



***PHP***

# **Global Risk Analysis**

**2021**

PHP Global Risk Analysis Project  
PHP Research Institute

(Summary)

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# English Summary of the “2021 PHP Global Risk Analysis” Report

## Introduction

This English-language summary presents the essence of the “2021 PHP Global Risk Analysis” report, published in Japanese at the end of 2020 by PHP Sōken (PHP Research Institute), the policy think tank of the PHP Institute, Inc.

The “PHP Global Risk Analysis” reports represent the output of focused investigations by experts in fields from geopolitics and regional studies to international finance, the global economy, and cyber security issues. The 2021 edition is the tenth annual report in the series. This year’s full report, published in Japanese, may be downloaded from the following URL:

<https://thinktank.php.co.jp/global-risks-2021/>

The Japanese-language report comprises a “Global Overview” describing the global context for the wide range of risks we face today, followed by detailed analyses of 10 global risks that will require particular attention from Japan in 2021. These are accompanied by rundowns of their likely impacts on the nation and a section on the policy implications for Japan. This English-language version is a complete translation of the “Global Overview” and the key analysis points for each of the 10 risks.

The risks are not presented in order of their importance, but have been arranged so as to highlight the connections among them, as well as to make it easier for readers to grasp the overarching structure of global risk in 2021.

Ever since this report was first published in 2012, it has focused on the connections between politics and economics. The COVID-19 pandemic that swept the globe in 2020 has made this perspective, taking both the political and economic spheres into account, all the more important. In 2021 we will see the launch of the new administration of US President Joe Biden championing a fresh focus on international cooperation, and hopes

are high that there will be more predictability on the American foreign policy front. Thorny challenges remain, though, including the fraught US-China relationship, the “green shift” in finance and investment, and the need to conquer the coronavirus. In all of these areas we can expect authoritarian politics to continue exerting considerable sway.

It is our hope that the tenth “PHP Global Risk Analysis” report summary will provide valuable insights to readers who are keeping careful watch on the threats and opportunities that arise in this era of uncertainty.

January 2021

PHP Global Risk Analysis Project, PHP Research Institute

# Global Overview

## A Post-COVID-19, Post-Trump World at a Crossroads

- The coronavirus crisis is exposing politics, economies, and societies to enormous stress.
  - The world has seen historically unprecedented restrictions on various activities, leading both supply and demand to dry up almost instantly. Without an end to the COVID-19 pandemic many national economies will fall into crisis conditions, triggering deep confusion in political and societal spheres. Newly emerged and developing economies that have suffered particularly severe damage could be sources of geopolitical instability.
- The pandemic is accelerating great-power competition and trends toward “our country first” nationalist thinking, set firmly in motion by the administration of US President Donald Trump.
  - During the four years of the Trump administration, developed nations have seen China’s provocations in a range of fields and people’s unease with globalization and international openness become undeniable fixtures impacting the policy landscape. There will be no returning to the world as it was before Trump.
  - The administration of President Joe Biden will focus on repairing US alliances and international systems, but will be pressed to spend most of its energy on grappling with the pandemic, employment, and other domestic issues. Deep divisions in American society will hobble the Biden White House, and the new president will find himself tested in terms of his ability to restore domestic stability in American society while shaping the international order.
  - Climate change, meanwhile, continues to emerge as a challenge requiring international cooperation to tackle. We will see new confrontations arise on the global stage as states gauge the positive and negative impacts on their energy and other interests, and these issues will take front stage in international industrial and diplomatic rivalries alike.
- Economic security is rising as a key concern.
  - As the pandemic severs supply chains, it causes acute recognition of the fragility of interdependence thereby exposed.
  - We are seeing an exacerbated sense of insecurity in connection with dependence on other nations. There will be considerable adjustments to supply-chain relationships engendering dependence on certain nations; combined with

the trend toward protectionism that has arisen in recent years, this will enhance the drive to increase self-sufficiency.

- Nations will move to implement economic security policies that bolster the resilience of their economies and pursue independence in the industrial and technological fields that have strong impacts on traditional national security. Corporate activity will become a central facet of the strategic competition between states.
- In the COVID-19 pandemic, the scope of “strategic goods” is expanding to include medical and other related supplies. We can expect to see deep-reaching changes in strategic goods and strategic industries as part of the structural shifts to post-coronavirus industries and societies, as exemplified by green and digital technologies.

## A New Normal in the International Order

- The Biden administration will stick to the course of strategic distancing between America and China.
  - Mutual distrust will become entrenched between the West and China over questions of responsibility for the spread of coronavirus infections and measures to prevent them. The Hong Kong issue will also underpin Western views of China as fundamentally different from them. The “mask diplomacy” and “wolf warrior diplomacy” that Beijing rolled out during the pandemic will trigger powerful backlashes, and competition between China and other powers will increasingly take on the nature of a struggle between competing systems of government.
  - The Biden administration will seek for ways to work together with China on issues like the environment, nuclear nonproliferation, and COVID-19. At the same time, though, the rivalry between these superpowers will touch on some core areas, starting with trade and high-tech industry and including the Uighur minority in western China, Hong Kong, Taiwan, and finance. Washington will strive to avoid unneeded escalation and find a path to a “managed confrontation” approach allowing issues to be handled on a practical working level.
  - The Biden White House will work to coordinate its policies vis-à-vis China with Japan, Europe, and other allies and friendly powers. China, meanwhile, will strike back via attempts to forge a new economic sphere, as seen in the achievement of the Regional Comprehensive Economic Partnership (RCEP) and

China's signaling of its willingness to join the Trans-Pacific Partnership (TPP). As Washington returns to a hardline stance against Russia, we are certain to see a rapprochement between Beijing and Moscow. The outcome of India's clashes with China over their national border will determine the course of geopolitics going forward.

- The divide in digital platforms will increase between the liberal, democratic world and the authoritarian world.
  - We will see heightened struggles between the United States, Europe, and China over issues of government access to citizens' data and personal information protections.
  - Russia will exploit the openness of developed nations to continue its information operations that skirt the boundary between the cyber and real-world realms.
- The structure of the Sino-American rivalry will impact different global regions and functional realms in a disproportionate manner.
  - Fierce competition between China and the United States will become the norm in various regions, especially the Indo-Pacific. China will expand its capacity to define systems in areas like shipping routes, information and communications infrastructure, and payment systems. The United States is unlikely to give way in fields where it stands to lose its dominance.
  - Many nations in Southeast Asia and other regions will strive to avoid declaring clear allegiance to the Chinese or American side. Some, including South Korea, will seek to stake out neutral positions.
  - In the Middle East, the end of the Trump administration, which provided robust support to both Saudi Arabia and Israel, will bring about a shift in the power balance. Moves will intensify among the region's powers to redefine spheres of influence, and Middle Eastern actors will gain experience in cyberwarfare.
  - The Biden administration's insistence on human rights issues in its foreign policy will trigger backlash from authoritarian regimes, and could even place the United States at a disadvantage in its strategic competition with China.
- Following Japanese Prime Minister Shinzo Abe's stepping down in 2020, this year German Chancellor Angela Merkel is set to leave office. Given the Biden administration's likely focus on domestic issues, it remains uncertain whether we will see a recovery of the leading liberal democracies' leadership capabilities on the world stage.
  - In 2021 Britain, battered by the double blows of Brexit confusion and COVID-19, serves as host to the Group of Seven summit. Italy, another nation facing severe pandemic headwinds, is the G20 host. Japan, meanwhile, is scheduled to host the

postponed 2020 Olympics and Paralympics in Tokyo. Events to watch in 2021 include elections for Iran's presidency and the Hong Kong Legislative Council.

## Growing Societal Contradictions Throw the Zeitgeist

### Out of Balance

- The appropriate form of the social contract is increasingly being reconsidered.
  - Leading liberal democracies grappling with the coronavirus crisis are struggling to determine how to strike a balance among liberty, safety, and economic wellbeing. Many developed nations have seen the limits to their governance capacity exposed by lasting states of emergency.
  - Authoritarian regimes and governments in immature democracies will continue to tighten their grip on power in the name of the safety of their people. These states will extend their surveillance of and restrictions on activities by citizens to suppress opposition. China-made surveillance technologies will see increasingly wide use throughout the non-liberal-democratic world.
  - Given the choice between freedoms or safety, or between economic vitality or safety, the balance will increasingly tilt toward the latter choice. As governments carry out large-scale interventions to prop up economic activities and support those at risk of poverty, the role of the state will expand dramatically, making a renegotiation of the social contract inescapable.
  - The success or failure of socioeconomic models that are redesigned for the post-COVID-19 era will determine which states or governmental systems come out ahead in future comparisons.
  - As popular discontent with increasing authoritarianism, unemployment, racial discrimination, and other problems goes beyond the breaking point, governments across the globe will see an escalation in objections to their rule. Knowhow about effective means of popular resistance will rapidly cross borders via social media and other channels.
- We will see shifts in the relationships between nations and online platforms.
  - The major platform operators are increasingly vital components of societal infrastructure, but they have the potential to encroach upon the functions of the state and freedoms of individuals. We have entered a period of adjustment in the relationships between these operators and national governments, as seen in US Congressional debate on the need to break up major players like the GAFA giants.



- A “China model” has taken shape that unifies these online platforms with the state. Whether liberal democracies can forge their own model for a digital society will be an increasingly vital question.
- Extreme inequality and environmental degradation will continue driving reconsiderations of capitalism.
  - Pandemic lockdowns and other restrictions on people’s activities impact the weak in society most of all, thereby widening wealth gaps. The automation and mechanization being pursued to reduce contact-based infection could trigger further rises in unemployment.
  - Calls for a “green recovery” and similar moves toward a more sustainable society as we emerge from the pandemic will gain momentum.
  - There will be increasing opportunities to rethink our approach to capitalism, as seen in ESG investment trends, the US Business Roundtable’s recent call for multi-stakeholder capitalism, and the World Economic Forum’s Great Reset initiative.
  - Neoliberalist thinking, with its emphasis on the primacy of private-sector vitality and the market function, will continue to lose support as more emphasis is placed on the government’s role in the economic sphere. Calls will mount for industrial policy that invests in society as a whole, as described by scholars like Karl Aiginger and Dani Rodrik, and for a redefinition of government investment, as urged by the economist Mariana Mazzucato.
  - Increasing numbers of people will argue that eradicating excessive wealth disparities and tackling global warming cannot be accomplished within social systems predicated on capitalism. Among them will be those stressing the need for “degrowth” or reevaluating Marxist thought.

# Global Risks 2021

## 1. New Strategic Competition Touched Off by Climate Change

- Global moves toward cooperation, and new confrontation, in the name of “climate justice”
- Rising risk of relying on China for rare metals and electronic components in connection with the uptake of sustainable energy and electric vehicles

## 2. Crisis Threatening Economic Have-Nots with the Exit from Pandemic Responses

- “Weakest links” in the societal chain concealed by a focus on fiscal and financial measures in the COVID-19 response
- As socioeconomic winners extricate themselves from the coronavirus shock, an end to measures to prop up economies threatens the losers with deeper crisis
- China takes its early recovery from the pandemic as an opportunity for aggressive new economic measures

## 3. “Heat Waves” of Rioting and Terrorism Provoked by the Pandemic

- Proliferation of “resistance knowhow” supports ceaseless unrest among youths worldwide
- Frequent terrorist incidents in Europe and a new phase of Islamic State terror with increasing force in Africa

## 4. Cyberattacks Becoming Part of Nations’ Strategic Arsenals

- Security measures poorly adapted to threats result in more serious damage
- Increase in destructive cyberattacks that halt functions at key facilities
- Cyberoperations (fraud) affect the management of the Tokyo Olympics and Paralympics

## 5. “The Enemy Within” Reduces the Impact of Biden’s Cooperative Diplomacy

- New Biden administration focused mainly on domestic rebuilding
- Sharp political fractures limit America’s ability to engage internationally
- Rivalry becomes the norm in US-China relations; corporations continue being pressed to choose sides

## 6. Xi Jinping’s Increasingly Emperorlike Position Aggravates Conflict

- Rising opposition to the excessive concentration of power in Xi’s hands
- Chinese hardline stance bolsters “New Cold War” between China and the United States

**7. “New Cold War” Gives North Korea New Vigor as South Korea Sees Turmoil, Japan’s Presence Recedes**

- North Korea restarts provocative actions on a limited basis under the Chinese aegis
- Pinned between China and the United States, South Korea finds itself increasingly split
- Japan loses its footprint on the Korean peninsula

**8. Thai Regime Shaken by Loss of Stabilizers**

- Taboos shattered as criticism of Thai monarchy erupts
- Strife arises between human-rights focus of Biden’s foreign policy and authoritarian regimes spreading across Southeast Asia

**9. Loss of “Trump Pressure” Creates Power Vacuum in the Middle East, Heightening Conflict Risks**

- Aggressive actions toward Iran by United States, Israel in the last days of Trump’s tenure make nuclear agreement negotiations harder to restart
- Turkey expands influence in Middle East, eastern Mediterranean, Africa, heightening risk of standoffs, clashes with regional powers

**10. Europe Rudderless with Loss of Leadership Following Merkel’s Exit**

- Europe increasingly distrustful of China due to coronavirus, Hong Kong, Taiwan, and Chinese extension of the Belt and Road Initiative
- German-French axis in Europe set to weaken following Merkel’s resignation
- Brexit chaos may trigger breakup of the United Kingdom

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