Challenge to globalisation and free trade highlighted by US election and Brexit referendum ushers in year of heightened strategic uncertainty for business

The distinction for businesses between perceived safe domestic markets and foreign ones rife with challenges has become marginal as risks increasingly come home through political, cyber and terrorism threats

A US-led brake on regulation could transform the global regulatory environment

Businesses will respond as Arks (defensive focus on core markets), Sharks (targeting new opportunities) or Whales (becoming too big to fail)

London, Monday 12 December, 2016. Control Risks, the specialist risk consultancy, today publishes its annual RiskMap forecast, the leading guide to political and business risk and an important reference for policy makers and business leaders.

Richard Fenning, CEO, Control Risks, said: “The unexpected US election and Brexit referendum results that caught the world by surprise have tipped the balance to make 2017 one of the most difficult years for business’ strategic decision making since the end of the Cold War.

“The catalysts to international business – geopolitical stability, trade and investment liberalisation and democratisation – are facing erosion. The commercial landscape among government, private sector and non-state actors is getting more complex.”

The high levels of complexity and uncertainty attached to the key political and security issues for the year, highlighted by RiskMap, mean that boards will need to undertake comprehensive reviews of their approaches to risk management.

Control Risks has identified the following key business risks for 2017:

- Political populism exemplified by President-elect Trump and Brexit. The era of greater national control of economic and security policy ushered in by the US election and Brexit provides increased uncertainty for business leaders. Caution prevails because of the lack of political policy clarity from the USA and UK and the impacts on the global trading and economic environment, as well as geopolitics. Political sparks will fly as the new presidency places pressure on the economic relationship between the US and China, vital for the stability of the global economy; and the US withdrawal from the Trans-Pacific Partnership threatens to redraw trans-Pacific commerce. The calls across Europe for further referendums on EU membership is causing nervousness and populism in other parts of the world such as sub-Saharan Africa is adding fuel to investor risk.
- **Persistent terrorist threats.** The threat of terrorism will remain high in 2017 but become more fragmented. The eventual collapse of Islamic State’s territorial control in Syria and Iraq will lead to an exodus of experienced militants across the world. Responding to terrorism is becoming ever more difficult for businesses; risk adjustment is critical, including big data solutions and reviews of potential insider radicalisation, physical security and scenario planning.

- **Increasing complexity of cyber security.** 2017 will see the rise of conflicting data legislation: US and EU data protection regulations remain at odds; the EU’s Single Digital Market is isolationist; and China and Russia are introducing new cyber security laws. This will lead to data nationalism, forcing companies to store data locally, at increased cost, as they are unable to meet regulatory requirements in international data transfer. E-commerce will be stifled. Fears of terrorism and state sponsored cyber-attacks will exacerbate national legislation, adding burden to businesses.

- **A potential brake on US regulation could lead to a transformation of the global regulatory environment.** The US adherence to the Paris climate accords is under question, the Dodd-Frank Act could be modified substantially and the Foreign Corrupt Practices Act is not off limits, either. This could have a domino impact on regulation around the world.

- **Intensifying geopolitical pressures driven by nationalism, global power vacuums and proxy conflicts.** Syria, Libya, Yemen and Ukraine are likely to remain intractable conflicts and the Middle East will continue to be shaped by friction between Saudi Arabia and Iran; China’s increased focus on diplomacy and military influence will extend from Central Asia and the Indian Ocean to sub-Saharan Africa; and North Korea’s systematic nuclear capability development is upending a relatively static regional and global nuclear status quo.

- **The militarisation of strategic confrontations by accident or miscalculation.** While major conflicts remain unlikely in the South or East China Seas, for example, further militarisation of disputes among China, its neighbours and the US, is likely; Saudi Arabia and Iran continue to jockey for position in the Hormuz and Bab el-Mandeb straits; Iran’s nuclear deal has emboldened the country to challenge the US-Saudi security infrastructure; and Russia is likely to maintain substantial air patrols in or near European airspace and will continue bolstering its Black Sea and Mediterranean naval fleets to secure its positions in Crimea and Syria.

Richard Fenning continued: “Digitalisation and the internet of everything take risk everywhere and the distinction between safe home markets and dangerous foreign ones has largely gone. The sheer mass of stored data, teetering on a fulcrum between asset and liability, has shifted the gravitational centre of risk.

“Terrorist attacks across continents in 2016 made possible in large part by the internet have shown that Islamist inspired violence can be planned and carried out anywhere in the world.

“With the seismic shift in risk scenario planning now required by businesses, we can expect the competitive playing field in many industries to see significant change as organisations respond in different ways to the multitude of complexities facing them.

“By the end of 2017 we will know whether or not the global economy withstood the shocks and turbulence of 2016, if the US opted for a new definition of how to exercise its power and if the great experiment in globalisation remains on track.”

**Companies will pursue different strategies to protect value and seize opportunity in 2017.** Many organisations will be defined as Arks, Sharks or Whales by their response.
- **Arks** will be defensive and focus on core businesses and markets. They will shed non-performing assets, reverse unsuccessful mergers, cut costs, and delay expansion. While particularly associated with mining and oil and gas due to the collapse in commodity prices, the Ark strategy also characterises retrenchment by retailers and re-shoring by manufacturers.

- **Sharks** are less risk-averse and will hunt for opportunities in new activities and locations. Financial services, facing regulatory uncertainty and the rise of competing power centres in the emerging world, is likely to take on risk to capture first-mover advantages in frontier markets or disruptive sectors such as fintech.

- **Whales** will take advantage of their deep pockets and cheap financing to engineer mega-mergers and monopolise markets. Their main risks are economic nationalists and competition regulators. Consolidation strongly characterises the technology sector, pharmaceuticals, and agribusiness, which have often arbitraged regulatory environments to gain dominant market positions.

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The RiskMap 2017 website is available [here](#). The world map with countries’ political and security risk forecasts is available [here](#).

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Control Risks is equipped with an in-house Globelynx studio for live or pre-recorded broadcast interviews. To arrange an interview with one of our London-based experts, please call our press office on 07545 300761, then book online [here](#).