



**GLOBAL
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TOP GLOBAL RISKS

2020

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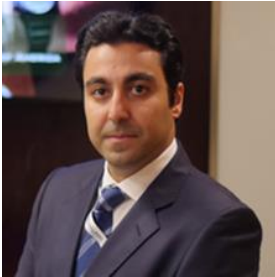
About Global Risk Intelligence

Global Risk Intel (GRI) is a boutique risk advisory firm that leverages cognitive technologies to anticipate and proactively manage risk and help you obtain a competitive advantage. GRI brings innovative solutions to companies in different industries by keeping them informed about crucial information and facilitating decision-making to ensure risk mitigation and profitability. Our AI-driven methods ensure that you are always one step ahead of the game, helping you anticipate, assess, and react to global risks quickly and effectively.

Global Risk Intelligence is headquartered in Washington, DC with offices in London, Singapore and Dubai and a network of GRI resources located globally.

For more information on all Global Risk Intelligence solutions and services, visit www.globalriskintel.com.

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Tags

Global Risks, Authoritarian Leadership, Climate Change, Data Insecurity, Global Recession, Artificial Intelligence, Political Unrest, Political Polarization, Regionalization, Isolation, Terrorism, Trade Wars, Investment Strategy, Protests, Governance, Risk Management, Political Risk, Economic Risk, Financial Risk, Business Risk.



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Summary

The Top Global Risks 2020 Report offers a review of the most relevant risks regarding impact, scope, and probability for the public and private sectors. Our team has analyzed the strategic, operational, financial, and compliance risk trends from 2019 to construct a risk landscape outlook for 2020. Understanding the causes, development, and impact of these risks will permit improved risk preparedness and resilience in 2020.

Here are our Top 10 Global Risks in alphabetic order:

- Authoritarian Leadership
- Compounding Effects of Climate Change
- Data Insecurity
- Global Recession
- Impact of AI on Employment
- Political Polarization
- Political Unrest
- Regionalization & Isolation
- Terrorism
- Trade Wars

Methodology

The risk topics selected for this report were chosen by Global Risk Intelligence's panel of subject matter experts and risk analysts during a series of risk workshops. The first round of workshops entailed the identification of risk and the allocation within a risk category as per strategic, financial, operational and compliance. Once the significant global risks were selected for evaluation by the panel, they were scored based on the probability of occurrence and the potential impact of each risk topic.

The selected risks were given a score of 1 through 10, (1 being the lowest score and 10 the highest) for both probability and impact. These two scores were multiplied together to create a combined Risk Score. The combined risk scores from each evaluator were compiled to create a total risk score which was then ranked. Thus, the 10 risk topics selected for this report were those given the highest total Risk Scores by the panel of Subject Matter Experts and Risk Analysts.



List of Abbreviations:

AI	Artificial Intelligence
ASEAN	Association of Southeast Asian Nations
AQIM	Al Qaeda in the Islam Maghreb
CCPA	California Consumer Privacy Act
ECB	European Central Bank
EU	European Union
FDI	Foreign Direct Investment
FTA	Free trade agreement
GDPR	General Data Protection Regulation
IoT	Internet of Things
IMF	International Monetary Fund
ISIL	Islamic State of Iraq and the Levant
JCPOA	Joint Comprehensive Plan for Action
OECD	Organisation for Economic Co-operation and Development
PG&E	Pacific Gas & Electricity
RCEP	Regional Comprehensive Economic Partnership
SME	Small and Medium Enterprises
TCFD	Task Force on Climate-Related Financial Disclosures
TPP	Trans-Pacific Partnership
UN	United Nations
US	United States of America
VPN	Virtual Private Networks



Contents

Summary	7
Methodology	7
Introduction.....	11
Authoritarian Leadership	12
Authoritarianism Defined	12
Authoritarianism and Economic Adversity	12
Social Considerations	14
Key Takeaways.....	15
Compounding Effects of Climate Change	15
Extreme Weather.....	15
Biodiversity Loss	16
Food Insecurity	16
Rising Sea Levels.....	17
Human Migration as a Result of Climate Change	17
Regulatory Risks.....	19
Insurance.....	19
Legal Risks	20
Reputational Risk.....	20
Data Insecurity.....	21
Prevalence of Traditional Hacking	21
Increasing Risks of Third-Party Data Insecurity.....	22
Data Regulation and Associated Risks	22
Geopolitics and Data Insecurity.....	23
Global Recession	23
United States Outlook.....	24
Downturn in Asia.....	25
Potential for Economic Revival in Europe.....	26
Role of Emerging Markets in the Global Economy.....	26



Top Global Risks 2020

Impact of AI on Employment.....	27
Effects of AI and Automation on Employment in Key Industries.....	27
Benefits and Opportunities that AI and Automation Bring.....	28
Impact of AI and Automation on Inequality.....	29
Social and Political Effects of AI and Automation.....	30
Political Polarization	31
Institutional Risks.....	31
Risks for Businesses.....	32
Case Example: The UK and Brexit.....	33
Conclusion: The Importance of Closely Monitoring Political Polarization Trends in 2020.....	34
Political Unrest	34
A Global Issue with Mass Participation.....	34
Spotting the Symptoms of Political Unrest.....	35
Effects of Political Unrest.....	36
Regionalization & Isolation	37
The Central Risks of Regionalization and Isolation.....	37
Isolation Trends in the West.....	38
Regionalization Trends in Asia.....	39
Future Outlook.....	40
Terrorism.....	40
A Persistent Threat.....	41
Risks Associated with Terrorism.....	42
Trade Wars	43
The Central Risks of Trade Wars.....	44
Key Examples.....	45
The Short-Term Gains and Long-Term Risks of Trade Wars.....	45
Conclusion	46



Introduction

2019 has been a year full of political, economic, and ecological turmoil and change. Looking back at the company's Top Global Risks of 2019, we can identify a number of additions to the risk outlook for 2020. These include ongoing trade wars, intense political unrest around the globe, regionalization and isolation policies, a progression of the global recession, the impact of artificial intelligence (AI) on employment, and aggravating effects of climate change.

Numerous events in 2019 illustrate these new trends for 2020. Headlining the news media for a majority of 2019 has been the US-China trade war, indicating that governments could increasingly use international trade as political leverage in 2020. Other events that have dominated the news are mass demonstrations and political unrest around the globe, such as in Algeria, Bolivia, Chile, Colombia, Czech Republic, Ecuador, Egypt, France, Georgia, India, Indonesia, Iran, Iraq, Italy, Haiti, Hong Kong, Lebanon, Nicaragua, Peru, Puerto Rico, Russia, Spain, Sudan, Tunisia, United States, Venezuela, Zimbabwe. Furthermore, youth activism led by young climate activist Greta Thunberg has increased global awareness of the compounding effects of climate change like aggravating floods, hurricanes, or bushfires. This awareness has translated into government politics through the demand for a Green New Deal in the US or the restructuring of the EU budget to allow for climate-supportive policies. Moreover, the global recession is posing challenges even to states that are commonly referred to as strong economies like the US and Germany. Finally, AI will gain increasing relevance in our society and continue to automate work, putting many jobs carried out by humans at risk in 2020 and the long-term future.

Risks that continue to impact businesses and government institutions are cybersecurity concerns, authoritarian leadership, terrorism, and political polarization. Examples of these continued risks include terrorist events like the 2019 Sri Lanka Easter Bombings or the 2019 Christchurch mosque shootings in New Zealand. Furthermore, political leaders like Kim Jong-un in North Korea, Nicolas Maduro in Venezuela, or Bashar al-Assad in Syria continue to exert autocratic behavior to varying degrees. This suggests that businesses and international organizations should continue to monitor authoritarian leadership this year. In the cyberworld, data insecurity has become another risk that will continue to grow as 5G networks are installed around the world, providing improved digital interconnectedness while also creating greater security vulnerabilities due to this interconnectedness in 2020.

This wide range of risks will affect the public and private sector to varying degrees in 2020, depending on the scale of the impact and the probability of occurrence. Monitoring these specific risks and their relevance to each individual company, agency, or organization is vital for building a risk management plan that can adapt to the continuously changing risk landscape. We at Global Risk Intelligence recommend acquiring an understanding of these larger geopolitical and economic processes to manage risk effectively.



Authoritarian Leadership

The continued presence of authoritarian leaders is a trend that has persisted despite the efforts of more democratic countries to encourage the adoption of representative governance. Going into 2020, authoritarian leaders control some of the world's most powerful and influential countries and continue to thrive around the globe. Despite the seemingly growing popularity of authoritarian leadership and the nationalist movements that help usher some of these leaders into power, it is necessary to be aware of the risks posed by this brand of leadership. Authoritarian rule is typically associated with the backsliding of democratic principles and institutions. The lack of accountability on authoritarian leaders facilitates a system of governance that can have dire consequences for a country's political and economic condition.

Authoritarianism Defined

The world is host to many countries that are governed by varying degrees of autocratic rulers, with some more oppressive than others. Generally speaking, authoritarianism is a form of government in which power is centralized around a single figure and political freedoms are limited for the general population. The head of state has little to no opposition, and the rule of law shifts according to the needs of the government. Moreover, authoritarian rule is associated with the suppression of human rights, persecution of minority groups, surveillance over the general population, censorship of the media, and state control over resources.



Authoritarianism and Economic Adversity

The presence of authoritarian leaders should not be disregarded as it can produce volatile investment conditions. In an authoritarian regime, the government has greater control over the market, often nationalizing and exporting the country's assets. Examples of this would include Venezuela's nationalized oil industry or Russia's control over natural gas. One critical side-effect with greater government control over the market is that economic benefits can be limited to those linked with the government.

There is evidence to show that authoritarianism fosters limited economic growth compared to democracies. The strong correlation between more democratic governance and reliable investment conditions supports this notion. According to the World Bank's 2019 Ease of Doing Business Rankings, the ten countries with the greatest ease of doing business are New Zealand, Singapore, Denmark, Hong Kong, South Korea, Georgia, Norway, the United States, the United Kingdom, and North Macedonia. Of these ten, six are considered free democracies, and the other



Top Global Risks 2020

four are considered partly-free.¹ In contrast, the same World Bank rankings list the ten countries with the greatest difficulty of doing business as Somalia, Eritrea, Venezuela, Yemen, Libya, South Sudan, the Democratic Republic of the Congo, the Central African Republic, Haiti, and Chad. Of these ten, only one is considered a partly free democracy. The rest are not considered free democracies.

World Bank 2019 Ease of Doing Business Rankings²

Top 10 (Best)	Bottom Ten (Worst)
1. New Zealand (Free)	190. Somalia (Not Free)
2. Singapore (Partly Free)	189. Eritrea (Not Free)
3. Denmark (Free)	188. Venezuela (Not Free)
4. Hong Kong (Partly Free)	187. Yemen (Not Free)
5. South Korea (Free)	186. Libya (Not Free)
6. Georgia (Partly Free)	185. South Sudan (Not Free)
7. Norway (Free)	184. Democratic Republic of the Congo (Not Free)
8. United States (Free)	183. Central African Republic (Not Free)
9. United Kingdom (Free)	182. Haiti (Partly Free)
10. North Macedonia (Partly Free)	181. Chad (Not Free)

There is reason to believe that this correlation exists because democratic governance allows for long-term political stability and corrective mechanisms that create a foundation for safe investment and continued growth. Furthermore, stable and transparent governments based upon the rule of law routinely promote environments that are conducive to the establishment and unhindered operation of private enterprises. Conversely, political crackdowns and security crises associated with authoritarian rule tend to drive out business and place employees, supply chains, and investments at risk. Foreign companies that remain involved in such environments risk suffering from reputational and legal challenges.

One notable exception to this general trend is China, considering its growing power on the global stage. China is, however, engaged in a trade war with the United States and its lack of checks and balances renders it susceptible to political unrest, as we have seen in the case of Hong Kong. While not all countries under authoritarian rule are considered disadvantageous to businesses, the correlation between democratic governance and strong functioning economies should be taken into consideration when planning investment strategies.

With control over the market, an authoritarian government can exploit international corporations operating within its borders. For example, China has forced US tech companies to physically store their data on servers within China and request government permission to transfer this data outside

¹ Freedom In The World 2019 Map, *Freedom House*. Available at: <https://freedomhouse.org/report/freedom-world/freedom-world-2019/map> (Accessed: January 5, 2020).

² Doing Business 2019: Training for Reform, *World Bank Group*. Available at: https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf (Accessed: January 5, 2020).



Top Global Risks 2020

of the country.³ Additionally, tech companies can be required to purchase government-approved encryption and virtual private networks (VPNs)⁴, raising serious cybersecurity concerns for both the companies and their customers.



Authoritarian rule is also associated with economic protectionism and a decline in multilateralism. Just as democracies cooperate to achieve economic benefits, authoritarian governments are traditionally supported by countries of a similar political nature. Examples include Russia and Iran's support of Bashar al Assad in Syria, Russia's support of Nicholas Maduro in Venezuela, or China's support of Kim Jong-un in North Korea. Authoritarian regimes do, however, tend to be more isolationist in nature, which creates an additional set of risk factors (see the section on Regionalization & Isolation).

Social Considerations

Authoritarian leadership also elicits several social considerations such as the stifling of innovation, limitations to social mobility, and incitement of rebellion. Authoritarian rule has a tendency to stifle innovation through the suppression of free expression and creativity. This suppression can limit the

³ Foreign Economic Espionage in Cyberspace 2018, *National Counterintelligence and Security Center*. Available at: <https://www.dni.gov/files/NCSC/documents/news/20180724-economic-espionage-pub.pdf> (Accessed January 8, 2020).

⁴ Ibid.



Top Global Risks 2020

advancement of science and technology, subsequently restricting economic growth. Furthermore, the suppression and constraints placed on the public can result in minimal social mobility, as such mobility is generally restricted to those connected with the ruling government. Authoritarian rule can thus lead to a “brain drain,” meaning that more educated individuals will leave in search of better opportunities in other countries. For those that remain, the suppression of liberties can spark rebellion and political unrest. Cases of such unrest were abundant in 2019 (see the section on Political Unrest).

Key Takeaways

Ultimately authoritarian leadership will remain a top global risk in 2020 due to the many economic and social consequences that this type of governance is associated with. While some exceptions exist, countries with authoritarian rulers are generally more prone to political unrest, limited economic growth, and volatile investment conditions, and should thus be monitored closely and approached with caution.

Compounding Effects of Climate Change

Extreme Weather

Perhaps the greatest concern facing 2020 is that of climate change and the many risks associated with it. The world has been witnessing extreme weather events, such as flooding, hurricanes, heatwaves, droughts, wildfires, or winter storms, with increasing frequency.⁵ The occurrence of such extreme weather events can have a dramatic impact on supply chains and critical infrastructure, which are particularly vulnerable to climate risks.

In today’s business world, supply chains are globalized. While this allows for cheaper manufacturing costs, it also means that supply chains are more vulnerable to climate change than ever, considering that extreme weather events can happen anywhere on the planet. These extreme weather conditions can have serious effects on supply chains by damaging products or warehouses, causing delays in delivery, or increasing emergency response times, ultimately resulting in higher costs for consumers and greater uncertainty for producers. Moreover, extreme weather events can damage critical infrastructure, which can impact business operations. Therefore, businesses would be wise to relocate operations from zones with a high risk of extreme weather events.

⁵ National Climate Assessment (2019): *Extreme Weather*. Available at: <https://nca2014.globalchange.gov/highlights/report-findings/extreme-weather> (Accessed: January 14, 2020).



Top Global Risks 2020

Biodiversity Loss

Climate change also puts global biodiversity at risk. Rising temperatures worldwide negatively affect wildlife and ecosystems. The Living Planet Index, which tracks more than 4,000 species across the globe, reported a 60% decline in average abundance between 1970 and 2014.⁶ This loss in biodiversity is exacerbated by climate change. This results in damage to ecosystems like forests and oceans which are important for absorbing carbon emissions, further compounding the problem.⁷ Furthermore, the damage to ecosystems creates economic instability, especially for people who rely on these ecosystems for their livelihoods and food security.

**Food Insecurity**

Climate change is expected to impact crop yield, fisheries, animal farming, and food trade. Climate events and extreme temperatures are likely to cause a scarcity of essential resources, such as water and food, and adversely affect people's livelihoods and living conditions. The UN highlights that climate change will negatively impact all dimensions of food security, which include availability, access, utilization, and stability, and will reduce public health outcomes.⁸

Climate change will significantly lower the global production of wheat, rice, maize, and soybean, reducing food availability.⁹ Countries in the global north can anticipate an agricultural productivity increase, potentially creating surpluses. Meanwhile, countries in the global south will struggle with production losses and may have to import food to compensate for losses.¹⁰ Furthermore, ocean warming and acidification may negatively affect fisheries and aquacultures, posing risks to littoral livelihoods and industries.¹¹ Finally, animal farmers may have to anticipate heat stress to livestock and higher demand for water.¹²

⁶ WWF. 2018. Living Planet Report - 2018: Aiming Higher. Grooten, M. and Almond, R.E.A.(Eds). WWF, Gland, Switzerland.

⁷ World Economic Forum (2019): *The Global Risks Report 2019*. Available at: http://www3.weforum.org/docs/WEF_Global_Risks_Report_2019.pdf (Accessed: January 14, 2020).

⁸ Food and Agriculture Organization of the United Nations [FAO] (2018): *The state of food security and nutrition in the world 2018: building climate resilience for food security and nutrition*. Available at: <http://www.fao.org/3/I9553EN/i9553en.pdf> (Accessed: January 14, 2020).

⁹ The Intergovernmental Panel on Climate Change [IPCC] (2018): *Special report: global warming of 1.5°C, Chapter 3*. Available at: <https://www.ipcc.ch/sr15/chapter/chapter-3/> (Accessed: January 14, 2020).

¹⁰ Food and Agriculture Organization of the United Nations [FAO] (2018): *Trade, food security and climate change: conceptual linkages and policy implications*. Available at: <http://www.fao.org/3/CA2370EN/ca2370en.pdf> (Accessed: January 14, 2020).

¹¹ The Intergovernmental Panel on Climate Change [IPCC] (2018): *Special report: global warming of 1.5°C, Chapter 3*. Available at: <https://www.ipcc.ch/sr15/chapter/chapter-3/> (Accessed: January 14, 2020).

¹² Ibid.



Top Global Risks 2020

Overall, food surpluses and deficits caused by climate change may alter food trade patterns and increase food trade in southern regions, which are projected to be most affected by food insecurity risks.¹³ Therefore, we can anticipate a growth in international food trade and potential increases in regional food prices due to climate change.

Rising Sea Levels

Satellite observations show that sea levels are rising almost everywhere on earth and that this increase is accelerating. As of January 2020, the rate of global sea-level change is measured at 3.3 millimeters per year and growing steadily.¹⁴ This sea-level rise is caused primarily by two factors related to global warming: the added water from melting ice sheets and glaciers and the expansion of seawater as it warms.¹⁵ Ultimately, rising tides threaten to sink some coastal cities with devastating floods occurring with increasing frequency. In November 2019, Venice, Italy experienced a tide of 70 inches (1.778 meters),¹⁶ resulting in unprecedented flooding and billions of dollars in damage. Low-lying cities like Los Angeles, San Diego, Key West, Miami, Jacksonville, Savannah, and Honolulu are particularly vulnerable to rising sea levels. Furthermore, research suggests that economic impacts are highly concentrated geographically, where sea-level vulnerabilities interact with high-value property and infrastructure such as ports or powerplants.¹⁷ Thus, the frequency and severity of flooding in coastal cities can be expected to increase along with damage to infrastructure and debilitated operations.

Human Migration as a Result of Climate Change

One of the most important climate-related social developments to consider is that climate change will force people to relocate. Millions of people around the world will migrate due to more frequent and intense storms, floods, droughts, and heatwaves. Such large-scale movement of people will affect economies, state governments, international security, and natural resource management. Environmental changes and natural disasters have influenced human settlement patterns throughout history,¹⁸ yet climate change today may cause a rapid increase in human migration that could last for decades. The World Bank projects that approximately 143 million people in Sub-

¹³ Food and Agriculture Organization of the United Nations [FAO] (2018): *Trade, food security and climate change: conceptual linkages and policy implications*. Available at: <http://www.fao.org/3/CA2370EN/ca2370en.pdf> (Accessed: January 14, 2020).

¹⁴ National Aeronautics and Space Administration [NASA] (2019): *Global Climate Change: Vital Signs of the Planet*. Available at: <https://climate.nasa.gov/vital-signs/sea-level/> (Accessed: January 14, 2020).

¹⁵ Ibid.

¹⁶ National Oceanic and Atmospheric Administration [NOAA] (2019): *Rising Sea Levels and Sirocco Winds Worsen Flooding for Venice*. Available at: <https://www.nesdis.noaa.gov/content/rising-sea-levels-and-sirocco-winds-worsen-flooding-venice> (Accessed: January 14, 2020).

¹⁷ Hallegatte, S., C. Green, R. J. Nicholls, and J. Corfee-Morlot. 2013. "Future Flood Losses in Major Coastal Cities". *Nature Climate Change* 3: 802–06.

¹⁸ United Nations [UN] (2019): *Migration and the climate crisis: the UN's search for solutions*, *UN News*. Available at: <https://news.un.org/en/story/2019/07/1043551> (Accessed: January 14, 2020).



Top Global Risks 2020

Saharan Africa (86 million), South Asia (40 million), and Latin America (17 million) will resettle by 2050 if no climate action is taken.¹⁹

Climate-related migration will significantly weaken economic productivity. Estimations suggest that South Asia's economy, for instance, may expect a loss of 1.8% of annual GDP by 2050 due to climate change.²⁰ Large-scale migration will also put stress on international security and border control, potentially causing violent conflict. This may be aggravated by intra- and inter-state competition for water, food, and other resources.²¹



In order to manage the risks of climate-related migration, the UN recommends that the availability and flexibility of channels for regular migration be improved.²² Planned relocations of communities and villages can enhance safety and reduce the unstructured diffusion of people. This requires long-term planning and domestic and international logistical cooperation.

¹⁹ Rigaud, K. K. et al. (2018): Groundswell: preparing for internal climate migration, *World Bank*. Available at: <https://openknowledge.worldbank.org/handle/10986/29461> (Accessed: January 14, 2020).

²⁰ Podesta, J. (2019): The climate crisis, migration, and refugees, *Brookings Institution*. Available at: <https://www.brookings.edu/research/the-climate-crisis-migration-and-refugees/> (Accessed: January 14, 2020).

²¹ Podesta, J. (2019): The climate crisis, migration, and refugees, *Brookings Institution*. Available at: <https://www.brookings.edu/research/the-climate-crisis-migration-and-refugees/> (Accessed: January 14, 2020).

²² United Nations [UN] (2019): Migration and the climate crisis: the UN's search for solutions, *UN News*. Available at: <https://news.un.org/en/story/2019/07/1043551> (Accessed: January 14, 2020).



Top Global Risks 2020

Regulatory Risks

While most scientists and activists would assert that the global community's response to climate change has been woefully inadequate to effectively combat the problem, some governments around the world have begun taking steps to implement change on this front. Notably, the 2016 Paris Climate Agreement requires signatories to put forward measures to significantly reduce global greenhouse gas emissions, develop a framework for transparency and accountability, and achieve more ambitious targets. In addition, global regulators like the Financial Stability Board have established a Task Force on Climate-Related Financial Disclosures (TCFD) to push firms to develop consistent and effective financial disclosures so that stakeholders can properly assess the climate change-associated risks for businesses. Although President Trump has pulled the US out of the Paris Climate Agreement, states continue to pass legislation in response to climate change. For example, California requires insurers to disclose investments in fossil fuels. Businesses face increasing regulatory requirements to reduce their environmental impacts. Players that remain abreast of regulatory shifts and respond proactively have the opportunity to manage these changes while minimizing the impact of increased compliance costs, while those who fail to comply with regulations face extensive financial, reputational costs, and legal costs.

Insurance

As climate change intensifies, fewer places are immune to its effects. When the frequency and magnitude of extreme weather events increases, so increases the damage done to homes and infrastructure. This results in substantial losses and risks for insurance companies. Over the course of two years (2017-2018), damage caused by natural disasters resulted in a record \$225 billion of insured losses.²³ Furthermore, the full extent of losses can often be assessed only months or years after the event, which may cause sudden surges in cost estimations.²⁴

For businesses and people looking to protect their assets, finding insurance against extreme weather events will likely become much more expensive and much more difficult. In response to more frequent and severe climate-related events, insurers are expected to raise their rates or refuse entirely to issue policies to individuals and operations in areas that are particularly vulnerable to the effects of climate change. For example, in the fire-prone regions across the Western United States, insurers are reducing their coverage. After the California Wildfires in 2019, some insurance companies incorporated new risk models and stopped insuring clients in high-risk areas.²⁵ Moreover, government insurance programs, like those in the United States, are already strained and will have difficulty covering everyone in need as demand for insurance coverage increases. This precarious situation can result in a social issue, since low- and middle-income classes may not be

²³ Jenkins, P. (2019): Why climate change is the new 9/11 for insurance companies, *Financial Times*. Available at: <https://www.ft.com/content/63c80228-cfee-11e9-99a4-b5ded7a7fe3f> (Accessed: January 15, 2020).

²⁴ Jenkins, P. (2019): Why climate change is the new 9/11 for insurance companies, *Financial Times*. Available at: <https://www.ft.com/content/63c80228-cfee-11e9-99a4-b5ded7a7fe3f> (Accessed: January 15, 2020).

²⁵ Flavelle, C. (2019): As Wildfires Get Worse, Insurers Pull Back From Riskiest Areas, *The New York Times*. Available at: <https://www.nytimes.com/2019/08/20/climate/fire-insurance-renewal.html> (Accessed: January 15, 2020).



Top Global Risks 2020

able to bear the cost of more expensive insurance, but also may be unable to afford the cost of climate-related damage.

Legal Risks

Climate change creates legal risk, particularly for corporations in the energy sector. Around the world, individuals, NGOs, and even shareholders are filing lawsuits against companies due to their alleged roles in contributing to climate change and inadequate response thereto.

For example, in the German case of *Lliuya v. RWE AG*, pending in the Higher Regional Court in Hamm, Germany, Peruvian farmer Saúl Lliuya sued German utility company RWE AG, alleging that, by knowingly emitting greenhouse gases, RWE has contributed to climate change.²⁶ Lliuya, who lives in the flood path of Lake Palcacocha, asserts that glacial retreat caused by climate change threatens to cause the lake to overflow, posing a risk to his property and livelihood. While the success of the lawsuit remains to be seen, lawsuits like these have been filed around the world by a variety of actors, and defendant companies may bear significant litigation costs regardless of outcome.

In the US, Pacific Gas & Electricity (PG&E), one of the country's largest utility companies, filed for bankruptcy in early 2019 in anticipation of being held legally liable for over two years of devastating wildfires in California.²⁷ It later settled for USD 11 billion with just some of the insurance companies seeking compensation for payouts they had made to homeowners and businesses after the wildfires. This occurred despite allegations by PG&E that climate change was at least a contributing factor to the fires, as a prolonged drought dried out much of the state and created conditions ripe for a severe fire. Thus, legal responses to climate change can result in serious financial, reputational, and regulatory risks for companies.

Reputational Risk

As awareness of the catastrophic consequences of climate change grows, so does the reputational risks for companies that contribute to climate change or take inadequate steps to combat it. Increasingly, customers have begun to reward companies for sustainability efforts and protest or boycott companies that fail to take steps to limit their carbon footprints. For example, a 2017 study indicated that 33% of individuals changed their purchasing habits based on the environmental reputation of the company, up from 11% in 2016.²⁸ Furthermore, an increasing number of investors are demanding disclosure of a company's climate risk and impact prior to making investment

²⁶ Nugent, Clara (2018), "Climate Change Could Destroy This Peruvian Farmer's Home. Now He's Suing a European Energy Company for Damages," *Time*, October 18, 2018. Available at <https://time.com/5415225/rwe-lliuya-climate-change/> (accessed January 9, 2020).

²⁷ "Firms face physical, regulatory and legal risks from climate change," *The Economist*. Available at: <https://www.economist.com/business/2019/09/21/firms-face-physical-regulatory-and-legal-risks-from-climate-change> (accessed January 9, 2020).

²⁸ Shelton Group (2017): *Ecopulse 2017 Special Report, The Shelton Group*. Available at <https://sheltongrp.com/reports> (Accessed January 15, 2020).



Top Global Risks 2020

decisions. Conversely, the market may reward companies that willingly participate in “green” initiatives as stakeholders look to companies to reduce their environmental impact and pioneer an environmentally conscious, sustainable approach to business.²⁹

Data Insecurity

Data insecurity has become one of the most prominent concerns for individuals, companies, and states alike. As we progress through the digital age and develop ever more advanced capabilities, data breaches and their associated costs become increasingly frequent, complex, targeted, and jeopardizing. As companies adopt more advanced technology, hackers are able to take advantage of the same forms of technology to gain access to their systems. CEOs, government leaders, and individuals are likely to see a heightened number of attacks on cloud-based platforms and increasing security risks with 5G. Data insecurity creates financial and reputational risks for businesses, raises the risk of personal violations for individuals, and contributes to geopolitical volatility.



Prevalence of Traditional Hacking

Data breaches have existed since as long as individuals and companies have maintained records and stored private information. Publicly-disclosed data breaches increased in frequency in the 1980s and have since expanded in scope and impact. They reached a turning point in 2016 when the Internet of Things (IoT) emerged.³⁰ The risks of data breaches at both the enterprise and individual levels are similar to those in the last few years, but they are increasing in frequency and sophistication as hackers employ tools like AI to break into well-protected systems. For example, ransomware is a billion-dollar industry that hackers monetize by encrypting a target’s data until a ransom is paid. Ransomware is projected to expand even further in 2020, targeting small and medium-sized enterprises (SMEs) and cloud-based platforms. SMEs have less advanced IT infrastructure which makes them easier to hack.³¹ Hackers will increasingly target cloud-based platforms as more and more corporate infrastructure transitions to the cloud. Phishing is another traditional method of breaching data that remains extremely prevalent and effective and is likely to become even more advanced with the rise of deepfakes. Deepfakes – meaning heavily manipulated videos leveraging AI to create content, often of politicians or celebrities to spread

³⁰ DeGroot, J. (2019): The History of Data Breaches, Digital Guardian. Available at: <https://digitalguardian.com/blog/history-data-breaches>.

³¹ Grzadkowska, A. (2019): Cyber Extortionists Increasingly Targeting SMEs Because of Weak Defenses, Insurance Business America. Available at: <https://www.insurancebusinessmag.com/us/news/cyber/cyber-extortionists-increasingly-targeting-smes-because-of-weak-defenses-192189.aspx>



Top Global Risks 2020

disinformation - are taking over traditional phishing with advancements in voice and video technology, and they pose an increasing threat to companies, individuals, and elections.

Increasing Risks of Third-Party Data Insecurity

2020 will likely see an increase in risks related to third-party data insecurity, as the use of cloud computing, the IoT, and 5G grow. There is already a significant gap in data security when it comes to the IoT, as the devices number in the billions and continue to multiply.³² The global rollout of 5G networks will make the IoT a larger and faster reality, offering devices with greater speeds, more stability, and increased access. However, the interconnectedness of these internet-enabled devices, including security systems, home appliances, smart automobiles, and medical equipment, creates greater vulnerability for a large number of devices, as hackers could insert malware at any point, which could then penetrate an entire system.



Another third-party risk to data on the horizon is related to the cloud. As companies transition to cloud-based environments, there is often the assumption that because they have outsourced their data, it must be secure. However, this is not the case, and hackers will increasingly target cloud-based platforms.³³ So far, external data breaches have been discussed, but companies are often unaware that a large portion of the hacks they experience originate within

the organization. Most insider data breaches can be attributed to negligence rather than to malicious intent; thus, it is fundamental for companies to teach good “cyber hygiene” in order to minimize careless mistakes.³⁴

Data Regulation and Associated Risks

In response to public disclosures of massive security breaches and reports of corporate misuse of data, individuals have pursued legislation to protect their privacy. Governments across the world have begun to draft new regulations that govern the way firms handle and store consumer data, which has been largely popular with individuals but has brought enormous repercussions for firms.

³² McCaskill, S. (2019): 5G Security: Does More Data Mean Increased Risk?, TechRadar. Available at: <https://www.techradar.com/news/5g-security-how-more-data-means-bigger-risks>

³³ Midgley, D. (2019): How Cloud Storage Became a Target for Hackers, Compare the Cloud.net. Available at: <https://www.comparethecloud.net/articles/how-cloud-storage-became-a-target-for-hackers/>

³⁴ Kaelin, M. (2018): More Than 40% of Reported Security Breaches Are Caused by Employee Negligence”, Tech Republic. Available at: <https://www.techrepublic.com/article/over-40-of-reported-security-breaches-are-caused-by-employee-negligence/>



Top Global Risks 2020

The European Union passed the General Data Protection Regulation (GDPR) in 2016, and it became law in 2018. The GDPR places restrictions on how organizations can process personal data and what rights individuals have in limiting access to their data. It has a global impact, given its effect on all companies that do business with European customers, regardless of where the company is located.³⁵ The US followed closely behind, as California implemented its California Consumer Privacy Act (CCPA), allowing consumers to demand crucial information about their personal data held by corporations.³⁶ While such a law is not expected to be implemented at the federal level, other states have proposed similar laws. Companies hoping to do business in these jurisdictions must adapt to the new regulations, despite the burden of doing so. Failure to comply may result in serious financial, reputational, and operational risks.

Geopolitics and Data Insecurity

Everyone should be aware of the geopolitical repercussions of data insecurity that will prevail in the digital age. As previously mentioned, we should expect to see an increase in the use of deepfakes and other technologies to create images, audio, and visual files that will spread disinformation in upcoming campaigns, on both a national and international level. Deepfakes tend to target politicians and celebrities, spreading disinformation through the use of more sophisticated techniques. Organizations like Facebook have stepped up efforts to ban deepfakes, following increasing criticism, especially as the 2020 US presidential elections loom ahead. The digital age has additionally seen an increase in the use of social media as a tool for influencing policy. Non-state actors have leveraged the tool to connect marginalized groups, providing them with a voice and an opportunity to gather in protest, pushing for changes in the system. As political discontent continues all around the world, from the Middle East to Latin America, an increasing use of social media will facilitate political instability and the possibility of regime change. Finally, governments in countries like Singapore have been exploiting terms like “fake news” to target the spread of information challenging the government, curbing individuals’ freedom of speech and expression.³⁷ This form of media manipulation presents enormous reputational risks for the government, as well as financial and strategic risks when considering business in such a region.

Global Recession

A recession is defined as a period of declining economic activity, typically measured by two consecutive quarters of economic decline, as reflected by a country’s GDP in combination with

³⁵ Quora. (2018): What is General Data Protection Regulation, Forbes. Available at:

<https://www.forbes.com/sites/quora/2018/02/14/what-is-general-data-protection-regulation/#201f929462dd>

³⁶ George, D. (2019): CCPA – What is it and What Does Your Business Need to Know?, Data Privacy + Security Insider. Available at: <https://www.dataprivacyandsecurityinsider.com/2019/01/ccpa-what-is-it-and-what-does-your-business-need-to-know/>

³⁷ Westerman, A. (2019): Fake News Law Goes Into Effect in Singapore, Worrying Free Speech Advocates, National Public Radio. Available at: <https://www.npr.org/2019/10/02/766399689/fake-news-law-goes-into-effect-in-singapore-worrying-free-speech-advocates>



Top Global Risks 2020

other key indicators.³⁸ Since the industrial revolution, the long-term macroeconomic trend in most countries has been economic growth, but occasionally in between these periods of growth come short periods of economic slowdown, known as recessions. The world economy has been experiencing a period of growth over the last few years. This growth was especially challenged in 2019, and seems unsustainable in 2020 as geopolitical disputes, changes in the international system, slowing levels of production, increasing global debt, and falling commodity prices impact economies around the world. The IMF has predicted sluggish economic growth for 2020, putting various countries on the radar for looming recessions.³⁹ While the overall economic outlook now seems more positive than it did earlier in 2019, the possibility of a global economic downturn is imminent and will have fundamental ramifications for businesses, governments, and individuals alike.



United States Outlook

To begin with, experts predicted that the US economy would experience a recession in 2020, as fears were sparked by the inverted yield curve in late 2018 and 2019, which has previously been

³⁸ Chappelow, J. (2019): Recession, Investopedia. Available at: <https://www.investopedia.com/terms/r/recession.asp>.

³⁹ IMF. (2019) :World Economic Outlook, International Monetary Fund (IMF). Available at: <https://www.imf.org/en/Publications/WEO/Issues/2019/07/18/WEUpdateJuly2019>.



Top Global Risks 2020

correlated with recessions.⁴⁰ Indeed, certain areas of the US economy did struggle economically in 2019, largely as a result of political volatility and uncertainty brought on by the Trump administration's policies, especially the US-China trade war. In addition to creating immense uncertainty for markets, the trade war has already caused declines in real exports, imports, and GDP. The trade war could put an average tariff of 6% on American imports - the highest this century, which will force firms and their supply chains to make disruptive adjustments, eventually causing spillover effects into the economy.⁴¹ The specific impact can be seen on declining business confidence, financial stress, declining equity prices, a manufacturing slump, and tepid investment. Nonetheless, as progress is being made between the two countries on resolving the trade dispute, predictions for a US recession have tapered off as economic indicators remain mostly positive, despite slowing manufacturing and industrial production. Signs of a resolution for the US-China trade war will help encourage corporate confidence, and consumer confidence remains high thanks to a healthy job market and low inflation levels. Although the Federal Reserve has adopted a strategy of cutting interest rates in order to promote growth and attract more investment, it is unlikely that rates will be cut any further; as of December 16, 2019, the federal fund rate is 1.75%.⁴² Therefore, we are likely to see a shift from monetary to fiscal policy not just in the US, but all over the world.

Downturn in Asia

The repercussions of the US-China trade dispute will continue to be felt on a global scale: world trade amongst countries will decline under a protectionist environment as countries turn inward, spurring worldwide pessimism in investing. The trade war is also affecting China, and while the country is not nearing a recession, its economy continues to slow with a forecasted growth of under 6% in 2020, the slowest since its first quarter in 1992.⁴³ Beijing continues monetary easing, but is increasingly turning to fiscal policy through tax-cuts and investing in infrastructure spending to stabilize the economy. Another area of economic and financial risk in the Asian region is Hong Kong. The financial hub has seen months of social and political unrest led by protests that have damaged the economy, sending it into a technical recession, its GDP contracting by 3.2% in the third quarter and 2.9% for the end of 2019, with industries like tourism being hit especially hard. Hong Kong's dependence on its key sectors of financial services, tourism, and export trading makes the region more susceptible to further economic damage should political volatility continue in 2020.

⁴⁰ Chen, J. (2019): Inverted Yield Curve, Investopedia. Available at:

<https://www.investopedia.com/terms/i/invertedyieldcurve.asp>⁴¹ Economist. (2019): Prepare for an Unusual Kind of Downturn, The Economist. Available at : <https://www.economist.com/the-world-in/2019/12/29/prepare-for-an-unusual-kind-of-downturn>

⁴¹ Economist. (2019): Prepare for an Unusual Kind of Downturn, The Economist. Available at :

<https://www.economist.com/the-world-in/2019/12/29/prepare-for-an-unusual-kind-of-downturn>

⁴² Bankrate LLC. (2020): Fed Funds Rate, Bankrate. Available at: <https://www.bankrate.com/rates/interest-rates/federal-funds-rate.aspx>

⁴³ Deng, C. (2019): China Growth at Its Slowest Since 1992 as Beijing Struggles to Juice Economy, The Wall Street Journal. Available at: <https://www.wsj.com/articles/chinas-economy-is-growing-at-its-slowest-pace-since-at-least-1992-11563162170>



*Top Global Risks 2020***Potential for Economic Revival in Europe**

The European Central Bank (ECB) has followed the same approach as the Federal Reserve for fiscal stimulus. The ECB has recommenced quantitative easing and has kept interest rates negative.⁴⁴ As we have seen before, this is not a strategy that can be maintained in perpetuity, and the new head of the ECB, Christine Lagarde, may need to implement further economic stimulus through fiscal policy. The EU's largest economy, Germany, is teetering on the edge of a recession as it continues to grapple with a decline in its manufacturing sector.⁴⁵ Given Germany's status, its economic woes could negatively impact the rest of the EU. Italy, the EU's fourth-largest economy, was in a technical recession for the second half of 2018 and has faced ongoing economic problems as weak productivity, high unemployment, large levels of debt, and political uncertainty persist. Moreover, uncertainty regarding Brexit has spilled over not only into the European economy, but to the international community. The UK continues to experience stagnation as investors remain wary, weak productivity persists, and Britain's future trade relations with the EU remain unclear. For the time being, the uncertainty regarding Brexit has left a significant negative impact on economies globally, as business and consumer confidence declines amidst the prospect of regulatory changes, limited trade access, and less labor mobility.⁴⁶ Risks remain in the region, but there is an overall positive outlook that in 2020 a recession could well be avoidable as Brexit and its implications become more settled, monetary policy fostering growth continues, and global trade improves.

**Role of Emerging Markets in the Global Economy**

Emerging markets have a fundamental role to play in the world economy, and their growth is imperative in determining the development of the global economy. Despite this, volatility in places like Latin America and the Middle East marked by political uncertainty, mass demonstrations, social upheaval, intense poverty, and enormous debts results in a bleak global outlook for 2020.

⁴⁴ Smith, E. (2019): ECB Holds Rates Steady at Lagarde's Debut Policy Meeting, CNBC. Available at: <https://www.cnbc.com/2019/12/12/ecb-holds-rates-steady-at-lagarde-debut-policy-meeting.html>

⁴⁵ Wearden, G. (2019): Germany on Brink of Recession as Business Confidence Nosedives, The Guardian. Available at: <https://www.theguardian.com/world/2019/aug/26/german-recession-fears-business-confidence-europe-economy>

⁴⁶ Ward, J. (2020): Brexit Uncertainty Impact Extends Far Beyond UK Economy, Bloomberg. Available at: <https://www.bloomberg.com/news/articles/2020-01-06/brexit-uncertainty-impact-extends-far-beyond-u-k-economy>



Impact of AI on Employment

In the coming decade, artificial intelligence and automation are set to transform the global economy in almost every major industry. In fact, businesses that adopt AI technology early on will be able to tap into a profit pool of around USD 1 trillion by 2030, according to research by MIT Sloan.⁴⁷ From gains in productivity to more innovation, the economic benefits of AI are clear. Demand in the labor market for AI-related job positions has likewise increased, with AI specialists likely becoming the most sought-after jobs as 2020 begins. Indeed, the position has grown almost 75% since 2014 according to a LinkedIn report.⁴⁸ However, with improved economic efficiency and new opportunities comes a multitude of risks, particularly the potential for severe structural unemployment.⁴⁹

In the next 25 years, some estimate that up to 40% of the world's jobs will be automated, and certain industries will be affected more than others.⁵⁰ Furthermore, the effects on the labor market brought on by AI and machine learning are likely to have far-reaching political and social consequences.

Effects of AI and Automation on Employment in Key Industries

Jobs most at risk are low-wage jobs, with more than 50% of jobs that do not require a college degree vulnerable to automation. Moreover, occupations that involve repetitive work or physical tasks are also especially at risk.⁵¹ Historically, the manufacturing industry has received much of the focus in studies on the effects of automation on jobs and employment. While many attribute job loss and the collapse of American industry to immigration and shifting production overseas, as of 2017 almost 90% of job loss in manufacturing was due to technological advancements.⁵² The effects on jobs can be seen around the world as well. AI and automation are estimated to impact about 40% of China's workforce while displacing 5% of China's workers in the next five years.⁵³ Because jobs involving manufacturing and transportation are most likely to be automated, the

⁴⁷ Bughin, Jacques. "Wait-and-See Could Be a Costly AI Strategy." *MIT Sloan Management Review*, 15 June 2018, <https://sloanreview.mit.edu/article/wait-and-see-could-be-a-costly-ai-strategy/>.

⁴⁸ McCormick, John. "AI Specialist Jobs Are the Fastest-Growing Going Into 2020." *The Wall Street Journal*, Dow Jones & Company, 17 Dec. 2019, <https://www.wsj.com/articles/ai-specialist-jobs-are-the-fastest-growing-going-into-2020-11576578602>.

⁴⁹ Stettner, Andrew. "Mounting a Response to Technological Unemployment." *The Century Foundation*, 26 Apr. 2018, <https://tcf.org/content/report/mounting-response-technological-unemployment/>.

⁵⁰ "Facial and Emotional Recognition; How One Man Is Advancing Artificial Intelligence." *CBS News*, CBS Interactive, <https://www.cbsnews.com/news/60-minutes-ai-facial-and-emotional-recognition-how-one-man-is-advancing-artificial-intelligence/>.

⁵¹ Nova, Annie, and John W. Schoen. "If Your Job Is 'Boring and Repetitive' Watch out: You Run the Risk of Being Replaced by Robots." *CNBC*, CNBC, 27 Jan. 2019, <https://www.cnbc.com/2019/01/25/these-workers-face-the-highest-risk-of-losing-their-jobs-to-automation.html>.

⁵² Lehmacher, Wolfgang. "Don't Blame China For Taking U.S. Jobs." *Fortune*, Fortune, 8 Feb. 2017, <https://fortune.com/2016/11/08/china-automation-jobs/>.

⁵³ Dai, Sarah. "One in 20 Chinese Workers Could Be Replaced by Robots in the next Five Years, According to Survey." *South China Morning Post*, 20 Dec. 2019, <https://www.scmp.com/tech/policy/article/3042931/one-20-chinese-workers-could-be-replaced-robots-next-five-years>.



Top Global Risks 2020

most affected regions in the United States are likely to be rural and in the Midwest.⁵⁴ In the ASEAN region, almost 7 million workers will have lost their jobs due to AI by 2028, primarily in agriculture.⁵⁵

At the same time, advancements in cloud computing and machine learning may also put high-skilled jobs in jeopardy. Almost 40% of computer programmers and those in the legal field are susceptible to their jobs being overtaken by AI.⁵⁶ Even in the field of medicine, new research has shown that artificial intelligence algorithms have been able to scan x-rays for certain diseases more quickly than actual radiologists, and just as accurately for most tests.⁵⁷ Regardless of the industry, however, current global advancements in technology are likely to disrupt white-collar work and more highly skilled jobs than in previous generations.⁵⁸

Benefits and Opportunities that AI and Automation Bring

Nevertheless, structural shifts and technological advancement will create more opportunities and new jobs and will lead to a net increase in employment for those with the appropriate skills. According to the World Economic Forum, while 75 million jobs will likely be gone due to AI by 2022, another 133 million will be created.⁵⁹ Just as with other technological breakthroughs, new opportunities will open up in industries requiring workers with the proper technology-driven skills.

Furthermore, it is important to distinguish how AI and automation contribute to job displacement as opposed to task elimination.⁶⁰ While certain duties and functions within a job might become obsolete, the job itself will not necessarily disappear, especially for white-collar positions. Research shows that technology's estimated effect on job loss is lower when taking a task-centered approach to how AI and automation.^{61,62} Looking again at the medical field, one 2016 study shows that physicians spend almost half their day engaged in desk work, and only 27% of their time is spent

⁵⁴ Holzer, Harry J. "The Robots Are Coming. Let's Help the Middle Class Get Ready." *Brookings*, Brookings, 13 Dec. 2018, <https://www.brookings.edu/blog/up-front/2018/12/13/the-robots-are-coming-lets-help-the-middle-class-get-ready/>.

⁵⁵ Hasnan, Liyana. "Women's Jobs under Threat from AI." *The ASEAN Post*, 4 Nov. 2019, <https://theaseanpost.com/article/womens-jobs-under-threat-ai>.

⁵⁶ Muro, Mark, et al. "Automation and Artificial Intelligence: How Machines Are Affecting People and Places." *Brookings*, Brookings, 24 Jan. 2019, <https://www.brookings.edu/research/automation-and-artificial-intelligence-how-machines-affect-people-and-places/>.

⁵⁷ DiGrande, Samantha. "AI Beats Radiologists in Detecting Lung Cancer, Study Finds." *The American Journal of Managed Care*, 22 May 2019, <https://www.ajmc.com/focus-of-the-week/ai-beats-radiologists-in-detecting-lung-cancer-study-finds>.

⁵⁸ Crabtree, James. "The Globotics Upheaval by Richard Baldwin - White-Collar Disruption." *Financial Times*, Financial Times, 23 Jan. 2019, www.ft.com/content/892c6c1e-1d8f-11e9-a46f-08f9738d6b2b.

⁵⁹ "Machines Will Do More Tasks Than Humans by 2025 but Robot Revolution Will Still Create 58 Million Net New Jobs in Next Five Years." *World Economic Forum*, 17 Sept. 2018, www.weforum.org/press/2018/09/machines-will-do-more-tasks-than-humans-by-2025-but-robot-revolution-will-still-create-58-million-net-new-jobs-in-next-five-years/.

⁶⁰ West, Darrell M. "Will Robots and AI Take Your Job? The Economic and Political Consequences of Automation." *Brookings*, Brookings, 18 Apr. 2018, www.brookings.edu/blog/techtank/2018/04/18/will-robots-and-ai-take-your-job-the-economic-and-political-consequences-of-automation/.

⁶¹ Ibid.

⁶² McKendrick, Joe. "Artificial Intelligence Will Replace Tasks, Not Jobs." *Forbes*, Forbes Magazine, 14 Aug. 2018, www.forbes.com/sites/joemckendrick/2018/08/14/artificial-intelligence-will-replace-tasks-not-jobs/#6349f2fca7fa.



Top Global Risks 2020

with patients. The study shows that AI could increase the quality and amount of direct care time between doctors and their patients.⁶³

Impact of AI and Automation on Inequality

While AI and automation may bring about more jobs overall, the transition towards an AI-integrated world economy may exacerbate growing inequalities between countries, regions, and demographics. Without proper government and corporate policies, workers in certain sectors will likely see large increases in unemployment and lower wages, while highly-skilled labor will experience increased income levels, aggravating income inequality.

AI and automation also affect demographic inequality. In the United States, African-Americans and Latinos are most at risk when it comes to increased automation and AI developments. For example, 60% of jobs held by Latinos are at risk of being affected by technological advancements, with 50% of African-American-held jobs at risk.⁶⁴ In terms of how automation may affect gender inequality, while women make up roughly 50% of the labor force, about 58% of female workers are at risk of having their jobs be automated in the United States.⁶⁵ Expectations and fears about automation are also influenced by age demographics. In Brazil and Japan, younger people between the ages of 18 and 29 are actually more fearful about the future effects of automation on the job market than older generations. This is important to understanding the public's expectations of the future, as well as sentiments of younger people just entering the workforce.⁶⁶ Without proper policy responses, certain demographics and social constituencies around the world may be significantly negatively impacted by changes in technology and may have difficulty securing these advancements' economic benefits.

Global inequality is also an issue in developing countries, with labor-intensive economies potentially facing the brunt of losses due to automation and AI advancement. For example, according to one 2016 study, 69% of jobs in India and 77% of jobs in China could ultimately be automated.⁶⁷ Since manufacturing usually involves most developing countries' unskilled labor,

⁶³ Amisha et al. "Overview of artificial intelligence in medicine." *Journal of family medicine and primary care* vol. 8,7 (2019): 2328-2331. doi:10.4103/jfmpc.jfmpc_440_19

⁶⁴ Fadulu, Lola. "Who Will Bear the Brunt of Automation?" *The Atlantic*, Atlantic Media Company, 17 Dec. 2017, www.theatlantic.com/education/archive/2017/12/the-new-casualties-of-automation/548948/.

⁶⁵ Holder, Sarah. "Why Prepping For the Automation Revolution Can't Leave Out Women Workers." *CityLab*, Bloomberg L.P., 13 Mar. 2019, www.citylab.com/equity/2019/03/job-market-artificial-intelligence-women-workforce-ai-tech/584632/.

⁶⁶ Wike, Richard, and Bruce Stokes. "In Advanced and Emerging Economies Alike, Worries About Job Automation." *Pew Research Center's Global Attitudes Project*, Pew Research Center, 13 Sept. 2018, www.pewresearch.org/global/2018/09/13/in-advanced-and-emerging-economies-alike-worries-about-job-automation/.

⁶⁷ Kim, Jim Yong. "Speech by World Bank President Jim Yong Kim: The World Bank Group's Mission: To End Extreme Poverty." *World Bank*, 3 Oct. 2016, www.worldbank.org/en/news/speech/2016/10/03/speech-by-world-bank-president-jim-yong-kim-the-world-bank-groups-mission-to-end-extreme-poverty.



Top Global Risks 2020

automation and AI could lead to what has been called “premature deindustrialization” as well as political instability.⁶⁸



Social and Political Effects of AI and Automation

Finally, as automation and AI have eliminated opportunities in more traditional industries, populist political parties and movements have been able to tap into worker anxiety to gain support and will likely continue to gain popularity in the next decade. For instance, studies by the London School of Economics have shown that those experiencing job insecurity are more likely to vote for Brexit, driven by populism.^{69,70}

Drastic shifts in the labor market and continued stagnant wages could indeed lead to further political instability throughout the world. These are problems that automation and AI will further

⁶⁸ Derviş, Kemal, and Laurence Chandy. “Are Technology and Globalization Destined to Drive up Inequality?” *Brookings*, Brookings, 5 Oct. 2016, www.brookings.edu/research/are-technology-and-globalization-destined-to-drive-up-inequality/.

⁶⁹ Bossert, Walter, and Andrew Clark. “Economic Insecurity Breeds Support for the Right.” *LSE Business Review*, 23 Nov. 2019, blogs.lse.ac.uk/businessreview/2019/11/23/economic-insecurity-breeds-support-for-the-right/.

⁷⁰ Alden, Edward, and James McBride. “What Brexit Reveals About Rising Populism.” *Council on Foreign Relations*, Council on Foreign Relations, 29 June 2016, www.cfr.org/interview/what-brexit-reveals-about-rising-populism.



Top Global Risks 2020

intensify if governments and corporations do not implement policies to manage the transition.⁷¹ Overall, more must be done to address worker welfare such as reskilling employees to mitigate the negative effects of automation and the potential political instability that goes along with it.

Political Polarization

Political polarization is often referred to as a risk to the stability of democracies around the world. While political polarization in the United States is closely monitored by the international media, many other countries are affected by this trend, including Bangladesh, Brazil, Colombia, India, Indonesia, Kenya, Poland, and Turkey.⁷² Common characteristics of political polarization across the world are the division of the society and public opinion into opposing camps, a sharp divergence of views on ethnicity, ideology, and religion, and radical policy changes, such as the complete ban of abortion in Poland.⁷³ This cleft between diverging political orientations can pose risks not only to the efficiency of government institutions and social security but also to businesses.

Institutional Risks

Two central risks of political polarization for governments are political gridlocks and the corrosion of institutional stability. The growing cleft between the Republicans and Democrats in the US demonstrates how this can create gridlock that blocks political processes and efficient policymaking. In the most extreme cases, this can lead to a government shutdown. This is what happened in the longest government shutdown in US history, lasting from December 22, 2018 to January 25, 2019, when the US Congress and President Donald Trump could not agree on the legislative funding of the 2019 fiscal year. By January 14, 2019, it was estimated that the US economy had suffered a \$3.6 billion loss due to the government shutdown.⁷⁴

Another risk is the weakening of government institutions. Intolerance towards opposing political views can lead government leaders to undermine the independence of the judiciary in order to enlarge their executive power, for instance.⁷⁵ Such developments pose a serious risk to the stability of democratic processes and influence policymaking and legislative power in a country.

⁷¹ Charlton, Emma. "Wages Are Stagnating around the World – Is Automation to Blame?" *World Economic Forum*, 16 Oct. 2019, www.weforum.org/agenda/2019/10/robots-lower-wages-flatlining-automation-jobs-work/.

⁷² Carothers, T. & O'Donohue, A. (2019): How to understand the global spread of political polarization, *Carnegie Endowment for International Peace*. Available at: <https://carnegieendowment.org/2019/10/01/how-to-understand-global-spread-of-political-polarization-pub-79893> (Accessed: February 24, 2020).

⁷³ Ibid.

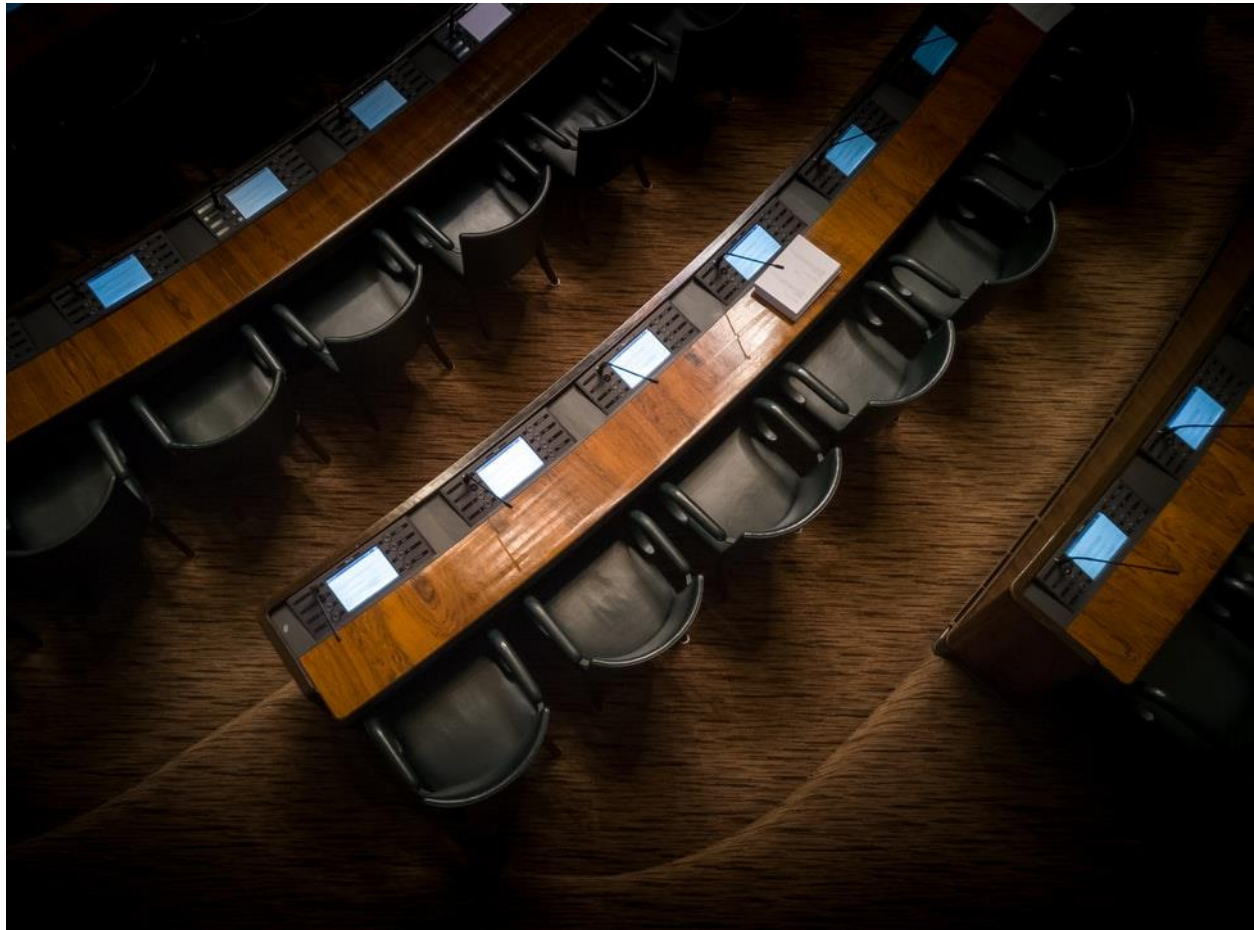
⁷⁴ Stewart, E. (2019): The economic cost of the shutdown will soon be the cost of the wall, *Vox*. Available at: <https://www.vox.com/policy-and-politics/2019/1/14/18179000/trump-wall-economic-cost-shutdown-jerome-powell> (Accessed: February 25, 2020).

⁷⁵ Carothers, T. & O'Donohue, A. (2019): How to understand the global spread of political polarization, *Carnegie Endowment for International Peace*. Available at: <https://carnegieendowment.org/2019/10/01/how-to-understand-global-spread-of-political-polarization-pub-79893> (Accessed: February 24, 2020).



*Top Global Risks 2020***Risks for Businesses**

Starkly diverging political views and policy uncertainty can impact the behavior of jobseekers, consumers, and investors. Businesses could therefore face risks associated with these behavioral factors.



Studies show that people are more likely to work for employers whose political views align with their own.⁷⁶ People tend to place greater weight on party affiliation than on prospective salary and will oftentimes be willing to work for a lower salary if the political positions of the employer match their own. This demonstrates that employment decisions can correlate with partisanship and emotional affiliation with a specific political party or agenda.⁷⁷ Partisanship therefore can be a critical factor in the social identity of employees,⁷⁸ which can then impact the availability of, and decisions about, human resources in a company. A company that strongly aligns with a certain

⁷⁶ McConnell, C. et al. (2017): Research: Political polarization is changing how Americans work and shop, *Harvard Business Review*. Available at: <https://hbr.org/2017/05/research-political-polarization-is-changing-how-americans-work-and-shop> (Accessed: February 24, 2020).

⁷⁷ Ibid.

⁷⁸ Ibid.



Top Global Risks 2020

party may face challenges concerning the recruitment of staff. Companies that represent a more moderate or neutral political stance, by contrast, may not face such risks.

Another critical factor impacting businesses is consumer behavior. Companies strongly affiliated with a certain political camp could be at risk of boycotting. US-American companies L.L. Bean and Macy's have experienced boycotting from consumers because of their affiliation with the Trump administration.⁷⁹ Political partisanship can therefore have either a positive or a negative impact on the reputations and revenues of companies, depending on which party the company aligns itself with. Therefore, maintaining a relatively neutral stance could potentially mitigate such risks for businesses.

Finally, policy uncertainty caused by political polarization can also affect corporate investments. If there is uncertainty about forthcoming policy decisions and central decisionmakers, investors may behave more cautiously. An increasing loss of consensus between the Republican and Democratic parties in the US may pose risks to US industries, markets, and investment decisions. The more political polarization becomes entrenched in a society, the more these risks will become a concern for businesses. Recent polarization trends in numerous countries worldwide demonstrate that risks associated with political polarization must be taken seriously by companies in 2020.

Case Example: The UK and Brexit

Ever since the UK decided to leave the EU through the Brexit referendum in 2016, overseas investment and jobs created in the UK have decreased significantly. This stands in contrast with the overseas investment that the UK was able to secure during the past 40 years.⁸⁰ Brexit can be regarded as a form of political polarization, which resulted in a sharp increase in policy uncertainty. Companies operating in, and trading with, the UK have been particularly affected by this development in recent years. Between 2016 and 2019, greenfield investment in the UK dropped by almost 30% to \$83.4 billion.⁸¹

The example of German direct bank N26 demonstrates how political polarization and resulting changes in policy agendas can be a risk to businesses. N26 operates throughout Europe and focuses exclusively on online banking services. After the UK effectively exited the EU on January 31, 2020, N26 announced that it would terminate services in the UK since the company was unable to operate in the UK with its European banking license.⁸² The case of N26 illustrates how policy changes caused by political polarization can limit market access in a specific country and pose risks to business operations and revenues.

⁷⁹ Ibid.

⁸⁰ Romei, V. (2019): Brexit has chilling effect on UK inward investment, *Financial Times*. Available at: <https://www.ft.com/content/bdc9f940-bb92-11e9-b350-db00d509634e> (Accessed: February 24, 2020).

⁸¹ Ibid.

⁸² N26 (n.d.): Closure of UK bank. Available at: <https://n26.com/en-gb> (Accessed: February 24, 2020).



*Top Global Risks 2020***Conclusion: The Importance of Closely Monitoring Political Polarization Trends in 2020**

In conclusion, it is important to monitor political polarization trends across the world. This can help businesses assess how policy changes, policy uncertainty, political gridlock, and institutional corrosion can impact their operations and financial outlook.

**Political Unrest**

In 2019, mass revolts created political shockwaves that reached all parts of the globe. The year 2020 is likely to echo the eruptions of the previous year's political unrest, or at the very least, witness a continuation of major protests. While political unrest arises to challenge or correct errors in governance, these events should also be monitored with great caution as such demonstrations are often preceded by poor governance, accompanied by violent reactions, and can result in rapid political transitions.

A Global Issue with Mass Participation

In the year 2019 alone, a multitude of countries experienced political unrest and mass demonstrations. A nonexhaustive list includes Algeria, Bolivia, Chile, Colombia, Czech Republic,



Top Global Risks 2020

Ecuador, Egypt, France, Georgia, Haiti, Hong Kong, India, Indonesia, Iran, Iraq, Italy, Lebanon, Nicaragua, Peru, Puerto Rico, Russia, Spain, Sudan, Tunisia, the United States, Venezuela, and Zimbabwe. This list demonstrates that political unrest is not limited to the developing world but has also affected more developed and historically democratic countries as well. For example, climate activism has sparked mass protests in Europe and the United States, and the Gilets Jaunes (Yellow Vest) protest movement in France involved hundreds of thousands of people. Also notable is the sheer magnitude of the protests. Participation reached over one million people during protests in Hong Kong, Puerto Rico, Lebanon, and Chile last year.⁸³



Spotting the Symptoms of Political Unrest

To assess the probability that widespread political unrest will continue in 2020, it is necessary to examine the common conditions that contribute to it. Grievances that triggered mass protests in

⁸³ Maizland, L. (2019): Photos: The Year in Protests, *Council on Foreign Relations*. Available at: https://www.cfr.org/article/photos-year-protests?utm_source=dailybrief&utm_medium=email&utm_campaign=DailyBrief2019dec20&utm_term=DailyNewsBrief (Accessed January 2, 2020).



Top Global Risks 2020

2019 included economic inequality, unpopular taxation, high inflation and unemployment, shortages of food, fuel, or medicine, poor governance, and democratic backsliding.

Effects of Political Unrest

The most critical motivations for anticipating the risk of political unrest are the effects that mass revolts and large-scale insurrection can have on a country or region. Generally speaking, instances of political unrest in 2019 led to harsh government responses, mass incarceration, violence, rapid political transition, volatile investment conditions, and, in some cases, the imposition of sanctions.

In almost all cases, governmental responses to protests were swift and acrimonious. Many government responses involved mass incarcerations and violent reactions. For example, Indian security forces detained over 500 people in the disputed region of Kashmir following the discontinuation of the region's autonomous status.⁸⁴ In perhaps the most high-profile case of political unrest in 2019, the Chinese government responded to protesters in Hong Kong with mass arrests and increasingly violent reactions. Additionally, harsh government responses to protests in Iran and Iraq resulted in hundreds of civilians killed and thousands wounded. Examples of violent government responses were numerous in 2019 and varied in severity. In some cases, political unrest succeeded in achieving the desired outcome of political change. One usually welcome side effect of this success is rapid political transition, such as in Lebanon when protesters succeeded in persuading Prime Minister Saad Hariri to drop a widely unpopular WhatsApp tax and ultimately submit his resignation. Unfortunately, since the Prime Minister's resignation, Lebanon has struggled to form a new government, leading to ongoing instability in the country. In another example, protests in France succeeded in pressuring French President Emmanuel Macron to cancel unpopular plans for pension reform. The Gilets Jaunes protest movement in France evolved



⁸⁴ Sharma, A. & Ahmed, M. (2019): India arrests over 500 in Kashmir as Pakistan cuts railway, PBS News Hour. Available at: <https://www.pbs.org/newshour/world/india-arrests-over-500-in-kashmir-as-pakistan-cuts-railway> (Accessed January 2, 2020).



Top Global Risks 2020

considerably to incorporate an overall disapproval with President Macron's leadership. One should pay special attention to situations of political unrest as this rapid political transition can create significant changes to a country's government and economy. These transitions can be swift and difficult to predict, creating volatile investment conditions.

In one particular case, the Chinese crackdown on protests in Hong Kong led to the imposition of US sanctions on China. Not only are these sanctions significant in displaying US support for the demonstrators in Hong Kong, but this also added a further layer of complexity to the ongoing trade war between the United States and China. To date, sanctions imposed by one side of the trade war have been met with corresponding sanctions from the other side. Thus, a political movement can have consequences that spread far beyond state borders.

In summary, political unrest can have widespread effects and should cause investors and business owners to be aware of the risks associated with the trend of mass protests. While the transition to more transparent and democratic governance is something to be celebrated, the time of transformation can be precarious. Should 2020 continue the trend of political unrest, we should be cognizant of the risks of mass incarceration, violent reactions, rapid political transitions, volatile investment conditions, and potential sanctions.

Regionalization & Isolation

Nationalism is one of the central reasons why states pursue isolationist policies. Nationalist sentiment among citizens and politicians may occur in conjunction with skepticism towards other cultures, religions, and ethnicities and often results in more restrictive immigration policies. Isolationist policies reinforce the decline of multilateralism and pose a risk to international cooperation and trade. Much like isolation, regionalization is an inward-focused policy movement, a withdrawal from externally-focused interaction. Yet regionalization differs from isolation in that it also entails greater regional integration and cooperation. Isolation and regionalization are expected to create both business risks and opportunities in 2020.

The Central Risks of Regionalization and Isolation

Establishing a liberal international economic system has been a goal of the United States since World War II, yet recent isolationist policies mainly from the US but also other countries like the UK point towards a reverse trend – a decoupling of the established global economic system through regionalization and isolation. Bilateral trade wars demonstrate this pivot away from international economic cooperation. Regionalization and isolation, therefore, imply a decrease in international trade, which poses a major risk to multinational corporations as they struggle to manage their access to international markets, trade barriers and tariffs, foreign investment plans, and supply chains (see the section on Trade Wars). The following aspects indicate additional salient risks and opportunities:



Top Global Risks 2020

- Targeting of companies: Certain companies may become targets of boycotts based on their country of origin. The ban of Chinese telecommunications corporation Huawei in the US in the context of the US-China trade war exemplifies this.⁸⁵
- Employment and migration: Regionalization and isolation have a direct impact on employment and the international mobility of workforces. Non-nationals may have greater difficulty finding employment abroad as immigration regulations become more rigorous.
- Procurement of resources: If isolationist policies weaken international trade, access to resources and products that are not regionally available may become restricted. Cars, refined petroleum, and integrated circuits are among the world's most traded goods.⁸⁶ This means that the procurement of these products could become more costly as trade barriers and tariffs are imposed. Key importers and exporters that are particularly vulnerable to such restrictions on international trade include the US, China, Germany, and Switzerland.⁸⁷
- Incentive for tailored innovation: A benefit of regionalization is that it can foster economic growth as regional integration is fortified. Companies may compete for regional leadership, which can become an incentive for innovations that are tailored to the needs of regional markets.

Isolation Trends in the West

US President Donald Trump's "America First" strategy is a primary example of an isolationist policy. President Trump has initiated the withdrawal from numerous international agreements, including the Trans-Pacific Partnership (TPP), the Joint Comprehensive Plan of Action (JCPOA, also known as the Iran nuclear deal), and the Paris Climate Agreement.⁸⁸ On the other side of the Atlantic Ocean, the United Kingdom has pursued an isolationist policy by withdrawing from the European Union, commonly referred to as Brexit. The UK has thus turned away from regional integration in favor of political and economic independence. Brexit must also be understood in a nationalism context. Nationalist movements and right-wing populism in Europe have gained traction ever since the European migrant crisis of 2015, indicating that governments with strong nationalist, right-wing fractions could further promote isolationist policies in 2020. The rise of nationalism in several European countries, such as Italy and Hungary, can create a domino effect that Europe must continue to be aware of in 2020.

⁸⁵ Harrell, P. E. (2019): The U.S.-Chinese trade war just entered phase 2, *Foreign Policy*. Available at: <https://foreignpolicy.com/2019/12/27/united-states-china-trade-war-fought-export-import-controls-investment-restrictions-sanctions/> (Accessed: January 3, 2020).

⁸⁶ Desjardins, J. (2018): These are the world's most traded goods, *World Economic Forum*. Available at: <https://www.weforum.org/agenda/2018/02/the-top-importers-and-exporters-of-the-world-s-18-most-traded-goods> (Accessed: January 3, 2020).

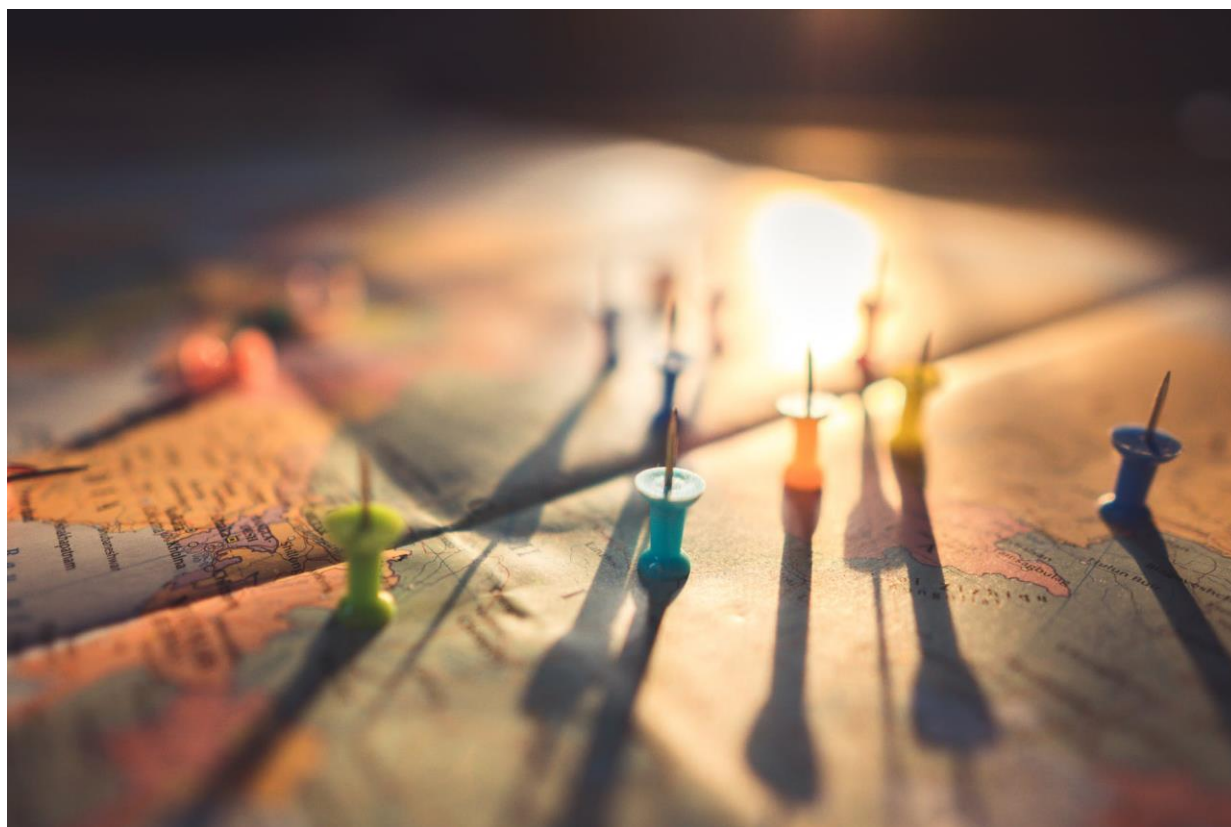
⁸⁷ Ibid.

⁸⁸ See Amirfar, C. & Singh, A. (2018): The Trump administration and the 'unmaking' of international agreements, *Harvard International Law Journal*, Vol. 59 (2), pp. 443-459.



*Top Global Risks 2020***Regionalization Trends in Asia**

While isolationism has emerged in the West, regionalism has become a policy trend in the East. The rise of China has challenged the unipolar international order led by the US and initiated a shift towards multipolarity. This has allowed Asian regionalism to flourish. Although Asian states are still pursuing their individual strategic interests, many have also contributed to the development of regional integration.⁸⁹ The Association of Southeast Asian Nations (ASEAN) is an example of this economic interdependence. Through negotiations on the Regional Comprehensive Economic Partnership (RCEP), ASEAN has taken another step towards regional economic and political collaboration to reinforce regionalism in Southeast Asia and the Indo-Pacific. The RCEP is of particular significance, as it has the potential to become the world's largest free trade agreement (FTA).⁹⁰ This gives other states and regions the incentive to either compete (and reinforce regionalization trends) or cooperate (through international trade agreements) with ASEAN in the future.



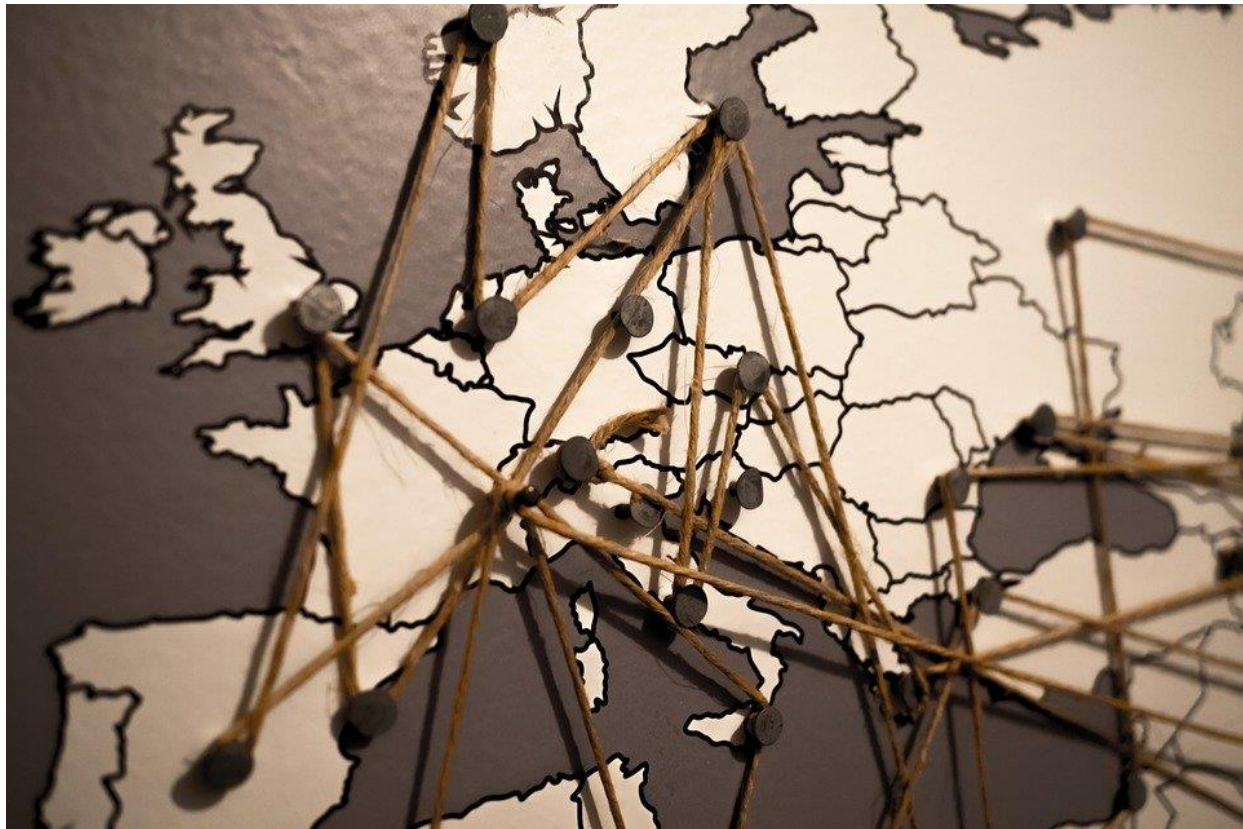
⁸⁹ Oba, M. (2019): Further development of Asian regionalism: institutional hedging in an uncertain era, *Journal of Contemporary East Asia Studies*, Vol. 8(2), pp. 125-140.

⁹⁰ Malvenda, M. (2019): The RCEP: impacting ASEAN's supply chains and business environment, *ASEAN Briefing*. Available at: <https://www.aseanbriefing.com/news/2019/12/27/rcep-impacting-aseans-supply-chains-business-environment.html> (Accessed: January 6, 2020).



*Top Global Risks 2020***Future Outlook**

In conclusion, a fragmentation of the global economic order through regionalization and isolation could become a continued trend in 2020. Isolationist policies can be the result of nationalist sentiments and conflicting state interests. Depending on the outcome of the 2020 US election, however, the foreign policy position of the US could shift away from isolation towards increased international collaboration once again. Monitoring key indicators for isolation policies, such as the US-China trade war, economic regionalization in Asia, and nationalist movements in Europe, reveals how likely associated risks may occur.

**Terrorism**

Terrorism, though far from a new concept, has thus far defied a singular or cohesive definition. For the purposes of assessing its risk outlook, though, terrorism can be defined as a violent act with a political, religious, or ideological motivation, targeting a civilian population. Globally, terrorism has been on the decline for several years.⁹¹ 2019 saw the continued weakening of the Islamic State of

⁹¹ Miller, E. (2019): Trends in Global Terrorism: Islamic State's Decline in Iraq and Expanding Global Impact; Fewer Mass Casualty Attacks in Western Europe; Number of Attacks in the United States Highest since 1980s, *The National Consortium for the Study of Terrorism and Responses to Terrorism*. Available at



Top Global Risks 2020

Iraq and the Levant (ISIL), including the death of Abu Bakr al-Baghdadi, the terrorist organization's leader. However, it also saw one of the deadliest terrorist attacks since September 11, 2001, with the Easter Sunday bombings in Sri Lanka, demonstrating that the threat of terrorist attack is still very much present and unlikely to disappear in the near future. Furthermore, the conditions that make particular areas conducive to terrorism persist, and emerging and evolving threats, such as far-right terrorism, have altered the terrorism landscape in recent years. Both of these trends are likely to continue. Thus, terrorism remains a top global risk for 2020.



A Persistent Threat

Globally, the conditions that make particular areas conducive to terrorist activity persist, and in some places have worsened. Terrorist groups thrive in “ungoverned spaces,” areas where local governments lack the institutional capability or willpower to combat terrorism, and in countries with porous borders or difficult terrain. Thus, in countries such as Algeria, Mali, Nigeria, and Somalia, groups like Boko Haram, Al-Shabaab, and Al Qaeda in the Islam Maghreb (AQIM) have thrived. This trend should be expected to continue. Importantly, conflict is also a significant predictor of terrorism-related incidents. The vast majority of terrorism-related deaths have historically occurred in countries engaged in civil war or cross-border conflict. As civil wars continue in places like Syria

[https://www.start.umd.edu/sites/default/files/publications/local_attachments/START GTD TerrorismIn2018_Oct2018.pdf](https://www.start.umd.edu/sites/default/files/publications/local_attachments/START_GTD_TerrorismIn2018_Oct2018.pdf) (Accessed January 7, 2020).



Top Global Risks 2020

and Libya, it can be expected that terrorism will also continue to be a risk in those countries and in surrounding areas.

Furthermore, new and evolving threats have changed the terrorism landscape in recent years, a trend that is likely to continue. For example, in North America, Europe, and Oceania, far-right terrorism tripled between 2015 and 2019.⁹² Many individuals involved in far-right terrorism act as “lone wolves” rather than as members of a defined organization and are self-radicalized, usually through the internet, making detection and disruption of such activity difficult.⁹³ While some governments have begun to recognize this threat, many have been slow to take steps to effectively combat it. Taken together, these factors give rise to the inference that far-right terrorism will continue to be a threat in 2020.

Risks Associated with Terrorism

Terrorist acts have collateral consequences that extend far beyond the immediate loss of human life. First, the threat of terrorism induces fear. This fear can shape a nation’s domestic policies and foreign relations alike, leading to political, financial, and operational risks. For example, political actors in many “Western” nations have capitalized on the fear of terrorism in order to justify more restrictive immigration and refugee policies. In 2019, this debate in Europe largely focused on the European Union’s policy of open borders, while the US kept in place a travel ban largely (though not exclusively) affecting individuals from majority-Muslim nations. The fear of terrorism can also lead to public support for the restriction of civil liberties for certain groups within a country, such as increased surveillance or placement on “no-fly” lists. On the most extreme end of the spectrum, the fear of terrorism can lead to conflict on an international level, as it has been used as a justification to engage enemies abroad.

Terrorism, or even the threat of terrorism, can also substantially impact a country’s economy. From a domestic perspective, in the immediate aftermath of an attack, stock markets typically plummet but generally rebound quickly. That said, certain crucial domestic industries – such as tourism – may be significantly affected as visitors are wary of traveling to countries prone to attacks and may be deterred by their own governments from doing so. In the long term, incidents of terrorism can also deter international corporate investment, as international companies may be wary of assuming associated risks to personnel, property, and productivity. Operational costs, including insurance and security costs, may also be higher in areas that are prone to terrorism-related violence. Attacks also have an adverse effect on Foreign Direct Investment (FDI), which can be crucial for developing countries.

⁹² Institute for Economics & Peace (2019): *Global Terrorism Index 2019: Measuring the Impact of Terrorism*, Available from: <http://visionofhumanity.org/reports> (accessed January 7, 2020).

⁹³ Ibid.



Top Global Risks 2020

Trade Wars

Trade wars appear to be primarily economic confrontations between two or more states, but in actuality, trade wars arise out of geopolitical conflicts. Opposing states struggle for their geopolitical influence and strategic interests, affecting global markets and economies. For this reason, trade wars are as much about politics as they are about economics. Cases such as the US-China trade war or the Japan-South Korea trade dispute exemplify this. In both cases, two state governments are pursuing conflicting geopolitical interests and base their motivations to engage in a trade war on these interests. Domestic and international political environments together generate these state interests. In domestic politics, parties and politicians may shape the political agenda of a state by, for instance, driving forward nationalist policies. In the international realm, the political and economic power of a state, as well as its behavior, can affect the foreign policy agenda of another state, as the interaction between the US and China demonstrates. Intense skepticism or hostility towards other states causes a decline in multilateral cooperation, and a trade war is a symptom of such animosity.



Top Global Risks 2020

The Central Risks of Trade Wars

Trade wars can create numerous risks for businesses and economies, affecting international trade, investment, the stock market, foreign investment, and supply chains. The central tools of a trade war are tariffs and trade barriers, which cause financial and economic disruption. The long-term consequences of a global trade war would be as grave for the EU, the US, and China as the 2008 financial crisis and the subsequent recession.⁹⁴ This escalation of protectionist behavior could lead to a lasting loss of 4% of GDP for the EU and 3% for China and the US.⁹⁵ Trade wars are therefore highly powerful and disruptive leverages against strategic opponents and must not be underestimated in their long-term effects.



Volatility in international trade can be a result of economic uncertainty shocks,⁹⁶ and trade wars are a source of their occurrence. The uncertainty surrounding tariffs has negative effects on the investment plans and growth of businesses. The Organisation for Economic Co-operation and Development (OECD) found that aggregate investment growth in the G20 economies (excluding China) dropped from 5% at the beginning of 2018 to 1% in the first half of 2019.⁹⁷ Disruptions in international trade, cross-border investment, and supply chains can diminish medium-term

⁹⁴ Jean, S., Martin, P. & Sapir, A. (2018): International trade under attack: what strategy for Europe?, *Bruegel Policy Contribution*, No. 12 (August 2018). Available at: https://bruegel.org/wp-content/uploads/2018/08/PC-12-2018_final.pdf (Accessed: January 3, 2020).

⁹⁵ Ibid.

⁹⁶ Novy, D. & Taylor, A. M. (2014): Trade and uncertainty, *Centre for Economic Performance Discussion Paper*, No. 1266 (May 2014). Available at: <http://eprints.lse.ac.uk/60280/1/dp1266.pdf> (Accessed: January 3, 2020).

⁹⁷ Novy, D. & Taylor, A. M. (2014): Trade and uncertainty, *Centre for Economic Performance Discussion Paper*, No. 1266 (May 2014). Available at: <http://eprints.lse.ac.uk/60280/1/dp1266.pdf> (Accessed: January 3, 2020).



Top Global Risks 2020

growth.⁹⁸ The reason for this is that uncertainty surrounding trade wars can compel businesses to reassess associated risks, market access, expenditures, and the procurement of resources. Businesses may be therefore compelled to adapt their supply chains and potentially transfer operations to different countries in order to manage the restrictions and effects caused by a trade war.

Key Examples

In 2019, two major trade wars have been of central focus. These are the US-China trade war and the Japan-South Korea trade dispute. Since the US and China are the world's two largest economies, this trade war has significantly affected the flow of goods and global economic growth. While China has imposed tariffs of 5% to 25% on US goods, the US has introduced tariffs on Chinese goods of up to 25% as well.⁹⁹ By December 2019, China had imposed tariffs on over \$110 billion worth of US goods, while the US had imposed tariffs on more than \$360 billion worth of Chinese products,¹⁰⁰ demonstrating the sheer scale of this conflict.

Meanwhile, the trade dispute between South Korea and Japan has received less media attention, however, its impact is nevertheless significant. The dispute stems from a decade-old disagreement over South Koreans who served as forced workers for Japan during Japan's occupation of the Korean Peninsula from 1910 to 1945. South Korea's Supreme Court had ruled in 2018 that several Japanese companies must compensate South Koreans, while Japan insists that discussions regarding forced labor during the occupation period have been resolved in the past. In a tit for tat exchange between the two opponents, trade barriers were introduced on products for South Korea's technology industry – a weak spot for South Korea's technology giant Samsung – while Japanese brands were boycotted in South Korea.¹⁰¹ The International Monetary Fund (IMF) states that these tensions do not only have repercussions for South Korea and Japan but also the entire region, affecting technology supply chains in particular.¹⁰²

The Short-Term Gains and Long-Term Risks of Trade Wars

Trade wars can pose major long-term risks but they may also incur short to medium-term gains. A bilateral trade war can be a source of profit for a third country if supply chains are redirected to the benefit of this third country. Following the US-China trade war, for instance, Chinese firms relocated

⁹⁸ Organisation for Economic Co-operation and Development [OECD] (2019): *OECD economic outlook, November 2019*. Available at: https://read.oecd-ilibrary.org/economics/oecd-economic-outlook-volume-2019-issue-2_9b89401b-en#page1 (Accessed: January 3, 2020).

⁹⁹ BBC News (2019): A quick guide to the US-China trade war, *BBC News*. Available at: <https://www.bbc.com/news/business-45899310> (Accessed: December 21, 2019).

¹⁰⁰ Ibid.

¹⁰¹ See Bremmer, I. (2019): Why the Japan-South Korea trade war is worrying for the world, *Time*. Available at: <https://time.com/5691631/japan-south-korea-trade-war/> (Accessed: January 3, 2020).

¹⁰² International Monetary Fund [IMF] (2019): *Asia and Pacific regional economic outlook: caught in prolonged uncertainty*. Available at: <https://www.imf.org/en/Publications/REO/APAC/Issues/2019/10/03/areo1023> (Accessed: January 6, 2020).



Top Global Risks 2020

to Vietnam in order to circumvent US tariffs, which is why Vietnam's exports to the US have risen by 40% in 2019.¹⁰³ The risk of such a temporary relocation, however, is that third countries may benefit from trade wars only in the short to medium term. The numerous long-term risks of trade wars therefore overshadow short-term gains. Finally, a fundamental risk lies in the potentially increasing utilization of trade wars as a strategic tool against opponents, which would have vast effects on economies, businesses, and supply chains worldwide.



Conclusion

The year 2020 will be shaped by the rise of new salient risks, such as trade wars and the impact of AI on employment, and the continuation of existing risks, such as data insecurity or authoritarian leadership. The ten top global risks discussed in this report cover a wide range of strategic, operational, compliance, and financial risks affecting private companies, governments, and international organizations. These top ten were measured and selected as the most impactful in terms of their scope and probability. They are therefore key signposts for 2020, giving insight into future trends by reflecting on past events and likely developments.

¹⁰³ Thoms, A. (2019): Why trade wars have no winners, *World Economic Forum*. Available at: <https://www.weforum.org/agenda/2019/11/who-benefits-from-a-trade-war/> (Accessed: December 21, 2019).



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