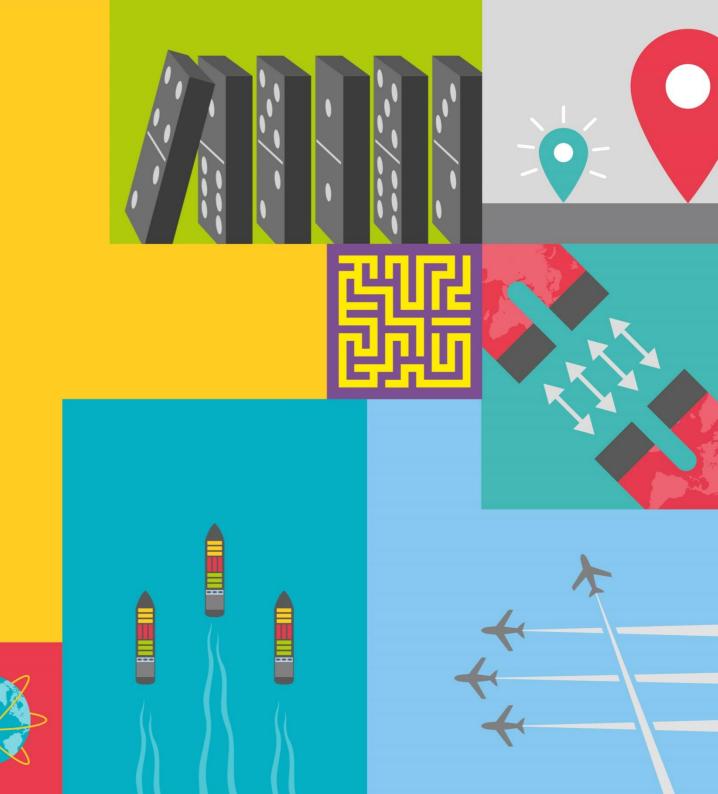
Control Risks RISKMAP2019

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Airmic: Geopolitics Academy Forum

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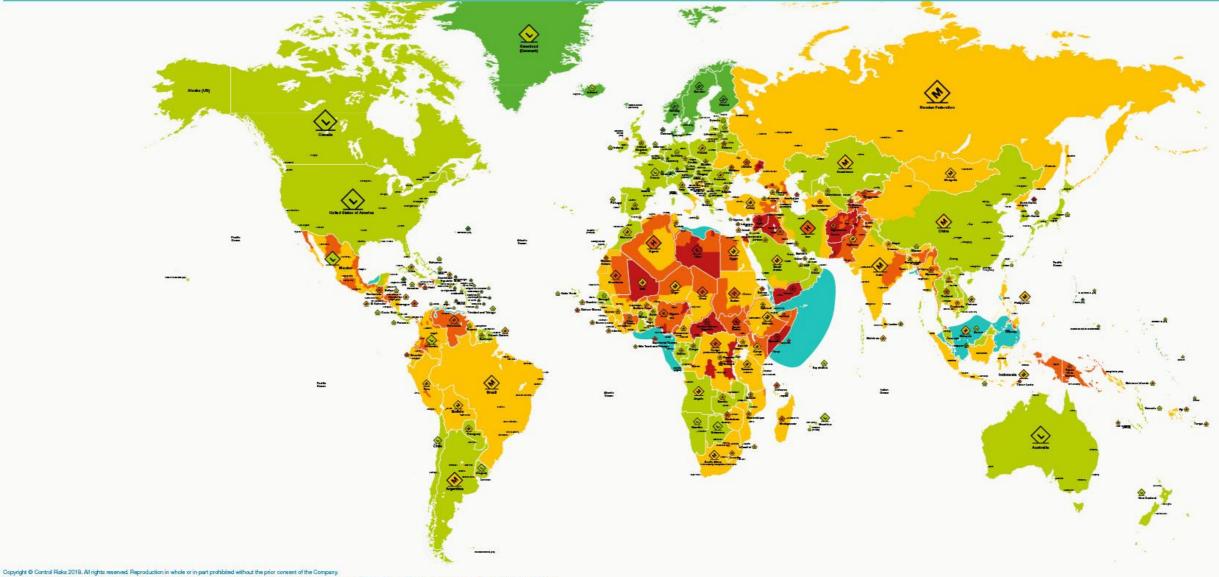




Smashing apart the past

But not yet building the future





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What do you do in a world that feels increasingly uncomfortable?

- ▶ Where were we?
- ▶ Where are we?
- ▶ Where are we going?
- ▶ How, under these circumstances, do we make a road map?

Where were we?

In brief, our comfort zone.

- A world that felt comfortable
- A world led primarily by American-led, Western opposition to the Soviet Union
- A series of alliances that underpinned that comfortable world
- A world that was largely pro-business
- ▶ The world that gave us globalisation

Where are we?

We're not there any more.

- Globalisation changed things
- ► Tech revolution changed them even more
 - Winners, losers
- ► The proximity of peoples
 - Migrants, refugees, regional conflicts
- ▶ Populism, nationalism, protectionism
 - Many drivers, one result
- ► Trump, Brexit, Bolsonaro, Hungary, etc and not only
- ▶ The scapegoating of internationalists
 - Both people and companies

Where are we going?

Hard to say

- Technology will play a role in future economic, political, military power
- ▶ Domination and first-mover in technology will be key
- Tech contest more durable and enduring than a trade war
- Is a new geopolitical architecture being built around the US-China tech rivalry?
- ▶ What does this mean for Russia? The EU? Energy powers?
- ▶ Oh, wait. We're in the forecasting business...

How do companies deal with uncertainty?

Two weeks ago, this was the topic of "The Bottom Line," on Radio 4 with Evan Davies. (Bias alert: our CEO was on the panel.)

- ▶ To be fair, most of that panel discussion was dedicated to crisis management when something unexpected (or even expected) goes wrong.
- ▶ That's different from understanding longer-term, strategic uncertainty.
- Let's focus on the second one.

Blue-sky scenario planning

Exploring long-term uncertainty

- ▶ STEEPLE (PESTLE, etc) analysis
 - Social, Technological, Environmental, Economic, Political, Legal and Ethical factors
- ▶ Which trends shape the business environment
 - ◆ Which are most likely to occur use high impact; high likelihood drivers. You want to plan for things you think are going to happen.
 - But what are the key uncertainties?
- A word on black swans
 - Hindsight shows us that black swans in an age of mass information do not really exist
- Make your scenarios complicated
 - Choosing the intersection of different critical uncertainties can bringing added, useful complexity
- ▶ Signposts & trigger points that link to an action plan make the scenarios applicable
 - ◆ A 5 to 10 year timeline is about the right one

For example...

The financial services sector is highly exposed to long-term disruption:

- Socio-cultural: What is the trajectory of activism in financial services? Will banks be expected increasingly to become social justice actors? The ongoing politicisation of finance develop?
 - Is your bank going to fund gun manufacturers? What's next?
- ▶ **Technological**: The financial services sector is one of the most susceptible to disruptive technology.
 - What will a bank look like 10 years from now? In 20 years? Emerging markets racing ahead in creating banks without banks.
- **Economic**: What is the future of currency?
 - ◆ Will bitcoin and blockchain render currency and current accounts obsolete? How will banks make money?
- ▶ Environmental: Banks are accused of supporting carbon polluters. What will the divestment movement have to say about your bank?
- ▶ Political: Will authoritarian countries be increasingly hostile to the activities of foreign, private sector banks?
- ▶ **Legal/ethical**: What are the implications in the evolution of the use of sanctions in the United States? When some of the world's biggest markets do not share "Western values" will our ability to finance cross-border activity dry up?

Meanwhile, in automotive

Another sector ripe for long-term disruption

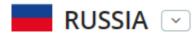
- ▶ Socio-cultural: Younger buyers are not buyers any more. Urbanisation. Cost of living. High-speed rail. Uber & co...
- ▶ **Technological**: What are the long-term implications of driverless vehicles?
- **Economic**: What happens if the ownership model changes? Automotive client: "We are a transportation solutions company."
 - Even better: "We are not an automobile manufacturer any more. We are a data company."
- **Environmental**: Climate change and its discontents.
- ▶ Political: Where will your cars be made in the future? What is the trajectory of trade/tariffs/globalisation?
- ▶ **Legal/ethical**: So you embrace driverless: What if they crash? What if they're hacked?

For a shorter time-span

Monitor and Forecast. Forecast and monitor.

- ▶ The menu is changing...
 - ... but the ingredients are the same

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Major economic reform remains elusive amid stabilising economy

MOST LIKELY

INTERNATIONAL RELATIONS: Relations with the US remain poor but stable, driving an extension but no significant expansion of sanctions against Russia

CREDIBLE ALTERNATIVE

ECONOMIC: Weak economic growth prompts Putin to promote diversification of the economy beyond a focus on natural resources

OUTLIER

POLITICAL: Mounting discontent among the elite at Russia's economic difficulties culminates in Putin's removal

Putin retains his position unchallenged despite a lower popularity rating, and fails to embark on significant economic reform A slight liberalisation in the political environment increases opposition activity, including protests, but this does not adversely affect the security environment

The reinforcement of hardliners in power ensures continued intervention in Ukraine and Syria, leading to increased tensions with NATO and prolonged sanctions against Russia

4

Foreign investment remains largely welcome, but is impeded by top-heavy bureaucracy, inconsistent application of regulation and high-level corruption in some instances Legal and regulatory improvements are made, and anti-corruption reforms reduce integrity risks Regulatory risks increase as the new authorities promote a hardline nationalist ideology Search Arctic Ocean



See helow for more detail

See below for more detail

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GLOBAL ISSUES

AFRICA

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ASIA & THE PACIFIC

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CYBER

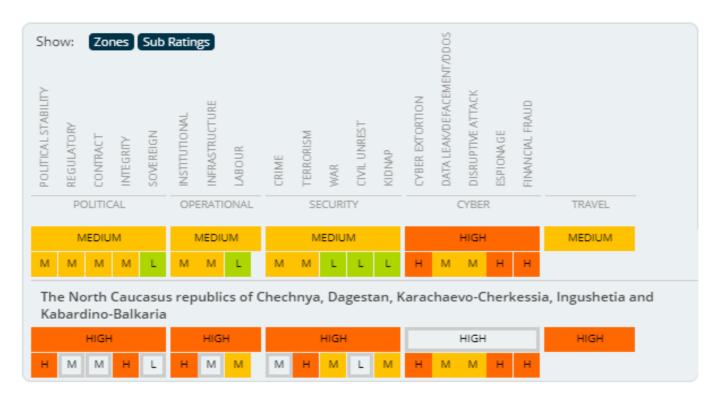




RUSSIA 🔻



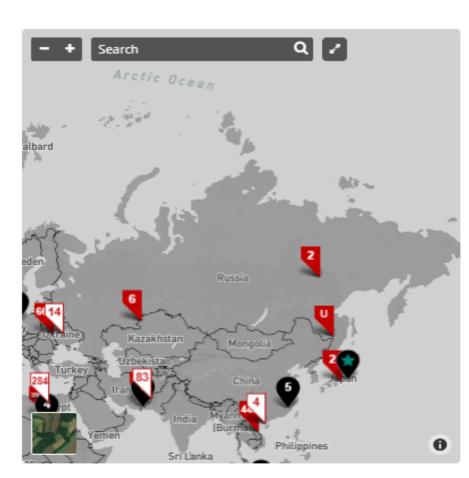
RISK RATINGS



We advise restrictions on travel to parts of Russia. Click here for travel security advice.

Overview

Russia is politically stable. President Vladimir Putin's victory in the March 2018 presidential elections reaffirmed his control over the political environment. He controls the State Duma (parliament), where the Putin-affiliated United Russia (UR) party has a super majority. The opposition is marginalised and weak.



Highlighting the powerful features and benefits of



Subcategories of political risk

Political stability risk

- Political stability risk evaluates the impact of political instability on business operations.
- It assesses the likelihood of the government completing its expected or appointed term; levels of political polarisation; the threat of unconstitutional change of government; the role and influence of nongovernment political actors; and the degree of political repression.

Regulatory risk

- Regulatory risk evaluates the development, implementation, stability and enforcement of regulation that impacts the business environment.
- Factors assessed include the stability of the regulatory environment and potential for abrupt regulatory change; the transparency and openness of the process for developing regulation; the influence of vested or special interests over regulation; the independence of regulatory agencies; and patterns of regulatory enforcement, including selective enforcement for political or other reasons.

Contract risk

Contract risk evaluates the predictability, durability, legality and legitimacy of commercial contracts signed in the jurisdiction, especially between foreign companies and the government or state-owned entities. It addresses the likelihood that a government will interfere in a contract (e.g. by altering terms or preventing the execution of a contract); the likelihood that political circumstances will call into question the legality and legitimacy of contracts (e.g. over territorial disputes, corruption or elections); the likelihood of non-payment; and the likelihood that the government will review and potentially cancel or revise operating or ownership licences (i.e. oil and gas or minerals) granted to companies.

Subcategories of political risk (cont'd)

Integrity risk

- Integrity risk evaluates the ability of companies to operate in compliance with international norms, responsible business practices and corporate ethical standards.
- It encompasses the prevalence and threat of corruption (public and private) to routine and legitimate business activities; the nature and enforcement of anti-corruption policy; the transparency and fairness of contract and licence awards; the availability, accessibility and transparency of corporate records; and the nature and severity of human rights, environmental and other reputational concerns.

Sovereign risk

Sovereign risk evaluates the willingness and ability of the central government to pay its debts. Factors assessed include government ideology and policy regarding debt; attitude towards bondholders and debt holdouts; general political stability; access to international capital markets; the level and profile of government debt; and vulnerability to external shocks and financial contagion.

▶ Political risk ratings — where to draw the line

EXTREME

- ▶ The political and policy environments present sustained critical challenges to business. For example:
- Political instability precludes routine business operations outside certain enclaves.
- ▶ The government is fundamentally unstable and vulnerable to unconstitutional regime change, including military coup d'état.
- Business activities are subject to state predation through expropriation and other confiscatory actions.
- Systemic political instability precludes policymaking or contractual stability.

HIGH

- ▶ The political and policy environments are persistently challenging for business. For example:
- Political instability often impedes routine business operations.
- Political transitions are typically contested, threatened by social unrest, or prone to delay or disruption.
- ▶ The government may be hostile to foreign companies and actively interferes with business operations.
- Policymaking is generally opaque, often capricious or erratic, and strongly influenced by vested interests.

Ratings, cont'd

MEDIUM

- ▶ The political and policy environments are periodically challenging for business. For example:
- Political instability occasionally impedes business operations.
- ▶ Transitions of power may be contested or threatened by social unrest.
- ▶ The government limits international investment to certain sectors, and displays a willingness to politicise or interfere in contracts.
- Policymaking is occasionally opaque or capricious, and often influenced by vested interests.

LOW

- ▶ The political and policy environments are broadly favourable for business.
- The government is generally stable, and sporadic political instability (e.g. resulting from minority or coalition government) does not significantly impede business.
- Transitions are generally peaceful, institutional, broadly seen as legitimate.
- The government is generally friendly towards int'l investment, but the gov't/ other political actors may occasionally put political pressure on companies.
- ▶ Policymaking is generally transparent and predictable, may be occasionally influenced by vested interests.

VERY LOW

- ▶ The political and policy environments are favourable for business. For example:
- ▶ The government is fundamentally stable.
- Transitions of power are peaceful, institutional and perceived as legitimate.
- The government welcomes international investment and investor rights are strongly protected by law and international agreements.
- Policymaking is transparent and predictable.

Changing ratings/forecasts

Something done with great care and caution

- ▶ After the Brexit referendum, we raised overall political risk in the UK to medium, from low.
- We recently raised the political risk rating for Italy to medium, from low.
- ▶ Terrorism to medium from low in France, UK and Belgium.
 - Business impact typically low business is not targeted
 - But now that it's come to city centres and arenas, the risk of damage is increasing.
 - Overall security risk is still low in each of these countries
- ▶ Ratings are officially reviewed every six months, but are always under watch for internal and external shocks.

Changing the ratings - politics

Key issues

- Overall political stability
- Challenges to the state's authority
- Impacts on governance and policy that affect business

Key indicators

- Organisational/personnel change (Thai royal succession)
- Major incidents/scandals (Mueller report?)
- Investment deterrent policy (DRC mining license revision)
- Protests and demonstrations (Egypt)
- Transition to democracy (Myanmar)



▶ What happened in Italy



Political risk increased from low to MEDIUM to reflect growing tensions in government

Control Risks is raising its political risk rating for Italy from low to MEDIUM.

- The increase reflects the likelihood of growing tensions within the government in the coming months, which will have a detrimental impact on the business environment.
- Divisions between the two governing parties are likely to dominate politics over the coming months as they face each other in European and regional elections.
- A lack of clarity over where power lies within government will compound divisions and lead to contradictory policy announcements, complicating business planning.

A fragile coalition

The anti-establishment Five Star Movement (M5S) and the far-right Lega (League) took office in June 2018 after three months of coalition negotiations. While both parties ran on Eurosceptic platforms, particularly criticising the EU's response to the 2015 migration crisis, in many areas their manifestos presented opposing plans. The first months of the coalition saw a concerted effort to keep disagreements out of the public eye, but divisions came to the fore towards the end of 2018 during negotiations for the 2019 budget. To avoid internal splits, the coalition decided to incorporate both the M55's increased welfare provisions and the League's tax cuts, invoking the ire of the European institutions. Although a compromise was reached on that occasion, fiscal differences are likely to re-emerge periodically, damaging investor confidence and possibly leading the coalition to split.

A further weakness of the government is a lack of clarity as to where power sits, leading to contradictory policy announcements. The M5S is the largest party in parliament, but League leader Matteo Salvini, the interior minister, has become the highest-profile member of the government. He has taken a strong anti-migration stance, which has garnered headlines and boosted his popular support. Meanwhile, M5S leader Luigi Di Maio, the labour minister, has struggled to define himself in office, but in recent months has been more willing to oppose the League's policies, including on migration. The independent Prime Minister Giuseppe Conte has mediated to an extent between the two parties, and is increasingly asserting himself as a power player, especially on foreign affairs.



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