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No Surprise – the World in 2009 Has More Risk than We Have Seen in Many Years

Annual Aon Political Risk Map Shows its Dicey Time for Supply Chain Operations Right Now; Political Instability, Unrest Could Cause some Countries to Become Much More Risky Overnight

SCDigest Editorial Staff

For 16 years, insurance and risk management company Aon has partnered with researchers at the UK's Oxford Analytica to produce a view of worldwide risk at a country by country level, including political risk, economic and more recently supply chain risk.

Risk management has been high on the corporate supply chain agenda for many years, as risk potential dramatically impacts how many companies think about both supply and demand elements of their value chains – now more than ever.

Actually, given the worldwide recession, in this year's map Aon actually removed the icon signaling economic risk from each country where it would normally be indicated because there would have been so many countries having high levels of economic risk that the assignment would have become meaningless.

However, perhaps the major theme of the 2009 map is that those economic troubles are turning into political problems in dozens of countries.

"Economic risk underlies much of the political risk we are seeing," said, **Miles Johnstone**, a Director in AON's Crisis Management group. Political crises can have a devastating effect on supply or demand chains in the affected countries.

Worse still, political risks are especially volatile in nature, Johnstone notes. While the risk map provides a view at a fixed point in time, political turmoil that may impact a company's supply chain operations can arise very rapidly, especially in these times. That means companies must be especially aggressive in developing intelligence about political developments in various countries and regions, and craft aggressive mitigation plans for worrisome areas.

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In fact, Aon this year for the first time colored some countries in red, representing "very high" overall risk, versus a broader "high risk" designation in previous years. It says it is impossible to get various forms of trade insurance in some these very high risk countries, but possible in a few of them even under these conditions.

Actually, the number of countries receiving "downgrades" on overall risk profile (18) was not much higher than those receiving overall "upgrades" (13). Many of the downgraded countries are in Eastern Europe, many of which borrowed heavily to fuel what looked like strong economic prospects just a couple of years ago.

Labor and civilian unrest is also a growing concern. Countries such as Iceland, Lithuania, Greece and several others are experiencing increasingly strident protests on their streets – with some turning violent.

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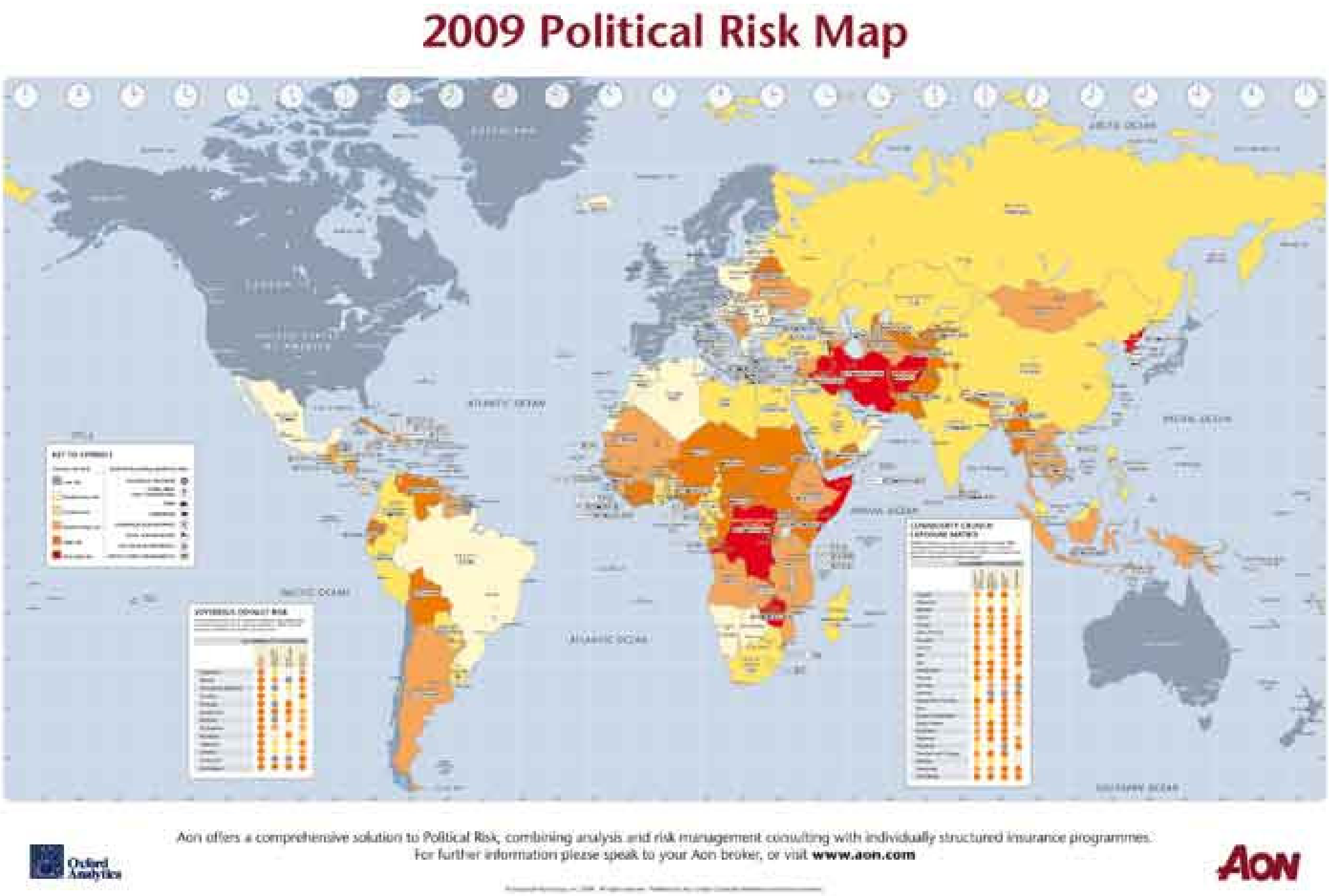

Some are worried that this unrest could actually move to more developed nations if the economic downturn lasts for many months.

"Supply chain disruption risk also remains crucial," Johnstone said. He notes, for example, the dramatic increase in ocean piracy seen in recent months,

A key factor in supply chain risk, in addition to the political instability that can bring the flow of goods to a stop, is the very volatile condition of commodity prices. As they soared before the credit crunch, many developing and even more developed countries were pursuing "nationalistic" strategies that led to broken contracts, nationalization of foreign-owned assets, and other tactics that increased risks. Now, with commodity prices dramatically lower across the board, economic pressure in these commodity-dependent countries is high, which may lead to unrest, political instability, and "scapegoating" of other countries by leaders.

Finally, in another bit of worrisome news, a growing number of countries are at risk of defaulting on their foreign debt obligations. When this happens, many negative ramifications within the country and with its trading parts can ensue.

All that means companies need to take many additional steps to reduce their risk exposure. Such steps can include changing sourcing strategies, changing contract and payment terms, changing (either way) the point at which ownership of goods or materials is transferred, and using insurance, among other possibilities.