



Competing leadership styles and political turbulence: will markets finally respond in 2018?

By Richard Fenning

2018 looks set to deliver the highest economic growth in ten years, a sign that the global financial crisis might finally be behind us. This is of course good news for international business. But the surge in business confidence is tempered by a sense that despite bullish economic data, the year ahead seems beset by uncertainty and confusion. This is the dichotomy that defines 2018: when outside is blue skies and sunshine, why are so many people preoccupied by the threat of dark clouds and destructive storms?

In RiskMap 2018, we examine a world where the prevalence of a leadership style – highly personalised and assertive – is shaping and perhaps exaggerating our perception of the risks we face. Even so, some of the issues that confront us in 2018 are among the toughest the world has faced in a while. We do not make that statement lightly. Control Risks is not prone to hyperbole.

Some of the most pressing leadership challenges include the immediate need to de-escalate tensions over North Korea, the regional rivalries re-shaping the Middle East, and the rapidly evolving challenges of regulating a global, multi-stakeholder and cyber-vulnerable digital economy. The threat of damaging trade disputes has not gone away. Running through all these issues is a virulent strain of digitally fuelled populism – itself a by-product of the inequities crystallised by the global financial crisis and rapid technological change.

And here is the conundrum: in the face of these profound challenges to the stability and predictability that international business craves, the combination of strong GDP growth and the availability of cheap money is fuelling corporate profits and stock market highs almost regardless of the uncharted challenges to global equilibrium.

This is a different dynamic. It is almost as if each time some kind of acute geopolitical drama unfolds, markets pause, catch their breath and then quickly discount the likely impact, and the party continues. Nevertheless, 2018 presents a series of complex issues that will test the mettle of leaders of all persuasions and the optimism of investors. These include:

- ▶ How can the nuclear-tipped ambitions of North Korea be reconciled with South Korean, Chinese, Japanese and US national security, and avoid the possibility of military action?
- ▶ Is it too late for Europe to recover the grand EU vision from the centrifugal force of nationalism, and will this inevitable period of self-absorption mark a permanent decline in Europe's influence?
- ▶ Saudi Arabia has embarked on an extraordinary and exciting journey that seeks to cast off the old system of power patronage and embrace a new technocratic state. Under Mohamed bin Salman, the country means to stamp its authority on a fractured Middle East and challenge what it regards as the expansionist ambitions of its rival, Iran.



- ▶ How can Prime Minister Narendra Modi accelerate the modernisation of the Indian economy without being constrained by a swing to the conservative identity politics of Hindu nationalism and the politics of division?
- ▶ President Xi Jinping is set on reasserting the power of the Communist Party, but over a China whose economic dynamism and global reach make it unrecognisable from the country his notable predecessors governed. He has enhanced his personal hold on power during 2017 and has set out a bold ambition for a global China. But continued economic reforms necessary for long-term growth remain hard to implement.
- ▶ The common denominator for all countries is the twin threats of cyber attack and terrorism. No state is immune. Each threat has entered a new and potentially more dangerous phase in how it materialises, necessitating new corporate strategies to respond effectively.

Then there is the matter of US power. The noise generated around the polarising presidency of Donald Trump has fuelled the notion that the US is on a downward trajectory. This is wrong. The world has inevitably shifted around the US and now the stand-off between its two competing identities, global superpower and domestic republic, is out in the open. Call it a period of intense introspection. The US is not going away.

Informing all these dynamics, in their myriad and contextualised forms, are nationalist sentiment and digital populism. Wherever leaders stand on the spectrum of liberty and control, they cannot ignore this reality.

For businesses, this comes at a time of fierce competition not only for new markets, but over the very rules of the game. Technology, the great indiscriminating enabler, is subjecting political and business leaders – and societies for that matter – to relentless pressure. Authoritarian governments worried about control, or democracies concerned about privacy and democratic integrity have all been outpaced by innovators racing on the nitrous oxide of technology. 2018 will be the year political leaders try – and mostly fail – to take back the lead.

Across ideologies and imperatives, governments will move to control the use of data and cyberspace by organisations and individuals. They are intruding more directly on international business. In Europe, new data protection regulations, and more aggressive anti-trust, tax and labour enforcement have called time on what many regulators regard as a period of excessive *laissez-faire* for the digital economy. In China, the government is determined to strengthen the concept of internet sovereignty. In the US and other democracies, the market power of the internet giants will occupy legislators. Scrutiny of foreign investments, as well as mergers and acquisitions, is getting more politicised.

Elsewhere, leadership will be tested as local political movements assert themselves more strongly. In Latin America, a series of critical elections – Brazil, Colombia, Mexico and Venezuela – will test the resolve of anti-corruption and reformist movements. In India, the ruling Bharatiya Janata Party will have to satisfy its Hindu nationalist base that economic reforms fit their agenda ahead of state elections. Across Africa, investors as well as grassroots activists are planning for the day when geriatric ruling elites leave the political scene.

The major risk, of course, is that the next world order will be imposed, not agreed. Warning signs abound. The US and North Korea engage in nuclear brinksmanship. Meanwhile, Saudi Arabia and Iran have taken the gloves off in Yemen, and their rivalry will continue to inform regional conflicts.

Describing the challenges and complexities facing the world in 2018, it is easy to forget that the economic outlook remains bright. How and when markets lose their resilience to risk will be played out in a drama of localised triggers and ripple effects. But it will be a year when optimism needs to be tempered with an appropriate amount of clear-headed prudence.



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CORE provides incisive analysis and forecasting on geopolitical and security issues, comprehensive country risk ratings, an extensive database of incidents, plus visualisation and analytics tools.
