

MNI POLITICAL RISK ANALYSIS: Political Risk In 2021 – US Seeks International Relations Reset As COVID-19 Slowly Vanquished

by Tom Lake

In this report we outline what we at MNI believe to be the major political risks likely to emerge in 2021 in both developed and major emerging markets across the globe, as well as highlight some potential geopolitical flashpoints that could lead to notable instability across the next 12 months.

Some of the major topics set to dominate the agenda over 2021 include:

- The outlook for domestic and foreign policy under the incoming Biden administration in the US.
- What will be the impact of the end of the COVID-19 pandemic on global politics?
- Key elections in Germany, Japan, and the Netherlands.
- What direction does the UK take having left the EU's single market and customs union?
- Does the EU manage to move towards 'ever deeper union', or do relations between member states remain strained?

'Joebama' Administration To See US Re-forge Old Alliances, Leaving Trump Allies Out In The Cold

The end to four years of governance by President Donald Trump and the advent of the Biden administration on 20 January 2021 will likely mean the future of US international relations looks much like the not-too-distant past. Biden and his burgeoning team of Cabinet nominees have been at pains to state that Biden's term will not simply equate to a 'third Obama term', but there are clearly going to be more similarities between the foreign policy objectives of the former two-term president and his vice-president than between Biden and Donald Trump.

As such, we can expect to see the Biden administration seek to improve ties with former close partners such as the European Union, Canada, Australia, and Japan. This is likely to extend to international organisations such as the World Health Organisation, the World Trade Organisation, the United Nations, and NATO, where the Trump administration either marginalised the role of these organisations or in the case of the WHO, withdrew entirely from membership.

In terms of which nations/blocs should expect a smoother relationship with the US over the coming years, we would highlight the European Union as a whole and many of its member states, Canada, and Mexico. On the other side of the coin, nations such as Russia, Brazil, Israel, and the United Kingdom may have to deal with either a White House less inclined to work closely with them, or indeed face an overtly hostile US administration.

However, one relationship for the US is likely to overshadow all others, and that is with China. The likelihood is that, while Biden often talked tough on China on the campaign trail, he is less likely to use the brute force policy instruments that President Trump has during his four years in office. However, there is clearly a strong sentiment shared across much of the US political spectrum that the administration should maintain a tougher stance against Beijing with regards to both economic competitiveness and foreign policy. As a result, while the prospect of major trade sanctions and tariffs implemented at short notice is likely to dissipate, a return to the pre-Trump attitude of US administrations of both political stripes – with regards to China being seen primarily as a source of cheap imports rather than as a rival global superpower – is unlikely to materialise.

Light At The End Of The Tunnel As COVID-19 Beaten Back By Vaccine

Unfortunately, political life in 2021 is just as likely to be dominated by the COVID-19 pandemic as 2020 was. However, there remains the approaching (and in some countries already active) wave of effective vaccinations against the disease that hopefully will mean that by the end of next year life worldwide may be approaching some level of normality.

Of course, in some nations such as Australia, New Zealand, China and Japan, life is already either normal in the lack of lockdown requirements, or indeed in New Zealand in the total removal of social distancing rules. However, for Europe, the Americas, MENA, south Asia and Sub-Saharan Africa, either full-scale lockdowns, restrictions on normal daily life, or social distancing guidelines (or a combination of the three) remain in place.

Mass vaccination programmes will take time to roll out, meaning the first part of 2021 is likely to mirror that of 2020, with many restrictions on economic and social life still in place and most political focus taken up with limiting the spread of the virus and getting as many people vaccinated as possible. However, by the middle of 2021 many developed markets are likely to be in a position where much of the vulnerable section of society has been vaccinated, allowing for a loosening of restrictions.

Once this point is reached, political focus for many governments is likely to shift. Rather than dealing solely with the pandemic, governments will have to re-train their sights on the regular business of governing, with the projects, legislation, and international issues that have fallen by the wayside during the course of the pandemic picked up. As such, we can expect a relatively busy period of government announcements and legislative initiatives, as well as international summits, agreements, and foreign visits. On the flip side of this, we can also expect to see treasuries worldwide drawing up plans for spending cutbacks and tax rises in an effort to pay for the huge COVID-19 relief packages implemented in almost every country, which in turn is likely to engender significant deterioration in support for those governments deemed to have dealt with the pandemic badly.

Developed Market Election Outlook

Germany Enters A New Phase Without Merkel

Germany will hold its federal election at some point between August and October (likely 26 September), and it is due to mark the end of an era as for the first time since 2005, Angela Merkel is not due to be the *kanzlerkandidatin* of the centre-right Christian Democratic Union-Christian Social Union (CDU-CSU) alliance. There remains the slim prospect that Merkel could reverse her current position of not running for a fifth consecutive term in office, given that the CDU is yet to select a new leader following the resignation of secretary general Annegret Kramp-Karrenbauer in February 2020.

However, the more likely option is that Merkel sticks to her plan to step down at the end of this term, allowing either one of the three CDU leadership candidates (Armin Laschet, Friederich Merz, or Norbert Rottgen) or potentially leader of the CSU and minister-president of Bavaria Markus Soeder to run as the Union's chancellor candidate.

Given the German public's widespread view that the government has handled the COVID-19 pandemic relatively well, the Union's opinion polling support of around 35% puts it in prime position to seek to form a government after the election (should the current support levels hold steady). Depending on who the Union's chancellor candidate is, the preferred options for coalition partners could vary widely. Merz, a right-winger on both social and economic issues, would likely prefer a coalition solely alongside the pro-business Free Democrats (FDP). Laschet, running as someone to unite the centrist and right wings of the CDU, and Rottgen, a foreign policy expert seen as a consummate CDU insider, would both be more comfortable working with either the environmentalist Alliance'90/The Greens or the centre-left Social Democratic Party (SPD).

Based on current polling, a CDU-FDP coalition looks unlikely to be able to command a majority in the Bundestag, therefore requiring one of the centre-left parties' support. This in turn would likely water-down any attempts to swing social or economic policy in a more right-wing direction (notably under Merz). Based on current polling, a three-party leftist coalition between the SPD, Greens and the far-left *Die Linke* is very unlikely. However, should support for the CDU collapse under a new leader in the first half of 2021 the prospect could become more likely.

In any case, the passage of power from Merkel to a new chancellor will mark the end of an era for Germany, and indeed the continent of Europe. Merkel, having served in office continually since 2005, is the *primus inter pares* of EU leaders and has on several occasions been painted as the leader that has held the bloc together through a series of crises. While all of the potential next German chancellors are strong Europhiles, they will not hold the influence in or the knowledge of internal EU politics that Merkel has built up over her 15 years in power. As such, a more rudderless EU could find itself either struggling to find unity or see a shift in power towards France under President Emmanuel Macron.

Rutte Seeks Unprecedented Fourth Consecutive Term in The Netherlands

Incumbent Mark Rutte is likely to seek a fourth consecutive term as Prime Minister of the Netherlands in elections due to be held by 17 March at the latest. Rutte's economic liberal People's Party for Freedom and Democracy (VVD) currently govern in a four-party coalition alongside the centre-right Christian Democratic Appeal (CDA), the social liberal Democrats 66 (D66), and the social conservative Christian Union (CU). As is often the case following Dutch elections, we are likely to see a lengthy period of coalition building in the weeks and indeed months after the vote. The 225 days between the election and the formation of the new government in 2017 was a national record and with no fewer than 13 parties likely to win seats in the House of Representatives, the next government formation could prove equally as time consuming.

In a similar effect to that seen in neighbouring Germany, the pandemic has seen a major uptick in support for the main governing party as the government has been seen to have dealt relatively well with the COVID-19 pandemic. Rutte's VVD are polling around 35%, similar to the party's vote share in 2017 and a robust return given the party has been the senior party in government for the past 10 years. Should this result be replicated in the spring election, it is likely that Rutte would once again be in prime position to lead the next government.

It is too early to speculate on what the eventual make-up of the coalition might look like, but based on 2020 polling, the right-wing populist Party for Freedom (PVV) of Geert Wilders may be best placed to form a coalition with the VVD, or at least support it in a confidence-and-supply agreement as it did between 2010 and 2012. If the PVV does not support a Rutte government, the arithmetic required by party leaders to reach a majority administration could well take a long time to work out. The most willing parties to join the VVD are likely once again the CDA, D66 but also potentially the centre-left Labour Party (PvdA). In any eventuality, with Rutte likely at the helm of the government once again the prospect of a major shift in government policy towards major issues such as EU finances (the Netherlands is unlikely to drop its membership of the 'frugal four') and integration.

Abe's Legacy: 'Article 9' Debate and Future of 'Abenomics' Set To Dominate Japanese Election

Japan must hold elections for the lower chamber of the National Diet – the House of Representatives – by 22 October, but there is the notable possibility that the vote is called at an earlier point in the year. The vote will be the first without former Prime Minister Shinzo Abe as leader of the governing Liberal Democratic Party (LDP) since 2009, with incumbent Yoshihide Suga taking over in September 2020 following Abe's resignation due to health issues.

The question in the election is not which party will win a majority, but how large will the LDP's majority be. Barring a major political upset in 2021, the LDP remains on course to retain a majority in the House of Representatives. At present the LDP controls 283 of the 465 seats in the chamber, a majority of 50. Despite Abe's departure, the main issues in the

election are likely to remain those associated closely with his tenure; the controversial proposal to remove Article 9 of the Japanese Constitution (which bars the country from having a permanent standing army), and 'Abenomics', the economic policies implemented by the Abe administration focused on the 'three arrows' of loose monetary policy, expansive fiscal policy, and reform to industrial policy.

UK Goes It Alone, Deal Or No-Deal

2021 will mark the first year in which the UK is outside the European Union as well as its single market and customs union. Whether a free trade agreement between London and Brussels is reached in the coming days will have a notable impact on the immediate day-to-day operations of imports and exports in the early part of the year. However, in the wider perspective the UK faces the same potential difficulties, but also can seek to exploit the same opportunities, whether there is a deal in place or not.

With regards to foreign relations, the UK may initially find itself in a more marginalised position on global affairs. Given the government's close relationship with outgoing US President Donald Trump, it is likely to take some time before the incoming Biden administration sees the UK as a reliable partner. This is especially the case following the widespread condemnation in the US of the UK government's initial attempts to circumvent the Brexit Withdrawal Agreement. This would have broken international law and was seen in the US Congress – where pro-Irish sentiment runs strong – as a threat to the Good Friday Agreement. The removal of the offending clauses in December 2020 may be the first step of the UK attempting to present a more internationalist image to Washington, D.C., as well as other major trading nations the UK may be looking to improve relations with in 2021.

There is a strong likelihood that, being wholly outside the EU and aware of its reduced clout in economic terms, the UK government seeks to become a leading global voice on international issues such as climate change, with the UK is set to host the UN's COP26 summit in November. With regards to security and peacekeeping the UK – as one of the few NATO members that meets its defence spending requirements and a member of the 'Five Eyes' intelligence sharing group – is set to remain a prominent player in the Western defence alliance (note the UK government's commitment to GBP16.5bn additional defence spending over the next four years).

[Scottish Parliament Elections Could Be Another Step Towards Second Independence Referendum](#)

The early impact of leaving the single market and customs union could have a profound impact not only on the UK economy, but on the cohesiveness of the country itself. In May, Scotland holds parliamentary elections for its devolved legislature. The governing pro-independence Scottish National Party (SNP) of First Minister Nicola Sturgeon is almost guaranteed to win a plurality, but there is significant focus on whether the SNP can win a majority in a chamber with an electoral system designed explicitly to make majority governments an unlikely prospect.

The economic and logistical upheaval of leaving the single market and customs union – combined with a public that largely supportive of the Scottish government's handling of COVID-19 and staunchly opposed to Johnson's leadership – could be enough to give the

SNP a majority of seats in the Holyrood parliament. The SNP winning a majority has been seen by some as a precursor to a second independence referendum for Scotland. While it remains in the gift of the government at Westminster to deliver a legally binding referendum, a majority for the SNP in Holyrood may make a second referendum a matter of 'when' and not 'if'. The UK government will remain reluctant to deliver a vote as long as opinion polls continue to show a sustained lead for 'yes' to independence over 'no'.

EU Hopes For A More Cohesive 2021 After Cracks Exposed In MFF Talks

The negotiations over the European Union's long-term budget (known as the multiannual financial framework, MFF) exposed some major cracks in the façade of a united EU. The MFF, and its associated COVID-19 Recovery and Resilience Fund (RRF), totalling EUR1.8trn was eventually agreed to by the heads of government of all 27 EU member states in the December 2020 European Council summit. However, the staunch resistance to the rule of law provisions contained within from Poland and Hungary has shown that a new major schism is emerging on the political front. In 2021, this schism is set to be between the socially liberal west and conservative east, compared to historical divisions that have been primarily based on economics and separated the 'frugal' north from the fiscally expansionist south.

There are a large number of issues the EU faces in 2021, with combatting the COVID-19 pandemic and eventually rolling out mass vaccinations across the continent the major priority. While many EU officials and European politicians have sought to maintain that any vaccine once approved by the European Medicines Agency will be rolled out simultaneously across the bloc, there are concerns that some countries may attempt to facilitate a quicker rollout domestically. This was evident when the UK began using the Pfizer/BioNTech vaccine. Many politicians said all countries should wait until a bloc-wide rollout was possible, but this was countered by those saying if their healthcare systems were able to roll the vaccine out quicker than other countries why should they hold back on something that can save lives.

The pandemic and its associated RRF also sparked some of the most bitter disagreements between the 'frugal four' nations (Austria, Denmark, Netherlands, Sweden) and the 'Friends of Cohesion' (Czech Republic, Hungary, Poland, Slovakia, Estonia, Croatia, Malta, Slovenia, Bulgaria, Cyprus, Lithuania, Latvia, Romania, Italy, Portugal and Greece). While the RRF will begin to be distributed in 2021, providing some economic relief for affected nations, many EU states are going to find themselves in a very difficult situation in 2021 with debt burdens hugely inflated, tax revenues hit, and spending commitments rising. As such, there is a notable likelihood that similar rows emerge in 2021 as to those seen in 2020 regarding issues such as loans versus grants in any additional funding, and conditionality attached to any funds dispersed.

Foreign Relations To Prove As Perilous In 2021 As It Did In 2020

The EU is also likely to face continued pressure on the foreign policy front in 2021. There will be relief in Brussels that bloc is likely to have a more cooperative partner in Washington,

D.C. in President-Elect Joe Biden in 2021 than has been the case over the past nearly-four years of the Trump administration. Nevertheless, the EU continues to struggle to put together a coherent narrative on its preferred relations with China. There is major political pressure to condemn China's human rights record and force the country to play by international rules in terms of trade and intellectual property. However, there is also pressure to maintain close and cordial relations with Beijing in order to facilitate Chinese investment into the EU at a time when there is desperate need for cash injections into European economies.

Meanwhile, Turkey has moved firmly from a close ally and potential EU candidate to a nation set to be subject to EU sanctions. The EU finds itself in a difficult position with regards to Turkey. The country is home to millions of Syrian and other Middle Eastern migrants, which the EU pays to keep in camps and for the Turkish authorities to stop them crossing into mainland Europe. Turkey is also a key security partner for the EU in its fight against Islamic State fighters in Syria and Iraq.

However, a number of Turkey's actions in 2020 including: conducting hydrocarbon exploration in Greek and Cypriot waters, turning the Hagia Sophia museum in Istanbul into a mosque, providing overt support for Azeri forces in the Nagorno-Karabakh conflict with Armenia (and allegedly facilitating the travel of Syrian mercenaries to the warzone to fight for Azerbaijan), and engaging in an insult-slinging match with French President Emmanuel Macron over the treatment of Muslims in France, have all served to sour relations between Brussels and Ankara to their worst point in years. There is little sign that there will be an improvement in 2021. As such there are risks of both a major influx of migrants to Europe, which would prove politically destabilising, and even the outbreak of a hot war in the eastern Mediterranean should a Greek, Cypriot, or Turkish vessel attack or damage another country's ship through deliberate act or miscalculation.

Top Geopolitical Flashpoints To Watch In 2021:

Below we outline what we think may be the primary geopolitical flashpoint in each region of the world in 2021, as well as listing some other potential conflicts to watch.

Asia

- **South and East China Seas:** The South China Sea, and its neighbour the East China Sea, remains one of the most potent geopolitical hotspots worldwide and there is little reason to expect any change in 2021. The long-running dispute between China and Japan over the Senkaku/Diaoyu Islands is set to continue to rumble on, and there is the constant risk of an escalation of tensions due to miscalculation by military forces in the region.

The situation in the South China Sea is similar, with sustained disagreements between China and the nations of Vietnam, Malaysia, Brunei, Indonesia, and the Philippines over territorial claims in the sea and China's controversial claims to sea within the 'nine-dash line'. The contested Spratly and Paracel Islands remain a source of tension between the countries, and any further attempts by Beijing to create artificial islands in the region could spark an aggressive response.

- *Other Flashpoints to Keep in Focus:* Himalayan border between China and India, Taiwan-Chinese relations, China-Australia Trade Tensions, India-Pakistan tensions around Kashmir, stalled peace process in Afghanistan. Internal political tensions in Thailand, Myanmar, India, Malaysia.

Europe

- *Eastern Mediterranean Sea:* Tensions between Turkey and Greece and Cyprus have escalated significantly in 2020 (see section on EU-Turkey, page 7) and there is the risk that in 2021 these could boil over from a war of words to a hot conflict. Military craft from each of the three countries' navies patrol the waters they claim to be their own, risking the potential that an errant vessel fires at one from another country without provocation. Alternatively, claims to greater maritime boundaries than exist presently could spark another country into aggressive action. A local conflict would risk becoming a regional one, with EU member states set to come in on the side of Greece and Cyprus in any conflict. This in turn puts non-EU NATO members such as the US and UK in difficult positions, given all three nations are NATO allies.
- *Other Flashpoints to Keep in Focus:* Belarusian anti-government protest movement, Northern Ireland-Ireland border, Moldova and its breakaway pro-Russian region Transnistria, another flare-up in Nagorno-Karabakh conflict between Armenia and Azerbaijan, Scottish independence movement ignites following parliamentary elections.

The Americas

- *Venezuela:* The mandate of the Speaker of the National Assembly Juan Guaidó, recognised by most western states as Venezuela's legitimate 'interim president', expires in January. The government of President Nicolás Maduro has effectively divided the opposition and seized control of all political institutions with a legislative election boycotted by Guaidó's party in early December. However, American sanctions have left the government without any funds and there is the prospect that the 9th Summit of the Americas, being hosted by the US, could prove a platform for Washington, D.C. to advocate full regime change in Venezuela.
- *Other Flashpoints To Keep In Focus:* Further rioting in US cities, whether from Antifa, pro-Trump, or BLM groups. Nicaragua's president seeking to make his wife president in November election, fraud could spark protests. Peru (April), Ecuador (Feb) and Chile (Nov) hold presidential elections, all hit hard by COVID-19 and mass protest in 2019, risk that elections (and new constitution in Chile) lead to further demonstrations.

MENA

- *What Sort of Iran Will Middle East Face After Presidential Election?* Iran has to hold its presidential election by 18 June, and the outcome of the vote is likely to have significant implications for Iran's relations with its neighbours as well as international actors further afield. Should another moderate follow in incumbent President Hassan Rouhani's footsteps, there could be the prospect of something approaching a rapprochement with the US under President-Elect Joe Biden. However, a hardliner in power could see a ratcheting up of tensions with the US, an end to the JCPOA, and a

further deterioration in relations with long-standing adversaries Saudi Arabia and Israel.

- *Other Flashpoints To Keep In Focus:* Both Yemen and Syria remain in the midst of civil wars, with the former remaining a humanitarian disaster; Rivalry between Turkey and UAE escalating as struggle between political Islamists (Turkey) and Western integrationists (UAE) heats up; Libya's fragile ceasefire; Israel holds its fourth general election in two years; Reaction of Polisario Front to US recognition of Western Sahara as Moroccan territory.

Sub-Saharan Africa

- *Can Ethiopia Avoid Escalation Of Tigray Conflict?* After gaining international acclaim for normalising relations with neighbouring Eritrea after 30 years, Nobel Peace Prize winner Prime Minister Abiy Ahmed's Ethiopia has seen a marked decline in political stability in 2020. The flare-up in tensions between Addis Ababa and local leaders in the northern region of Tigray saw Ethiopian forces capture the regional capital Mekelle after pitched battles with the Tigray People's Liberation Front (TPLF) that saw thousands killed and tens of thousands forced to flee the region. While the conflict has subsided, there remains the prospect of an escalation in violence as Abiy's government seeks to cement centralised control of Ethiopia's ethnically divided regions. Ethiopia is one of the most populous countries in SSA, is the base of the African Union, and is the recipient of some of the largest Chinese investments in SSA. With an election due to take place in 2021, and each state holding the constitutional right to secede, there remains the prospect of a major deterioration in political stability that could impact the economic future of a country once seen as a future hub for investment in SSA.
- *Other Flashpoints To Keep In Focus:* Boko Haram escalate terrorist attacks and kidnappings beyond NE Nigeria; Al-Qaeda in the Islamic Maghreb continue to destabilise the Sahel; Islamist attacks destabilise governments in Tanzania and Mozambique; Somalia destabilised further by conflict in Ethiopia with al-Shabaab, federal states, ethnic clans, and Mogadishu all seeking to increase power.