Risk and Opportunities 2019. What does the New Year hold in prospect?

Oxford Analytica Conference Call summary

North America

The greatest economic risk to North America next year comes from the United States and is that the Trump administration's efforts to reform the international trade system stall or fail, causing economic uncertainty and instability.

This could occur if the US-Mexico-Canada Agreement is not ratified, at least not quickly, or especially if Washington's talks with Beijing falter. In these cases, further trade tariffs might come, forcing businesses to undertake potentially expensive supply chain diversification.

Another possible trigger could be the split control of the US Congress to 2021, between House Democrats and Senate Republicans. This could make fiscal policymaking difficult, potentially hindering US and world economic growth.

The greatest domestic risk regionally next year also comes from the United States. It is that US political divisions among voters and politicians sap faith in formal political institutions, increasing the amount of direct action, such as protests, and, potentially, politics-related violence.

In foreign affairs, on balance the most likely and greatest risk is if Washington's policy towards the Middle East 'goes the other way': Iran could become more hostile to Washington's sanctions and its push for a new nuclear deal or Saudi Arabia could be provoked by possible US Senate-induced sanctions. Any Middle Eastern instability would likely cause oil prices to rise, bringing inflation up with it. In East Asia, US overtures to North Korea or Russia could fail, with serious regional fallouts implied.

The leading economic opportunity for 2019 is that the Trump administration becomes more satisfied with the international trade situation, reaching trade agreements -- especially with China -- that reduce international uncertainty. With Trump's re-election push nearing in 2020, he may be happier to accept more incremental and modest trade reform deals, as he did with the US-Mexico-Canada Agreement.

On the domestic side, while much discussion since the 2018 US midterm elections has suggested that policy gridlock and partisanship will grip Washington for the next two years, a more positive scenario is that the gridlock is not as deep or widespread as feared.

This could see US lawmakers make deals on criminal justice reform, drugs pricing reductions or investing in developing US infrastructure.

In foreign policy, the greatest opportunity is that US rapprochement efforts -- in this case, independent of trade renegotiations -- make positive advances.

This would mean Washington perhaps reaching a more extensive deal with North Korea, building on meetings this year. It could also mean US-Iran and US-Russia ties warming appreciably, though the latter two cases are unlikely.

Asia Pacific

The most serious risk is that the North Korea talks collapse and we see a return to 'fire and fury'.

This would put us in a worse position than before the talks started because Washington might decide that peace has been tried and failed, and therefore strengthen its military capabilities around North Korea. That would antagonise China and risk war with North Korea.

Elsewhere, the region's two largest democracies -- India and Indonesia -- are likely to see religious violence ahead of major polls.

In India, the nationally ruling Bharatiya Janata Party (BJP)'s general election campaign is likely to assume a tone that increases Hindu-Muslim tensions, especially in the BJP's 'Hindu-Hindi' heartlands.

In Indonesia, both candidates in the presidential election will appeal to conservative religious sentiment, increasing the likelihood of violent clashes between security personnel and hard-line Islamist groups.

Lastly, negotiations over the Regional Comprehensive Economic Partnership (RCEP) are likely to be delayed beyond 2019.

The proposed free trade agreement (FTA) involving the ten ASEAN members and six other Asia-Pacific states will require further comprises to address concerns over market access and fair competition.

However, elections in some of the projected bloc's countries will likely preclude substantive discussions before next year's second half.

The first opportunity is the Trans-Pacific Partnership, or, as its now officially called, the Comprehensive and Progressive Agreement for Trans-Pacific (CPTPP). Most of the signatories that are yet to ratify this free trade pact are likely to come on board during 2019 and other countries could join.

There is even an outside chance of the United States showing some renewed interest. A less likely scenario, but potentially a shrewd move, would be for Beijing to seek membership, pre-empting Washington doing so later.

The second opportunity is the likelihood of Beijing and Delhi moving towards closer economic cooperation. The two governments clashed last year over their territorial dispute in the Himalayas, but now their mutual distrust of the Trump administration and China's need for friends during the trade war with the United States is convincing them that they need to work together. We could see the two countries opening their markets to each other, reducing tariff and non-tariff barriers, and boosting bilateral trade. We could also see warmer diplomatic relations, and more cooperation over internal security, along with efforts to make sure that the territorial dispute will not overshadow the whole relationship in future.

Moving on to the third opportunity in the Asia-Pacific region, there may be new opportunities for foreign firms and governments to cooperate with China in space. China launched more spacecraft this year than any other country, and it completed the basic constellation of its BeiDou satellite navigation system, making this a serious alternative to GPS. China is actively looking for partners for its generously funded civil space programme, and customers for its low-cost launch providers. Some serious private-sector start-ups are entering the industry too, and they will be looking for investors.

Russia/Former Soviet Union

In May 2019, Vladimir Putin will be five years away from stepping down as president. He may be running out of ideas. The nationalist wave that boosted Putin's popularity after 2014 has fallen away. It has been replaced by a sense of resentment that the government seems not to be worried about the welfare of its people. Higher taxes and a longer wait for pensionable age are draining public support.

Opinion polls show that people are, for the first time, blaming Putin himself.

Rapid GDP growth is central to Putin's six-year plan for national development but the government's forecasts indicate that this is impossible. The Kremlin's apparent lack of direction and new ideas is a source of political risk.

That said, the government's policy of macroeconomic austerity means the economy will continue growing at modest rates with opportunities for investment in sanctions-free sectors.

Abroad, neither Ukraine nor Syria offers Moscow the chance of a clear victory that would achieve either of two key aims -- expanding leverage on the United States, and pleasing the domestic audience in Russia. The Kremlin might take high-risk steps in existing or new zones of tension in a bid to improve its position. The recent naval confrontation off the coast of Crimea exemplifies the way in which opportunistic moves carry the risk of unintended escalation.

Next year sees critical elections in Ukraine: presidential in March and parliamentary in October. The presidential vote may go to a second round, and Petro Poroshenko may fail to win re-election. Considerable uncertainty will surround his successor, who may be less willing than Poroshenko to meet the IMF's reform demands -- although the winning candidate's pre-election posturing on the issue may be quietly shelved afterwards.

In eastern Ukraine, the electoral cycle will put conflict resolution efforts on hold as Moscow waits to see whether it can exert more leverage on the new administration.

In Central Asia, Uzbekistan is emerging economic facilitator and transport hub, creating new opportunities for investment in the country and the wider region.

In Kazakhstan, we see complete uncertainty about the 2020 presidential election and a possible succession raises the risks. If the current president, Nursultan Nazarbayev, designs and manages a succession process -- and sudden incapacitation does not derail it -- the transition is likely to reveal weaknesses in a system that is so dependent on one man, especially if Moscow tries to intervene covertly to influence the outcome.

Middle East and North Africa

The Iranian economy will suffer following the re-imposition of US sanctions. A likely recession and high levels of inflation, combined with the popular perception that the government is out of touch, will produce spontaneous and organised protests. Hundreds of such protests took place in 2018 and they will expand significantly in 2019. However, they will centre on individual demands, and will lack the leadership or motivation to push for broad political change. The government will respond with a mixture of repression and concession.

In Turkey, global monetary tightening has caught up with the economy, which is particularly vulnerable thanks to its large current account deficit and substantial, mainly private-sector foreign debt. High interest rates, shrinking credit opportunities and low domestic demand will exacerbate the private sector's financial difficulties, deterring investors, threatening to prolong the recession and even spilling over to the banks. However, the government would still be extremely reluctant to resort to an IMF programme.

In Syria, the conflict between government and opposition is effectively over. It has been replaced by interstate rivalry over territory and resources. President Bashar al-Assad's government will consolidate control over recaptured territory. However, it will not make the political concessions required to secure Western funding for reconstruction – funding that its allies, Russia and Iran, do not possess. Consequently, the economic and physical recovery will be partial at best.

Iraq is likely to struggle with insecurity as Islamic State militants have transitioned into an insurgency movement faster than the armed forces have transitioned to counterinsurgency. There are also risks from instability in the oil-rich southern provinces. However, there are likely to be positive moves to end the political and economic isolation of the Kurdistan region.

The Egyptian economy will perform strongly, growing at over 5% a year and the official unemployment rate has fallen below 10% for the first time since 2011. However, this is unlikely to translate into much-improved living standards. This could diminish support for President Abdel Fatah el-Sisi, who may nonetheless amend the constitution to remain in power beyond the end of his term in 2022.

Saudi Arabia will likely see a reconciliation with Western governments following the outcry over the murder of Jamal Khashoggi. Yet the affair has damaged the kingdom's long-term reputation with the international public and many business leaders.

In the other Gulf states, a likely rebound in oil prices provides a promising outlook for public finances. The shock of the slump will continue to drive reforms and diversification efforts. Oman will move forward with privatisation of its electricity infrastructure and Dubai will advance new real estate and commercial projects. Meanwhile, Qatar will permit greater levels of foreign ownership and grant incentives in priority sectors, boosting inward investment.

Sub-Saharan Africa

Disputed elections will weigh on the short-term outlook in several states, not least Mozambique, Nigeria and Congo. A growing opposition challenge will increase pressure on Mozambique's ruling FRELIMO ahead of October's general election. Similarly, a close contest in Nigeria will raise fears of a post-poll crisis.

Congo is expected to hold long-awaited elections before the end of 2018; no matter what the outcome, post-poll instability is likely to linger deep into 2019.

Meanwhile, across the continent the geopolitical environment is shifting.

Traditional stakeholders such as the United States and Europe have narrowed their African engagements, focusing on core concerns such as trade, migration and counterterrorism. Chinese influence will expand further, in addition to the growing sway of non-traditional actors. This is changing the rules of the game for continental elites and contributing to geopolitical volatility.

While great power competition is happening off-stage, its reverberations are felt in Africa, notably from global trade volatility. Already, subdued commodities demand in the United States, EU and China has seen African growth forecasts revised downwards for 2019.

Further price volatility for key export commodities could shift the outlook for economies that have still only partly recovered from the 2014 oil price crash, many of which have not pursued necessary diversification. More broadly, sluggish economic growth in Angola, Nigeria and South Africa still weighs on the overall growth trajectory.

A potentially business-friendly administration in Nigeria, should the opposition People's Democratic Party (PDP) win February's polls, could improve the foreign investment environment; however, a Buhari victory would represent more of the same. Similarly, South African President Cyril Ramaphosa could use an ANC victory in forthcoming elections to validate a post-poll pro-investment agenda. However, reform pushback alongside external headwinds will determine his room to manoeuvre.

Anti-corruption drives will accelerate, as new reform-minded leaders emphasise a renewed focus on good governance.

In South Africa, Ramaphosa will prioritise the renewal of several previously disempowered institutions, while a potentially streamlined cabinet will concentrate on improving sluggish growth prospects. Similarly, Angola's Joao Lourenco will use his enhanced state and party control to intensify a headline anti-graft campaign while expediting economic diversification measures alongside a new IMF funding package.

In the Horn, Ethiopia's new government is driving a remarkable turnaround in traditionally hostile regional relations, although the potential for deeper regional integration may still have limits. Nevertheless, if the current momentum can be sustained, this new dynamic has the potential to reduce conflict and deepen economic linkages.

Latin America

President Andres Manuel Lopez Obrador (AMLO), has promised to transform Mexico, making numerous ambitious pledges, such as to construct 100 new universities, to slash corruption and crime, and to invest heavily in rail infrastructure. However, his failure to explain how his plans will be funded raises doubts over his ability to deliver. Public consultations have given him a vehicle by which to justify his proposals, but with turnout low and results consistently delivering suspiciously high levels of support, they risk becoming redundant in the eyes of the public. The political dominance of the National Regeneration Movement (Morena) suggests AMLO will be able politically to pursue his priorities easily, but differing opinions within the party will cause some problems, with challengers likely to demand referenda on controversial policies that AMLO will struggle to refuse.

Political change will come to Central America in 2019 with new governments in El Salvador, Guatemala and Panama. The main risks for the region, however, come from existing administrations; notably those of Nicaragua -- which will continue to suppress political opposition, driving migrant flows into Costa Rica -- and the United States -- whose aggressive anti-migrant stance threatens to bring aid cuts and increased deportations to the parts of the region that are least prepared to cope.

In Brazil, Jair Bolsonaro will take office on January 1. He campaigned on a hard-right platform including a crackdown on crime, laxer gun laws, a greater military role and easing of environmental regulations in order to stimulate economic activity. So far, however, it is not clear what he will be able to do, with 30 parties represented in Congress and disputes among his supporters. He has already had to roll back on plans to merge the environment and agriculture ministries, he has taken a more nationalist line on privatisations than his University of Chicago economy minister and he has become more conciliatory on China.

In Argentina, President Mauricio Macri will face general elections in October, in the context of economic downturn, an unpopular IMF package, austerity measures and rising support for opposition candidates. Macri seems to play better abroad than at home and his disapproval ratings keep rising. He could still win, but at this point it is uncertain; the prospect that former President Cristina Fernandez de Kirchner could return is likely to put a damper on investment this year.

In Venezuela, President Nicolas Maduro will be sworn in on January 10. Oil output is already under 1.2 million b/d and will probably fall below 1 million next year. The crisis looks likely to continue on a downward spiral, and migrant outflows to neighbouring countries will require increased international aid.

Europe

If the UK Parliament rejects Prime Minister Theresa May's 'withdrawal agreement', she is ousted as a leader of her party, and no alternative and feasible Brexit strategies emerge, the economic consequences of a No-deal would be significant. The United Kingdom would revert to WTO trade rules and face EU external tariffs. The economy would likely shrink and heighten the risk of recession. The EU's economic output would be reduced by around 1.5%, and the EU would probably be forced to cut spending from its budget.

The ongoing conflict between Rome and Brussels over Italy's 2019 budget spending plans could be symbolic of future strained diplomatic relations. The Northern League – one of Italy's ruling parties and the main source of antagonism between the EU and Italy -- is polling strongly and could call a general election to boost its support. A more united Italian government under the leadership of the League could see a long-term worsening in EU-Italy relations.

Minority governments have ruled Spain since November 2016. In 2019, local elections will take place and will be a clear indicator of support for Spain's national parties. With current polls showing a rise for the ruling Socialist Party, its leader Pedro Sanchez may capitalise and call a general election which the party believes will give it more parliamentary power to ensure long-term political and economic stability.

In the Balkans, a risk is a divided Bosnia. The new president of the Serb-dominated half, Milorad Dodik, will cosy up to the Americans in hopes they will take him off their blacklist. Republika Srpska's institutions will be reinforced to facilitate secession, if that becomes a real option. In the Muslim-Croat half, political animosities are impeding coalition-forming after October's elections.

Greece's property market may revive. Greece has exited its bailout and is expected to grow at more than 2% next year. This will provide opportunities for discerning investors and those prepared to take risks, in the property market especially. The use of Airbnb for Athens city breaks is driving the buy-to-let sector. Rich foreigners can pick up large properties at bargain prices.

Poland comes in from the cold. Elections to the European Parliament next May and the national parliament by November could lead the ruling nationalist-traditionalist Law and Justice party to move into the centre. In recent regional elections it had the ambitious aim of building support up towards 50%. That failed. Its U-turn, following an ECJ ruling, to reinstate Supreme Court judges could be a signal it wants to moderate its quarrels with the EU.

International Economy

Conversations are centring on what could trigger a global recession after ten years of solid if not spectacular growth.

Rising interest rates and troublesome trade will dampen 2019 growth, but neither is likely to drive the world into recession. This gives countries an opportunity to implement reforms.

Ageing populations and falling birth rates are reducing workforce growth in advanced and many emerging markets, increasing the importance of improving participation and productivity to drive growth.

This creates the second opportunity -- stronger growth gives countries more resources to tackle inequality and prepare for digitalisation and climate change, reducing the risk of the kind of unrest we've seen in Paris this month.

Thirdly, trade brings opportunities.

Countries will shorten supply chains where possible to avoid the US-China tariffs. Japan's exporters are already benefiting. Chinese firms will wean themselves off depending on the United States for parts and goods trade is less important to Chinese growth than five to ten years ago.

However, trade is a risk as well as an opportunity.

Investment is vulnerable. US, European and Chinese regulators must approve all global deals and by blocking US firm Qualcomm's 44-billion-dollar takeover of Dutch Chipmaker NPL, China was able to score points against the United States by doing precisely nothing. It subsequently used global patent rules to ban iPhone sales in China.

World Trade Organisation disputes are mounting and the system could collapse in 2019. The United States is blocking appointments to the disputes board. Decisions need three judges and two of the three remaining judges' terms expire next December.

Finally on trade, the United States continues to threaten high tariffs on its imports of cars and parts.

The second risk is the move from QE to QT -- 'quantitative easing to quantitative tightening'. The leading central banks' balance sheets are set to contract in 2019 for the first time in ten years.

Fragile emerging markets with high short-term dollar debts, surging credit markets or low reserves are particularly exposed.

Nearly half a trillion dollars of IMF funding is coming up for renewal and the US administration's retreat from multilateralism could delay this, increasing fears for emerging markets assets.

The third risk is that the euro-area faces a higher risk of recession and debt crisis than the United States. Europe's political landscape is fracturing, arguments over fiscal targets will persist and debts are dangerously high in some countries.

International Political Risk

2019 is likely to see progress in important areas of shared global interest:

Ahead of the OECD's final recommendations on 'digital taxation' in 2020, G20 policy debates will intensify next year on the redistributive potential of taxing 'big tech' to reduce wealth inequalities between and within countries. A global consensus is unlikely: attempts at a regional agreement in Europe have failed repeatedly and the current US administration favours a tax-lite corporate regulatory regime. Nonetheless, a rising number of countries (from Europe to Africa) are likely to extend their national tax net. The opportunity is for smaller countries to individually think about their tax policies as a new source of revenue.

Corporate digital responsibility will increase, albeit unevenly, as public and private organisations tighten data protections and overall cybersecurity. Firms with better security and privacy will command higher consumer confidence and avert punishing fines, especially in Europe where the General Data Protection Regulation will enter its second year in May 2019.

Policies on the 'future of work' will sharpen next year with the further consolidation of trends around automation, demographic shifts and technological evolution; countries that prioritise investment in human capital -- especially in health, education and skills -- will boost their longer-term growth prospects.

Three important risks for next year are as follows:

First, climate change. Alarming new information regarding the need to reduce carbon emissions drastically will encourage some governments to increase research and development funding for carbon capture technologies. However, this is unlikely to see them exert sufficient pressure to force industries to cut their emissions. With the effects of climate change already being felt, 2019 will bring more extreme weather phenomena, in the form of droughts, flooding and wildfires.

Secondly, institutional reform. Policies to address workplace harassment, gender pay-gap and gender discrimination will advance unevenly and slowly as powerful interests pushback more stridently against the MeToo campaign next year.

Finally, cyber-security. Geostrategic rivalries will likely be fought more acutely in the cyber domain next year, with attacks ranging from further election meddling (in poll-bound countries such as Canada and India) to the penetration of critical infrastructure. Cybersecurity risk will intensify as the Internet of Things proliferates, as most IoT devices are less secure than conventional smartphones and computers.

VAPOR Country Risk Ratings

The VAPOR Country Risk Ratings and Quarterly Report is a consequence of our work with some of the world's leading organisations, which points to the role political risk is having as a critical driver of market outcomes and corporate performance.

It is rarely, we find, been more central to an organisation's operation and strategies. However, although the necessity of managing the geopolitics of investment has become more pressing, few tools, we find, have been developed to align geopolitical inputs with fundamentals in decision making.

To address this challenge, along with our partner, Willis Towers Watson, we have developed a new approach to anticipating and comparing political risks, one that ties directly to the estimated frequency and impact of geopolitical risk on business.

Based on our proprietary Value At Political Risk, or VAPOR algorithm, we translate geopolitical risk assessments into actionable analysis. It is designed to position forward-thinking companies to do two things; one, having a more precise understanding of their geopolitical exposure; and two, to have a better way of communicating at a high level the related and relative risks and opportunities to both external and internal stakeholders.

The ratings provide global corporations as well as investors a relative measure of commercial political risk for more than 160 countries, each rating incorporates the expected losses for five perils across 14 industries.

VAPOR ratings anticipate where unexpected market exposures will emerge and where headline risk may conceal opportunities for well-prepared organisations.

They have been designed in an easy-to-recognise format: AR ratings capture extremely low to low risk environments; BR ratings capture medium risk environments; CR ratings capture high to extreme risk environments; and F ratings capture what we call unmanageable environments.

The ratings are an independent opinion on political risk that serve as a useful starting point to assess the opportunities and risks of operating or investing in a country.

For organisations requiring a more precise approach of political risk, we provide access to VAPOR Scores, a dataset containing nearly 500,000 political risk data points updated quarterly, and to the full VAPOR service, an online platform designed to provide clients with an in-depth-exposure-analysis and stress-testing capabilities.

You can download more information and the VAPOR Country Risk Ratings Quarterly Report from http://oxan.to/VAPORratings.

Questions:

Africa

What is the likely outcome of elections in Mozambique in October? Will Filipe Nyusi and the ruling FRELIMO party be able to stay in power?

Dissatisfaction with FRELIMO and Nyusi is growing, but the conduct of the recent municipal elections -- where the ruling party won multiple municipalities in contested circumstances -- foreshadows likely messy polls in 2019. RENAMO and the opposition are likely to grow in support in advance of the elections, but FRELIMO and ruling party-aligned authorities may once more resort to underhand tactics to ensure that the opposition does not triumph outright. This threatens prospects in the peace talks between the government and RENAMO over the medium term, as well as heightening the risks of growing public protests as public dissent increases at the lack of reform by Maputo.

A prospective debt deal with bondholders of one set of controversial secret loans will offer Nyusi and FRELIMO some short-term relief, as would new deals with the other remaining two, but could sow the seeds of future unrest as civil society and opposition groups decry the extremely large and unfavourable repayment terms and auctioning of future gas revenues. Relatedly, lingering Islamist-inspired attacks in northern Cabo Delgado province are likely to persist, as is increasing local dissatisfaction in other provinces with new mineral resource investments.

What are some of the political & economic prospects should we look out for in Africa? Factors that may impact doing business.

Factors vary across regions and individual countries, but common factors include corruption, crime, conflict, high costs of doing business, inadequate infrastructure and poor regional linkages.

In the principal regional economies of Angola, Nigeria and South Africa, vested interests and reform pushback will weigh on the broader growth trajectory in each case. In South Africa, for instance, President Cyril Ramaphosa has presided over a much more pro-business administration in his first ten months in office. However, his ability to condition wider economic reforms is hampered by the vested interests of various stakeholders, including trade unions, allies of his predecessor Jacob Zuma, poorly performing state-owned enterprises and the large public-sector workforce resistant to cutbacks.

Rising dissent and protests at poor public service delivery and exorbitantly large unemployment is fertile ground for growing populism, something which will be seen in a variety of countries across the region as ruling elites prove resistant to reform and public anger grows at corruption revelations.

Asia Pacific

Do you anticipate multilateral institutions and the West attempting to counter the Chinese Belt and Road Initiative (BRI) in 2019?

The 'China vs the West' narrative may be comfortable and easy to grasp, but precisely for that reason, we should be wary before looking at the world through that lens. World politics and politics around the BRI itself remain multipolar. In the early years of the BRI, it seemed that the initiative might create opportunities for Western firms, but it soon became clear that China would build the BRI largely by itself and the optimism faded. Western governments began thinking about supporting their firms the way China is. This led Washington to announce a 100-billion-dollar Indo-Pacific Fund, the EU to announce a 70-billion-dollar Eurasian investment fund and Japan and India to announce a 100-billion-dollar Asia-Africa Growth Corridor (although this has not been mentioned lately, perhaps because of rapprochement between India and China). What the West seems to lack is a vision that rivals China's 'new Silk Road'. Without that, it is hard to see their counter-measures capturing the world’s imagination the way the BRI has.

Who will win the presidential election in Indonesia and why?

At this stage, President Joko ‘Jokowi’ Widodo is more likely than challenger Prabowo Subianto to win the presidential election in Indonesia.

Despite the recent downward pressure on the rupiah, Jokowi will point to the country’s strong economic fundamentals and consistent GDP growth of around 5% in recent years. Even if that does not especially convince voters, he is likely in the lead-up to the election to offer fuel and energy subsidies to garner support. That will likely supplement his already established popularity.

Jokowi has also been pragmatic with his choice of running mate. With the cleric Ma'ruf Amin as vice presidential candidate, he can appeal to conservative religious opinion, potentially stealing a march on Prabowo. He will push back on any claims by critics that he is insufficiently committed to Islam.

Having said all that, there are caveats.

Prabowo likely has more support than suggested by opinion polls currently, and his running mate Sandiaga Uno has widespread backing among women and young people.

Prabowo will highlight Jokowi's unfulfilled promise, made ahead of the last election, of 7% GDP growth. He will point to the rising cost of living. He will portray himself as a staunch nationalist as well as business friendly, promising to prioritise local over foreign workers besides cutting corporate and personal income tax. A recent rally in Jakarta suggests he will be ready to play strongly on religious sentiment.

The result is likely to be close, even if Jokowi retains power -- perhaps something similar to the 2014 contest between the same candidates, when Jokowi won with 53% of the vote to Prabowo's 47%.

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Europe

What are the major risks in Central-Eastern Europe, assuming future clashes between the United States, Germany, Russia, and Turkey?

The risk of an outbreak of tensions is not serious.

There will not be open struggle, but Russia will try to seize any opportunity to embarrass the West, to side with Eastern European countries that are not currently happy with the EU and the West in general. Russia has consistently tried to exploit this weak link in Eastern countries.

On the rivalry between Russia and the United States on gas, Russia is the established gas super-power, even though the United States is trying to fight Russia's influence there.

It is not in the interest of Eastern European economies to break their economic ties with Germany, which is the economic powerhouse in Europe.

The risk of Turkey for Central-Eastern Europe is not concerning. Turkey wants to become more of a regional superpower and is trying to do that by expanding its ties with the Balkans and other regions where the Muslim tradition is strong.

What will happen in Poland, Romania, Hungary, Bulgaria?

Poland

Parliamentary elections are due by late 2019. Ruling Law and Justice consistently leads the main opposition Civic Platform (PO) in the polls but could be faltering owing to corruption scandals. It can use the fiscal windfall from economic success to continue its highly popular welfare spending. PO may not pose a serious challenge until its former leader Donald Tusk returns to domestic politics from Brussels once his spell as European Council president expires.

Romania

The Social Democrats, the senior coalition party, are under visible strain. Leader Liviu Dragnea has low approval ratings but exercises control through regional party bosses and has seen off a recent attempt by dissidents to unseat him. Defections have eroded the government's parliamentary majority but Dragnea can cobble support together from non-government MPs. Loyalty being the priority rather than competence or independence, the quality of cabinet ministers is low. Dragnea will take the party rightwards in order to hold onto his core support in the provinces, especially if the economy tanks. The parliamentary opposition is weak and discredited. Street protests against periodic scandals attract metropolitan liberals but will not bring down the government. The population is disaffected but emigration provides a safety-valve. President Klaus Iohannis uses his limited constitutional powers to resist attempts by the executive to take over the judicial system, but he has achieved little and Dragnea may frustrate his re-election in late 2019.

Hungary

The ruling Fidesz party is over-mighty: it has been in power too long (since April 2010), has used its parliamentary majority to capture state institutions, the judiciary and most of the media, and has just won another four years in office. The opposition here, too, is weak but eventually Fidesz will over-play its hand and gather a coalition against itself, probably thanks to blatant corruption. It relies on rallying the population against some hate figure -- immigrants, Muslims, Brussels or George Soros. This 'campaign' style of politics may run out of suitable bogey-men.

Bulgaria

The Borisov government is interested in holding onto office not tackling Bulgaria's problems. Investigative journalists have uncovered scandals suggesting cosy links between business and the government, against the interests of consumers. The ruling coalition is unstable thanks to its reliance on a fractious alliance of far-right parties but Borisov could always turn to the votes of parties outside the government, particularly the Muslim-supported Movement for Rights and Freedoms, which has backed him in the past. Protests will continue against corruption, the high cost of living and the visible depopulation due to dissatisfied Bulgarians emigrating, but with the same lack of success as similar protests in 2013 which only forced Borisov out temporarily.

What are your expectations concerning the sharing of information and collaboration between UK security agencies and its European counterparts after Brexit?

Security is one of the most important realms where the EU and United Kingdom need close cooperation after Brexit. Under the current Brexit deal, both sides are committed to ''effective and swift data sharing and analysis'' in areas such as ''terrorism and serious criminality''.

There is a risk that the United Kingdom will have a lesser influence in Europol, the main intelligence body in the EU. The United Kingdom has been the most influential actor after Germany in leading Europol policies and projects. As Europol membership requires EU membership, the UK-Europol relationship is set to be reduced to a strategic partnership. However, given the significance of the United Kingdom to EU security, information sharing and geographical proximity, Europol will likely seek to establish a much closer cooperation arrangement with the United Kingdom than it has with non-EU actors. This should be consistent with the relationship between other European intelligence agencies and the United Kingdom.

Areas of cooperation that the United Kingdom will lose after Brexit include the European Arrest Warrant, which enables EU members to coordinate arrests in other countries without going through a potentially slow extradition process. Another area will be on satellite information, after the United Kingdom pulled out of the EU's future satellite network, Galileo, which rivals the GPS in the United States and will become increasingly important for location tracking and information sharing on security-related matters.

International economy

What is the potential emerging markets' spill-over risk from the US-China trade dispute?

China's neighbours are vulnerable. One-third of Vietnam's GDP comes from exports to the United States or China and near 15% of Malaysia and Thailand's GDP.

These countries will see some benefit from importers avoiding US goods and 'source-switching' to shorten supply chains. Firms will try and put off relocation decisions, but Vietnam is well positioned to attract firms as its export mix is similar to China.

They will see higher inflation indirectly from the tariffs, and capital outflows as many emerging market funds still treat the emerging Asia region as one.

Turkey is also at risk of more general outflows from emerging markets. The plunge in its imports since its difficult summer is the only thing keeping it out of recession. Once this stabilises, the external deficit will worry investors again.

More positively though, emerging markets investment is growing in sophistication and this will protect domestically driven and politically stable countries from contagion.

What are the prospects for the commodities and equity markets, going forward, as a result of different risks?

OPEC and Russia's agreement to decrease their output by 1.2 million barrels a day will correct the oversupply created by record-Russian and Saudi output and 'softer' than expected US sanctions on Iran.

Donald Trump's regular demands for lower prices to help US firms and consumers could escalate ahead of his 2020 re-election bid.

Saudi Arabia's budget will only balance if prices are over 70 dollars but officials there and in Russia are not immune to fears of high prices reducing demand.

They fear this could increase competition from renewable energies, which are becoming increasingly price competitive.

Saudi Arabia and Russia are also conscious that higher oil prices attract more investment into US shale, intensifying competition for market share.

Weaker demand and higher OPEC, Russian and US output will keep prices towards the lower end of 50 to 80 dollars in 2019.

Stock markets face a challenging 2019 backdrop -- the US S&P 500 equity index is down nearly 10% since October and the rest of the world is down more than 10%.

US and Chinese efforts to become less dependent on each other could curb the bull run in US tech.

Higher rates and lower oil prices are putting corporate bonds under strain and the first inversion of US yields since 2007 is fuelling speculation of slower Fed tightening.

The pace of Fed hikes may slow to just one or two next year, but the tightening supports the stock market by signalling confidence in the US economy.

Donald Trump is railing against the Fed for raising rates too fast but steady increases and financial markets landing softly could boost his re-election campaign.

The dollar, and whether China stimulates its economy more, will also be crucial.

Is there any way of predicting the severity of a potential recession in 2020?

In this environment, any mild shock could deepen the global growth slowdown.

The next recession could be shallower, but longer as the solution is likely to need to be broader and more non-financial than last time -- the recovery from 2008 was largely led by central banks and governments.

Economic and social disparities between regions within the same country have risen, influencing political outcomes in many European countries and in the United States.

Supporting the prospects of disadvantaged groups will play a larger role in the next recession, in advanced and emerging markets.

Triggers to look out for could be trade, debt distress, migration disputes or labour market unrest but these factors could work in tandem to sharply reduce growth rather than one causing all the trouble.

Under the current political and economic circumstances, the multilateral trade system is at risk of breaking up thus leaving us with a pluralist trading system of various country groupings – what are the possible implications?

Canadian and EU-led efforts to reform WTO governance will turn on Washington's stance but getting consensus agreement -- especially from China -- will take a long time.

Other countries will fill the void left by the United States' retreat from multilateralism -- for example redoubling their commitment to the Paris agreement or the Trans-Pacific Partnership.

Moreover, many governments will wait for the end of Trump's tenure. However, whatever the composition of the next US administration, the WTO will still struggle to reach global consensus, and IMF bailouts will still likely be getting costlier and more contentious.

Multilateralism already faced many challenges before Trump, and while a less hostile US administration would make progressing these challenges easier, we may be moving towards gradually less multilateralism and more pluralism in the 2020s.

This could then prompt a return to more multilateralism -- but much political fragmentation will have to be overcome worldwide.

International political risk

What are five top risks for 2019?

Five of our top risks for 2019 are, in alphabetical order:

China: The trade and technology conflict with the United States escalates to a 'whole government' cold war on both sides.

EU: Germany and France's joint leadership loses traction in the face of populism, European Parliamentary elections see significant gains by far-right parties and the split between Western and Eastern member states deepens, sending the 'European project' into crisis.

Global economy: US monetary tightening raises the risks for fragile emerging economies and fragmented, highly indebted euro countries, prompting at least one regional financial crisis.

Iran: US pressure fails to reverse Tehran's direction and regional policies, and proxy conflict with Saudi Arabia turns 'hot'.

North Korea: Rapprochement with the United States breaks down, and there is a return to a military standoff over nuclear missiles, or worse.

You might also want to take a look at our Global Risk Monitor which tracks ten global risks. https://grm.oxan.com/.

How much cyber interference can we expect in elections in 2019?

The prospect of election meddling through technological means is a major risk in 2019 as many countries face important polls: Indonesia, India, Canada, Bangladesh, South Africa, Nigeria, Mozambique, to name a few. In all these countries social media use is extensive. On social media, extreme political views tend to dominate and fake news, especially on politics, tend to spread faster and wider than truthful news and facts. In the case of India, the concern is significant; the incumbent government is using tech platforms to mobilise voters. Political misinformation has already led to political violence, so the risk of violence and voter manipulation should be monitored closely. In terms of geopolitical rivalries, Canada will be an important place to watch: it is possible that Russia may attempt to meddle, and Canada is aware of this risk. Any meddling here would potentially have consequences for as Canada is part of the NATO Alliance and for the Five Eyes countries.

How do you measure the qualitative effects of global and business risks in the coming years?

We can recommend no better set of tools than our suite of VAPOR products, which are based on qualitative input from our Analysts and expert contributors into quantitative models. This combination allows VAPOR products to capture current and forward-looking issues. The suite encompasses our new VAPOR Ratings, which are letter-graded country political risk ratings, similar to the familiar credit ratings from the credit rating agencies, and which rate more than 160 countries and 14 industries against five standard political perils -- war and political violence, expropriation, capital controls, trade embargo and sovereign default. For those who need more precise analysis of their organisation's exposure, we offer VAPOR Scores, which gives access to the underlying data from which the VAPOR Ratings are derived, and are suitable for integration into risk models; and VAPOR itself, a platform service that enables an organisation to monitor average and probable maximum expected losses from political risk based on a specific asset portfolio and to run scenario analysis against exposures. Fuller details are here, where you can also download our quarterly VAPOR Quarterly Report.

Latin America

What options does President-elect Jair Bolsonaro have in order to deal with the rising crime in Rio de Janeiro, once the Federal intervention ends this December?

The proposal at the moment is to increase military intervention and to change the law to allow the police to shoot to kill at criminal suspects, including from helicopters. This policy in the past has had the result of increasing civilian casualties and not reducing criminal activity. Rio de Janeiro is the centre of a war between various drug gangs, and at the moment there are no proposals that suggest any success in dealing with this situation.

Bolsonaro has proposed to put the armed forces on the streets to fight crime, but here again, there may be some dissent among his supporters – members of the forces on active service are unlikely to be in favour of having to perform policing duties for which they are not well trained.

What is the outlook for Central America migration to the United States in 2019?

Andres Manuel Lopez Obrador's election in Mexico has brought hope for a long-term solution to the issue of the asylum seekers and migrants. He pledged to take a more humanitarian approach and entered talks with Washington over a new plan based on increasing investments in the Northern Triangle countries (Guatemala, El Salvador, Honduras) to tackle some of the problems that force people to leave, together with more investments into Southern Mexico to make it a more attractable destination for South American migrants and to integrate them into Mexico's life.

AMLO wants people to settle in Mexico and have visas if they so choose. Mexico should have the capacity to do this and the plan offers potential long-term solutions to some of the dangers that face asylum seekers and to the tensions with the United States.

Nevertheless, the plan will require a major societal attitude shift among central Americans for them to look at Mexico as a final destination rather than the United States. The family and emotional ties of the Northern Triangle countries to the United States are strong.

If the plan is fully implemented, it could raise tensions between locals and incomers. Also, it would do little to help the 10,000 asylum seekers who are currently in Tijuana waiting to be processed by US authorities. More violence at the borders in the coming months is increasingly likely.

What are the Duque administration ambitions and the challenges to implementing the 2016 peace accord?

The prospect for the peace process looks weak under President Duque. Duque and his party, the Democratic Centre (DC), have strongly opposed making peace with the FARC. He is unlikely to try to actively roll back any part of the peace process put into place under former President Santos, but he showed little interest in pursuing it.

The process will crumble through neglect, with more and more former fighters taking up arms again either with FARC dissident groups or other non-state armed groups. This has already started to happen.

In the case of the ELN, the peace talks are dead. The command of the ELN has shown as little interest as the government in a peace process. The ELN has been expanding into Venezuela and increasing the number of its recruits, and this lowers even more the interest of its middle-level commanders in peace talks.

Increased military investment on the government's part and a more hard-line approach towards drugs are likely to make successful peace-processes even less plausible.

What is the future of the student protests in Colombia?

Student protests are a regular occurrence in Colombian cities, but the demonstrations of recent weeks have been unusual in their size and level of coordination. Having taken office only in August, President Ivan Duque's public approval ratings have plummeted, to as low as 20% by some estimates. He now faces his most serious political crisis to date.

Protests are unlikely to die down without a marked increase in funding for public education, and even that may not be enough to break their momentum. The expressions of anger have already spread beyond the student population to other sectors of society, frustrated by a wide variety of issues, including recent tax measures and allegations of corruption.

Duque will reassert his professed determination to tackle corruption but results in terms of bringing perpetrators to justice will take time. Meanwhile, more individuals (many of them from Duque's party) are likely to become embroiled in the investigations.

A Cabinet reshuffle is likely. That could help Duque regain control of some ministries and placate the public somewhat, but it would present difficulties in itself -- fresh faces often lack experience, while experienced political players are more likely to have questions to answer about their past conduct.

However Duque handles the protests, his approval ratings are unlikely to recover substantially. He will remain an unpopular president for the rest of his term, with little room for error in the eyes of the public. That will make further large-scale protests more likely in future.

Middle East and North Africa

What are the prospects of the growing interest of the Gulf States in the Horn of Africa?

The Gulf states have enduring political, security and commercial interests in the Horn of Africa. This is unlikely to change dramatically in 2019. However, whereas in 2018 Gulf engagement was deeply destabilising, the outlook for 2019 is far less volatile.

Dynamics in 2018 were largely influenced by the ways in which the Gulf's engagement in the Horn transplanted the rivalries among the Gulf states into geopolitical competition on African shores and by how this in turn aggravated existing domestic and regional divides within the Horn.

Now, competition among the Gulf states is less acute. The tensions are far from resolved, but the intensity of the frictions has eased a little. Secondly, regional relations in the Horn have improved, largely as a consequence of regional peace initiatives led by Ethiopia. These initiatives have been backed politically and financially by Saudi Arabia and the United Arab Emirates, which have astutely recognised that Ethiopia is the indispensable player in the Horn and is capable of mediating their interests among the countries of the Horn.

For now, all sides appear to have recognised that the positive potential sides of these shifts warrants putting old rivalries to one side. Politics on both sides of the Red Sea, however, are notoriously volatile and tensions could resurface again if new developments unsettle what is still a fragile balance.

North America

What are the escalation possibilities in the trade war between China and the United States?

The 90-day "trade-truce" agreed by President's Trump and Xi on December 1 during the G20 meeting in Buenos Aires is intended to provide an opportunity for the United States and China to improve their trading relations. This will likely involve making changes on both sides; there is no guarantee of success since both sides have interests in making some of these changes but not all of them. By March next year, we will see if enough progress has been made. If not, the imposition of new tariffs is likely, and the trade war would enter a new, grave phase. The catalyst for progress would be to avoid any trade war, but also, on the US domestic side, given how President Trump will be looking for re-election, would be the opportunity to show how he avoided escalating tensions and protected US interests.