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Eurasia Group president Ian Bremmer outlines key international implications of the global markets crisis

NEW YORK, 13 OCTOBER -- As world leaders negotiate a coordinated response to the global financial crisis, Eurasia Group president Ian Bremmer outlined the key international implications in his weekly EG Update note to clients today, and discussed expectations for the next US administration. The full text of the note is included below, but some of the key takeaways include:

- There will be several categories of losers, in terms of countries, in this crisis:
 - Countries where weak governance is coupled with strong unpopularity of local leadership: Argentina, Malaysia, South Korea, Thailand, Germany and Japan.
 - Countries where upcoming elections will detract from the government response: India, Indonesia, Turkey, Ukraine – and the United States.
 - Badly managed and unconsolidated authoritarian states: Iran and Venezuela.
- The winners:
 - Countries where the local government is sufficiently popular that it can pull off painful decisions: Brazil, China, Russia, and to a lesser extent Mexico and most of the East Europeans.
 - Politically stable frontier markets, where greenfield investment opportunity and a low cost environment conspire to afford durable high growth: Cambodia, Kazakhstan and the smaller Central Asian republics, Kenya, and Libya.
 - Small states that have sufficient wealth and political stability that the global financial crisis is essentially a dent: The gulf oil producers mostly fall into this camp (though not Dubai), in particular Saudi Arabia. So does Singapore and the Nordic group (save, of course, Iceland).
- Two important global issues are impacted by this crisis – migration trends and terrorism – with adverse effects for global stability.
- A likely Obama administration will get up and running quickly in order to address the economic crisis. There will be high expectations for the next president to deal with the economic crisis and implement his program. As the president's promised

agenda is inevitably delayed by the crisis, the white house's political capital will be diminished, with implications for the next mid-term elections and 2012.

Please find the full text of Dr. Bremmer's note below. For more information, or for interview requests, please contact Ms. Alex Lloyd at +1 (646) 291.4036 or media@eurasiagroup.net.

[Start of Note]

I'm back in New York...ground zero, this time for the global financial crisis. I'd like to discuss some points emerging from the big picture - first, factors making states more likely to be winners or losers; then broader impacts of the crisis on two important global issues: migration trends and terrorism. Then to the United States, with latest thoughts on the elections and beyond.

The financial crisis

Whatever the ultimate outcome, we've turned the corner on government action-key world leaders taking the crisis seriously, moving to take steps that are more appropriate to the fundamental nature of the crisis, rather than the symptoms. That's not a comment on the fear and panic in day to day market trends, which is well beyond my ambit. Nor is it a comment on the ultimate effectiveness of the measures...given the rapidly evolving nature of the geo-economic balance of power, how much coordination is necessary and/or possible, and how important the immediate response of new economic actors (particularly china) is to the market response represents uncharted territory. In other words, to understand the dynamics of a global financial crisis, it helps to know what the globe is. And that's not a fixed variable (to pardon the phrase) these days.

What is clear is that the severity of the global slowdown is going to have lasting and radically differentiated effects on markets around the world. A few broad points that I think are worth thinking about here.

1 - Eventual winners and losers

As fundamentals start to reassert themselves, the capacity of governments to focus on necessary economic policy implementation will be the critical determinant of their countries' trajectory. Many of these policies, both in terms of stimulus and economic reform, will be both unpopular and painful. It will be, in short, a particularly bad time for domestic politics to trump responses to the international financial crisis.

That being the case, there are some broad categories of countries that are likely to fare particularly well, and some particularly badly, in this coming critical period. Given the present temperament, let's start with the losers:

First, countries where weak governance is coupled with strong unpopularity of local leadership. There, domestic political clashes are likely to intensify as local opposition

groups see too much direct benefit to be gained from their dissent...and have sufficient power to stall or completely prevent government measures. Some of the countries that fall into this camp are not inclined toward effective economic policy--Argentina and Malaysia; some are but domestic turmoil will ensure their policy initiatives go nowhere--South Korea and Thailand. Among developed states, Germany and Japan would be the clearest additions (Gordon Brown's government in Great Britain has actually picked up some momentum from its handling of the crisis to date), but both have more policy flexibility than the emerging markets mentioned, given the stability of political institutions there. (A related, underlying point--that emerging markets are increasingly important global economic players makes the fallout from financial shock far more volatile.)

A second group, countries where upcoming elections will detract from the energy sitting governments can devote to the crisis at a critical juncture. As I've written in past weeks, this has been a serious issue in the United States--though the post-election rebound should pass more quickly than you would expect (more on that below). Not all elections are created equal on this score--competitiveness matters, as does the difficulty of creating a government in countries where coalitions are necessary. A few most vulnerable on this front in the coming months--India, Indonesia, Turkey, and Ukraine.

Finally, there are badly managed and unconsolidated authoritarian states, where elections don't matter much and concerted opposition isn't much of a threat...but a sharp deterioration in economic fundamentals poses a challenge to the continued stability of the country. The countries I'd be watching most closely on this score--Iran and Venezuela.

Then on the upside:

Countries, both democratic and authoritarian, where the local government is sufficiently popular that it can pull off decisions that might be painful, but prove strategically useful. Brazil, China and Russia are tops in that camp. Somewhat weaker but also deserving mention is Mexico and most of the East Europeans.

Then you have the more politically stable frontier markets, where greenfield investment opportunity and a low cost environment conspire to afford durable high growth. The financial crisis will certainly slow them down, but those not disproportionately dependent on base metals and agriculture export will bounce back the most quickly--Cambodia, Kazakhstan and the smaller Central Asian republics, Kenya, and Libya are good examples.

And a third category--small states that have sufficient wealth and political stability that the global financial crisis is essentially a dent - unattractive, but otherwise not having a meaningful long-term effect. The gulf oil producers mostly fall into this camp (though Dubai does not), in particular Saudi Arabia. So does Singapore and the Nordic group (save, of course, Iceland...).

2 - Migration

Looking to the medium term, one of the biggest impacts of an extended economic global slowdown will be the shifting of migration trends. Diminished labor opportunities in developed and more advanced developing countries will mix unsettlingly (truly) with growth in anti-immigration sentiment from domestic populations increasingly discontent with their own economic lot. As a consequence, we will see significant reversals of migration trends of unskilled and semi-skilled labor to their countries of origin.

That's a good thing for emerging market economies with skilled labor shortages and domestic wage inflation, as in East Central Europe. But the trends will lead to economic hardship for markets where remittances were a significant source of income. It will also lead to a growth in domestic discontent-and political instability-as large numbers of disaffected nationals return to their home countries and find little opportunity for economic success. Over the next 2-3 years, that's likely to prove a particular danger for Bangladesh, much of Central America and the Caribbean, Mexico, Pakistan, the Philippines, and Turkey.

3 - Radicalism/terrorism

A bright spot in the evolving post-9/11 geopolitical environment has been an anti-jihadist backlash from growing middle classes in much of the Middle East and Southeast Asia (though notably not Afghanistan or Pakistan...or the economically isolated Gaza strip), as frequently indiscriminate radical violence has turned otherwise increasingly well-off local populations away from them. Combined with coordinated (and well-funded) international counterterrorist efforts, that trend has helped to undermine local terrorist organizations from Indonesia to Iraq.

One of the most negative long-term impacts of the global financial crisis will be to turn this trend around, as nascent elites in countries with strong radical movements see their opportunities slip away. This will be felt particularly sharply in areas that have been counting on significant international aid for continued stability. Iraq is likely to face the greatest about face here, but it's true for a wide range of countries-among them, Algeria, Bahrain, Lebanon, Nigeria, Syria, and Yemen. Over the medium to long term, we're likely to see a growth in strength of global terrorist movements (the overwhelming majority of which will be local--at the state or sub-state level) and a spike in terrorist attacks accordingly.

The United States

On the back of the American economy's downward spiral, upcoming elections are looking even more sharply in favor of Barack Obama. The presidential campaign has taken a more negative turn, as John McCain recognizes he has significant ground to make up. But it's getting too late and the Obama lead is becoming too substantial-at this point, even a news event around the war on terror is unlikely to decisively swing the race.

There's good news here-with a serious economic downturn and a strongly democratic congress, there will be an overwhelming desire to get the new administration up and running quickly. Expected key cabinet appointments will be vetted and discussed with congress before the inauguration, with a generally cooperative transition environment from Secretary of Treasury Hank Paulson and his colleagues working on the bailout. Rather than waiting for months after the election, the next administration should be in a position to move within weeks of inauguration...and with a relatively non-ideological slate in key finance/economy related positions.

This reality, combined with the recent broadening of the Obama economic team, has helped markets come around to the view that a strong Obama presidency will be helpful- leadership is needed, and anything to get past the uncertainty is better than being in the middle of elections. As to how strong executive leadership is likely to be (as opposed to swinging to congress, where policy would be much more market-negative), much is going to be determined by what congress looks like. If it's a big switch with a large group of freshman congressmen, a new "class of 2008" could have a "coattail effect"--more willingness to be led by the president that brought them in (similar to the last major swing in congress, post-Nixon, in 1974).

No matter how strong, the financial crisis makes it more likely that the next president will get battered by high expectations that the candidates themselves are partially responsible for. Both McCain and Obama have said the crisis won't derail their campaign platforms (or, at least, they refuse to acknowledge what programs and plans might have to be stopped or delayed). Voters will have some understanding that these programs and tax cuts cannot all be implemented (and fairly or unfairly, will surely blame Obama less for a crisis that didn't happen on his watch), but there will also be high expectations for the next president to deal with the economic crisis and implement their program.

It may not become apparent to voters in the first 100 days that the president's agenda is going to be delayed by the financial crisis, but it is going to hit at some point. The white house's political capital will be diminished as a result. It could mean that the campaign season for the midterms starts earlier than expected, which would further diminish the window in which the next president can effectively govern. (And also means, looking further ahead, that the likelihood of either Obama or McCain as a one term president is higher...)

All of which has a broader structural impact--aside from the financial crisis, a host of issues are becoming newly second-order: foreign policy, clearly, but also climate change, energy security, and public infrastructure among them. Longer-term, combined with the continued transition to a non-polar world, this is the most volatility-inducing consequence of the crisis.

[End of Note]

About Eurasia Group

Eurasia Group is a research and consulting firm that focuses on global political risk and emerging market country analysis, serving major financial institutions, multinational corporations and governments. Founded in 1998, Eurasia Group has a full-time staff of 85, a global network of several hundred in-country experts and partners covering more than 65 countries. Eurasia Group is headquartered in New York, with offices in Washington, DC and London. www.eurasiagroup.net