

**PHP Global Risk Analysis Project, PHP Research Institute**

# **PHP Global Risk Analysis 2019**

**(Summary)**



© 2019 PHP Institute, Inc. All rights reserved.

Neither this summary nor excerpts thereof may be reprinted, copied, or retranslated without the express permission of the PHP Institute, Inc. Citations must specify the summary as a source.

The views expressed herein are those of the project as a group and do not necessarily represent the views of any organization which project members are affiliated.

PHP Global Risk Analysis Project, PHP Research Institute

PHP Institute, Inc.  
NBF Toyosu Canal Front Building  
5-6-52 Toyosu, Koto-ku, Tokyo 135-8137, Japan  
E-mail: [think2@php.co.jp](mailto:think2@php.co.jp)

# English Summary of the “2019 PHP Global Risk Analysis” Report

## Introduction

This is an English-language summary of the “2019 PHP Global Risk Analysis” report, published in Japanese at the end of 2018 by PHP SoKen (PHP Research Institute), the policy think tank of the PHP Institute.

Seven years ago, the PHP Research Institute launched its Global Risk Analysis Project. Since then, this annual report – the 2019 edition being the eighth in the series – has won a broad readership in Japan’s business, governmental, and media spheres. This year’s full report, published in Japanese, may be downloaded from the following URL: <https://thinktank.php.co.jp/policy/5281/>.

Beginning with the “2012 PHP Global Risk Analysis” report, the first in this series, these publications have consistently called attention to interactions between the political and economic realms, stressing the need to adopt perspectives and craft strategies that address them both in an integrated manner. Today the fusion of politics and economics is more visible than ever. As the line between them is increasingly blurred, business leaders and economic policymakers alike make political and security factors an essential part of their considerations, while those involved in the security policy side are ever more involved in the economic sphere.

In the “2019 PHP Global Risk Analysis” report, the PHP Research Institute has once again sought to create a resource that experts in fields from international politics and regional studies to global finance, international economics, and cyber security can draw on for their focused considerations of the world today. The thorough integration of politics and economics has made this an age when risk factors from both of these sides interact in complex ways, and it is certain to continue to become more important that specialists with a full range of backgrounds come together to carry out their analyses.

The Japanese-language report consists of a “Global Overview” presenting the context for the various risks confronting us, followed by the main body of the text, an analysis of 10 global risks that will be of particular concern to Japan in 2019, their likely impact on the country, and their implications for Japanese policy choices in the year to come. This English-language summary includes a complete translation of the “Global Overview” and the key points of analysis for each of the risks.

The order in which the risks are presented does not represent a ranking of their importance. They have been arranged so as to highlight connections among them and to better illuminate the overarching structure of global risk for our readers.

This era of tremendous change will engender a full range of new policy options that have until now been unfeasible. For both corporations and nations – and for the liberalist international order upon which Japan relies – the ability to take

timely advantage of the strategic moments likely to arise over the next few years will be decisive.

We sincerely hope that this English-language summary report will provide readers with valuable perspectives that serve them well in line with their interests.

January 2019

PHP Global Risk Analysis Project, PHP Research Institute

# Global Overview

## Beginning a Troubled Transition to a New International Order

- We are now seeing a power shift from the developed nations of Japan and the West to China and other emerging economies, along with backlashes against the trends of globalization in developed states and new synergies between authoritarianism and emerging technologies. These new realities are chipping away at the grand design of the post-World War II era, which sought to integrate authoritarian powers into the liberal international order.
  - The rise of China, a power rejecting liberal democracy, has presented a success story differing both politically and economically from the developed nations. The trends of liberalization and democratization are in decline around the globe.
- Emerging technologies including artificial intelligence, big data, automation, and nanotech are engendering multifaceted and deep-reaching change, making them a key focus of competition as various actors strive for supremacy. Clashes in the high-tech sphere are no longer restricted to the military and economic arenas; they now impact everything from values to political regimes.
  - Zero-sum consideration of national interests has intensified in the high-tech realm, particularly in terms of technological geopolitics and the competition to achieve technological supremacy.
  - As emerging technologies are implemented in society, the possibility grows that authoritarian regimes paying scant heed to people's privacy and other rights will find themselves in an advantageous position. Dictatorships will opt for surveillance-oriented infrastructure along the lines of the Chinese model in their efforts to preserve their regimes.
  - As societies continue to fracture even in developed nations, concerns will rise that governments will move to adopt "softer" supervision of their populaces with AI and big data tools, moving gradually toward more authoritarian positions.
  - There is a need to create new international rules in line with the reality of the new age in which we find ourselves.
- In developed states, people who feel threatened by the forces of globalization and openness will be fervent supporters of "our country first" modes of thinking. We will see continued backlash against openness, as evident in protectionist trade policies and opposition to immigration.
  - There has been growing recognition that the openness of liberal democracy is being exploited by authoritarian powers, via mechanisms like technology transfers and the "sharp power" exercised by China and Russia. However,

suppressing or rejecting this openness would go to the very heart of the liberal order making it difficult to achieve consensus among the countries of the West on how to address this.

- As the United States continues to adhere to its “America first” policy and Europe sees its centripetal force dwindle, China and Russia will seek to create a more multipolar world with less American influence. The realignment of partnerships in the Middle East will accelerate, and as American dominance wanes, the “jungle will grow back,” as argued by the historian Robert Kagan.
  - Regional powers will seek to expand their spheres of influence, while smaller states will engage in strategic hedging as they wait to see which way the cards fall.
  - The Trump administration will pursue “peace through strength” approaches only in cases where American interests are clear. As the United States, lacking clear-cut designs for regional orders, draws down its participation in those regions, it will trigger “cannibalization” among US allies (such as Turkey and Saudi Arabia, or Japan and South Korea).
  - US financial dominance will remain solid, but there will be increased moves to lessen the importance of the US dollar as a result of Washington’s reckless reliance on economic sanctions against Iran and other states.

## **From “Chimerica” Toward Strategic Decoupling**

- The Sino-American relationship will shift from one of mutual reliance to a more adversarial mode.
  - The October 2018 speech by US Vice President Mike Pence at the Hudson Institute was a strong presentation of America’s readiness to engage in strategic competition with China.
  - US strategy is increasingly aligned toward preventing China from mounting effective challenges to American supremacy in the military, economic, technological, and ideological realms.
- The Trump administration will wield tariffs and investment restrictions to put the brakes on increased Sino-American economic integration as a means of extricating the United States from the present threat of “economic mutual assured destruction” that the two nations face. The mutual dependency now seen, described by Niall Ferguson as the “Chimerica” relationship, will gradually give way to strategic decoupling aimed at reducing American vulnerability to its Chinese partner.
  - Once the decoupling process is complete, will there be a full-scale cold war between the two sides? The strategic decoupling may provide an opportunity to reconsolidate the supremacy of the liberal international order.
  - There will be an inevitable reconfiguration of global supply chains, prompted by Brexit and other factors.

- China will seek to avoid all-out confrontation with the United States as it continues its efforts to become an innovation-based economic superpower. While continuing to capture what technologies it can from Japan, Europe, and other economic players, it will pursue a self-driven path to success.
- President Trump's preference for direct deal-making makes it difficult to predict whether China and the United States will head straight toward confrontation. If the Trump administration adopts a confrontational stance as a means of putting pressure on China, making changes to the requisite conditions for negotiations to proceed, it could in the end force America to make poor compromises in dire situations.
  - Even if Washington and Beijing do reach a compromise, it will do nothing to alter the fundamental structure of their confrontation. With its bureaucratic organizational culture, China is unlikely to place much faith in the highly unpredictable Trump administration – meaning, in times of crisis, that it will prove difficult to find points on which to cooperate.
  - For North Korea and other states, this period of Sino-American standoff will provide greater opportunities to shore up their regimes.

## Welcome to the Gray World

- We will see the emergence of a “gray world,” in which the main expected scenarios are more difficult to plot out at the higher strategizing levels, as well as at the lower levels where policy is planned and implemented.
  - Conditions that are not clearly demarcated in black and white are a particular weak point for Japan's governmental and private sectors alike.
- While the confrontation between China and the United States is likely to take on more acute forms, its final denouement remains murky. Even if the end result is destined to be a new cold war between the nations, uncertainty will remain high until we get there, and conditions will continue to be right for miscalculations along the way.
  - It is not risk free to avoid choosing either side to back in this confrontation, due to the considerable potential for ending up wedged between the two superpowers.
- Competition will heat up among actors seeking to define the rules governing the data-driven societies and economies that will impact national influence. We should see constant alignment and realignment, mainly involving the United States, China, and Europe, as this process unfolds.
- The global economy will be exposed to risk of a slowdown due to the US-China trade war. Economic policy regimes will trend away from monetary relaxation and toward increased government spending; the adjustments called for during this regime shift will pose challenges.



- Uncertainty will burgeon as nations prioritize domestic political concerns over *raison d'état*.
  - In the United States, President Trump's personality will continue to be a factor increasing uncertainty. There are limits to what Japanese Prime Minister Shinzo Abe can hope to achieve through his personal relationship with the US leader.
  - The emergence of personalist dictatorships will reduce global stability.
  - Business will stagnate due to worries about the predictability of government policy approaches (for instance, the waivers issued by the United States allowing certain nations to purchase Iranian oil despite sanctions preventing exports).
  - The year 2019 will see elections in countries including Thailand, Moldova, Ukraine, Indonesia, India, Australia, Belgium, Greece, Israel, South Africa, Canada, and Argentina. In Europe, the presidents of the European Council, the European Commission, and the European Central Bank are all coming to the ends of their present terms in office, and European Parliament elections are slated for late May.
- Major powers will engage in military competition in multiple domains, expanding their high-tech armaments while also continuing to test opponents' will in "gray zones" falling short of warfare, such as through cyber attacks, law enforcement, and operations to manipulate public opinion.
  - Cyber defense does not fit neatly into existing legal frameworks, whether international or domestic. Japan's legalistic approach, through which it aims to avoid all legal risk in this domain, will not be sufficient to address the threats.
- Software integration will proceed in all industrial fields, and corporate collaboration going beyond traditional industry divisions, along with market entry by firms from other industries, will increasingly be the norm. The leading companies of the past will find their positions threatened.
- International agreements on environmental issues will be increasingly difficult to strike, as exemplified by the US withdrawal from the Paris Agreement on climate change mitigation. At the same time, pro-environmental organizations will increasingly sound the crisis alarm. Entirely separate from the stagnating negotiations among governments, individual countries could respond to devastating natural disasters and extreme weather by moving swiftly to beef up their environmental regulations, and investors could adopt more stringent standards for their ESG investment.

## Global Risks 2019

### 1. Full-Blown US-China Competition for High-Tech Supremacy

- Intensifying competition to take the lead in emerging technologies
- Liberalism versus authoritarianism in the digital space
- Restrictions on corporate activity due to more stringent regulatory approaches from China, the United States, and other states

### 2. Cyber Attacks on International Sports Festivals; Extended Islamic State Influence Online

- Potential for long-lasting damage to infrastructural functional capacity at large-scale international sports festivals
- Growth in Islamic State supporters rooted in increases of cryptocurrency users and foreign laborers in Japan

### 3. Growing Risk of Inadvertent Military Incidents Due to Intensifying US-China Rivalry

- Deepening strategic competition between Washington and Beijing
- Accidental clashes between Chinese and American military forces in the South China Sea
- Heightened tension between the two superpowers in connection with the Taiwan situation

### 4. Recession in the US Economy Triggered by Multiple Factors

- A cyclical reaction to the growth of recent years, combined with protectionist trade policy and rising interest rates, to weigh down the American economy
- Three negative accelerators that could plunge the US economy into a tailspin

### 5. "Our Country First" Nationalism: The Beginning of the End for Europe?

- Movements sparked by nationalist administrations in European states pushing back against the trend toward European integration
- Potential for dramatic political shifts if a Eurosceptic "nationalist coalition" performs strongly in European Parliament elections
- Continued political paralysis in Britain as actors seek to avoid a "no deal" Brexit

- 6. Russia's Influence-Extending Efforts Amid Superpower Competition**
  - No change in the Russia-China rapprochement trend, even as Moscow and Washington look for ways to relaunch dialogue
  - Formation of Russia-led ad-hoc partnerships excluding America in the Middle East
  - Russian aims to enhance Indo-Pacific presence through its Greater Eurasia Strategy
- 7. Opportunities and Threats Arising from China's Sudden Change of Attitude**
  - A dead end for China's economy brought about by US President Donald Trump's hardline economic stance toward the country
  - Friendly Chinese diplomatic overtures aimed at undermining the American strategy of decoupling from China's economy
  - Indo-Pacific nations increasingly squeezed between China and the United States
- 8. Increasing Illusions of Korean Reunification and Neutrality and a Crisis in the US-Korean Alliance**
  - Illusory goals of a "neutral Korean peninsula" spread by the intensifying Sino-American strategic rivalry
  - The South Korean Moon Jae-in administration's moves to shelve the denuclearization process in favor of stoking anti-Japanese sentiment in pursuit of Korean reunification
  - A decisive crack forming in the US-Korean alliance following President Trump's unilateral declaration on the reduction of the US troop presence in South Korea
- 9. Instability in the Middle East Triggered by US Pressure on Iran**
  - Heightened Iranian instability from the Trump administration's "maximum pressure" approach
  - Growing risk of localized clashes between Israel and an Iran increasingly willing to extend its reach abroad
  - Heightened unpredictability due to new generations taking power in petroleum-producing monarchies
- 10. Latin America as the New Front in US-China Competition to Redefine Hegemony**
  - Accelerated Chinese moves to spread influence in Latin America and US pushback in the areas of trade and development assistance
  - Development of migration and refugees as international issues throughout the Latin America/Caribbean region
  - Heightened political risk from the rise of populism

## Project Members

Masafumi Iida  
Senior Research Fellow  
National Institute for Defense Studies

Satoshi Ikeuchi  
Professor  
Research Center for Advanced Science and Technology  
The University of Tokyo

Masafumi Kaneko  
Executive Officer/Senior Research Fellow  
PHP Institute, Inc.

Haruyoshi Mabuchi, CFA  
President  
Bouquet de Fleurettes

Seiya Nakajima  
Visiting Professor  
Fukui Prefectural University

Toshio Nawa  
Executive Director/Senior Security Analyst  
Cyber Defense Institute, Inc.

Izuru Sugawara  
CEO  
Global Risk Advisory  
Analyst of International Politics

Koichi Tajima  
Division manager  
Research Division, Japan Credit Rating Agency Ltd

Toshiyuki Yasui, Ph.D., PMP  
Guest Professor  
Graduate School of System Design and Management, Keio University