



PHP

Global Risk Analysis

2022

PHP Global Risk Analysis Project
PHP Research Institute

(Summary)

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English Summary of the “2022 PHP Global Risk Analysis” Report

Introduction

This English-language summary presents the essence of the “2022 PHP Global Risk Analysis” report, published in Japanese at the end of 2021 by PHP Sōken (PHP Research Institute), the policy think tank of the PHP Institute, Inc.

The annual “PHP Global Risk Analysis” reports are the output of focused analyses by a broad-ranging team of experts in geopolitics, regional studies, international finance, global economics, space-system engineering, and cyber security issues. The 2022 edition is the eleventh report in the series; the full report, published in Japanese, may be downloaded from the following URL:

<https://thinktank.php.co.jp/policy/7210/>

The full Japanese-language report includes a “Global Overview” describing the worldwide context for the various risks we face, followed by detailed analyses of 10 global risks to which Japan will need to pay particular attention in 2022. The report explores the likely impacts of each of these risks on the nation, as well as 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 world’s strategic landscape is undergoing steady change, presenting new forms to us as it does so. The United States and China, two great powers, remain arrayed against one another as rivals, but neither seeks military confrontation; rather, they strive against each other, testing their relative strengths and seeking the appropriate distance to maintain. Flows of people, goods, money, and information across borders are being rearranged for reasons rooted in national security, environmental, and human rights issues; in realms like cyber security, space development, and green technology, the international mood is undoubtedly more competitive than cooperative today. The contradictions laid bare in our systems by economic disparities and environmental crises, along with the havoc wreaked by technological upheaval, are prompting a broad

reevaluation of centuries-old trends in human life on earth, from capitalism to industrial civilization and urbanization. Many of the developments we witness in 2022 will likely be triggered by these major shifts from the current mode of civilization to the next.

The 10 risks in this report are not presented in order of importance. Rather, they have been arranged so as to highlight the connections among them and to make it easier for readers to grasp the overarching structure of the global risks we face.

It is our hope that this eleventh “PHP Global Risk Analysis” report will provide readers with insight they can use to grasp the opportunities that arise amid the dynamic shifts brought about by the political, economic, and technological changes we face today.

January 2022

PHP Global Risk Analysis Project, PHP Research Institute

Global Overview

Bipolarization Advances in Amorphous Forms

- The United States and China seek advantage in their rivalry as they grapple with one another.
 - The Sino-American standoff becomes settled as a facet of the “new normal” in the post-COVID-19 landscape.
 - While maintaining unyielding stances on subjects like Taiwan and human rights, Washington and Beijing have a continuing common interest in the need to avoid military clashes. The sides achieve temporary respites from their rivalry as they build distance between themselves in fields like digital platforms and sensitive technology.
 - If the unfolding series of minor crises escalates, bringing the two sides to the brink of conflict, it will produce a clearly antagonistic dynamic along classical Cold War lines.
- Domestic political developments unfold worldwide in the shadow of the ongoing pandemic.
 - At the Communist Party of China’s 2022 party congress, Xi Jinping is expected to claim an unprecedented third term at the nation’s helm, making “Xi’s China” a fact of life for the global community for the foreseeable future. Pressured by latent opposition within the CPC, Xi will need to pursue smooth international relations for the sake of domestic stability; at the same time, though, he will find it difficult to strike a compromising stance with respect to China’s foreign counterparts.
 - In the United States, the administration of President Joe Biden will stress its achievements in the leadup to the midterm elections in November. Avoiding policy missteps will be of paramount importance to the White House during this period.
 - Following the end of Angela Merkel’s long-lasting chancellorship in 2021, Germany has seen the launch of a “traffic-light coalition” comprising three parties with often differing policy goals. France, meanwhile, will hold a presidential election in 2022. The unifying force of France and Germany at the center of the European Union will prove shaky as the two countries see their leadership limited during these transitions.
 - The United States will watch as four of its allies in the East Asian region—Japan,

South Korea, Australia, and the Philippines—hold elections in 2022. Thailand, too, must hold a general election no later than March 2023. Other key events on the global calendar include elections to determine leadership in Brazil and Northern Ireland, as well as the Beijing Olympic and Paralympic Games.

- Higher-level linkages form among states.
 - New groupings continue to take shape in response to changes in the security environment, as seen in AUKUS (Australia, Britain, and the United States) and the Quad (the Quadrilateral Security Dialogue, including Australia, India, Japan, and the United States), as well as enhanced ties among Russia, China, and other nations in the region surrounding Afghanistan. As the EU's Strategy for Cooperation in the Indo-Pacific shows, existing frameworks are also being pressed to adapt to new conditions.
 - China will move through RCEP, the Regional Comprehensive Economic Partnership Agreement that enters into force in January 2022, and other means to enhance its economic ties with other states. The nation's application for membership in the Trans-Pacific Partnership represents an attempt to defang attempts to contain China and to increase its own influence within the international community.
- Regional conflicts head toward greater direction by local actors.
 - Two decades on from the September 11, 2001, terrorist attacks, the United States is becoming more cautious when it comes to wielding military force when the benefits to the nation are less clear. In the Middle East and other places where American pressure is lessening, regional states and other local actors are orienting themselves for conflict or the creation of new orders.
 - In regions seeing growing power vacuums, IS-K, or Islamic State Khorasan, and other terror groups are becoming more active on the ground. Inexpensive but highly capable drones will increasingly see use in terrorist attacks.

Capitalism and Hyper-Mutual Dependence Enter a Period of

Adjustment

- Governments move to extricate themselves from the “wartime footing” from which they have fought the pandemic.
 - The money supply expands dramatically due to loose monetary policies implemented worldwide in the face of COVID-19's impact. Historically high levels of public debt accumulate as interest rates remain low. As government

functions continue to balloon, corporations and individuals grow increasingly reliant on the public sector, leading to fears of lasting stagnation.

- Even as hopes rise that vaccines and other measures will provide a way out of the pandemic, uncertainties remain, including questions about how long antibodies remain effective and the emergence of new viral variants. Considerable gaps arise in the speed at which various national economies rebound from COVID-19's blow, with some countries experiencing social unrest as a result.
- Capitalism is buffeted by criticisms from all quarters.
 - Against a backdrop of advancing globalization and automation and the decline of unionized labor, capital increasingly holds the upper hand over workers, and labor's share of economic output continues to fall. In developed economies, socioeconomic disparities widen as the middle class dwindles and employment becomes increasingly precarious for many.
 - Fundamentalist critiques of capitalism as the source of these disparities, as well as of environmental crises, spark increasingly vigorous debate on the need to reconstruct an appropriate form of capitalism. Stronger tax-collection regimes and antitrust measures are increasingly a drag on the activities of multinational corporations and major digital platform operators; moves will also pick up pace to roll back the developments that brought these giant actors to prominence.
- The shift from hyper globalization to economic security gains force.
 - Momentum weakens in moves toward further trade and investment liberalization. The environment, human rights, labor issues, data protection, and other factors join national security as causes for more stringent standards brought to bear in order to effect change in supply chains and investment trends.
 - Amid the pandemic and the ongoing Sino-American rivalry, concern continues to rise about excessive reliance on particular nations or companies for vital goods. Economic security policies become the norm as countries increasingly seek to diversify the sources of the goods they need and to revitalize domestic industry.
 - Even between China and the United States, though, trade and investment flows remain vigorous. Various decoupling and recoupling efforts take place on a global scale as nations keep their eye on implications for security and the impact on their domestic societies.
 - Flows of people are an increasingly central political issue with respect to migrant laborers, refugees from civil conflicts and worsening environmental conditions, and immigration controls aimed at preventing the spread of

infectious disease. Alarm grows at moves by some states to send flows of refugees across borders on purpose.

Confusion at a Time of Civilizational Shifts

- The “green revolution,” positioned as a shift to a new civilizational phase, continues its meandering course.
 - The “green shift” moves to extricate economies from reliance on fossil fuels and from mass production, consumption, and waste are the antithesis to industrial civilization. The world sees complicated interplay between opposing trends toward global industrialization and postindustrialization.
 - Moves accelerate toward reducing industry’s and society’s reliance on fossil fuels, but the energy and electricity shortages seen in 2021 bring latent risks to the forefront during this transitional period. Hydrogen and other resources seen as future energy sources also join in this increasingly confused free-for-all.
 - Fierce competition arises to determine who will set the green agenda that determines the competitive standing of nations and corporations. The rules of the game in the automotive sector are changing dramatically, as seen in the rise of electric vehicles and mobility as a service; this will be a decisive point for the Japanese economy as it teeters between vigor and decline. Moves continue to achieve an agreed-upon set of environmental accounting standards.
 - Nations increasingly account for the impact of climate change on their military and security situations as they craft their strategies. The United States and other leading countries make greater efforts to assess flooding and other risks that face their military installations.
- The “digital civilization” takes increasingly clear form.
 - The Artificial intelligence, 5G communications networks, and quantum computing combine to take our digital society to a new level. Moves to mint purely digital currencies and expand online environments like the “Metaverse” have growing real-world impact.
 - “Globotics,” as put forward by Richard Baldwin, plays a growing role in industry; one outcome will be the exposure of white-collar workers to waves of cutthroat competition.
- Cyber, outer space, the human cognitive domain, and other fields become new competitive realms.
 - As the wholesale digitization of societies continues apace, cyber security remains a key issue. Vulnerabilities in the physical infrastructure underpinning

cyberspace, such as undersea communications cables and satellite networks, become a focus of fresh attention.

- Controlling outer space is recognized as essential for controlling the cyber realm. Constellations of satellites are put into orbit and the space business expands rapidly alongside fierce competition among nations to exploit outer space.
- Individuals continue to wield more influence through social media; at the same time, though, social environments continue to prove weak against information pollution. Influence operations, such as through the dissemination of fake news, become a standard part of the strategic arsenal. The human cognitive domain becomes a new field for strategic maneuvering.
- Society sees increasing decentralization, accompanied by resistance to this trend.
 - The weaknesses of highly urbanized societies are being laid bare by the pandemic. The risk of severe natural disasters is also growing more dire. The rapid acceptance of remote work is contributing to moves away from urban concentration and toward more societal scattering.
 - The merits of urbanization, namely the integration and efficiencies it makes possible, remain compelling. More scattered societies also discover new demerits, including the environmental burden of reliance on broader distribution networks and a lack of drivers to keep them running, as well as the fragility of information infrastructure connecting widely dispersed homes. Societies increasingly walk a tightrope between further scattering and reconcentration in populated centers.
- Liberalism finds itself running aground.
 - As societies make their way through this period of major change, they see the rapid rise of movements demanding climate justice and other forms of social justice, leading also to fierce backlashes.
 - Liberalist thought that seeks to achieve a blend of the freedom of the individual and compromise achieved through debate and appropriate procedures finds itself increasingly buffeted by attacks from both the right and the left.

Global Risks 2022

1. A “Chinese Nightmare” Triggered by Xi Jinping’s Increasingly Autocratic Rule

- Xi given access to unfettered power by the “historical resolution” granting him a third term as China’s leader
- An increasingly hardline Chinese stance threatens to trigger fresh military tensions

2. Northeast Asia Destabilized by US-China Strategic Moratorium

- The asymmetric gap between the United States, with its nuclear capabilities, and China, with its missile capabilities produces a superficial “strategic stability” along with the divergent aims of these parties in the same arena
- Nuclear crisis reignited on the Korean Peninsula
- Decoupling of alliances and an arms race in the Northeast Asian region

3. Arrival of an Age of Space Geopolitics Brings Dramatic Shifts to the Space Development Environment

- The rise of China as a space power accompanies a clear trend toward multipolarity in the satellite launch field
- The outer-space game changes as constellations of satellites are designed and launched at full scale
- International maneuvering heats up as states strive to define global standards for the space field

4. Global Rifts Grow Starker with the Green Shift

- Divergent positions become clear on climate change and decarbonization
- Resource prices to remain high over the longer term as power shifts in the markets
- Inconsistencies arise between views of nations and the financial sector on the environmental field

5. Global Market Confusion Triggered by Difficulty of “Soft Landing” for the US and Chinese Economies

- The US Federal Reserve’s stimulus tapering reverses actions by investors and corporations used to flows of ultra-easy money
- Doubt cast on the capabilities of the Chinese authorities in charge of macroeconomic controls
- US, Chinese trade and economic policies increasingly hampered by domestic situations

6. Biden's Moderate Course Threatened by "Divided States of America"

- A "cold civil war" throws up roadblocks for the White House
- "Managed competition" between China and the United States: easier said than done
- US allies find themselves entangled in the country's economic security measures

7. EU Political Situation Made Fluid by Shifting Franco-German Axis

- European unity could be threatened by Macron loss to far-right forces in French presidential election
- Germany's "traffic-light coalition" likely to see cracks emerge due to challenges in funding policies
- EU energy policies divided on choice between climate neutrality or economic growth

8. Weaponized Migrants and Refugees Wielded as Threat by Dictatorships

- Controlled flows of migrants and refugees emerge as a new political tool
- Impoverished people abandoned by states taken in by terror, criminal organizations looking to increase their power

9. Cyber Warfare an Increasingly Common Way for States to Implement Their Will

- Government authority undermined by increasingly vigorous information operations
- Rampant cyber operations exploit vulnerabilities
- Invasive cyber attacks mounted against AI systems

10. Russia Increasingly Assertive Amid Growing Geopolitical Uncertainty

- Vladimir Putin weighs United States, China against one another as Sino-American rivalry heats up
- US-Russian confrontation grows harsher over "red lines" in Ukraine, Black Sea region
- Decarbonization efforts provide a tailwind to Russian ambitions

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