TOP GEOPOLITICAL RISKS OF 2020

In our third annual review of the geopolitical risks facing businesses and investors, the Global Risk Intelligence and Data team review their predictions for 2019 and look ahead to a year that promises continued shifts in power, values and technology that will reverberate through global markets.

Red Herrings and Wildcards

Certain topics are likely to generate a lot of heat and light, but are unlikely to move the needle in geopolitics, at least during 2020. An oil crisis in the event of conflict in the Gulf would be cushioned by new production coming online in less volatile regions. Cryptocurrencies' technical and governance issues remain unresolved, and despite trial balloons by central banks and Facebook, remain the preserve of speculators, enthusiasts and criminals. Claims of transformative breakthroughs in quantum computing, such as Google's "Quantum Supremacy", are years from practical applications and should also be treated with healthy scepticism.

However, some low probability but high impact risks are worthy of attention, but unlikely to be a primary driver of events through the year. These "wildcard" risks include the resurgence of ISIS in the Middle East, where the US withdrawals from Syria and Iraq have unleashed an unpredictable array of non-state actors and regional powers. A serious pandemic, as threatened by the coronavirus reported in Wuhan, China, would test cooperation between national and international institutions tasked with containing it. The unresolved tensions between India and Pakistan that erupted into clashes in February could spark another limited conflict. A no-deal Brexit is now unlikely following the Conservatives' election win, but the end of the transition period presents yet another self-imposed deadline that threatens serious disruption at the end of the year.

2019 REVIEWED

From Cyber Risk to Tech Risk

We predicted that emerging technologies would heighten threats to cybersecurity, while the digital economy would evolve faster than authorities could police it. While cyberattacks continued their upward trend, emerging technologies made more of an impact on geopolitics. Iran's drone attack on Saudi oil infrastructure, briefly disrupting global supplies, was the most dramatic example of the asymmetric threats posed by new and more accessible tech. The Trump administration's de facto sanctions on China's Huawei, embroiling US-Chinese technological competition into heart of their trade dispute, remained unresolved in the "phase one" trade deal announced in January 2020. Big Tech companies continued to face regulatory pressure at local and national levels, most significantly against the deployment of facial recognition. Ultimately, the year continued to provide tailwinds for the global fragmentation of technological realms between East and West.

Russia Cashes In

Our prediction that the Russian government would seek to capitalise on the vacuum left by reduced US commitments across the globe was realised in a series of interventions. Russia consolidated its grip over Syria, helped Nicholas Maduro cling to power in Venezuela, and (despite being wrongfooted by the election of Volodymyr Zelensky) saw a shift towards a settlement in Ukraine. It also gained leverage over the EU by establishing itself as a power broker in Libya. President Putin's announcement of constitutional changes, setting in motion an engineered leadership transition, confirmed the president's confidence in his job security despite growing domestic political and economic issues that have pressured resources for foreign realpolitik. These constraints are unlikely to deter Putin, as Russia's return to the table of global affairs is inseparable from his strongman image and political appeal.

Autocratic Alliances Strengthen

The wave of populist election victories that we had anticipated ebbed after Bolsonaro's victory in Brazil, with polls tending to favour incumbents rather than sweeping another cohort of disruptive nationalists to power. Similarly, the illiberal alliances that we foresaw did not come to pass; while authoritarian leaders consolidated their positions in some countries, there was little alliance building. Most of the populist vanguard were focused on domestic concerns as protests targeting political elites and diminishing politico-economic opportunities swept scores of countries. At most, populist incumbents sought to pragmatically cultivate frenemies abroad; Trump was frenemy number one for leaders in North Korea and Turkey, with chaotic results. However, these rapprochements were fundamentally pragmatic and are unlikely to survive 2020.

LOOKING AHEAD - 2020

Trump Unchained

President Donald Trump's highly personalised governance and transactional view of foreign policy were a central driver of geopolitical risk in 2019. A rollercoaster trade conflict with China, a futile summit with North Korea and a chaotic withdrawal from Western Syria were the most dramatic indications of this instability. This approach contributed to the president's impeachment on allegations that he had used military aid to pressure Ukraine's president for personal political gain. Days before the impeachment trial began in January 2020, his order for the brazen assassination of Iran's most prominent commander upended the US' position in the Middle East and nearly sparked a larger conflagration.

US allies who relied on its security guarantees to underpin the post-cold war order have been seriously undermined. The EU’s new leadership is eager to define a more assertive approach to global trade and security, matching China’s more muscular approach. Governments across Asia and the Middle East have developed more diversified relations and economic interests to hedge against the US’ unreliability. Meanwhile, the US is increasingly absent as a mediator capable of restraining simmering conflicts, from Kashmir to the South China Sea and the Western Balkans. Furthermore, adversaries are likely to test the limits of US rhetoric, taking advantage of Trump’s distraction and his desperation for voter-friendly deals. Iran will seek to marginalise the US further in the Gulf, while North Korea will look to cement its newfound status as a nuclear power. The temptation to engage in provocations will increase as the US elections approach in November.

The rancour of the impeachment process will only intensify Trump’s siege mentality ahead of the elections. The president has tended towards diplomatic offensives rather than military ones, but also to lash out at perceived enemies; after three years in office, he faces fewer institutional obstacles to these self-inflicted crises. Allies and adversaries alike have begun 2020 feeling exposed, increasing the risk of miscalculations across a range of geopolitical flashpoints. Should Trump survive impeachment and be re-elected in November, he will be truly unchained, raising the risk further.

Economic Tools Running Out

Recently, analysts have predicted the coming of a global recession every year, but the truly vital question is now when recessions occur, but how they play out. Certainly, the danger of a sustained contraction of global growth is present in 2020. The global economy is currently experiencing its weakest performance since the 2008 financial crisis, and despite strong growth figures in the US, the world’s largest economy is fragile. In part this is because of the on-going trade dispute with China and uncertainty around a potential tariff war with the EU; but also because of the accumulation of USD 19trn in corporate debt which the IMF believes leaves 80% of corporates in advanced economies vulnerable.

The major threat to businesses, organizations and workers is not if a recession occurs but the lack of fiscal and monetary tools to fight the next downturn. Traditionally cutting interest rates and injecting liquidity into the markets, supplemented by expansionary fiscal policy, has helped slow economic decline and restore growth. The weakness of the post-2008 recovery, however, has kept interest rates historically low across the developed world. In 2019 approximately 30% of all rates, representing USD 16trn in assets, sat in negative territory. Further cuts, if they are even possible, may fail to boost growth while inflation stagnates. Moreover, the scope for fiscal expansion is constrained, with levels of public debt in advanced economies having risen from 45% in 2001 to 76% in 2019.

A further factor which compounds this risk is the likely lack of international political consensus on a response. The gap between countries committed to open markets, rules based global trade and an independent corporate sector, and those who favor protective trade barriers, asymmetrical trade power and national corporate champions is widening. There is no guarantee that the members of the G-20 could agree a coordinated response, which proved vital in 2008, in the event of a major crisis. Should a global financial crisis or economic recession occur in 2020, the lack of the ability to deliver a coordinated response raises the risk of a longer and deeper downturn.

Climate Emergency

During 2019, it became clearer than ever that climate change is no longer a problem for future generations to cope with, as more severe and abnormal weather caused disruption around the globe and sparked new mass protest movements. The direct effects of climate change are due to become more acute in the coming year. Natural catastrophes and shifting weather patterns threaten not just more supply chain disruptions and physical losses, but more conflicts over land and resources and more social pressures from displacement. Climate change will continue to act as a multiplier, with losses spilling across borders and risk categories, while increasing the pressures on a precarious political and economic landscape. This was underlined by the IMF's announcement that it would begin incorporating climate risks alongside more traditional measures in its country assessments.

However, even with drastic action, climate risks will continue to rise inexorably in the medium term. What will be different this year is the elevated political risk driving climate inaction. Populist and nationalistic governments have little incentive to cooperate or sacrifice for a common good, while engaged politicians seeking to drag emissions down are eager to shift the burden of structural upheavals to the private sector and investors to protect individual voters. Policies bundled into 'green new deals' imply increased tax and compliance risks. Much of this pressure is bottom up, as awareness changes the demands of customers and investors. Multinational companies are especially likely to be caught between competing, incoherent demands across jurisdictions.

It is no coincidence that an upswing in climate consciousness is emerging at the same time as an ongoing collapse of faith in political systems of all types. The absence of global leadership on climate presents formidable headwinds to effective action, placing more onus on the private sector to contribute to adaptation and mitigation. In the absence of global leadership and cooperation, governments, publics and corporates are more likely to be drawn into conflict as they navigate different paths towards adaptation and mitigation.