GEOPOLITICS

Top Risks 2018

By Ian Bremmer, PhD, and Cliff Kupchan

Editor's Note: "Top Risks 2018" was originally published by Eurasia Group on January 2, 2018. This article does not necessarily represent the opinions of the Investments & Wealth Institute.

Let's be honest: 2018 doesn't feel good. Yes, markets are soaring and the economy isn't bad, but citizens are divided. Governments aren't doing much governing. And the global order is unraveling.

The scale of the world's political challenges is daunting. Liberal democracies have less legitimacy than at any time since World War II, and most of their structural problems don't appear fixable. Today's strongest leaders show little interest in civil society or common values.

In the 20 years since we started Eurasia Group, the global environment has had its ups and downs. But if we had to pick one year for a big unexpected crisis—the geopolitical equivalent of the 2008 financial meltdown—it feels like 2018. Sorry.

GEOPOLITICAL DEPRESSION

Last year, we wrote that the world was entering a period of geopolitical recession. After nearly a decade of a slowly destabilizing G-Zero framework, the election of Donald Trump as U.S. president has accelerated the descent into a Hobbesian state of international politics. The world is now closer to geopolitical depression than to a reversion to past stability.

"America First" and the policies that flow from it have eroded the U.S.-led order and its guardrails, while no other country or set of countries stands ready or interested in rebuilding it ... significantly increasing global risk. We now see more clearly a world without leadership.

The challenges posed by Trump's approach to international affairs are the product of his unilateralist agenda and retrenchment, creating confusion for allies and rivals alike. What does the United States stand for? What does the Trump administration hope to achieve? Is Trump a revolutionary or a pragmatist? Is the belligerent tone of some of his speeches and most of his tweets just an expression of his negotiating style or might he really take actions that push the United States and others to the brink of war? Is "Make America Great Again" policy or political performance art?

The decline of U.S. influence in the world will accelerate in 2018. The mix of soft power and economic and political liberalism faces a crisis of credibility. With little sense of strategic direction from the Trump White House, U.S. global power, used too aggressively by George W. Bush, then too timidly by Barack Obama, is sputtering to a stall.

Concerns about the prospects of a geopolitical depression form the backdrop for our top ten risks this year.

1. CHINA LOVES A VACUUM

The 19th Party Congress marked a turning point in China's contemporary history, and the speech President Xi Jinping gave there will eventually be recognized as the most geopolitically noteworthy event since Mikhail Gorbachev formally dissolved the Soviet Union. Until last year, China had avoided talk of global leadership. Its diplomatic rhetoric was seldom ideological, let alone evangelical, but in 2017, Beijing publicly shifted its official strategy. China is no longer biding its time. Xi has now consolidated enough domestic power to redefine China's external environment and set new rules within it. He benefits from lucky timing: Trump has renounced the U.S. commitment to Washington-led multilateralism and generated much uncertainty about the future U.S. role in Asia, creating a power vacuum that China can now begin to fill.

For decades, many in the West have assumed that the emergence of a Chinese middle class would force China's leaders to liberalize the country's politics in order to survive. Instead, China's political model, despite its domestic challenges, is now perceived as stronger than it has ever been—and at a moment when the U.S. political model is weakened. Today, in terms of the legitimacy of government in the eyes of its citizens, the United States may be in at least as great a need of structural political reform as China. It's a shocking statement; all the more for its obviousness once you think about it. It's also one we've not once heard uttered in Washington, from either side of the aisle. Combine that with the strongest Chinese president since Mao Zedong and one of the weakest U.S. presidents in modern history, and you end up with a moment of global reordering.

This means China is setting international standards with less resistance than ever before. It's true in three different areas (and is notably not true in a fourth):

Trade and investment. No country today has developed as effective a global trade and investment strategy as China. Beijing is writing checks and creating a global architecture while others are thinking locally or bilaterally. This model generates both interest and imitators, with governments across Asia, Africa, the Middle East, and even Latin America tacking more toward Beijing's policy preferences because the direct transactional consequences have become much more impactful.

Technology. China and the United States are leading the charge on investment in new technology—in artificial intelligence (AI), in particular. For the United States, leadership comes from the private sector. In China, it comes from the state, which aligns with the country's most powerful companies and institutions, and works to ensure the population is more in tune with what the state wants. That's a powerful stabilizing force for the authoritarian and state capitalist Chinese government. Other governments will find the model compelling, especially those most worried about potential social unrest within their borders. And China's economic clout will align tech sectors within smaller nations with Chinese standards and firms.

Values. The only political value that China exports is the principle of noninterference in other countries' affairs. That's attractive for governments that are used to Western demands for political and economic reform in exchange for financial help. With the advent of Trump's "America First" foreign policy and the many distractions for Europe's leaders, there is no counter to China's non-values-driven approach to commerce and diplomacy.

But not: Security. The Chinese model doesn't become more attractive on the national security front, as China remains at best a regional power (while the United States vastly outspends it), and has not been a key player in the war against terrorism.

The dangers are three-fold. First, the global business environment will have to adapt to a whole new set of rules, standards, and practices pushed by China and diverging regulatory environments that will raise the cost of doing business. This won't be limited to the Chinese domestic market (itself increasingly critical to the global economy); it will likewise extend to an expanding group of countries around the world where Chinese economic and, relatedly, political influence are becoming dominant.

Second, there will be pushback against China's further expansion that polarizes Asia by pitting China on the one hand against the United States and its regional allies on the other. Asia's largest and most developed countries—Japan, India, Australia, and to a lesser extent South Korea—will see Xi's agenda as a threat to their democratic-capitalist model. This dynamic could lead to a lot more friction in the South China Sea, over North Korea, and in U.S.-Chinese trade relations.

Lastly, Xi's growing assertiveness risks negative effects at home and creates a long-term threat to the Chinese model. He is taking a risk by tightening the party's control of the country's private sector, by inserting party controls at the top of private Chinese companies as well as Chinese subsidiaries of foreign multinationals. The risks to corporate decision-making and asset valuations are clear, and they could affect the long-term economic trajectory of both China and its imitators.

Still, since 2008, we've seen a gradual erosion in global perceptions of the attractiveness of Western liberal democracies. There is now a viable alternative. For most of the West, China is not an appealing substitute. But for most everybody else, it is a plausible alternative. And with Xi ready and willing to offer that alternative and extend China's influence, that's the world's biggest risk this year.

2. ACCIDENTS

There's been no major geopolitical crisis since 9/11, and none created by governments since the Cuban Missile Crisis. But it's impossible to ignore the risk of such a crisis today, because there are too many places where a misstep or misjudgment could provoke serious international conflict. This comes against a less resilient international backdrop.

We aren't on the brink of World War III. But absent a global security underwriter, and with a proliferation of subnational and non-state actors capable of destabilizing action, the world is a more dangerous place. The likelihood of geopolitical accidents has risen significantly, a trend that will continue. At some point, we're likely to have a mistake that leads to a confrontation. A few worth thinking about for 2018:

Cyberattacks. The risk of a major cyberattack has risen at a time when international mistrust and the erosion of common norms, standards, and architecture has made it more difficult to coordinate responses to attacks when they occur. That makes the risk of overreaction high, even when reaction is warranted. The threat comes both from states (Russia, China, North Korea) and non-state actors (such as Anonymous); the capacity to wreak havoc is rapidly growing, especially given security vulnerabilities and high-level leaks from within the U.S. National Security Agency. The prospect today of an economy-shaking cyberattack is real—be it via the destruction of a critical piece of infrastructure or through forced transparency that cripples the credibility of a leading corporation, bank, or marketplace; or even a takedown of the internet itself (several states have reportedly probed the resilience of the internet's backbone infrastructure).
If an actor goes after these targets, we're

in uncharted territory. Of all the unexpected geopolitical "accidents" listed here, cyber deserves to be at the top of the list.

North Korea. The world's most obvious risk of geopolitical accident. An unsatisfactory (and eroding) status quo remains the most likely outcome in 2018. Everyone knows that the United States has only unpalatable military options. The North Koreans aren't suicidal; further North Korean missile tests are likely, but a direct strike on an adversary is nearly inconceivable. Yet, rocket tests over Japanese territory are intrinsically dangerous and could provoke an escalatory response. So too the expanded military exercises and overflight by the North Koreans, Americans, and allies within easy shooting range of one another. Elevated tensions combined with less trust/coordination among all actors means that mistakes, when they occur, are more likely to ignite a conflagration. The possibility of war, which would risk severe damage to a key U.S. ally and impact global supply chains, remains unlikely. But it's much more thinkable today than it has ever been.

Syria. The war in Syria will continue to wind down in 2018, but there will still be plenty of destructive hardware in the field carried by actors in close proximity who don't like or trust one another. Russian and U.S. bombers regularly fly into each other's demarcation zones, and strikes in the wrong place could kill U.S. or Russian troops. U.S. soldiers are embedded with Kurdish forces around Raqqa and other areas east of the Euphrates, and they could become a target for Russia and Iran. It's the Washington–Tehran relationship that's most dangerous in Syria. Trump wants Iran out of the country.

Russia. Trump also wants a better relationship with President Vladimir Putin. But constrained by the most far-reaching presidential investigation since Watergate, a Republican-led Congress, an antagonistic media, and many within his own administration, he can't have one. When Special Counsel Robert Mueller details the conclusions of his investigation, they will focus on Trump campaign (and possibly Trump's personal) connections with the Kremlin's inner circle. Trump opponents will demand a hardline policy response, one Congress will likely support, but which Trump won't approve. Plenty of Kremlin dirty laundry will be aired. Putin might be tempted to respond—perhaps through a data dump attack that includes prominent Republicans among its targets. Putin and Trump aside, U.S.–Russia relations are openly hostile. And once the Mueller investigation concludes, they'll have reason to deteriorate further.

The possibility of war, which would risk severe damage to a key U.S. ally and impact global supply chains, remains unlikely. But it's much more thinkable today than it has ever been.

Terrorism. Conventional terrorist attacks continue to be far more likely, and dangerous, in the Middle East, North Africa, and South/Southeast Asia than in the developed world. But the end of the caliphate in Iraq and Syria has pushed many foreign fighters back to their homelands, creating increased risk in Europe, and the online sophistication of the Islamic State has facilitated more copycat attacks. A catastrophic attack in the United States remains unlikely. But if one were to occur, the result would be greater division inside the United States and overreaction by a deeply embattled Trump looking for a distraction from his political struggles and itching for a fight. The impact would be economically damaging immigration and security policies, and a consequent hit to the strength of U.S. civil society. Even in Europe, more such attacks would continue to facilitate greater populism and more moves by establishment parties to embrace increasingly extreme policies.

3. GLOBAL TECH COLD WAR

The pace of exciting technological breakthroughs is quickening. In recent years, the communications revolution empowered individuals by giving them unprecedented access to information and by boosting cross-border collaboration. Today, the big topic is data and, increasingly, the AI revolution, which empowers hierarchical organizations to control and sift that information. But this latest wave of innovation is taking place at a time of broader tensions within the internet and technology spaces that will play an important role for global markets in 2018.

Long term, the convergence of AI, big data, and ultra-fast networks is the game changer. It's an unprecedented social experiment: getting smartphones into the hands of every young person with economic potential, allowing them to interact with the world, and seeing what happens as they grow up. This will become a much bigger deal over time. As our cars, homes, factories, and public infrastructure begin to generate mountains of data, and as connectivity morphs into augmented reality, a new generation of humans will be "on the grid" around the clock, with important implications for society and geopolitics. But until we get there, it's the world's biggest fight over economic power.

Here are the key fault lines in 2018:

A race for breakthrough technology is underway between the United States and China. Both countries' tech giants are speeding to master AI and supercomputing among other highly investment-intensive, next-generation technologies. The winner could well dominate the coming decades, both economically and geopolitically. Dividing lines are growing sharper: The United States still has the best talent, but Beijing is training many more technologists. China will continue to plow money into its homegrown research and hardware sectors, while the United States struggles with less control over its private-sector top performers than Beijing. The race is a tight one.

A struggle for market dominance will continue to rage in third-party countries and regions that will have to decide whose products and standards to embrace. Think Africa, India, Brazil, and even Europe. China and the United States are engaged in a global competition to be the lead technology supplier for their various international partners. This fight plays out in three areas: civilian infrastructure (from fiber-optic cabling to cloud storage), consumer goods (putting next generation smartphones in every hand), and government procurement and security equipment. The latter is of utmost importance, as—just like the traditional arms deals of yesteryear—a linkup between two governments on cybersecurity creates long-lasting technical dependencies that translate into strong political ties. Traditionally, China has benefited from distrust felt toward the United States following the Edward Snowden revelations, as well as from cheaper prices, while quality was its weak spot. But today these paradigms are being called into question as China's products become ever-better just as Europeans and others begin to question the security challenges of doing tech business with Beijing.

Fragmentation of the tech commons is the last major effect of this global tech cold war. China's 700 million-plus internet users remain behind the Great Firewall. China, Russia, and other countries that want a tight grip on information flows are implementing tough cybersecurity laws and considering erecting barriers to the flow of data across borders as they move to reduce their dependence on the Western hardware and software that underpins their own cyberspace. The United States is also taking a harder line on foreign investment in U.S. tech firms, partly in response to China's rise, partly in response to fears over cybersecurity threats, while a data privacy-obsessed Europe keeps a wary eye on U.S. electronic surveillance.

The NAFTA debate and the country's presidential election are likely to overlap and amplify the risks each presents.

Fragmentation creates market risks as state-promoted and private-sector corporations begin to function as quasi-monopolies in their respective spheres of influence. Markets become less competitive and, therefore, less efficient. Perhaps most importantly—and immediately—security erodes too. It's harder to guard against global viruses with domestic antivirus companies or to innovate in the absence of international partnerships. None of this will stop the march toward a new economic and political order reshaped by technology, but it will make it much messier.

4. MEXICO

Mexico will have a tough year. Indeed, 2018 will be a defining moment for the country's longer-term outlook, which will depend on the outcome of North American Free Trade Agreement (NAFTA) renegotiation and the country's July 1 presidential election. Both carry significant market risks.

First, NAFTA. A successful renegotiation in 2018 is still possible. It's far from certain Trump would act on his threat to initiate withdrawal from the deal; even if he does, this would be a ploy to enhance U.S. leverage in future negotiations rather than an attempt to destroy the agreement. Unfortunately, that's where the good news stops.

Renegotiation of the 23-year-old deal started last August and dominated the second half of the year, with scant results. Increasingly protectionist U.S. proposals have slowed negotiations. Canada, the United States, and Mexico share the goal of reaching a deal to revamp the agreement by the end of March, before the presidential campaign begins in Mexico. But successful renegotiation depends on the United States softening its stance; Mexico and Canada have few incentives to compromise with the Trump administration, as they know the U.S. business community firmly opposes NAFTA withdrawal.

If there is no deal or if Trump initiates a withdrawal process, this would not mark the end of NAFTA, but it would put an end to negotiations. Canada and Mexico would, at least initially, walk away, creating uncertainty over billions of dollars of economic activity in the world's most prosperous region. Though the pain would be shared, the Mexican economy and those who invest in it would suffer disproportionately, given the country's deep reliance on trade with the United States.

The NAFTA debate and the country's presidential election are likely to overlap and amplify the risks each presents. Once the presidential campaign starts in March, it will become very hard for government negotiators to agree to meaningful compromises without seeming to bow to the U.S. "hegemonic neighbor." In addition, the campaign's frontrunner is Andres Manuel Lopez Obrador, known as AMLO, who offers anti-U.S. rhetoric and a statist economic policy platform.

Voter anger at government is running high, thanks to high-profile corruption cases, a deterioration of the security situation, and sluggish economic growth. Public demand for change favors AMLO, and though the ruling Institutional Revolutionary Party (PRI) candidate, Finance Minister Jose Antonio Meade, appeals to independent voters, his association with unpopular President

Enrique Pena Nieto will be a burden on his candidacy.

Lopez Obrador is not as radical as some rivals portray him, but he represents a fundamental break with the investor-friendly economic model implemented in Mexico since the 1980s, particularly for the recently enacted opening of the energy sector to private foreign investors. Fiscal constraints and a lack of congressional majorities would limit what he can achieve, but an AMLO presidency, particularly if NAFTA's future remains uncertain, would bring significant market risk to Mexico.

5. U.S.-IRAN RELATIONS

Trump has it in for Iran; rightly or wrongly, he sees the country as the root of much evil in the world. In 2018, U.S.-Iran relations will be a source of broad geopolitical and market risk. The nuclear deal, known as the Joint Comprehensive Plan of Action (JCPOA), will probably survive 2018, but there's a substantial chance that it won't, pushing the region into a period of real crisis.

The United States plans to implement a holistic strategy to combat Iran's regional influence and its nuclear ambitions. That means strong support for Saudi Arabia and more active U.S. efforts to contain Iran in Syria, Iraq, Lebanon, and Yemen. The United States will also more frequently sanction Iran for ballistic missile tests, perceived support for terrorism, and human rights violations. And Trump's public support for ongoing protests in Iran will further spike tensions.

Iran will push back, including by harassing U.S. naval vessels, a gambit that can lead to deadly and escalatory action. Proxy conflict could kill embedded Iranian or U.S. troops. Saudi Arabia and its risk-acceptant crown prince could perceive U.S. support as a green light to go after Iran, creating the danger of overreach. Tense Iran-Saudi relations will carry the risk of mutual cyberattacks and pose challenges for investors who seek to invest in both countries.

That's bad enough, but worse is what happens if the nuclear agreement collapses. At this juncture, the deal will probably survive by a hair. Trump's shock-and-awe rhetoric surrounding his October 13 decertification will probably mellow as his bottom-line policy emerges. The European Union (EU) and its member states will resist Trump's main demands to "fix" the deal. Iran receives major financial benefits from the deal and will work to keep it intact.

All that said, the nuclear agreement could well fail in 2018. Iran's withdrawal from the deal is the most likely path to failure. This outcome would not happen quickly, as Iran would blame Washington and try to keep the European nations on its side.

Regarding sanctions relief and Iran's nuclear program, two scenarios are possible. In the most likely, vigorous U.S. enforcement of secondary sanctions leads most European and Japanese companies to leave Iran.

But Tehran agreed to the deal for financial reasons, to spur its economy and create jobs. A new executive order that unilaterally alters the deal, new U.S. sanctions, and newly hostile U.S. rhetoric would all poison Iran's investment climate, scaring off foreign direct investment (FDI). Iran's elite, as 2018 unfolds, could decide under pressure from hardliners that the deal is no longer in their interest. Tehran would have a shot at winning the blame game, especially if the United States has taken steps in material breach of the agreement.

Or maybe Trump just ends it. That's less likely, but still plausible. At any point, the president can revoke the waivers and end sanctions relief, killing the deal. This president will likely become more unpredictable as the Mueller investigation unfolds. Under immense pressure at home, he could decide to spike the deal.

If the agreement fails, we enter a new and dangerous geopolitical dynamic. Regarding sanctions relief and Iran's nuclear program, two scenarios are possible. In the most likely, vigorous U.S. enforcement of secondary sanctions leads most European and Japanese companies to leave Iran. Oil importers in Europe, South Korea, and Japan decide against purchasing Iranian oil. But China and India would not acquiesce to a U.S. demand to significantly reduce their imports. If Iran offers both buyers a significant discount, about 300,000 barrels per day would probably come off the market. Iran would ramp up its nuclear program. It would at least break the seals on its advanced centrifuges currently in storage and begin large-scale experimentation and production on more-advanced models. The threat of U.S. and/or Israeli strikes would again hang over the region and boost oil prices.

In a less-likely scenario, Europe, Russia, and China agree to a "JCPOA 2.0" with Iran. Trump backs down on implementation or decides not to apply secondary sanctions. The president declares victory for the benefit of his base without further rupturing transatlantic ties. While the pace of foreign investment would slow, firms already established in Iran would stay and others would eventually join them. European and Asian importers continue purchasing Iranian oil. Iran continues to comply with the JCPOA's nuclear limits. The geopolitical effects of this scenario are more limited. Still, tense U.S.-Iran relations would spill over into regional geopolitics. And concern over a hardline turn in Trump's sanctions policy would cloud investor sentiment toward Iran.

6. THE EROSION OF INSTITUTIONS

Avoid reform of political institutions, and even the strongest of them will weaken over time. The legitimacy of institutions depends on their credibility and, as Secretary of State for Environment, Food and Rural Affairs Michael Gove put it in the runup to the Brexit vote, "the people of this country have had quite enough of experts." Across the developed world (with the notable exception of Japan), popular trust in technocratic/bureaucratic institutions has declined steeply, in some instances as a result of direct political interference in their work. And so most of the advanced industrial democracies—those countries on the top right side of the "J Curve" (describing the relationship between stability and openness)—are starting to edge down to the left. This will be an important global story in 2018.

In the United Kingdom, there is criticism of "remainers talking the country down" by fighting over the terms of Brexit. In the United States, partisan attacks on the non-partisan Congressional Budget Office have become commonplace. Greek courts found the former head of the statistical office guilty of insubordination and breach of duty for revealing the true size of the country's deficits. Ever-larger segments of the public and their representatives have lost faith in the exercise of bureaucratic functions, inviting the political capture of more organs of the state. It's not an accident that the phrase "deep state"—which made its debut nearly a century ago in Mustafa Kemal Ataturk's Turkey—has now made its way to Washington and into the president's tweets.

In the United States, the legitimacy of the mainstream media has dramatically decreased. Much of the public now believes that reporting is habitually "politicized," feeding the growth of conspiracy theories and political movements that previous generations would have considered unacceptable. It has also eroded faith in the electoral process by fueling anxiety that the country's democracy is "rigged." The growth of "fake news," fears that voting systems can be manipulated by candidates, the gerrymandering of districts, and rules designed to make it harder to vote are all discrediting the voting process. Lower turnout in elections across Europe and the United States demonstrates growing public apathy. Protest votes among those who do turn out have become more common.

At the international level, growing Chinese assertiveness—particularly in buying up strategic foreign assets—has created concern that intellectual property transfers are taking place at a pace and scale that demands a political response.

We're also seeing the broad erosion of political institutions across eastern Europe, in Spain, Turkey, Brazil, South Africa, and other countries. The rise of populism across the developed world and, increasingly, in emerging markets, isn't yet having a dramatic impact on policymaking. Special interest groups remain too powerful, the disenfranchised too weak, and chronic problems too complex for most governments to bring about dramatic changes in policy. But the expansion of an increasingly toxic antiestablishment sentiment is starting to erode the legitimacy of political institutions in established democracies.

This trend will lead to market-negative tipping points in countries where institutions are most badly damaged and least resilient. The result is often instability (see Venezuela) or authoritarian rule (see Turkey). Both can degrade the investment climate, particularly when a president's cronies control the economy. Weakened institutions also heighten unpredictability in policymaking. Institutions are guardrails; strong courts and media lessen dependence for stability on powerful (sometimes erratic) individuals.

Lastly, institutional erosion across many countries risks structural instability in the global system. Today's disgruntled middle classes in emerging markets would have a more direct route to power, as would the developed market "left-behinds" from globalization. Absent solutions from global leaders—which aren't in the offing in the foreseeable future—traditional state-based international relations will become more and more unstable. Conflict will become more frequent, decision-making degraded, and internal chaos common.

7. PROTECTIONISM 2.0

Thanks to populist pressure, the spread of state capitalism, and the ongoing geopolitical recession, protectionism is making a comeback. The rise of antiestablishment movements in developed markets has forced (in some cases, enabled) policymakers to shift toward a more mercantilist approach to global economic competition and to look as if they're doing something about lost jobs. Walls are going up.

At the international level, growing Chinese assertiveness—particularly in buying up strategic foreign assets—has created concern that intellectual property transfers are taking place at a pace and scale that demands a political response. That all this is happening in the context of today's G-Zero world and the general retreat of U.S. leadership means that no one leader has proved willing and able to ensure that new rules of the game are written to manage these fast-paced transformations.

Together, these trends create Protectionism 2.0, with its barriers in both the "old" and "new" economies. Governments aren't just trying to protect comparative advantages in traditional sectors such as agriculture, metals, chemicals, and machinery out of concern for lost jobs or domestic economic interests. They're also intervening in the digital economy and innovation-intensive industries, with the primary goal of preserving intellectual property and related technologies as critical components of national competitiveness.

The new barriers are also less visible. Instead of traditional measures such as import tariffs and quotas, today's tools of choice include "behind-the-border" measures such as bailouts, subsidies, and "buy local" requirements designed to bolster domestic companies and industries. These measures don't necessarily circumvent World Trade Organization (WTO) commitments; they rely on a collective inability to update and strengthen existing global trade rules.

The new form of protectionism generates more acrimony because it is often targeted at political adversaries. In short, it matters where the trade and investment come from. The origin and regulation of FDI is increasingly politicized, as states grow anxious about foreign control of domestic champions and sensitive technologies. Suspicion is greatest between Europe/the United States and China/Russia.

This trend will create new trade risks for 2018. First, new rules are being written for the global economy without any overseer or shared norms, so checks and balances against a surge in protectionism are lacking.

Second, because this new protectionism will coexist with a continuing push for regional free trade agreements, the global regulatory environment will become more complex and contradictory. Companies and investors will have to manage more complicated supply chains and navigate more restrictions to data flows and other barely discernable or invisible barriers. The cost of doing business will rise, and supply chains will be less reliable. Consumers will bear the brunt of losses.

Finally, while economic protectionism may seem like a benign means of international competition, the political resentment it will create among major powers risks spilling over into other areas of diplomacy. Protectionism 2.0 will eventually inflict greater geopolitical damage than those who practice it expect.

8. UNITED KINGDOM

2017 may not have been fun for the United Kingdom; 2018 will be worse. The country's troubles will come from both acrimonious Brexit negotiations and difficult domestic politics.

On Brexit, December's deal to move Article 50 negotiations from divorce issues to those concerning future relations won't lead to smooth sailing for Prime Minister Theresa May. The issues that must now be negotiated are too complex and the politics too divisive.

Northern Ireland will provide a major headache. Although last year's deal commits the United Kingdom to avoid creating a hard border between Northern Ireland and the Republic of Ireland, the means of evading this problem remain unclear. Some type of border will have to exist after the United Kingdom leaves the EU, even if limited regulatory alignment between the Irish parties is agreed. But any special deal for Northern Ireland would set a dangerous precedent, as other regions in the United Kingdom would want the same thing. This will be one of the trickiest issues to resolve, especially under the current political configurations in London and Dublin.

There's more. Negotiations over the money the United Kingdom will have to pay the EU are far from over. Any final amount will be paid only if the United Kingdom likes what it gets on trade, and that's a tough conversation. As "nothing is agreed until everything is agreed," the fragile deal reached late last year could unravel. Negotiating transitional arrangements for the United Kingdom to avoid WTO tariffs in March 2019 won't be easy either.

On the question of British leadership, May will probably retain the premiership in 2018, but her management of the Brexit process could cost her the job. There are two possible scenarios if she goes—both market negative. In the more benign, May would be replaced by a more hardline Tory figure through a sort of palace coup. This would significantly complicate Article 50 negotiations. The more negative scenario is a new election that leads to Labour Party leader Jeremy Corbyn replacing May. This would hurt both Article 50 negotiations and domestic economic policy.

The likelihood of each scenario will depend on May's ability to outline an end-state relationship with the EU and navigate Article 50 negotiations. To do this, she will have to more clearly define what her government wants: remaining economically close to Europe and subservient to some of its rules, or prioritizing its independence, irrespective of the economic risks that brings. The cabinet is divided. If May prioritizes economics, her right would move to oust her, and a hard-liner would probably replace her. If she prioritizes sovereignty, pro-European Tories and the opposition could veto the deal she brings home when parliament votes on Article 50 this autumn. The government wouldn't survive such a loss—and Corbyn would probably win an early general election.

9. IDENTITY POLITICS IN SOUTHERN ASIA

Identity politics in Europe and the United States has taken center stage in recent years, and we'll see more evidence of a similar phenomenon in Southeast Asia and on the Indian sub-continent in 2018. This trend threatens the future of these increasingly prosperous regions, creating unexpected challenges for economic planners and foreign investors.

Identity politics in southern Asia comes in several forms: Islamism, aversion toward Chinese and other minorities, and an intensifying Indian nationalism.

Islamism in parts of Southeast Asia fuels local forms of populism, most prominently in Indonesia and Malaysia. In Indonesia, fears that the country's majority Muslim population are victims of economic and political injustice empower Islamist groups, working in parallel with other opponents of President Joko Widodo (Jokowi), to exploit this resentment for political gain. Identity politics will continue to shape the Indonesian political landscape as the country heads toward the 2019 presidential election. Political Islam is also becoming more prominent in Malaysia, where Prime Minister Najib Razak continues to court the Muslim Malay vote to win reelection later this year.

There is also growing anti-Chinese and anti-minority sentiment across the region. Resentment of the ethnic Chinese, who hold a disproportionate share of several countries' wealth, has long been an issue in Indonesia. But these sentiments have made a strong recent comeback, most notably during the successful activist-led campaign to defeat and imprison the ethnic Chinese former governor of Jakarta. Elsewhere in Southeast Asia, the persecution of Myanmar's minority Muslim Rohingya, not formally recognized as citizens by Myanmar's government, has triggered the worst humanitarian crisis the region has seen in decades.

In India, after the secularism, socialism, and engagement with Muslim-majority countries that were cornerstones of the Congress party's vision for the country, Prime Minister Narendra Modi and the ruling Bharatiya Janata Party (BJP) will try to use Hindu nationalist rhetoric and policies to win and retain support from Indians angry over the "appeasement" of Muslim and other minority groups. Even agnostic or moderate Hindus question the decades-old Congress model, making the BJP's opposing vision palatable to them. Hinduism (or Hindutva) will increasingly form the basis on which the BJP seeks to unite a majority of Indians.

Islamism, anti-Chinese and anti-minority sentiments, and ever-fiercer Indian nationalism create risks for the region's business environment. Secular democracy in Indonesia will prove resilient, but populist pressures and the Islamization of politics will undermine the legitimacy of the country's democratic institutions and governance, and they will weaken the country's rule of law.

On the fiscal side, Jokowi is likely to address inequality by engaging in social welfare spending that, while beneficial to Indonesians, will hurt the country's macroeconomic balance. On regulatory issues, mandatory Halal labeling will take effect in 2019, affecting products sold in sectors including food and beverage, pharmaceuticals, and cosmetics. This will increase regulatory costs for corporates. Rising Muslim populism also reinforces economic nationalism and protectionism.

The Islamization of politics has also made it harder to pass tougher anti-terror laws, and Islamic populism creates a more conducive environment for Islamic State fighters returning from the Middle East to spread their ideology and find recruits, increasing the risk of attacks in the region. Heightened social tensions also make wealthy ethnic Chinese business owners less likely to repatriate money they have long held in offshore locations such as Singapore, negatively impacting Indonesian and Malaysian attempts to raise tax revenue.

In India, the danger is that Modi's use of nationalism to consolidate his support ahead of the 2019 election could give cover to radicalized elements of society that want to target Muslims and lower caste Hindus, leading to risks of localized instability.

10. AFRICA'S SECURITY

The "Africa Rising" narrative remains appealing, but this year will face a new challenge. The continent's core countries (Cote d'Ivoire, Nigeria, Kenya, and Ethiopia, among others) have recently demonstrated robust investment climates, and they've been generally sealed off from the troubles of the "periphery" (Mali, South Sudan, Somalia, etc.). But in 2018, negative spillover from Africa's unstable periphery will increasingly spoil the continent's success stories.

The threat lies in security risks: militancy and terrorism. The dangers posed by Al Shabaab in East Africa and Al Qaeda in West Africa are not new, but they're set to intensify. Despite losing territory in 2017, Al Shabaab is still carrying out successful one-off surprise attacks and will look to more international targets in 2018. The Islamic State is likely to increase activity in West Africa and expand into East Africa as it is pushed from traditional strongholds in the Middle East.

Target countries are more vulnerable than they've been in years, and external partners are less able to mount a united front of support. Local actors in "core" countries are already suffering from weakened political capacity. Kenya's government will focus on economic recovery after a prolonged election cycle. Nigeria enters an election season with uncertainty over its current leader's health. South Africa faces internal political strife. Angola is busy with a fresh leadership transition. Mozambique is still struggling with a years-long debt scandal.

Foreign partners who have helped stabilize weak governments in the past are distracted. In the east, a preoccupied Europe has reduced its salary support for troops of the United Nations-mandated African Union Mission to Somalia operating in the Al Shabaab hotspot. Across the Sahel, the G5 counterterrorism partnership of Chad, Niger, Burkina Faso, Mali, and Mauritania plans to launch a 5,000-strong force in March 2018. But differences among France, the United States, and United Nations officials will slow the necessary funding, leaving the region at risk, despite an injection of financial support from Saudi Arabia and the United Arab Emirates.

The growing fragility of Africa's top performers has several implications. Kenya, Nigeria, Uganda, and Ethiopia face increased security costs at a time when their governments need to reduce spending. A spike in attacks would also undermine foreign investment perceptions already shaken by the election-related violence in Kenya, a growing social protest movement in Ethiopia, and presidential succession uncertainties in Nigeria and Uganda.

Foreign investors may see their assets directly targeted. Tourist and energy installations will be especially at risk. This will put downward pressure on FDI into the continent, leaving development reliant on limited local capital. And the pressure of security-related refugee flows—on countries in the region and in Europe—will not abate, creating a headache for policymakers on both sides of the Mediterranean.

RED HERRINGS

TRUMP WHITE HOUSE

Yes, the tax bill was a Trump and GOP triumph. In 2018, though, the reality remains that Trump is the weakest U.S. president in decades in a system where even a strong president can't get much done. No one can stop Trump from tweeting, but 280 characters do not equal policy. He has a razor-thin margin in a Senate with a small number of senators of his own party that have turned against him. Divisions are widening among Republicans in the House of Representatives. And Trump faces the risk of a significant loss of congressional seats after midterm elections.

For 2018, he can at most follow through on a limited number of ongoing legislative priorities and some executive orders. If there's a major crisis (please see risk #2: Accidents), we're all in trouble. Barring that, this is a White House that's headed toward massive distraction from a Mueller investigation nearing conclusion. That promises a year of blazing one-day headlines but almost nothing that moves the needle on policy.

EUROZONE

2018 will be another eventful year for Europe. Germany must regain its footing after a tumultuous electoral season, Italy will face a contentious election, and President Emmanuel Macron's war on vested interests won't become any easier in France. But a close look at the trajectories of individual countries in the Eurozone suggests the region looks set for another relatively constructive year after surprising observers to the upside in 2017.

French reforms may not be a cakewalk, but the Macron government will introduce new vocational training and reform unemployment benefits in coming months.

The German polity will pull together and recover from its recent jitters—at least for the next few years. French reforms may not be a cakewalk, but the Macron government will introduce new vocational training and reform unemployment benefits in coming months. Italy risks coming out of its election season with a weak coalition government or even an outright radical euroskeptic one, but in neither case will the country's economy fall apart. Nor will Italians opt to leave the Eurozone or the EU. European politics will continue to keep us busy in 2018, but the Eurozone should have yet another modestly encouraging year.

VENEZUELA

The country is now bordering on hyperinflation, technically in default, and facing acute shortages of the most basic goods. But despite an economy in freefall, President Nicolas Maduro heads into 2018 in a relatively comfortable position. He has consolidated control of the country's institutions, enjoys military support, and has effectively divided and demoralized the opposition, leaving it with no capacity to force regime change. The 2018 presidential election will be held on Maduro's terms and against an opposition candidate of his choosing, even if doing so comes at the expense of greater international isolation, a tradeoff the regime is ready to stomach.

The deepening economic crisis leaves social conditions fragile, with a small risk that the country's socio-political fabric could explode sometime this year. Yet even in such a scenario, the outcome would be positive, because massive and sustained unrest would likely prompt the military to finally abandon Maduro, leading to a negotiated transition, new elections, and a constructive opposition government. Such a transition could be preceded by a short period of uncertainty, but the risk of this spiraling into a civil war or having a more acute spillover effect across the region would be negligible.

Ian Bremmer, PhD, is president and founder of Eurasia Group, a global political risk research and consulting firm. He earned MA and PhD degrees in political science from Stanford University and a BA from Tulane University.

Cliff Kupchan is chairman of Eurasia Group. He earned an MA from Stanford University and a BA from Brown University.

Contact the authors at info@eurasiagroup.net.

Brasília | London | New York | San Francisco | São Paulo | Singapore | Tokyo | Washington D.C.