

Embargo until 00.01 GMT Monday 10 December 2012

RiskMap 2013: Subtlety trumps strategy



- **Strategic political and corporate leadership is near impossible in an age of complexity and volatility; success will lie in combining resilience, fast reactions and a subtle appreciation of the dynamics at play.**
- **Risk is now not simply about emerging markets: Europe's malaise is creating an entirely new era of political risk for business.**
- **In an era of weak growth, business is struggling to reconcile risk-taking and risk aversion: searching frontier markets for new opportunities is hard to balance with heavier regulation and decreasing shareholder risk appetite.**
- **For those corporate leaders willing to countenance greater risk, there are clear opportunities out there; but only the smart and agile need apply.**

London, 10 December 2012

Control Risks, the global business risk consultancy, today publishes its annual RiskMap report, the key reference point for policy makers and business leaders needing to plot global trends over the coming year. Now in its 30th year, RiskMap highlights the most significant underlying trends in global risk and security, and provides a detailed view from the markets that will matter most in 2013.

Introducing RiskMap, Richard Fenning, CEO, Control Risks said: *"RiskMap this year describes a world in which certainties are in shorter supply, and leadership more difficult to exercise. Managing companies or countries has become as much about reacting swiftly and decisively to changing circumstances as it has to do with the implementation of a strategy or policy."*

Companies are being caught between regulation from above and unprecedented scrutiny from below. Political leaders are feeling the global gaze as never before.

- Significant challenges facing world leaders in a climate where economic uncertainty and political unrest have made holding power more problematic. Dealing with the fiscal cliff and re-invigorating Chinese economic growth will test Barack Obama and Xi Jinping to their limits.

- Globalisation's taut interconnectivity demands that leaders constantly adapt to survive. In an era where management of crisis and the unexpected is the norm, leaders are required to operate in a zone of continual uncertainty. More than ever they need to be in touch, sure of their facts and supremely agile. Strategy will often take second place to subtlety.
- The corporate world faces particular challenges. The low or zero growth in the OECD is continuing to drive companies to new frontiers where the distinction between risk and opportunity is harder to define. There is potential to become risk obsessed - trapped between the twin imperatives of risk taking and risk reduction. As the report describes, often this can lead to inconsistency and paralysis.

This year RiskMap illustrates that political risk in developed markets is at its highest level for decades. The report also looks at how the early promise of the Arab Spring will give way to impatience and continued turbulence across the Middle East. It sees US foreign policy interests remaining necessarily global, whatever the temptations to contract from the Middle East or refocus on Asia-Pacific.

Elsewhere:

- **Brazil** has weathered the global financial crisis reasonably well, with the feel-good factor of the forthcoming World Cup and Olympics evident. However, significant problems persist. Rampant corruption, high crime rates and inefficient bureaucracy have all tested successive governments, and President Dilma Rousseff is still searching for answers.
- Similarly on the other side of the globe in **Myanmar**, the warm glow from recent images of Aung San Suu Kyi embracing Western leaders and the international prizes bestowed on President Thein Sein can distract from the complex process of peacefully dismantling one of the world's most long-standing military dictatorships. The central question, going beyond the fate of individual political leaders, is how far the country is capable of building the political and bureaucratic institutions needed to navigate change.
- In **Egypt**, we believe foreign investors need not fear the Muslim Brotherhood. With a number of seasoned businesspeople in its ranks and a pragmatic approach to politics, the Muslim Brotherhood is at least as favourable to foreign investment as its chief opponents from across the political spectrum.
- **Nigeria**, like much of sub-Saharan Africa, is a popular investment story and Lagos specifically has become a symbol of African entrepreneurship and commercial promise. However, the dynamism of this African mega-city belies a bleaker national picture with growth hampered by chronic insecurity, poor infrastructure and a growing gulf between north and south.

Despite these intimidating challenges, opportunities for investors still exist in surprising places for those able to map and manage the complexity and significant risk of a volatile world. This year RiskMap emphasises how much a company or country's ability to exploit these opportunities increasingly depends on the ability of leadership to embed not just resilience but suppleness in their organisations and states.



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Notes to Editors:

About Control Risks

Control Risks is a global risk consultancy specialising in political, security and integrity risk. The company enables its clients to understand and manage the risks of operating in complex or hostile environments. Through a unique combination of services, wide geographical reach and by adopting a close partnership approach with clients, Control Risks helps organisations effectively solve their problems and realise new opportunities across the world.

www.controlrisks.com

Appendix: Significant risk rating changes and country analysis for 2013

Gabon

Political risk raised from medium to high

Opposition to President Ali Bongo within the ruling party is mounting, while a multi-party opposition coalition was formed in September 2012, but political stability is unlikely to come under threat. Political interference is likely to rise in the oil sector as the government uses the planned adoption of a new hydrocarbons code to augment fiscal pressure on foreign operators. Trade union pressure for more stringent local content policies is also set to grow. However, the security environment will remain relatively benign and easily manageable for foreign companies.

Mali

Political risk raised from medium to high

Islamist rebels and jihadists control the northern desert regions and democratic institutions are reeling from the March 2012 coup. Addressing the northern crisis will require a variety of stakeholders to put aside personal, institutional and national differences to oversee a concerted political-military strategy to restoring state integrity and achieve political normalisation. The international community's overarching influence and support will be a key determinant of the effectiveness of this initiative. However, the crisis resolution process will be fraught and marked by setbacks and pitfalls.

Nigeria

Political risk raised from medium to high; security raised from M; H in south-south, south-east, north-east, Plateau state and Lagos, to H, E in Borno, Yobe

Democratic institutions have proved remarkably resilient and durable in the face of crises and security challenges, but the government's policies of military containment and patronage distribution to suppress threats to national stability only partially ease structural sources of instability. Investors face prominent challenges: powerful vested interests continue to weigh over licensing and public procurement, leaving investors exposed to corruption and interference. The progress of the long-delayed Petroleum Industry Bill will remain slow; even when passed, this will not achieve all that it set out to do because of uneven and slow implementation.

Mexico

Security rating raised in Jalisco, San Luis Potosi, Michoacan

The crackdown on drug trafficking has disrupted cartels' operations, but caused the security environment to deteriorate. This has led to an increased incidence of high-impact crimes; cartels have been forced to seek alternative sources of revenue to offset drug-related losses, while smaller-scale organised criminal groups have exploited the government's focus on drug trafficking to operate lucrative kidnapping and extortion rackets. Despite president Enrique Peña Nieto's ambitious pledge to reduce the homicide and kidnapping rate by 50%, security threats are likely to persist.

Colombia

Risk ratings unchanged

The security situation is likely to remain broadly unchanged in 2013. Illegal armed groups are still able to challenge the security forces and stage attacks against economic infrastructure in their remote strongholds. However, a significant deterioration is unlikely and the government will not lose its overall grip on security. Even if peace talks between the government and the FARC progress, disaffected units and paramilitary successor groups will remain involved in illegal activities. Although the peace talks are a gamble, their failure would not threaten political stability.

Venezuela

Risk ratings unchanged

The security environment is likely to continue to deteriorate in the face of a corrupt, politicised and ill-equipped police and judiciary; at best, crime rates will climb less steeply than in recent years. Caracas and other urban areas will continue to bear the brunt of the security problems. President Hugo Chávez will maintain his statist vision of political and economic development, but plans to implement a communal system of political organisation are unlikely to get off the ground swiftly. Economic mismanagement, bureaucratic corruption and poor security will persist in 2013.

India

Ratings unchanged

Reform-hungry investors face more disappointment as the ruling Indian National Congress looks to preserve its 'pro-poor' credentials. The government's prospects in elections due by 2014 are dim, but this is unlikely to provide a fillip to reform, even though Congress arguably has nothing to lose. On the security side, religious extremism lurks as a persistent threat, as do unresolved and serious Naxalite (extreme leftist) and separatist conflicts. Cybercrime is growing problem and confidence in government responses to security problems is low.

Greece

Security rating raised from Low (M in Athens, Thessaloniki) to Medium

The continuing crisis has seen security threats manifest outside the traditional hotspots of Athens and Thessaloniki. While major violent protests and the use of explosive devices remain largely confined to those two cities, increased crime is affecting the country more widely, as are the effects of the increased popularity of extremist politics.

Ukraine

Security rating raised from Low to Medium

The threat of serious and petty crime is high, with the situation aggravated considerably by corruption in government and the law enforcement organisations. There has been a significant increase in the number of thefts, burglaries and frauds, as well as hate crimes against non-Slavic and religious minorities since 2010. Four explosions blamed on political extremists in the eastern city of Dnepropetrovsk in April 2012 injured more than two dozen people, and highlighted deficient counter-terrorism legislation and responses.

Syria

Security risk raised from high to extreme

The Syrian crisis has evolved into a full-blown civil war that is set to intensify in 2013. The Assad regime may hold on to power for some time, but will not be able to restore stability or lead a resolution to the conflict. Absent the ability or willingness of any external forces to engage constructively in the conflict, the state will continue to fragment. The disintegration of the security environment and emergence of local power vacuums will see the continued proliferation of competing interest groups and armed militias vying for control over territory and strategic infrastructure.

Yemen

Extreme security risk in southern provinces expanded, security risk in Saada lowered to high

The consolidation of the Houthi rebel group's control over the northern province of Saada in 2012 has resulted in a significant reduction in clashes with government forces, reducing security risks and the likelihood of another full-blown war between the two sides in 2013. The government of President Abd Rabbu Mansour Hadi is under multiple pressures and is unlikely to renew war with the Houthis. Instead, the government is more likely to focus on reducing the persistent threat from militancy in southern provinces (Aden, Lahj, Dali, Bayda and southern areas of Shabwa province)