

Leadership Changes Threaten Political and Economic Stability in 2017



With possible leadership changes in more than 20 countries this year, the stability of many regions is in question.

Potential leadership changes pose significant threats to political and economic stability. In many countries, there is great uncertainty about who will succeed ageing rulers who have held power for decades and where there is no clear framework to transfer the reins of government. When power has been concentrated in a few hands for a long period of time, there can be a high risk of instability following a leader's replacement. The incoming head of state may lack the authority, experience, and political support that are critical to a smooth transition.

In several regions, succession risks pose significant concerns, particularly when combined with the major elections slated for 2017, populism and nationalism gaining traction on a global scale, and protectionist measures impacting trade and economic growth.

SAUDI ARABIA AND IRAN LEAD SUCCESSION RISKS IN THE MIDDLE EAST

Geopolitically, Saudi Arabia and Iran are the most assertive countries in their region, driving polarisation between Sunni and Shi'a Muslims. The next generation of Saudi and Iranian leaders will determine whether their countries continue down current paths, with Saudi Arabia's policies shaped by a Wahhabi version of Islam, and Iran following a radical version of an Shi'a Islamic republic. Oman is also important to this regional dynamic, having traditionally acted as an interlocutor between the two rival countries and helping to maintain a balance of power.

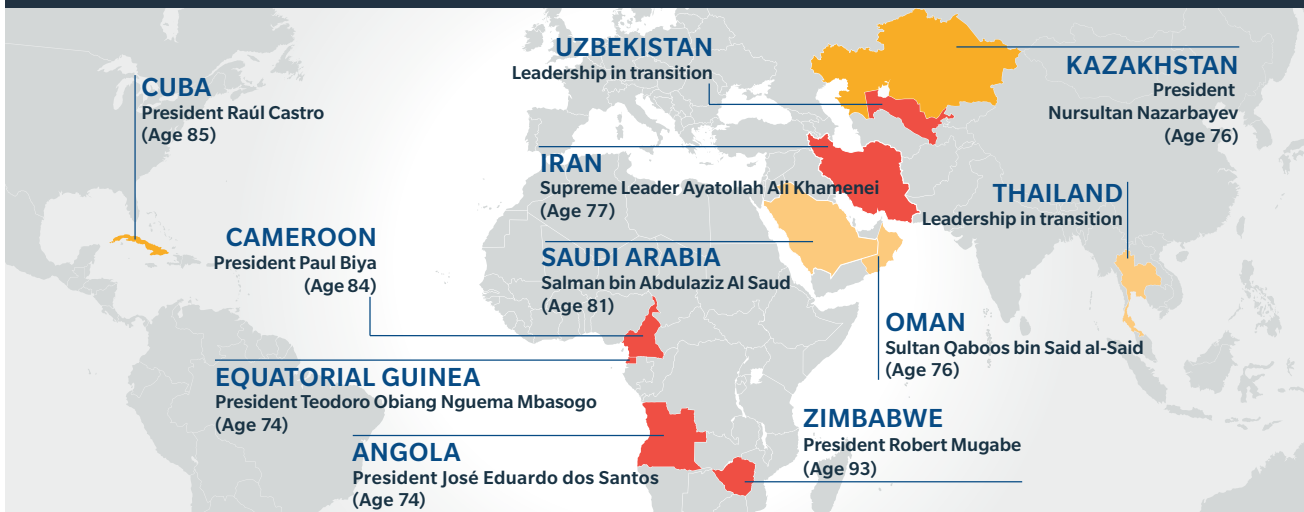
EVENTUAL RUSSIAN SUCCESSION WILL DETERMINE EURASIA'S FATE

Events in Crimea during March 2014 have raised fears of Russian President Vladimir Putin's authoritarian ambitions for the region. The eventual succession of Putin, 64, is likely to be one of the most important in the region, but is also likely to be much farther off than many of the succession risks detailed in this report. Putin has been in power since 1999 and remains popular throughout the country, despite economic challenges from Western sanctions and low oil prices.

Meanwhile, leaders in both Kazakhstan and Uzbekistan have thus far resisted naming successors, which could create a power vacuum in the future. Over the coming decade, investors will be watching closely for signs of unstable transitions in these countries, which not only have vast hydrocarbon resources, but also face the threat of Islamist militancy from Afghanistan, while in the midst of a wider geopolitical struggle between Russia, China, and the West.



FIGURE 1 GLOBAL SUCCESSION RISKS



COUNTRIES TO WATCH

Marsh has identified 11 countries with geopolitical or economic importance (for example, being home to major oil and gas reserves) that have significant succession risks. These risks have considerable potential for long-term economic transformation that could impact international businesses and investors. Stakeholders active in these countries should understand potential succession dilemmas in order to be prepared to respond to a variety of political risk scenarios that could affect their interests.

This article draws on data and insight from BMI Research, a leading source of independent political, macroeconomic, financial, and industry risk analysis.



AFRICA

ANGOLA

COUNTRY RISK SCORE OUT OF 100:

42.9 (UNSTABLE)

Succession risks could emerge in Angola in the second half of 2017. The country will hold elections in August, with long-serving President Eduardo dos Santos reported to be stepping down before the election takes place. The president, who has been in power since 1979, has backed defence minister João Lourenço, who is likely to emerge as his successor. However, there is a possibility that frustrations with the long-held political status quo in Angola could increase the risk of public protests, raising questions around a smooth transition. The 2017 elections are likely to be a key test of Angola's commitment to democratisation.

CAMEROON

COUNTRY RISK SCORE OUT OF 100:

45.8 (UNSTABLE)

While it is uncertain whether succession risks will impact the country this year, the key long-term risk in Cameroon is posed by an inevitable political transition following the eventual end of President Paul Biya's decades-long rule. Biya has ruled the country since 1982 and is 84 years old. His rule is considered by supporters to be a stabilising force in the country and a safeguard against the threat of Boko Haram. There is considerable uncertainty around who will succeed him, should he suddenly depart from office.

EQUATORIAL GUINEA

COUNTRY RISK SCORE OUT OF 100:

38.1 (UNSTABLE)

Underlying tensions in Equatorial Guinea could be exacerbated should 74-year-old President Teodoro Obiang Nguema Mbasogo depart suddenly from office. Obiang has ruled the country for the past 37 years with an authoritarian stance. During this time, Obiang has been criticised for a poor record in protecting human rights, and there has been little evidence that he has made progress in promoting and advancing democratic processes within the country. According to BMI, there is a strong risk that underlying tensions could escalate into violence if Obiang were to resign or pass away. Power may pass to one of Obiang's sons, but differences in their respective support could lead to factions forming.

ZIMBABWE

COUNTRY RISK SCORE OUT OF 100:

31.3 (UNSTABLE)

According to BMI, Zimbabwe's short- and long-term Political Risk Index scores continue to be heavily weighed down by uncertainty over who will succeed ageing President Robert Mugabe (93), and whether that individual will be able to consolidate power within the country. The succession of President Mugabe risks turning violent if plans are not put in place and set in motion prior to his departure, as competing vested interests would struggle to fill the power vacuum left in his wake. Mugabe has been in power in the country since its independence in 1980, first as prime minister, before becoming president in 1987. He has said that he plans to stand for re-election in the country's next elections in 2018.

LATIN AMERICA AND CARIBBEAN

CUBA

COUNTRY RISK SCORE OUT OF 100:

51.3 (MODERATE INSTABILITY)

Cuba faces rising uncertainty over the next few years, stemming from the impending retirement of President Raul Castro in early 2018. Castro and his elder brother Fidel (who died in 2016 after stepping down in 2008) have ruled Cuba since the revolution of 1959, meaning that a major era is coming to an end. However, there is unlikely to be a significant shift in Cuba's one-party communist system, as Castro's designated successor, First Vice-President Miguel Diaz-Canel, is committed to the status quo. Nevertheless, the post-Castro era could see ideological divisions emerge, and rising calls for reform from the population.

MIDDLE EAST

IRAN

COUNTRY RISK SCORE OUT OF 100:

49.4 (UNSTABLE)

Iran's geopolitical and economic fortunes have improved following the removal of most sanctions in January 2016, which will benefit President Rouhani ahead of May 2017 elections. Nonetheless, there is uncertainty over whether Rouhani will win a second term in office. Over the long term, a power struggle could emerge when Supreme Leader Ayatollah Ali Khamenei, age 77, eventually passes away, or if anti-regime protests gain renewed momentum if the leadership continues to suppress socio-economic freedoms. Iran's next supreme leader will determine whether the country liberalises its agenda, but he is likely to be a hardliner.

OMAN

COUNTRY RISK SCORE OUT OF 100:

62.0 (MODERATE STABILITY)

As with most other regimes in the Gulf, Oman's authoritarian political system raises long-term political risks. The Omani succession is of tremendous importance to the region, as Sultan Qaboos bin Said al-Said has been a key interlocutor between Iran and its rivals and has helped maintain a balance of power during his rule. He currently retains a strong degree of public support and can shore up his popularity with large social benefits; however demands for more widespread political reform are likely to emerge at some point. The Sultan is 76 years old, and the absence of a clear successor increases the potential for a future leadership vacuum. Oman's next ruler will also need to maintain the careful geopolitical balancing act between fellow Gulf Arab states, Iran, and the US.

SAUDI ARABIA

COUNTRY RISK SCORE OUT OF 100:

61.6 (MODERATE STABILITY)

Changes to the succession order in 2015 and possible future power struggles are driving political risks in Saudi Arabia. King Abdullah bin Abdulaziz died at age 90 in January 2015. Following his death, his brother, Salman bin Abdulaziz Al Saud, took over and has ruled for the past two years. In 2016 the regime unveiled its ambitious *Vision 2030* transformation plan to wean the country off its overreliance on oil and the public sector, which will have major socio-economic repercussions over the coming decade, considerably heightening political risk in the Kingdom. Over the short term, the regime will contain dissatisfaction by scaling back, modifying, or cancelling some

reforms if they trigger too much instability. Over the longer term, the coming generation shift in the leadership could trigger a major power struggle in the al-Saud family, between Crown Prince Mohammed bin Nayef and deputy Crown Prince Mohammed bin Salman.

CENTRAL AND SOUTH ASIA

KAZAKHSTAN

COUNTRY RISK SCORE OUT OF 100:

59.9 (MODERATE INSTABILITY)

Uncertainty surrounding the eventual succession of President Nursultan Nazarbayev, age 76, presents long-term risks for Kazakhstan. The country already faces threats to stability from fiscal cuts and economic reforms as a result of continued low oil prices and the possibility of being drawn into increased geopolitical competition in Central Asia between China and Russia. The long-serving Nazarbayev has not named a successor, putting greater uncertainty over who will take over and leaving room for a possible power vacuum.

THAILAND

COUNTRY RISK SCORE OUT OF 100:

64.8 (MODERATE STABILITY)

Thailand will be in a state of transition in 2017 as it welcomes a new king and prepares for elections in 2018. Crown Prince Maha Vajiralongkorn was proclaimed king on 1 December 2016, following the death of King Bhumibol Adulyadej in October, and will be formally crowned this year. Although the monarch lacks executive power, the late king was a stabilising influence in politics; however, his successor is believed to be less popular than his father. Meanwhile, the 2018 elections will mark the next key test for Thailand's political stability, as the military junta prepares to hand over power to a civilian government.

UZBEKISTAN

COUNTRY RISK SCORE OUT OF 100:

48.9 (UNSTABLE)

Uzbekistan's stability is endangered by the sudden death in late 2016 of former President Islam Karimov, whose autocratic rule guided the country since its independence from the USSR in 1991. Former Prime Minister Shavkat Mirziyoyev was elected president in December 2016, although it is unlikely that he will have the same freedom to act and direct policy as his predecessor. This means that any reforms in the immediate post-Karimov era will be limited.

POLITICAL RISK MAP 2017

Marsh's Political Risk Map 2017 presents a global view of issues facing multinational organisations and investors.

Explore the map to view risk scores for the countries where you may have assets, operations, or investments, or may be considering new opportunities. Choose the overall "Country Risk Index," or view the map by in-country political, economic, or operational risk scores.

To view the interactive map visit marsh.com

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