



المنتدى الاستراتيجي العربي
ARAB STRATEGY FORUM

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December 14 2016 ديسمبر 14





GLOBAL
ECONOMIC
PREDICTIONS
2017



1 PREDICTION
BRENT WILL AVERAGE UNDER USD 60 IN 2017



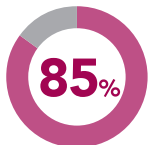
LIKELIHOOD



IMPACT ON THE GLOBAL ECONOMY

The production cuts announced by OPEC on 30 November will result in total OPEC production falling to around 33.0 million bpd. This will put a solid floor under prices, which will probably hover in the lower half of the \$50s per barrel in 1H 2017, rising further in the second half but averaging under \$60 for the year.

2 PREDICTION
GLOBAL GROWTH WILL REMAIN BELOW 4% DUE TO A LACK OF STRUCTURAL REFORM IN MOST OF THE WORLD'S LARGEST ECONOMIES IN 2017



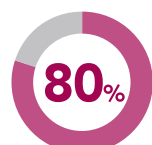
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IMPACT ON THE GLOBAL ECONOMY

A variety of local drivers will lead reform to stall across most of the world's major economies, thereby depressing both individual and aggregate growth prospects in 2017.

3 PREDICTION
TRADE GROWTH WILL NOT EXCEED 3%, REMAINING AT OR BELOW EXPECTED GLOBAL GROWTH IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL ECONOMY

A combination of structural factors and continued political pressures will prevent global trade from rebounding in 2017.

4 PREDICTION
INFLATION WILL GROW ABOVE 2% IN THE US IN 2017, THEREBY TRIGGERING A POLICY CONUNDRUM THAT MAY HEIGHTEN THE RISK OF DOMESTIC AND GLOBAL RECESSION



LIKELIHOOD



IMPACT ON THE GLOBAL ECONOMY

A combination of protectionist policies, a weaker dollar, and expansionary fiscal policy will all put upward pressure on inflation in the United States, likely leading it to surpass its 2% target and thereby creating a dilemma for the Federal Reserve, the ramifications of which could weigh on the global economy in 2017.

5 PREDICTION
BREXIT WILL NOT BE RESOLVED, CAUSING FURTHER UNCERTAINTY IN GLOBAL MARKETS IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL ECONOMY

While Brexit negotiations will likely start in early 2017, very little clarity will be achieved by the end of the year, leading to evermore market uncertainty.

6 PREDICTION
EUROPE WILL BE A SOURCE OF ECONOMIC AND FINANCIAL RISK IN 2017



LIKELIHOOD



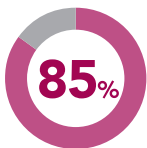
IMPACT ON THE GLOBAL ECONOMY

European fiscal and financial liabilities will create risks for both European and global growth and financial stability in 2017.

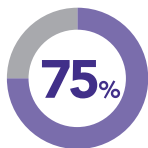


① WHAT WILL BE THE PRICE OF OIL IN 2017?

BRENT WILL AVERAGE UNDER USD 60 IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL ECONOMY

The production cuts announced by OPEC on 30 November will result in total OPEC production falling to around 33.0 million bpd. This will put a solid floor under prices, which will probably hover in the lower half of the \$50s per barrel in 1H 2017, rising further in the second half but averaging under \$60 for the year. US shale production will return to modest growth by mid-2017 under this scenario, while prices above \$60 would bring on much

stronger growth. This constraint will weigh particularly heavily on countries in the Middle East and North Africa that require higher oil prices to balance their budgets.

GLOBAL IMPACT

- Insufficient revenue inflows will lead highly oil-dependent exporters to face a difficult trade-off between implementing politically-contentious

spending cuts and delaying such cuts at the risk of further economic deterioration and greater political pain down the road.

- Countries' tolerance for such spending cuts will be determined in large part by their financial reserves and ability to raise capital (the greater these are, the less likely cuts will be), their political capacity to withstand

discontent (the greater it is, the more likely cuts will be), and timing (cuts may, for example, have to wait until after electoral turning points, among other milestones).

- Middle Eastern and North African oil exporters are most likely to come under strain according to IMF projections of 2017 fiscal break-even points. Exporters most likely to be affected outside the region include Venezuela and Nigeria.

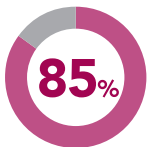
RECOMMENDATIONS FOR THE MIDDLE EAST

Middle Eastern oil producers may be advised not to put too much hope in the upside potential of OPEC's announced production cuts. Should they share the view that oil prices will remain "lower for longer," they may also seek to continue raising capital and/or cutting non-essential spending earlier rather than later.



② WHAT WILL BE THE GENERAL OUTLOOK FOR THE GLOBAL ECONOMY IN 2017?

GLOBAL GROWTH WILL REMAIN BELOW 4% DUE TO A LACK OF STRUCTURAL REFORM IN MOST OF THE WORLD'S LARGEST ECONOMIES IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL ECONOMY

A variety of local drivers will lead reform to stall across most of the world's major economies, thereby depressing both individual and aggregate growth prospects in 2017. A lack of reform in

emerging markets in particular will prevent any significant growth surprise, while the generalized slump in structural reform will weigh on global debt levels – already at their highest point since 2000, at over 225% of global GDP according to the International Monetary Fund.

GLOBAL IMPACT

- In a first category of countries, leaders will feel as though they have “done their part” in terms of reform efforts: In India, Narendra Modi will largely be resting on the laurels of

having achieved goods and services reform, monetary policy reform, and foreign direct investment liberalization. In Japan, Shinzo Abe will avoid doubling down on Abenomic policies that have run into heavy criticism, particularly given his preference for pursuing a security agenda. In Mexico, Enrique Pena Nieto will have an eye towards the end of his mandate; having already achieved energy, telecoms, education, and tax reform.

- A second category of countries will be in a holding pattern; waiting until after

major domestic political turning points to pursue further reform. China will be focused on its fall leadership reshuffle, France and Germany on their 2017 polls, and Russia on its early 2018 presidential election.

- Finally, difficult reforms will not even be on the table in a last category of countries that includes key markets such as the United Kingdom and Turkey. The former will be focused on minimizing the damage of its exit from the European Union, while the latter's leadership will be reluctant to further pressure a private sector already hurting from the country's recent coup attempt.

RECOMMENDATIONS FOR THE MIDDLE EAST

Middle Eastern leaders would benefit from recognizing the opportunity for their countries to stand out as rare reform bright spots – and therefore attract capital – in an environment in which there are increasingly few good stories for investors to turn to.



③ WILL GLOBAL TRADE REBOUND IN 2017?

TRADE GROWTH WILL NOT EXCEED 3%, REMAINING AT OR BELOW EXPECTED GLOBAL GROWTH IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL ECONOMY

A combination of structural factors and continued political pressures will prevent global trade from rebounding in 2017. This will prove problematic for global growth given trade's decades-long role in driving growth.

GLOBAL IMPACT

- Structural factors: The nature of global trade has changed in recent years: Technology is enabling producers of physical goods to replace far-flung cheap labor with locally-available automated processes. Meanwhile, global regulatory frameworks have failed to keep up with the increasingly service- and digitally- oriented nature of international exchanges. These two factors have amounted to an opportunity cost for traditional global trade.
- Political factors: The populist backlash against new mega-regional trade deals will continue into 2017. In the United States, regardless of Trans-Pacific Partnership's (TPP) fate, the mood will not be favorable to pursuing new trade agreements. In Europe, already-ailing negotiations over a potential Trans-Atlantic Trade and Investment Partnership (TTIP) will continue to be slow at best as France and Germany focus on domestic elections. Meanwhile, it will take years for the United Kingdom to sort the nature of its new trading relationship with Europe and its partners further afield.

- Profound consequences: Constrained global trade growth will fail to jolt global growth, and will be particularly damaging to emerging markets that depend on increased trade to prolong and finalize their convergence with developed economies.

RECOMMENDATIONS FOR THE MIDDLE EAST

In order to remain ahead of the curve, Middle Eastern leaders may want to reflect on whether an anti-globalization sentiment similar to that taking hold in developed markets could emerge in their own countries as well. Thinking through this phenomenon is particularly important as trade integration has consistently been identified as one of the potential avenues for greater growth in the region.



④ WHAT WILL A TRUMP PRESIDENCY MEAN FOR THE US AND GLOBAL ECONOMIES IN 2017?

INFLATION WILL GROW ABOVE 2% IN THE US IN 2017, THEREBY TRIGGERING A POLICY CONUNDRUM THAT MAY HEIGHTEN THE RISK OF DOMESTIC AND GLOBAL RECESSION



LIKELIHOOD



IMPACT ON THE GLOBAL ECONOMY

A combination of protectionist policies, a weaker dollar, and expansionary fiscal policy will all put upward pressure on inflation in the United States, likely leading it to surpass its 2% target and thereby

creating a dilemma for the Federal Reserve, the ramifications of which could weigh on the global economy in 2017. As inflation reaches undesirable levels over fears about president-elect Donald Trump's populist economic inclinations, the Federal Reserve will face the difficult choice of either pursuing a hawkish position on interest rates and being blamed for stunting growth, or maintaining a dovish stance whose consequence may be an inflationary spiral that could even turn into a stagflationary episode if growth disappoints due to

unrelated pressures. Such a scenario would in turn increase the risk of a domestic recession and associated international spill-overs.

GLOBAL IMPACT

- The likely economic consequences of a Trump presidency within the US – including anti-trade measures (most likely countervailing duties on US imports from Mexico and China), a weaker dollar as a result of investor flight risk, and a greater push for fiscal

expansion – will likely undermine the country's economic recovery and lead to upward pressure on inflation, possibly up to 3%.

- Part of the economic conundrum the US may find itself in will be owed to the risk of growing political pressures being put on Federal Reserve Chairwoman Janet Yellen, who already attracted criticism from then-candidate Trump during the 2016 US presidential campaign. Such attacks have a precedent in the UK's Brexit scenario and associated pressures on Mark Carney's rule as Governor of the Bank of England.
- Failure to effectively address the joint risks of inflation and disappointing growth would increase the risk of a recession in the United States, which in turn could put the global economy at greater risk of a broader downturn.

RECOMMENDATIONS FOR THE MIDDLE EAST

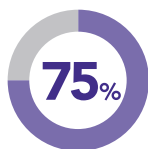
Of prime importance, Middle Eastern decision-makers may want to devote particular attention to the issue of central bank independence in the United States and other advanced economies – a topic up until recently considered moot.

5 HOW WILL BREXIT PLAY OUT IN 2017?

BREXIT WILL NOT BE RESOLVED, CAUSING FURTHER UNCERTAINTY IN GLOBAL MARKETS IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL ECONOMY

While Brexit negotiations will likely start in early 2017, very little clarity will be achieved by the end of the year, leading to evermore market uncertainty. While the UK Supreme Court may confirm that parliament must approve of triggering article 50, it is unlikely UK members of parliament would oppose the initiation of negotiations, fearing the criticism that for them to do so would amount to going against the will of the people. As a consequence, Theresa May will likely trigger article 50 of the Lisbon Treaty in Q1 of 2017, opening the way for negotiations between the United Kingdom and European Union about the future of the UK-EU relationship. These negotiations, however, will far



outlast 2017, raising more questions than they answer in the coming year, and creating an overhang in the global economy. In the unlikely event that full legislation on the part of parliament would be required for the Prime Minister to enact article 50, this would create even more uncertainty over Brexit by delaying an already-fraught process even further.

GLOBAL IMPACT

- While often treated as a single negotiation, Brexit will actually cover two different sets of issues: First, the terms of the UK's exit from the EU. Second, the terms of the two parties' new trading relationship. Not only is a two-year period envisaged to achieve these outcomes, but it is in fact most

likely that defining a new trading mechanism between the UK and EU will actually take more than the allotted two years.

This will prolong market uncertainty and exacerbate Brexit's impact on the global economy.

- The United Kingdom's goal will be to achieve as much preferential access to the EU single market as possible while giving in as few concessions as possible. The UK will be particularly loath to accept free movement of labor and European jurisdictional oversight, while potentially being slightly more accommodating on issues including contributions to the EU's budget.
- The impact of continued Brexit-related uncertainty for the UK's, European, and

global economies will be heightened by a lack of clear answers in 2017. First, the UK economy may begin to see the effects of a slowdown on consumption and employment. Second, critical issues such as the future of so-called "passporting rights" for banks seeking to operate from the UK throughout the European continent will continue to drive market jitters. Third, the future of the UK's trading relationship not just with the EU but with a whole range of non-European trading partners will remain worryingly undefined.

RECOMMENDATIONS FOR THE MIDDLE EAST

Middle Eastern leaders may want to map out their exposure to Brexit in order to pre-emptively contain a worsening of market uncertainties. They may also want to lay out signposts to enable them to identify turning points in the UK-EU negotiations, so as to distinguish political noise from technically-significant signal. Finally, they may want to devote attention to the issue of the UK's future trading relationships outside of the EU – a topic that often goes woefully under-examined. Currently, all of the UK's main non-EU trading partners are staunchly refusing to open such negotiations until the UK has received an opt-out from the EU Customs Union, allowing it to negotiate with third countries. Such permission may not be granted until 2018.



6 WILL EUROPE BE A SOURCE OF ECONOMIC INSTABILITY IN 2017?

EUROPE WILL BE A SOURCE OF ECONOMIC AND FINANCIAL RISK IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL ECONOMY

European fiscal and financial liabilities will create risks for both European and global growth and financial stability in 2017. European banks have experienced an over 10% decline in share price since the UK's decision to exit the EU, according to the International Monetary Fund (IMF). This has compounded an extant problem in a sector that was already ailing from low interest rates and an environment in which there are substantial impediments to consolidation and restructuring. Meanwhile, political leaders on the continent who are already

combating crises on numerous fronts will be reluctant to spend their little remaining political capital to combat what are perceived as country-level banking problems. This, combined with poor fiscal outlooks in countries ranging from Greece to the broader Southern periphery and even France will create a risk of financial contagion.

GLOBAL IMPACT

- A major European banking crisis would send shockwaves into global markets.

But even barring a systemic banking crisis, the poor fiscal outlook of several European economies – including Italy, France, Portugal, and Greece – could send jitters through the global financial system, particularly as poor political capacity makes responding to even a limited crisis more difficult.

- With European growth already projected to be lower in 2017 than in 2016 (at 1.4% according to the IMF), any financial slump would only aggravate the existing trend toward

a prolonged period of slower growth in Europe, by consequence weighing on the global economy. A financial shock within Europe would worsen lending conditions on the continent, in turn undermining an already-fragile recovery. The International Monetary Fund points out European credit growth is almost nil today, and would be adversely affected by a further slide in bank equity performance or a broader shock to the financial sector.

- As European growth and financial risks undermine European investment into emerging markets while concurrently precipitating a financial flight to safety, emerging markets including Russia, Turkey, Brazil, South Africa, Mexico, the Philippines, and Indonesia may be at particularly high risk of exposure to Europe's woes.

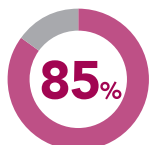
RECOMMENDATIONS FOR THE MIDDLE EAST

Middle Eastern investments in Europe or assets exposed to the European economy's volatility may be impacted by the continent's economic jitters. Meanwhile, Middle Eastern attempts at courting international financing may also be affected by a potential risk-off period precipitated by uncertainties in Europe (though the search for yield may have a





1 PREDICTION
THE FIRST YEAR OF A TRUMP PRESIDENCY WILL ERODE US GLOBAL LEADERSHIP IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL POLITICS

Numerous public statements by now-president-elect Donald Trump will create uncertainty regarding the short-term future of US foreign policy, raising concerns about the US's commitment to its role as leader of the post-World War II global order.

2 PREDICTION
EUROPE WILL FOCUS ON INTERNAL POLITICS AND WILL BE INEFFECTIVE IN GLOBAL POLITICS IN 2017



LIKELIHOOD



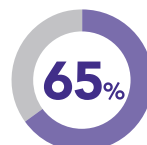
IMPACT ON THE GLOBAL POLITICS

Europe will be even weaker politically in 2017 than in 2016, which will hamper both its intra-regional agenda and its ability to project power externally.

3 PREDICTION
2017 WILL BE A YEAR OF WAIT-AND-SEE FOR RUSSIA



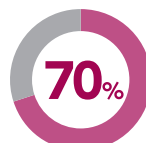
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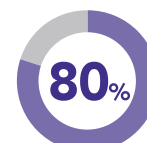
IMPACT ON THE GLOBAL POLITICS

Russian policymaking will remain in a holding pattern in 2017 as the arrival of a Kremlin-friendly Donald Trump administration renews the opportunity for diplomacy on the foreign policy front, while fiscal buffers are large enough to stave off decisive action on the economic front.

4 PREDICTION
CHINA'S LEADERSHIP RESHUFFLE MEANS GREATER ECONOMIC RISK BUT LESS POLITICAL RISK FOR THE WORLD IN 2017



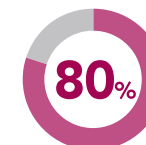
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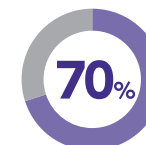
IMPACT ON THE GLOBAL POLITICS

Intense focus by China's elite in 2017 on a leadership transition that only occurs once every five years will distract Chinese decision-makers and increase the odds of economic mismanagement but reduce the odds of greater assertiveness in foreign security policy.

5 PREDICTION
TERROR ATTACKS WILL INCREASE OUTSIDE THE MENA REGION IN 2017



LIKELIHOOD



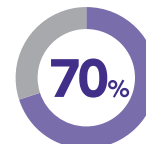
IMPACT ON THE GLOBAL POLITICS

Contrary to common belief, territorial gains against the Islamic State (IS) in Syria and Iraq in 2017 will lead to more rather than fewer terrorist attacks.

6 PREDICTION
CYBER-ATTACKS ON INDUSTRIAL CONTROL SYSTEMS WILL BECOME A FIRST-ORDER CONCERN IN 2017



LIKELIHOOD

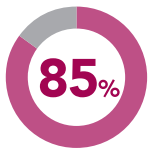


IMPACT ON THE GLOBAL POLITICS

Once a rare and arcane phenomenon, cyber-attacks against industrial control systems (ICS) (incl. factories, dams, power plants, refineries) will become a widespread and pressing concern in 2017.

① WHAT WILL THE ELECTION OF A NEW US PRESIDENT MEAN FOR US FOREIGN POLICY IN 2017?

THE FIRST YEAR OF A TRUMP PRESIDENCY WILL ERODE US GLOBAL LEADERSHIP IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL POLITICS

Numerous public statements by now-president-elect Donald Trump will create uncertainty regarding the short-term future of US foreign policy, raising concerns about the US's commitment to its role as leader of the post-World War II global order. Some of these concerns will

be more founded than others, and even those with merit may prove not to be an obstacle to US leadership in subsequent years of a Trump administration's mandate, but they will surely heighten concerns among US allies in particular in 2017.

GLOBAL IMPACT

- Though a Trump administration is unlikely to completely and abruptly upend longstanding US alliances, the president-elect's statements on the



upholder of liberal values – reinforcing a downturn in sentiment already underway since the Iraq War of 2003 and Snowden revelations of 2013.

RECOMMENDATIONS FOR THE MIDDLE EAST

Given the seemingly transactional nature of the president-elect's worldview, regional decision-makers may want to identify whether potential win-wins may remain within reach with Washington irrespective of each parties' inclinations towards one-another. While a Trump presidency may upset certain US allies concerned about the reliability of US commitments, policymakers in the region may find reassurance in the fact that the new administration is unlikely to completely and abruptly renege on historic relationships.

② WHAT WILL BE THE DEFINING THEME OF EUROPEAN POLITICS IN 2017?

EUROPE WILL FOCUS ON INTERNAL POLITICS AND WILL BE INEFFECTIVE IN GLOBAL POLITICS IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL POLITICS

Europe will be even weaker politically in 2017 than in 2016, which will hamper both its intra-regional agenda and its ability to project power externally. The main reason for this will be the focus of the region's three traditional leaders – Germany, France, and the UK – on their domestic agendas at the expense of outward-looking cooperation. France will go to the polls in the spring of 2017 to elect what will likely be a president with a relatively weak mandate, given that they will likely have been chosen in opposition to the Front National's Marine Le Pen rather

than on their own merits. Germany will also go to the polls – in the fall – in a context of unprecedented fragmentation of its political landscape – with six rather than two parties vying for power, thereby inevitably undermining the cohesiveness of the country's domestic governance. Meanwhile, the United Kingdom for its part will be focused on putting its own house in order while attempting to limit the downside risk of its exit from the European Union. These various distractions will negatively affect European governance in several ways:

GLOBAL IMPACT

- Attempts at deepening European integration will be put on the backburner. Limited progress may



be made on topics including defense or IT policies, but more profound questions such as capital market integration will remain stalled. This will heighten economic risks pertaining to the fundamental structures of the EU and Eurozone's designs.

- A weakened Europe will be less able to manage going crises such as Ukraine, Syria, the migrant crisis, and the Islamic State – thereby increasing the risk that some of these issues may flare up in 2017 and/or be prolonged into 2018.
- A continent with little political capacity will be particularly vulnerable to new crises, as political leaders will be underprepared to react to unforeseen events.

RECOMMENDATIONS FOR THE MIDDLE EAST

Middle Eastern leaders may want to forego relying on European partners for international support in 2017. Instead, they could see the leadership transitions in France and Germany as opportunities to lay the groundwork for potential longer-term policy shifts. Indeed, France's election frontrunner Alain Juppe's stance on the Middle East wavered between his two stints as foreign minister. In 1993-1995, he viewed strong relations with local governments as an important way to maintain stability in the region. Conversely, since the beginning of the Arab Spring and during his second tenure in 2011-2012, Juppe he has taken a more flexible approach, enabling interventions against hostile regimes that were expected to fail at the time.

Meanwhile, Germany may continue its slow course towards a more ambitious foreign policy agenda as highlighted in its recently-released (July 2016) "white paper" on security policy. The skepticism of foreign interventions which has characterized the German electorate since the Second World War is likely to subside, and the refugee and Ukraine crises have strongly influenced public debate. The idea that Germany should make a greater contribution to regional security is now much less taboo.



③ WHAT SHOULD THE WORLD EXPECT FROM RUSSIA IN 2017?

2017 WILL BE A YEAR OF WAIT-AND-SEE FOR RUSSIA



LIKELIHOOD



IMPACT ON THE GLOBAL POLITICS

Russian policymaking will remain in a holding pattern in 2017 as the arrival of a Kremlin-friendly Donald Trump administration renews the opportunity for diplomacy on the foreign policy front, while fiscal buffers are large enough to stave off decisive action on the economic front.

GLOBAL IMPACT

- Though it may not last forever, the early days of a Trump administration will usher in a period of newfound entente between the United States and Russia. An inclination on the part of the new president toward Russian positions on Syria, NATO, and Ukraine will reduce any inclination on the Kremlin's part to increase tensions.
- Economically, while Russia plans to exhaust its \$32 billion Reserve Fund in 2017, a combination of reserves in its \$72 billion National Wealth Fund, increased borrowing, and spending cuts will stave off the need for politically-sensitive fiscal reforms until after the 2018 presidential election.
- Together, these two developments will afford President Vladimir Putin a chance to consolidate his foreign policy achievements ahead of March

2018 presidential elections. He will also use this year to continue restructuring his power base around his personal rule.

RECOMMENDATIONS FOR THE MIDDLE EAST

While 2017 may seem to strengthen Russia's footing, Middle Eastern leaders will want to remind themselves of the oftentimes tactical and opportunistic nature of Russia's foreign policy in assessing the value of longer-term collaboration with Moscow in the region.

④ WILL CHINA BE A SOURCE OF RISK OR STABILITY FOR THE WORLD IN 2017?

CHINA'S LEADERSHIP RESHUFFLE MEANS GREATER ECONOMIC RISK BUT LESS POLITICAL RISK FOR THE WORLD IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL POLITICS

Intense focus by China's elite in 2017 on a leadership transition that only occurs once every five years will distract Chinese decision-makers and increase the odds of economic mismanagement but reduce the odds of greater assertiveness in foreign security policy. In both the economic and security realms, China pursues its core national interests in an unrelenting fashion regardless of year-on-year developments in its domestic space. That said, the



country's 19th Party Congress – which is likely to lead to a major reshuffle of China's cadre of policymakers – will be a momentous transition that will likely dominate Chinese politics for most of 2017, with the following consequences:

GLOBAL IMPACT

- Despite a continued ideological commitment to its reform agenda, the Xi Jinping administration is likely to postpone and/or allow slippage on some of the most ambitious and politically-difficult items of its economic reform plans. This will not weigh on Chinese growth figures per se – which should remain close to its 6.5% target – but will make the Chinese economy evermore unsustainable as a driver of global growth in the longer term. Reforms that may encounter growing difficulties include state-owned enterprise reform, equity market reform and capital account liberalization, and debt deleveraging.
- Focus on the Party Congress, and associated distraction if not paralysis in China's upper echelons, will also make China more vulnerable to mismanagement in the event of a renewed crisis of the likes of the A-shares market rout of summer

2015. Its housing market may warrant increased attention in particular.

- Though Party leaders will want to avoid being perceived as backing down from foreign policy issues close to the core of Party legitimacy, such as Taiwan and maritime claims in the South China Sea, focus on the Party Congress may lead China's policymakers to avoid taking risks on other regional and global issues in an effort to avoid unnecessary distractions ahead of the fall milestone. This may translate in a more dovish approach to issues including its involvement in the Syrian conflict, wading into tensions between Pakistan and India, and avoiding new security entanglements abroad.

RECOMMENDATIONS FOR THE MIDDLE EAST

Though China has in recent years displayed a growing interest in Middle Eastern affairs, Middle Eastern leaders should be aware that this pattern may progress more slowly next year than it has before and will down the road. Middle Eastern decision-makers should also take note of the growing fragility of the global economy – and potential consequences for their own economies – as a result of China's postponement of critical reforms.



5 HOW WILL THE GLOBAL TERRORISM RISK EVOLVE IN 2017?

TERROR ATTACKS WILL INCREASE OUTSIDE THE MENA REGION IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL POLITICS

Contrary to common belief, territorial gains against the Islamic State (IS) in Syria and Iraq in 2017 will lead to more rather than fewer terrorist attacks. The world has already faced an uptick in IS-related attack in 2015-2016, and this trend is unlikely to abate.

GLOBAL IMPACT

- Reasons abound for this foreseeable uptick: First, IS will encourage its non-MENA recruits to remain in their country of origin and conducts attacks locally. Second, so-called “foreign fighters” currently in the Caliphate may return to their countries of origin with accumulated expertise to

conduct increasingly-sophisticated attacks. Third, the terrorist group will have a greater than ever incentive in demonstrating its continued relevance as it loses control of its regional foothold.

- Countries most likely to be affected by these prospects include France, Belgium, the Netherlands, Germany, Italy, Indonesia, Malaysia and Australia.

- While not fail-proof, robust security services will help minimize the risk of such attacks in countries including the United States, United Kingdom, Singapore and Russia.

RECOMMENDATIONS FOR THE MIDDLE EAST

Middle Eastern leaders should be reminded – as they likely will already be aware – that the fight against IS will not end with its territorial defeat. They should consider whether increased attacks on countries external to the MENA region will reinforce or weaken these governments’ resolve to undertake cooperation aimed at tackling the group.

6 HOW WILL THE GLOBAL CYBER/ TECHNOLOGY RISK LANDSCAPE EVOLVE IN 2017?

CYBER-ATTACKS ON INDUSTRIAL CONTROL SYSTEMS WILL BECOME A FIRST-ORDER CONCERN IN 2017



LIKELIHOOD



IMPACT ON THE GLOBAL POLITICS

Once a rare and arcane phenomenon, cyber-attacks against industrial control systems (ICS) (incl. factories, dams, power plants, refineries) will become a widespread and pressing concern in 2017. Already, the number of attacks on supervisory control and data acquisition (SCADA) systems has increased sharply in recent years, sometimes as much as doubling from year on year. This trend will continue and accelerate in 2017.



GLOBAL IMPACT

- Vulnerabilities are growing: As an increasingly-large number of industries and companies deploy the “Industrial Internet of Things” to improve efficiency across their production and distribution processes, the “points of entry” for attackers will multiply.
- Attackers are becoming more numerous: Because of their high required technical sophistication, attacks on industrial control systems used to be limited to government players. Increasingly, however, the combination of improved skills and weaker targets means non-state actors are growing the ranks of potential attackers.
- Protections remain weak: Despite a documented increase in the number and impact of attacks on industrial control systems, most corporations and governments overseeing them remain woefully underprepared – investing far too little attention and resources to this critical issue.

RECOMMENDATIONS FOR THE MIDDLE EAST

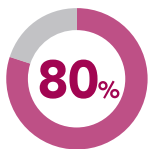
Middle Eastern governments may want to conduct an in-depth assessment of the vulnerabilities of ICS and SCADA systems within their critical infrastructure. They may also want to bring in global partners from among leading cybersecurity firms and ensure that leading critical infrastructure firms belong to threat intelligence sharing alliances and consortia and are able to benefit from the most advanced industry best practices. This may be particularly important for water- and oil- related infrastructure given the region’s assets and liabilities.



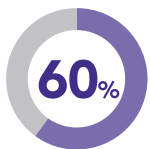

MENA
ECONOMIC
PREDICTIONS
2017



1 PREDICTION
IRAN'S ECONOMIC GROWTH WILL NOT LEAD TO A MORE ASSERTIVE FOREIGN POLICY IN 2017



LIKELIHOOD



IMPACT ON THE MENA ECONOMY

Growing oil revenues and a slowly improving business landscape will not lead Iran to take a more assertive stance in regional and global affairs: First, because much of the country's elite will be devoted to its presidential election in the first part of the year. Second, because while the country's economy is on an upward trajectory, it has not yet reached a turning point. Third, because many of Iran's foreign policy positions are structural and not subject to short-term economic determinants – likely producing a status quo foreign policy.

2 PREDICTION
INTRA-ARAB SPLITS WILL LIMIT ECONOMIC COOPERATION IN 2017



LIKELIHOOD



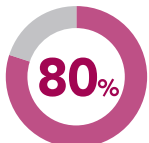
IMPACT ON THE MENA ECONOMY

Rifts in relations between key powers in the region will undermine Arab unity in 2017 and prospects for greater economic cooperation. The Arab Spring has led to the collapse of the region's security architecture, but Saudi Arabia and the Gulf countries temporarily filled the vacuum. However, new fault lines in the Arab system are emerging with Egypt playing a key role in redefining regional alliances. Fragmentation in the Arab world will present real challenges for economic cooperation, especially between Egypt and the Gulf Cooperation Countries (GCC).



① WILL IRAN'S IMPROVING ECONOMY LEAD THE COUNTRY TO BECOME EVEN MORE ASSERTIVE IN 2017?

IRAN'S ECONOMIC GROWTH WILL NOT LEAD TO A MORE ASSERTIVE FOREIGN POLICY IN 2017



LIKELIHOOD



IMPACT ON THE MENA ECONOMY

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REGIONAL IMPACT

- In the first part of 2017, Iran's elite will be focused on the May presidential election, not on reform or foreign policy.
- Despite growing oil revenues and modest reform results – such as in the banking sector – Iran's economy is rebuilding from a low base, and will require far more restructuring before

its economic prowess could be considered a foreign policy asset.

- The aforementioned considerations notwithstanding, Iran's foreign policy positions – and its level of regional and global assertiveness – are primarily determined by a conservative elite that does not see the country's economic standing as a pre-requirement for policy adventurism.

RECOMMENDATIONS FOR THE MIDDLE EAST

Middle Eastern decision-makers will want to remain aware that economic and foreign policy decisions in Iran are taken by different groups of decision-makers. On the one hand, this means that the country's growing economic might should not necessarily be considered a threat. On the other, it is also a reminder that Iran need not be wealthy in order to be assertive.

② WILL ARAB COUNTRIES BE ABLE TO INCREASE THEIR ECONOMIC COOPERATION IN 2017?

INTRA-ARAB SPLITS WILL LIMIT ECONOMIC COOPERATION IN 2017



LIKELIHOOD



IMPACT ON THE MENA ECONOMY

Rifts in relations between key powers in the region will undermine Arab unity in 2017 and prospects for greater economic cooperation. The Arab Spring has led to the collapse of the region's security architecture, but Saudi Arabia and the Gulf countries temporarily filled the vacuum. However, new fault lines in the Arab system are emerging with Egypt playing a key role in redefining regional alliances. Fragmentation in the Arab world will present real challenges for economic cooperation, especially between Egypt and the Gulf Cooperation Countries (GCC).



REGIONAL IMPACT

- The Egyptian leadership is developing a more independent foreign policy that favors the reestablishment of the Arab league as the region's key institution. Officials in Egypt have long resisted rapprochement with the Turkish government that in their view is Islamist and an external power meddling in Arab affairs. Moreover, Egypt does not favor deposing Syrian President Bashar al-Assad,
- Prospects for development of intra-Arab trade and investment will become weaker. Government-linked entities will integrate rising tensions in their investment decisions across the region. As a result, absent strong political cover, opportunities in other regions will become more attractive. The private sector will also reconsider its strategy as CEOs will fear that in a region with a weak regulatory framework tensions in relations present a prohibitive risk.

RECOMMENDATIONS FOR THE MIDDLE EAST

Middle Eastern leaders should attempt to rebuild an institutional framework to consolidate cooperation and narrow policy differences. Rising conflict in MENA in addition to Western fatigue with the region will leave an even larger vacuum. Recurring economic crisis leading to a new wave of popular uprisings would present a contagion risk to the entire region. Implosion in any of the Arab countries would also create additional risks to the economic reform agenda in the Gulf region. Modifying the welfare-based economic system in the Gulf counties would become more challenging if a new wave of popular protests emerges.



MENA
POLITICAL
PREDICTIONS
2017



1 PREDICTION
THE ASSAD REGIME WILL BE RE-LEGITIMIZED IN 2017



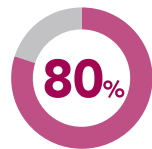
LIKELIHOOD



IMPACT ON THE MENA POLITICS

The Assad regime will once again become the legitimate authority in Syria as it regains control over the country's spine stretching from Damascus to Aleppo. The consolidation will not signal the end of the civil war; however, the Syrian state will be better positioned to reestablish its authority in the Western part of the country. The international community will still insist on using military and political tools to pressure the Assad regime to share power, but international powers will begin to recognize that the government represents the only remaining viable authority in the country.

2 PREDICTION
THE ISLAMIC STATE WILL EXPAND ATTACKS IN THE REGION IN 2017



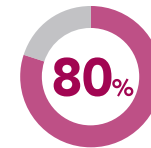
LIKELIHOOD



IMPACT ON THE MENA POLITICS

The intensification of military pressure on the Islamic State will lead to the beginning of its collapse in Syria and Iraq in 2017, but the organization will organize terrorist attacks in the MENA region. Western and regional attacks on the Islamic State will lead to the collapse of its control, state machine, and influence in Eastern Syria. However, most of the areas liberated from IS will become the center of competition for different factions in the conflict.

3 PREDICTION
MOSUL WILL BECOME A NEXUS FOR REGIONAL COMPETITION IN 2017



LIKELIHOOD



IMPACT ON THE MENA POLITICS

The Iraqi government will dislodge the Islamic State from Mosul, but the city will become the center of competition for regional and local powers. Regional Country will be locked competing to change the balance of power in Northern Iraq. Meanwhile, Kurdish, Sunni, and Shia factions will compete to control the city and areas around it. Turkey's military presence in Northern Iraq will strengthen Sunni influence but also complicate relations with the central government in Baghdad.

① WHAT WILL BE THE OUTLOOK FOR THE SYRIAN CONFLICT IN 2017?

THE ASSAD REGIME WILL BE RE-LEGITIMIZED IN 2017



LIKELIHOOD



IMPACT ON THE MENA POLITICS

The Assad regime will once again become the legitimate authority in Syria as it regains control over the country's spine stretching from Damascus to Aleppo. The consolidation will not signal the end of the civil war; however, the Syrian state will be better positioned to reestablish its authority in the Western part of the country. The international community will still insist on using military and political tools to pressure the Assad regime to share power, but international powers will begin to recognize that the government represents the only remaining viable authority in the country.



REGIONAL IMPACT

- The Assad regime will regain control of Eastern parts of Aleppo city by early 2017 if it hasn't already by then. The victory will represent a significant achievement for the regime and its foreign supporters, Russia and Iran. The rebellion against Assad will lose an important base in the North and in its political viability. Moreover, the regime's ability to reestablish trade and economic links between the Northern and Southern tips of the strategic part of the country will support its position.
- The international community will recognize regime primacy and

some countries may begin to reestablish limited contact with the government in Damascus. Regionally, middle ground states that have not adopted a hawkish position on Assad, such as Egypt, Algeria, and Tunisia will feel better positioned to resume relations. In the GCC, Saudi Arabia's hardline position will contain extensive engagement, but some countries will begin to play a mediating role to explore creative solutions to the conflict.

- A strategic achievement for the regime will not end the civil war. The rebellion against Assad has become more Islamist but it still retains support of a significant portion of the population. Military attacks

against rebel-controlled areas will weaken their resolve, but the regime is far from close to securing the country. The US will still support rebels to create a military balance and prevent Assad from dictating the terms of a political settlement. However, Russia appears determined to help the regime begin negotiations from a position of strength. Relatively moderate rebels are unlikely to detach themselves from radical Islamist which represent the strongest force against the Assad regime.

RECOMMENDATIONS FOR THE MIDDLE EAST

Middle Eastern leaders should consider playing a more active role in reconciliation efforts. Assad's legitimization will be rejected in some states while some will not strictly oppose it. However, the international community will become less able to support regime change plans if Assad controls the hub of the country. Arab mediation could support the inclusion of elements of the moderate opposition in the power structure. Middle Eastern states are well positioned to understand the complexities of Arab societies and help in convincing the regime that reconciliation is key to Syria's future. Stabilization of even parts of the country could help establish a refugee return plan to alleviate pressure on governments in the region.

② WILL ISIS ORGANIZE ATTACKS OUTSIDE IRAQ AND SYRIA IN 2017?

THE ISLAMIC STATE WILL EXPAND ATTACKS IN THE MENA REGION IN 2017



LIKELIHOOD



IMPACT ON THE MENA POLITICS

The intensification of military pressure on the Islamic State will lead to the beginning of its collapse in Syria and Iraq in 2017, but the organization will organize terrorist attacks in the MENA region. Western and regional attacks on the Islamic State will lead to the collapse of its control, state machine, and influence in Eastern Syria. However, most of the areas liberated from



IS will become the center of competition for different factions in the conflict.

REGIONAL IMPACT

- The Islamic State is likely to lose Mosul in early 2017 as the sheer number of combatants participating in the operation is bound to eventually overwhelm the group. However, the terrorist organization will relocate its remaining resources to the areas it still controls in Syria.
- The international community still lacks viable partners to confront the Islamic

State in Syria. The Assad regime possesses a largely non radical Arab force, but it remains politically toxic to deal with the regime. Meanwhile, the Kurdish-led Syrian Democratic Forces (SDF) are politically viable but their expansion into largely Arab territory could create ethnic tensions in Eastern Syria. Turkish-backed rebel groups are suitable for deployment along the border but they are too weak and probably too extreme to deploy in the battle for Raqqa.

- The Islamic State will respond to losing Mosul and large parts of Iraq by

through revenge attacks against US partners in the region. At the same time terrorist attacks will be leveraged to maintain the recruitment drive amongst ultraconservative Muslims and keep the brand alive in the MENA region. Saudi Arabia is especially vulnerable as the Islamic State will aim to capitalize on the strength of radicals amongst the Wahhabi religious establishment. Islamic State sympathizers will be provided with support to conduct additional attacks in the Kingdom.

RECOMMENDATIONS FOR THE MIDDLE EAST

Middle Eastern leaders should begin to think about supporting a regional movement for reform of Islamic religious thought. Radical Islamist organizations are destroying states in the Middle East, undermining trust between the different ethno-sectarian communities, and damaging the imaging of Arab states in the West. Support for grassroots reform in addition to reconstruction in warzones will be essential to prevent further radicalization of the population. Absent change in the region, radical versions of Islam will continue to prosper and undermine the image of the region and prospects for viable long term investment.

③ WHAT WILL BE THE OUTLOOK FOR STABILITY IN NORTHERN IRAQ IN 2017?

MOSUL WILL BECOME A NEXUS FOR REGIONAL COMPETITION IN 2017



LIKELIHOOD



IMPACT ON THE MENA POLITICS

The Iraqi government will dislodge the Islamic State from Mosul, but the city will become the center of competition for regional and local powers. Regional countries will be locked competing to change the balance of power in Northern Iraq. Meanwhile, Kurdish, Sunni, and Shia factions will compete to control the city and areas around it. Turkey's military presence in Northern Iraq will strengthen Sunni influence but also complicate relations with the central government in Baghdad.



REGIONAL IMPACT

- Northern Iraq will become home to regional competition as different powers try to shape political outcomes in and around the city. Turkey will attempt to establish deeper relations with Sunnis to complement its relationship with the Kurds. The effort is geared to establish loyalty to Ankara rather than the central government in Iraq. Turkey, for its part, intends to use Sunni groups to exercise influence in both Iraq and Syria (the Hizbullah model).

Meanwhile, Iran is also attempting to broaden its influence in Northern Iraq. Iran seeks to ensure that the central government and its Shia allies do not face a strong Sunni block in Northern Iraq that can later secede or align itself

with Turkish foreign policy. Moreover, Tehran would prefer to establish a route to Syria's territories in the north. Competing and conflicting regional agendas will prove toxic after the liberation of Mosul.

- While the Iraqi government and militias loyal to it will probably have the upper hand in northern Iraq, the province will still become home to forces with conflicting strategies that are bound to collide. This is in part a reflection of local dynamics, but also embodies attachment of Iraqi factions to regional alliances. The Iraqi government intends to bring the province back into the national political system, but the Kurds seek control of the Ninewa plains, a vast multi-ethnic area to the East of Mosul. Meanwhile,

Shia militias intend to maintain a permanent presence to counterbalance the power of Kurdish, Sunni, and even Turkish forces in Iraq.

- US mediation is an effective tool in preventing a clash between all the factions in Northern Iraq as the liberation of Mosul remains a priority. However, US commitment in Iraq has changed and US officials will struggle to align the agendas of their allies in Iraq. Moreover, a rise in Iraqi nationalism could further complicate the picture.

RECOMMENDATIONS FOR THE MIDDLE EAST

Middle Eastern leaders should play a leading role in creating an Arab solution for governance in Northern Iraq. While Iran and Turkey are competing in Northern Iraq, both countries are undermining its sovereignty. Middle Eastern leaders are uniquely positioned to support the central government in Iraq but also moderate its policies. The Iraqi government's reliance on Iran is partly the result of successful plans by the Iranian leadership, but also a feeling in Baghdad that Arab governments are not sufficiently supporting Iraq's stability.