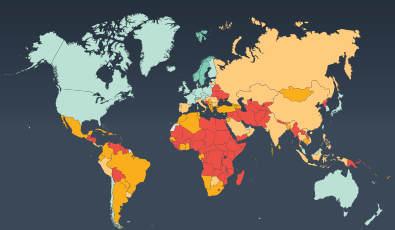


Is This the End of Globalization?



POLITICAL RISK MAP 2017

THE RISE OF NATIONALISM AND PROTECTIONISM COMBINED WITH A SLOWDOWN IN THE GLOBAL ECONOMY MEAN BUSINESSES MUST PREPARE FOR THE UNEXPECTED.

Political events in 2016 gave rise to increasing nationalism and populism globally. Combined with a global slowdown in economic and trade growth, international integration may already have plateaued, and could begin to reverse over the coming decade. Multinational organizations should prepare for potentially significant implications by carefully considering the political threats in the countries in which they operate.

AS RESISTANCE TO GLOBALIZATION GROWS, NATIONALISM AND POPULISM GAIN TRACTION

Dissatisfaction with free trade, immigration, and the perceived erosion of national identity have steadily gained momentum in the Western world since the 2008-2009 global financial crisis and the 2011-2012 Eurozone debt crisis. Influenced by political parties with protectionist agendas, many recent elections and votes revealed populist concerns.

Chief among them were the UK's referendum vote to leave the EU and the election of Donald Trump, who won after running on an anti-establishment platform heavily focused on a nationalistic agenda. At the same time, China, Japan, India, Russia, and Turkey are being led by what many consider to be their most nationalistic and protectionist leaders in decades.

Such sentiments are reflected Marsh's *Political Risk Map 2017*. Drawn from annual analysis conducted independently by BMI Research, Marsh's *Political Risk Map* presents a global view of the issues facing multinational organizations and investors. The map rates countries on the basis of political and economic stability based on a score out of 100, in which the higher the score, the more stable the country is rated. This gives insight into where risks are most likely to emerge and what to be aware of in each country in which a multinational company may have operations. Using this methodology, Russia dropped approximately 6% in its short-term economic risk index score when compared to the previous year. For

China, Japan, India, Turkey, and even the United Kingdom, long-term economic risk scores dropped by as much as 10%.

These declining economic outlooks are, in part, due to weakened growth, possibly driven by a global slowdown in trade and increased nationalistic measures.

As we look to upcoming elections in 2017, populism is expected to play a central role in several countries, including France, Germany, and the Netherlands – countries also impacted by the ongoing migrant crisis in Europe and terrorist attacks in 2015 and 2016.



FIGURE 1 Political events to watch in 2017

Source: Marsh and BMI Research



Although economic factors have been the main drivers behind the rise of populist political parties, growing concerns about immigration and security have also boosted pro-protectionist agendas. Given the interconnected, international nature of many multinational companies, however, protectionist measures that restrain trade between countries will have an impact on businesses everywhere.

According to data from Global Trade Alert, recorded trade measures that are “almost certainly discriminatory towards foreign commercial interests” rose to 412 across all countries in 2015, a 72.4% increase from 2014 and more than the previous four years combined. Meanwhile, “protectionist” trade policies increased by 50% in 2015¹. Not surprisingly, according to IMF

data in October 2016², global trade growth was projected to have slowed to 3.1%, before a forecast of slight recovery to 3.4% in 2017.

If US trade policies turn significantly protectionist or the UK’s Brexit negotiations negatively affect trade across Europe, we could see a domino effect of trade deals tumbling globally.

If populist forces come to power in most major economies, consolidate their positions, and refuse to compromise, potential impacts could include:

- Reversal of existing trade deals.
- Dramatic tightening of travel and immigration rules.
- Splitting of global institutions along regional lines.

Increases in protectionist measures are impacting global trade and economic growth.

¹ Global Trade Alert, available at: <http://www.globaltradealert.org/>, accessed on 20 December 2016.

² IMF. *World Economic Outlook October 2016*, available at: <http://www.imf.org/external/pubs/ft/weo/2016/02/pdf/text.pdf>, accessed on 20 December 2016.

While a slowdown of global trade and economic growth will undoubtedly impact companies' income, businesses should also prepare for a shift away from globalization.

RECOMMENDATIONS FOR MULTINATIONAL ORGANIZATIONS

We recommend businesses prepare for the possible impact of:

- Increased costs across their supply chains and the need to reconsider suppliers due to rising tariffs and other trade barriers.
- More stringent legislation in the countries in which they operate.
- Greater exposure of overseas direct investments to political risks as well as rising business interruption and trade credit risks.
- More restrictions on movement between countries, affecting workforces.

Given the complex implications of “peak globalization,” companies can prepare by formally documenting the countries with which they interact – whether from the perspective of investments, workforce, or supply chains – and assessing the associated economic and operational risks, using indices such as Marsh's *Political Risk Map 2017*.

Greater consideration should also be given to the insurance coverage in place that helps transfer risks associated with more protectionist trade regulations and a more volatile geopolitical landscape for overseas operations.

Populist forces have recently defied expectations. Businesses should look beyond consensus forecasts and prepare for a broader range of potential outcomes and operational risk scenarios. They will also need to reframe how they view risk, keeping an eye on global developments that have implications down the line, and prepare to adapt their business models to what could be a vastly different “post-globalization” operating environment.

The “plateauing” of globalization will affect all companies operating multinationally.



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View the interactive *Marsh*
Political Risk Map 2017 at:
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