

# Nigeria

The country faces its most fiercely contested election since the transition to democracy in 1999. One candidate is the incumbent, Muhammadu Buhari. He is an elderly, infirm leader who lacks the energy, creativity, or political savvy to move the needle on Nigeria's most intractable problems. His opponent is Atiku Abubakar, another gerontocrat who would focus on enriching himself and his cronies, avoiding the difficult and politically unpopular tasks necessary for reform.

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Buhari is the frontrunner. A second term for him would mean the country at best muddles through the next four years, with little progress on critical policy priorities like tax reform or a restructuring of the energy sector. Buhari would be a lame duck from day one, with powerbrokers in his own party quickly shifting their focus to the next electoral cycle in 2023. And if Buhari's health problems continue or worsen, the situation will get worse. The president's continual medical leaves abroad impaired governance his first term. A repetition would again remove him from decision-making and the public eye for months at a time, leaving investors to

wonder who is calling the shots and whether they're qualified for the job.

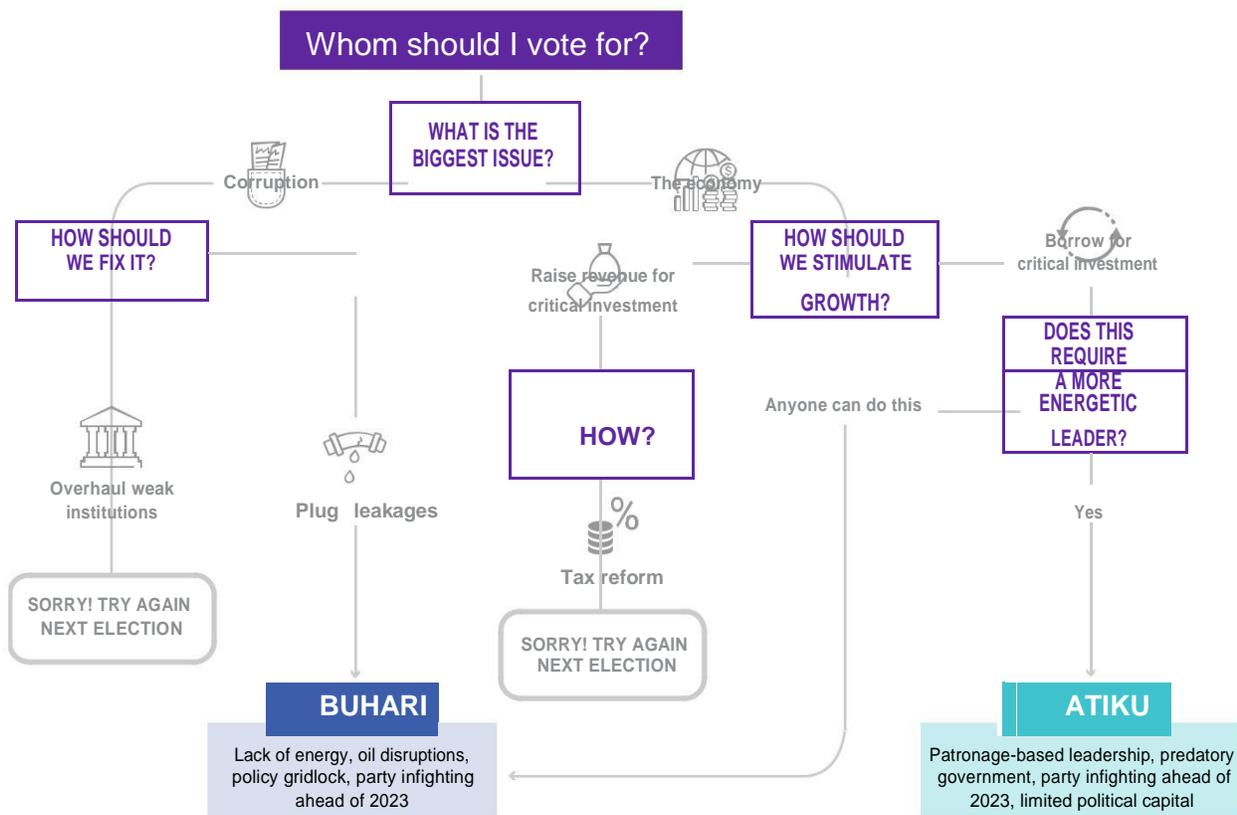
A Buhari reelection also carries tail risks. A politically weak president, for health or other reasons, would open the floodgates for political infighting, increasing the chances that his ruling All Progressives Congress implodes. That would turn a policy slowdown into paralysis. The risk of attacks on oil infrastructure would also rise, because the absence of strong leadership in Abuja would make it harder to negotiate with the Niger Delta's various militant groups.

A win for the challenger, Atiku, would create a brief, superficial boost to the country's image—largely because of his better health and keener intellect. But it would also pose the risk of a return to an even more rent-seeking governing style.

Atiku's policy priorities are unclear and untested: He had previously promised to deregulate the oil and gas

sector but recently pledged to reduce gasoline prices by 50% from already below-market levels. That would swell subsidy costs and endanger long-term debt sustainability. He's also unlikely to champion a tax reform that's critical to Nigeria's fiscal sustainability. Atiku would face significant infighting within his People's Democratic Party as well, as leaders try to hold him to his promise to serve only one term (a pledge he's likely to retract).

Then there's a dangerous wildcard outcome. The election will be close, and a challenged or inconclusive result is possible. That, in turn, could trigger a political crisis in which neither candidate has a legitimate claim to power. If the vote is close enough to trigger a run-off, Nigeria's constitution requires the second round of voting to occur within seven days of the first, a tough timeline to meet given the complexity of organizing national elections in the country. This could be a recipe for severe uncertainty in Africa's most important market.



Source: Eurasia Group



# Brexit

Why the asterisk? Because three years after the vote, almost any Brexit outcome remains possible. The botched leadership challenge protected the prime minister's rule over the Conservative Party for now but, without her lawmakers' support, she has almost no chance of passing her unpopular withdrawal agreement. That promises a very messy 2019.

May's plan to secure a more palatable version of the Northern Irish backstop is doomed to fail. The EU can offer reassurances that it also hopes to conclude a free-trade agreement in time to prevent the backstop from kicking in. But it will never soften the mechanism itself, which Ireland regards as its insurance policy.

The prime minister may also think time is on her side. By having delayed the House of Commons vote to January, she hopes a greater number of lawmakers will decide there is no alternative to her deal. But we now know that 117 Conservative members of parliament were willing to risk a chaotic leadership race rather than accept May's proposal—which she will barely be able to amend. It is highly unlikely that the deal the UK and EU negotiating teams have been working on for almost two years will ever be ratified.

There are alternatives, but all of them are painful and time-consuming. Some in the Conservative Party are becoming interested in a "Norway Plus" option, which would see the UK pick an already existing close relationship with the EU's single market and complement it with a customs union.

May could just about manage to justify this arrangement on the grounds that it would be more likely to command a majority thanks to the support of some Labour members of parliament, while also delivering on the mandate from the 2016 referendum to leave the EU.

The obvious counterargument is that this would rule out most if not all of the supposed benefits of leaving the EU in the first place: regaining regulatory flexibility, having the freedom to strike independent free-trade deals, and—crucially—putting a halt to the free movement of continental labor across the UK's borders.

That's where the argument that the UK should just cancel Brexit and stay in the EU resurfaces.

Could May pull off a referendum? Some ministers think this would be her best way of surviving, but she has also ruled it out more vigorously than any other course of action. The Labour opposition is hedging, hinting at the possibility but still insisting it must come after an unlikely general election, which could only be triggered if some Conservative lawmakers vote against their own government and in essence kick themselves out of office.

Brexit promises to keep the UK distracted in 2019. But will there actually be a Brexit? And if so, what flavor? Your guess is as good as the prime minister's.



## Red herrings

### A return to dictatorship in Brazil

The election of far-right politician Bolsonaro marked the first presidential defeat of the leftist Workers' Party (PT) in twenty years and brought a (retired) army officer to power for the first time since the 1964-1985 era of military rule. But despite Bolsonaro's defense of authoritarian practices and his fiery rhetoric against opponents, this is not the end of Brazil's young democracy.

The new president will not have popular support to aggressively centralize power. He had the highest rejection rate of any elected president in recent history, he'll have to focus on a laundry list of demands from voters, and he's far from controlling congress—a requirement for amending the constitution.

Brazilian institutions are more decentralized and robust than they were five decades ago, and they look particularly strong when compared to those of other emerging-market countries. The Supreme Court has entrenched independence; state courts and prosecutors enjoy autonomy; individual governors control police forces; and the media operates freely without strong government oversight. Brazil is not Venezuela or even Turkey.

And, perhaps most importantly, there is no support within the armed forces for taking power. This isn't the 1960s, there is no "Communist threat," and most military officers know that running the country would be more hassle than it's worth.

## Saudi Arabia

Mohammed bin Salman is not the most popular man in the world these days, but 2019 will be a better year for him, and for Saudi Arabia, than many would like to believe.

International pressure on the young crown prince will not end his bid to become king; he remains firmly in line to take power from his father. The killing of Jamal Khashoggi will convince King Salman to rein in his son and once again include senior members of the family in the decision-making process, but this will act as a stabilizing factor for the country, not a direct threat to his rule.

Washington and Riyadh will work to contain tensions in their relationship, as each needs the other for the protection of strategic interests. The Trump administration won't go after the crown prince. Regionally, Iran and Saudi Arabia will spar, but each will try to avoid any intensification of their rivalry as both focus on growing domestic concerns. Saudi Arabia will continue to deescalate its war in Yemen and ease tensions with Qatar to placate its Western partners.

Vision 2030 and the domestic reform agenda will face setbacks, as international investors remain reluctant to re-engage too quickly with the Saudi leadership. Domestic spending will increase to ensure that domestic pressures on the regime remain under control. However, deep pockets will help the kingdom manage these challenges in 2019.

## Iran

Iran is a serious trouble spot in 2019. Faced with severe US sanctions, the economy will contract, inflation will rise, and the unemployment rate will increase. But the US campaign against Iran is unlikely to trigger a major crisis this year. The nuclear issue will remain on the back burner.

Iran will probably remain in the nuclear deal—and abide by its restrictions—to preserve economic ties with Europe and oil sales to Asia, hoping to run out

the clock on the Trump administration. Even if the country does leave the deal, it will not drastically ramp up its nuclear program. It may tinker with new centrifuges or marginally increase its stockpile of low enriched uranium. But it will be cautious to avoid provoking US or Israeli military strikes. Iran will show resolve by pursuing a tough policy in the region, but pragmatism will limit its aggressiveness.

Most significantly, regime change is not coming to Iran anytime soon. Most Iranians see the regime as legitimate, if deeply flawed. The government is well practiced at sanctions evasion. And the security forces are a firm backstop to any protest movement that gets out of hand.

## Russia-China relations

As Beijing and Moscow face new challenges in their respective relationships with the US, speculation has grown about the prospect for a formal China-Russia alliance. Such a partnership remains unlikely.

True, collaboration between Moscow and Beijing has increased dramatically in recent years. Politically, both countries have an incentive to join forces on pushing back against the US leadership. Economically, each makes an attractive partner for the other: energy for China and external funding for Russia. Russia has emerged as the biggest recipient of China's Silk Road Fund, and last year China participated in Russia's large military exercises for the first time.

But that's where the love stops. Deep cultural suspicion persists between the two sides. China has little incentive to boost a declining Russian economy. Russia has no desire to become Beijing's raw materials junior partner. The two share a desire to reshape the global order, but Beijing's approach is far more incremental and collaborative than Moscow's brash revisionism. And while the two countries' militaries work together, their geopolitical outlooks remain divergent, and they could clash down the road over competing areas of interest, particularly in Central Asia.

