



WORLD THIS MONTH

MAY 2017

A monthly geopolitical outlook report covering the most pivotal global events and forecasting their impact.

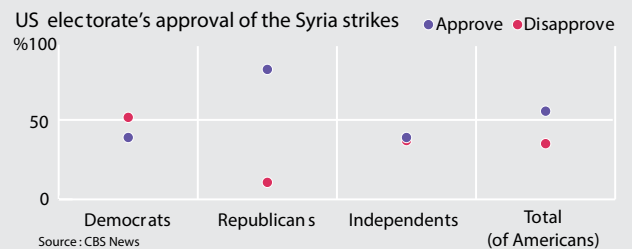
ROUHANI LIKELY TO REMAIN PRESIDENT, BUT THE RACE COULD BE CLOSE

Iranian President Hassan Rouhani is likely to win reelection in May, but the recent emergence of an unexpected candidate could make the race close. Rouhani will tout the landmark nuclear deal that he helped usher in, as well as the economic benefits that it has brought to the Iranian population. The conservative opposition still lacks unity, and the conservative camp has yet to officially announce a candidate. But hardline cleric Ebrahim Raisi's recent entrance into the campaign could create a tougher race for Rouhani.



MISSILE STRIKE WILL ENHANCE US INFLUENCE IN THE REGION

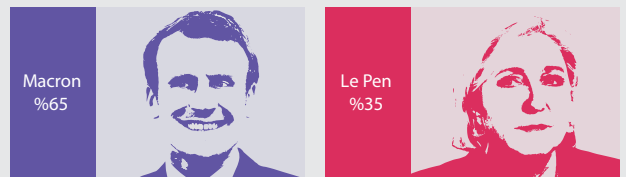
Its recent strike of a Syrian airfield will boost US credibility, though the move will likewise complicate US-Russia cooperation in the Middle East. The US's role in Syria talks has changed following the regime's chemical weapons attack. Washington's prime objective is still the defeat of the Islamic State, but it will no longer cede diplomatic leadership to Moscow. US assertiveness will reassure key allies that endured the anxiety induced by a power vacuum in a strategic region, and the reverberations of a recommitted US will be felt most immediately among the Sunni Gulf states, Egypt, Jordan, and Israel.



MACRON WILL WIN THE FRENCH PRESIDENCY

Emmanuel Macron will face Marine Le Pen in the second-round runoff election on 7 May. However, Le Pen's disappointing performance in the first round and high voter turnout decrease her chances of winning the presidency from %40 to %35. The coming weeks will be challenging for Macron, and the voting preferences of both the far-right and the far-left will be crucial for him to become the next president.

French election runoff outcome prediction

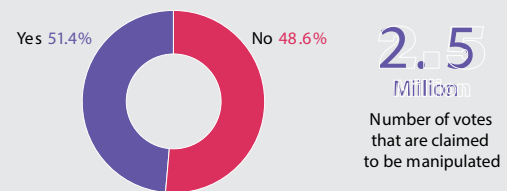


Source: Eurasia Group

ERDOGAN'S REFERENDUM WIN NOT LIKELY TO DE-ESCALATE TENSIONS

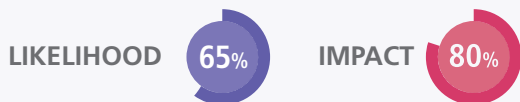
President Recep Tayyip Erdogan's constitutional reforms have been approved by a narrow margin of roughly %51 of the vote, but the victory is not likely to de-escalate friction in the country. Erdogan will need to win elections to acquire the new executive powers, and these elections will be brought forward to late 2017 or 2018. Accordingly, the government will continue its crackdown on domestic dissent, economic populism, and hardline nationalist stance against the Kurds in southeast Turkey and Syria.

Official results of the referendum



Source: Reuters

ROUHANI LIKELY TO REMAIN PRESIDENT, BUT THE RACE COULD BE CLOSE



On 19 May, Iran will hold its 12th presidential election since the 1979 Iranian revolution. Despite speculation that President Hassan Rouhani may be disqualified from seeking a second term—fueled by the country’s opaque electoral mechanisms—he is likely to run and be reelected for two main reasons: his compelling, if debatable, first-term record; and the lack of a united opposition.

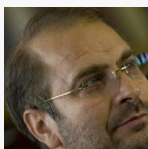
Rouhani will highlight the stability that his policies have brought to the country, after the tumultuous second term of his predecessor, Mahmoud Ahmadinejad. In contrast to Ahmadinejad’s disastrous populist policies, Rouhani will tout his prudent approach’s role in preventing hyperinflation and shortages. He will also showcase the economic benefits of sanctions relief, particularly the resumption of oil exports, which currently are about 2 million barrels per day (bpd), close to the pre-sanctions level of 2.3 million bpd. Furthermore, to reformist supporters unsatisfied with the slow pace of political change, Rouhani will emphasize the controlled and marginal political and cultural opening that he ushered in under the nuclear accord, and the need for steady persistence to achieve further opening. That said, Rouhani’s record is debatable, and the opposition will attack him over the benefits of the nuclear deal, particularly the slow pace of economic growth. His opponents will argue that sanctions relief has not trickled down into big economic improvements for the public, and will attempt to paint Rouhani as unrealistic or too optimistic about Iran’s ability to attract foreign investment, especially given continued and maybe intensifying US sanctions.

Despite the opposition’s credible attack points, it remains hobbled by one main weakness: its lack of unity. Despite attempts to create a unified front, it has yet to coalesce around a single candidate. For this election, many conservative parties have organized under the rubric of the Popular Front of Islamic Revolution Forces (PFIRF), an umbrella of conservative groups spanning from traditional to hardline. The PFIRF has no specific policy platform and is instead a vehicle intended to find a candidate who is both acceptable across the conservative spectrum and has the best chance of beating Rouhani. It remains unclear, however, whether the PFIRF can reach consensus. A list of five potential challengers, headed by the cleric Raisi, is being considered (though Raisi has already entered the race on his own); but even if the PFIRF reaches consensus, more than one candidate could still run. This is due to some conservative groups having broken off from the PFIRF process, such as the hardline Steadfastness Front and Ahmadinejad’s circle. The key takeaway is that the conservative groupings are fraying at the edges as indicators of voting preference, since a significant number of pragmatic conservative elites and voters will support Rouhani.

Raisi’s surprise entrance tightens the race for Rouhani. Raisi formally announced his electoral bid on 9 April, after several weeks of speculation in the press about whether he would run. The hardline cleric was appointed by Supreme Leader Ali Khamenei as the custodian of Astan Quds Razavi, one of the world’s wealthiest religious charities, valued in the billions. Throughout the past year, Raisi was touted as a potential successor to Khamenei, so his decision to run—as an independent, moreover, and not as the PFIRF’s official candidate—is interesting and puzzling to Iranian political commentators. Raisi is viewed as sufficiently hardline and therefore does present a serious challenge to Rouhani. But the opposition will continue to be hobbled by its lack of unity, which could dilute the conservative vote and give Rouhani an edge in the polls.



Hassan Rouhani is the current president and a longstanding fixture in the country’s decision-making circles. Rouhani represents the Moderation and Development Party.



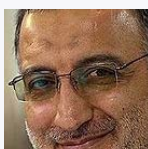
Mohammed Baqer Qalibaf is a former commander of the Revolutionary Guard Corps’ (IRGC’s) air force, a former chief of Iran’s police, and the current mayor of Tehran.



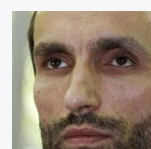
Mahmoud Ahmadinejad is a former president of Iran and former mayor of Tehran. His second-term reelection in 2009 led to the biggest protests in Iran since its 1979 revolution.



Seyed Ebrahim Raisi is the recently appointed custodian of the Imam Reza Shrine Foundation. He previously served as prosecutor general and deputy judiciary chief.



Alireza Zakani is a former IRGC commander and has been a hardline lawmaker for 12 years (representing Tehran). His reelection bid failed in the 2016 parliamentary elections.



Hamidreza Baqai was Ahmadinejad’s vice president for executive affairs and chief of staff. Ahmadinejad is supporting his candidacy.

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MISSILE STRIKE WILL ENHANCE US INFLUENCE IN THE REGION



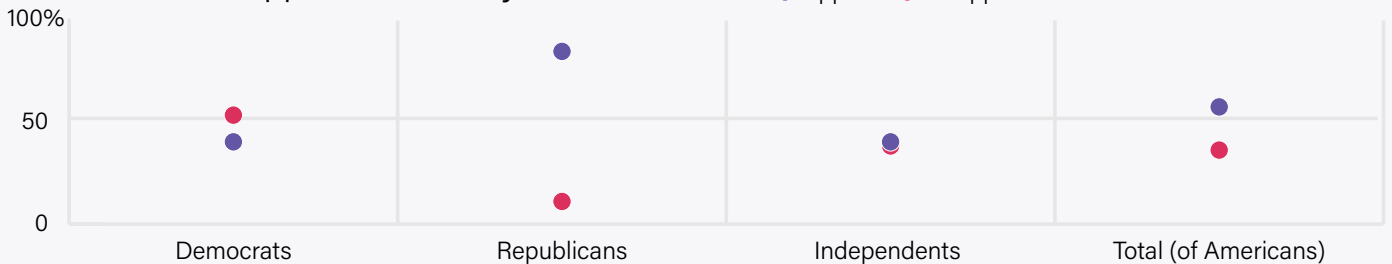
President Donald Trump's decision to authorize a limited missile strike in Syria this month will improve Washington's credibility in the Middle East. While it is too early to evaluate Trump's consistency on such matters, in this instance he has proved receptive to recommendations from his national security advisers, who are adopting more mainstream strategies associated with traditional US policymaking. He appears to be neither an isolationist nor a leader committing the US to enforcing liberal Western values. Early signs at the very least point to a president interested in leveraging the current surplus of US military, political, and economic power to secure the country's long-term interest and contain the rise of rivals.

US-Russia cooperation in the Middle East will become more complicated, however. While early signals from the Trump administration indicated a willingness to cooperate with the Kremlin on a host of security issues including Syria, a reset in relations appears increasingly unlikely. Russia is open to rapprochement with the US, but it is also bound by reliance on President Bashar al Assad's regime and Iran in Syria. The US will attempt to leverage the recent missile strike to shape a meaningful political process with Russia. Whereas the US

was likely to liberate Raqqa and build a zone of influence in eastern Syria before negotiating with the Kremlin, this month's chemical attack has changed political dynamics. Washington is still focused on defeating the Islamic State, but it will no longer cede leadership in diplomatic talks to Moscow. Secretary of State Rex Tillerson's visit to Russia sought to convince the country's leadership that Assad and the Iranians will prove to be a long-term liability, and that Russia's long-term interests are best served through partnership with the US. Yet fundamentally, Moscow will struggle to trust Washington or meet US expectations. Iran- and Syria-led ground forces are the two key levers that President Vladimir Putin holds to establish a foothold in the region; Moscow simply cannot ditch both at the same time. The Syria strikes will undermine US-Russia cooperation and therefore marginally heighten the risk that Syria becomes balkanized.

US assertiveness will meaningfully reassure US allies and force its foes to reconsider their posture. Greater US commitment and cooperation with its Sunni Gulf allies, as well as Egypt, Jordan, and Israel, will be felt immediately. In Yemen, the US will expand its support for the Saudi-led alliance to alter the balance of power. The strategy will enhance the leverage of Saudi Arabia and the UAE in the war, in addition to their ability to shape a political settlement. In the Persian Gulf, Trump will recommit the US Navy to deterring Iran and restricting provocative Iranian naval activity. In Iraq, the US is mediating between Prime Minister Haidar al Abadi and the Saudi leadership to create a viable political alliance that undermines Iran and its allies.

US electorate's approval of the Syria strikes



Source: CBS News

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MACRON WILL WIN THE FRENCH PRESIDENCY



Macron has topped the first-round ballot of the presidential election with 23.7% of the vote. He will be joined in the runoff by Le Pen, leader of the far-right National Front (FN), who won 21.7% of the vote.

Center-right nominee Francois Fillon and far-left candidate Jean-Luc Melenchon finished the first round tied in third place, at 19.5%. Macron's lead will entrench the market assumption that a wave of "anything but Le Pen" votes will win him a handsome majority on 7 May. However, Macron's ability to unify voters behind a "Republican Front" may remain limited. His uncompromising commitment to the EU, immigration, and "openness" provides Le Pen with an ideal opportunity to turn the runoff into referendum on the status quo.

A majority of voters reject the FN. The mere thought of a Le Pen presidency is enough to motivate many to vote for her opponent. Furthermore, Le Pen's policy on the euro, which is still akin to leaving the Eurozone, is another important reason why she will be at a disadvantage in the second round. French attitudes toward the EU have become much more hostile in recent years, but more than two-thirds of voters remain attached to the single currency. There is no particular consensus among the public as to why France benefits from being part of the Eurozone, but there is a widespread fear of the consequences of leaving.

Ever since this peculiar campaign placed Macron as the de facto favorite to win, both center-right and left-wing voters have become suspicious of him. In presidential elections, both parties are supposed to stick to a strict anti-FN policy and endorse the moderate

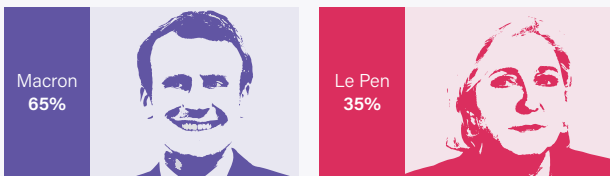
candidate. The entire Socialist Party will respect this rule, but given its candidate's performance, this is unlikely to carry much weight. The center-right has a much more ambiguous stance toward the "Republican Front," and it will be difficult to maintain discipline after the center-right's electoral humiliation. While Fillon and his two runners up in the primaries, Alain Juppe and Nicolas Sarkozy, will endorse Macron, it is already clear that the next generation of right-wing politicians will be tempted to follow the party base and call for a so-called ni ni strategy, endorsing neither candidate.

As a result, the preferences of the right and the far-left are the key factor of uncertainty as the runoff approaches. In addition to those who will choose Le Pen over Macron, about a third of Fillon voters and more than 10% of Melenchon voters can be expected to abstain or "spoil" their ballots. The 5% who voted for souverainiste candidate Nicolas Dupont-Aignan will divide equally between Le Pen and abstention.

Lastly, Macron has so far not been affected by any of the piecemeal revelations leaked by the Fillon campaign. This leaves a possibility that the best has been kept for the period between the two rounds. Macron's biggest vulnerability is his past dealings in mergers and acquisitions. Any email showing him to be insensitive to the fate of employees could be toxic and potentially fatal to his candidacy.

That said, Macron's chances of winning a majority, or close to a majority, remain good. And then "En Marche!" candidates in June's parliamentary elections would have two very important words in bold on all of their campaign literature: majorite presidentielle. This would help them edge past other moderate candidates, leaving them to face the FN in a runoff in many races. Center-right and center-left legislators will also be elected, and there will be consensus to pass early labor market reforms and corporate tax cuts. The question is whether this lasts if the mild economic recovery slows down or if terrorist attacks make Macron look soft on security.

French election runoff outcome prediction



Source: Eurasia Group

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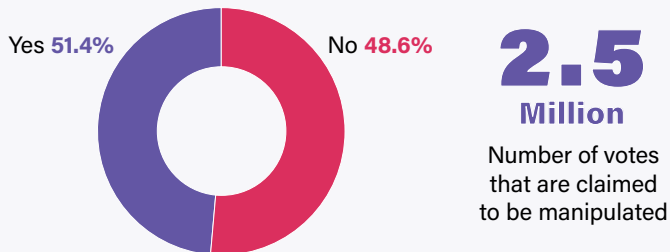
ERDOGAN'S REFERENDUM WIN NOT LIKELY TO DE- ESCALATE TENSIONS



Erdogan cleared the biggest hurdle to attaining executive powers, but he is not yet in the clear. The formal transition to the presidential system has only just begun—and will be completed only after the next elections. Erdogan will still, therefore, need to sustain the narrative that he is an unrivaled political force until the next vote, despite the clear signal that nearly half of the population disapproves of his ambitions, even after an intensive government-sponsored crackdown and extreme political pressure. This means that Erdogan will still be wary of the opposition and remain reluctant to relax the ongoing clampdown of opponents and dissenters. Parliament is likely to renew the state of emergency in the next few days. And Erdogan, feeling emboldened by the referendum result, will see it as a justification to maintain the harsh status quo.

Erdogan will now focus on preparing for the next round of elections, which are likely to be brought forward to autumn 2017 at the earliest,

Official results of the referendum



Source: Reuters

but more likely 2018. Early elections are more likely than holding them on the originally scheduled date in November 2019. First, Erdogan wants to accomplish the transition to his new presidential system before the economy takes a turn for the worse. He is also likely aware that the current round of short-term stimulus measures is unsustainable, and that Turkey's steadily climbing unemployment rate may pose a risk to a victory at the ballot box. Second, Erdogan wants to undermine the opposition before it has a chance to reorganize and pose a stronger threat. The "no" campaign has been an opportunity for dissidents from the Nationalist Movement Party (MHP) to gain more traction with the party base while MHP leader Devlet Bahçeli is increasingly on the sidelines. Erdogan will want to prevent them from turning this momentum into an electoral threat. Third, Erdogan will probably want to preserve the state of emergency until the next round of elections, but the public and the ruling Justice and Development Party's voter base will not have the appetite to weather two more years of extraordinary rule.

While the "yes" outcome will likely prove more benign in the short term than a "no" vote would have, it should not be read as a sign that the government is preparing to return to a normal state of affairs. The referendum outcome will have little immediate impact on the number of risks facing Turkey, and the referendum's passage will grant Erdogan the ability to confront Turkey's numerous structural risks only after the next elections. The strong showing by the opposition, and the high stakes that now ride on the next elections, mean the government is unlikely to move quickly to conclude the state of emergency, wind down economic stimulus, kickstart a structural reform drive, or de-escalate geopolitical and regional tensions, in particular by beginning a meaningful peace process with the Kurdistan Workers' Party. This is not least because the government is still focused on appealing to nationalist voters.

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