

Aon's 2014 Political Risk Map

Aon's guide to Political Risks in Emerging Markets

Regional overviews



Aon's Political Risk Map: a guide to measure risks in Emerging Markets

Emerging markets continue to be attractive for businesses seeking alternative areas for growth. However, in less mature economies, assets, contracts and loans can be adversely affected by government action or inaction.

In today's ever changing economic and geopolitical environment, it is crucial for organisations to have a comprehensive high level overview of their exposure to political risk on a portfolio basis.

Planning ahead and adapting risk strategies according to the level of risk in countries of interest is of the utmost importance. Aon is well positioned to provide a first class service in order to assist their client with this.

An insightful guide to assess political risks worldwide

The map measures political risks in 163 countries and territories to help organisations assess the risk levels of exchange transfer, legal and regulatory risk, political interference, political violence, sovereign non-payment, and supply chain disruption. In 2013, three new icons were included: risk of doing business, banking sector vulnerability and risk to fiscal stimulus.

At a glance, organisations can see the political risk landscape in the countries of interest. Aon's Political Risk Map is a useful tool for all those with commercial interests in the emerging markets.

Unrivalled access to more than 15 years of data

Complementing the print version, the Interactive Political Risk Map produces high level country overviews and tailored comparisons of country ratings and changes in risk exposure over time. By accessing Aon's Interactive Map, organisations can track political risk exposures in emerging market countries, both on a current and historical basis. The data is updated quarterly and where appropriate at the time of a material political risk event. The Interactive Map and its analytical tools allow users to plot and measure exposures, and review the potential risks they may face as they look to invest, grow and diversify their investments.

Aon's Political Risk Map is produced in partnership with Roubini Global Economics (RGE) an independent, global research firm founded in 2004 by renowned economist Nouriel Roubini.

The map can be accessed at aon.com/political-risks.

Did you know?

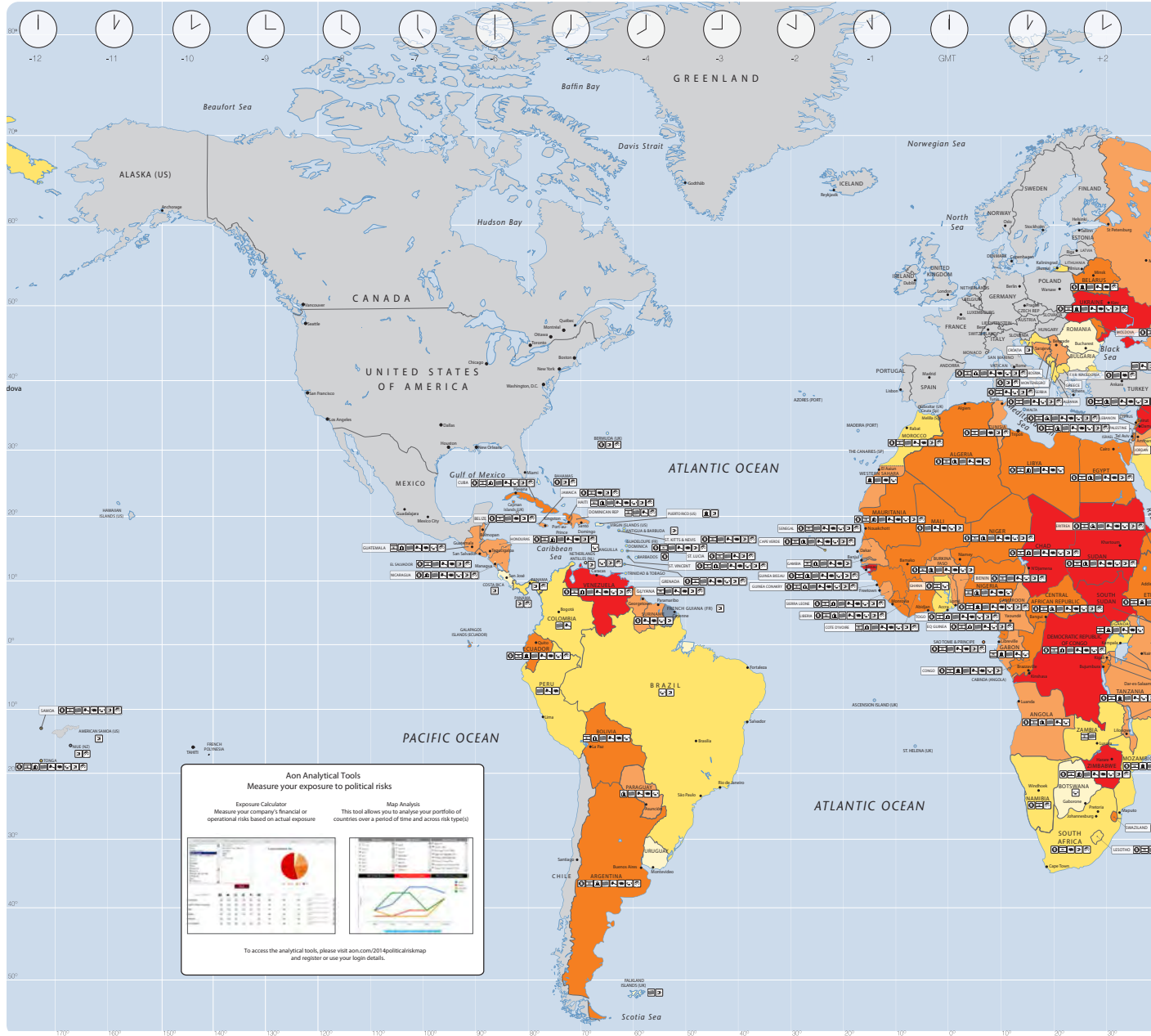
Aon's Interactive Political Risk Map was recognised as 2014 Innovation Award Winner by Business Insurance, highlighting Aon's constant efforts to develop innovative client-focused solutions.





Experience the Political Risk Map on your tablet and smartphone

2014 Political Risk



Aon Analytical Tools
Measure your exposure to political risks

Exposure Calculator
Measure your company's financial or operational risks based on actual exposure

Map Analysis
This tool allows you to analyse your portfolio of countries over a period of time and across risk types

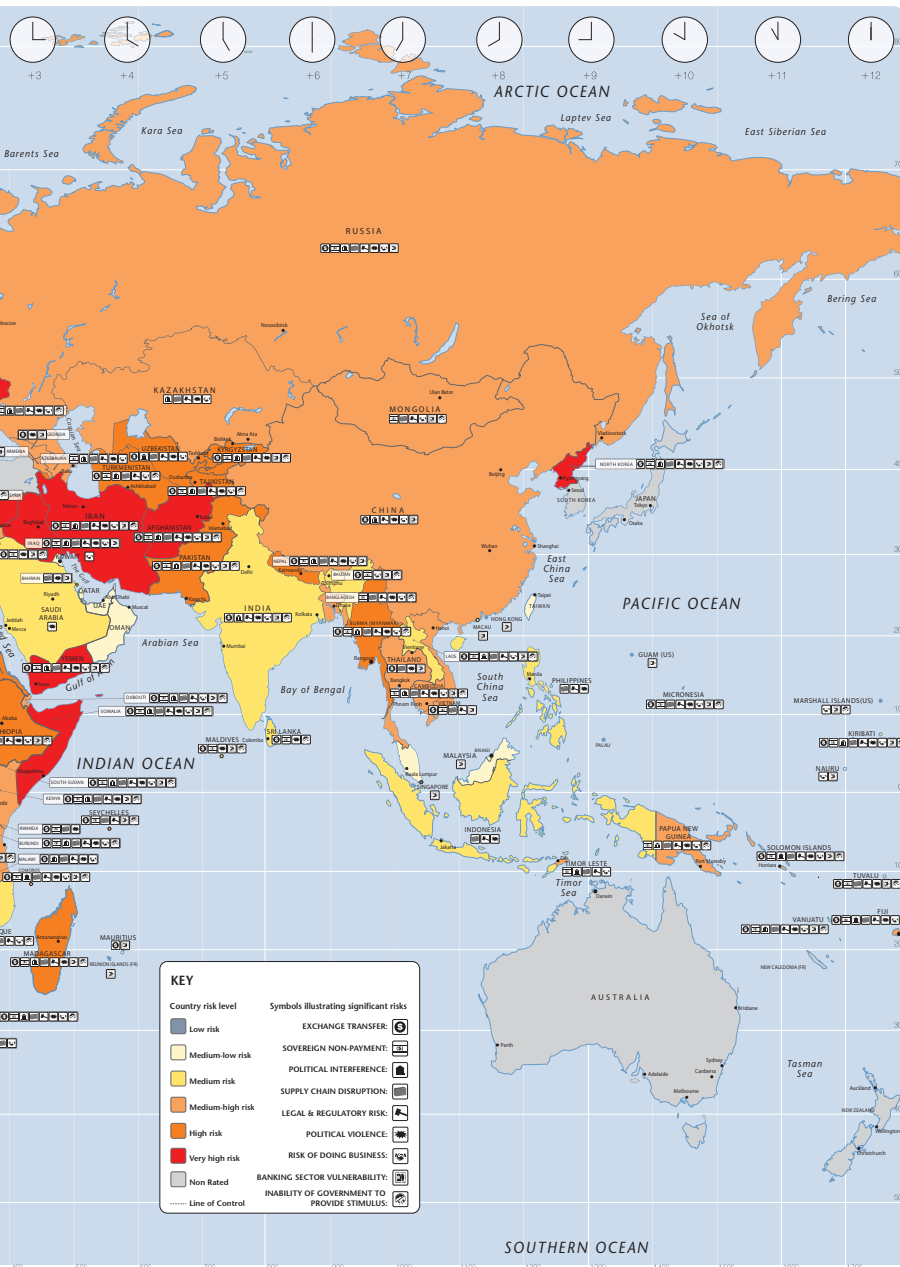
To access the analytical tools, please visit aon.com/2014politicalriskmap and register or use your login details.

Aon's political risk experts use a combination of market experience, innovative analysis tools and tailored risk transfer programmes to help you minimise your exposure to political risks. Aon designs risk transfer and management programmes to respond to adverse political actions, providing balance sheet protection and business facilitation. Political and security risk assessments are also available, allowing you to make informed decisions regarding your operations and investments.

For further information, please email pri.enquiries@aon.co.uk or visit aon.com/2014politicalriskmap

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Map



Did you know?

Aon's Interactive Political Risk Map is now available on tablets and smartphones devices via an exclusive app: Aon's Risk Map App.*

To download the Risk Map App and keep abreast of up-to-date information about changes in risk rating scores at a glance, please visit our website or scan the below code:



To access the online version or download the PDF version, please visit our website: aon.com/political-risks.

*The App is currently available for iOS devices and will be available for Android devices as of July 2014.



Aon's Interactive Political Risk Map has been recognised by Business Insurance as 2014 Innovation Award Winner. To view the Interactive Map and access more than fifteen years worth of data on Emerging Markets, please visit aon.com/2014politicalriskmap



About Roubini Global Economics
Roubini Global Economics is a leading macroeconomic research and country risk firm best known for its accuracy in predicting vulnerabilities and crisis. Roubini Country Risk combines expert research and risk assessment tools, enabling you to better understand and quantitatively measure countries' macroeconomic, political, business and social risks.

2014 Political Risk landscape: key trends

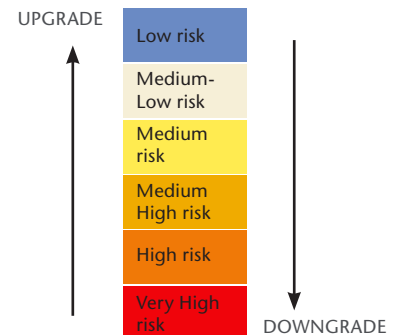
Moderate increase in Political Risks



Six countries experienced a reduction in political risk: Ghana, Haiti, Laos, Philippines, Suriname, Uganda

Sixteen countries experienced an increase in risk: Brazil, China, Eritrea, India, Jordan, Kiribati, Micronesia, Moldova, Russia, Samoa, South Africa, Swaziland, Tonga, Tuvalu, Ukraine and Vanuatu

Overall, twenty-two country rating changes were recorded in 2013 compared to 25 score changes in 2012



Top 15 most afflicted countries

- Countries rated Very High: Afghanistan, Chad, Congo DRC, Eritrea, Guinea Bissau, Iran, Iraq, North Korea, Somalia, Sudan North, South Sudan, Syria, Ukraine, Venezuela, Yemen and Zimbabwe

Countries with notable improvements in risk from 2013

- Ghana, Haiti, Laos, Philippines, Suriname, Uganda

Countries with increases in risk from 2013

- Brazil, China, Eritrea, India, Jordan, Kiribati, Micronesia, Moldova, Russia, South Africa, Swaziland, Tonga, Tuvalu, Ukraine and Vanuatu

Key risks encountered per countries

- Exchange transfer risk: Belarus, Cuba, Egypt, Eritrea, Iran, Jamaica, Swaziland and Ukraine
- Sovereign non-payment (High or Very High): Chad, Congo DRC, Cote d'Ivoire, Egypt, Eritrea, Guinea Conakry, Guinea Bissau, Haiti, Lebanon, Mauritania, North Sudan, Palestine, Somalia, South Sudan, Syria, Ukraine, Yemen and Zimbabwe
- Political violence (Very High): Afghanistan, Argentina, Burundi, Central African Republic, Congo DRC, Cote d'Ivoire, Ethiopia, Iran, Iraq, Kenya, Lebanon, Libya, Nigeria, North Korea, North Sudan, Pakistan, Palestine, Somalia, South Sudan, Syria, Yemen and Zimbabwe
- Banking sector vulnerability risk (based on the peril and risk level) or any other non-core risk: Bahamas, Bermuda, Morocco, Thailand and Vietnam

Key flashpoint risks to watch for 2014

2014 Risk Icon trends

-  Renewed focus on exchange transfer risk: economic recovery in developed markets has the effect of drawing capital back from emerging market countries, adding pressure to countries with weak external balances.
-  Increased focus on sovereign non-payment risk as fiscal balances weaken: with default risks and FX pressure rising in countries like Ukraine, investors (financial and corporate) need to prepare for a shift in sovereign's willingness and ability to pay.
-  A busy election cycle could exacerbate political violence and other political risks.
- All of these vary across countries and highlight the need for a sophisticated risk tool like the Aon Political Risk Map.

2013 vs 2014 : what changed?

Twenty-two country rating changes were recorded in 2013 compared to 25 score changes in 2012. The quarterly delivery of score changes allowed the risk map to highlight deterioration in countries like Ukraine several quarters before developing political crisis, allowing some investors to prepare for exposures.

Roubini Global Economics' Country Insights captures a series of small changes on a quarterly basis, giving a earlier warning of changes. The greater number of downgrades in 2013, along with the fact that many of these downgrades are in larger countries, reverse a trend of improvement in political risk that we identified at the beginning of 2013. From 2012 to 2013, there were more improvements in political risk than deteriorations, the only year of the last four in which there were more improvements.

Watch Exchange Transfer Risk

Exchange transfer is of a particular concern in 2014. Stronger growth in advanced economies including the U.S. and the onset of the Federal Reserve's Normalization will draw capital away from the more risky emerging market countries, particularly if growth stagnates. Weaker growth has exposed governance challenges, while the efforts to retain capital could bring in capital controls to avoid outflows.

The reduction in capital flows and investment which will increase competition among emerging and frontier markets for capital. As financing needs are rising, these pressures will increase the risk of disruptions to currency markets, and possible delays in repayment of sovereign credit.

Some of the countries with the highest exchange transfer risk (including Belarus, Cuba, Egypt, Eritrea, Iran, Jamaica, Swaziland and Ukraine) also experience elevated sovereign non-payment risk. Ukraine, for example, now needs to secure an IMF programme to meet its external debt payments.

Did you know?

Several of the themes we highlighted in the 2013 Political Risk Map have materialised including:

- *A stabilization of political risk in Middle East North Africa several years after the Arab Spring*
- *Improvements in Sub-Saharan Africa*

Two trends highlighted last year have failed to materialise:

- *Improvements in the CIS/Caucasus were reversed*
- *West African political risk stabilised at a high level*

A major turmoil in the largest emerging market countries

Weakening of the BRICS* resilience drives political risk changes

The downgrades in 2013 included all the largest emerging market countries (Brazil, Russia, India, China, South Africa). As a result, countries representing a large share of global output experienced a broad-based increase in political risk including political violence, government interference and sovereign non-payment risk. The increasing risks in these large emerging markets reverse past trends of improvement.

Political outcomes have weakened the environment for organisations and investors meaning that political and economic vulnerabilities were self-reinforcing. For example, as noted in our Q3 update, the increase in Brazilian political risk, which manifested itself in heightened protests in the summer of 2013, emerged following a period of weaker growth, when income generation and credit growth was insufficient to offset for weaker exports, and infrastructure shortages. Similarly, our Q4 note highlighted the vulnerabilities in South Africa, where labour strife and political deadlock

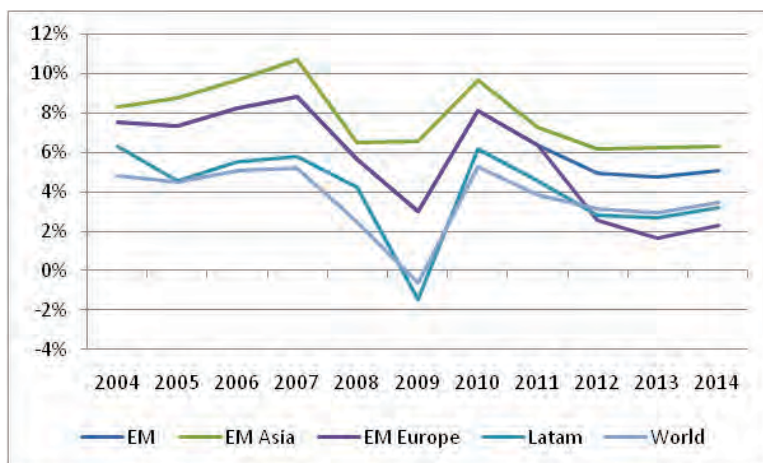
are perpetuating strikes and power outages, weakening economic outlook and forcing the central bank to adopt a more aggressive policy. Short-term political stress triggered by demands for better services and infrastructure may improve the political risk environment in the future.

BRICS movers in 2013

- Brazil: from Medium-Low to Medium
- Russia: from Medium to Medium High
- India: from Medium Low to Medium
- China: from Medium to Medium High
- South Africa: from Medium Low to Medium

These political risk downgrades coincided with the deterioration of macroeconomic conditions, including weaker growth and larger external balances, which have stressed local balance sheets, reduced the resilience of these governments to shocks and increased uncertainty for investors.

Economic growth has slowed in many emerging markets



Source: IMF, Roubini Global Economics

*South Africa was included in the BRIC grouping in 2010

2014 outlook: BRICS under higher risks?

Looking ahead into 2014, there are possibilities for some improvement following 2014's heavy election schedule. After elections, governments may be less afraid of making politically costly reforms that could potentially pave the way to stronger economic growth, improvements in the business environment and eventually political stability. Moreover, we anticipate that there will be modest improvements in the inflationary environment and narrowing of some of the current account deficits that came under investor scrutiny. This suggests some capital controls will be removed resulting in some reduction in exchange transfer risk.

The easy sources of growth have been largely used and efforts to stimulate growth will result in more government intervention in many large economies. This trend, which is present in all of the BRICS countries, hampers the environment for many foreign investors who lack the access to cheap capital and inputs in which state players receive.

A tool like the Aon Political Risk Map helps identify stronger countries with less extensive political risk, or to help investors protect themselves against key risks by facilitating stress-tests of their investments.

Country overview*

China Overview: incidents of political violence and protest have increased while economic growth has slowed. China's political risk country rating has risen to a moderately high level, and is now the first equal of the BRICS. Top-down efforts to control official corruption have yet to prove effective, raising legal and regulatory risks for investors. Economic growth is likely to slow significantly, which will put pressure on local institutions, and therefore increase regulatory and political risks.

India Overview: India has moderate levels of political risk, with legal and regulatory risks elevated by ongoing corruption and moderately high levels of political interference. Efforts to narrow its twin deficits including gold and oil restrictions added to exchange transfer risk, as well as government's role in the economy. Territorial disputes, terrorism, and regional and ethnic conflicts also contribute to elevated risks of political violence.

South Africa Overview: South Africa's political risks have been increasing as sluggish growth undermines efforts to increase employment and inequality persists on both racial and wealth lines. Still, South Africa benefits from a well-developed institutional framework, including a robust legal system, extensive investor protection and sound macroeconomic management. The business environment is favourable, but government inefficiency, corruption and petty violence hinder the business climate.

*Please refer to p11 for insight on Russia and p16 for insight on Brazil.

Ukraine crisis analysis

(Comments provided by Roubini Global Economics)

Increased risk of doing business in Ukraine

Recent political deterioration in Ukraine including the collapse of the government and the Russian annexation of Crimea through a flawed referendum have highlighted the political risks in the region and reversed 2012 improvements in some regional economies (Armenia, Moldova and Azerbaijan). Despite some de-escalation via decentralisation and federalization of Ukraine, the costs of operating in Ukraine will remain very high and uncertain; in particular political violence, exchange transfer and sovereign non-payment risk. Although Ukraine continues to have a strong willingness to meet its international financial obligations, it lacks financial resources and the government is already running into arrears.

Identified in Q3 2013, our quarterly risk update signaled an increase in Ukraine's political risk, from Medium High to High, highlighting the importance of providing updates on a quarterly basis rather than on an annual basis. Ukraine's High overall country rating reflects high levels of uncertainty across all the main areas tracked in Aon's Political Risk Map – most notably political violence (as fatalities mount), exchange transfer risk (as currency depreciation and banking pressures risk capital controls) and sovereign non-payment risk (increased arrears). All of these areas have weakened in the first three months of 2014 and Roubini Global Economics anticipates that risks to doing business in Ukraine will remain very elevated as the standoff with Russia continues.

Crisis in Ukraine highlights rising risks in the CIS

This recent deterioration in political risks is concentrated in Ukraine, but also affects Russia and several other former Soviet states including Armenia, Belarus, Georgia and Moldova. All of these countries are key parts of the Russian government's desired sphere of influence and its desire to create an Eurasian union. At a minimum, Russian authorities feel very strongly that these

countries should not move closer to the west via either EU accession track or closer NATO integration.

These recent trends reverse and offset some previous modest improvements in political risk in other parts of the Commonwealth of Independent States (CIS) highlighted early last year – notably in Caucasian countries Armenia and Azerbaijan.

Since then political risks have materialized across all elements of Ukraine's economy and political system. Despite the creation of a coalition government, the situation with Russia is unlikely to be resolved easily, although planned May elections bring a series of challenges and possible regulatory changes.

The crisis' impact on Ukraine's economy

Financing shortages heighten exchange transfer risk, which is already very high. Although Ukraine continues to have a strong willingness to meet its international financial obligations, it lacks financial resources and the government is already running into arrears to local institutions. Its desire to meet debt payments resulted in a cessation of government payments to contractors and cut off all spending but public sector wages. We continue to see external financial support as critical to meet its sizeable external financing and public debt needs. This will most likely come through an IMF/EU/G7 emergency deal which will help Ukraine meet its near-term obligations. However, Roubini Global Economics believes a debt restructuring is rising as part of an IMF stand-by agreement, while the banks will face rising non-performing loans.

Russian political risks rising too

We see only a modest increase in Russia's political risks which were already moderately high, the highest of the BRICS. Russia has suffered from elevated and rising risks of political interference, exchange transfer risk (as the currency depreciates and authorities try to avoid capital outflows).

Ukraine crisis analysis

(Comments provided by Roubini Global Economics)

Meanwhile political inaction perpetuates legal and regulatory risks to doing business and high levels of corruption. G7 sanctions could add to these costs of doing business, particularly impairing the financial system should its aggression in Ukraine prompt broad-based sectoral sanctions. As of mid-March, the U.S., EU and Canada had only imposed lower-level “level 2” sanctions which consist of asset freezes and travel bans on key members of the government (though not the President or Foreign minister). More aggressive action from Russia towards Ukraine would prompt another level of sanctions which could include sectoral measures to reduce financial market access of companies and banks owned by such individuals. Already, counterparty risk has risen and several European banks have stopped extending credit to Russian entities so they are not exposed in case of sanctions. The Russian government might also take retaliatory action which might include compensatory asset freezes, trade tariffs and other measures which would increase the cost of doing business.

The security of energy supply at stake

Ukraine is a key transit point for Russian energy being sold to Europe, particularly natural gas. Although European countries have diversified their supplies and Gazprom has diversified its suite of pipelines, 30% of European gas consumption is supplied by Russia and 50% of that transits through Ukraine. Military conflict might lead to inadvertent if short-lived disruption, while Russian officials might cut off gas supplies to Ukraine as a result of the government’s delayed payment of its bill. If so, Ukraine might choose to use domestically some of the gas transiting through the country. Eastern European countries like Poland are most reliant on Russian gas through Ukraine, having few other options for energy supply. RGE does not believe Russia is as likely to use gas as a weapon as in the past given that it is already losing market share in Europe. However, accidental disruptions remain a risk. European

countries would be forced to see new supplies or draw on their albeit ample stockpiles during the remainder of the winter.

Russia’s political risk profile in 2014

Any economic sanctions would exacerbate Russia’s own economic weakness that has already increased operating risks. Russia’s economy faltered in 2013, barely growing, as structural institutional weaknesses hamper investment from local and foreign players. These trends reinforced its high level of risk. Russia’s economy continues to be dominated by the government so policy deadlock has brought growth to a standstill and increased political violence. Exchange transfer risks are rising as the government could introduce new measures to cap capital outflows. Sovereign non-payment risks are negligible however, given the strong sovereign balance sheet – we do not expect defaults, but some government project arrears and expropriations remain, particularly for U.S./EU businesses which could suffer the ill-effects of any trade war. The Russian government has threatened to seize their assets, while tighter U.S. sanctions would restrict companies from doing business in both Russia and the U.S.. Although such broad-based sanctions are not part of a de-escalation baseline, corporations may want to hedge against these risks.

Developments in Ukraine highlight political risks also for other CIS members including Moldova, Belarus, Georgia and Armenia all of which remain vulnerable to some sort of greater pressure from Russia including possible trade sanctions. All of these countries are either key transit points for Russian or Caspian energy or are on the track to closer EU integration. Ukrainian developments have increased the importance that Belarus plays in transporting Russian fuel and maintaining in the Russian customs Union. Meanwhile economic pressure from Russia on Moldova increases exchange transfer and sovereign non-payment risk reversing other improvements.

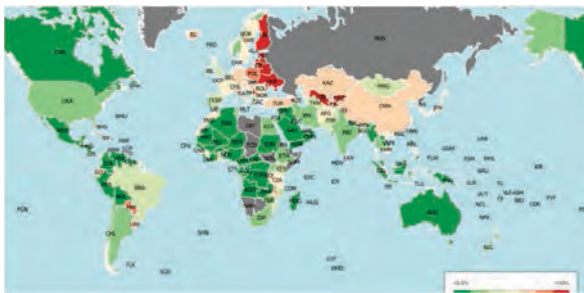
Ukraine Crisis effects on industry sectors

The scenarios below hinge on how political uncertainties impact the exposure channels.

Trade links

Russia and Ukraine's trade linkages are much stronger with Europe than with the U.S., as clearly seen from the figure below. Global and regional trade linkages with Russia and Ukraine are relatively modest, and most pronounced within the CIS, and, to a lesser extent with Eastern Europe. Unsurprisingly, given its size, Russia is a more important trading partner for Europe than Ukraine. Both countries, however, play a crucial role in global energy and agricultural trade.

Imports from Russia as % of total imports, 2012



Energy

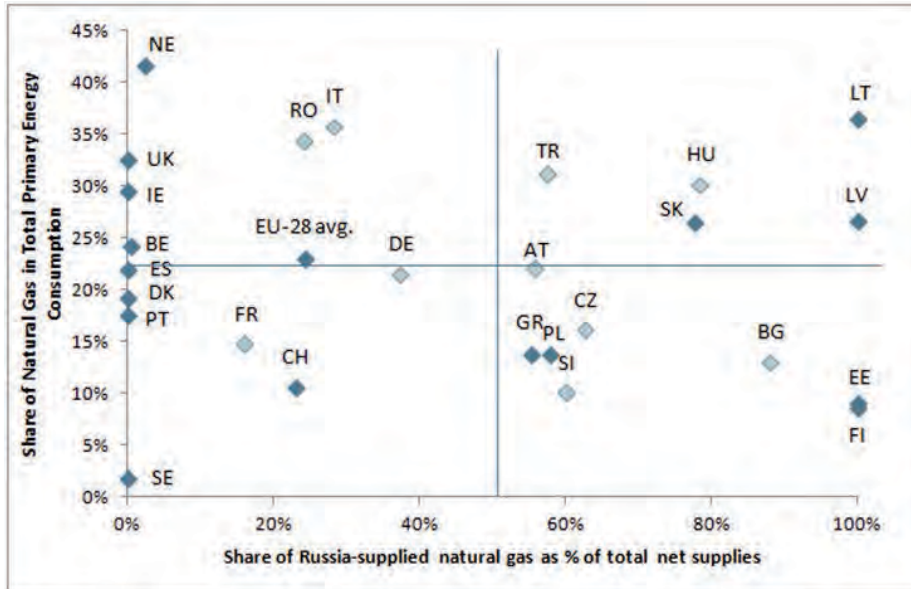
Energy supply disruptions would be the most important transmission channel to the global economy. Russia supplies a third of EU's natural gas, and about half of these supplies are still transported through Ukraine, down from 80% in 2011, before the Nord Stream pipeline was finalized. Eastern European countries are most exposed to Russian gas supplies. Baltic countries, Poland and Finland receive their gas either directly from Russia or through Belarus, and therefore are less exposed to Russia's conflict with Ukraine. Austria, Bulgaria, Czech Republic, Hungary and Slovenia on the other hand, are all dependent on Ukraine as a transit route. Germany and Italy are some of the largest consumers of Russian gas in terms of volumes, but Russia is not their dominant supplier of gas.

Eastern European economies, although still vulnerable, are in a better position to weather brief disruptions than in the past, owing to a combination of favorable weather conditions, ample gas stocks and efforts to diversify gas routes.

Agriculture

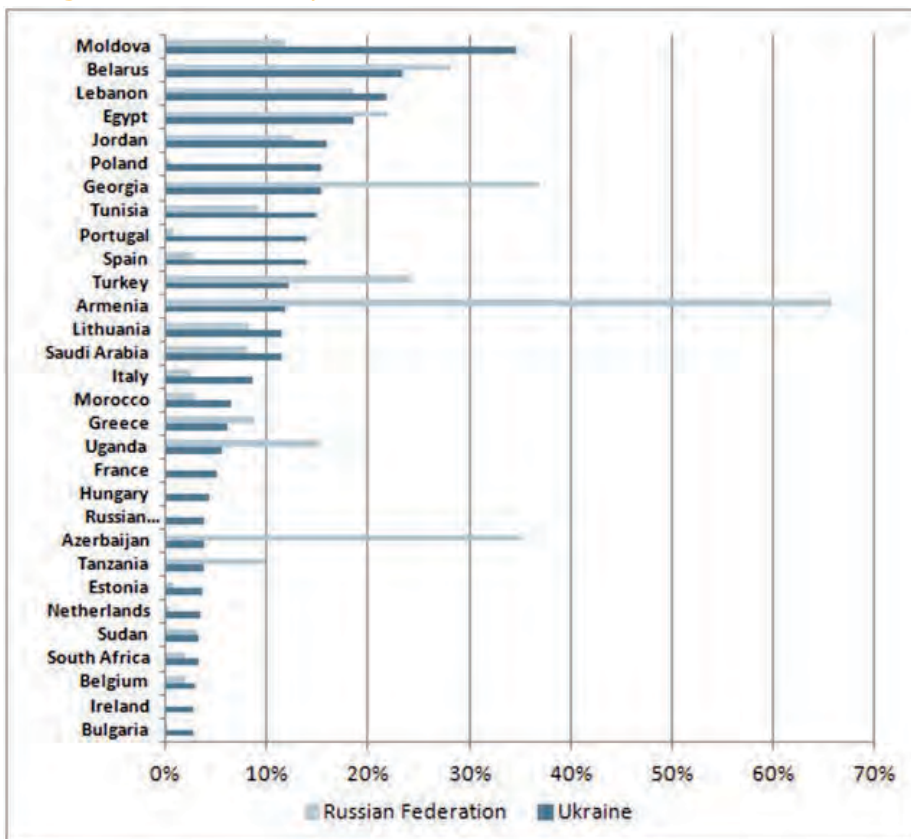
Ukraine accounts for 3% of the world's output of grains and cereals, being among the top five wheat and corn exporters. Russia follows closely with 2.4% of world output. The two countries are the dominant suppliers for many countries in Europe, Africa and the Middle East. The geopolitical tensions already triggered a spike in wheat and corn prices - by 9.5% and 8%, respectively - on the day markets opened after Russia's announcement of potential deployment of troops, and prices remain elevated. In our base case of de-escalation of conflict with Russia, there should be no serious disruptions of supplies from Ukraine, however should political unrest and uncertainty continue into the harvest season. Markets can experience some delays in collection and exports of grains from Ukraine, which may continue to weigh on prices for the rest of the year.

Europe's exposure to Russian gas supplies, 2012 (light blue - dependent on transit through Ukraine)



Source: Eurogas

Top importers of grains and cereals from Ukraine and Russia, 2011-2012 (% of total grains and cereals imports)



Source: UN Comtrade

Middle East, North Africa and West Africa

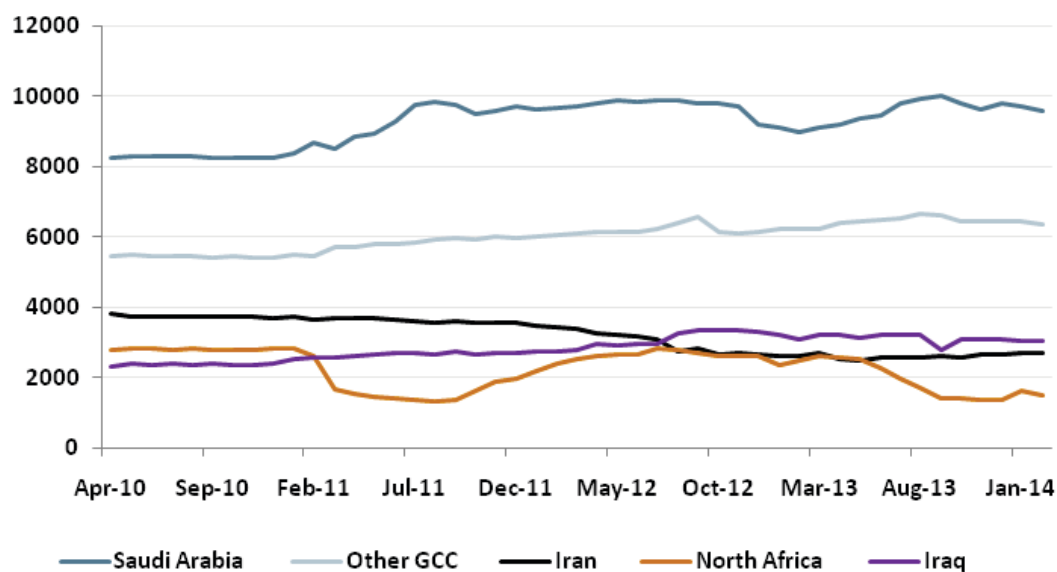
Divergence widening within MENA and West Africa

Developments in 2013 have reinforced the relative strength of the richer oil exporting Middle East North Africa (MENA) countries of the Gulf Cooperation Council (GCC) compared to their North African peers, all of which continue to have greater risk scores across all elements of political risk tracked by Aon and fewer resources to manage any shocks. The three countries upgraded in the 2013 Political Risk Map (Bahrain, Oman, UAE), maintained their more resilient and lower risk outlook, while Jordan, where Syrian refugees have exacerbated domestic shocks, was downgraded.

foreshadowed an increase in political risk in other segments relevant to investors, including sovereign non-payment and exchange transfer risks. Political violence led to blockages in energy production, which in turn reduced government revenues and thus their ability and willingness to pay. While Jordan was the only MENA country to have a change in its country rating across the board, several individual risk icons were downgraded across North Africa, and even in Saudi Arabia, which has a rising level of inequality and moderate increase in political violence, both of which raise the probability of interference.

Several of the North African countries like Algeria, Egypt and Libya, already have Very High risk country ratings, much higher than their counterparts, scores that are consistent with political shocks including protest violence and supply chain disruptions. In these countries including Libya and Egypt, as well as Iraq, continued High risks of political violence,

Political Violence in African Oil Producers (Libya) Tempered OPEC Supply



Sub-Saharan Africa

Sub-Saharan Africa divergence

There are also some improvements in Sub-Saharan Africa, particularly in West (Ghana) and East Africa (Uganda) which offset deterioration in Southern Africa (South Africa and Swaziland were downgraded). Although Ghana suffered from fiscal overspending and rising inflation, which weakened macro economic stability, the increase in revenues and investment reinforced its already strong political institutions. While Uganda continues to suffer from an overly centralised government and significant human rights issues, the stabilisation of donor finance improved its ability and willingness to pay debts and reduced political interference.

By contrast, political conditions in Southern Africa deteriorated, particularly in Swaziland, which is being supported by its neighbors financially, and suffered a broad-based increase in political risk and economic strain which added to expropriation risk. South Africa, despite having strong political institutions is struggling from recurrent strikes, which have become the major means of wage setting and weaken the outlook for business.

Meanwhile, country ratings in North West Africa (Mali, Mauritania, among others) stabilised at a very low level. We continue to highlight the risk of further downgrade which has yet to materialise. Global involvement in Mali may have helped to stabilise outcomes, but another downward move is possible as terrorist groups like Al Qaeda in the Islamic Maghreb continue to operate and in the Great lakes region (Central African Republic, Congo DRC).

Latin America

Brazil stands out as sluggish in Latin America

Brazil was the only major country to be downgraded in Latin America and the Caribbean, as political violence and government effectiveness deteriorated. It continues to have Medium political risk. Some other countries including Haiti and Cuba showed some signs of improvement from a Very High level of political risk, prompting an upgrade in the former and improvement in individual icon scores in the latter, meaning it is on watch for further improvements. We continue to see a wide divergence within the region, as countries like Argentina suffer under the weight of economic mismanagement, risking temporary financial contagion to other countries in the region.

Brazil's political risks have been increasing, from Medium levels as economic weakness has increased the role of the government in the economy. Brazil's fiscal finances and bank balance sheets weakened as growth slipped, while high inflation has increased added to public dissatisfaction. This weaker fiscal position moderately increased sovereign non-payment risk and Brazil's overall score. Despite poor economic performance, popular support for the Rousseff government remains high. The government responded relatively effectively to mid 2013 synchronized protests across major cities, which were subdued by transport cost reductions. Nonetheless, the Brazilian government has become increasingly interventionist, applying a variety of measures to control the business cycle, such as volatile and unpredictable capital controls, as well as price and labor-market controls, reforms and infrastructure investments are overdue. Investors in key resource sectors should bear in mind local hiring and sourcing regulations.

Cuba and Haiti remain high risks countries

Cuba has high levels of risk, most notably political interference, despite recent efforts to liberalize the economy. Notwithstanding the recent reform push, which is reflected in some of the more institutional scores, political violence has been increasing while a reduction in reserves increases exchange transfer risk. Harsh restrictions on the business environment and a weak regulatory environment make Cuba one of the most difficult places to do business in the world. Given the country's poor antiquated infrastructure, its supply chain is highly susceptible to climatic conditions, especially to hurricanes. Cuba has the lowest level of regulatory quality and accountability in Latin America.

Haiti, the poorest country in the Caribbean, is also the most risky. Nonetheless, Haiti experienced modest improvements in 2013, across most areas of political risk, shifting from very high levels of risk to only high levels. Legal and regulatory hazards as well as persistent political violence are particularly concerning. Haiti's extremely low level of government effectiveness, high level of corruption, weak regulatory quality and rule of law and lack of protection for all property rights undermines the environment for investment. The risk of supply chain disruption is also High, reflecting poor transport infrastructure and the government's particularly weak ability to respond to disruptions and the cycle of hurricanes.

Asia & Oceania

Improvements in South East Asia, moderate weakness elsewhere

Upgrades in Laos and the Philippines are examples of a broader improvement in institutions and balance sheets in South East Asia. All countries aside from Thailand have experienced some improvements, which has added to their resilience.

Thailand, has experienced a sharp rise in political violence, commensurate with its score, moving in the opposite direction from the region as political stability and economic potential weakened at the same time. We have not yet downgraded the country rating, but persistent political strife which further delays investment, would pose broad-based deterioration to a variety of risks. Despite bouts of political violence, Thailand's government effectiveness suggests it should in time be able to cope with such shocks and its economy is resilient.

Meanwhile, several of Asia's largest economies including India and China have experienced increased political risk, after years of stable scores. The main problem remains government intervention in the economy and moderate increases in political violence. As with their large emerging markets counterparts, the deterioration in political risk has occurred at the same time that economic growth has slowed, suggesting that political deadlock and economic sluggishness are mutually reinforcing relatively high levels of corruption and low levels of government effectiveness.

Few changes in Oceania

As in the recent past the Pacific Islands have remained relatively stable, however continue to be exposed to supply chain disruptions. Micronesia stood out in 2013 for an increase in political risk from Low to Medium low. This reflected a weakening in several different areas. Its overall Medium level of risk suggests that these areas are still manageable.

The Map Methodology



Analysis and findings

Aon partnered with Roubini Global Economics (RGE), an independent, global research firm founded in 2004 by renowned economist Nouriel Roubini, to produce the Political Risk Map in order to take advantage of RGE's unique methodology, Country Insights (CI), for systematically analysing political risk around the world.

The Aon Political Risk Map is unique as it follows a 3-layered approach in analysing political risk in emerging market countries (excluding EU and OECD countries).

Country ratings reflect a combination of:

- Analysis by Aon Risk Solutions
- Analysis by Roubini Global Economics
- The opinions of 20+ Lloyd's syndicates and corporate insurers actively writing political risk insurance.

CI as applied to the map allows clients:

- To track changes in countries systematically
- To obtain more meaningful country comparisons
- To decompose each risk to show the various elements that drive that risk.

For further information, please visit Roubini's website: www.roubini.com

Perils analysed

Each country is assigned a rating starting at Low, Medium Low, Medium, Medium High, High, Very High. The scores reflect the severity of risk in each state against nine core risk perils.

They are not intended to predict global events or future threats. The scores are weighted to accommodate a wide range of political risk variables.

Brief Descriptions of Each Risk Icon

- **Exchange Transfer:** The risk of being unable to make hard currency payments as a result of the imposition of local currency controls. This risk looks at various economic factors, including measures of capital account restrictions, the country's de-facto exchange rate regime and foreign exchange reserves.
- **Legal and Regulatory:** The risk of financial or reputational loss as a result of difficulties in complying with a host country's laws, regulations or codes. This risk comprises measures of government effectiveness, rule of law, wider property rights and regulatory quality.
- **Political Interference:** The risk of host government intervention in the economy or other policy areas that adversely affect overseas business interests; e.g., nationalization and expropriation. This risk is composed of various measures of social, institutional and regulatory risks.
- **Political Violence:** The risk of strikes, riots, civil commotions, sabotage, terrorism, malicious damage, war, civil war, rebellion, revolution, insurrection, a hostile act by a belligerent power, mutiny or a coup d'etat. Political violence is quantified using measures of political stability, peacefulness and specific acts of violence.
- **Sovereign Non-Payment:** The risk of failure of a foreign government or government entity to honor its obligations in connection with loans or other financial commitments. This risk looks at measures of both ability and willingness to pay, including fiscal policy, political risk and rule of law.
- **Supply Chain Disruption:** The risk of disruption to the flow of goods and/or services into or out of a country as a result of political, social, economic or environmental instability.
- **Risks of Doing Business:** The regulatory obstacles to setting up and operating business in the country, such as excessive procedures, the time and cost of registering a new business, dealing with building permits, trading across borders and getting bank credit with sound business plans.
- **Banking Sector Vulnerability:** The risk of a country's domestic banking sector going into crisis or not being able to support economic growth with adequate credit. This risk comprises measures of the capitalization and strength of the banking sector, and macro-financial linkages such as total indebtedness, trade performance and labour market rigidity.
- **Risks to Fiscal Stimulus:** The risk of the government not being able to stimulate the economy due to lack of fiscal credibility, declining reserves, high debt burden or government inefficiency.

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