brazil** – Latin America’s two biggest economies – started the year with radical new presidents following polarising elections. In the **United States**, domestic pressure will build on President Donald Trump as a special counsel investigation into **Russian** electoral interference reveals damaging information on the 2016 campaign and Trump’s business dealings. In Venezuela, there will be no end in sight for the country’s economic, humanitarian and migration crisis as President Nicolás Maduro entrenches his power. Finally, incumbent governments in **Argentina** and **Canada** will turn their attention to upcoming general elections, set to take place in autumn.

### *Latin America & the Caribbean*

In Mexico, new leftist President Andrés Manuel López Obrador, or Amló, will use his majority in Congress to roll back the previous administration’s opening up of the energy sector, heightening concerns for extractives companies and investors. Following a 16 percent increase in the minimum wage and reductions in civil servants’ salaries, Amló will look to re-orient other government spending towards the working class. Increased public spending and political uncertainty will likely lead the Mexican *peso* (MXN) to decline further vis-à-vis the U.S. dollar (USD).

Moves to formalise public consultations and a recall referendum allowing voters to remove the president will heighten medium- and long-term political risks. In security policy, an active participation of the military in public security tasks as part of a new National Guard will be put to a referendum in March. It is likely to be approved. Measures to tackle the root causes of organised crime and drug trafficking – such as through expanding access to education – are much-needed, however unlikely to result in an immediate fall in homicides or crime. After the United States-Mexico-Canada-Agreement (USMCA or Nafta2.0) is ratified, Amló is likely to have a cordial but largely distant relationship with U.S. counterpart Donald Trump.

Jair Bolsonaro, Brazil’s new president, will use his first year in office to enact sweeping reform of the country’s public finances. Bolsonaro – a far-right figure elected on a law and order and anti-corruption platform – will seek to overhaul the unsustainably expensive pension system through an increase to the minimum retirement age and a reduction in pension benefits. While necessary, the pension overhaul will likely damage Bolsonaro’s approval ratings and relations with coalition partners, depleting his political capital. The pro-business administration will move to reduce corporation tax, introduce a simplified tax code, shrink the budget deficit, and privatise non-strategic assets of state energy giants Petrobras and Eletrobras.

### ***Bolsonaro’s government will grant the police greater licence to use lethal force and move to reduce restrictions on gun ownership.***

The moves will be welcomed by foreign investors. Justice minister Sergio Moro, previously the head judge on the investigation into the *Operation Car Wash* corruption scandal, is likely to redouble efforts to detect and punish corruption. Bolsonaro’s government will grant the police greater licence to use lethal force and move to reduce restrictions on gun ownership, both heightening public insecurity in the one-year outlook. In foreign policy, the government will prioritise political and economic ties with the U.S. over competitors such as **China**, **Japan** and the European Union.

The humanitarian, political and economic crisis of Venezuela will likely worsen, as President Nicolás Maduro’s grip on the security services and the country’s institutions tightens. Ongoing regional political isolation, especially with a hostile Brazil under right-wing Bolsonaro, will be partially offset by important bilateral ties, including with China, **Russia** and **Turkey**. Oil production will continue to fall due to lack of investment, labour shortages, ill-maintained facilities and low oil prices. Venezuela will continue defaulting on loans and bonds, posing

significant risks to creditors and bondholders. The exodus of Venezuelans fleeing the crisis will remain a major political topic in neighbouring countries and beyond, while also leading to continued friction at South America's borders.

Important elections will take place throughout the region. In Argentina, President Mauricio Macri is set to seek re-election in October amid an IMF bailout and a recession. The economic difficulties point to a likely victory for a moderate opposition candidate. Given corruption scandals surrounding former president Cristina Fernández Kirchner, who will likely stand as the candidate for Peronism's leftist wing, prominent moderate Peronist hopefuls are set to benefit, such as Sergio Massa and Juan Manuel Urtubey. Presidential races will also be held in **Bolivia, El Salvador, Guatemala, Panama and Uruguay.**

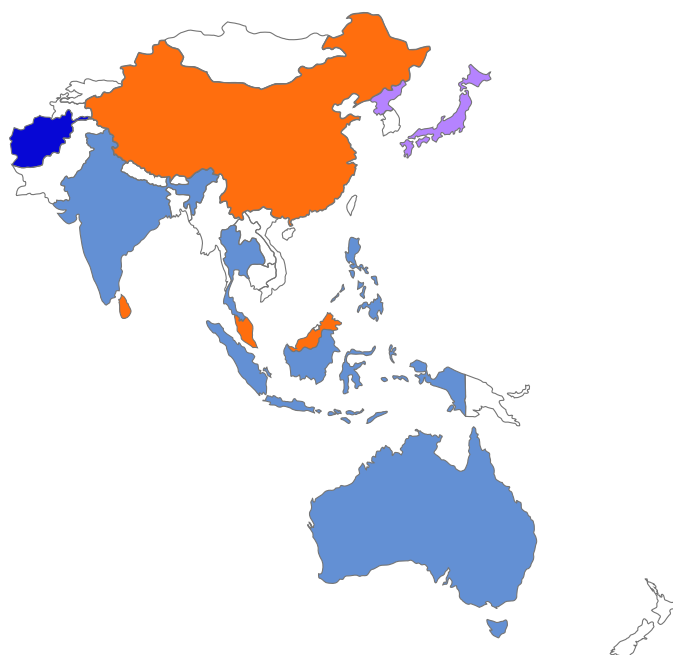
#### *North America*

In the United States, President Trump will face mounting political and judicial pressure as the special counsel investigation into alleged Russian interference in the 2016 presidential election unearths damaging information about his campaign's contacts with Russia and his business dealings. While Trump and administration officials will move to limit and denigrate the investigation and its special counsel Robert Mueller, it will receive important financial and political backing from the Democrat-controlled House of Representatives and moderate Republican lawmakers. The lower house will initiate impeachment proceedings against Trump if the special counsel's investigation finds that he ordered co-operation with Russia. However, these would likely be blocked by the Republican-held Senate. Congress's composition will impede efforts to repeal Obamacare and raise funds for a southern border wall, reducing Trump's capacity to deliver key election pledges.

The race to become the Democratic Party's presidential candidate in the 2020 election will also begin in earnest. This will pit senior party figures, such as Joe Biden and Bernie Sanders, against upcoming names, including Texas' Robert 'Beto' O'Rourke and California's Kamala Harris, who largely favour greater government intervention in the economy.

In Canada, Prime Minister Justin Trudeau's Liberal Party will face the Conservative Party, led by Andrew Scheer, in what is likely to be a close general election race in October. A narrow victory for Trudeau's Liberals is the most likely outcome.

## ASIA-PACIFIC



### ***Asia-Pacific—Five pivotal elections to closely monitor***

#### *Executive summary*

Tensions between the world's economic juggernauts – the **U.S.** and **China** – will intensify as both nations refuse to cede ground in the ongoing trade war. While the Taiwan Strait and the South China Sea remain strategic flashpoints in the region. Federal elections in **Australia** will likely see the country experience its fifth prime minister in seven years, while federal elections in **Indonesia** will likely see Joko Widodo hold onto power. **Hong Kong** will hold council elections in 2019, likely to cause friction between the pro-democracy and pro-Beijing camps. **Philippines** house of representatives elections will be a test of Duterte's popularity and an indicator, while **Thailand, Sri Lanka** and **India** will also go to the polls for general elections. Terrorism in Indonesia threatens peace in the region, while domestic crime threatens the Philippines and Thailand remain prevalent in 2019.

#### *North-east Asia and Oceania*

A federal election will be held in Australia before 18 May 2019 and is likely to be called by the leader of the Liberal Party-led coalition, and Prime Minister Scott Morrison in early 2019, most likely in April. Australia had six prime ministers between 2008 and 2018, as Australians vote for a party (or a coalition of parties), so a leader can be replaced by the elected party at any time. Despite the merry-go-round in leadership, the country remains stable with 28 years of uninterrupted economic growth. Polling in the country indicates that the opposition Labor Party, led by the Bill Shorten, is likely to win the next election as the Australian public remain angry at the 2018 ousting of former prime minister Malcolm Turnbull, and are frustrated by a political scandal involving the former deputy prime minister and one of his female media advisers. The election of the Labor Party is likely to help reset Sino-Australia relations after a tumultuous time between the two countries during Turnbull's leadership from 2015 to 2018.

**Hong Kong**, China's Special Administrative Region, will hold district council elections in November 2019 for the sixth District Councils of Hong Kong. The elections will be held across all 18 District Council with 452 seats up for a vote out of total 470 seats. The 18 district councils are responsible for scrutinising government funding. Controversy surrounding the election have already began, with pro-democracy and localist candidates accusing the pro-establishment, sometimes referred to as pro-Beijing candidates, of gerrymandering through the redrawing of districts to favour pro-Beijing candidates. The council are traditionally dominated by pro-establishment, and it likely they will take the majority of seats across the city.

#### *South-east Asia*

**Thailand's** military-led government announced an election will be held on 24 February under rules intended to ensure the country's armed forces' leadership retain a high degree of control over the political process. Under the 2017 constitution, the military retains its political influence through its ability to appoint the legislature's Senate, which is largely responsible for choosing the prime minister. As a result, the election outcome will see the formation of a government acceptable to the military and the royalist establishment it embodies, while denying the electorate a free choice as to how they wish to be governed. While this may ensure a degree of surface stability, it will also conceal a high degree of popular resentment towards the country's political and economic elites. The absence of such democratic outlets could lead to increased labour unrest, student protests and a general atmosphere of sullen non-compliance. Any robust response by the authorities could increase the reputational risk for foreign companies, in addition to any physical disruption caused by more direct action.

Indonesia will hold presidential elections on 17 April that pit the incumbent Joko 'Jokowi' Widodo against former army general Prabowo Subianto. Prabowo, a son-in-law of the authoritarian former president Suharto, is widely viewed as representing the 'old' elite and status quo against Widodo emphasis of reformist and modernisation. The informal election campaign is already well under way, with both sides emphasising their strong Islamic credentials. The election will test the relative strength between the rural and often conservative Islamists and the urban, younger and better education electorate. While Widodo is seen as the likely victor, with such an outcome generally welcomed by foreign investors and many foreign governments, this cannot be assumed. An election for members of the People's Consultative Assembly legislature takes place on the same day.

*Attention will continue to focus on Duterte's health and his often erratic and divisive policies and statements.*

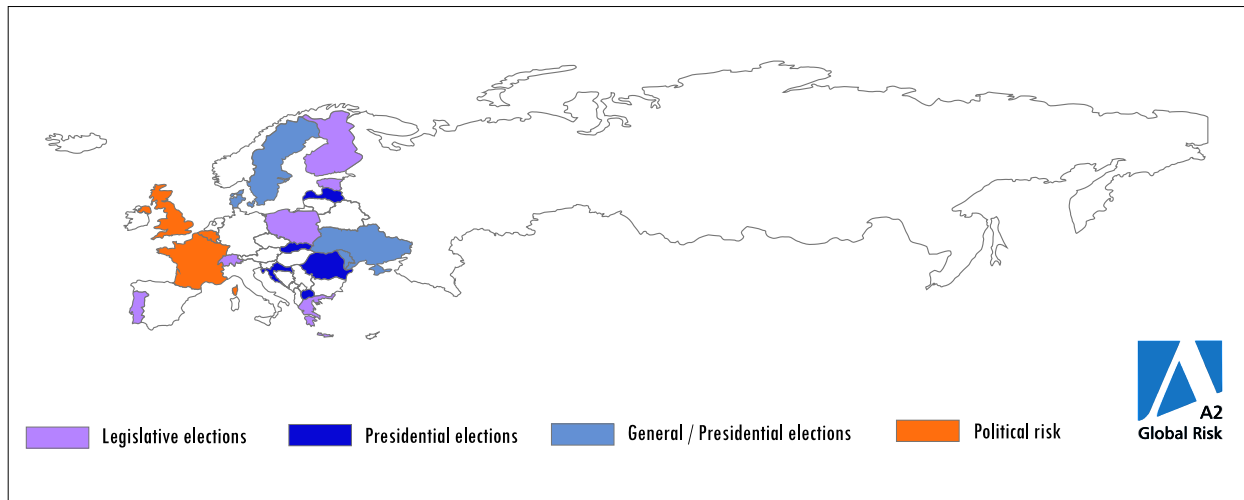
Elections for the Philippine House of Representatives will be held on 13 May and will be viewed as a test of President Rodrigo Duterte's support and popularity rather than representing any ideological divisions. However, given the ability of party 'machines' to deliver votes, such indicators will be subject to nuanced analysis rather than point towards a clear binary outcome. Attention instead will continue to focus on Duterte's health and the extent to which his often erratic and divisive policies and statements erode his huge electoral base within the country's often economic marginalised majority.

The divisions evident within the majority Sinhalese community following the replacement of the incumbent prime minister by his political rival in late 2018 will continue to reverberate well into 2019 in Sri Lanka. A general election would almost certainly be accompanied by at least limited unrest between supporters to the contenders which would impact on the country's key tourism sector. There is also the risk of more sustained violence involving opposing factions within the country's security forces; such an outcome would cause exceptional economic harm and could lead to the involvement of foreign powers in an effort to restore order.

*South Asia*

In **India**, Prime Minister Narendra Modi and his ruling *Bharatiya Janata Party* (BJP) are under serious threat of being dislodged by the main opposition Indian National Congress in the 2019 Lokh Sabha (legislative assembly) polls. Modi is losing his credentials as the champion of the poor, particularly as the economy cools, wages decline and joblessness worsens. Disillusionment with Modi's economic agenda has been ratcheting up 'anti-incumbency' sentiment which is and will erode his support.

His party has countered by propagandising divisive social and religious issues aimed at ginning up his right-wing base, which has led to an increasing risk of communal violence and unrest. Election-related civil unrest will remain the dominant risk to contend with, particularly in major urban centres where legislative seats will be hotly contested. Additionally, on-line disinformation campaigns and highly-charged Hindu nationalist propaganda on social media platforms such as Facebook, Twitter and WhatsApp, among others, by state and non-state actors (including political parties and private contractors) will amplify these risks leading up to the polls.



## Europe – A defining and challenging year ahead

### Executive Summary

The forthcoming European Parliament (E.P.) elections in May will mark a defining moment for the European project. While E.P. elections – held every five years to elect 705 members of the E.U.’s only directly elected institution – have historically not gained much attention, the outcome of the 2019 election will in many ways be a crucial one. The elections will follow a series of crises – both internal and external in nature – ranging from the large influx of migrants into the continent, to the decision by voters in the **U.K.** to leave the E.U. in the June 2016 referendum.

### The European Union

Eurosceptic parties will make significant gains, capitalising on growing concerns over immigration. Given that voters usually vote on national issues and many see the elections as a way to express discontent with mainstream, generally pro-E.U. parties, this will also add to growing support for anti-E.U., far-right parties, such as the **France’s *Rassemblement National*** (formerly known as *Front National*), and Italy’s *Legia*. While mainstream political parties will suffer losses in the election, these will be most felt by social democratic parties, such as the SPD in **Germany** and the P.S. in France. The European People’s Party (EPP) – a grouping of centre-right and conservative parties – will probably remain the largest in the E.P. but be short of an absolute majority. While a strong performance by eurosceptic parties in the elections will alarm E.U. officials, the many diverging interests these have, and in some cases contrasting ideological differences, ultimately means that they will struggle to form a united bloc in parliament.

The U.K. faces another tumultuous year as the 29 March – the date upon which the country is officially set to exit the E.U. – approaches fast. Uncertainty over Brexit will remain a key business risk as political figures in the U.K. struggle to bridge differences and reach an agreement on the U.K.’s future relationship with the E.U., increasing the likelihood of a ‘no-deal’ withdrawal.

Parliament’s rejection of the draft withdrawal agreement brokered between the U.K. government and the E.U. means that Prime Minister Theresa May will seek further concessions from Brussels to bring forward a deal that parliamentarians can accept. If the unpopular ‘backstop plan’ remains in an amended agreement, the Democratic Unionist Party – a Northern Ireland regional party upon which Theresa May’s government relies for a majority – and hardline Conservative Party Brexiteers are unlikely to support such a deal. This will probably also be the case if the government manages to obtain concrete assurances from the E.U. that the backstop, effectively an insurance policy that would maintain an open border between Ireland and Northern Ireland if the U.K. leaves without an all-encompassing agreement, will be time-limited.

A further rejection by parliament of any amended deal brought forward by May’s government will increase the likelihood that she will resign, triggering a leadership contest within the Conservative Party. The election of a prominent Brexiteer will increase the prospect of a no-deal Brexit, while a leader with more moderate views on Brexit is likely to try and seek further concessions from Brussels, potentially proposing a referendum on an amended deal and remaining in the European Union. Concerns over the impact of a no-deal Brexit combined with a series of alarming reports on the implications of such a scenario, means that Conservative Party members are unlikely to support a potentially uncompromising hardline Brexiteer as the next leader. Calls to hold a second referendum will continue to intensify in the immediate aftermath of the 15 January vote.

The government will also probably seek to reach an agreement with the E.U. on extending the 29 March deadline, which would postpone the U.K.’s exit from the bloc until a later stage.

### The Balkans and Eastern Europe

Intercommunal tensions in the Balkans will remain high over a proposed deal between **Kosovo** and **Serbia** that would see the two countries

exchange territory along ethnic lines. Under the proposed deal, which would also pave the way for Kosovo's independence, parts of northern Kosovo where ethnic Serbs are a majority will be given to Serbia. In exchange, the Preševo Valley in southern Serbia, where a majority of ethnic **Albanians** live, will join Kosovo. **Russia's** long-standing opposition to Kosovo's independence means that while it may publicly express support for any agreement that helps resolve the impasse, it will probably attempt to delay or block the deal. Meanwhile, protests in Serbia and Kosovo will continue, mostly in response to political developments in the region.

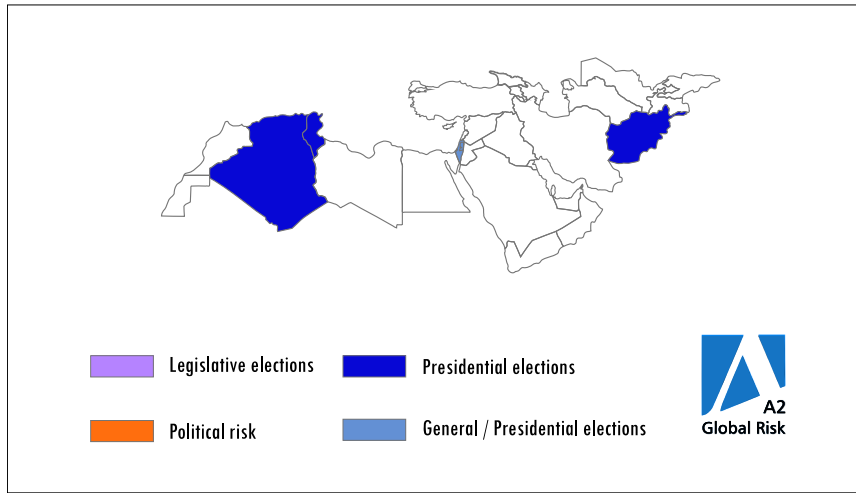
*We can also expect to see a more assertive Russia as it seeks to strengthen its foothold in countries formerly in its sphere of influence*

There will also be renewed interest in the Balkans as the E.U., **China**, and Russia compete for influence in the region in 2019. Growing Chinese presence, through infrastructure investments, including upgrading existing ports and expanding rail networks, in the Balkans will continue to raise concerns in Brussels. An essential element of Beijing's flagship Belt and Road Initiative (BRI), non-E.U. member states in the Balkans such as Albania, **Bosnia & Herzegovina**, the **Former Yugoslav Republic of Macedonia (FYROM)**, **Montenegro** and Serbia, received USD4.9 billion between 2016 and 2017 in Chinese investments. The E.U. will potentially use the prospect of accession as leverage on potential members for them to implement more robust screening of Chinese investments. This will have limited success in countries such as Serbia, which are still a long way from becoming members and have poor infrastructure, a key impediment to economic growth.

In 2019, we can also expect to see a more assertive Russia, not just in the Balkans, but also in Eastern Europe, as it seeks to strengthen its foothold in countries formerly in its sphere of influence, such as **Moldova** and **Ukraine**. This will be largely in response to political developments in 2018 which Moscow perceives as a threat to its influence, such as the potentially successful deal to resolve a decades-long name dispute between **Greece** and FYROM, raising the prospect that NATO will soon have a new member state in the Balkans. Any indication of interference in domestic affairs as well as accusations of Russian officials being involved in espionage in E.U. countries will lead to the expulsion of diplomatic staff, to which Moscow will respond in kind.

In **Ukraine**, the first round of a highly contested presidential election is scheduled on 31 March. The decision to impose martial law over the naval confrontation between Ukrainian navy boats and the Russian coastguard near the Kerch Strait on 25 November will likely lead to short-term political gains for the incumbent president, Petro Poroshenko. However, Poroshenko's growing unpopularity due to his government's failure to adequately tackle corruption, coupled with a lagging economy means that he is unlikely to be re-elected. Instead, Yulia Tymoshenko, the former prime minister, will probably be elected as Ukraine's next president. While a significant military escalation between Ukraine and Russia is unlikely, relations will remain strained as the Kerch Strait incident and subsequent imposition of martial law mean that Ukraine's next president will have little space to take a compromising or engaging stance towards Moscow. The routine violations of the 2015 ceasefire deal between pro-Russian separatist militias and the Ukrainian military will continue to pose a key security risk in Eastern Ukraine.

Low-probability, high-impact terrorist attacks will remain a key risk across the continent but particularly in Western Europe. As the terrorist attack on 11 December 2018 in Strasbourg showed, these will probably target well-attended symbolic events, and locations of historical or cultural significance in European cities. This threat will be compounded by the increasing risk posed by right-wing groups.



## ***Middle East and North Africa (MENA) — Compounding factors for further regional stability***

### *Executive summary*

Growing socio-economic pressures that have been in evidence across most of the MENA region over the past few months are unlikely to ease in 2019, elevating the risk of further protests and unrest, a risk exacerbated by the upcoming anniversaries of the 2011 uprising across the region and attempts to emulate the success – and the violence – of ‘yellow vest’ protests in a number of countries, in particular **Egypt, Israel, Tunisia and Turkey**.

While there have been marked improvements in **Iraq’s** overall political and security profile, pockets of insurgency will continue to challenge a return to stability in northern and western Iraq, a threat compounded by Islamic State’s resilience in a number of strongholds, notably in **Syria’s** Deir al-Zour province. Islamic State will also continue to exploit the growing divisions between state and non-state actors vying for power in Libya that have been delaying much-anticipated legislative and presidential elections, and the safe return of diplomatic missions and businesses to the country.

Elsewhere in the region, the growing tensions between Israel and Gaza-based Islamist militant groups will continue to threaten border stability and the risk of an escalation of the violence at the border and into Israel. In view of these developments, Israel is expected to take an increasingly protectionist and aggressive stance over national security in a tense regional climate, and as U.S. allies worry about provocative Iranian moves to protect both its economy and regional status in the wake of the U.S. sanctions.

### *Elections to Watch and Unrest Vectors*

Demonstrations organised in a number of countries to denounce the rising cost of living and/or political paralysis run the risk of gradually morphing into wider anti-government protests as organisers intend to emulate the success of the French ‘Yellow Vest’ protests. This will raise the risk of violence as the emergence of copycat movements takes place in the region ahead of the anniversaries of the 2011 uprising and key elections throughout the year. The risk is particularly elevated in Egypt, where the government is expected to intensify its crack-down on dissent and any form of unrest, but also in **Jordan**, Israel, Turkey and Tunisia, where political tensions will rise ahead of the presidential and parliamentary elections scheduled for November 2019 and where a ‘Red Vest’ movement appears to be gaining momentum. Neighbouring **Algeria** will also be holding presidential elections in April, which will likely see the re-election of Abdelaziz Bouteflika for a fifth term in the absence of any credible opposition and amid an apparent purge of Algeria’s military leadership aimed to consolidate power around the ailing president. A bleak economic outlook, combined with political apathy among a growing young population that feels increasingly disconnected from political life, however, is likely to increase the civil unrest risk in the six-month outlook.

### *Water Insecurity*

Access to water will become a major security issue in 2019 and beyond. While water insecurity is felt more severely in the hot summer months, especially in Iraq and **Libya**, failure to meet the demands of populations increasingly frustrated with the lack of an effective political response and adequate public services – and, as seen in the summer in Basra, safe water – will elevate the risk of civil unrest. Many governments lack the resources to maintain and develop water and power infrastructure. MENA is home to some of the most water-stressed countries in the world, including **Oman**, and the bouts of extreme weather and flash floods that led to more than 30 fatalities in **Kuwait** and Jordan in November 2018 illustrated the challenges facing government in a region that remain largely unprepared to deal with major natural disasters and the effects of climate change.



While the high number of refugees and internally displaced persons (IDPs) who have fled the violence in Iraq and Syria will continue to strain infrastructure in Jordan, **Lebanon**, Turkey and the Kurdistan Regional Government (KRG), raising the risk of sustained tensions with local populations, governments will have to prepare for conditions that threaten to exacerbate the conflict risk at national, cross-border and regional levels if left unaddressed, with the additional risk that state forces, militias or terrorists groups could exploit water resources and scarcity as an instrument of power, including in Yemen.

#### *Israel and the Palestinian Territories*

Violence at the Gaza border will continue as weekly protests, which have been ongoing since 30 March 2018, show no sign of abating. A volatile situation will continue to threaten the safety of border communities in Israel, raising the risk of anti-government protests in Tel Aviv. This will also threaten the overall climate of stability that has been prevailing outside of the occupied territories as 'lone-wolf' attacks, including stabbings, shootings and vehicle-rammings, against Israeli security forces and civilians increase in frequency. While a relative calm has returned to the Gaza Strip after Palestinian factions agreed on 13 November to an Egyptian-brokered deal with Israel following the most serious flare-up of border violence since the 2014 Israel-Hamas war, past ceasefires have been short-lived, and a number of stumbling blocks will remain, if not increase, making the prospect of a lasting truce increasingly dim for 2019.

Campaigning will be set against the backdrop of a possible indictment against Prime Minister Benjamin Netanyahu on corruption charges, which will exacerbate already heightened political tensions. A worsening security climate, even temporary, will also continue to test a fragile coalition government and will encourage Netanyahu to pursue increasingly nationalist policies and legislation as the premier tries to stamp his authority to retain the support of conservative members of the coalition, and the population, ahead of early elections scheduled for 9 April 2019. Netanyahu's Likud party stands very strong chances of securing re-election, but campaigning will be set against the backdrop of a possible indictment against Netanyahu on corruption charges, which will exacerbate already heightened political tensions.

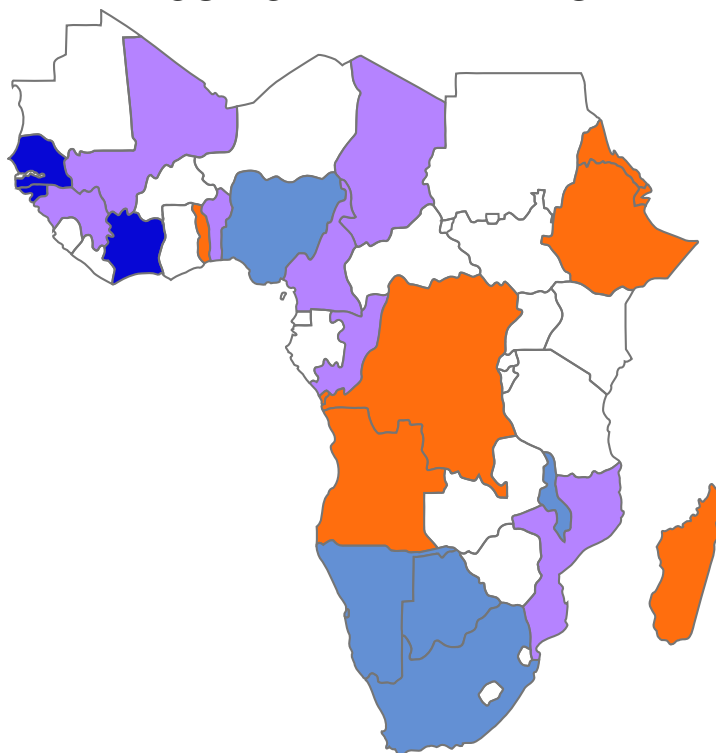
#### *Iran, The Gulf and Turkey*

Regional tensions are also set to increase after the second wave of US sanctions against Iran came into force on 4 November. While the Iranian government has been keen to downplay the effects of the measures, the new sanctions will continue to severely affect Iran's economy, which already saw the *rial* plunge against the US dollar last year. This will result in the prices of basic goods soaring and a sharp decrease in purchasing power, in turn raising the protest risk as the impact of sanctions is gradually felt across the country and the government and businesses are unable to pay the salaries of their employees. Iran's reaction has so far been limited to military drills and bellicose rhetoric towards the US and its allies in the region, but increased economic pressure will translate into provocative moves by the Islamic Revolutionary Guards Corps (IRGC), including missile tests and threats to blockade the strategic Strait of Hormuz, but also increased activity in cyber warfare.

Such actions will unnerve regional rivals (Saudi Arabia) and countries that perceive Iran as an existential threat (Israel, the **United Arab Emirates**, **Bahrain**). The sanctions will gradually alter traditional regional alliances but also reinforce the **Qatar**-Turkey-Iran bloc that emerged at the onset of the Gulf Cooperation Council (GCC) crisis. Rather than weakening Iran's influence in the region, the sanctions will deepen regional divides and escalate anti-US sentiment. This will have a major destabilising effect for those countries, especially Iraq and Turkey, which depend on Iran to meet their domestic energy needs and the demands of the population for basic public services, including electricity.

Iran has every interest in honouring the pledges set out in the 2015 Joint Comprehensive Action Plan (JCPOA) if it wants to secure a chance to maintain or develop contracts with Western partners still party to the agreement. However, failure by Europe to implement mechanisms that will generate, or protect, businesses in Iran – which appears difficult at the current juncture – or a severe deterioration of the economic situation in Iran, could prompt Tehran to seek a different route and restart, or speed up, its nuclear programme.

## SUB-SAHARAN AFRICA



### ***Sub-Saharan Africa — Protectionism, transition and elections***

#### *Executive Summary*

In 2019, Sub-Saharan Africa will see political transitions undermine security and increase travel risks in the two largest economies – **Nigeria** and **South Africa** – as well as in the frontier markets of **Côte d'Ivoire** and **Senegal**. Unfinished or long-delayed political transitions in the **Democratic Republic of the Congo (DRC)** and **Ethiopia** will present stability risks for those governments, while also raising the risk of conflicts escalating in their surrounding neighbourhoods. Meanwhile, the spill-over effects from increasingly protectionist stances in the two global economic centres – **China** and the **United States** – will damage the macro-economic outlooks of many economies in the region, particularly those that are heavily indebted or rich in crude oil.

#### *Increasing protectionism and continental shakeups*

The increasing protectionism between China and the United States is having serious implications on African economies. It is driving an intensification in currency volatility of the South African rand, and it is slowing demand for oil and mining commodities, which are key revenue earners for many African governments. With many of them still reeling from the 2014 commodity price-crash, which forced them to subscribe to new debt and increase the public deficit, higher interest rates in the U.S. will seriously challenge the ability of many heavily indebted countries, such as **Ghana**, **Kenya**, or **Zambia**, to manage their respective debt burdens. A risk of default is therefore elevated in several parts of Sub-Saharan Africa.

The growing friction between global powers China, **Russia**, and the U.S., as well as the European Union countries, will continue intensifying through proxies on the African continent. A case in point is **Djibouti**, but competition over the development of critical infrastructure is also likely to grow in **Angola**, the DRC, Ghana, Kenya, or **Guinea**. In addition, the number of spooks on the continent will almost certainly grow.

#### *Transitions: Unfinished business*

Political transitions across the continent will reach critical inflection points in 2019. In the DRC – a sleeping giant – voters elected their next president in December. To many observers' surprise, the new leader was not Emmanuel Ramazani Shadary, the anointed successor of outgoing President Joseph Kabila. Instead, the electoral commission, CENI, on 10 January 2019 announced Félix Tshisekedi – the leader of opposition party *Union pour la Démocratie et le Progrès Social (UDPS)* – as the next president. But suspicion of a negotiated 'coup' between Kabila and the president-elect quickly grew, locally and abroad. The national episcopal council, CENCO, questioned the veracity of CENI's vote-tally, while opposition leader Martin Fayulu alleged fraud, saying he had won with 60 per cent of the vote, and entered a legal challenge at the constitutional court. Given Kabila's support at the court, Fayulu's challenge faces serious obstacles.

Personality politics dominated the presidential election campaign, which has raised the risk of violence continuing in the first quarter of 2019. Fayulu's supporters are unlikely to recognise the results, while Tshisekedi's supporters are unlikely to accept their candidate's victory being taken away from them; especially from a candidate, Tshisekedi's supporters argue, who does not have the same wide-ranging support as the UDPS. This was their reason given after abandoning the opposition coalition, Lamuka, approximately 24 hours after having agreed to Fayulu as their candidate.

Should the unrest drag on, it will certainly divide the opposition further, providing little room for the prospect of change over the coming term. In the face of a legislature that is widely controlled by Kabila loyalists, Tshisekedi's promises – including to review a mining code that was adopted last year – look very slim, and continuity is likely to be the adopted approach during the next five-year term. In response, opposition groups will continue to mobilise their supporters to protest in major cities. In the longer term, and should no solution to the current unrest be found, more extremist – potentially armed – responses are probable, particularly in the north-eastern provinces of Ituri, Maniema, North-Kivu, and South-Kivu where numerous non-state armed groups already operate and opposition to Kabila's rule continues to be strong.

The reshaping of geopolitics in the Horn of Africa, will gain more international attention in 2019 as new and old investors are scrambling to get a piece of the cake. However, the stability of the region is contingent on the situation in **Ethiopia**, a regional powerhouse, where the new and young prime minister, Abiy Ahmed, is leading an ambitious reform programme that is upsetting some within the old guard. Although widespread violent protests in Amhara and Oromo kililoch (regional states) have largely subsided, inter-communal clashes have mushroomed in other parts of the country instead. Unless Abiy is able to turn the tide on the mounting grievances in the traditional power centre among the Tigrayans. Externally, regional stability is challenged by state elections in **Somalia** where the federal and federated governments are in open conflict over turf, not least in relation to the signature of offshore oil and gas concessions, or infrastructure development projects. Competition between global infrastructure providers in China, **France**, or the Gulf will fuel further distrust between regional players and present medium-term investment risks to foreign financiers.

#### *Elections to watch: Two heavyweights and the West African frontiers*

Africa's two largest economies are electing their next president in February. In Nigeria, the incumbent president, Muhammadu Buhari, is running for re-election on 16 February on a similar platform as he did in 2015: fight corruption, revive the economy and destroy Islamist insurgencies in the north-east. Added to that is rampant inter-ethnic hostilities in the Middle Belt states between farmers and herders. His main contender, Atiku Abubakar, is campaigning on similar promises. In essence, neither candidate's campaign programme stands out and it will ultimately come down to their own personalities and ability to form strategic alliances ahead of the vote. In addition to the president, Nigerian voters will also pick 29 governors of a total 36 states.

#### *Land redistribution and improved equality between white and black communities will be key topics in the campaign*

In South Africa, voters will choose their next president by 4 August 2019, although no date has yet been fixed. The ruling African National Congress (ANC) – the party seen at the centre of the liberation struggle against apartheid – is facing legacy issues, in large part left from the presidency of Jacob Zuma who, along with many of his allies, stands accused of corruption. Land redistribution and improved equality between white and black communities will be key topics in the campaign. This risks to further polarise political actors, and divide the ANC. President Cyril Ramaphosa's main challenge is to free the country from the bad reputation left by Zuma's presidency among international investors, while courting the Zuma camp of the party. Another headwind for the economy is the growing protectionism between China and the United States which will undoubtedly fuel increased volatility of the rand in the coming 12 months. The ANC will likely remain the biggest party in South Africa even after August 2019, but it will see its influence continue sinking in large urban areas, while the Economic Freedom Fighters and Black Land Black First (BLF) movement stealing the support from more conservative ANC voters.

In West Africa, high-stake elections are planned **Chad**, Côte d'Ivoire, Guinea and Senegal. The aftermath of highly contested and post-electoral violence continues to play out in Guinea, where legislative elections in January could face delays, which risks fueling more anger. In Chad, repeatedly delayed legislative elections are scheduled for May 2019. Unsurprisingly, the ruling Mouvement patriotique du salut (MPS), founded by President Idriss Déby Into, is likely to again win a landslide parliamentary majority, amid probable opposition boycotts. The popular votes will be more competitive in the frontier economies of Côte d'Ivoire and Senegal. In the former, incumbent President Alasane Ouattara is seeking re-election after a drawn-out transition following the 2010 presidential election, and the months of hostilities between armed militias that ensued, but which ended in a French-assisted military intervention to oust Laurent Gbagbo from the presidential palace; while Gbagbo and his supporters claimed they had won the elections, Ouattara won the support of Western powers who considered him the legitimate winner. This contention still dogs contemporary Ivorian politics, and will continue to pose a security and stability risk in 2019. A series of mutinies staged by different units of the security apparatus in 2017 confirms these concerns, and the groups are likely to again be politicised, raising the likelihood of further military-related unrest ahead of and after the plebiscite.

In Senegal, President Macky Sall is also running for re-election on 24 February. He has overseen strong economic growth of more than 7 per cent off the back of improved international conditions, such as higher oil prices and new energy reserves discovered off its coast. While support for him has dwindled over the past year, few potential candidates appear able to realistically challenge him. The main contender and former mayor of the capital Dakar is behind bars, and is unlikely to be able to run.