



***PHP***

# **Global Risk Analysis**

**2023**

PHP Global Risk Analysis Project  
PHP Research Institute

(Summary)

© 2023 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 “2023 PHP Global Risk Analysis” Report

## Introduction

This English-language summary presents the essence of the “2023 PHP Global Risk Analysis” report, published at the end of 2022 in Japanese 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 experts in a broad range of fields, from geopolitics and regional studies to international finance, global economics, energy, and cyber security issues. The 2023 edition is the twelfth report in the series. The full report, published in Japanese, may be downloaded from the following URL:

<https://thinktank.php.co.jp/policy/7781/>

The full report in Japanese comprises a “Global Overview” describing the worldwide context for the various risks we face and detailed analyses of 10 global risks that will require particular attention from Japan in 2023. The report explores the potential impacts of each of these risks on the nation, as well as the policy implications for it, and also includes two additional essays on risk issues. This English-language version is a complete translation of the “Global Overview” and the key analysis points for each of the 10 risks.

Russia’s ongoing invasion of Ukraine has exposed the danger of judging geopolitical situations based on rationales we have heretofore taken for granted. The outcome of this conflict remains uncertain, but there can be no doubt that what the Russia-Ukraine war tells us about the details of the world’s power relationships, and the dynamism with which they are shifting, will impact the shape of the international order in years to come.

In the wake of the October 2022 Chinese Communist Party National Congress and the US midterm elections in the following month, the strategic rivalry between China and the United States—underlying the power structures seen today—is showing interplay with

the domestic political situations in each country as it takes on new structures along multiple axes. At the same time, we must pay attention to the nations of the global south, with their diverse concerns that do not fit neatly into a simple dichotomy of democracy or autocracy. Trends among these states are bringing about new dimensions in the international order.

The nations of the Middle East are now seeking to play a central role in the energy and green domains, a development that will increasingly govern the course taken by the world of tomorrow. Japan, which has long been excessively reliant on this part of the world to meet its own energy needs, must be more aware of this. Nor can we ignore the likelihood that a Russia weakened by the war in Ukraine will introduce chaotic elements to the complex, multifaceted game of geopolitics.

Economic and societal paradigms are beginning to undergo dramatic shifts today, as we leave behind the era of ultralow interest rates and monetary easing and see the rising impact of climate change and destructive technologies. The interplay between the logic underpinning the realms of politics and economics will see considerable change. In this report we touch on the issues of “overlooked risks” and “the risk of unknown unknowns.” Now more than ever, we are called on to deliberately clear our minds of bias rooted in the status quo as we consider the issues we face.

The 10 risks in this report are not presented in order of their importance. They have been arranged so as to highlight the connections among them and to better allow readers to grasp the overarching structure of the global risks we face.

It is our hope that the twelfth “PHP Global Risk Analysis” report will provide readers with valuable insight as they take a dispassionate look at the reality of our world today, helping them to squarely face the era of crisis we are now experiencing.

February 2023

PHP Global Risk Analysis Project, PHP Research Institute

# 2023 PHP Global Risk Analysis

## Global Overview

### The International Order Walks a Tightrope

- The path toward successful termination of the “limited war” between Russia and Ukraine remains narrow.
  - Russia and NATO manage to mutually avoid direct conflict with one another through the nuclear deterrent effect at a strategic level. The conflict continues to play out in a geographically limited area within Ukrainian territory. It is set to become lasting, as neither side can back down.
  - The areas of Ukraine annexed by Russia will provide sparks that could produce further escalation in the conflict, including the potential for tactical use of nuclear weapons by a boxed-in Russia.
  - The West will implement historically unprecedented economic sanctions against Russia, dealing a severe impact to the country while still not amounting to a decisive blow. Europe, which depends heavily on Russia for energy and other resources, will see blowback, and the two sides will end up grinding it out in an endurance contest.
- Actors struggle for supremacy in determining the form of the new order.
  - The post-Cold War order, with US liberal hegemony and global finance and capitalism at its core, will see backlash in the form of the societal contradictions it has engendered and the rise of authoritarian powers. Internationalism and multilateralism will decline as social divisions accelerate and heavy-handed rule spreads.
  - The Ukraine conflict is a watershed moment for the new international order. We will see a structure taking clearer shape in the strategic contest moving forward, with advanced, liberal democracies like the United States, Europe, Australia, Canada, and Japan on one side and authoritarian states like China and Russia on the other. All of this takes place even as discord continues to be seen within each camp.
  - The Joe Biden administration, while keeping an eye on a weakening Russia, will remain firmly committed to its strategic competition with China as the top priority. However, divisions on the home front will weigh it down, sapping vigor from its participation on the global stage. There are no other leaders among the

- nations of the West who can step in to fill the hole left by this American absence.
- Xi Jinping, having entered his third term as China's paramount leader, continues to champion a Chinese approach to modernization as his administration digs in for a lasting confrontation with the United States. There are concerns that China's fear about reaching a peak in its power, as its economy slows and its population continues to gray, and the growing cracks appearing in the US façade could produce a situation where Beijing seeks to reunify with Taiwan by force.
  - Opportunism rises in the Global South.
    - As the structure continues to take shape of a standoff between advanced, liberal democracies on one side and China and Russia on the other, the vast majority of nations will adhere to their wait-and-see posture as they consider their own interests first and foremost, aiming for a way to become independent from these two camps. Many nations remain reliant on Russia to meet their food, energy, arms, and other needs. The United States will dial down its ideological approach and set out on fresh attempts to win support for its side.
    - Central Asia, the Middle East, and other areas will see growing power vacuums as Russia's influence wanes, leading to a reorganization of regional orders.

## A "Dark Gray" World Takes Form

- The world sees a resurgence of naked violence as a means of statecraft.
  - The Ukraine conflict sparks the real possibility of a full-fledged war breaking out, with the world's advanced liberal democracies on the defensive side. It becomes increasingly clear that the actions of dictators cannot be assessed on the basis of their economic rationality.
  - The myth of the "nuclear revolution" begins to crumble in the face of Russia's nuclear threats, and the risk of attacks on nuclear power facilities become ever more tangible. China's push to enhance its nuclear capabilities produces a tripolar structure of nuclear superpowers, namely China, Russia, and the United States. Amid these fierce headwinds in the realm of nuclear arms, Japan hosts the Group of Seven summit in Hiroshima.
  - Against a backdrop of social unrest, terrorist attacks targeting politicians and other notable figures could trigger dramatic changes in societal conditions.
- As mutual dependence and intensified confrontation coexist, a "gray zone" of conflict falling short of full-fledged use of military force becomes the norm.
  - Cyber spies go into action deeper undercover, on a broader scale, with an eye on the potential for major crisis situations. Social media platforms become still

more fruitful environments for influence operations aiming to foment fractures in public opinion.

- Information, finance, trade, immigration, and much more will become means to implement coercion and cause turbulence, in the “weaponization of everything” argued by the political scientist Mark Galeotti.
- Dual-use technologies with both military and civilian applications arise in all sectors.
  - The conflict in Ukraine has already illustrated the military value of space, cyber, drone, and artificial intelligence technologies. Competition will grow fiercer in the development of electromagnetic, quantum, and other cutting-edge solutions with military applicability. Inevitably, nations will be forced to pursue economic security along with both their offensive and defensive efforts.
  - The US firm SpaceX’s provision of Starlink satellite communications gear to Ukraine and the formation of the Ukrainian “volunteer hacker” army show that the line has already blurred between the military and civilian technological realms. SpaceX CEO Elon Musk’s capricious decision-making lays bare the risk of depending on the private sector for military needs.

## Multiple, Concurrent Regime Changes

- What the economist Nouriel Roubini terms “megathreats,” including inflation, geopolitical risk, inequality, and climate change, are functioning synergistically to trigger paradigm shifts in governments’ economic and fiscal policy approaches.
  - Stubbornly high inflation rates bring a close to the era of worldwide monetary easing. Countries find it increasingly difficult to engineer a soft landing extracting them from the combination of stagflation and excess debt.
  - The “mission economy” approach proposed by the economist Mariana Mazzucato, with government taking the lead to produce innovation, becomes predominant worldwide.
  - The US Federal Reserve Board’s rate hikes being money flooding into the United States from the world’s emerging and developing economies. Exchange rate fluctuations grow more extreme, producing conditions where the global economy is increasingly swayed by US policy decisions.
  - As the world’s major online platforms seek to monetize their users’ personal data, it produces rising inequalities and poses a growing threat to free public spaces. As this comes to be seen as a more worrisome issue, opposition to the platform operators will heighten in the form of stronger regulation of the field,

- led by the EU, and stricter taxation requirements for global corporations.
- Countries will increasingly turn away from the drive toward universal, nondiscriminatory free trade and toward trade networks focused more on trust and resilience.
  - Issues like COVID-19, the Ukraine situation, and inflation prompt companies to change the standards by which they gauge risk. Investment activities continue to go through a trial-and-error phase as investors navigate an era of global tensions.
  - Complications arise in ESG and decarbonization strategies due to the Ukraine conflict and rising resource prices.
    - Nations reevaluate the importance of existential goods, including energy, food, and defense resources. Vast amounts of money flow into the states of the Persian Gulf.
    - Multiple vectors coexist in the realm of energy, such as pragmatic decisions by Germany to extend the operating life of its fleet of nuclear reactors and accelerated moves away from fossil fuels as part of efforts to reduce reliance on Russia. In the short term, the side in control of fossil fuel resources will be at an advantage.
    - The interplay of energy, green technologies, finance, and power politics will be decisive in the reshaping of the global order.
  - Mainstream forces are increasingly caught in crossfire from both sides.
    - In the United States, political forces grow more extremist on both the far right and far left. Losing candidates refuse to accept election results, provoking violence as a way to defy them.
    - If energy and food crises or stagflation set in for the longer term, it could touch off a tsunami of populist movements on a worldwide scale.

## Preliminary Skirmishes Ahead of 2024

- Europe and South Asia are potential flash points on the political calendar in 2023.
  - In Europe, 2023 will see national elections in Finland, Poland, Switzerland, Spain, Greece, among others. The impact of the Ukraine conflict and economic setbacks could produce some surprise outcomes that shake the European political scene.
  - Turkey, which is increasingly striking out on its own path, celebrates the 100th anniversary of its foundation. The May 2023 general election will determine whether President Recep Tayyip Erdoğan continues his strong-armed rule of



the country.

- General elections also take place in 2023 in Pakistan and Bangladesh. India will host this year's Shanghai Cooperation Organization summit in May and the Group of Twenty summit in September.
- Fierce maneuvering gets underway ahead of the multiple key elections to take place in 2024.
  - China and the United States step up the intensity of their psychological tactics ahead of the January 2024 Taiwan presidential contest.
  - In the United States, mudslinging among members of the Democratic and Republican parties, and between the two sides, will escalate in the leadup to the November 2024 presidential and congressional elections. Developments in the Ukraine conflict will impact the presidential election in Russia and the European Parliament election, also taking place in 2024.
  - Other contests slated for 2024 include presidential and People's Consultative Assembly elections in Indonesia, and a general election in India, two standard-bearers for the Global South.
  - In Japan, eyes are on Prime Minister Fumio Kishida to see whether he makes it through what promises to be a challenging year in 2023 to make it to the Liberal Democratic Party presidential contest in 2024, marking an end to his first term in that office.

# 2023 PHP Global Risk Analysis

## Global Risks 2023

- 1. A Weakening Russia as Destabilizing Factor in Realignment of the Global Order**
  - Russia's transitioning into a junior partner to China picks up speed
  - Russia adds fuel to the smoldering fire of the dynamic pitting the Global West against the Global South
- 2. Middle East Realigns, Japan Left Behind as US, Russian Influence Dwindles**
  - The Middle East undergoes a reordering of regional dynamics while forging a new energy order with the region at its core
  - Turkey grows increasingly out-of-control as it celebrates its centennial
- 3. Divisions Deepen on Triple Fronts Due to Russian Energy Sanctions**
  - The world is split into camps of nations that can and cannot purchase resources from Russia
  - Opposition arises on multiple fronts in connection with energy and green policy choices
  - An expanding green policy "bubble" worsens tradeoffs with burdens to be borne in the future
- 4. Upheaval in Global Money Markets as Low Inflation, Ultraloose Monetary Policy Draw to a Close**
  - Inflation rates climb across the board, worldwide
  - Rising rates on bonds produce instability in global markets
  - A growing number of investors are unable to adapt to the new reality of higher rates
- 5. Reemergence of the Nuclear Deterrence Paradox**
  - The beginning of a major nuclear arms race and a new era of proliferation
  - Confidence falters in US nuclear deterrence as arms control and disarmament camps see setbacks
  - Russia moves to make nuclear weapons "arms that can be used"
- 6. China Triggers Tensions in Multiple Theaters with Russia, North Korea**
  - The Xi Jinping administration further escalates its military threats against Taiwan
  - Ties among China, Russia, and North Korea heighten instability in Northeast Asia
- 7. A World at the Mercy of "Volatile America"**
  - Mudslinging heats up within and between the Democratic and Republican Parties
  - Actions taken by the US Congress make waves throughout the international community
  - As America turns inward, an American "hegemony lite" increases uncertainty in the

global order

## **8. A New Cold War Undermines Europe's Growth Model Dependent on Russia, China**

- A slowing European economy is unavoidable in the face of energy restrictions and a rethinking of the China relationship
- Disagreements on economic diplomacy policy among ruling parties triggers a cascade of coalition dissolutions in European nations
- Political turmoil in EU members places regionwide consensus out of reach, deepening cracks in European solidarity

## **9. Cyber Threats Directly Impact the Real World**

- Invisible attacks in cyberspace cause sporadic losses and reduced functionality of critical infrastructure
- Russia and China roll out enhanced cognitive warfare techniques, sparking more extreme internal divisions in Western nations
- Attacks on the software supply chain have a growing impact on economic activities

## **10. "Overlooked Risks" Confront Humanity Again and Again**

- Cognitive biases cause us to overlook real risks
- The risk of "bad guy" Putin's use of nuclear arms blinds us to the factors that could trigger this
- A focus on scenarios for military clashes between China and Taiwan obscure recognition of scenarios for peaceful reunification
- The US shift to an anti-China stance produces misconceptions and an overlooked possibility of renewed US involvement in the Middle East

## Project Members

### **Taisuke Abiru**

Senior Research Fellow  
The Sasakawa Peace Foundation

### **Masafumi Iida**

Head  
America, Europe, and Russia Division,  
National Institute for Defense Studies

### **Satoshi Ikeuchi**

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

### **Kuniharu Kakihara**

Lieutenant General/Commander  
Air Development and Test Command,  
JASDF

### **Masafumi Kaneko**

Director, Member of the Board/Chief  
Research Officer  
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.

### **Noriaki Oba**

President/Energy Analyst  
G.K. Post-Oil Strategy Institute

### **Izuru Sugawara**

Project Fellow  
PHP Institute, Inc.

### **Koichi Tajima**

Division Manager  
Research Division, Japan Credit Rating  
Agency Ltd.

### **Toshiyuki Yasui, PhD, PMP**

Dean/Professor  
Department of Social System Design  
Eikei University of Hiroshima