G4S Risk Consulting

Global Forecast 2015

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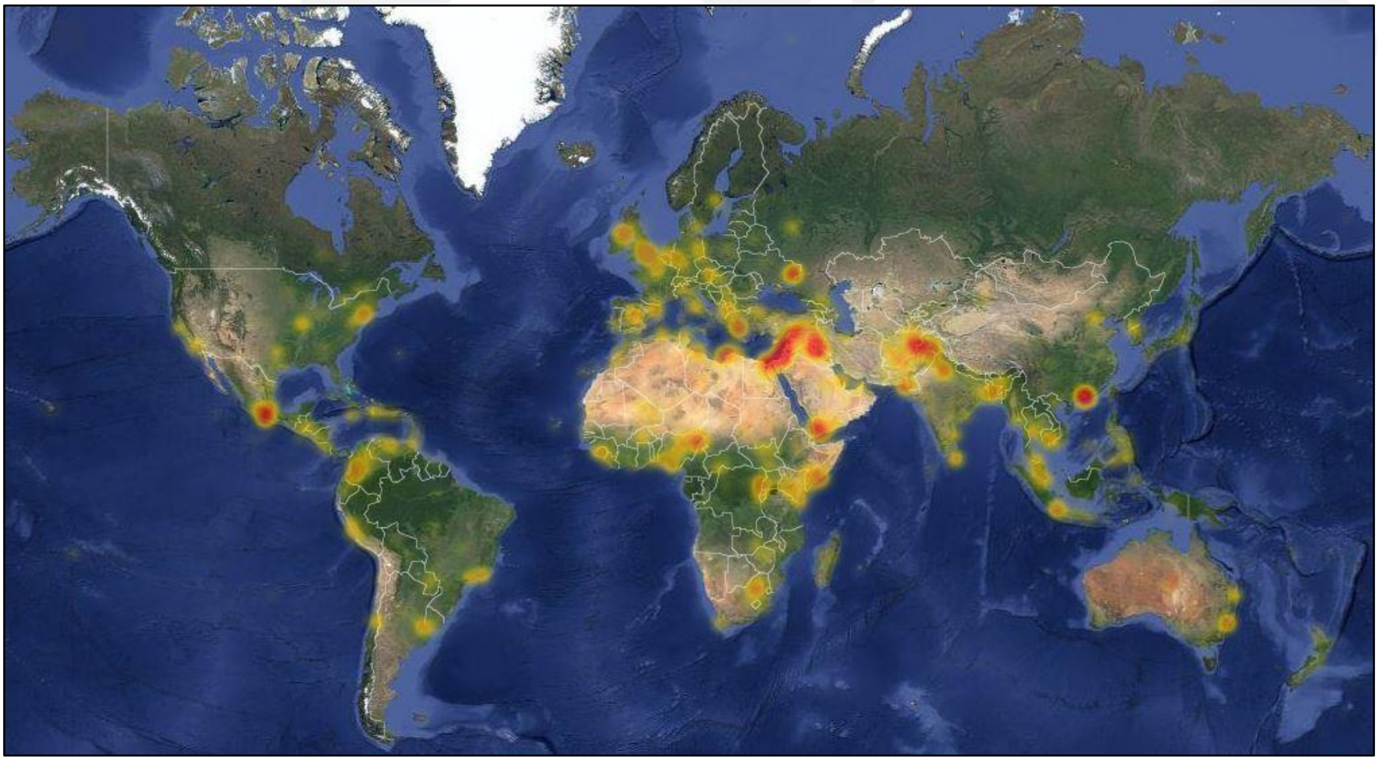
Multiple sources of conflict and unrest have shaken the international community in 2014. From the seizure of territory in Iraq and Syria by militant Islamist group Islamic State (IS), to a proxy war between Ukraine and Russia in the eastern Donbass region, and the largest Ebola outbreak in history spreading through West Africa, it has been a turbulent year. Looking ahead, 2015 is set to see the continuation of these trends, with terrorism, civil unrest and public health among central concerns for risk managers.



Maps are taken from the G4S Global Intelligence System (GIS) portal. The heat mapping correlates to the frequency and severity of incidents documented on GIS in the past 12 months. Green indicates low activity and red high activity.

Increased Global Terror Threat

Blowback from US-led coalition airstrikes in Iraq and Syria that are targeting the Islamic State (IS) and other jihadist groups will result in an increased threat of terrorism in all coalition partner countries, further exacerbated by the return of foreign fighters and a heightened risk of "lone-wolf" attacks. Several countries, including the UK, Australia and Canada, have already increased their domestic terror threat ratings over concerns of an increased domestic threat posed by returning fighters. In September 2014, the US called on security agencies to be on alert for lone-wolf attacks in the country as returnees and self-radicalised individuals increasingly seek to act in order to reduce the threat of interception by authorities.

The heightened threat will be driven by increased militant recruitment. Reports of terror-related arrests have increased since September 2014, including in the UK, France, Morocco, Malaysia, India and the US, indicating the growing global draw of IS. Glorification of jihad via social media allows IS to reach a wide audience, gaining further prominence.

Global Spread of Ebola

Although the Ebola outbreak has largely been confined to three nations in West Africa, isolated cases may still emerge in countries across the world. Transport hubs are most vulnerable to infections, including the UAE, Istanbul, London and Frankfurt. Unlikely to pose a major threat of outbreak in developed countries, cases in densely populated areas with limited public health infrastructure may result in localised outbreaks, particularly in countries such as India or Brazil. The outbreak will continue to impact supply chains and international travel as countries implement heightened border controls to prevent the spread of the virus, potentially requiring adjustments to business continuity planning.

Regional Summaries

In **Africa,** key concerns persisting into 2015 include the ongoing Ebola epidemic in West Africa, terrorism and insurgency as Boko Haram, al-Shabaab and al-Qaeda continue to pose a threat in specific regions, as do civil conflicts in the Central African Republic, South Sudan and the DR Congo. Political risk is likely to increase as a series of long-term presidents face the issue of succession in their countries, raising the risk of civil unrest from increasingly assertive civil societies and creating volatile investment and policy environments.

In the **Middle East and North Africa**, the Islamic State jihadist insurgency will continue to dominate the security outlook in 2015. However, pressure from an increasingly unified opposition, the rapid gains made by IS in 2014 are likely to be gradually rolled back, most of all in Iraq. In neighbouring Syria, there are few indications to suggest the conflict there will end in 2015. In ungoverned spaces elsewhere in the region, the IS model will attract some adherents, but an overwhelming theme of political struggle will continue to be posed by the confrontation between secular authoritarians and Islamists, as typified by Egypt.

In **Asia,** concerns over militancy will persist across the region in 2015 and the full impact of the international drawdown in Afghanistan will be realised. Growing cooperation on terrorism in the subcontinent is a positive development, but India-Pakistan tensions nevertheless persist in the long term. China's aggressive stance on territorial claims in the South and East China Seas will shape relations in the Asia-Pacific region. Ambitious domestic reform programmes, including anti-corruption campaigns, will draw the attention of governments, while harbouring the potential for associated civil unrest.

In the **Americas,** key concerns surrounding security, the economy and political stability will persist into 2015, centred in particular on organised crime, civil unrest and political interference in national economies. The diversification of drug gangs' sources of income is set to continue, with the extractive industries representing the biggest target, although drug trafficking will continue to present a serious threat continent-wide.

In **Europe,** key issues persisting into 2015 include increasing Islamist extremism and radicalism in EU countries, particularly the response to the threat posed by "lone-wolf" extremists; ongoing austerity measures, which could trigger strikes and protest action; and the potential impact of Russia's belligerence in Eastern Europe.

In **Russia** and **CIS,** the eastern Ukraine crisis will remain a prominent concern. The consequences of Russia's deteriorating economic outlook and anxiety over the Kremlin's adventurism will dominate the security environment and investment climate over the coming year. Although the fall in oil prices may drive some political instability, it remains to be seen whether entrenched authoritarian regimes will face an immediate threat to their dominance.

The Global Forecast 2015 has been compiled by G4S Risk Consulting's team of analysts based around the world. Leveraging five-years' of data and regional expertise, the forecast discusses the most pertinent threats to operating environments in the coming months.

The Global Intelligence System (GIS) is an online monitoring system providing geopolitical intelligence on current and future threats to corporate security, travel and business continuity. GIS uses a quantitative risk rating model and qualitative analysis to assess the threat level in 220 countries and territories.

For further information and to sign up for a seven-day complimentary trial, please visit gis.g4s.com or contact the team at GISEnquiries@rm.g4s.com

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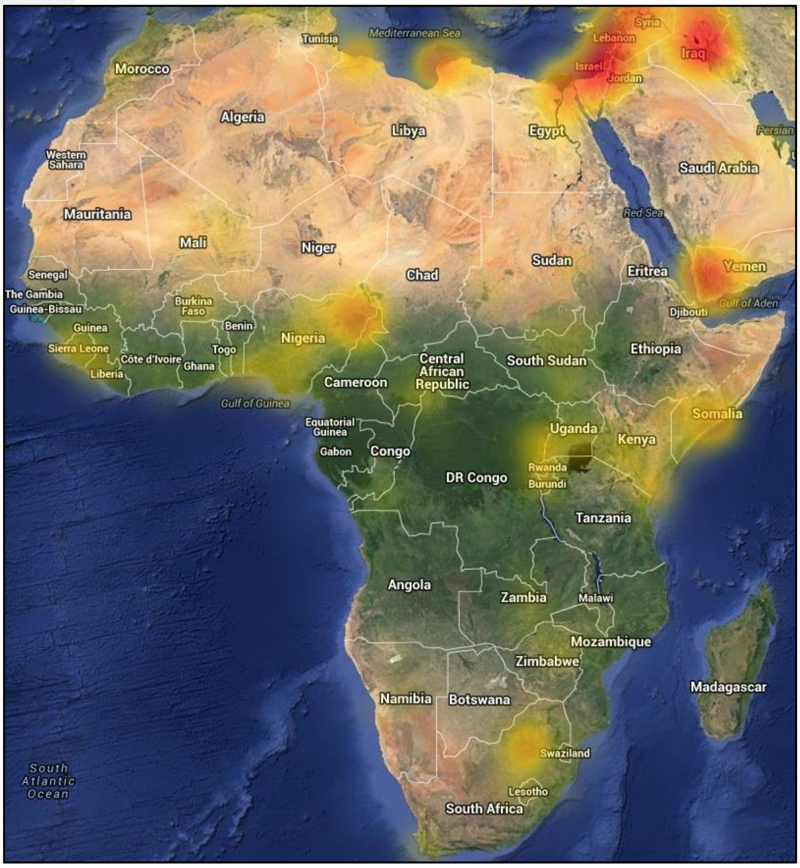
Africa

Africa offers a mixture of promising frontier markets and rapidly developing economies, but political risk, localised conflicts, poor socio-economic conditions and inadequate infrastructure mean that the continent will remain a diverse and often challenging region in which to invest and operate. Key concerns persisting into 2015 include the ongoing Ebola epidemic in West Africa, terrorism and insurgency as Boko Haram, al-Shabaab and al-Qaeda continue to pose a threat in specific regions, along with ongoing civil conflicts in the Central African Republic, South Sudan and the DR Congo. Political risk is likely to increase as a series of long-term presidents face the issue of succession or the distortion of constitutional limits, raising the risk of civil unrest from increasingly assertive civil societies and creating volatile investment and policy environments.



Outlook

Health

- The Ebola virus epidemic will continue into 2015 in the Mano River states of **Liberia**, **Sierra Leone** and **Guinea**, and the current death toll of at least 7,842 out of a total of more than 20,000 infected people is set to increase. Improved containment and control measures in Guinea and Liberia will lead to a sustained reduction in the infection rate, while Sierra Leone will begin the year with significant improvements still required. The trajectory of the epidemic through 2015 will be shaped by international funding and intervention, as well as the robustness of domestic policies for containment and eradication. Existing gains are fragile and an ongoing risk of transmission to neighbouring states will persist, with **Mali**, **Ivory Coast**, **Ghana**, **Senegal** and **Nigeria** particularly vulnerable.
- The Ebola crisis exposes deficiencies in public healthcare, infrastructure, crisis response, security provisions and the lack of trust of citizens in their governments. Regimes with consistently poor corruption records will face scrutiny from their electorate as to why the government responses were so inadequate. Guinea's President Condé will face scrutiny at the ballot box in 2015, but both President Johnson Sirleaf of Liberia and President

Koroma of Sierra Leone may be held accountable through popular protests or party dissent as 2015 unfolds.

- The depletion of workforces, particularly in the health sector, and the curtailment of movement and agricultural production will stunt the growth trajectories of the Mano River states and place a strain on already weakened government services. The World Bank predicts **Sierra Leone** and **Guinea** will enter recession in 2015 as foreign investment retreats and governments enforce spending cutbacks. The **Liberian** economy is expected to rebound provided that Ebola cases continue to fall, but the gains will be fragile and will remain vulnerable to changes in global metal prices and environmental conditions.
- Tourism is expected to rebound across Africa in early 2015, although regional trade will take longer to recover*.* Travel restrictions and quarantines measures in the **Ivory Coast** and **Ghana** will prevent the movement of migrant workers for the coca harvest from **Liberia** and **Guinea**, resulting in increased global coca prices. As international donor efforts concentrate on the Ebola crisis and reconstruction, there will be pressure on aid flows to other African countries in 2015. As already struggling public health sectors struggle to recover, other communicable diseases, such as cholera and malaria, may be neglected, resulting in a rise in case numbers in West Africa.

Political Risk & Civil Unrest

- The next two years will see a host of long-serving African leaders approach the end of their terms in office as a result of their advancing age or constitutional limitations. For many, 2015 will mark the year in which succession planning or the manipulation of constitutions to ensure their political longevity begins in earnest. With political upheaval a real prospect in many states across Africa throughout 2015 and into 2016, there exists a high potential for disruptions to business operations and investment. Similarly, for countries such as **Benin**, where long-serving leaders are expected to end their tenure in 2015 and 2016, political support will decline, causing policy-making to slow.
- An explicit refusal to engage with the democratic process could provoke widespread protests and a premature end to some long-serving regimes, a powerful lesson learned in **Burkina Faso** in 2014. In autocratic states, a threat of coup or political violence persists. The repressive and secretive environments nurtured by **Equatorial Guinea** and **Eritrea** make dissent against the regime extremely difficult. Conversely threats to stability will emerge abruptly and violently. President al-Bashir in **Sudan** faces an election in April which he is almost certain to win, but in the medium-term he is vulnerable to being ousted by a range of security factions.
- Younger presidents enjoying a monopoly of control over their political environments are also debating how, or whether, to attempt constitutional change to extend their tenure. **Burundi's** President Pierre Nkurunziza is constitutionally barred from seeking a third term in elections due on 26 June, but his push for a reinterpretation of the rules will create a high level of political risk to accompany current levels of political repression. President Joseph Kabila's allies in the **DR Congo** are mooting the prospect of changes to electoral laws aimed at prolonging his period in office. However, Kabila, who governs a large and fractious country, will face international and domestic opposition, including from elements of his own PPRD party, to any attempt at constitutional change. The new Government of National Cohesion is Kabila's attempt to neutralise the opposition, but a fractured and complex political landscape throughout 2015 will prove a destabilising influence on an already poor business climate.
- In **Rwanda** coalition parties are suggesting removing the cap on term limits, allowing President Paul Kagame to contest another term. Kagame, who is credited with bringing stability and economic growth to Rwanda, albeit marred by political repression, would face an easier re-election in a small and tightly controlled country
- Dynastical succession may be proposed in **Angola** and **Zimbabwe** in 2015. In **Angola**, a best-case scenario will result in policy continuity in the medium term for 2015, though other risks range from protests to ethnic unrest and military rebellion in Cabinda, a northern Angolan enclave in DR Congo. The recent cabinet reshuffle by an aging President Mugabe in **Zimbabwe** has still not addressed the long-standing question of succession. Grace Mugabe, the president's wife, is believed to harbour presidential ambitions, but will see competition from the recently promoted Vice President Emmerson Mnangagwa and the ousted former vice president Joice Mujuru. ZANU-PF

- faces the threat of splintering entirely from already divergent factions in 2015, causing short-term instability, but with the longer-term potential to radically improve the country's stuttering economy and poor business environment.
- A series of strikes in the public and extractive sectors, coupled with protests over service delivery and government reform, are expected to continue in those countries with greater democratic space, such as **Kenya, Nigeria** and **South Africa.** An increasingly active civil society, invigorated by the toppling of the long-serving President Compaoré in **Burkina Faso**, and with access to social media campaigning is expected to place greater demands on governments for education, employment, infrastructure and housing.
- Local empowerment quotas and protectionist policies will retain popularity for some African governments, largely as a result of new or vulnerable presidents seeking to appeal to increasingly vocal electorates. Such policies will focus in the extractive and professional industries, which are often dominated by foreign expertise. **South Africa, Zambia** and **Mauritania**, for example, are expected to continue existing policies, while an expansion is expected in **Malawi, South Sudan** and **Gambia** as governments pursue populist policies.

International Relations

- The UN enters 2015 with nine peacekeeping operations in Africa, ranging from the **Ivory Coast** to **Sudan**, along with a hybrid African Union mission in **Somalia**. The highest death toll in 20 years saw all but one of the 38 deaths of UN workers in 2014 occurring in Africa. UN workers will increasingly be seen as targets by non-state actors in conflict areas in 2015, including in the **CAR** and **Mali**. The risk is exacerbated in **South Sudan**, where tens of thousands of people have taken refuge at UN sites across the country and the UN is accused by the government of playing an active role in the conflict.
- International aid agencies will begin 2015 with resources overstretched as they face demands from multiple localised conflicts across Africa, which are placing a severe burden on already impoverished states, such as the **CAR** and **South Sudan**. As the Ebola response in the Mano River states captures resources and funding, national governments will face greater pressure from their constituencies.
- Increased bilateral engagement with Africa is expected to continue into 2015. The Chinese engagement will need to build further its adaptation away from a purely extractive arrangement in order to rebound from the type of anti-Chinese sentiment seen in **Zambia** and **Madagascar.** US engagement is expected to grow economically through Power Africa and for security through AFRICOM. For those countries such as **Gambia** and **Malawi**, who are facing questions from donors over human rights and governance respectively, 2015 will be used to pivot to new international donors, including Turkey, Russia and India.

Business Risk

- Corruption will remain a pervasive risk in Africa throughout 2015, particularly in those countries with a high level of political risk where patronage and corruption are used to win support, including **Zimbabwe** and **South Sudan**. Resource dependent states, such as **Angola,** will also see high rates of corruption if governance remains unreformed. However, as politicians face greater accountability in those countries with democratic space, systemic corruption or a lack of transparency will be increasingly challenged in **South Africa**, ultimately improving the business environment in the longer term, while raising political risk in the short term.
- The **Mozambique** economy will receive a substantial boost as further investment is made into its northern oil and gas fields, while issues of governance and concerns of political risk may inhibit **Tanzania** from receiving similar benefits in 2015. New gas production in **Ghana** will provide a much-needed shot to its economy, though **Sudan** and **South Sudan** are still not expected to begin diversification away from oil that their fragile economies demand.
- Africa's infrastructure deficit is expected to persist throughout 2015, largely due to the lengthy lead time for the financing and construction of major projects. Infrastructure will be a key focus for both private and public investment in 2015 due to the constraints on economic growth and the potential for power shortages, in particular, to generate civil discontent. However, outcomes are likely to be below expectations as governments ignore issues of capacity, implementation and development. **South Africa** and **Ghana** will enter 2015 with load-

- shedding programmes, intentional rolling power blackouts to stop wholesale failure of the power supply, in place, which are likely to continue sporadically throughout the year.
- Porous borders and extensive migration will continue to allow transnational crime to flourish across Africa. An absence of coordinated action means that human trafficking will continue on long-established routes northwards, usually to Libya and Morocco for onward travel to Europe, while drug traffickers will continue to traverse the continent. Government focus on international trafficking, as anticipated in **Guinea-Bissau**, will alleviate localised risk minimally, but extensive networks into government and security forces, coupled with thriving demand, mean the trend is set to persist overall. However, greater multilateral pressure will be brought to bear on poaching and the illegal trade in wildlife, which will cause governments to seek harsher legislation and improve regional coordination.

Terrorism

- The Boko Haram insurgency in **Nigeria** is anticipated to escalate in early 2015 as the government fails to exhibit the political will or military strategy required to tackle the threat until at least after national elections are held on 14 February. The militant Islamist group will seek to hold greater territorial control in the north-eastern states of Borno, Adamawa and Yobe, with control of a large city such as Maiduguri, the capital of Borno state, a strategic objective. Disruption of the election campaign will be a key target for Boko Haram, with attacks anticipated on polling stations. In the longer-term, in the absence of a new strategy to tackle Boko Haram, which will require a coordinated transnational response by **Nigeria**, **Niger**, **Chad** and **Cameroon**, militants will continue to launch lethal attacks, increasingly deploying suicide bombers, against civilian, government and foreign targets, While attacks will be concentrated in Boko Haram's north-eastern heartlands, increased attacks in the central belt will aim to disrupt communal relations between Muslims and Christians, while an attack in the commercial centre of Lagos may fall within the group's capabilities.
- The militant Islamist campaign of al-Shabaab in **Somalia** is expected to be pushed further south and inland by AMISOM troops and targeted airstrikes. However, the militant group will remain a lethal threat and is likely to continue its attacks, including suicide bombings, particularly in Mogadishu. In the absence of an effective security force response by President Uhuru Kenyatta in **Kenya**, al-Shabaab is expected to launch both localised and large-scale attacks in the North Eastern and Coastal provinces, and Nairobi. Arrests of al-Shabaab militants plotting attacks in Uganda, Ethiopia and Burundi are also likely, with a moderate risk of a successful attack taking place in these locations, most likely through the use of one or multiple suicide bombers.
- Isolated militant groups will continue to take advantage of the absence of an effective state force in **Mali** to launch resurgent attacks. **Mali** and **Niger**, along with the North African states, will see continued activity by various al-Qaeda-affiliated militants, although activity will be constrained by a committed French counter-terrorism operation and the presence of UN peacekeepers in Mali.

Civil Warfare & Insurgency

- A range of rebel groups will seek to take advantage of an ineffective state apparatus in the eastern **DR Congo**. The Islamist Allied Democratic Forces (ADF) militia, originating from Uganda, will enter 2015 as one of the most active rebel forces in eastern DR Congo. The ADF's limited capability will see it continue to concentrate attacks in and around Beni in the opening months of 2015, although government and UN troops will begin to coordinate the more effective type of response seen against the M23. Further threats of violence will continue into 2015 as the disarmament programme for the FDLR, a Rwandan Hutu rebel group, slows and the inconsistent implementation of the Nairobi declarations for the M23 rebel group see former rebels grow restive over delayed reconciliation. A recent military reorganisation intended to provide President Joseph Kabila with greater centralised control will bed in at the beginning of the year, although may be exploited by insurgents as a sign of his vulnerability, or stoke ethnic enmity, both resulting in a threat of civil warfare in the Kivus, Orientale and Katanga.
- The civil conflict in **South Sudan** between the SPLM and the SPLM-IO will enter its second year with no sign of a serious ceasefire or peace agreement. Fighting will be concentrated in the northern oil states of Jonglei, Upper Nile and Unity, where the opposition knows it must sustain

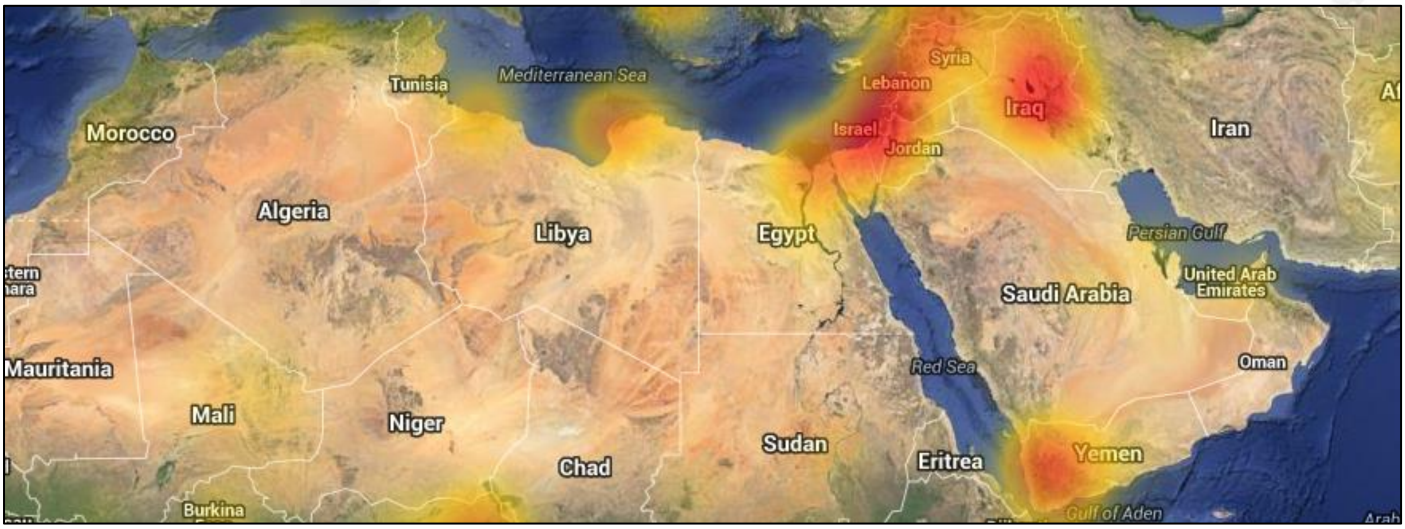
- pressure if it is to have an economic impact on the government in Juba. IGAD-imposed deadlines and international threats of sanctions will continue to be ignored if they continue to lack political backing, although international negotiators will be seeking to establish rifts between the moderates and hardliners of each faction in a desperate attempt to pull together a partial peace agreement. Issues of governance and power structures critical to the two central protagonists, President Salva Kiir and former vice president Riek Machar, are unlikely to be adequately resolved.
- The deployment of the UN MINUSCA mission to the **CAR** and the fracturing of the ex-Seleka rebels will help to prevent the **CAR** sliding back into a full civil conflict. National dialogue between the transitional government, ex-Seleka and anti-Balaka rebels is scheduled for January and the conduct, inclusivity and outcome of the talks will be critical in determining the viability of national elections in August 2015. Nevertheless, the current improvement in the security situation is fragile. Violence is expected to continue to flare in Bangui, while a range of localised conflicts elsewhere are not expected to be addressed in the current peace process, including intra-ex-Seleka violence and rising animosity between pastoralists and farmers. With more than 20 percent of the population displaced either internally or externally and a virtual absence of infrastructure in many locations, a barely functioning state is not expected to be able to address many of these longer-standing causes of conflict.

Watch List

- The Ebola infection rate continuing to increase in **Sierra Leone**, **Liberia** or **Guinea**, or additional Ebola cases being registered in other countries, will indicate current strategies are insufficient. Sustained Ebola-related protests will also pose a threat of coup or civil warfare in these post-conflict states.
- Presidential elections, particularly those in which the ruling party contender is seeking to subvert the constitution, could trigger popular protests and civil unrest, with the ultimate potential consequence of the overthrow of governments. Presidents across Africa will also monitor strategies of other regimes, which will have a bearing on their own decision-making.
- Steps towards introducing dynastical succession in some states could result in a splintering of political parties, protests and slowed policy-making, all creating a challenging and potentially disruptive business environment.
- The specific targeting of UN or multilateral bodies in a multitude of conflict zones will erode their ability to keep peace.
- A corruption scandal toppling a high-profile president or government, such as in **South Africa**, will send a powerful message to constituents and politicians alike across the continent.
- The outcome of the **Nigerian** general election will be decisive in determining the future of the Boko Haram insurgency, while an attack in Lagos would signify increased capabilities.
- The eruption of sustained and varied rebel activity in the DR Congo will indicate the increased political vulnerability of President Kabila and pose questions as to the viability of the Congolese state in its current form.

Middle East and North Africa

The Islamic State jihadist insurgency will continue to dominate the security outlook for the Middle East in 2015. However, facing increasing unity among its diverse enemies, the rapid gains made by IS in 2014 are likely to be gradually rolled back in the year ahead, most of all in Iraq. In neighbouring Syria, there are few indications to suggest the conflict will end in 2015. In ungoverned spaces elsewhere in the region, the IS model will attract some adherents, but the overwhelming theme of political struggle will continue to be the confrontation between secular authoritarians and Islamists, as typified by Egypt. Meanwhile, the reluctant rapprochement between Iran and the US will offer a rare opportunity for a regional de-escalation of hostility, but one that will draw enmity from both the region's Sunnis, led by Saudi Arabia, and from Israel.



Outlook

Insurgency & Terrorism

- Islamic State (IS)'s campaign in **Syria** and **Iraq** and attempt to expand its reach will continue to dominate reporting in the region over the year ahead. Although IS retains a strong military force funded by criminal enterprises running from eastern **Lebanon** to near the border with **Iran**, the Iraqi government's attempts to be more inclusive may help stem the spread of IS influence. Nevertheless, Sunni alienation, army weakness and systemic corruption are set to continue as structural drivers of IS support.
- The participation of **Bahrain**, **Jordan**, **Saudi Arabia**, the **UAE** and **Qatar** in the US-led international coalition against IS elevates the security threats in these countries, including those posed by fighters returning from the conflict in Syria and Iraq.
- The conflict in **Syria** is unlikely to see a conclusion in 2015. The rebel groupings are now stuck between IS and the Assad regime and are increasingly ignored by the international community. With regime change no longer high on the agenda for key international players and concerns over weapons reaching jihadist factions, the rebels' plight is unlikely to improve significantly in 2015. However, there are signs of increased co-operation between the moderate rebel forces and there is little indication that Assad's regime will be able to strike a mortal blow to the opposition, thus making a prolonged period of stalemate the most likely course of events.
- A prevailing narrative of Sunni alienation in the region will continue to fuel conflicts, particularly in **Yemen**, **Bahrain** and **Lebanon**. Sectarian grievances have increasingly been voiced since **Syria's** civil war divided the region into pro- and anti-Assad camps, undermining domestic stability.
- Beyond the Iraq-Syria theatre of conflict, the IS modus operandi and ideological outlook will attract support from alienated groups in ungoverned spaces. Core areas for concern include eastern **Lebanon**, North Sinai in **Egypt** and Derna in **Libya**, where repressive, weak or non-existent state structures are creating the conditions to allow the rise of IS jihadists. As in IS areas of operation, the groups' focus will be on raising finance through

criminality and localised attacks to suppress opponents, rather than on the al-Qaeda model of high-profile, mass-casualty attacks targeting the West.

- State weakness in **Yemen** will continue to drive instability, but violence will be dominated by the rising confrontation between Houthi armed groups from the north and jihadist insurgents linked with al-Qaeda in the Arabian Peninsula (AQAP) in the south, with the weak armed forces pushed to the sidelines.

International Relations

- The trend towards incremental improvement in relations between **Iran** and the West offers extensive new opportunities for investment, in the event of Iran gradually returning to the international financial system. The prospect for a full nuclear settlement deal with the five permanent members of the UN Security Council and Germany, known as P5+1, appears increasingly realistic ahead of the new deadline set for 30 June 2015. The prospect of a full deal averts the risk of an outright nuclear arms race in the Middle East and may relegate the US-Iran relationship to the status of an antagonism.
- **Israel** and **Saudi Arabia** will lead the opposition to any modest rapprochement between Iran and the West. Although Israel's supporters in the US Congress are likely to obstruct any wholesale lifting of sanctions, President Obama will nonetheless be able to withdraw sanctions imposed by executive action. In the first six months of 2015, some sanctions will be lifted on gold and precious metals, automotive, aviation and petrochemical sectors, worth some USD 7 billion for the Iranian economy.
- As IS's advance plays out in Iraq and Syria, the web of alliances in the Middle East and North Africa (MENA) region grows ever more complicated and is testing established lines of allegiance in the regional cold war between **Saudi Arabia** and **Iran**. Despite Iran's opposition to IS, it has not been invited to the US-led coalition due to poor relations with the US and other coalition members, namely Saudi Arabia, particularly over its support for the Syrian regime. The contradiction of Iran, Saudi and the US aligning together to oppose IS undermines a completely unified front against the group. Iran has the most rational support network; its condemning of IS does not go against its support of the Assad regime in Syria, while Saudi Arabia's support network is vastly more complicated and therefore more prone to causing hostility. Saudi Arabia's reputation has been damaged by reports of funding extremist groups and its growing support of militant groups and non-state actors.
- The gradual advance of the Iraqi Kurds towards an independent state will continue into 2015. The signing of a revenue-sharing agreement with Baghdad will help address the Kurdish Regional Government (KRG)'s fiscal crisis, strengthening its armed forces as they face down IS. In **Turkey**, the Kurdistan Workers' Party (PKK) faces increasing pressure from its military leadership to resume its insurgency at the same time as its Syrian allies confront IS in Kobani and beyond.
- **Turkish** President Erdogan's growing authoritarian stance and regional ambitions have already seen Ankara strike a number of ambiguous alliances across the region through indirect intervention in Syria and Libya, as well as through commercial agreements with the KRG. However, Turkey's reluctance to help the Kurds in Kobani has triggered accusations that Erdogan is a tacit ally of IS as he demands the Syrian Kurds drop their neutral stance with President Bashar al-Assad in exchange for opening the border and sending weapons. Turkey's hesitancy to join the coalition and aid the US by allowing the use of its military bases is largely due to domestic Kurdish concerns, but this has undermined Turkey's position in NATO and left the government's rapprochement with the PKK in question. It has also prevented Turkey from being a strong regional actor, with its influence likely to continue to decline in 2015.

Civil Unrest

- Across the region, a protracted phase of low oil prices may force governments to slash public spending, particularly in **Oman**, increasing the risk of public disquiet and unrest. While widespread unrest remains highly unlikely inside Gulf States, largely due to robust security forces and generous welfare programmes, the decision to cut fuel and other subsidies in the region could lead to a period of protests. **Jordan**, **Egypt** and **Kuwait** are particularly prone to protests if subsidies are withdrawn or reduced.
- Shortfalls in international aid for Syrian refugees will increase the risk of unrest in countries with large refugee populations, most of all in **Lebanon, Jordan** and the Kurdish region of **Iraq**, as they

struggle to effectively manage humanitarian operations.

- Large-scale protests will continue to dwindle in **Egypt** as the authoritarian state apparatus continues with its crackdown on dissent, particularly targeting Islamists. The crackdown, coupled with “protest fatigue”, will see unrest largely confined to university campuses, while the police also continue to use heavy-handed tactics to suppress dissenting students and civilians.
- Low-level unrest is expected to persist in **Bahrain**, where Shi’a Muslims continue to mount sporadic protests and small-scale bombings against police over Shi’a marginalisation by the Sunni ruling family.
- Concerns remain over the eruption of a third intifada in the **Palestinian Territories** as inter-communal tensions run high in East Jerusalem. **Israel’s** refusal to halt settlement expansion and encroachment into East Jerusalem is exacerbating already dire relations, with protests and associated violence spiking in the final months of 2014. The situation increases the risk of sustained low-level attacks in the West Bank, as well as high-profile assaults in Israeli cities and against Israeli or Jewish targets abroad.
- The southern secessionist movement in **Yemen** has renewed its activity, calling for all foreign oil companies to cease operations in November until southern managers can be put in place. This is in reaction to the Houthi advance in the north, which is moving towards southern provinces. Increased protests and demands are anticipated, but are likely to be ignored by Sana’a, potentially triggering a cycle of intensifying demonstrations.

Political Risk

- State failure in **Libya** and the competition between the rival governments of Tobruk and Tripoli and the militia alignments that they represent is set to worsen unless a power-sharing settlement is agreed. The combination of chaotic violence, competition over oil resources, the absence of overarching authority and rising militancy indicate the outlook for the country is among the worst in the region, adversely affecting an already precarious operating environment.
- Issues of succession carry the potential for destabilisation in countries led by ageing leaders with no immediate or apt successors. This is of particular concern in **Saudi Arabia**, where tensions within the ruling family underlie an aversion to handing power to the third generation of Al Sauds. In **Algeria,** ageing President Bouteflika is still without a nominated successor and uncertainty is set to continue, particularly in the event of extended oil price lows driving budget cuts. However, with the security-intelligence establishment remaining firmly in control, the prospect that the divided opposition will uproot deeply-entrenched state structures is highly unlikely.
- In **Yemen**, the rising strength of the Houthi movement and its covert alliance with Ahmed Saleh, the son of the ousted president, suggests the powerful family is manoeuvring for a return to power. While it appears unlikely that the temporary alliance will last in the aftermath of the suppression of Islamist rivals, the balance of power between the forces led by Ahmed Saleh and Abdelmalik Houthi is entirely unknown. This, in turn, is fuelling a spike in al-Qaeda in the Arabian Peninsula (AQAP) activity amid fears the Houthis are seeking to gain political control in AQAP’s traditional strongholds in the south, namely Abyan province.
- **Tunisia** will be under considerable pressure to live up to expectations as a model of “successful revolution” in the region. The new government faces multiple security and economic challenges from a growing jihadist threat intent on destabilising a secular government and from international observers and investors to make the country a viable investment option, namely by cutting down on informal trade and burdensome regulations.

Organised Crime and Business Risk

- Oil smuggling by IS will remain the group’s primary source of revenue via entrenched smuggling rackets to the **KRG**, **Turkey**, **Lebanon**, and **Iran**. Operating primarily via the cash-dominated economy, the opportunities to crack down on smuggling via anti-money laundering policies will be extremely limited, which may instead prompt regional powers to target road transport infrastructure as a means to curtail the group’s financing.
- Weapons and drug trafficking will continue to fuel crime and militancy across North Africa. Further efforts will be needed to stem the flow of arms transiting through **Libya’s** porous borders, which also facilitate cross-border militant movement. The potential for high-profile attacks against

foreign interests, including in the extractive and oil industries, remains high in the region.

- The participation of state and non-state actors in the IS conflict will complicate business operations in the region, including in **Qatar**, where widely reported support for rebels in Syria and interference in regional affairs has already led to a diplomatic crisis within the Gulf Cooperation Council (GCC). Furthermore, Qatar's increasingly poor image in regards to human rights and corruption will raise reputational concerns for investors.

Watch List

- IS advancement towards **Baghdad** and **Damascus** will trigger increased volunteer mobilisation in-country and greater international intervention.
- In the event of a full deal between the P5+1 and Iran, a regional fall out is expected, including a bellicose **Israeli** response and hostility from the Gulf States.
- Secessionist movements are likely to increase their calls of autonomy and independence as central state authority remains questionable, particularly in **Iraq**, **Syria** and **Yemen**. This is likely to translate into conflict with central authorities via protests and the potential for associated violence.
- The spread of IS influence in the region concerns all governments, potentially leading to increased military operations, which can result in a localised hostile response. **Egypt's** ongoing campaign in the Sinai Peninsula is likely to be maintained, if not ramped up in reaction to local terror groups pledging allegiance to IS, while developments in **Libya** may drive increased regional and international intervention in the country.
- Cuts to subsidy programmes have the potential to trigger mass civil unrest, particularly in economically struggling states such as **Egypt** and **Jordan**, both of which have a legacy of violent reactions to increased fuel and bread prices.

Libya on the Brink

After the seizure of Tripoli by the coalition of militias, calling themselves Libya Dawn, in August, conflict between Dawn and Operation Dignity, based in the east, has steadily escalated, raising concerns over a possible full-blown civil war in Libya and the country splitting into two de facto states.

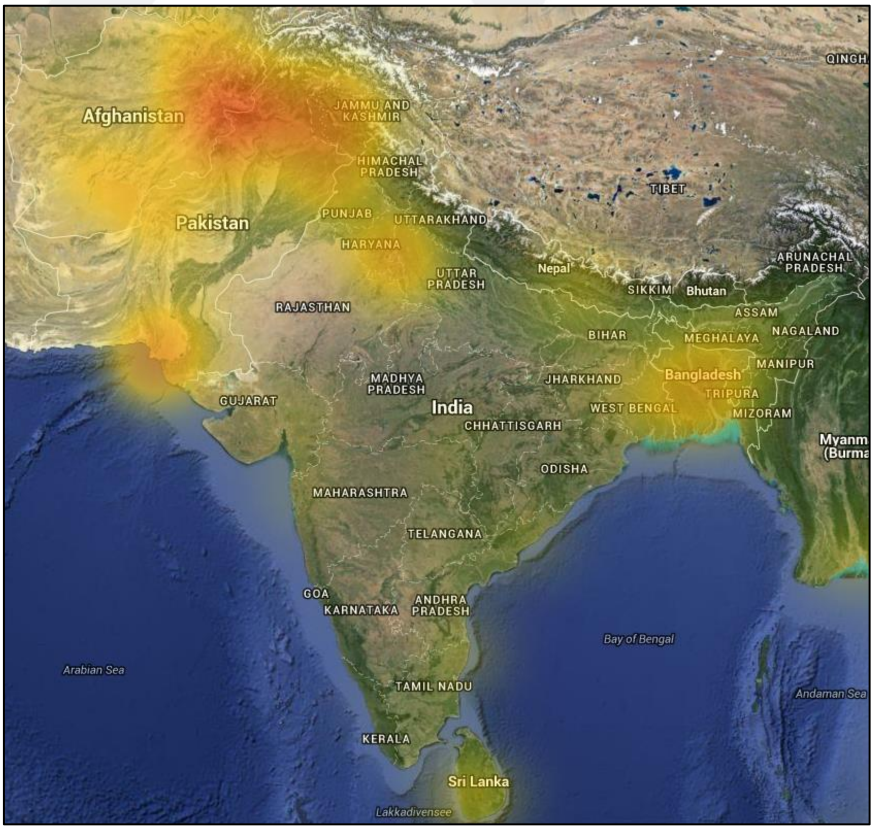
Airstrikes conducted by Operation Dignity, a counter-terrorism campaign affiliated to the Tobruk-based government and led by General Khalifia Haftar, have been targeting Libya Dawn positions to the west of Tripoli. The UN has called for a halt, but has no leverage to force the hostile parties to come to the negotiating table in the immediate term. Libya Dawn has responded by threatening aircraft and shipping in areas under its control. The militia umbrella group continues to accuse the UAE and Egypt of providing weapons and logistical support to its rivals, whilst Libya Dawn is suspected to have received support from Qatar and Turkey as it continues to cooperate with jihadists, such as Ansar al-Shariah in Derna. As Libya increasingly descends into a failed state, regional and ideological rivalries playing out on the battlefield will risk escalating the conflict further.

Nevertheless, domestic competition for control of Libya's vast oil resources is fuelling the violence to a greater extent than regional proxy struggles. In November, reports emerged of Libya Dawn-affiliated militias attacking and attempting to seize control of two major oil fields with the intention of also claiming a nearby field. The seizure of the oil field is the first major attempt by Libya Dawn to exert greater control over oil resources, having already appointed an oil minister to increase pressure on the National Oil Company (NOC). Officials at state institutions such as the NOC continue to go to work and draw public salaries, but are desperately struggling to remain above the political fray, caught up in chaotic militia hostility and the context of total impunity for armed groups. Further moves by Libya Dawn to take over the hydro-carbon industry will unleash counter-measures by the Tobruk-based government, making the prospect of reconciliation between the two parties more remote and threatening to impact on oil exports.

The UN mission in Libya called for a new round of talks between the rival governments in December, but these are yet to come to fruition. Even if talks between the rival governments do go ahead, they will prove unable to address the underlying cause of conflict, namely the proliferation of militia groups filling the vacuum left by the collapse of the Gaddafi-era security apparatus and the absence of a functioning state.

South Asia

The Subcontinent continues to be dominated by two major issues; the India-Pakistan bilateral relationship and the impact of the withdrawal of NATO troops from Afghanistan. Elsewhere, national capitals will continue to harbour concerns over militancy that has been galvanised by the success of Islamic State (IS) in Iraq and Syria. A business-friendly government in India will help account for much of the region's economic growth, but underlying political fragility, the potential for civil unrest and ongoing problems of corruption should be among investor concerns through 2015.



Outlook

International Relations

- Relations between **India** and **Pakistan** will remain a dominant issue across South Asia in 2015. Despite hopes for a brief thaw in 2014, leaders of both countries will remain under pressure domestically to assert authority over potential conflict points, such as Kashmir and the presence of proxy militant groups.
- US influence is gradually increasing in India, while Russia is re-aligning itself with Pakistan and **Bangladesh**. With the two outside powers backing India and Pakistan, the conflict between the two is likely to intensify.
- Progress will be made on non-securitised issues such as energy and transport connections, but steps towards reconciliation will continue to be met with setbacks in the security sphere, most likely over cross-border violence. The Pakistani military is unlikely to change its policy of asymmetric warfare in Kashmir. Any terrorist attack on Indian soil that is traced back to Pakistan will severely damage relations.
- Potential border incursions by **China** into disputed territory in **India's** Arunachal Pradesh and Ladakh will increase tension between the two countries, possibly hardening India's security posture vis-à-vis China. Continued skirmishes along the **Pakistan-Iran** border could see bilateral relations turn hostile.
- **Bangladesh** and **Sri Lanka** will utilise their strategically important locations on the Bay of Bengal and Indian Ocean in order to extract concessions and aid from India and China, who

will continue to engage in regional diplomatic contests.

Civil Warfare & Insurgency

- **Afghanistan** will continue to experience critical levels of insurgent violence as the Taliban tests the capacity of government security forces to fight without external support. Terrorist attacks in cities in winter and rural expansion campaigns in summer will continue to gain in momentum as the government pursues a full peace settlement that is unlikely to be agreed in the medium-term.
- Insurgent movements in the north-eastern **Indian** states of Assam, Meghalaya, Nagaland, Manipur, Tripura and Mizoram have seen an overall decline in 2014, but the threat of attacks remains.
- Violence by left-wing Maoist groups has considerably reduced as a result of counter-terror operations. Despite being pushing back into the forests, the main Maoist-dominated states, including Jharkhand, Chhattisgarh, Odisha and Bihar, will continue to experience sporadic guerrilla-style attacks.

Terrorism

- Domestic security threats remain prevalent in **Pakistan**, despite a medium-term decline in the rate of terrorist violence. A series of attacks in 2014 indicate that militant cells are well resourced and well trained, making them a credible threat to domestic and international organisations. Attacks, along with counter-insurgency operations and drone strikes will continue on a near daily basis in the tribal regions. The army's resolve to seek out and destroy the Tehrik-e-Taliban (TTP) will strengthen in the wake of the 16 December Peshawar school massacre, but there is still no evidence to indicate it will drop its support for the Afghan Taliban, which creates the conditions of instability in the border areas that fuels jihadist terrorism.
- **Indian** authorities will continue to issue terror alerts, with increased security presence at strategic locations, particularly in areas with large Muslim populations, amid concerns of the influence of Islamic State (IS) and al-Qaeda radicalising vulnerable Muslims. Home-grown groups such as Students Islamic Movement of India (SIMI) and Indian Mujahideen (IM) will be eager to show their support. Al-Qaeda in the Indian Subcontinent (AQIS) may feel pressured into staging a spectacular attack in the near future, but they are currently assessed as having a limited capability to do so.
- Despite successes in recent years of combating terror groups, the threat will escalate in **Bangladesh** as Islamist groups are radicalised and driven underground by repression. The government is likely to use the emergence of IS and AQIS threat to form part of a narrative to further malign the mainstream opposition with militant Islamists in order to depict the ruling party as the bastion of a secular Bangladesh.
- There will be greater cooperation between countries, particularly **India** and **Bangladesh**, in combating terrorism and the militant threat. Modi's decision to ostracise **Pakistan** indicates that the hostile bilateral relationship will continue to drive instability throughout the region, most of all in Kashmir, as Pakistan's military reacts to increasing assertiveness from Delhi.

Civil Unrest

- Street protests, strikes and shutdowns will remain a feature of politics in **Bangladesh** and **Pakistan** in 2015. While many will continue to be politically-motivated, including opposition demands for electoral reform, other factors such as infrastructure failures, power supply disruptions, and water shortages will come to the fore. Law enforcement will become increasingly assertive in addressing unrest due to growing government confidence, opposition weakness and the provision of better equipment.
- In **India**, there will be further outbreaks of inter-communal violence as sporadic clashes and demonstrations continue over public spaces. Amid increasing polarisation between Hindus and Muslims, religious festivals will be a key source of communal tension and a test for the nationalist Bharatiya Janata Party (BJP)–led government. Northern and Westerns regions are particularly vulnerable.
- **Sri Lanka** faces a crucial year ahead, framed by the January presidential elections, as President Mahinda Rajapaksa uses populist campaign promises to maintain dwindling support. A disputed election or victory for Common Candidate for the Presidential Election **Maithripala Sirisena** will lead to major political instability, while international

pressure on the government to investigate human rights abuses could see nationalists protest perceived Western interference.

- Economic readjustment and recession that will coincide with the international withdrawal from **Afghanistan** will increase rural-urban migration and unemployment, substantially raising the risk of civil unrest. In the likely event of infighting within the new government, protests may emerge as a means of exerting political pressure.
- **Nepal's** political parties are likely to agree on a new constitution in 2015, despite a tumultuous negotiation period throughout 2014. India will play a crucial role in driving the process by committing to large-scale investment projects. Nevertheless, the risk of protests will persist until a resolution is reached among the four Maoist parties.

Serious Organised Crime and Business Risk

- Organised crime remains widespread in the region aided by the porous borders between **India, Bangladesh, Nepal, Pakistan** and **Afghanistan.** Smuggling, drug trafficking, money laundering and kidnapping will continue to draw the attention of the security services, amid ineffective policing.
- Primary concerns centre on the cross-border movement of arms, drugs and militants as part of a complex nexus between organised crime and militant networks. This will remain particularly prevalent in Karachi, where the TTP has taken control of much criminal activity.
- Corruption will continue to remain pervasive and political accountability low across South Asia. Legal barriers, political opposition and harassment ensure anti-graft investigations will lack independence and authority.
- In **India**, combating corruption will be the new government's top priority, with investigations to continue into illicit funds hidden abroad. Further actions against corrupt practices and the devising of effective countermeasures are expected in 2015. Amendments may be made to the Indian Penal Code to make bribery in the private sector a criminal offence.
- The number of cyber-attacks in **India** has grown nearly five-fold in the last three years and the trend is proliferating. Companies operating in India may face threats of large-scale hacking attacks from criminal groups and hactivist groups in Pakistan.

Infrastructure

- All countries face major challenges in improving infrastructure capability, particularly concerning electricity and water supplies. The region has the fastest-growing population rate and largest infrastructure gap with the rest of world, placing services under increasing strain.
- **India**, **Pakistan** and **Bangladesh** will remain vulnerable to power outages despite increased controls, particularly in the summer months when demand increases. Little progress will be made in preventing illegal transmission.

Watch List

- Persistent attacks by separatist militants in Indian-administered Kashmir and cross-border violence will continue to test relations between **India** and **Pakistan**. Any terror attack on Indian soil that is traced back to Pakistan would see Narendra Modi's government adopt an aggressive posture toward Islamabad.
- Hindu activists will provoke outbreaks of communal unrest in **India**, testing the Modi government and the limits of political and police intervention.
- IS successes in the Middle East may rejuvenate jihadist groups, particularly in **Pakistan**, where militants embark on retaliatory attacks in cities as the military winds down its military offensive in the tribal regions.
- In **Afghanistan**, political infighting and paralysis could result in the collapse of the government, leading to the Taliban reasserting control over swathes of the country.

The Future of Afghanistan

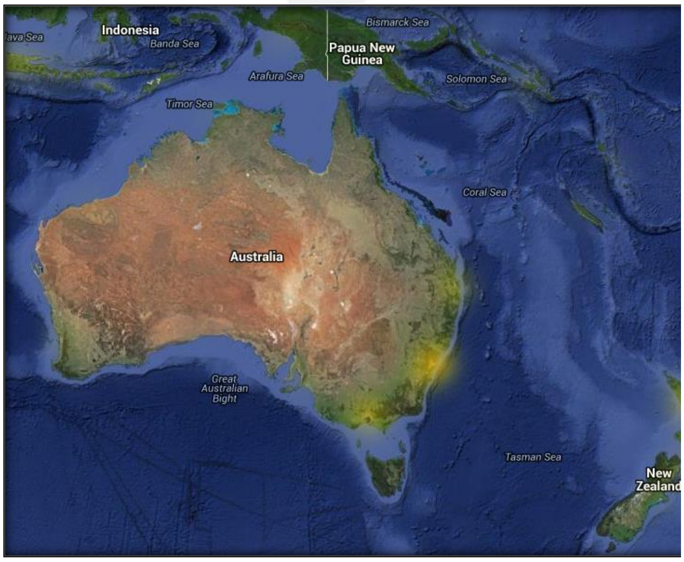
2014 has been a pivotal year for Afghanistan and should permit for a modicum of cautious optimism. The political process hovered dangerously close to collapse after a disputed presidential election, but a unity government led by Ashraf Ghani as president and Abdullah Abdullah as his deputy is now in place.

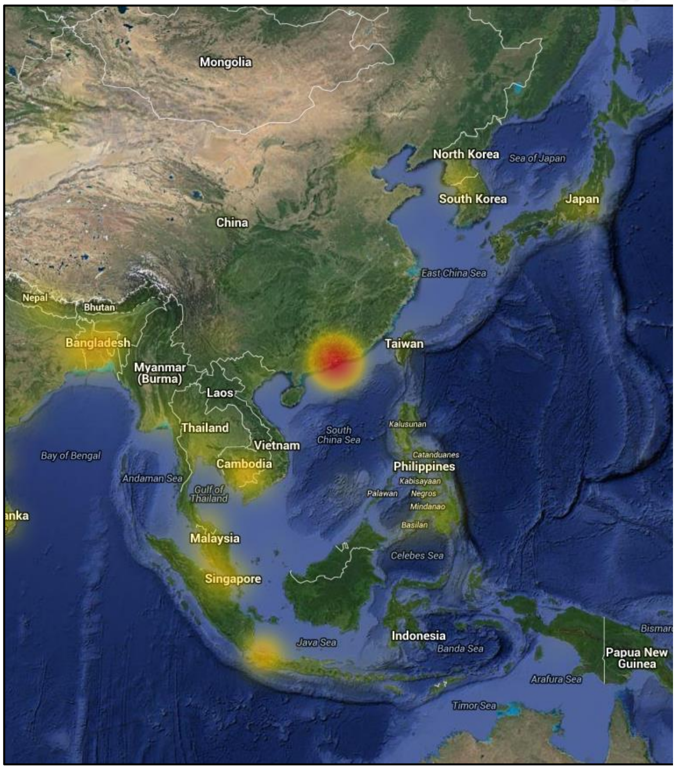
Both leaders face a situation of near-permanent crisis. The economy will enter recession for months, if not years, in the wake of the international withdrawal. Infighting between both leaders and the CIA-backed warlords in their camps will slow the pace of change in already weak or non-existent state institutions. Building a functional state will take decades and positive change will be hard-won.

Critically, Afghanistan faces the Taliban-led insurgency, which fills ungoverned spaces, capitalising on the booming drug trade, prevalent insecurity and public anger at corrupt and unaccountable security forces. Although Ghani is pursuing a crucial peace deal with the Taliban leadership, pushing too hard for a unilateral peace deal risks alienating Abdullah’s camp. Most troubling of all, the capability of the Afghan security forces to hold territory against the insurgents remains unclear.

Asia-Pacific

Regional relations will be framed within the context of China and the country's dominant role in a range of significant regional issues. These will include China's territorial interests, energy policy and diplomacy, which will unnerve its neighbours. However, the regional security situation will remain stable as leaders concentrate on ambitious domestic reform programmes. Governments will continue anti-corruption efforts that will target officials, but also foreign companies, as authorities change and enforce regulations. There remain latent fears over the gradual spread of militant Islam, with national security services set to increase cooperation in order to track suspected militants. Despite the incidence of civil unrest throughout the region during 2014 as a result of political and labour issues, little risk is posed to the internal stability of the countries concerned.





Outlook

International Relations

- **Chinese** rhetoric over its claims to disputed areas and islands in the South China and East China Seas will continue to be a flashpoint for the whole region and a defining factor in its relations with neighbouring countries, such as the **Philippines**, **Vietnam** and **Japan**.
- Although outright armed conflict remains unlikely, incidents such as the harassing and ramming of vessels, destruction of equipment, as well as the blockading of islets and shoals raises the possibility of miscalculations that could lead to small-scale skirmishes at sea.
- China continues to push for bilateral talks with other South China Sea claimants and refuses a settlement through regional forums such as ASEAN+3.
- Perceived Chinese aggression will continue to unnerve smaller Asian countries, pushing them towards the US and increasing regional militarisation. China-US relations are likely to experience strain over the territorial disputes as the US gradually increases its support for South China Sea claimants, particularly Japan, the Philippines and Vietnam.
- Relations between **China** and **Taiwan** will be strained by the decline in popularity of President Ma Ying-Jeou's China-friendly Kuomintang (KMT) party. Further anti-China protests are possible and the government is unlikely to have the political strength to push through projects to improve cross-strait ties in the run-up to the January 2016 presidential election.
- The creation in late-2014 of the Asian Infrastructure Investment Bank forms part of

China's attempts to act as a counterweight to US influence, and is reflective of dismay at the pace of reform of the IMF and Asian Development Bank. Washington will continue to oppose Beijing's efforts to establish the new Free Trade Area of the Asia Pacific.

Business Risk

- Businesses in **China** will take greater notice that anti-corruption initiatives and the rule of law underpin President Xi Jinping's administration. This will see greater enforcement of regulations and laws, as well as developments concerning investigations into foreign companies. Authorities have placed high priority on the Anti-Monopoly Law (AML), with numerous companies across different industries being investigated in 2014. President Xi Jinping's anti-corruption campaign will continue into 2015 and probes into public officials will likely be more targeted and focused.
- Protectionist policies could impede ASEAN integration. **Thailand** may seek to restrict foreign influence in joint venture companies and **Indonesian** companies will remain hostile to liberalising markets due to increased completion.
- ASEAN Economic Community (AEC) integration efforts have been slow and uneven in application across the various sectors. Despite the given timeframe for the implementation of the AEC by the end of 2015, the integration process is likely to experience significant delays.
- In **Indonesia,** a strong coalition in parliament presents a firm opposition to newly-elected President Joko Widodo and is likely to continue to make things difficult for his government. Various bills presented by the Widodo administration are likely to be subject to delay and detailed opposition scrutiny, resulting in legislative and policy hurdles for Widodo's ambitious reform agenda.
- Although the **Philippines** has taken steps to address graft by passing several anti-corruption laws and establishing institutions to curtail the problem, overall progress in enforcement and the application of anti-corruption laws will remain slow.
- Economic crimes will continue to pose a significant business risk to both large and small enterprises in **Malaysia**. Although the total number of cases is likely to decrease due to growing awareness of fraud, overall losses are expected to rise as financial crime continues to evolve and become more sophisticated.

Terrorism

- The threat of terrorism and related activity, such as radicalisation and recruitment, will increase in in 2015.
- Addressing the threat will remain a top priority for Beijing, both in the western province of Xinjiang and as **China** moves to prevent militants from moving beyond the restive province. With 2014 one of the most violent years on record for Xinjiang, authorities will continue to crack down on separatist violence, with measures including the use of arbitrary arrest and the deployment of a heavy police presence. The government will push ahead with economic development plans in an attempt to quell discontent, but it is anticipated that sporadic attacks will continue in the region. Beijing will also pay close attention to its borders with Pakistan and the Central Asian states as it monitors the movement of ethnic Uighur militants.
- **Malaysia** and **Indonesia** are also vulnerable to Islamist terrorist activity as both countries continue to be used for recruitment and planning by international extremist organisations. The perception of success ascribed to Islamic State (IS) and of its strength on the battlefield may inspire more local jihadists to join transnational jihadist movements. Equally, smaller radical groups may focus attacks on domestic targets. The possibility exists that radicalised individuals will perpetrate "lone-wolf" attacks.
- Authorities in **Australia** are concerned of the risk that fighters returning from the Middle East could stage attacks at home. The government is likely to pass further anti-terror laws that will elicit criticism over the erosion of civil liberties.
- As well as returning fighters, self-radicalised domestic individuals are a concern. Multiple arrests have been made over plots to carry out attacks in the name of Islamic State (IS) by "lone-wolves". The threat became a reality in December, when a "lone-wolf" militant claiming allegiance to IS attacked a Lindt café in Sydney, resulting in three deaths.

Civil Warfare & Insurgency

- The overall security situation in the southern **Philippines** will improve only incrementally in

2015, despite an increase in military operations against armed groups and the signing of a peace agreement between the Moro Islamic Liberation Front (MILF) and Manila. Efforts to include the Moro National Liberation Front (MNLF), Abu Sayyaf Group (ASG), New People's Army (NPA) and Bangsamoro Islamic Freedom Fighters (BIFF) in the Framework Agreement on the Bangsamoro will prove extremely challenging. Rebel groups will continue to attack security forces and kidnap foreign nationals, as well as target businesses in extortion drives.

- Peace treaties with ethnic militias in **Myanmar** are expected to become increasing fragile, with sporadic fighting likely ahead of general elections.
- The security situation in **southern Thailand** remains volatile. Insurgents are targeting infrastructure, aiming to destabilise the local economy. The military is set to equip volunteer defence units with weapons in 2015.

Civil Unrest

- The pro-democracy movement in **Hong Kong** warrants ongoing monitoring. The potential exists for continued demonstrations and sit-ins, sometimes violent, as protesters press for universal suffrage. Radical elements may push the protesters to engage in harder methods, but they are unlikely to achieve their political aims.
- Shrinking labour forces, rising wages and changing policies towards workers' rights will lead to greater labour unrest in **China**. The first few months of the year are traditionally the most active for labour unrest, and will increase as the Spring Festival of mid-February 2015 approaches.
- The federal government in **Malaysia** is expected to continue to crack down on political dissent, with at least 15 key political opposition figures, journalists and academics being charged under the Sedition Act in 2014.
- In **Indonesia**, there is scope for reactions from the Muslim hard-line group the Islamic Defenders Front (FPI) should the government push to disband the organisation. Further reductions in fuel subsidies will result in street protests as fuel prices and the cost of basic commodities increase.
- There is a continued risk of labour unrest in **Cambodia**, as well as growing anti-Vietnamese sentiment which has been stirred by opposition parties.
- There is also a threat of the resurgence of anti-Chinese violence in **Vietnam** if the South China Sea dispute escalates.
- **Myanmar** could see more protests over the dominant role of the military in parliament and business conglomerates, particularly in the run-up to the election in late-2015.
- Longer-term stability will return to Thailand, but peaceful demonstrations are likely to continue over criticism of the military junta's crackdown on freedom of expression and the regulation of protest activity.

Kidnap, Ransom and Extortion

- Security concerns in **Malaysia's** eastern Sabah state will revolve around cross-border kidnappings, smuggling activities and issues of unresolved sovereignty, particularly as porous borders allow southern Philippines-based armed groups to enter the country undetected. Despite the enhancement of patrols in the border area by the Malaysian government, concerns have been raised over the effectiveness of security measures.
- The threat of kidnap-for-ransom is likely to persist in 2015 in the **Philippines**. Although the government has ordered the Philippine National Police (PNP) to step up intelligence gathering and surveillance operations, resource constraints and the activities of rogue elements within the PNP will impede these efforts in the short term.

Watch List

- **China** may announce plans to establish an Air Defence Identification Zone (ADIZ) in the South China Sea, prompting the heightening of military tension in the region. However, the risk of conflict remains low, as strong leaders in China, Japan and India remain focused on domestic issues.
- Reductions in a series of subsidies, ranging from fuel to transport and farming, will increase the risk of civil unrest in **Indonesia**, **Philippines**, **Thailand** and **Malaysia**.
- Progress over the US-led Trans-Pacific Partnership (TPP) free-trade pact will require concerted efforts to be finalised as governments seek to placate fears among trade unions concerned about possible job losses and falling wages. As the Asian nations involved in the TPP, **Australia, Brunei, Japan, Malaysia, New Zealand, Singapore** and **Vietnam** may experience further unrest as discussions continue behind closed doors.

Islamic State Threat

As IS retains control over the territories it captures, Asian supporters and sympathisers of the group who travel to Syria and Iraq to fight alongside the militants will be a key security concern for governments, particularly in **Indonesia**, **Malaysia**, **Singapore** and **China**.

However, security risks exist even before the return of such foreign fighters. IS has pockets of support among the radical jihadi communities across Asia, including in Bangladesh, Indonesia and the Philippines, who have pledged their allegiance to the “caliphate” of al-Baghdadi. Groups who are already battling their respective governments, such as Abu Sayyaf in the southern Philippines and Mujahideen Indonesia Timur in central Sulawesi, may intensify existing armed operations to seize their own territories.

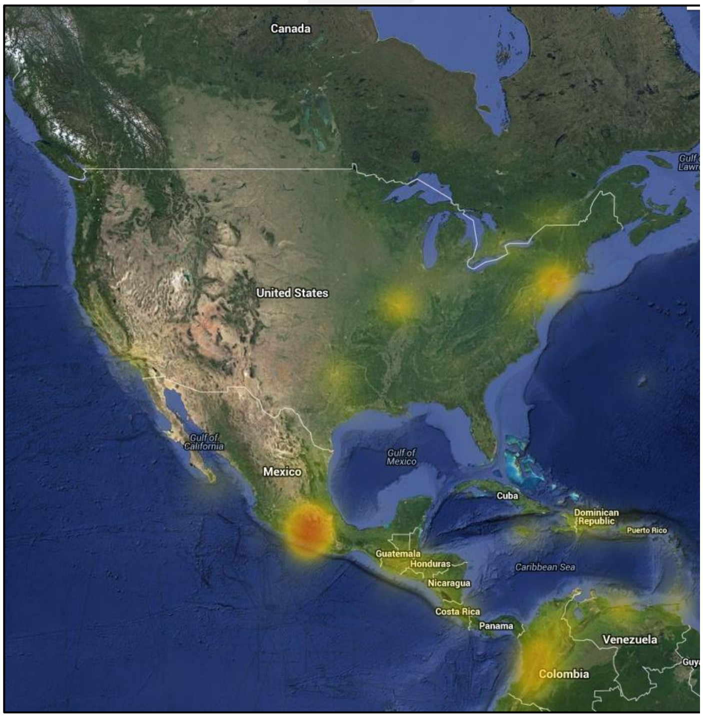
Beyond hard security risks, social cohesion across Asia can also be affected should pockets of local support for IS continue. Sectarianism between Sunnis and Shi’as in Muslim-dominated countries of Asia, such as Malaysia and Indonesia, or in countries where there is a significant Muslim population, such as Singapore and the Philippines, could deepen, resulting in social discrimination and unrest. Vigilante violence against minority Muslim sects may rise.

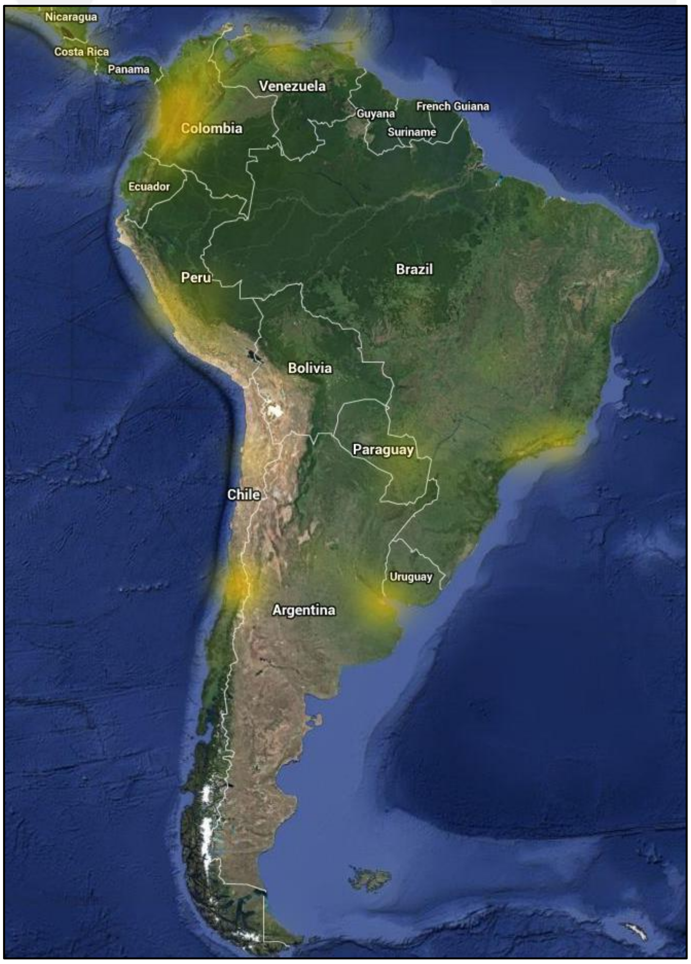
Militant Islam has long been a feature of the Asia Pacific region. The manner in which governments in Asia choose to respond to IS elements or influence, according to how they understand and perceive the security threat, will have bearing on the way radical sentiments flourish or flounder at home. Importantly, the Association of Southeast Asian Nations (ASEAN) has also recognised the threat and pledged that by the end of 2015 it will have strengthened its political-security cooperation by creating the ASEAN Political-Security Community (APSC).

G4S Risk Consulting has produced a Global Viewpoint report, titled *“The Islamic State: The Middle East & Asia, Present Impacts - Possible Futures”, exploring the issue in greater detail. Contact us for further information on obtaining the report.*

The Americas

Latin America and the Caribbean remain a promising developing market for foreign investors, with declining inequality, a growing middle class and vast natural resources. However, key concerns surrounding security, the economy and political stability will persist into 2015, centred in particular on organised crime, civil unrest and political interference in national economies. In North America, concerns are growing over the domestic impact of fighters returning from Iraq and Syria and conducting attacks, as well as the growing threat from self-radicalised "lone-wolf" attackers.





Outlook

Serious Organised Crime

- Serious organised crime will continue to be the dominant problem across Latin America and the Caribbean in 2015. The criminal landscape remains fluid and security operations in traditional drug trafficking countries, such as **Mexico** and **Colombia**, will continue to push criminal activity south, with **Argentina** facing a growing problem of organised criminal groups in the country.
- The war on drugs will ensure criminal actors continue to diversify activities to generate income. Over 2015, this trend is set to continue, with the extractive industry a particular target.
- Several years of strong metal markets have fuelled growing mining activity in Latin America, turning small-scale mining into a highly profitable activity for criminal groups. The industry remains largely unregulated and in 2015 government efforts will continue to attempt its formalisation, thus cracking down on criminal activity. Attempts in **Peru** over 2014 to regulate the industry resulted in protests and the issue retains the potential to trigger unrest.

Drug-Trafficking Routes

- Despite the diversification of activities, drug trafficking will continue to present a serious threat continent-wide. Maritime transport will remain the central means of transporting illicit substances and traffickers will continue to expand into new routes as they seek to avoid detection and take advantage of new consumer markets. **Brazil** will remain a key hub, as the world's second largest consumer of cocaine and a key transit hub to Europe.
- Countries with a hitherto lower profile in trafficking networks will emerge in more dominant roles, including **Paraguay**, **Ecuador** and **Argentina**. **The Caribbean** will be of increasing importance as criminal actors shift away from overland routes in Central America.
- Border areas, in particular the Tri-Border area between **Brazil**, **Argentina** and **Paraguay**, are set to continue as key hubs for criminal activity, including drugs, arms and people trafficking.

Civil Warfare & Insurgency

- Insurgent groups play a diminishing role on the continent, although retain the potential to cause localised threats. **Colombian** peace talks are expected to be completed by early 2015 followed by the implementation of agreements. The expected accord will change the nature of the FARC, with its ideological guerrilla outfit ceasing to exist and former militants attempting to enter the political sphere. The removal of FARC will create a power vacuum and violence is likely to spike over 2015 as the new status quo takes shape. In the short term, Colombia may see splinter groups emerge from FARC and new alliances formed between former enemy paramilitary and rebel groups. The ELN is expected to enter formal peace negotiations with the government, although will likely do so without a ceasefire and attacks targeting oil infrastructure and security forces will continue into 2015 as the group seeks leverage in negotiations.
- Small rebel groups, such as the EPP in **Paraguay**, have demonstrated the ability to cause localised disruption and will continue to launch low-level attacks and kidnappings in 2015. However, capabilities are extremely low and such groups will not pose a viable threat to security on the macro level. The majority of once ideologically-led rebel groups, such as Shining Path (SL) in **Peru**, have shifted into criminal territory, such as coca cultivation and drug trafficking. As such, the focus in 2015 will remain security led, with a military and judicial approach expected to continue as the antidote to such movements.

Kidnap

- Politically motivated kidnapping, has significantly decreased across the continent and such abductions will remain at similar levels in 2015.
- Financially-motivated kidnappings will remain a threat, with **Mexico** and **Venezuela** to suffer the highest levels, followed by **Colombia**.
- Local nationals remain the most likely targets of kidnap, but foreign nationals can be targeted for their perceived wealth, especially in **Venezuela**. Express kidnappings, brief kidnappings for small ransoms, often from the hostage's own bank accounts, are set to continue on an upward trend, while smaller ransoms become increasingly common.

Civil Unrest

- The threat of civil unrest will remain high across the continent. Security concerns, corruption, large-scale mining projects and elections will all be triggers for strikes and demonstrations.
- **Argentine** elections will see interest groups launch waves of action in a bid to exert pressure ahead of polls, with the worsening economic situation fuelling discontent.
- Security issues will be a flashpoint of unrest, especially in **Mexico** and **Central America** where gang violence and official complicity is at its most severe. Insecurity will continue as a key political issue, detracting from important economic reforms in Mexico and encouraging the continued growth of self-defence militias and vigilante action.
- **Venezuela** will be a flashpoint of unrest, with inflation, shortages of basic goods and rising crime remaining significant hurdles for the government. President Nicolas Maduro will need to ensure continued backing from the PSUV to retain control.
- Police brutality is set to continue as a trigger of unrest and public outcry. **Brazil** faces a wave of allegations of extra-judicial killings in urban centres and the issue will remain dominant over the next year.
- The **US** is experiencing increased civil unrest related to police killings, in particular from the

African-American community. Protests have spread across the country from Ferguson to Seattle and New York. Racial tensions are likely to persist into 2015, with any further high-profile cases exacerbating tensions. Judicial reform relating to grand juries has already been advocated, indicating that the recent surge in protests is impacting higher government concerns.

Corruption

- Corruption has long been a major problem in the region, but is set to become a focal point of interest both domestically and internationally in 2015.
- No country is immune to the problem, although pressure on **Brazil** and **Mexico** will be highest due to the scandal at state-run oil company Petrobas in Brazil and the 43 missing students from Iguala, Mexico. Both cases have implicated government officials and indicate the spectrum of illicit activities in official spheres; from business kickbacks to links with organised crime.
- Governments will be keen to assure the electorate and international investors that measures are being taken to combat corrupt practices. The issue will continue to spark protests, as well as condemnation, in the case of Mexico especially, from international NGOs.

Terrorism

- Terrorism remains a low priority concern across much of the Americas, but the rise of IS in Iraq and Syria has triggered growing concerns over the threat of Islamist-related violence in the **US** and **Canada**.
- The US and Canadian governments are increasingly concerned over the threat of returning fighters and "lone-wolf" attacks in major cities. Multiple arrests have been reported in the **US. Canada** has already experienced at least two attacks, including in the capital Ottawa. Further attacks are likely, as well as reports of thwarted plots.
- The reaction will be driven by legislative reforms, but the risk will remain pertinent, especially if the **US** increases its operations in Iraq and Syria.

Watch List

- Further corruption scandals involving state officials and state-run companies may trigger civil unrest, with Mexico and Brazil at particular risk due to developments in 2014. Such protests will cause significant disruption in the countries' major cities, with government buildings increasingly targeted as protest locations.
- Concerns over police brutality across the Americas are rising and have the potential to trigger unrest. A high-profile case, such as the Michael Brown case in Ferguson, **US**, may cause mass protests, accompanied by looting and other violence. Although police-related deaths have declined in **Brazil** in 2014, such deaths retain the capacity to trigger unrest.
- Cuts to social programmes, particularly in Venezuela and Brazil, will trigger increased civil unrest, with mass protests likely to cause significant disruption in cities.
- A "lone-wolf" attack, most likely in **Canada** or the **US**, will trigger tougher security legislation, with the possible result of further radicalisation of at-risk individuals due to perceived victimisation.

Economic Outlook

Growth in Latin America and the Caribbean over 2014 has been slower than predicted. **Mexico** has seen improved growth rates, but has been overshadowed by poor performance in South America as a whole. Political interference in the economy is set to be a major concern in a number of countries in 2015, with **Argentine** and **Venezuelan** outlooks the worst in the region. Downward revisions have also been issued for **Peru**, **Brazil** and **Chile**.

The region's largest economy, **Brazil**, saw investor confidence plummet on the re-election of Dilma Rousseff in October 2014. The selection of Joaquim Levy as finance minister and Nelson Barbosa as planning minister at the end of November signal a more optimistic business environment for 2015 and a drastic departure from the previous four years, which saw Rousseff interfere heavily in economic matters, deterring investors. This in turn should boost regional economic performance. However, the flashpoints of Argentina and Venezuela will remain a concern. With oil revenues representing some 96 percent of **Venezuela's** foreign exchange earnings, the country will be deeply affected by falling oil prices. Public spending cuts have already been announced, which if extended into social programmes will trigger further unrest and damage the already poor business environment. The inability of the government to admit to and address the country's economic woes mean that 2015 does not offer, at this juncture, a positive outlook for decreasing inflation and an end to chronic shortages of basic goods. Parliamentary elections are also due in 2015, which will make it hard for the government to take any tough measures to address economic problems for fear of losing votes. Any problems in Venezuela will impact regionally due to agreements, such as PetroCaribe, which allow certain nations to purchase oil at preferential prices.

Argentina faces a similar predicament, with President Cristina Fernandez Kirchner unlikely to introduce any economic reforms to address inflation. The dispute with creditors over the 2001 default in payments looks set to continue into 2015. Although the issue has sparked global debate on debt restructuring, it will continue to damage the business environment in the short term. With presidential elections set for October 2015, interest groups will seek to exert pressure on the government for concessions. As Fernandez is unable to run for a third term, she will be keen to preserve her legacy. As a result, the focus will remain on nationalist political rhetoric to the detriment of economic reforms. However, the election of a business--friendly candidate could see an overnight improvement in the markets.

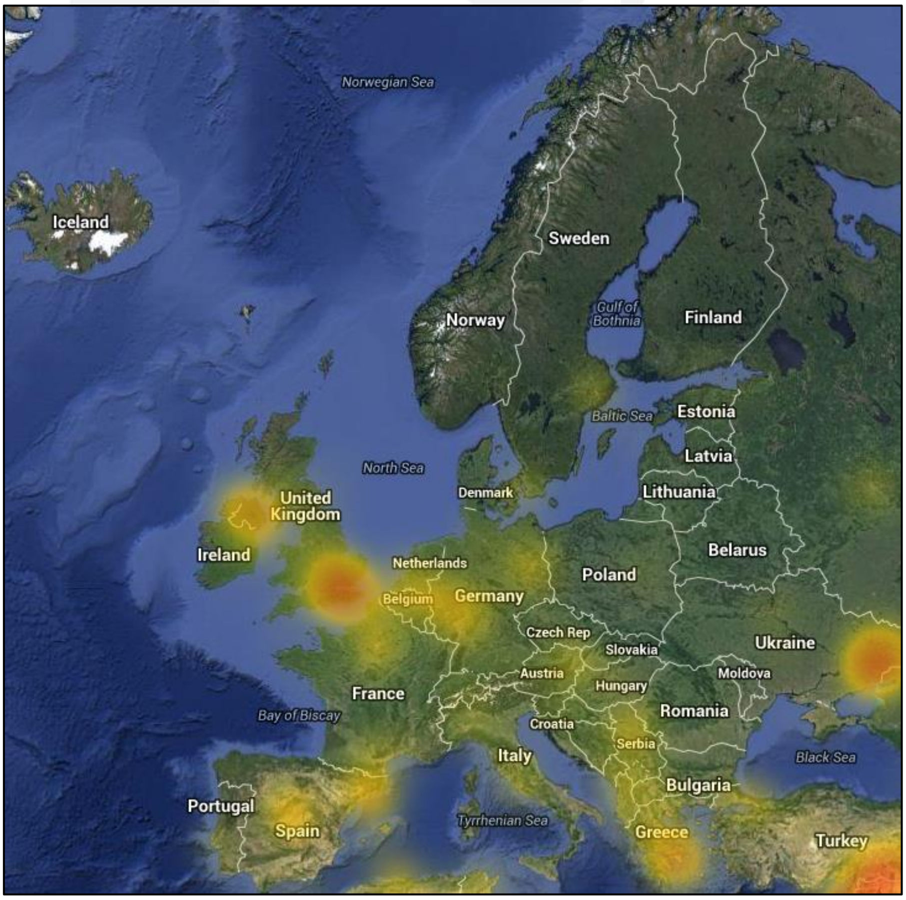
Trade alliances, especially the Pacific Alliance and MERCOSUR, will be dominant on the economic agenda in 2015. With the re-election of Rousseff in Brazil, the focus will remain on MERCOSUR and pressure is mounting to complete a free-trade agreement with the European Union. However, Argentina is likely to complicate the process with its ongoing issues over debt and inflation.

Overall, governments across the continent are no longer as clearly divided along ideological lines and a more pragmatic approach from leaders can be expected on economic and security issues in 2015.

G4S Risk Consulting will be producing a Global Viewpoint report on Latin America in the first quarter of 2015

Europe

Europe will remain a stable environment for business operations and foreign investment in 2015. However, key issues persisting into 2015 include rising Islamist extremism and radicalism within EU countries, particularly the response to the domestic terrorist threat posed by "lone-wolf" extremists; ongoing austerity measures, which are likely to trigger strikes and protest action; and the potential impact of Russia's perceived belligerence in Eastern Europe.



Outlook

International Relations

- The EU will continue to express apprehension over **Russia's** aggression towards Ukraine and former CIS countries. Sanctions against key Russian figures are expected to remain in place until at least July 2015 when they will come under review. As a unanimous agreement is needed between all 28 EU member states to continue with existing sanctions, the sanctions regime may be reformed. However, **Germany's** strong leadership in the EU and support for current sanctions make it likely that other EU countries will back Germany's position.
- The US has announced the deployment of heavy armour to Eastern European countries, including the **Baltic States**, **Poland, Bulgaria and Romania**, in 2015 to reassure NATO member states over Russia's interference in Eastern Europe. The move could increase ongoing tension.
- Russian interference in Europe, including Scandinavia, is likely to see **Sweden** and **Finland** toughening their respective defence policies and possible collaboration. However, it is unlikely that Sweden and Finland will join NATO in 2015 due to low popular public support and concerns that joining NATO will attract further Russian belligerence.
- The situation will remain fragile, with a number of Eastern European states becoming increasingly concerned about Russian interference and monopoly of EU gas supplies in 2015.
- Despite efforts to curb perceived Russian involvement in Europe, some Eastern countries

may be forced, due to economic and energy challenges in 2015, to collaborate with Russia over energy security. Although alternative energy sources are being developed via **Lithuania** and **Turkey**, Europe's dependence upon Russian energy could take 10 years to be diminished, with billions of dollars of investment needed to support the transition.

- Relations within the EU could deteriorate as fiscal challenges continue throughout 2015. The European Commission's frustration with **Romania** and **Bulgaria** over their apparent inability to tackle corruption is expected to persist, while other countries, such as **Greece**, are also likely to engage in further EU talks regarding reducing budget deficits. The **UK's** position with the EU could change during 2015 as the UK government seeks to reform current relations ahead of and following the UK general election in May.

Terrorism

- Islamist-focused terrorism, particularly linked to Islamic State (IS), will dominate counter-terrorism policy in Europe in 2015. Several countries, including **UK, France, Austria, Denmark, Spain,** and **Germany**, have undertaken reviews of existing counter-terrorism laws or are implementing tougher legislation over the threat posed by IS and other Islamist terrorist groups operating in Syria and Iraq.
- Tougher legislation could impinge upon business, with additional checks at airports and ports of entry. More pressure is likely to be placed upon the aviation sector to carry out further screening and checks of passengers. Logistics and transport companies may also face additional measures to conduct overseas business. While tougher measures may mitigate against the risk of a possible major attack, "lone-wolf" attacks by radicalised and determined individuals present a challenging threat to prevent in 2015. Military service personnel in uniform, police officers and government staff will remain targets. Government buildings, and individuals seen to frequent government offices, will also be perceived as potential targets for lone aggressors. It is probable that Western Europe will experience at least one "lone-wolf" attack in 2015 linked to IS.
- Western Europe will face the challenge of returning radicalised nationals in 2015 and how to process, monitor and detain them within existing legislation. Winter fighting in the Middle East could see an influx of returning European radicals to their home countries, adding to the ongoing counter-terrorism challenges. Tougher legislation may be construed as divisive, potentially driving radicalisation among at-risk individuals in domestic Muslim populations.
- Islamist radicalism is anticipated to attract more attention in the Balkans region during 2015. **Kosovo**, **Bosnia**, **Macedonia** and **Serbia** have registered arrests of suspected Islamists from within their respective Muslim communities. Governments have carried out mass arrests, including of influential Muslim figures and teachers. Counter-terrorism operations will continue in 2015, with the likelihood of increasing radicalism as a potential consequence of robust state action.
- Eastern Europe is anticipated to see an increase in transiting by Islamist radicals travelling to and from Syria, **Turkey** and Iraq. **Greece** noted such an increase in 2014, with reports that organised criminal gangs are assisting in arming and supporting Islamist groups in return for payment. Other criminal groups in Eastern Europe may also see this as a potential source of revenue.

Far-Right

- Far-right parties in **France, Netherlands, Germany, Hungary**, and **Greece** have seen significant successes, while nationalist parties in the **UK, Austria, Sweden** and **Denmark** continue to gain public traction.
- The increase in more nationalist and inverted political perceptions in EU countries could see policy changes in 2015 that begin to reshape the current business relations between countries. However, momentous changes in policy, such as the documented UK exit from the EU, appear unlikely in 2015.
- Far-right parties are likely to see support continue to rise during 2015, albeit not at the same pace, as issues concerning immigration, perceived Islamist radicalism and austerity measures generating significant public debate.
- Governments may introduce policies with nationalist sentiment during 2015 in a bid to quell rising far-right support, including increasing restrictions over immigration and reducing policies that are seen to assist foreign nationals.

Civil Unrest

- Continued and possibly increased austerity in EU countries in 2015 will trigger further strikes and mass protests. Workers' rights, pay disputes, pension reforms and perceived privatisation of public services all remain likely triggers for unionised action in 2015.
- Strikes are most likely in **Spain** ahead of the 2015 general election, where corruption, austerity measures and restrictions on assembly have all triggered protests in 2014
- Public sector strikes are anticipated in the **UK** ahead of the May 2015 general election, with a number of trade unions pledging to hold action to oppose privatisation of public services and anticipated budget cuts.
- Disruptive strikes by the main ADEDY and GSEE unions in **Greece**, which continues to struggle to implement effective austerity measures as part of its bailout agreement, are highly likely in 2015. Such actions are anticipated to be extremely disruptive to travel, public services and business continuity.
- **France** and **Italy** are likely to see industrial action in response to government cuts, particularly in the transport sector, which are being introduced in 2015.
- Protests are expected to accompany strike action, with ongoing austerity measures likely to prompt mass protests in Western European countries, particularly **Spain, France, UK, Italy** and **Greece**, which has a legacy of large-scale demonstrations in response to ongoing unpopular austerity.

Watch List

- An attempted or successful "lone-wolf" terrorist attack in the **UK** or **mainland Europe** will trigger further enhanced security measures. A supposed Islamist extremist plot to target the aviation sector over the Christmas period will see airline-related security escalated further during 2015.
- Media attention regarding ongoing Islamist extremism may trigger further far-right rallies in 2015, with potential violence between protesters and police and opposition groups. Such protests are most likely in **Greece** and **Germany**.
- Mass public strikes are anticipated if governments commit to further austerity measures. Further cuts in public sector services and perceived privatisation are likely triggers for trade union strikes, protests and mass rallies in European capital cities.

The Far-Right

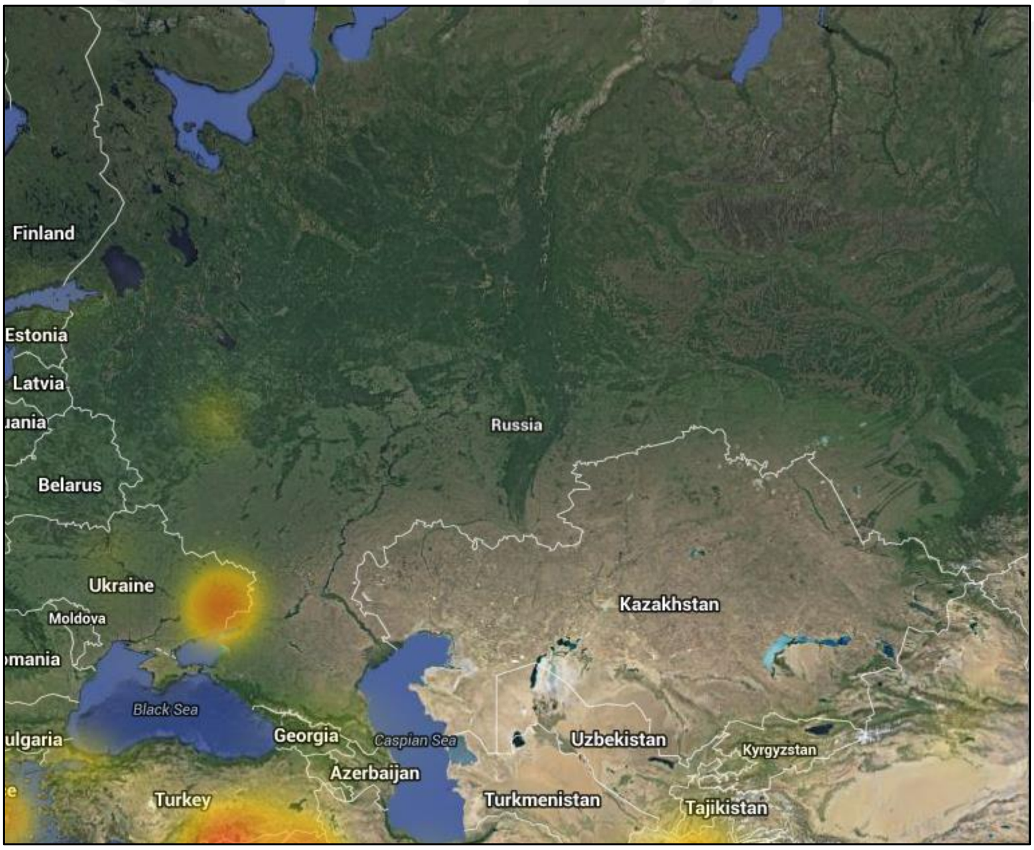
The far-right has enjoyed a strong increase of support in a number of countries during 2014, reflected by the results of the European elections in May. Far-right parties in **France, Netherlands, Germany, Hungary**, and **Greece** have seen significant successes, while nationalist parties in the **UK, Austria, Sweden** and **Denmark** continue to gain public traction. This, in turn, raises the risk of a possible weakening of the EU and the Eurozone as nationalist parties seek to promote internal agendas, as well as the potential for an uptick in far-right rallies and counter-demonstrations.

The far-right has become a popular "protest vote" due to frustration towards mainstream governments' austerity policies. This also comes on the back of growing resentment towards the EU, which is increasingly perceived as being responsible for austerity policies decided at the national level, as well as interfering in national legislation and regulation. Concerns over immigration, the use of cheap labour and its impact on domestic job markets, as well as perceived growing "Islamisation" in Europe, have also naturally favoured a right-wing agenda.

Far-right parties are likely to see support continue to rise, albeit not at the same pace, during 2015 as issues concerning immigration, perceived Islamist radicalism and austerity measures attract further media attention and traction for nationalist policies. There is the potential that increasingly influential far-right parties could hamper the decision-making process in an increasingly divided Europe. In the longer term, this could arguably hinder cooperation, trade and mutually beneficial legislation, as well as detract investment, particularly if such groups promote their respective countries withdrawal from the EU, as illustrated by UKIP's influence in the UK.

Russia / CIS

The consequences of Russia's deteriorating economic outlook and anxiety about the Kremlin's adventurism, most of all in Ukraine, will dominate both the security environment and the investment climate over the coming year. Although the fall in oil prices may drive some political instability, it remains to be seen whether entrenched authoritarian regimes will face an immediate threat to their dominance.



Outlook

Business Risk

- Challenges to safe and profitable operations in **Russia** will continue across the private sector. Asset-grabbing and nationalisation should be among core concerns for operators, as inefficient state-managed companies pursue growth through expropriation, primarily in the energy sector. Meanwhile, the weak financial sector will continue to suffer from the impact of Western sanctions, specifically in raising finance.
- The Kremlin will accelerate efforts to develop an alternative financial network, most likely in conjunction with China through the BRICS development bank. Combined with low oil prices, this will continue to drive capital flight and an unpopular regression towards self-sufficiency.
- A crackdown on business elites, including sackings, arrests or even purges, may be seen in response to international or domestic developments. High-net worth individuals in Russia will be at a high risk of asset raiding by rivals in association with state-owned enterprises, as demonstrated with the arrest of Vladimir Yevtushenkov and the nationalisation of his stake in Bashneft, a medium-sized oil company. Corporations operating in Russia and beyond will face a serious threat from state-sponsored cyber espionage.
- Endemic corruption will continue to deter foreign investment across the region. Some governments are attempting to put in place the institutions necessary to tackle graft, such as **Georgia** and **Kazakhstan**, but top-down approaches will

continue to struggle with deficiencies in court systems and political interference.

- **Ukraine** will continue its attempts to rebalance its economy towards the EU, but political infighting may delay the imposition of the structural reforms necessary to reduce endemic corruption. Failure to develop effective anti-corruption institutions will increase the risk of sovereign default and IMF reticence to release funding.

International Relations

- Russia will continue to engage in provocative behaviour, covert military forays and disinformation campaigns. Economic decline at home may prompt aggressive military actions beyond Ukraine, with **Georgia, Moldova, Belarus, Kazakhstan**, Finland and the Baltic states all on the front line. Although Moscow's actions will further its image as a rogue state, its actions are likely to remain within the boundaries necessary to avoid all-out economic sanctions from the US and EU.
- Russian foreign policy will concentrate on renewing internal divisions within Europe, winning back to its favour former allies, such as Germany, Italy, Hungary and the Czech Republic, as well as encouraging far-right populist groups. Meanwhile, Moscow will also seek to cajole and coerce other CIS governments into joining its Eurasian Economic Union, joining **Belarus**, **Kazakhstan** and **Kyrgyzstan**. Success for the project will be contingent upon whether Russia maintains its increasing status as a vassal state to rising China, which is pursuing its own strategic goals in Central Asia primarily through investing in logistics infrastructure.
- **Ukraine** will continue to suffer heavily from the impacts of the separatist war in the eastern Donbass region, where ceasefire violations will continue at a minimum. Any instability will test NATO's fragile security commitments to both Kiev and **Georgia**. A major re-escalation of fighting remains feasible. Russian-backed insurgents may attempt to carve out a land bridge to Crimea by capturing Mariupol, decreasing the rising cost for Moscow in propping up the annexed peninsula. Kiev's financial viability will remain dependent on support from the EU and the US, via the IMF.
- A re-escalation of the conflict between **Azerbaijan** and **Armenia** over the disputed Nagorno-Karabakh region remains a serious possibility. With Azerbaijan increasing its defence spending through its oil revenues and Armenia refusing to negotiate over the breakaway enclave, the prospects for a renewed conflict are high.
- Fractious relations between **Tajikistan**, **Uzbekistan** and **Kyrgyzstan** will continue, driven in particular by the undefined border through the Fergana Valley. Conflict over water and other resources is also possible. The poorest and weakest states in the CIS grouping will increasingly become an arena for geopolitical competition between Russia, China and other states over mineral resources.

Civil Unrest

- Although the combination of fear of state repression and genuine patriotic sentiments should keep the medium-term risk of mass unrest low in **Russia**, the foundation of the regime will remain weak. Economic issues will come to the fore over the coming year, particularly if budget cuts are imposed after extended lows in global oil prices. Nevertheless, the government will be protected to a large extent by the depth of its budgets, built up over years of accumulating foreign currency reserves.
- In this context of government expenditure cutbacks and misallocations of capital, interest groups are likely to advance demands in areas such as salaries, social benefits and jobs. A heightened risk of industrial activism may unite with Russia's weak and divided opposition, including diaspora opposition groups and alienated business elites, as typified by deposed oligarch Mikhail Khodorkovsky.
- Widespread xenophobic sentiments may lead to outbreaks of violence against isolated minority groups, such as homosexuals and migrant workers from the North Caucasus. A deep economic decline will increase intolerance and hostility to economic migrants, including from other CIS countries.
- Southern **Kyrgyzstan** remains at the highest risk from mass protest, but economic drivers, such as oil prices or electricity shortfalls, may disrupt the stagnant status quo in other countries.

Political Risk

- The prospect that looming presidential elections in **Belarus** and **Uzbekistan may** uproot deeply-entrenched autocratic leaders is low. Secret police will resort to arrests of opposition activists in the run-up to the election. There are serious concerns in Minsk that President Lukashenko's policy of promising but never delivering re-unification with Russia may alienate its domineering neighbour. Opposition unrest in Belarus is likely to manifest in unsuccessful attempts to lead protests in the style of Ukraine's Euromaidan uprising. The absence of a succession plan for Uzbek President Karimov continues to present a source of concern.

- In contrast to Russia, low oil prices are likely to have limited impacts on energy producers **Turkmenistan** and **Azerbaijan**, both of which run sufficient budget surpluses to weather shocks. The prospect for opening up the political systems of either economy remains very low. As such, corruption risks will continue, while the regulatory environments will continue to seek to attract foreign investment as both regimes leverage Russian and Chinese attempts to gain influence against one another.

Insurgency and Terrorism

- The risk of terrorism will remain moderate into 2015. The North Caucasus is the premier source of jihadist terrorism, but with most of its fighters active in Syria and Iraq, the prospect for violence returning to **Russia** and the CIS will remain low. Insurgency risks will remain concentrated in Dagestan and Ingushetia, driven by low-level clan and criminal divisions rather than separatist or Islamist factors.
- **Turkmenistan**, **Uzbekistan** and **Kyrgyzstan** will all continue to suffer from security risks resulting from Taliban advances in northern Afghanistan, particularly in the transit of narcotics.

Watch List

- International tensions may lead to the ousting of **Russia** from the SWIFT financial messaging system, slowing the pace of global trade and investment and imposing severe damage to the regional economy
- Any decline in remittance figures will have a major knock-on impact on the economies of **Armenia**, **Tajikistan**, **Kyrgyzstan** and **Uzbekistan** that may increase the risk of civil unrest
- After Ukraine, **Georgia** may be at highest risk from shifts in the focus of Russian expansionism over the coming year, as demonstrated by the Kremlin's moves to deepen its ties with the breakaway regions of Abkhazia and South Ossetia

Ukraine and Russia after Euromaidan

A year after the Euromaidan protests began on 21 November 2013, **Ukraine** remains in turmoil. Ever since the popular uprising that overthrew President Yanukovych **Russia** under President Vladimir Putin has taken an overtly hostile stance towards the new Western-backed government. Mobilising faster than any foreign government had anticipated, Russian military units, concealed behind local proxies, annexed Crimea in February–March as separatist forces moved to seize cities across Ukraine's Russian-speaking east. While Ukraine mobilised for war, the US, EU and other governments aimed sanctions at the individuals responsible and at targeted sectors of Russia's economy. As the civil war in eastern Ukraine continues, despite the Minsk accord, it has become clear that a revanchist Russia poses a pressing security threat to Europe's eastern borders, whilst Ukraine faces down a real prospect of economic catastrophe.

Under President Putin, Russia has set itself out as an intractable hostile actor, whose behaviour indicates that its violations of international norms will continue as the regime sheds the trappings of a liberal democratic state. Unless the EU and US increase their financial support for the Ukrainian state, default is a possible scenario as an outcome of economic downturn and Russian aggression. International donors led by the IMF should show flexibility in imposing structural reforms to avert the risk of austerity-driven stagnation delaying Ukraine's return to economic growth. Parliamentary infighting between President Petro Poroshenko and Prime Minister Arseny Yatsenyuk over government jobs and reforms risks squandering the strong mandate for reform given by the public.

G4S Risk Consulting has produced a briefing, titled *"Ukraine and Russia after Euromaidan"*, exploring the issue in greater detail. Contact us for a complimentary copy of the report.