

PHP Global Risk Analysis Project, PHP Research Institute

PHP Global Risk Analysis

2020

(Summary)

© 2020 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

English Summary of the “2020 PHP Global Risk Analysis” Report

Introduction

This English-language summary presents the essence of the “2020 PHP Global Risk Analysis” report, published in Japanese at the end of 2019 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 a variety of fields, from geopolitics and regional studies to international finance, the global economy, and cyber security issues. The 2020 edition is the ninth 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/policy/5967/>

The full-length Japanese report includes a “Global Overview” describing the global context for the wide range of risks we face today. This is followed by detailed analyses of 10 global risks that will require particular attention from Japan in 2020, accompanied by rundowns of their likely impacts on the nation, and a section on the policy implications for the Japanese government. This English-language version is a complete translation of the “Global Overview” and the key points of analysis for each of the 10 risks.

The risks do not appear in an order representing their importance. They have been arranged so as to highlight the connections among them, as well as to better illuminate the overarching structure of global risk for the readers of the report.

We are now in an era when rivalry and confrontation, rather than collaboration, are increasingly coming to the fore in relationships between nations—as seen in the fierce Sino-American race for supremacy in the economic and technological fields, in addition to the political and security realms. “Our country first” nationalistic thinking is on the rise in the world’s major nations, which are also increasingly willing to use economic means for political ends. Also demanding attention are the development of environmental problems into political issues, the emergence of digital currencies, and other factors with the potential to bring about shifts in the very underpinnings of the power balances and international political ties between states.

We believe that governmental and corporate leaders alike will need to remain attentive to the political and geopolitical risks described in this report for some time to come. It is

our sincere hope that the English-language “PHP Global Risk Analysis” report summary, which seeks to capture the dynamic interplay of politics and economics, will provide valuable insights to our readers.

January 2020

PHP Global Risk Analysis Project, PHP Research Institute

Global Overview

Ongoing Deconstruction of the World Order

- American fatigue with the long years of war ever since the terrorist attacks of September 11, 2001, and the increasing backlash against globalization are causing a particularly American historical substratum—the aversion to being bound by ties to other nations—to resurface. And as President Donald Trump gears up to seek reelection, his administration is wielding US hegemony in distorted ways.
 - The Trump administration’s disdain for alliances and multinational frameworks and its preference for unilateral actions are doing harm to what G. J. Ikenberry describes as a US-led “liberal hegemony” based on strategic restraint. The Group of Seven, whose 2020 summit the United States is scheduled to host in June, has seen its coordination capacity dwindle. Likewise, the G20—this year chaired by Saudi Arabia—is likely to see considerable turmoil. And by blocking appointments to fill empty key posts at the World Trade Organization, Washington is removing that body’s ability to resolve trade disputes.
 - As China steps into its role as a nuclear-armed superpower, the strategic stability we have seen so far on the international stage is entering a phase of readjustment. The United States, following its August 2019 withdrawal from the Intermediate-Range Nuclear Forces Treaty, is hinting at further withdrawals from the New Strategic Arms Reduction Treaty and the Treaty on Open Skies. Hopes are dim for meaningful results from the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) Review Conference scheduled for April–May, leaving the legitimacy of the nonproliferation regime in tatters.
- The global order is increasingly rudderless in the face of a less predictable US hegemony.
 - The United States is striking back against Chinese challenges to its supremacy. China, meanwhile, is increasingly seeking to deal with the United States as an equal counterpart. This Sino-American confrontation shows signs of stretching out into a longer-term rivalry, with no clear way out for the two sides. South Korea remains unable to chart a clear path forward for its regional policy, leaving Japan as the sole front-line state in Washington’s East Asia strategy. Japan thus faces a severe risk of being squeezed between the two sides in the US-China standoff.
 - President Trump has adopted an indifferent attitude toward the goal of European unification, and the strategic unity of Europe and the United States is weaker than it has ever been. Angela Merkel is approaching the end of her term as German chancellor, leaving the continent facing a leadership deficit. If Brexit takes place, Germany and France will have to navigate an uncertain course in their bilateral relationship.
 - Russia is steadily increasing its presence in the Middle East, where American supremacy continues to recede, and is promoting a new multipolar reality there.

China, too, is bolstering its position in Southeast Asia and other regions where the United States is dialing back its engagement.

- As the United States comes to be viewed as less likely to resort to armed force, we could see growing adventurism from states like Iran and North Korea. This could also invite higher-pressure tactics by China against Taiwan, as well as rash actions by US allies like Saudi Arabia, Turkey, and South Korea.
- In the present security environment, the information-technology battlefield is tilted toward the side of the attackers and provocateurs.
 - At a time when the advanced nations of the West seek to avoid military options, Russia and other states that have not given up the use of force will sway the course of events at key junctures.
 - The openness of liberal democracies leaves them vulnerable to influence operations that interfere with their elections and infiltrate their academic and media institutions. The growth of social media services and the fragmentation of societies have increased opportunities for this interference, producing a dangerous situation where trust in liberal democratic frameworks themselves could evaporate.
 - The offensive side has made considerable strides in the effectiveness of its attacks in cyberspace, where defending against such attacks is extraordinarily difficult.
- The major nations other than the United States lack the capability to forge a new order on their own, meaning that the transition to a new international order will continue to be a difficult one.
 - Both China and Russia face problems on the domestic and foreign policy fronts that limit their ability to become involved on the international front. Nonperforming loans are a growing burden for the Chinese economy, slowing the growth that has been vital for the maintenance of social stability. Some analysts are warning that China could present a true threat as it becomes more aggressive in the face of this downturn.
 - In a highly insecure global environment, states that have not reached great power status will engage in a range of complex hedging maneuvers to secure their own autonomy.
 - The United States will continue to reign supreme in financial and military terms. The majority of the international systems depending on American leadership will see some turbulence, but will endure. Washington now lacks the will to show leadership commensurate with its power, though, leaving few openings for a reconstitution of the global order.

Technology and Economics Integrated into Power Politics

- Disruptive innovation is advancing at the same time that power shifts take place, making advanced technologies the primary focus of rivalries between states.
 - The United States is using export controls, investment restrictions, and procurement policy to decouple its high-tech industries from China. China,

- meanwhile, is striving to escape its reliance on the West in technological fields.
- The United States lost the lead in the race to 5G wireless technology, but continues to make up lost ground with its efforts to exclude Huawei from world markets. American players will move next to establish superiority in the 6G field.
 - The space systems vital to both security purposes and data-driven societies will be the scene of increasingly fierce interstate competition.
- Systems for data distribution will be bifurcated into those used in liberal democracies and those preferred by authoritarian regimes.
 - China’s construction of an international data economy via its “Digital Silk Road” scheme will be a source of strategic and economic alarm for the United States.
 - There will be growing policy convergence between the United States and Europe in terms of regulation of data platforms and protection of personal data. Japan and the United States have already signed a bilateral Digital Trade Agreement. A comprehensive Data Free Flow with Trust agreement among Japan, the United States, and Europe may take form.
 - Authoritarian nations will move to enhance state control over data, as seen in Russia’s “sovereign internet law.”
 - As countries other than the United States and China also display stronger “our country first” and protectionist thinking, economic activities will increasingly be swayed by political risk factors. These trends will combine with shrinking wage gaps among nations to help reverse the global expansion trend of supply chains.
 - “Weaponized interdependence,” as H. Farrell and A. L. Newman term it—using another nation’s economic or technological dependence on one’s own as a lever to place pressure on that counterpart—will be increasingly commonplace. We will see more misuse of trade control and investment restriction measures for purported security reasons.
 - The United States will unleash a series of financial sanctions against Iran and other targets. This will invite countermeasures that seek to undermine the supremacy of the US dollar.
 - If “weaponized interdependence” comes under fire from the markets as a policy running counter to economic principles, there could be a backlash against its implementation.
 - Contradictions arising in economies and societies will continue to severely shake the political scene.
 - The US Democratic Party will opt for a left-leaning candidate in the November presidential election, opening the way to the possible emergence of a leftist commander in chief and a great shift in the course of American capitalism.
 - Antigovernment protest movements will grow more extreme in countries around the world no matter what sort of governmental system they have—from Hong Kong to places like Chile, Lebanon, and France. Popular dissatisfaction with the ability of politics to provide solutions and the spread of social media services will set the stage for a lasting “season of protest.”

New Drivers of Structural Shifts: Environmental Issues, Ultralow

Interest Rates, and Digital Currencies

- Severe natural disasters and extreme weather will become more commonplace, and environmental issues will rocket to the top of political and corporate agendas.
 - On the back of the “Greta effect,” the impact of the young environmental protest leader Greta Thunberg, ecologically minded parties will make gains in elections across Europe. If the Greens emerge victorious in the 2021 German general election, the EU will see more stringent environmental regulations on its books.
 - States that receive international pressure on environmental issues will lash out against what they describe as interference in their internal affairs.
 - Various areas of the globe, such as Arctic shipping routes and the Panama Canal, will see dramatic change in their strategic value and their disaster risk evaluations.
 - If Japan is hit by a severe heat wave or a typhoon while Tokyo is hosting the Olympics and Paralympics, Japan’s level of disaster risk and its environmental measures will come under harsh scrutiny.
- As ultralow interest rates become a long-lasting feature of economies, managers of national economies and finances and of corporations will find themselves in uncharted territory.
 - Once ultralow rates settle in as a new normal, corporations will rely increasingly on bond issuance to raise funds and stock markets will be more and more focused on share buybacks, triggering dramatic change in the nature of capital markets.
 - Discipline is increasingly lax in market-based fiscal and investment fields. A lack of caution could cause finances to sour rapidly, potentially intensifying the impact of the next economic crisis. Excessively bullish outlooks may lead to unprecedented market corrections.
 - When central banks can no longer rely on interest rate adjustments once an economic downturn begins, even a medium-scale recession can develop into a full-blown depression. When nations lack leadership and are only looking out for their own interests, there is little chance for international coordination in the face of economic crisis.
- Digital currencies will become increasingly realistic alternatives with the potential to impact the current domination of fiat currencies and to change governments’ economic policy options.
 - In China, which hopes to extricate itself from the supremacy of the greenback, the central bank is considering the idea of launching a new digital currency. In combination with the “Digital Silk Road” scheme, this could present a viable challenge to the US dollar’s supremacy in currency markets.
 - Facebook will urge approval of its Libra currency as a rival to China’s offering. We could also see heightened pressure on central banks in Japan, Europe, and the United States to issue their own formally recognized digital currencies.

- As the authorities bolster their tracking capabilities to make it more difficult for users of digital currencies to evade taxation, there are fears that this could lead to the rise of stronger surveillance states. At the same time, the risk of cyber theft and money laundering will rise.

Global Risks 2020

- 1. US Alliances Shaken by Trump's "Reelection First" Foreign Policy**
 - "Predictable unpredictability" triggered by the US presidential election
 - US-China friction becomes more entrenched for the long term, develops multiple dimensions
 - Damage dealt to America's strategic unity with its allies
- 2. Xi Jinping's Increasingly Hard Line in Response to Rising Pressures**
 - Xi's leadership clique beset by troubles at home and abroad
 - Growing moves in Hong Kong and Taiwan to distance themselves from the Chinese sphere
 - China takes a tougher stance in response to American policy
- 3. China Challenges the Dollar's Supremacy with Its Own Digital Currency**
 - China goes full-speed ahead on development of a digital currency spearheaded by its central bank
 - Beijing pursues ways out of the rule of the greenback by fusing this new currency with its "Digital Silk Road" scheme
- 4. The Korean Peninsula Trapped in a Cycle of "Big Deals"**
 - The US-North Korea relationship oscillates between military tension and rapprochement
 - As other regional powers are pulled into the uncertainty of the Washington-Pyongyang dynamic, the risk rises that North Korea could strike out on a "third course" other than those bringing it closer to China or the United States
 - The structural shift accelerates on the Korean peninsula toward withdrawal by the United States and enhanced presences for China and Russia
- 5. Amid Fiercer Great Power Rivalry, China and Russia Move Closer to "Allied Relations"**
 - Heightened US-China-Russia great power competition brings about "strategic instability" in nuclear armaments
 - Sino-Russian cooperative ties reach new level in the security sphere
- 6. Iran Escalates Tension; Unnerved Pro-US Mideast Actors Touch Off Crises**
 - Iran fans the flames of crisis; President Trump answers with half-cocked military measures
 - Saudi Crown Prince Mohammad bin Salman goes on a charm offensive, but again reveals his tyrannical nature
 - Heightened risk of a preemptive strike against Iran-backed forces by a growingly alarmed Israel
- 7. A Long-Lasting "Banquet" of Low Interest Rates Leads to a Debt Bubble**
 - A decade of ballooning US corporate bond issuance comes home to roost, dragging down various parts of the economy
 - Prolonged low rates undermine fiscal discipline in the public and private sectors alike

8. **Increasingly Vigorous and Diverse State-Supported Cyber Warfare**
 - Enhanced reconnaissance and intelligence operations against targets and increasing numbers of successful destructive attacks
 - Growing commodification of attack tools with significant detection-avoidance and concealment capabilities
9. **Multiple Major Natural Disasters Trigger Politicization of Environmental Issues**
 - Frequent disasters cause economic costs to spiral worldwide, posing new policy challenges to governments
 - Populist politicians lash out fiercely in response to European advocacy diplomacy on climate change
 - Changes become apparent in global fundraising markets with the emergence of “eco-activist” institutional investors
10. **Reliability of Space-Borne Systems Impacted by Frequent Interference Incidents**
 - “Hybrid attacks” along multiple vectors become a factor threatening space systems
 - Satellite geolocation systems rendered unusable by increasingly common types of attack

Project Members

Taisuke Abiru

Senior Research Fellow
The Sasakawa Peace Foundation

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 LLC
Analyst of International Politics

Koichi Tajima

Division Manager
Research Division, Japan Credit Rating Agency Ltd.

Toshiyuki Yasui, PhD, PMP

Guest Professor
Graduate School of System Design and Management, Keio University