

Aon Risk Solutions
Global Broking Centre | Crisis Management

2018 Risk Maps

Aon's guide to Political Risk,
Terrorism & Political Violence

Aon
Empower Results®

In partnership with **The Risk Advisory Group** and **Continuum Economics**

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A comprehensive view of risk

Aon's Risk Maps provide comprehensive insights into some of the most challenging risks facing firms operating worldwide, acting as an invaluable barometer for those seeking to understand and respond to the risks they face internationally.

Drawing on comprehensive insights from our partners The Risk Advisory Group and Continuum Economics, the maps and their underlying analysis address some of the most pressing issues facing our clients in the crisis management space.

The risks analysed – terrorism, political violence and political risk – are esoteric and fast-moving. Consequently businesses find themselves uniquely challenged as they seek to respond to existing and emerging vulnerabilities.

The role of the maps and their insights is to inform clients' risk transfer and risk resilience strategies, and Aon is working with its global clients to better respond to these risks informed by comprehensive insights from our team and our partners.

We hope that you find the findings from this year's launch insightful and should you need to discuss any aspects of your insurance coverage – or how these risks affect your exposures – please do contact the team.

Vlad Bobko

Head of Crisis Management
Aon






A comparison of the perils across the two maps

Political Risk Perils

-  Exchange transfer
-  Sovereign non-payment
-  Political interference
-  Supply chain disruption
-  Legal and regulatory
-  Political violence

Terrorism and Political Violence Risk Perils

-  Terrorism and sabotage
-  Strikes, riots, civil commotion and malicious damage
-  Insurrection, revolution, rebellion, mutiny, coupe d'état, civil war and war

TERRORISM & POLITICAL VIOLENCE





Leaders' commentary

The 2018 issue of our Terrorism and Political Violence Risk Map presents a stark picture. Partnered with Risk Advisory for the last eleven years to deliver actionable risk management insight, this year's rating changes illustrate a more complex risk environment, requiring more articulate solutions to manage and respond to potential impacts.

Our analysis shows growing strategic risks from the deterioration of governance in already challenged regions and the increasingly combative stance governments are prepared to take. Forward-leaning, populist governments have increased the potential for internal, domestic dissent as well as cross-border conflict, resulting in violent events affecting much wider areas.

The deterioration in governance gives space to terrorist groups to sustain their operations and, as we have seen throughout 2017, threaten and attack beyond their borders. Strategic issues are often seen as ephemeral risks for many organisations. However, we see them creating the opportunity for terrorist groups to reach out and impact populations and businesses at an immediate, tactical level across the world. This presents real and present challenges for individual risk managers to respond to.

The impacts from political violence and terrorism have the potential to confront an organisations' people, operations, assets, revenue generation and supply chains. As risk managers consider how best to mitigate and insure the associated risks, it is important to understand where they are exposed and to what. Clarity on exposure allows organisations to align investment where it will have most success. This is as true for say security, as it is for insurance investment; particularly so for insurance, where the impacts cross traditional insurance solutions, not all of which may be designed to accommodate losses from these perils.

The Terrorism & Political Violence Risk Map is a tool to help illustrate exposure and to support decision-making within organisations. The map empowers Aon to help our clients navigate what are often unfamiliar risks, delivering responsive insurance solutions at a tactical level, while delivering financial resilience in the face of a continually evolving risk.

Scott Bolton
Director ,Crisis Management
Aon



This is the eleventh year Risk Advisory has partnered with Aon to produce the Terrorism & Political Violence Risk Map. The country risk ratings represent the joint assessments of Risk Advisory and Aon, and aim to provide a global overview of the level of probable exposures that businesses and their supply chains have to the range of insurable political violence risks in 2018.

The findings of the Terrorism & Political Violence Map 2018 point to a more unstable and dangerous world, where business-threatening geopolitical risks are becoming a much greater concern. For the third year running, we have increased the risk levels for more countries than we have reduced. The ratings capture persisting and diversifying terrorist threats, but significantly this year, they also capture the impact of resurgent nationalism and authoritarianism.

While civil unrest and terrorism dominate the ratings for most countries, the likelihood of interstate conflict involving major powers has, in our judgement, reached the highest point since the end of the Cold War. Growing geopolitical competition, what the US administration has termed Russian and Chinese 'revisionism', and a leadership deficit in international diplomacy all contribute to sustained or increased risks of armed conflict. They also mean that more vulnerable countries are at greater risk of political violence from within, and are more exposed to instability spreading from external conflicts.

Our findings also show that these risks are not only a concern in developing and emerging markets. Developed economies also have rising risk exposures. Tensions between Russia and the West, for example, mean the risks of unrest, political divisions and instability, and even conflict are rising. The terrorist threat also persists, although the global threat from Islamic State seems to be waning somewhat.

In such a unsettled environment, it is imperative that businesses invest in world class risk management programmes. These should be intelligence-led, anticipatory, adaptive and insured against fast moving events. This Terrorism & Political Violence Risk Map is intended to provide a guide on where to prioritise such investments.

Henry Wilkinson
Head of Intelligence & Analysis
The Risk Advisory Group



High-level themes

- Overall political violence risk levels worldwide increased for the third year in a row, with 17 countries receiving increased risk ratings and only six receiving reduced risk ratings
- Forty percent of countries are assessed as being exposed to terrorism and sabotage risks
- Sixty percent of countries are exposed to strikes, riots and civil commotion risks (SRCCMD)
- One third of countries are exposed to civil war, interstate war, or coup risks
- The threat posed by Islamic State (IS) has stopped spreading, but has not yet receded
- IS and its followers mounted attacks in 29 countries in 2017, the same as in 2016
- In Western countries, Islamic State (IS) claimed fewer attacks in 2017 (14) compared to 2016 (19), and the number of IS-inspired attacks only rose by one (from 14 to 15)
- In terms of the total number of terrorist attacks, the Middle East and South Asia were the two regions most affected by terrorism in 2017. Latin America and Eurasia were the least affected
- The five countries with the highest number of terrorist attacks in 2017 were Iraq, India, Somalia, Pakistan, and Nigeria, in descending order
- Eight percent of all terrorist incidents in 2017 targeted businesses. Roughly 75% of these targeted oil and gas, mining, transport, construction, and critical infrastructure. The rest were directed at retail, media, finance and tourism



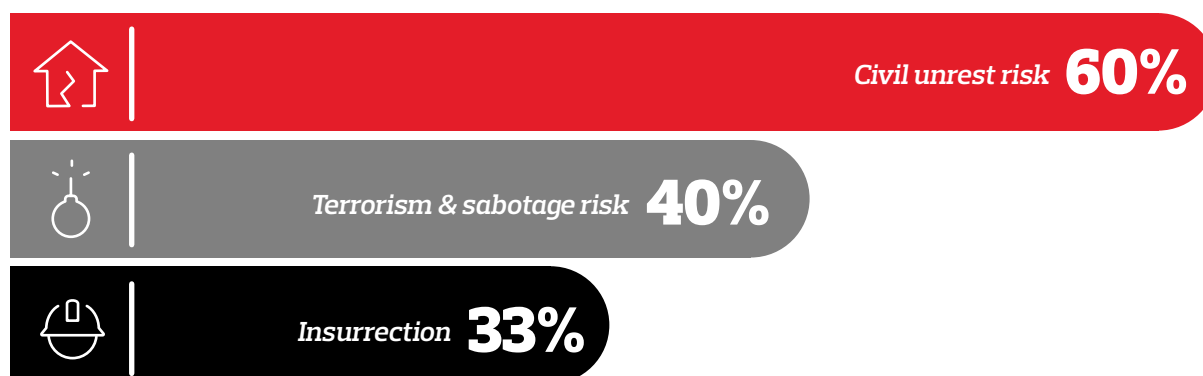
Score changes

Score increase		Score decrease	
Country	Rating	Country	Rating
Belarus	Low to Med	Angola	High to Med
Bosnia & Herzegovina	Med to High	The Gambia	High to Med
Czech Republic	Negligible to Low	Kenya	High to Med
Ethiopia	High to Severe	Madagascar	High to Med
Finland	Negligible to Low	Portugal	Low to Negligible
Honduras	Med to High	Zimbabwe	High to Med
Macedonia	Low to Med		
Myanmar	Med to High		
North Korea	High to Severe		
Norway	Negligible to Low		
Poland	Low to Med		
Slovakia	Negligible to Low		
South Korea	Med to High		
Spain	Low to Med		
Togo	Med to High		
Trinidad & Tobado	Negligible to Low		
Venezuela	High to Severe		

Political violence risk increases worldwide

Political violence risks are rising globally, due to geopolitical tensions, a weakening of liberal democratic governance, and the repercussive effects of chronic conflicts around the globe. The Aon Terrorism & Political Violence Map 2018 depicts a net increase in political violence risks worldwide. For the third successive year, more country risk ratings have increased (17) than decreased (6). This year, 40% of countries are listed as being exposed to terrorism and sabotage risk, 60% to civil unrest risk, and 33% to insurrection, war or coup risk. Forty-six countries or territories are now rated as high or severe risk, representing 22% of the global total.

Global risk exposure in 2017



22% of countries are now rated as high or severe risk

As in previous years, the highest terrorism and political violence risk ratings are clustered in the Middle East, North Africa and Sub-Saharan Africa. However, some countries in Sub-Saharan Africa have seen improvements over the last year, particularly Angola and Zimbabwe. Both countries underwent a change of government in 2017. Whether the new governments implement promised reforms is likely to determine their risk outlook, but the present conditions have secured them reduced risk ratings.

There is no single explanation for why more countries are exposed to political violence risks worldwide. Complex and protracted armed conflicts with multiple state and non-state actors are an important contributing factor, and have a degrading effect on stability and security in their wider regions. A wider shift to more authoritarian governance and populist nationalism is also a factor behind the net increase in political violence risk, particularly in respect to war and civil commotion risks.

The likelihood of interstate conflict, even involving major powers, is in our judgement at the highest point since the end of the Cold War. Growing geopolitical competition, and weak leadership in international diplomacy have contributed to sustained or increased risks of armed conflict over the last year. Growing rates of polarisation over political, economic and social issues in mature democracies, and divisions between Western powers in the face of complex threats and risks, also contributes to worsening global security and greater strategic uncertainty.

The risk of both intended and unintended escalation remains elevated, while the US, Russia, Iran, Turkey, and Gulf powers are pursuing conflicting goals in active conflicts, particularly in Syria. While on the Korean Peninsula, heightened tensions throughout 2017 have also created a high level of conflict risk involving multiple regional and global powers. We have therefore raised our country risk levels for South Korea and North Korea in 2018, and a war peril remains in place for both countries in spite of some diplomatic engagement in the opening months of 2018.

The threat posed by Islamic State (IS) has stopped spreading – but it has not yet receded. According to Risk Advisory and Aon data, IS members and sympathisers mounted terrorist attacks in 29 countries

on five continents in 2017, the same number of countries as in 2016 and up from 19 countries in 2015. But the global reach of IS seems to have peaked, and having lost almost all of the territory it once held in Syria and Iraq, it appears likely that the number of countries where it is able to mount attacks, or inspire others to do so, will fall in 2018.

IS attacks in Western countries



Eight percent of all terrorist incidents in 2017 targeted businesses. Roughly 75% of these targeted oil and gas, mining, transport, construction, and critical infrastructure. The rest were directed at retail, media, finance and tourism.

Non-state actors also pushed up political violence risks worldwide in 2017. Intensified political activism and labour strikes have sustained or increased SRCCMD risks globally, particularly in Eastern Europe and the Balkans, where we have raised the country risk ratings for Belarus, Bosnia & Herzegovina, Czech Republic, Macedonia, and Poland. Political instability, covert Russian influence operations, and divisive government policies have all contributed to this cluster of risk increases.

We have allocated the SRCCMD peril to sixty percent of countries and territories in 2018. Their risk of exposure to disruptive strikes, or large and violent demonstrations is mainly due to socio-economic grievances. Despite positive forecasts of global economic growth in 2018, unevenness in this growth, growing inequality worldwide, and creeping authoritarianism and political exclusion are all destabilising factors.

Public dissatisfaction rates typically simmer for years before a sudden flare-up of unrest. A series of sudden and large anti-government demonstrations in Tunisia and Iran in early 2018 are examples of this. They also demonstrate how contemporaneous economic and political triggers coupled with long-standing, repressed frustration with the authorities can generate large and disruptive protest movements without warning.

Strikes, riots and civil commotion risks are generally low in Central Asia, where all but Uzbekistan are assessed as medium risk. They are liable to grow, however, as the region engages with the Chinese One Belt One Road Initiative. This is particularly true in Kazakhstan, where proposed reforms that

would have benefited foreign workers and investors led to Sinophobic demonstrations in April and May 2016.

Terrorism trends in the West

The number of terrorist attacks in Western countries in 2017 (204) was roughly double that of 2016 (96). But the total number of casualties in both years was broadly the same (1,092 in 2017), meaning that the lethality of attacks has fallen.

Far-left extremists pose a growing threat of property damage and sabotage. The number of arson attacks in Western countries doubled in 2017 compared with 2016. Anarchists are the main perpetrators of terrorist arson attacks, which appear intended more as acts of sabotage. None of the attacks in the last two years have resulted in fatalities.

The use of vehicles as improvised weapons was the most lethal form of attack in Western countries for the second consecutive year in 2017, with an average of 2.7 fatalities per incident. This marks a 75% drop from 2016, when vehicular attacks resulted in an average of 11 fatalities per incident. The difference stems at least in part from the use of large trucks in attacks in Nice and Berlin in 2016, compared to the use of smaller vehicles in 2017. Greater scrutiny of people seeking to rent large vehicles in Western countries has probably contributed to this shift.

Terrorist attacks in Western countries



Terrorist bombings in the West have become less lethal. A suicide bombing outside a pop concert in Manchester in May was the only lethal terrorist bombing in a Western country in 2017. Most other bombs either failed to detonate properly or appeared intended to only cause property damage. Although the number of bomb attacks increased from 46 to 53 incidents in the West between 2016 and 2017, the tactic resulted in an average of 0.41 fatalities per incident, down from an average of 1.4 fatalities in the previous year.

Southeast Asia: Islamic State poses a sustained regional threat

Despite the absence of a spectacular attack by Islamic State (IS) in Southeast Asia in 2017, the jihadist movement poses a sustained threat in the region. The threat is most severe in the Philippines, where various IS-linked factions seized control of the southern city of Marawi in May 2017, but it also extends in lesser degrees to neighboring Malaysia, Indonesia and Singapore. IS propaganda has devoted significant attention to Southeast Asia, particularly since 2016, but the capability of IS militants to mount major attacks appears limited in most parts of the region.

Jihadist groups have long been active in Indonesia and the Philippines in particular, but the declaration of an IS 'caliphate' in Syria and Iraq led to the rebranding of existing extremist groups and the formation of new networks. It also provided a radicalising voice and IS figures in Iraq and Syria gave instruction and direction to local supporters through online propaganda and communication.

Most importantly in terms of terrorism and armed conflict risk, IS appeared to provide a unifying framework for the different Islamist factions operating in the Philippines, binding them into a more coherent and capable force. IS formally acknowledged pledges of allegiances from these groups in 2016, naming the leader of Abu Sayyaf in Basilan, Isnilon Hapilon, as the head of its regional affiliate, Islamic State East Asia.

A series of attacks and foiled plots in Singapore, Indonesia, Malaysia and the Philippines followed the first IS-linked attack in Southeast Asia, in Jakarta in January 2016. This was before the full scale of the threat from such groups became clear in May 2017, when IS-affiliated fighters launched an assault on the town of Marawi on the southern Philippine island of Mindanao. Extremists took control of the city and resisted security force operations to recapture it for five months.

2017

74%

increase in
IS-linked attacks

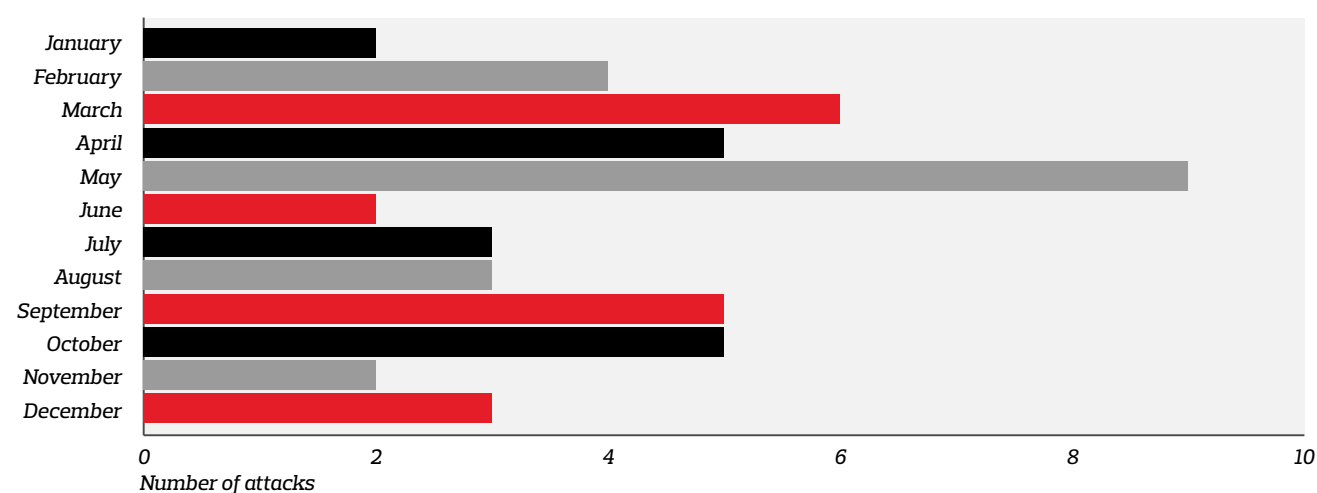


The authorities revealed, after the battle, that IS leadership had provided funding to the militants. The authorities reported the deaths of 1,100 people during the siege – among them 900 militants and senior commanders, including Hapilon. But the Philippine and Australian governments have both indicated in 2018 that these IS-linked groups are ‘regrouping’ in the south.

Risk Advisory and Aon TerrorismTracker data shows no decline in activity this year:

IS-affiliated groups mounted an average of four attacks a month in 2017, a 74% increase from the average of 2.3 attacks a month recorded in 2016. The trend seems to continue in 2018 as our data indicates that these factions mount three attacks per month on average.

IS-linked attacks in the Philippines in 2017.



Despite an absence of data in support of such a trend, regional governments have repeatedly expressed concern about the potential for the southern Philippines to become a haven for returnee fighters and other extremists. Since January 2018, the authorities have arrested two foreign IS suspects, a North African in Manila and a Spaniard in Basilan. And the Malaysian authorities announced in late February that they had arrested 10 people suspected of smuggling IS fighters into the southern Philippines.

The Moro Islamic Liberation Front (MILF), which signed a peace treaty with the Philippine government in 2014, corroborated these reports of IS infiltration in late 2017 and early 2018. It said that an unspecified number of IS fighters from Indonesia, Malaysia and the Middle East had entered the country, and that pro-IS groups are planning to launch attacks against the cities of Iligan and Cotabato in Mindanao.

Risk Advisory recorded seven Jihadist attacks in Indonesia in 2017 – including a double suicide bombing at a bus station in West Jakarta in May 2017 – and none in Malaysia and Singapore, compared with 14 attacks in Malaysia and Indonesia in 2016. However, the threats of terrorist attacks is still generally high across the region, particularly attacks mounted by lone actors using crude and improvised weapons.

So far, regional security forces have been largely effective in monitoring and disrupting networks that are planning attacks. The authorities disrupted a total of 11 plots in Malaysia and Indonesia in 2017, and none have been reported publicly in Singapore after at least two foiled plots in the city state the previous year.

Saudi Arabia: Risk and the politics of force

The overall terrorism and political violence risk level for Saudi Arabia is high. The country also retains all three insurable perils on the 2018 Terrorism & Political Violence Risk Map. King Salman appointed his son, Mohammed bin Salman (MbS), as crown prince in 2017. The young prince has since moved to consolidate his power and has accrued significant and seemingly unchecked control over foreign policy, domestic affairs, security and the economy.

MbS will push forward with the ambitious Vision 2030 reforms this year. These include cuts to welfare programmes, and a widespread programme of privatisation. This will probably lead to some public dissatisfaction, particularly in the poorer segments of Saudi society. Nonetheless, the risk of widespread hardship protests is low. This is because there are severe restrictions on public protests and in the past security forces have used violence to contain and prevent demonstrations.

Tensions between the government and the minority Shia community remain a source of unrest in Saudi Arabia. This issue is most acute in the Eastern Province. Indeed, a bout of violent unrest took place there in May 2017, lasting a few weeks. This was over the government demolition of buildings in the Masoura district of Awamiyah, north of Qatif. Armed men opposed to the demolition targeted construction equipment but escalated to targeting security forces using explosives and firearms. While this turmoil has subsided, several men from the area are awaiting execution. Opposition groups have organised protests in response to the authorities carrying out executions in previous years and these have often turned violent. The authorities typically move quickly to disperse such gatherings.

State and domestic security forces appear to remain priority targets for terrorists in Saudi Arabia, however last year there was a fall in the frequency of terrorist attacks in the Kingdom. Risk Advisory recorded six terrorist attacks in Saudi Arabia in 2017 compared with 29 in 2016. The majority of these were shootings in large cities such as Riyadh, Jeddah and Mecca. However, there was at least one bombing last year, when a suicide-attacker detonated his device as police moved in to arrest him in Mecca. This incident demonstrated that militants in the Kingdom remain capable of manufacturing or acquiring viable explosive devices.

Terrorist attacks in Saudi Arabia



The authorities increased the frequency of their counter terrorism operations during 2017 which probably contributed to lowering the number of attacks in major cities. Risk Advisory analysis of jihadist propaganda online suggests that both Al-Qaeda in the Arabian Peninsula (AQAP) and IS remain highly motivated to mount attacks inside Saudi Arabia. However, neither of these groups has claimed responsibility for an attack in the Kingdom since 2016.

The Yemen-based Houthi movement has continued its cross-border attacks and insurgency in the far south of Saudi Arabia. The movement continued the development of its ballistic missile arsenal in Yemen and fired at least 20 ballistic missiles into Saudi Arabia in 2017 compared to at least 12 in 2016. And last year the group demonstrated that it is able to fire these missiles at a greater range.

The Yemen-based Houthi movement, missiles fired into Saudi Arabia



In November, the Houthis proved capable of firing a missile up to 900 km, having previously claimed they had this capability. This places most of the Saudi Arabia's major cities within range. The group has claimed that it has targeted military bases, airports and infrastructure with these missiles. The Saudi authorities have said that they intercepted these missiles, and there is little evidence to support Houthi claims of successful strikes.

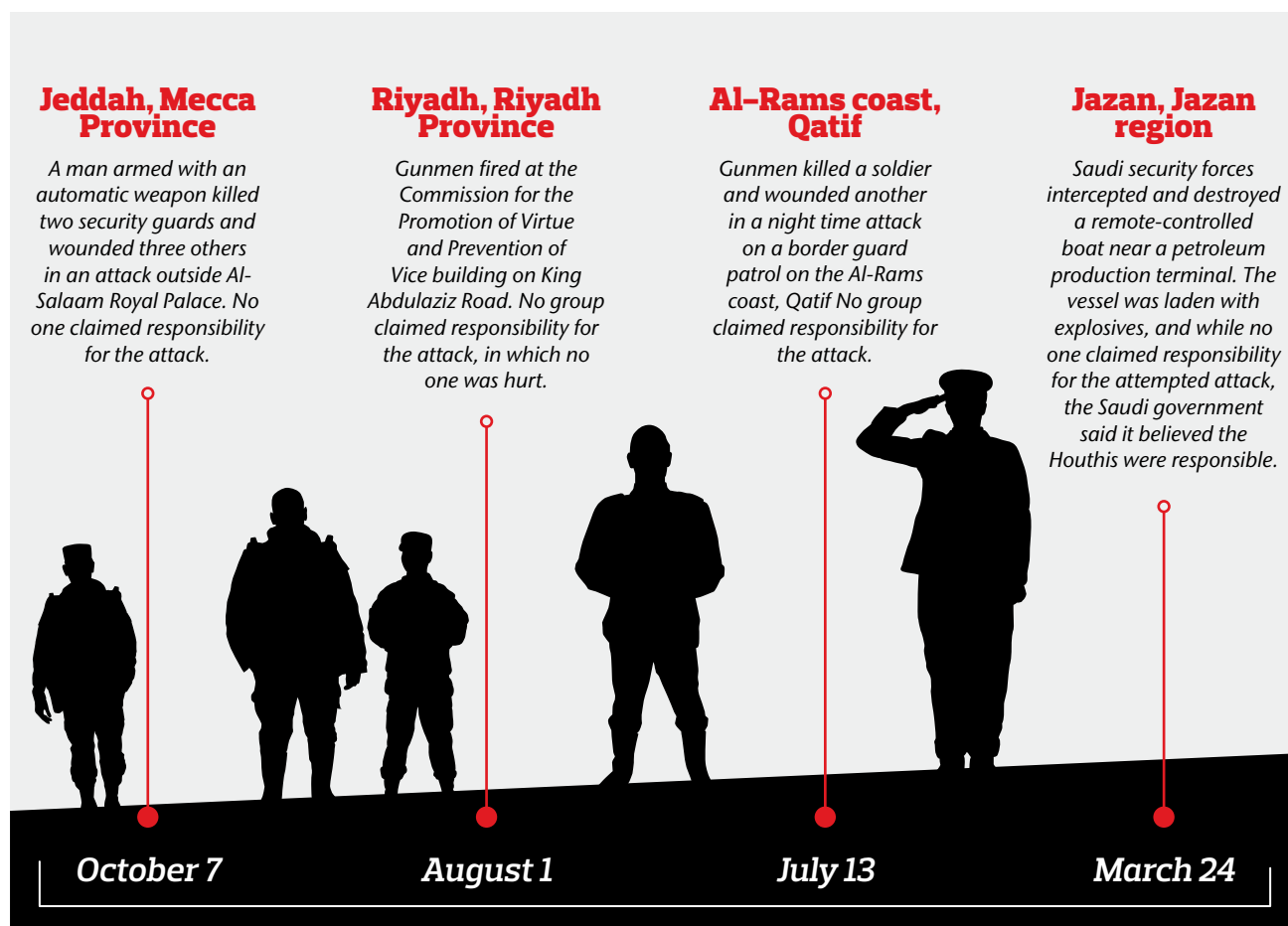
In April 2017, the movement attempted to target an oil facility in Jazan using an explosive-laden remote-controlled boat.



"The Land of the Two Holy Mosques and the place where the revelation descended [Saudi Arabia] continues to suffer under the rulership of the Saudi regime, complaining from all sorts of tyranny, oppression, and desecration of rights"

Sheikh Ibrahim Al-Banna – AQAP religious leader

Incidents 2017

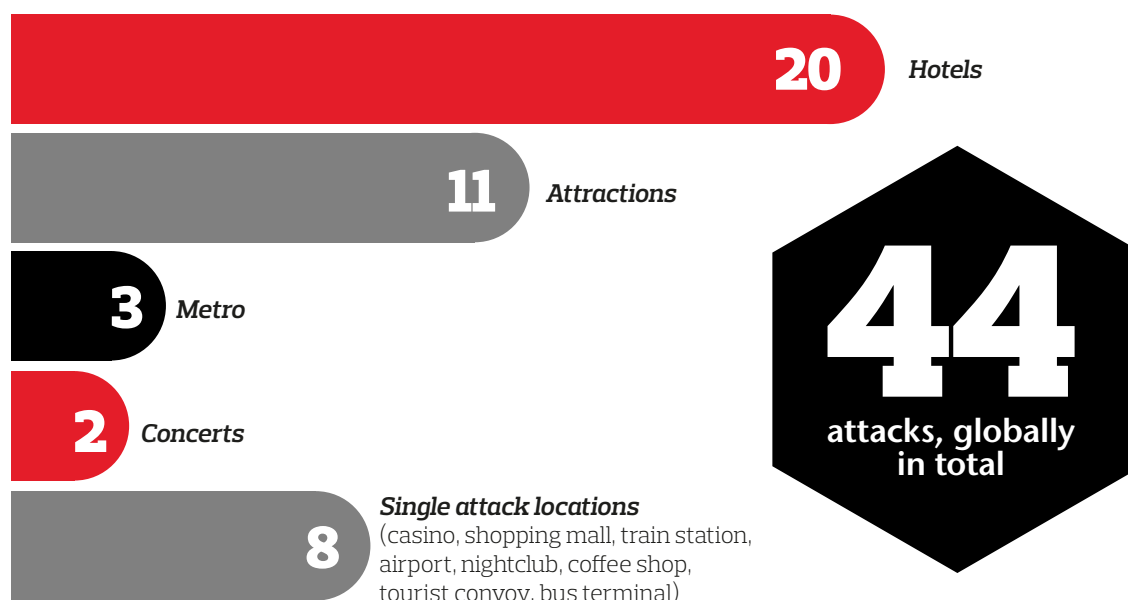


The impact of terrorism on tourism

The tourism industry is highly sensitive to terrorism risk. A major attack can have an immediate and significant impact on leisure travel patterns, and almost guarantees international publicity. Attacks that do not directly target the industry can also have a substantial indirect impact on tourism revenue. This is particularly true of mass-casualty incidents where the victims are civilians in a social or leisure setting, or other locations with high footfall of tourist visitors.

All this makes the sector a highly attractive target for some terrorist organisations, and it demands that the tourism industry take adequate measures to assess, mitigate and transfer the risk of losses arising from attacks. In 2017, there were at least 44 attacks worldwide that directly targeted public transport in major cities as well as commercial sectors that are critical components of the tourism industry.

2017 global attack locations

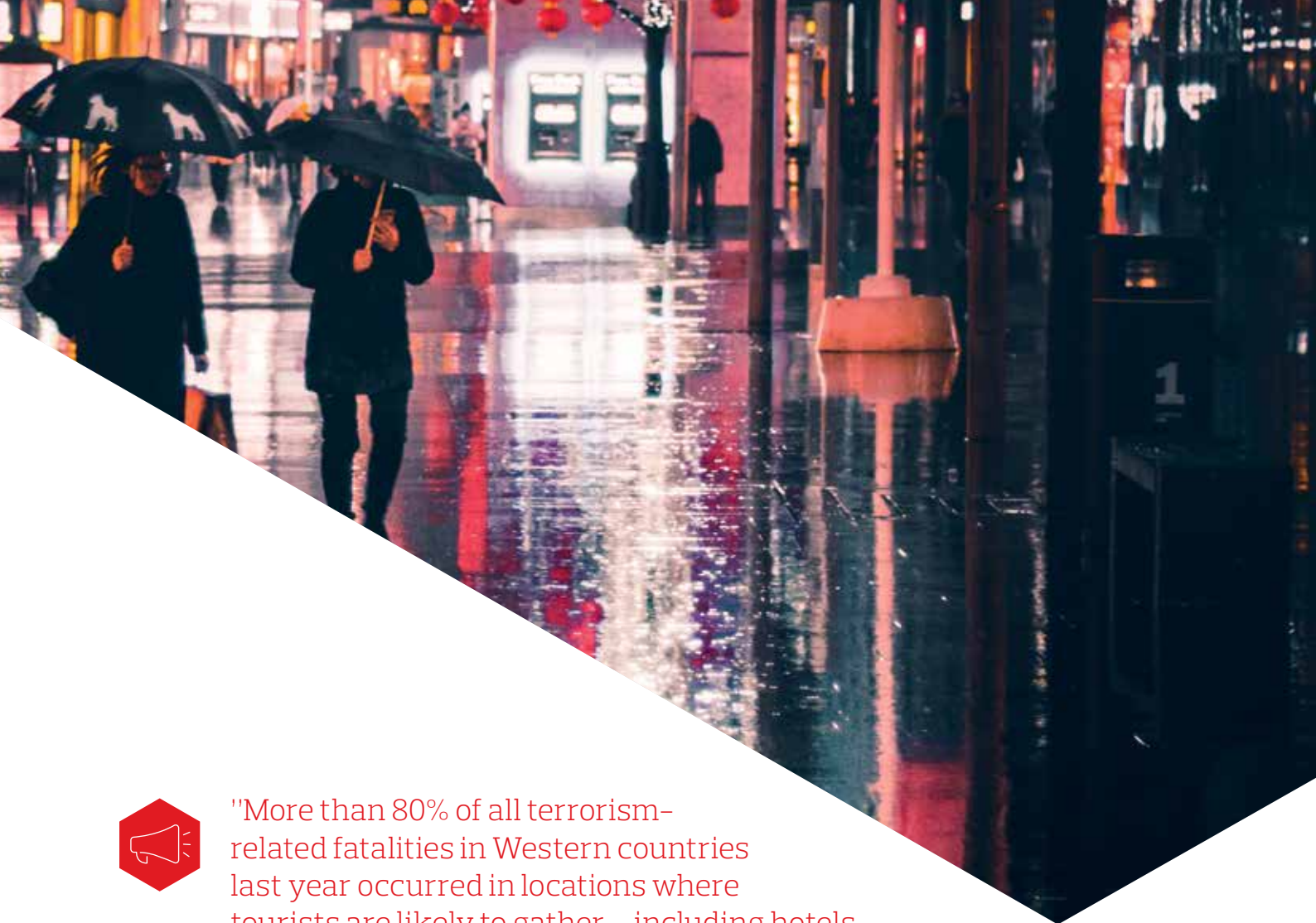


Source: The Risk Advisory Group

Terrorist attacks, as well as other high-profile violent events, often lower traveller confidence and directly alter consumer behaviour. After a mass casualty vehicle-impact attack at a busy promenade in Barcelona in August 2017, 20% of travellers with imminent plans to visit the city cancelled their trips. This is according to the Barcelona tourism authority, which also said that the rate of new bookings remained subdued for four weeks.

A few months after the attack in Barcelona, the head of MGM Resorts said that cancellations at its Las Vegas properties 'surged' in the days after a gunman opened fire on concertgoers in the city. The mass-casualty attack by a lone gunman, whose motives remain unknown, occurred in October 2017, and the company said four months later that that was 'still some residual impact' to new bookings.

The tourism economy in London also experienced losses after a string of terrorist attacks in the UK in 2017. These included a vehicle-impact and knife attack at Westminster Bridge in March and another at London Bridge in June. Merlin Entertainments – which runs Legoland, Madame Tussauds and the London Eye – cited the terrorist attacks as a key reason for poor ticket sales at its attractions in the UK over the summer, and the company cut its profit forecast.



"More than 80% of all terrorism-related fatalities in Western countries last year occurred in locations where tourists are likely to gather – including hotels, airports, public spaces and entertainment venues."

Whether or not terrorists are specifically intent on harming the tourism economy, the intent to maximise casualties by targeting crowded spaces, particularly by IS and its supporters, has had that effect. Risk Advisory and Aon TerrorismTracker data indicates that more than 80% of all terrorism-related fatalities in Western countries last year occurred in locations where tourists are likely to gather – including hotels, airports, public spaces and entertainment venues.

Indeed, the data shows remarkable consistency in the vulnerability of tourists in attacks on public spaces in leading Western cities. A vehicle-impact attack on a popular bike path in Lower Manhattan in October 2017 resulted in eight fatalities, and six (75%) were foreign tourists. And eleven of the fifteen people (73%) who died in the same type of attack in Barcelona in August 2017 were foreign nationals.

In those instances and others, the attackers did not express a desire to target foreign visitors in prior or subsequent messages. But their target selection and means of attack meant that there was a high likelihood that their victims would include tourists. So even though it was not an explicit goal for the perpetrators, these attacks probably depressed traveller confidence and therefore local tourism revenue.

The global trend of terrorists targeting tourism has remained relatively consistent year-on-year. Eight percent of all terrorist attacks globally that Risk Advisory and Aon recorded in 2017 targeted hotels, civil aviation, public spaces or entertainment venues, and this is broadly consistent with previous years.

Companies in the tourism industry are, and will remain, highly susceptible to revenue fluctuations caused by terrorism. This is ultimately because the purpose of terrorism is to instill fear, and leisure travelers tend to be risk averse, and are always free to seek alternative destinations or stay at home.

Methodology: Terrorism & Political Violence

Risk ratings are awarded on a five-point scale, as follows:



Risk levels represent assessments of the net level of risk across all the political violence (PV) typologies. As a metric, they indicate the likelihood and impact of business exposure to PV events. The higher the rating, the greater the likelihood or impact of such events.

The risk levels indicate assessments of the frequency of occurrence and likelihood of exposure to PV events, as well as their impact to businesses. Assessments also take into account the impact of PV events upon the wider environment that in turn have a negative cumulative impact on risk.

Risk ratings will be higher if the threats in a given country are specifically or disproportionately targeting international commercial interests. For example, if a terrorist group is active and exclusively targeting commercial interests, the risk level may be greater than a country where terrorists are more active but show no intent to target commercial interests.

Peril typologies

Perils are marked on the map. We only assign perils when the risk rating is 'low' or higher.

- Terrorism and Sabotage (T&S)
- Strikes, Riots, Civil Commotion, Malicious Damage (SRCCMD)
- Insurrection, Revolution, Rebellion, Mutiny, Coup d'Etat, Civil War and War (IRRMCCW)

For ease of reference and readability, we use 'civil unrest' when referring to the SRCCMD peril, and 'terrorism' for T&S. For the same reason, we will usually refer to the specific risk when using the IRRMCCW peril. For example, we will refer to 'war', 'coup' or an 'insurrection' peril rather than 'IRRMCCW'.

The number of perils does not necessarily affect the risk level. A country with severe levels of civil unrest may still score a severe risk rating if the impact of unrest is sufficiently severe. Equally, a severe terrorist threat (a high likelihood of attacks) may not equate to a severe risk level if we assess other factors mitigate the potential impact of attacks, and other perils may be low risk.

Assessments

The map captures assessments of the probability and impact of events occurring along the spectrum of insurable terrorism political violence risk typologies. The country risk scores and identified perils are based upon analysis of proprietary empirical data from the preceding year, as well as open source intelligence analysis of the intentions and capabilities of relevant actors, and of more systemic prevailing trends affecting security and stability around the world.

Assessments (ratings) draw upon empirical data on events (such as the Risk Advisory/Aon Terrorism Tracker database) as well as Risk Advisory's intelligence and political risk analysis.

The analysis takes into account factors and assessments on political stability, conflict dynamics, activism, socio-economic factors, macroeconomic forecasts, government policy, the nature of political systems, defence spending and military activity, and other factors.

TPV ratings do not indicate or reflect crime or other non-political security risks, or non-violent political risks. Nor do they indicate general security risk. A severe risk rating, for example, does not necessarily indicate that day-to-day security risks are prohibitive to business.

Nomenclature

When countries are scored, their risk level either goes up, down, or remains the same. An increased score therefore means that the risks are worsening and businesses are more exposed to PV risks.

An increased score therefore represents a downgrade as the business environment is more hostile, while a reduced risk score represents an upgrade as the business environment improves due to reduced risks.

Terrorism data

All terrorism data is derived from TerrorismTracker – a joint initiative by Risk Advisory and Aon to capture every terrorist incident and plot recorded in open sources since January 2007. TerrorismTracker is intended to give the most accurate and precise picture of terrorist activity worldwide.

As an open source and exclusively terrorism-focused dataset, it is important to note that our data may seem to underreport incidents in some cases. This is usually for two reasons:

Unreported incidents: Not every terrorist attack is reported in open sources. This is particularly the case in conflict zones, where there may be an absence of credible or capable reporting sources (Syria and Yemen are particular examples), and in countries where there is high levels of censorship on security matters.

Incidents are not terrorism: our dataset focuses on terrorism, and excludes acts that do not fall into our definition of terrorism.

The TerrorismTracker dataset excludes acts of warfare (irregular or conventional); acts of genocide; criminal violence oriented exclusively for profit but that emulate terrorist tactics such as car bombings; violent anti-social behaviour; and civil unrest.

It also excludes acts of violence by unbalanced individuals such as active shooter incidents, unless there is evidence the motives of the attack are consistent with definition of terrorism (i.e. politically, religiously or ideologically motivated). The dataset excludes war crimes unless they are perpetrated in such a manner that is consistent with our definition of terrorism.

The dataset does not assume all acts by terrorist groups are terrorist incidents. It does not include activity by a recognised terrorist group unless such activity constitutes in itself an act of terrorism. For example, attacks by Islamic State forces on the Iraqi military on the battlefield are acts of warfare, and so are excluded from the dataset.

TerrorismTracker figures are constantly being updated so the data contained in this report is correct at the time of printing but may be subject to change at a later date.

POLITICAL RISK





Leaders' commentary

We are seeing increasing international demand for political risk insurance coverage. Emerging markets, and particularly commodity driven economies, are still under pressure from increased debt burdens as a result of inflation, interest rate increases and the strengthening of hard currencies.

There has been an increased interest in coverage for projects in Africa and Latin America. Due to declining revenues, economies with a heavy reliance on natural resources have been challenged by budget deficits. Although there have been signs of recovery in some of these countries, there are still concerns over their ability to meet their obligations.

As a result of regional conflicts, sanctions and blockades, companies have a heightened awareness of their political risk exposure and are therefore looking for protection for their projects in countries such as Qatar, Saudi Arabia and Yemen in the Middle East, and Russia, Turkey and Ukraine in Eurasia.

Aon's Political Risk Map helps our clients better understand their exposures and the operational risks they face in challenging geographies.

Sarah Taylor

Head of Political Risk and Structured Credit



The Aon Political Risk Map 2018 captures changing risks for businesses and countries across emerging and frontier markets. Last year we saw political risk increase in eleven countries, compared to only two countries that saw reduced risk. This shows the persistence of political risk across the globe, highlighted by increases in political violence and supply chain disruption.

Countries are still adjusting to the end of the commodity super-cycle, which has elevated political and sovereign non-payment risks in many commodity producers over the last three years. However, commodities (especially oil) have recently shown a modest price recovery that we expect to continue over this year and next, which will bolster producers' public and external balance sheets and begin to ease risks of sovereign non-payment.

Of course, the commodity price recovery has a more negative impact on the balance sheets of countries reliant on commodity imports, but it is less extreme than the impact on exporters. The exceptions to this rule are small pockets in the emerging world—South Asia is hard hit, for example.

This year, lingering risks of trade and investment protectionism will likely add more grit to the trading system, capping global economic and trade growth and risking bouts of market volatility across a range of assets. With US trade policy and strategy looking particularly uncertain, new intra-regional trade deals are likely to emerge in Asia, Europe and Latin America. Continued bilateral and/or regional trade deals will likely lead to the creation of new supply chains, although most research suggests that “mini” deals are more costly than global ones in terms of compliance and transaction costs.

Globally, risks of supply chain disruption have increased over the past year and remain a meaningful concern even for the strongest countries, which tend to be reliant on imports. This year, devastating hurricanes and other natural disasters have furthered the risks of supply chain disruption in certain regions in particular, with the Caribbean, Antigua and Barbuda, St Martin and many US territories and protectorates particularly hard-hit. These countries will continue to face natural-disaster-related challenges that will affect their economies in the short and medium term. In their period of rebuilding, they are also likely to experience increased institutional and regulatory risk.

The trends we describe show how important it is for businesses to map the specific political risks in their countries of operation. Continuum Economics is proud of its long-standing partnership with Aon, helping businesses assess and manage risks through innovative data and country benchmarking. Our political risk scores, updated quarterly, allow for regular monitoring of risks and opportunities.

Paulina Argudin
Director, Country Risk Model
Continuum Economics



High-level themes

This year, 13 countries have seen changes in their overall political risk rating. Eleven countries have experienced increases in overall political risk, whereas only two have seen reductions.

The region experiencing most of the downgrades is Africa. Ongoing conflicts within countries, the erosion of democratic governance and increasingly frequent corruption scandals have led to more political violence. Groups such as IS and Boko Haram are taking advantage of fragile institutions and weak borders. These trends will continue to increase refugee outflows from these countries.

The Middle East contains some of the highest-risk countries in the world: Iraq, Syria, Yemen and Egypt. Instability and violence in the region have spilled over to neighbouring countries, undermining trade and tourism.

Many countries' risks of supply chain disruption have risen due to both climate shocks and weakening fiscal positions. Governments equipped to respond to these shocks will be the best able to cope with supply chain disruption.

A modest recovery in commodity prices will somewhat improve the economic performances of oil exporters, alleviating exchange transfer and sovereign non-payment risks in these economies. The recovery should also stimulate these countries' energy sectors and improve liquidity conditions. Those countries most reliant on oil exports will benefit most from oil prices' faster recovery in 2018.



"Many countries' risks of supply chain disruption have risen due to both climate shocks and weakening fiscal positions. Governments equipped to respond to these shocks will be the best able to cope with supply chain disruption."



Country changes

Country	Rating change
Bahrain	Med to Med High
Barbados	Med Low to Med
Burundi	High to V High
Chad	High to V High
Gambia	Med High to High
Ghana	Med to Med High
Lesthoso	Med to Med High
Nigeria	High to V High
Togo	Med High to High
Soloman Islands	Med High to High
Tongo	Med to Med High
Ukraine	V High to High
Uzbekistan	High to Med High



*Increase
in risk*

*Decrease
in risk*

Supply chain risk

Most exposed	Most resilient
Somalia	Singapore
Syria	China
Afghanistan	UAE
Libya	Qatar
Yemen	



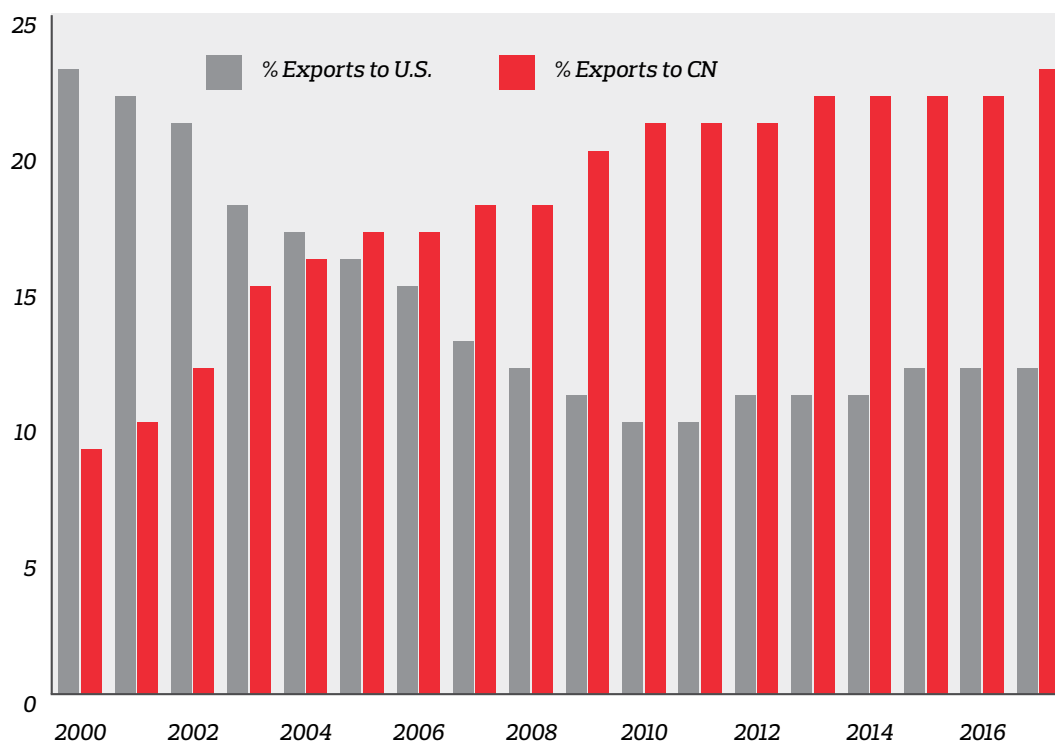
The balance of power is shifting in Asia

Asian countries' trade linkages have been shifting away from the US and toward China. This is due to China's entry into the World Trade Organisation (WTO), its economic development, and its rise as a trade giant. Amid China's rise, Asia's exports to the US have edged down from around 23% of total exports in 2000 to stabilize at around 12% in recent years.

By the same token, Asia's exports to China have more than doubled over the past decade to around 23% currently. We are bullish about Asia's export prospects in 2018, given the healthy global economic growth environment. We estimate regional export value growth of 5-10% in 2018. This will mean better performance than in 2012-2014, when Asia was forced to rely on domestic demand and currency weakness amid weak external demand.

Improvement in Asian exports has been supported by both a price reflation (in commodity exports in particular) and by external demand. The latter is evidenced by positive trade volume growth of around 4.5% y/y in January-September 2017, according to the WTO. Trade volume growth is likely to have another good year in 2018, albeit slightly slower than last year as growth matures in developed markets. We also expect export growth outperformance to continue. In the year to September 2017, Asian export volumes grew by 7.5% y/y, better than the EU (4.9% y/y by volume), and all other regions combined (1.5% y/y).

Asian countries have been increasing their reliance on China for export growth



Source: CEIC, Continuum Economics

Singapore, Malaysia and South Korea are the most highly-exposed economies, with relatively more exposure to China than to the US. Taiwan and Australia also have a high exposure to China (due largely to iron ore exports in Australia's case). Indonesia, Japan and New Zealand are the few economies that correlate more with US imports. Finally, Southeast Asia is relatively less vulnerable, and more diversified in its trade partners.

Net commodity exporters (such as Indonesia and Malaysia) face a two-fold impact from a China/US slowdown. This would come in the form of lower volumes of exports to their key trading partners, as well as a potential commodity price slump following a decrease in demand from key consumers. These factors would result in an overall lower value of these countries' total global exports.



"We are bullish about Asia's export prospects in 2018, given the healthy global economic growth environment. We estimate regional export value growth of 5-10% in 2018."



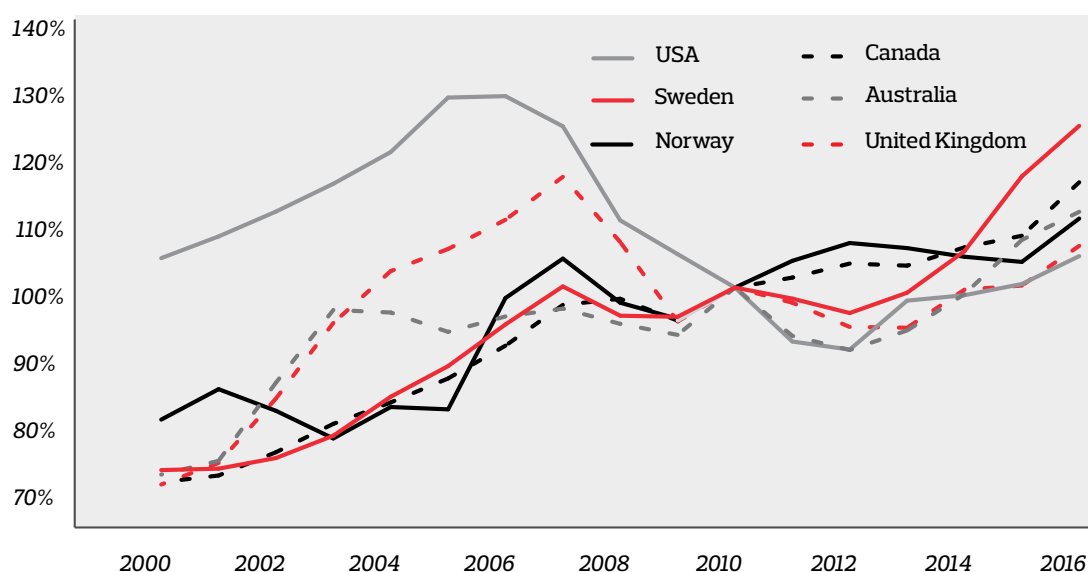
Housing bubbles– time to worry again

House prices have appreciated significantly since 2010, nearing or exceeding pre-2008 levels and rendering many housing markets more susceptible than in the past to rate shocks and downturns. Economies with structural and borrower-based macroprudential regulation, such as Sweden and Canada, are more prone to corrections than (for example) South Korea, which prefers liquidity- and capital-based macroprudential tools. Risk of such a correction in our sample countries is set to increase in 2018, in part driven by rising borrowing costs.

A mild correction, as we currently envisage, is likely to be felt largely through lower economic growth. However, we acknowledge that our sample countries, in particular, are vulnerable to a more severe house price downturn via continued cautious lending by banks as they respond to worsening conditions, which, in turn, would further undermine house purchases—a vicious cycle.

It is difficult to highlight a single market correction trigger for the countries we have sampled, as there are many possible ones. For example, the UK could face a Brexit-related confidence shock. Australia, meanwhile, remains vulnerable to commodity price shocks. On the whole, in our sampled countries, house prices and household debt provide a backdrop that increases risks to the broader economy and affects the ability of central banks to normalize policy. Although financing is unlikely to dry up in 2018, the main risks stem from tighter macroprudential and monetary policy, which could exacerbate the cost of growing levels of household debt and reduce household consumption, potentially dampening growth. Property price movements also directly affect the market value of households' assets and indirectly influence households' cash flows by affecting mortgage payments.

Price-to-income ratios are at or near record highs



Source: OECD, Continuum Economics



"Although financing is unlikely to dry up in 2018, the main risks stem from tighter macroprudential and monetary policy, which could exacerbate the cost of growing levels of household debt and reduce household consumption, potentially dampening growth."

As monetary conditions are set to tighten across many developed markets in 2018, higher mortgage rates are likely to follow. The impact of policy rate rises will depend on a variety of local conditions. For example, wealth effects and the proportion of households with fixed-rate mortgages differ between countries. However, a fall in household consumption has negative implications for growth in any country.

The housing market remains an important driver of bank profits and the broader economy, both through the aforementioned wealth effect and, in some cases, equity withdrawals. A correction caused by rising non-performing loan ratios would damage banks' balance sheets and impede their ability to lend.

At a time of rising costs of credit, which is already pushing up debt-servicing costs, a housing downturn would further undermine consumption and depress economic growth, which would in turn negatively impact equities, particularly consumer cyclical and residential investment.

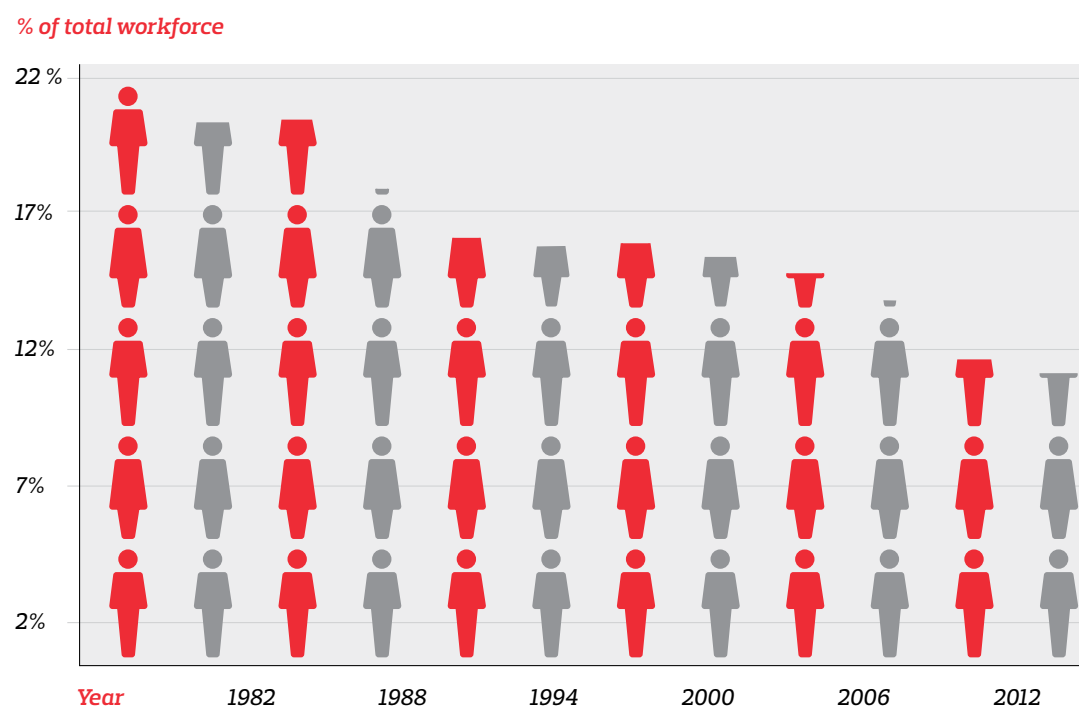
The global productivity puzzle

Productivity growth has been slowing for decades and has failed to recover since the global financial crisis. This phenomenon is known as the productivity puzzle. However, the underlying causes of the productivity slowdown are unlikely to be reversed in the absence of new technological breakthroughs.

Several arguments have been put forward as explanations for the productivity slowdown. One is the idea of so-called zombie firms—firms that are insolvent or close to bankruptcy. Statistics on bankruptcies across developed markets bear out these claims. The number of bankruptcies in developed markets has indeed been falling, especially since the crisis, even though the number of insolvent firms has been rising. The problem has turned especially acute in the UK, where the number of insolvent firms has risen sharply since the Brexit vote, but the number of bankruptcies has fallen further.

Low interest rates have been favouring these unproductive (and even insolvent) companies, allowing them to support employment, but at the cost of productivity. A change of policy that would aim to increase productivity through creative destruction would thus imply weaker employment numbers, especially bearing in mind the employment appetites of the new companies.

Share of workers in companies in existence for less than five years is in decline



Source: Macrobond

Finally, there is a possibility that part of the productivity loss since the financial crisis in particular might be due to measurement errors; after all, upward GDP revisions are a rule rather than an exception, an issue that has been discussed by the UK's Office of National Statistics (ONS). Moreover, subsequent ONS work has also indicated that the GDP deflator is too high and GDP too low. However, it is highly unlikely that the long-term productivity decline can be explained away by measurement errors. Instead, factors such as the creation of low value-added jobs, poor quality growth (partly as a result of the continued existence of zombie households and companies) are key structural factors at play, and cannot be reversed easily.

Mismeasurements of productivity and output could risk undermining economic activity if they led central banks to raise policy rates more sharply than necessary. Such a slowdown would risk reducing demand and, thus, the cyclical component of productivity.



"Several arguments have been put forward as explanations for the productivity slowdown. One is the idea of so-called zombie firms—firms that are insolvent or close to bankruptcy."



Latin America's super-election cycle

Political risks in Latin America are increasing ahead of a busy election season, delaying major reforms in Brazil and stoking fears of reform reversal in Mexico. Major countries are at risk of electing populist governments, and smaller countries are experiencing their share of political noise. Venezuela's elections are considered a sham and are not likely to be recognised by the international community. Meanwhile, the president of Peru's legitimacy remains precarious. Most of the current problems facing Peru are rooted in corruption cases—in particular, the famously corrupt Brazilian construction company Odebrecht and its growing presence in the region for the past 15 years.

General elections in Colombia (congressional in March, presidential in May), Mexico (July) and Brazil (October) are likely to feature contentious campaigns and could see incumbent parties ejected from power in favour of populist governments. This could undermine economic recovery through lower investment, especially in Mexico and Brazil. For the next 12 months—but especially in the next quarter—local politics will be a major drain on growth in regional economies, with investment still lagging and fiscal constraints weighing on economic activity.

In Venezuela, domestic political stability is deteriorating rapidly, and economic risks are increasing. While the country has started to restructure its debt, the process is made more complex by the impact of US sanctions on the country. The probability of an orderly restructuring appears low amid Venezuela's lack of ties to regional and global financial institutions. We expect a deep recession in 2018, exacerbated by further FX adjustment and continued hyperinflation. Meanwhile, the Maduro government has called for new elections in April—after battering its opposition parties. Venezuela's lack of real democratic conditions has prompted most of the international community to reject the legitimacy of the country's elections. We expect the current government to be re-elected by an ample margin, which will do nothing to change the country's precarious situation.



Growth has struggled across Chile, Colombia and Peru for a variety of reasons, although the dominant themes in the Andean region are a lack of investment due to political uncertainty and persistently low commodity demand throughout 2017. There are green shoots, mostly from a recent surge in commodity demand, but regional governments' fiscal constraints remain significant.

In Chile, the unexpectedly contentious electoral battle had a market-positive outcome. The election of Sebastian Pinera, together with higher copper prices, has boosted business confidence and sustained expectations of an economic rebound. However, due to a fractured Congress, we are pessimistic about Pinera's ability to push through the significant reforms needed to improve Chile's long-term outlook.



"Venezuela's lack of real democratic conditions has prompted most of the international community to reject the legitimacy of the country's elections. We expect the current government to be re-elected by an ample margin, which will do nothing to change the country's precarious situation."

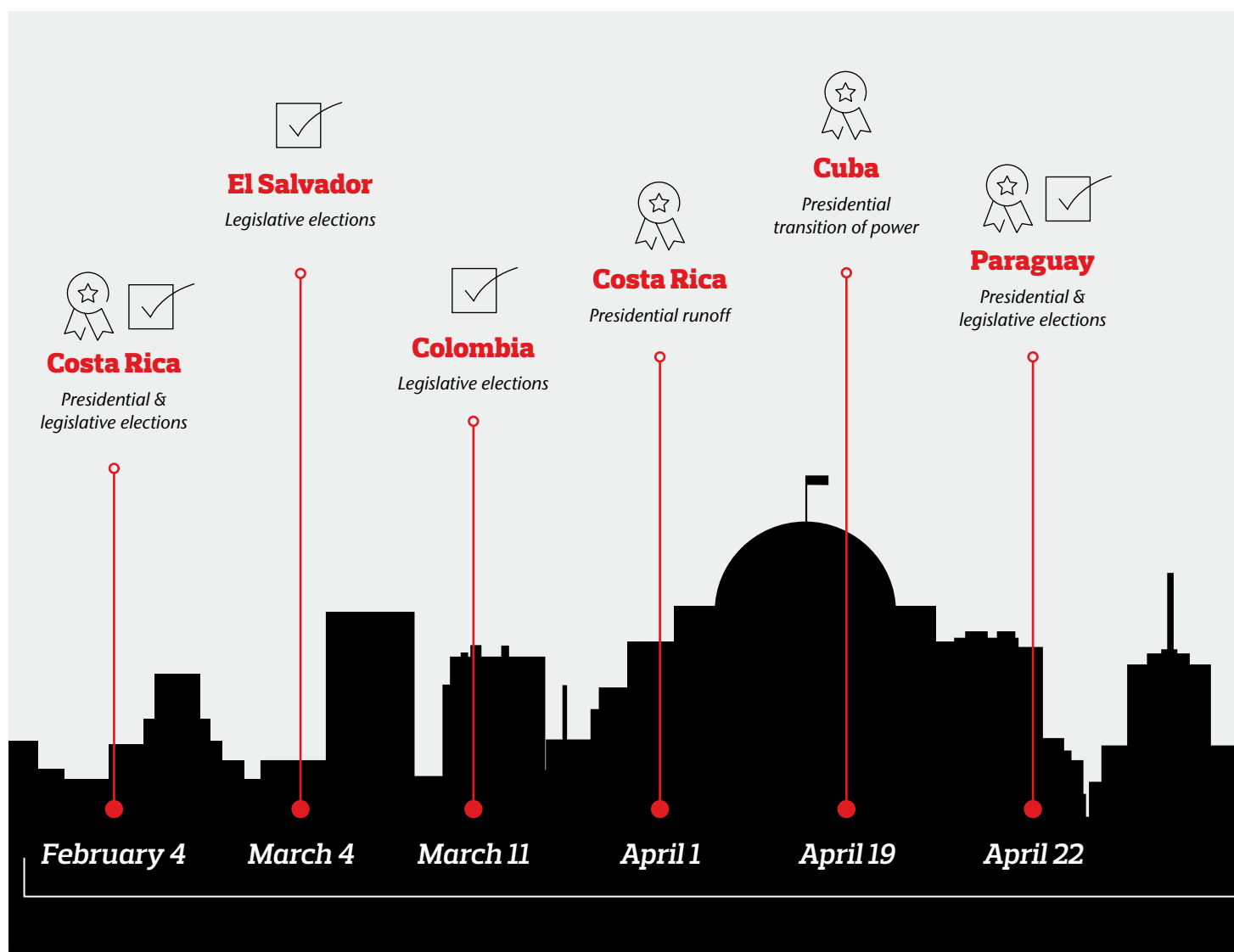
Thanks to a slower-than-expected economic recovery, Colombia's overall risk rating is medium. Positively, the risk of violence from rebel groups has diminished, although it has not disappeared altogether. We expect only a modest recovery in 2018, with growth remaining below potential. The government has, however, been making efforts to improve the country's poor infrastructure, drafting a number of important reforms to encourage investment in Colombia's road and rail networks. The election outlook is uncertain at this point, but unless the left experiences a surprise victory, we believe the risk of economic policy change is minimal.

Peru's president barely survived impeachment in December, and the process greatly diminished his power. He may still face corruption accusations, but his main problem is that he has no support to govern. He is unlikely to pass any new reforms for the rest of his term.

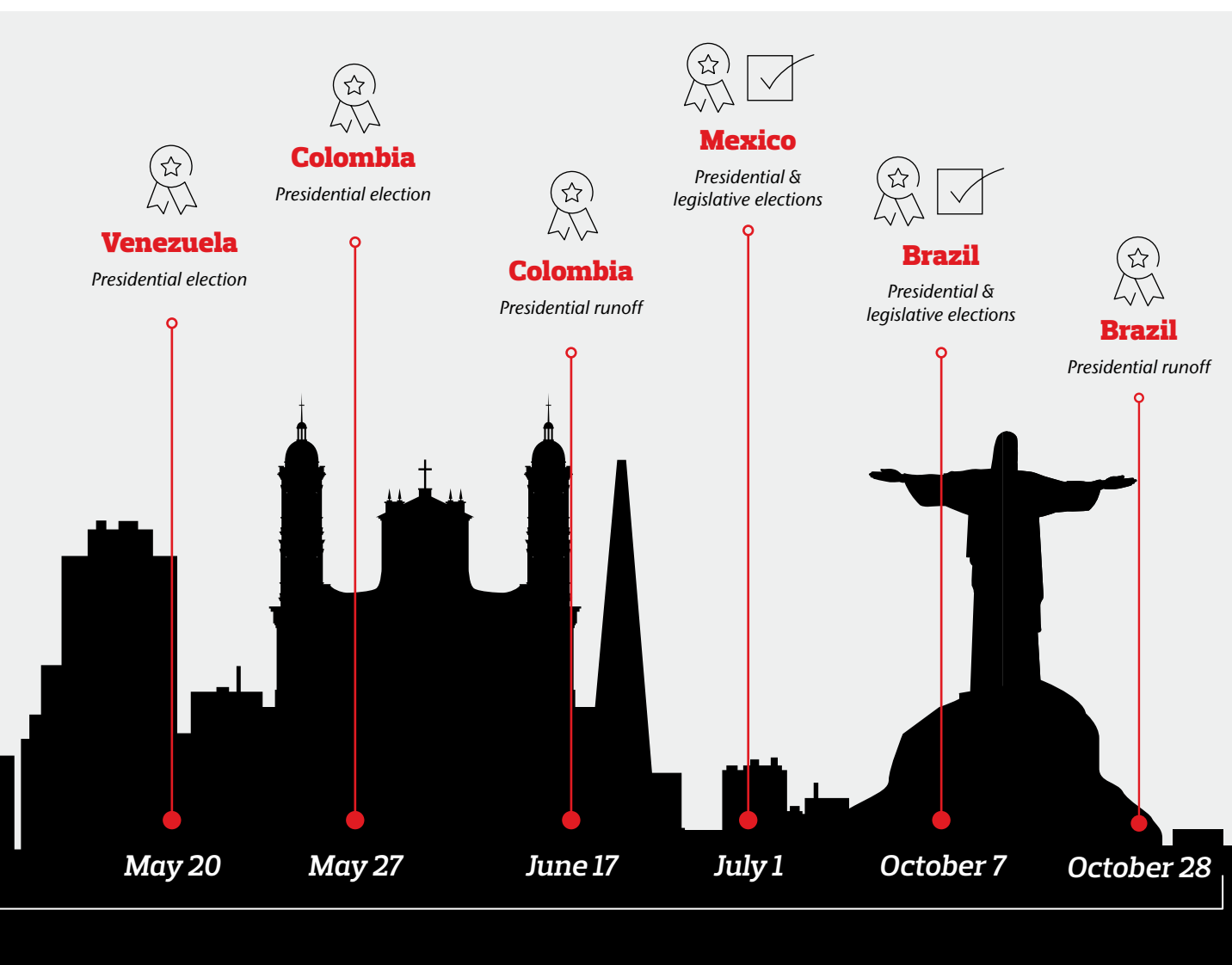
Argentina's government, taking advantage of the political muscle it obtained in congressional elections, has been able to pass tax, pension and fiscal responsibility reforms, as well as a decree to reduce bureaucracy and simplify processes. These changes improve the country's short- and long-term growth outlook, with some pay-offs expected this year. Driven by government spending, the economy has started to rebound strongly from a very low base, especially in the construction sector. However, Argentina faces two major challenges. First, the government-driven economic activity brings with it an increasing current account deficit, leading to higher external vulnerability. Second, since the government has decided to prioritize growth over lower inflation—and is pressuring the central bank to do the same—the risk of high inflation keeps increasing, reducing the country's competitiveness.

Political risk in Brazil has receded slightly, although not enough to give vital pension reforms much chance of getting through Congress intact. This will keep Brazil's fiscal position weak. The recent decline in food prices has helped the disinflation cycle, which has come to an end, and it is clear to us that the monetary easing cycle has ended. Consumption, not investment, is driving the growth recovery. Although growing business confidence provides some hope of an investment surge, investment recovery could be delayed by the election cycle. The political centre has not yet been able to unite around a viable candidate, leaving the field open for populist candidates from both the left (Inacio Lula da Silva or someone similar) and the right (Jair Bolsonaro). As of now, the populist candidates have a clear lead. If they win, the chances of the next government approving significant reforms are slim.

To the polls: 2017 Latin America elections



2017 was a very good year for Mexico considering the difficulties US trade and immigration policy presented. Consumption led growth, although consumption is now waning as credit falls due to tighter monetary policy and a slowdown in real wages. The current government is deeply unpopular—while making progress in telecom and energy reforms, it not been able to improve security or decrease corruption. Consequently, opposition candidates are leading the polls and there is a good chance that the most radical one, Andres Manuel Lopez Obrador (known as AMLO), will win the presidency. Currently, we believe that even if he wins, AMLO's party will not have sufficient representation in Congress to reverse reforms. However, in a presidential system such as Mexico's, AMLO would still be able to obstruct the implementation of already-approved reforms. He may also complicate NAFTA negotiations by being more aggressive than the current negotiators.



Grounded: airline leasing and political risk

Companies operating in the aviation leasing space are finding themselves with increasing exposures to airline failure and state intervention, as airline growth and appetite for new and more fuel-efficient aircraft rises in regions with high levels of political risk.

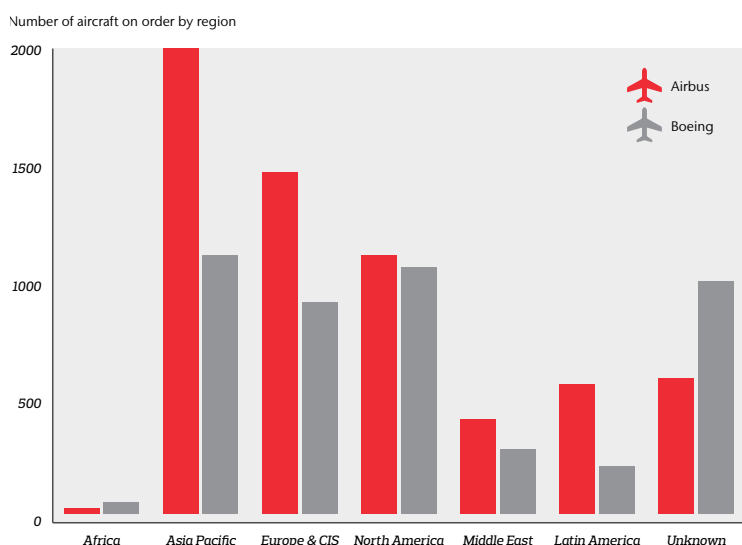
Aviation financing has a long history, but it is apparent that interest among financiers has increased in recent years. Airlines globally find themselves in a position to invest in new fleets, and with a typical narrow-body aircraft costing around USD 65 million, it is clear that aviation leasing is seen as a reasonable method of expanding fleets, particularly with airlines typically operating at such low margins.

Some flag carriers regard the growth and modernisation of their fleets as a matter of national interest, often backed by governments supportive of their ambitions. This ambition is buoyed by a rapid increase in passenger numbers, particularly in emerging economies, which has in turn led to bumper orders at the likes of Airbus and Boeing.

Meanwhile, for the financiers behind the lessors – a mix of banks and pension funds – aircraft leasing represents an attractive investment. Leasing returns are healthy, appetite for new aircraft is strong, and there is the physical security represented by the aircraft to reassure investors, as well as the provision of 100% insurances or guarantees to protect investments.

Following the reduced involvement of the US Exim Bank in the sector, US aircraft manufacturers such as Boeing have looked to private market insurance solutions to support aircraft sales. This has led to a burgeoning lessor market and encouraged significant amounts of insurance capital to underpin the sector.

Geographical distribution, Airbus and Boeing narrowbody aircraft*

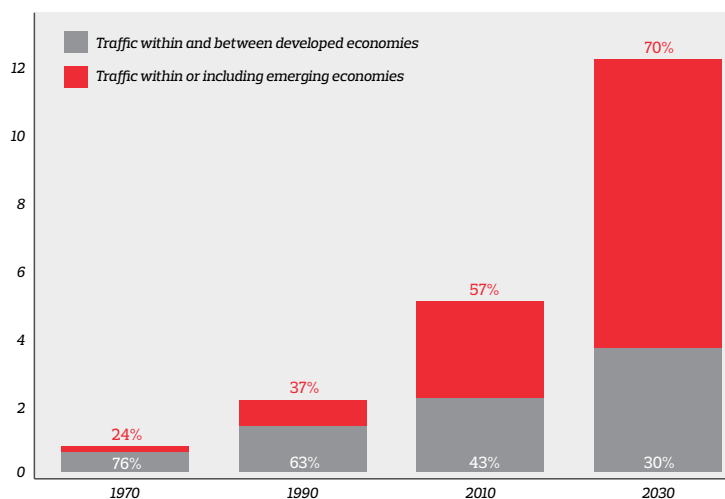


* Lessor fleets have a particular emphasis on narrow body aircraft

Typically, airlines lease aircraft for a 12.5-year period and then have the option to buy the aircraft outright with a final, balloon payment. The challenge is when the airline fails, which may prompt the country to withhold the return of the aircraft – creating unique challenges for the lessor.

Whereas in the past, aviation leasing typically focused on European and North American airlines, with the predominant exposure being to insolvency risk; the expansion of fleets and ambitions into other parts of the world – Africa and Asia in particular – has added an increasingly political dimension to lessors' and financiers' risk exposures as political risk and intervention is higher in these regions. Data from the Political Risk Map indicates that vulnerability to political violence, political interference and corruption in these regions has increased in the recent years.

Market share of total traffic, emerging vs mature traffic flows (Revenue passenger kilometres* trillions)



"For the financiers behind the lessors – a mix of banks and pension funds – aircraft leasing represents an attractive investment."

** Revenue passenger kilometres (RPK) is a measure of the volume of passengers carried by an airline. A revenue passenger-kilometre is flown when a revenue passenger is carried one kilometre.

Sovereign non-payment in the case of flag carriers, and state confiscation, are increasingly seen as some of the most significant risks facing airline lessors. Combined with the potential for insolvencies resulting from overambitious growth strategies, the sector faces rising exposures in parts of the world with considerable political risk.

The Cape Town Treaty - which sets international standards for leasing and the legal remedies in instances of default – provides some level of reassurance for investors. Access to leasing is typically more favourable for signatories to the treaty, which stipulates that affected aircraft must be returned in 60-90 days; but there have still been instances of breaches among those 64 states and the EU that have ratified the treaty. And as the ambitions of airlines and states expand in-step with rising passenger demand, there may be a greater risk of politically-motivated interventions impacting lessors and the aviation leasing sector.

Qatar, Saudi Arabia and the GCC blockade

The Middle East contains some of the highest-risk countries in the world—such as Iraq, Syria and Yemen—with heightened political risk and elevated political violence spilling over to neighbours and undermining trade and tourism.

Steady oil price recovery will improve economic performance in the region, but prices are unlikely to rise above USD 65 per barrel anytime soon, reinforcing economic vulnerability and sovereign non-payment risk for those countries with the weakest balance sheets. These trends reinforce our view that investors must carefully assess individual country risk in the context of rising debt levels.

In the region's richer economies, notably the Gulf Cooperation Council (GCC) countries, economic strains remain. We expect economic and credit conditions to ease slowly in 2018, leading to continued pressure on the private sector.

Political risks in the Middle East have been increasing due to a rising number of corruption- and terrorism-related events. For instance, in June 2017, several countries abruptly cut diplomatic ties with Qatar as Saudi Arabia raised concerns of Qatari support for terrorism. Air and sea routes into the peninsula were completely shut off and Qatar found itself isolated from the rest of the region amid trade and travel bans. The blockade is the result of an escalation of the Qatar-Saudi conflict, but we believe overall risk remains at medium-low levels for Qatar as the economy remains strong and still has space to mitigate the impact of the sanctions.

Despite the external headwinds, Qatar's growth has remained strong (and above the regional average), recovering from reduced yearly GDP growth of 0.6% in Q3 2017 to 1.9% in Q4 2017. This strong recovery is likely because the blockade countries account for less than 10% of Qatar's total exports and its exports to major trading partners (Japan, South Korea, India and China) were largely unaffected. However, the disruption of economic ties required (costly) efforts to diversify goods and services, as well as trade and financial channels through other countries.



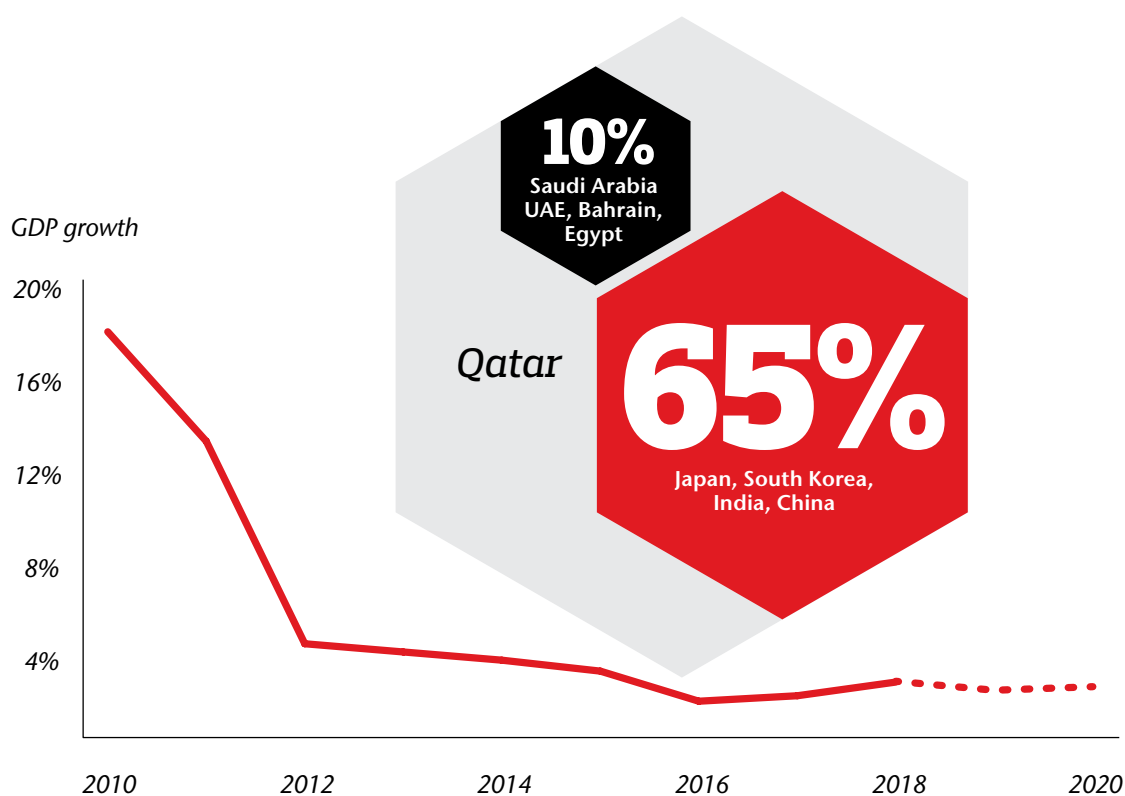
Qatar has implemented a series of measures to mitigate the impact of the sanctions, including a number of new trade routes to increase trade with Turkey, Iran and Pakistan. These new trade measures have ensured the importing of foreign goods— especially food—no longer available regionally. While new sources of imported goods can help Qatar meet its consumption and commodity needs, the higher cost of bringing in goods from more distant places could boost inflation next year.

The opening of the new Hamad port in September 2017—which will be fully operational in 2020—will also significantly improve food security and alleviate Qatar’s reliance on the ports of the United Arab Emirates, which previously converted the cargo from larger container ships to smaller ones that could be serviced by Qatari ports.



"Despite the external headwinds, Qatar's growth has remained strong (and above the regional average), recovering from reduced yearly GDP growth of 0.6% in Q3 2017 to 1.9% in Q4 2017. This strong recovery is likely because the blockade countries account for less than 10% of Qatar's total exports..."

Major trading partners



Source: Continuum Economics

In addition, high levels of government savings and financial buffers have allowed Qatar to absorb much of the pressure caused by capital flight from foreign investors. However, concerns remain regarding the liquidity of major banks and the Qatari Investment Authority. There is also a medium level of risk of doing business in the country, particularly around starting a business and trading across borders. Investment sentiment was dampened as a result of the blockade; in fact, three of the major credit rating agencies downgraded the country's sovereign debt rating during 2017.

We expect the blockade will continue to weigh on trade and investment flows in 2018. The resilience of the banking sector and the measures implemented by the government are key to keeping potential economic and international risks relatively low.

Diplomatic ties with Turkey and Iran have strengthened, and the 'strategic relationship' with the US also persists. The military presence of US, UK and other coalition forces at the Al-Udeid airbase demonstrates some Western interest in Qatar's current situation. This presence means that the risk of political violence remains at medium-low levels as armed conflict is unlikely.

In the case of Saudi Arabia, the economy is continuing to adjust from the low-oil-price-induced recession, with current accounts recovering to positive levels and fiscal balances becoming less negative thanks to a drastic austerity plan introduced as part of the 'Saudi Vision 2030' reform package. The continued recovery of oil prices has perpetuated this improvement and should support the economy in the near/medium term. The bloated public sector is of significant concern, however, as it provides most of the population's employment opportunities and will need to be reduced to achieve modernisation and diversification. This may create a degree of civil unrest, although it is unlikely to lead to any major demonstrations. Meanwhile, the country's proximity to terrorism will also aggravate domestic political tensions as austerity lingers. In general, risks stemming from regional proxy conflicts will keep the government's focus on military and security spending, albeit within budgeted limits. Thus, capital expenditures will remain slow.

The arrest of prominent officials as part of a corruption clampdown may see some near-term disruption in the private sector if foreign investors see the increase in political uncertainty as an obstacle to investment. While political motivations were clear in the targeting of certain officials, the drive is also part of a wider plan to modernize and diversify the current state-dependent, oil-reliant economy. The clampdown has thus far yielded over USD 100 billion in seized assets from those detained, as deals have been brokered for their freedom. It has also aimed to improve the institutional risks that stem from the high levels of corruption and excessive bureaucracy in Saudi Arabia. Such a push, alongside the relaxation of foreign investment restrictions by the Capital Market Authority, is likely to attract, in the long-term, greater foreign investment, which could boost growth and contribute to the country's fiscal consolidation efforts.

The region's geopolitical situation is the major cause of concern for Saudi Arabia and the GCC. The ongoing blockade of Qatar, unrest in the Qatif region and the continued intervention in the Yemeni Civil War are all potential sources of greater instability if progress toward resolutions aren't made. If a binding settlement cannot be reached, existing rifts between members of the Council may be exacerbated, potentially irreversibly.

In the remainder of the Gulf, there are a number of specific economic and institutional risks. The potential for the Omani rial to de-peg from the US dollar is the highest of all the regional currencies, as it is considered the most vulnerable to government expenditure reductions that may be required if the dollar continues to weaken. If the rial is forced to de-peg—however slim this risk is currently—it would not only increase the exchange transfer and sovereign risk to the region, but also have significant political ramifications across the Gulf. Political risks across the Gulf remain high to very high for the majority of countries.

Sovereign risk in Africa

A variety of structural factors will continue to affect sovereign risk in Africa as a whole. On the upside, a slight global commodity price recovery is helping to stabilise a number of economic indicators across the region, ranging from fiscal and current account positions to foreign exchange reserves and exchange rates. This is most obvious for oil exporters such as Angola. However, uncertainty around future oil prices—which are likely to remain above 2016 levels, but face downside risks—will continue to determine the economic performance of the region’s major oil exporters, such as Nigeria, Sudan and Angola.

South Africa’s status as a broad commodity exporter has done little to improve its external or fiscal accounts amid political volatility undermining foreign and domestic investor sentiment. Indeed, the country is heavily dependent on commodity-based exports and tax revenues, and political volatility and weak institutions are severely weighing on the economy.



"The risk of political paralysis in South Africa will remain high. The weak growth outlook will also weigh on the country's fiscal accounts. This, combined with institutional weakness, will leave the country's sovereign rating vulnerable to a downgrade in 2018."

Regardless of newly-confirmed President Cyril Ramaphosa’s reformist message, political volatility damaged the country’s economic performance in 2017 and will continue to do so in 2018. Our pessimistic view reflects our doubt that Ramaphosa will be willing or able to push reforms through Parliament.

The risk of political paralysis in South Africa will remain high. The weak growth outlook will also weigh on the country’s fiscal accounts. This, combined with institutional weakness, will leave the country’s sovereign rating vulnerable to a downgrade in 2018.

Nigeria’s economic performance is closely tied to its oil and gas sector. The slowdown in 2014-15 reflected falling international oil prices, and the recession in 2016 was directly linked to militia unrest in the Niger Delta that caused a sharp reduction in oil output. While the economy started to recover in 2017, the 2016 attacks show that oil production in the Niger Delta is vulnerable to political events. Still, we expect strong oil prices and modest growth acceleration in 2018. Notably, Nigeria (along with many of its regional peers) suffers from high levels of corruption, which will continue to limit investor confidence and potential GDP.

Like Nigeria, Angola’s oil dependency leaves it vulnerable to boom-bust cycles that determine the strength of capital flows and public spending. With oil prices expected to remain buoyant, we expect the country to see greater economic stability this year. Moreover, unlike Nigeria, Angola has developed strong ties with China. China has invested heavily in Angola’s mining sector as well as local, state and private companies.

Methodology: Political Risk

Risk ratings are awarded on a six-point scale, as follows:



- The Aon Political Risk Map measures political risk in 163 countries and territories.
- Risk ratings are standardised across each country, on a six-point scale ranging from low to very high, with all risks updated once per quarter.
- Country ratings reflect a combination of analysis by Aon Risk Solutions and Continuum Economics –a global macroeconomic analysis and advisory firm.
- European Union and Organisation for Economic Cooperation and Development member countries are not rated in the map.
- Continuum Economics (formerly Roubini Global Economics) is the international market-leading service for independent economic research powered by 4Cast and Roubini Global Economics.
- Its research combines expert insight with systematic analysis to translate economic, market and policy signals into actionable intelligence for a wide range of financial, corporate and policy professionals.
- This holistic approach uncovers opportunities and risks before they come to the attention of markets, helping clients arrive at better decisions in a timelier manner.
- Continuum Economics' quantitative approach allows CE and its partners to track changes in countries systematically, providing for more meaningful cross-country comparisons, and most importantly allows each political risk to be decomposed to the various elements that drive that risk.

Overall country rating

The overall rating captures an aggregate view of risk within the country. It is calculated as a simple average of six core risk measures (“risk icons”):

- Political Violence
- Exchange Transfer
- Sovereign Non-Payment
- Political Interference
- Supply Chain Disruption
- Legal & Regulatory

Political Violence

The risk of strikes, riots, civil commotion, sabotage, terrorism, malicious damage, war, civil war, rebellion, revolution, insurrection, a hostile act by a belligerent power, mutiny or a coup d’état.

Exchange Transfer

The risk of being unable to make hard currency payments as a result of the imposition of local currency controls.

Sovereign Non-Payment

The risk of failure of a foreign government or government entity to honor its obligations in connection with loans or other financial commitments.

Political Interference

The risk of host government intervention in the economy or other policy areas that negatively affect overseas business interests; e.g., nationalisation and expropriation.

Supply Chain Disruption

The risk of disruption to the flow of goods and/or services into or out of a country as a result of political, social, economic or environmental instability.

Legal and Regulatory Risk

The risk of financial or reputational loss as a result of difficulties in complying with a host country’s laws, regulations or codes.

Terrorism and Political Violence contacts

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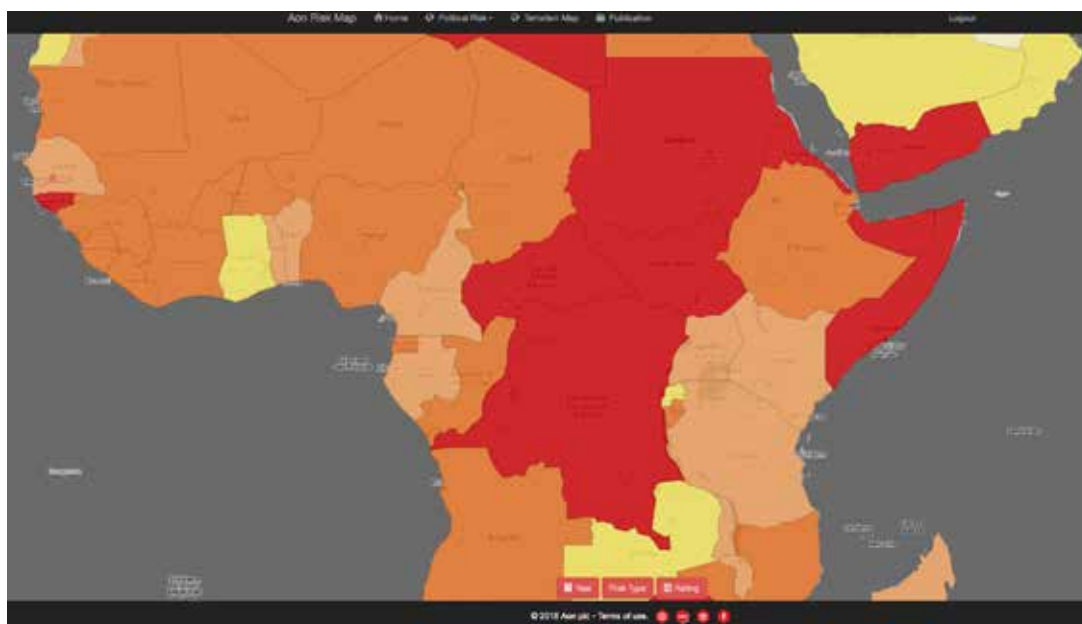
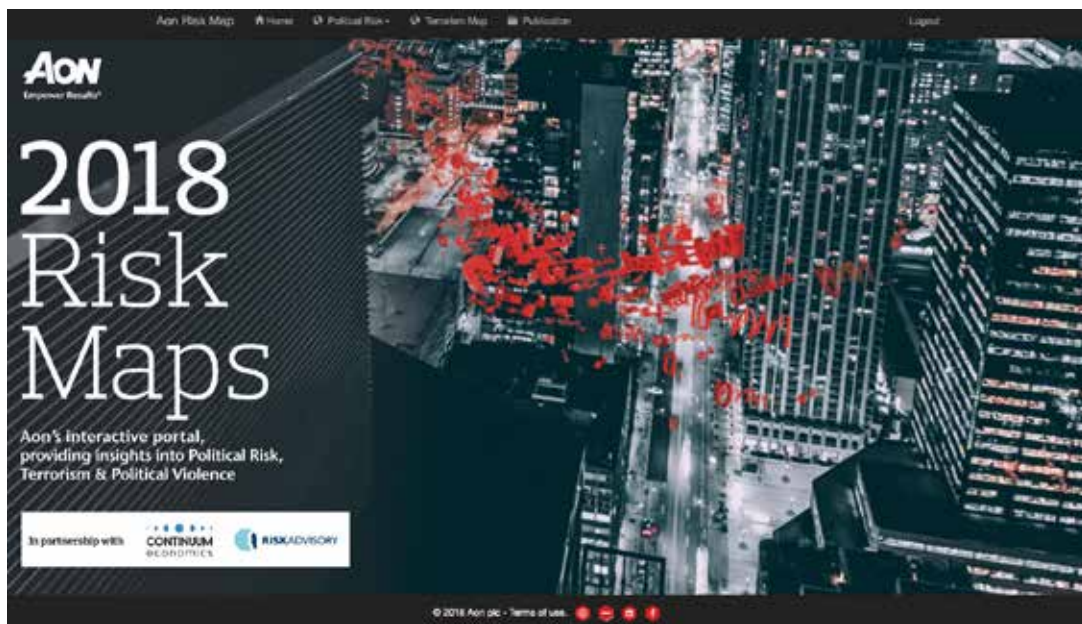
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Map portal

Aon's Risk Maps portal is freely accessible to all those interested in the issues of political risk, terrorism and political violence and their potential impact on global operations.

Follow the link below to access the interactive website.

<https://www.riskmaps.aon.co.uk/>



About Aon

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About The Risk Advisory Group

The Aon Terrorism and Political Violence map represents detailed empirical and intelligence-based assessments on terrorism threats and political violence risks. The map has been produced in conjunction with The Risk Advisory Group since 2007. The Risk Advisory Group is a leading, independent global risk management consultancy that helps businesses grow whilst protecting their people, their assets and their brands. By providing facts, intelligence and analysis, The Risk Advisory Group helps its clients negotiate complex and uncertain environments to choose the right opportunities, in the right markets, with the right partners. For further information on The Risk Advisory Group, please visit www.riskadvisory.com.



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