

Turkey

I struggle mightily with my growing unease over Turkey. It's a fairly well educated population with strong demographic growth; infrastructure is reasonable; the business community is extremely capable and loyal to the domestic market; and for all the European Union's woes, being a candidate member has strengthened Turkey's political institutions. But the political environment is troubled... and set to get worse. Indeed, I'd say **it's likely Turkey is about to enter a period of domestic political crisis at least as intense as what Brazil has been through over the past couple years.**

Part of it is owed to president Recep Tayyip Erdogan; part of it is a particularly unforgiving geopolitical environment. Taken together, Turkish political stability will come under severe strain.

Domestically, Erdogan's consistent priority has been to create an "executive presidency": expanding his rule and effectively protecting himself and his family from investigation and reprisal after the end of his term. Inability to effectively support that goal — and refusal to accept internal advice to the contrary — led to the sudden resignation of otherwise strongly loyalist (and quite capable) prime minister Ahmet Davutoglu a few weeks back. Hence, Erdogan's control of the government is now unquestioned; very much in Kremlin style: he functionally serves as president, prime minister, and party chairman.

The technocratic capabilities (and orientation) of the government are diminishing accordingly. Reappointed deputy prime minister Mehmet Simsek, the market darling of the group, will have much less influence in driving policy than he used to, given Erdogan's interests in driving growth to support a short-term popular mandate, rather than engage in much needed structural reform. Turkey's fiscal position will deteriorate accordingly... posing a growing problem for a country that's already gone through significant monetary easing over the past months.

Erdogan still doesn't have the ability to formally push through a new constitution to support an executive presidential system. Not only does his AK party not have enough seats in the parliament but Erdogan also fears internal defections, other parties would be hard to rally, and early new elections are unlikely to provide sufficient additional seats to allow for a constitutional majority. Instead, party officials are preparing for a half measure "partisan presidency" that would allow Erdogan to formally become AK party member and leader. That will require a popular referendum, likely in the fall, but should be attainable as it's less controversial.

All of that is going to sharpen internal conflict over the state of play of Turkish democracy. Making matters worse is Erdogan's pushing through of legislation last month to lift immunity from those members of parliament facing legal proceedings. that was aimed at Kurdish deputies in government, many of whom will now be criminally indicted on politicized charges... and sent to jail. In the context of a war in Syria that's heating up again (the Russian brokered cessation of hostilities effectively breaking down), the timing is poor: Turkey's Kurdish population will become ever-more politically divided from the Turkish government and will likely support a unified push for regional autonomy. Local skirmishing with Turkish military forces will increase in that context, as will terrorist attacks in turkey's urban centers.

Meanwhile Turkish relations with the US and EU will be further strained. Over the past weeks, I've asked a number of former and sitting high level American officials who they presently perceive as more aligned with the United States in the war in Syria: (Nato ally) Turkey or (US-sanctioned) Russia. The answer from every single one: Russia. Turkey's relations with Russia can't normalize in this environment, the threat of

direct Turkish military engagement in Syria rises, and the EU-Turkey refugee deal probably stands to break over the course of the year, with significant knock on impact across southeast Europe.

Poor overall emerging market performance may obscure some of Turkey's growing political challenges, and it's possible that market sentiment there will look favorable over the coming months. But I've no doubt this is going to be a historically difficult couple of years for president Erdogan and his government.

Iraq, Syria

The fight against the Islamic state continues... and this year has seen incremental but significant military progress in both Iraq and Syria. In Iraq, barring a sudden and dramatic change in strategy from those involved in the anti-ISIS "coalitions," **we're probably 1-2 years away from destruction of the caliphate**. In Syria, the likely outcome is more the creation of a new stable status quo for the Assad regime and the Kurds, which could then lead to the introduction of a negotiated political process (the latest Russian-led iteration including a new constitution that keeps Assad and his regime but substantially weakens their authority).

That's not addressing the continued, and in many places growing, capabilities for ISIS-led and inspired terrorism in other parts of the middle east, north Africa, and Europe — which we discussed in our top risks piece this year. But what happens in Iraq and Syria after the caliphates are gone also remains an open question.

In Iraq, the central government is clearly weaker today than before the war on ISIS started, both given the rise of the Kurds in the north and the growing importance of Shia militias (with direct Iranian military support) in the center and south of the country. That means Baghdad will be less willing, able, or interested in actually governing decimated Sunni areas, which will instead be left for local Sunni populations to govern, with the central government informally using its influence to try to prop up moderate elements of the community willing to work with them. With limited resources, the Iraqi government won't prioritize spending there; and there'll be no deal for Sunni autonomy (or for a local Sunni military force) that can be accepted by parliament and by Iraq's Shia government. Most Sunnis will hence be resigned to a dysfunctional, somewhat even failed, state; with a substantial minority remaining supporters of local and regional extremist organizations.

The story is more complicated than a purely three-sided sectarian fight. The Shia-led central government will face a real challenge in dealing with all the Shia militias after the Islamic state is defeated. Ayatollah Ali Sistani would like to see all of these groups disbanded, with the army and local police assuming responsibility for security. While Iran will push for normalizing the role of the militias — essentially mirroring the revolutionary guards in Iran and Hezbollah in Lebanon. On balance I'm more optimistic on this one; most Iraqi Shias will be more interested in following Sistani's orders than in becoming a militarized arm of the Iranian government. Which, long term, could potentially provide an opening for the United States and Europe to support a more stable Iraqi central government. Except...

There's not going to be much interest in foreign capitals. International attention towards Iraq will fade quickly once the Islamic state is defeated there, especially given other regional priorities. The United States will have an interest in containing Sunni-Shia-Kurdish tensions, but will have limited influence on the Iraqi

government in doing so — instead shifting to a reactive, crisis management approach. While Europe will focus mostly on domestic counterterrorism. And unlike in Syria, Russia will have no significant political influence (or military interest) in Iraq.

Meanwhile in Syria, there's still no road to a post-Isis political order. to date, the Assad regime and opposition rebel groups remain primarily focused on western Syria, and have not prioritized combating the Islamic state. That's meant the United States hasn't been able to develop close working relations with the Syrian opposition, instead expanding cooperation with the Syria Democratic Forces (SDF) — an alliance of the Kurdish PYG (Turkey's direct enemy) and some tribal Arab forces — to retake some of the Isis-held territory. In some ways, that's similar to the fighting in Iraq: non-Sunni dominated forces liberate areas from Isis and local forces reassume control and governance of their territories. And to a degree, the Assad regime will also see the American-led attacks as an opportunity to push forces from the south and take credit for military gains.

The primary difference is that in Syria the principal cause of instability hasn't been Isis (even though it's been the focus of US and European fighting), but rather the brutality of Bashar al-Assad's regime. Longer term, any new Syrian governance model will depend on Assad's willingness to accept a political framework that significantly expands the powers of local authorities (which will be driven in part by the Russians' and Iranians' ability to pressure him to do so). Assad has limited desire to see the "defeat" of the Islamic state if he feels that eventual framework is existentially threatening to him and his regime. Hence, it'll be political balancing, more so than just military outcomes upon which it is based, that eventually turns the war in Syria. A much more difficult proposition for all involved.

Brazil

Another week, another minister. This time, it was Fabiano Silveira, president Michel Temer's newly appointed anti-corruption minister, that was forced out for falling on the wrong side of the lava jato case. His was a nearly impossible gig, given that he was the minister meant to be responsible for auditing and negotiating plea bargains with those brought up on charges. Just a week after the fall of the country's planning minister, who faced the same sets of issues. It's proving a challenging time to run Brazil.

And that's to say nothing of the Zika virus. With a mounting number of international calls for the Brazilian government to halt August's Olympic games — which won't happen (and shouldn't, given the nature of the disease and scale of the epidemic). But the timing could hardly be worse for the Brazilians.

Still, despite the global attention that's about to be given to every angle of life in Brazil — and the unique opportunity for local protesters to call attention to their grievances — **we've probably turned the corner on Brazil's epic political crisis.** Temer has nowhere near the political opposition to his regime that president Dilma Rousseff experienced; and as only an interim president with elections coming up in 2018, there's little to gain politically for parliamentarians to maintain what's been an extraordinarily polemical fight. Instead, congress is giving Temer and his administration strong support; parliamentarians now being interested primarily in getting out of a deep recession (and securing their own political fortunes).

Concern over the Temer administration should now focus not on petty politics but on the specifics of the country's ongoing corruption probe. It's by far the largest that any emerging market in the world has

experienced in decades: an independent investigation, run by well-resourced and extremely capable investigators. And the investigators themselves are only spurred on by their successes through the impeachment proceedings of Dilma Rousseff. Most everybody senior in her government proved involved in one way or another. Michel Temer and his party, the PMDB, were partners of presidents Lula and Rousseff; and there's plenty of reason to believe the probe will hit others in their camp going forward. But even here, while the issue will be embarrassing, the bar will be extremely high to pose the kind of threat to Temer that Brazil has just experienced with its past two presidents. We're nowhere close to the end of the scandal, in the grand scheme of Brazil's trajectory things are set to improve — particularly as investigators will want to make sure to secure a few solid convictions rather than risk getting lost by casting too wide a net, as the Italians did during the Mani Pulite years in the 1990s.

Mexico

Big gubernatorial elections across Mexico yesterday. President Enrique Peña Nieto's PRI performed poorly compared to the center-right pan – problematic for an unpopular president (at 30% popularity presently) with an otherwise strong reform agenda. The 2018 presidential election is wide open.

But on this front, the biggest news is a solid performance for Morena, the new party of Andres Manuel Lopez Obrador. Lopez Obrador, is now set to become the clear leader of the Mexican left, and is well positioned as a presidential candidate. A charismatic, strongly populist political leader; a darling of workers and the dispossessed ideologically more in the frame of Castro and Chavez than any of the serious political players Mexico has seen emerge in decades; the rise of Lopez Obrador puts a significant new tail risk on the horizon for the western hemisphere. Where, for all the talk about the region reverting back to the Washington consensus, Mexico could be positioned to head in a dramatically different direction. Something we'll be watching closely over the coming year.