One of the main roles of Axco’s Global Risk Intelligence and Data (GRID) team is to monitor emerging risks around the world, particularly those which affect the strategic activities of governments, companies and individuals. Each month, the GRID team newsletter will offer you recent highlights of our global analysis of significant geopolitical developments, and possible implications for Axco’s core insurance and risk management markets.

TURMOIL IN THE HEART OF EUROPE

Germany’s reputation for political stability was seriously shaken in early February as elections in the region of Thuringia resulted in the resignation of Chancellor Angela Merkel’s chosen successor, Annegret Kramp-Karrenbauer, as leader of the ruling Christian Democratic Union (CDU). Following the close result, the CDU voted with the far-right Alternative for Deutschland (AfD) to install a candidate from the centrist Free Democrats as premier. This broke the CDU prohibition on voting with the AfD and provoked uproar amongst many party members.

Although she announced her decision to stand down in 2018, Ms Merkel scheduled her retirement for 2021, casting herself as a bulwark against a fractious global environment, populism and ongoing challenges to the EU. However, the CDU now faces the prospect of her imminent departure without an obvious and vetted successor, just as a new EU-US trade war looms and Brexit negotiations enter their most critical phase. Many in her own party point the finger at the chancellor for lingering to embark on a global farewell tour, leaving her party and hamstrung successor to deal with increasing domestic turmoil. Apart from the AfD on its right flank, the CDU faces a surging opponent on the left in the Green Party, which some opinion polls have in first position.

The slate of candidates for the party leadership exposes long contained internal fractures over whether the party should maintain the chancellor’s centrist policies, or tack to the right in order to win back votes from the far-right. Having been in office since 2005, Ms Merkel saw Germany through the global financial crisis, the conflicts in Afghanistan and Ukraine, the EU enlargement round of 2007 and the beginnings of Brexit, but her attempts to secure a smooth transition appear to be failing at perhaps the most critical juncture of her career.

WEST AFRICA COUNTS THE COST OF CURRENCY REFORM

The presidents of France and Ivory Coast hailed their announcement of reforms to the CFA Franc, the currency of the eight states of the West African Monetary Union (UEMOA), as a historic moment. The currency will be rebranded as the Eco, after the regional ECOWAS union. France will withdraw from its governing structures and stop holding half of reserves in its own treasury. However, Paris will nominate an independent representative to the central bank, and extend credit lines to maintain its existing peg to the Euro.

Maintaining the core of the old arrangement subdues inflationary and fiscal risks for UEMOA states, reducing capital flight risks. The reform also seems designed to mend fences after French military deployments failed to halt the escalation of jihadist conflicts across Mali, Niger and Burkina Faso. It also responds to a rising tide of anti-French activism ahead of a busy year of West African elections.
However, economists and local activists have pointed to the enduring constraints of the currency, which links the countries to European monetary policy and enables significant capital outflows to foreign, mainly French, companies. The perception of the Franc as the keystone of lingering neo-colonial influence is keenly felt in the region, where the pain of the currency’s devaluation in 1994 still lingers. More pressingly, doubts over France’s commitment to support the Euro peg could deter investment or subject the currency to speculative attacks.

The reform’s supporters consider it a platform for ECOWAS’s planned single currency, but progress towards the bloc’s own convergence criteria remains uneven. Furthermore, the unilateral move risks excluding other ECOWAS members who are unwilling to surrender monetary sovereignty to European central bankers, including the bloc’s largest economies Nigeria and Ghana. While the modified Franc addresses immediate political needs, it could ironically become an enduring brake on regional integration.

OMAN FACES AN UNCERTAIN NEW ERA

As the world nervously watched the unfolding US-Iran crisis in early January, Oman on other side of the Strait of Hormuz was navigating a seismic change after the death of Sultan Qaboos, whose 49 year rule transformed the country from a hermit kingdom to a wealthy petrostate. His successor, Sultan Haitham, faces a range of unresolved challenges that are typical of governments across the Gulf. Oman turned to borrowing to fund its generous benefits system and extensive public sector after low oil prices pressured public finances from 2015 onwards, limiting the resources available to quell deep dissatisfaction with youth unemployment and perceived corruption.

Sultan Haitham also inherits Qaboos’ distinctive foreign policy that established Oman as the region’s neutral mediator. Qaboos hedged against Oman’s reliance on volatile leaders in the Gulf and the US by establishing political and economic ties with Israel and China and closer defence relationships with India and the UK. With the Qatar crisis cooling and Gulf states backing away from confrontation with Iran, Haitham arrives at a moment when Oman’s diplomacy is relevant once again.

Like other Gulf states seeking to future-proof their economies, Oman has prescribed a larger private sector and investments in the service sector and renewable energy. Haitham’s resume typifies the region’s recent diversification efforts; he oversaw the drafting of Oman’s Vision 2040 economic strategy, but his business venture to establish a planned city designed for a post-oil economy required a bailout from the sovereign wealth fund in 2012. Dwindling oil reserves, an uncertain energy outlook and demographic pressures add urgency to diversification, which implies changes to the social contract that risk public discontent. Rather than risking a repeat of 2011’s protests by cutting subsidies, Oman is likely to intensify its efforts to leverage its diplomatic comparative advantage into foreign investments.