



# TOP RISKS 2022

Ian Bremmer  
*President*

Cliff Kupchan  
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- 3** US midterms
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# OVER



# VIEW

Ian Bremmer  
*President*

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**As we enter 2022, the lack of global leadership that characterizes our G-Zero World is clearer than ever. That's not a good thing.**

The United States is the world's most powerful country, the only one able to project military, economic, diplomatic, and cultural power into every part of the globe. It is also the most politically divided and dysfunctional, the most economically unequal, and the least vaccinated of the G7 industrialized democracies. The first anniversary of the 6 January insurrection—just three days away—will show the world a radically different face from the one put forward by Americans after 9/11. The biggest domestic political tragedy in the country in modern times will be commemorated as a political battlefield, creating two entirely different political histories experienced by citizens who increasingly view their domestic opponents as their principal enemies.

China is the second most powerful country, but after 40 years of extraordinary growth it faces steep hurdles to keep the momentum going while enhancing social harmony and maintaining political stability. The world's fastest economic reopening and most expansive international aid campaign during the first months of the pandemic has given way to the longest lockdown and most intense inward focus, with “zero Covid” policies keeping China's leader Xi Jinping—and most of its citizens—in China. Continuing to use aggressive lockdowns to halt transmission will lead to greater public backlash and economic disruption. Indeed,

the government has grown more authoritarian and state capitalist, rather than less. And especially in the run-up to Xi securing a historic third term at this fall's 20th Party Congress, Beijing's energies will be focused firmly on tests at home.

While the inward turn of the two most powerful nations lowers the odds of war, it also means less global leadership and coordination to respond to the world's challenges.

That's bad news for a year that will be dominated by two crises in desperate need of a coordinated response: the Covid-19 pandemic and climate change. In both cases, the US and China will underperform, both at home and on the global stage. The good news is that other actors—less powerful countries, corporations, subnational governments, and civil society—are stepping in to fill the leadership void left by the superpowers' retreat. Something similar is happening in the wild west that is digital space, whose governance is increasingly under the control of quasi-sovereign technology firms.

But not every vacuum is being filled. The geopolitical recession is turning many corners of the world—geographic and thematic—into no man's lands. Global neglect will allow looming crises in Iran and Ukraine to become more combustible. It will also allow humanitarian tragedies in countries ranging from Myanmar and Afghanistan to Haiti, Venezuela, and Ethiopia to continue to fester.

In all these ways, 2022 will deepen the G-Zero.



# 1 No zero Covid

**We're done with the pandemic. It's not yet done with us. The finish line depends on where you live. Critically, China's zero-Covid policy will fail.**

In the developed world, the end is near. You wouldn't think so, given the explosion of cases of the newly dominant and highly transmissible Omicron variant. But those record levels of infections are encountering highly vaccinated populations—bolstered by the most effective mRNA vaccines and, soon, a rapid rollout of Covid treatments that severely minimize the risk of hospitalization and death. That means the pandemic becomes endemic for advanced industrial economies by the end of the first quarter. Even in the developed world, the economic hangover from the pandemic will endure with disrupted supply chains and persistent inflation. A more deadly variant emerging remains a tail risk, but it would still pose much less danger given the tools available to fight it (much as Omicron would've felt apocalyptic if it had hit the world pre-vaccines, a year earlier).

But most countries will have a harder time—and not just because of Omicron.

China is in the most difficult situation because of a zero-Covid policy that looked incredibly successful in 2020 (please see Risk #4), but now has become a fight against a much more transmissible variant with broader lockdowns and vaccines with limited effectiveness. And the population has virtually no antibodies against Omicron. Keeping the country locked down for two years has now made it more risky to open it back up. It's the opposite of where Xi wants his country to be in the run-up to his third term, but there's nothing he can do about it: The initial success of zero Covid and Xi's personal attachment to it makes it impossible to change course.

China's policy will fail to contain infections, leading to larger outbreaks, requiring in turn more severe lockdowns. This will in turn lead to greater economic disruptions, more state intervention, and a more dissatisfied population at odds with the

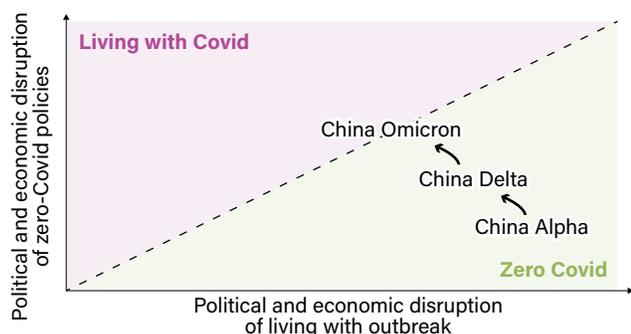
## The initial success of China's zero-Covid policy and Xi's personal attachment to it makes it impossible to change course

triumphalist “China defeated Covid” mantra of the state-run media. The country will be stuck in this position at least until it can roll out domestically developed mRNA shots and boosters across the population—at the end of the year by the earliest. That means a particularly tough time for what pre-Covid had become the world's primary engine for growth.

China's problems add to the disruption of supply chains, which will present ongoing risks across the world. Shipping constraints, Covid-19 outbreaks, and shortages of staff, raw material, and equipment—all more acute because of China's zero-Covid policy—will make goods less available. High prices for shipping will also hurt small- and medium-sized businesses that don't have the resources to book containers, let alone their own ships. Supply constraints should recede over the course of 2022, but disruptions will persist in many sectors. Midyear contract negotiations at major US ports and related slowdowns will add to the difficulties. These supply-chain problems will prompt governments to step in, but state intervention could make things worse by further distorting markets and delaying incentives for adjustment.

Also on the economic side, persistent, high inflation will be an overarching economic and political challenge. Citizens are still enduring lockdowns, shutdowns, sacrifice, and anxiety—while food and gas prices have soared. Pent-up demand, supply-chain disruptions, and labor shortages caused mainly by the pandemic are all driving prices higher. This will create problems for central banks, which have to balance an imperative to facilitate the economic recovery with the need to contain rising prices. Already, many emerging market central banks are being pressed to raise interest rates to stem a rise in inflation (and expectations of more). Leading industrial country central banks are also pivoting toward tighter policy. Higher inflation breeds inequality, feeding economic insecurity and public discontent.

### China's zero-Covid policy increasingly unsustainable



Source: Eurasia Group

Omicron will widen the broader gap between developing and developed markets. The vaccines that have mostly been used in emerging markets offer little protection against infection and less ability than mRNA vaccines to protect against severe illness and death. Only 8% of people in low-income countries have received at least one shot, leaving them vulnerable. The demand for booster shots in developed countries will prevent the most effective vaccines from becoming more widely available in many emerging markets, so even those who are vaccinated will not have lasting protection. That will deepen a sense of injustice in the developing world.

Continued outbreaks will mean growth in many emerging markets will disappoint, creating a permanent gap in trajectory compared to advanced industrial democracies that further widens global inequality. Many emerging markets responded to the pandemic with one-off programs that expanded the safety net without aiding longer-run recoveries. These emerging markets now face the worst of both worlds: limited fiscal space for more spending as outbreaks continue and large imbalances left on state balance sheets. With global financing costs on the rise in 2022, they will find it increasingly hard to finance higher debt levels and continued large deficits—creating conditions for a so-called debt bomb. While the trigger for a crisis is uncertain, higher interest rates and less available capital will inflict financial distress in many developing countries and some will need to reschedule debt payments. Aside from Turkey, already in the midst of a currency crisis (please see Risk #10), the most vulnerable countries include some in Latin America as well as Sri Lanka and Tunisia.

Low growth, high inflation, and growing inequality will exacerbate public frustration with governments and stoke political instability to a degree we haven't seen since the 1990s. This will be reflected in sharp shifts toward anti-incumbent voting behavior (Brazil, Argentina) and heterodox policymaking (Turkey). Countries that had experienced sharp decreases in inequality in the leadup to the pandemic are more vulnerable to the political effects of the latest spike in inequality. These include Chile, Colombia, Thailand, Brazil, the Philippines, and Tunisia.

Two years after it began to spread in China, the virus continues to wreak havoc ... and the most successful policy battling the virus has become the least.



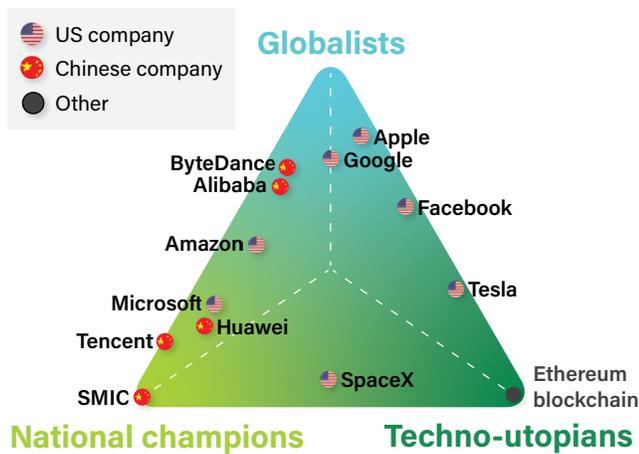
## 2 Technopolar world

**It's 2022. Your personal information will be hacked. Algorithms fed with biased data will make destructive decisions that affect how billions of people live, work, and love. Online mobs will create chaos, inciting violence and sparking runs on stocks. Tens of millions of people will be dragged down the rabbit holes of conspiracy theories. The one thing that all of these realities have in common is that they emanate from digital space, where a handful of big tech companies, not governments, are the main actors and enforcers.**

The technopolar world is a new creation. Nation-states have defined the global order since the Treaty of Westphalia enshrined them as the building blocks of geopolitics nearly 400 years ago. But today, states are facing a new form of competition from technology companies. Indeed, the latter exercise a form of sovereignty over an entirely new dimension of geopolitics: digital space.

Key parts of people's daily lives, and even some essential functions of the state, increasingly exist in the digital world, and the future is being shaped by tech companies and decentralized blockchain projects that are not good at (or interested in) governance. States will fail to halt this trend.

The biggest technology firms are designing, building, and managing an entirely new dimension of geopolitics. In this new digital space, their influence runs deep, down to the level of individual lines of code. They're writing the algorithms that decide what people see and hear, determine their economic and social opportunities, and ultimately influence what they think. Individuals will spend more time in digital space in 2022, at work and at home. Much of this time will be spent in the "metaverse"—an emerging, more immersive version of the web where all the problems of digital governance will be



Source: Eurasia Group

magnified. The metaverse (or more accurately, multiple metaverses) in turn will increasingly rely on economic systems based on decentralized blockchain platforms that governments are already struggling to control.

Governments can fiddle at the margins. The EU will pass new laws in 2022 that put curbs on some big tech business practices. US regulators will advance antitrust cases and start the lengthy and contentious process of writing new rules for digital privacy. China will continue to pressure its tech companies to align with national priorities determined by the state. And governments in India and elsewhere will put restrictions on the kinds of data that can leave their borders.

Expect big headlines about how world capitals are bringing big tech to heel. But these are regulatory rear-guard actions, none of which will challenge big tech's massive profits and influence anytime soon. Nor will they limit the biggest platforms' ability to invest those profits in the digital sphere where they, not governments, remain the primary architects, actors, and enforcers.

This isn't just a US or Western challenge. It's an issue also for the developing world, where governments face even starker tradeoffs between access to the digital services that are required to capture economic opportunities in the 21st century and the risks posed by poor cybersecurity or viral disinformation.

Similarly, China is not immune to the challenges of a brave new digital world. True, Beijing has the world's most sophisticated internet firewall and surveillance apparatus, and Xi hasn't hesitated to crack down on companies he thinks are getting too big. But the Chinese Communist

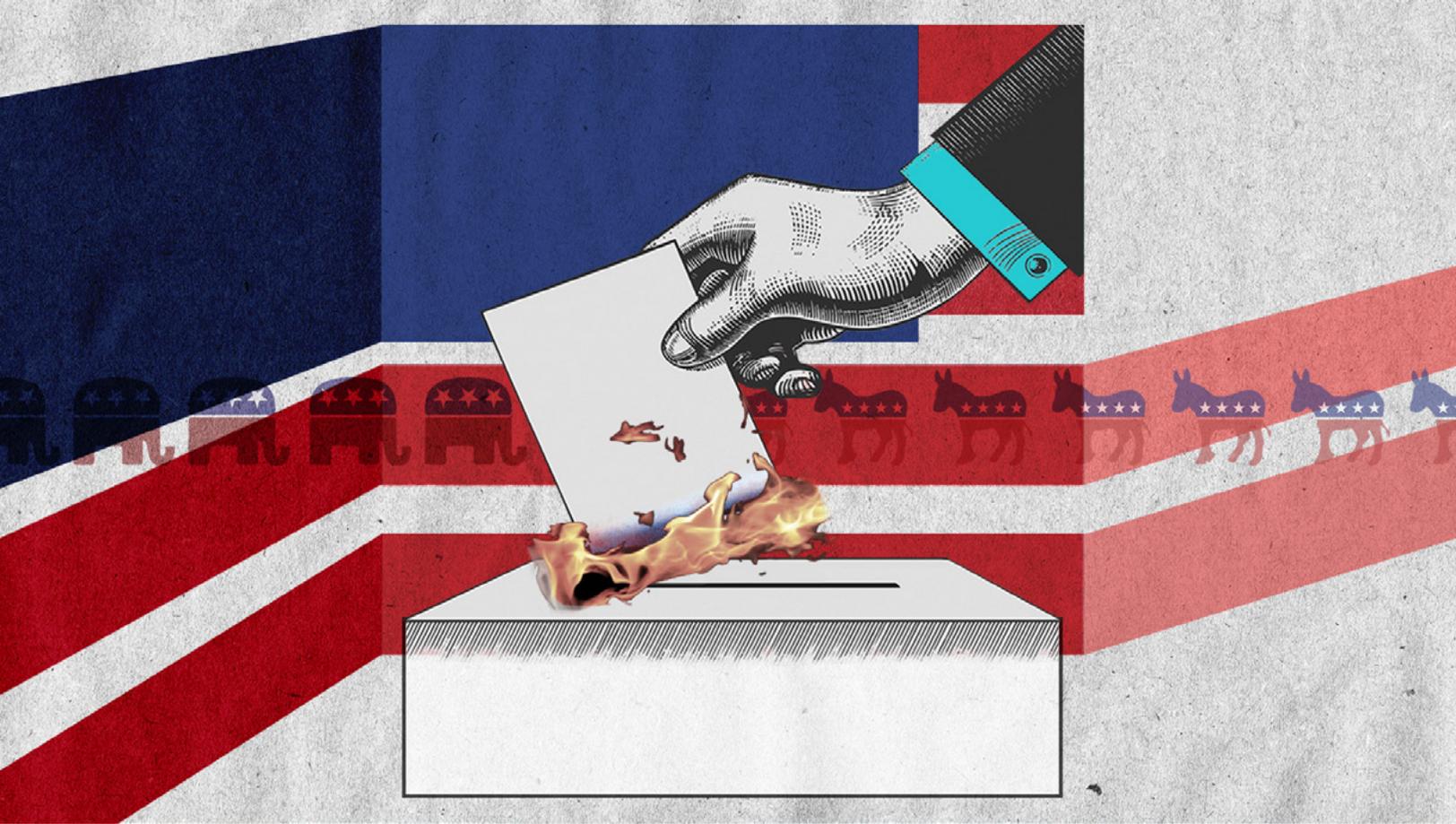
Party needs robust economic growth to sustain its legitimacy. If Xi clamps down too hard on the likes of Jack Ma and Alibaba, China won't be able to develop the digital infrastructure it needs to boost productivity and living standards over the long haul. The very companies Beijing sees as potential threats to the regime are also indispensable pillars of the Chinese economy—a core dilemma for any country, autocratic or not.

If the physical world is a mess because no countries are willing or able to provide global leadership, digital space is even more poorly governed. It's not that the tech giants are failed states, exactly. More like developing countries whose institutions and ability to govern have yet to catch up to their power and influence. Like a country that grew fast but doesn't have the expertise to educate its citizens or keep them safe, big tech firms have neither the capacity nor the interest (not to mention the business model) to govern the places and tools they are creating. The same is true of decentralized platforms for payments and trading digital assets. Governments will struggle to rein in these systems, because they are wielding regulatory tools designed with traditional financial sector intermediaries in mind.

Ineffective governance by tech giants will impose costs on society and business. Disinformation will get worse ahead of the 2022 midterm elections in the US, further undermining Americans' faith in the democratic process. And as tech firms and governments fail to unite around the governance of data privacy, the safe and ethical use of artificial intelligence, and cybersecurity, US-China tensions on these issues will increase and US-Europe efforts to find common ground will fall short. Because of that governance deficit, digital fragmentation will accelerate, and disruptions to economically important tech supply chains, like those for semiconductors, will intensify.



**The physical world is a mess because no countries are willing or able to provide global leadership; digital space is even more poorly governed**



# 3 US midterms

**The 2022 midterms will be one of the most important in US history. The votes will take place amid allegations of fraud by both Democrats and Republicans, and they will set up a 2024 presidential election that Donald Trump, if he runs, will either win outright or try to steal. This year's vote will not itself provoke a crisis, but it represents a historic tipping point.**

GOP midterm success is baked in. Opposition parties usually win big in the midterms following the election of a first-time president, and Joe Biden's poll numbers are sagging beneath the weight of the pandemic and failed election promises that he would "end the virus." Republicans will almost certainly take back majority control of the House of Representatives and potentially the Senate as well. But if Democrats lose, they will blame the Republican victory on the suppression of minority voters and on partisan redistricting. If Republicans underperform, they will claim fraudulent election procedures and dishonest vote counting. Either way, tens of millions of Americans will view the midterms as rigged.

Presuming Republicans retake at least one chamber of Congress, Democrats will view GOP control as illegitimate and reject Republican oversight and subpoena power. Republicans will view their 2022 success not as a validation of the integrity of American elections but as further evidence that the 2020 race was stolen from them. Bipartisan cooperation will be snuffed out quickly in this historically polarized environment, especially because beginning impeachment proceedings against Biden will be at the top of the Republican agenda. Worse, public trust in American political institutions will take yet another hit.

But more important is what the midterms mean for the 2024 presidential election.

# This year's vote will not itself provoke a crisis, but it represents a historic tipping point

Trump is already signaling he will run again for president. He has a stranglehold on the Republican party, which will not ignore the money, votes, or enthusiasm he draws. If Trump wants it, no Republican stands a real chance of denying him the GOP nomination.

Trump can win the 2024 presidential race outright. His defeat in 2020 was even closer than his victory in 2016. Four challenging years under Biden could deliver Trump the votes he needs to defeat either the incumbent or another Democrat. Many Democrats would refuse to accept a second Trump term, rejecting the legitimacy of his election to an extent that would rival Republicans' rejection of Biden. Another Trump presidency would not mark the end of American democracy, but it would bring a weakened and ineffective federal bureaucracy, large-scale civil disobedience in the United States, and a return to his erratic, isolationist foreign policy. The risks of a major (intentional or unintentional) global conflict would increase. If Trump's first term did not mark a deep and permanent decline of America's global standing, his second term would.

But what if Trump loses the election? This outcome could be worse for the country because Trump would not go down without a fight. The US could end up with an election that's either "broken" or "stolen."

If Republicans take only the House of Representatives in 2022, a Republican-controlled lower house could vote along party lines on state electoral vote certifications to overturn state-level election outcomes. If a Democrat-controlled Senate disagrees, the challenges make news but are rejected. However, if a state with a split legislature were to send two separate certifications and the two

chambers cannot agree on which certification is legally legitimate, the US political system would have no way of resolving this conflict.

This would be a repeat of the failed US presidential election of 1876 and would require an extralegal political compromise to break the deadlock. Either Republicans and Democrats would have to reach a power-sharing agreement, as they did in 1877, or if they fail to do so, that would lead to an illegitimate legislature.

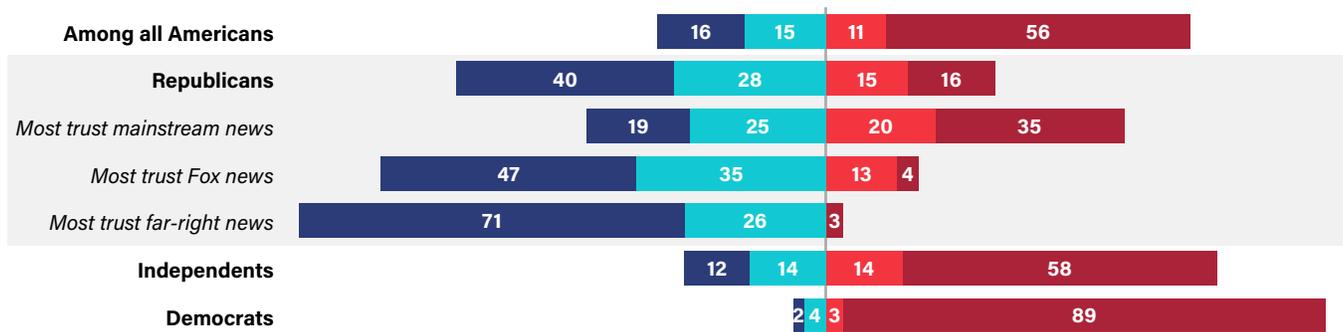
That's not the worst potential outcome. If Republicans win majorities in both the House and Senate, and Trump then appears to lose key states in 2024 as he did in 2020 ... and if Trump then decides to try to steal the election ... and if state-level officials are willing to subvert the will of voters and submit alternative certifications and Republican majorities in both houses are willing to go along ... then the 2024 US presidential election can be stolen, leaving the nation with a president who was not chosen by the electors. There is no existing legal mechanism to prevent this outcome.

In either the "broken" or "stolen" outcome, the impacts on the United States, domestically and abroad, would be profound. A nationwide crisis of political legitimacy could provoke domestic terrorism and create autonomous zones of protest around the country. The resulting political instability would make the insurrection of 2020 (and social unrest of 1968) look tame. The federal government would become structurally dysfunctional. Secessionist movements would gain steam in states such as California. Deeply and perhaps permanently consumed at home, the US would fail to project influence abroad, opening the door for Russia, China, and others to challenge the status quo in areas of their core national interest.

## Majority of Republicans believe 2020 election was stolen from Trump

% who agree that the election was stolen from Trump

■ Completely agree ■ Mostly agree ■ Mostly disagree ■ Completely disagree



Source: Public Religion Research Institute 2021 American Values Survey



# 4 China at home

**US-China relations won't reach crisis levels this year, and domestic conditions within China won't undermine the country's political stability—or derail Xi's bid for a historic third term. But set against an increasingly burdensome zero-Covid policy (please see Risk #1), the charged political atmosphere leading up to the 20th Party Congress will hang over the Chinese economy.**

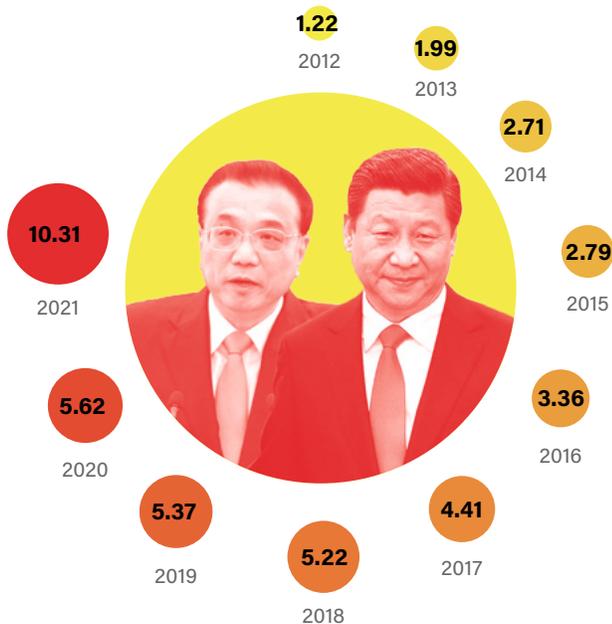
Beijing faces all sorts of challenges in delivering on Xi's promise to "make China strong." These include increasing pushback from the West, an exhausted growth model, an overleveraged and unbalanced economy, and a rapidly aging—and soon to begin declining—population. The most acute risk comes from the country's approach to the pandemic, with a zero-Covid policy that will weigh on consumption and growth while fostering greater social frictions. The additional policy stimulus needed to address Omicron dislocations will force officials to backtrack on reform goals such as controlling financial risks, exacerbating these broader vulnerabilities. This is unprecedented territory for Xi.

To achieve his vision of technological self-sufficiency, economic security, and social harmony, Xi intends to force all elements of Chinese society to accept a new normal of tightened regulation that spans the political, ideological, social, and economic spheres. With few checks left on his power, it's a policy mistake-rich environment.

Expect fresh measures intended to reduce inequality, improve quality of life, and tighten the party's grip. The focus will be on firms and sectors that Beijing considers too politically powerful, systemically risky, or socially harmful—most notably, finance, property, energy, healthcare, and technology. China will also take steps to shore up domestic supply chains and consumption as part of its "dual circulation" agenda. The goal is to reduce dependence on the West and leverage China's internal market to develop self-reliance. The party will advance this agenda despite the economic tradeoffs, underpinned by Xi's belief that entrenched inequality, environmental degradation, excessive debt, speculative investment, and social disharmony threaten China's political stability.

## Xi continues to increase his dominance of Communist Party discourse

Ratio of articles in People's Daily that mention Xi Jinping vs. Premier Li Keqiang



Note: Data is up to and including 22 December 2021  
Source: China National Knowledge Infrastructure

Xi's campaign will create market uncertainty and distortions. Beijing will direct capital away from some of China's most dynamic firms (especially consumer-facing e-commerce platforms) into areas he considers strategic priorities but that face longer paths to profitability (such as semiconductors, biotech, and clean energy). This will breed speculative excess and stretched valuations in favored sectors that will end badly when the inevitable reckoning occurs.

China's private companies, and their partners and investors, will face pressure to focus on "specialized and innovative" sectors. For Xi, small and specialized firms are

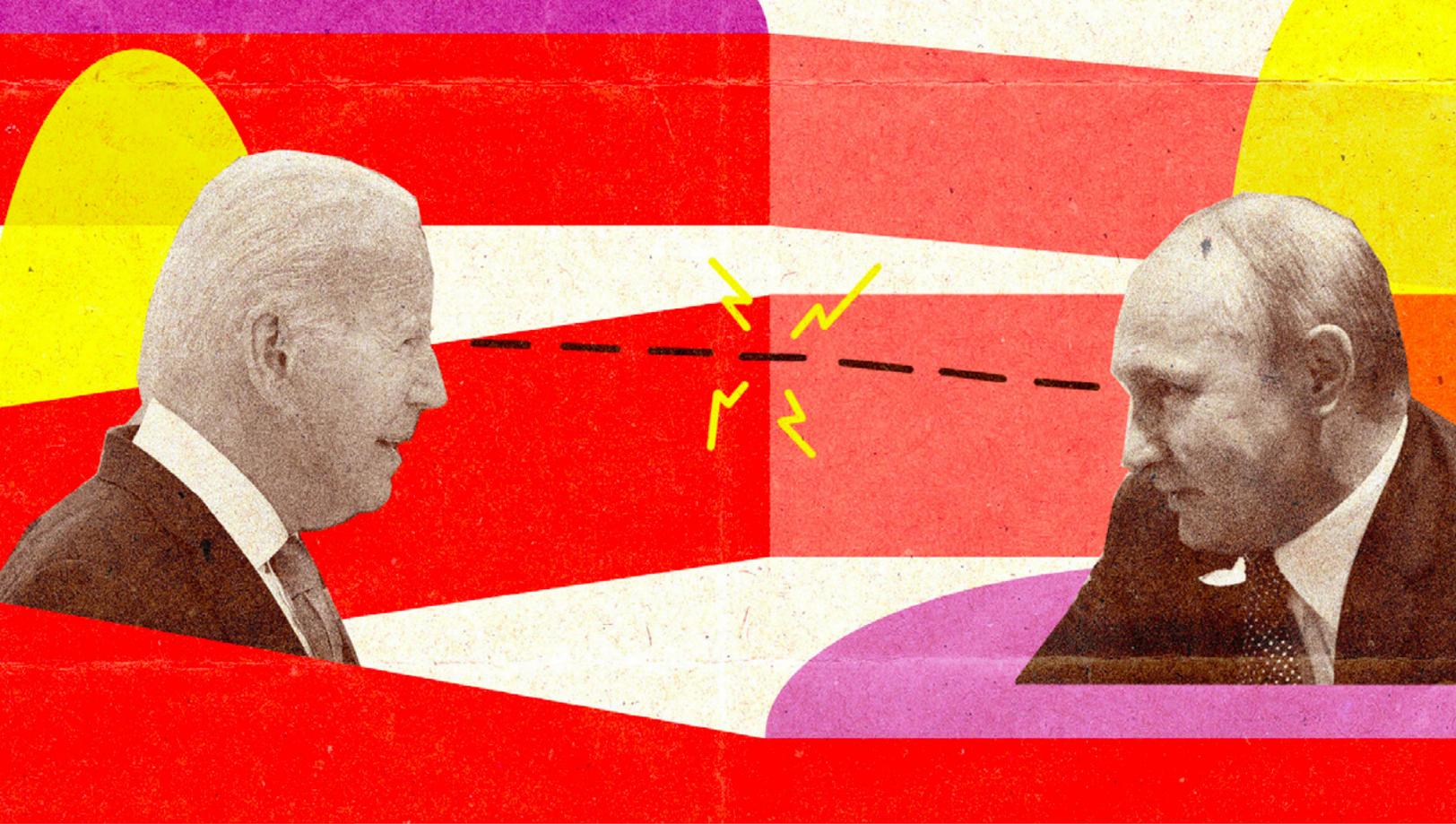
useful and politically manageable; big and broad firms are dangerous. Companies that become too powerful will face growing political and regulatory risk—as the tech, tutoring, property, and gaming industries did in 2021. Smaller firms will have less incentive to grow to scale, hurting their profitability and competitiveness, especially abroad.

For China's economy, Xi's emphasis on political and geopolitical goals in the allocation of resources will undermine productivity growth and deleveraging when it's needed the most—as the current growth model fueled by favorable demographics and capital accumulation runs out of gas. Xi's policies accordingly increase the risk of stagnation at a time when the Chinese economy is on weak footing.

Foreign firms will face an increasingly difficult environment inside China. The "two-way political risk" of operating in both the US and China—the task of keeping both Washington and Beijing happy—will become harder to manage as sensitive political issues continue to dominate headlines. China's drive toward self-reliance and technology decoupling will put additional pressure on these firms, as will Beijing's sensitivity to the poor performance of its vaccines in comparison to Western shots.

But this isn't a moment of US-China confrontation, and foreign investment in the world's soon-to-be-largest economy will continue to grow. Xi is not "making China Maoist again" or ditching state capitalism for orthodox Marxism. Some of his policies, such as the clampdown on tech giants, would be popular in the West, in terms of their ends if not means. Think less Mao Zedong and more "Elizabeth Warren with Chinese characteristics." And while the shifts outlined above are meaningful, Xi will stop short of a radical reorientation of economic policy, not least because he wants to ensure the economy remains stable heading into the party congress and given the threatening overhang of Omicron.

## Xi's policies increase the risk of stagnation at a time when the Chinese economy is on weak footing



# 5 Russia

**Relations between the US and Russia are on a knife-edge. What started with an incremental buildup of troops near Ukraine last year has morphed into a broader Russian demand to restructure the European security architecture. That, combined with ongoing concerns about election interference and cyber operations, means that Russia is on the verge of precipitating an international crisis.**

President Vladimir Putin is trying to force the West to address Russian objections to the eastward expansion of NATO. He amassed at least 70,000 troops on the border with Ukraine to gain leverage on two issues: the nature of an agreement with Kyiv and the rules of the game on Russia's relations with its western neighbors. Putin has put his credibility on the line; if he doesn't get concessions from the US-led West, he is likely to act, either with some form of military operation in Ukraine or a dramatic action elsewhere.

Diplomacy will probably avert military confrontation by focusing on areas where compromise is possible. Ukraine has no prospect of getting into NATO, but the United States and its NATO allies aren't going to say that publicly. Yet the sides could reach a tacit agreement to that effect. Agreement is also possible on other issues including limits on weapons transfers to Ukraine and on military exercises near the Russian border.

But it's a very close call. Even if issues such as these are agreed on it may not be enough to satisfy Putin. If Putin directly invades Ukraine, Russia will at the least face a ban on US persons trading in the secondary market for new Russian sovereign debt, and NATO forces will move their forward positions closer to Russia's border, raising tensions to a degree not seen since the collapse of the Soviet Union.

## If Putin doesn't get concessions from the US-led West, he is likely to act

Putin has other, less dramatic options that would also pose big problems for the transatlantic alliance. In response to his (false) claims that Ukraine is conducting acts of genocide against ethnic Russians in the Donbas, he could send troops into the occupied territory and formally annex it in order to protect them, potentially taking a small additional buffer of Ukrainian territory as well. Would the Europeans remain as aligned with the United States in such a scenario, with all the economic consequences (and energy shortages this winter) that would result? It's harder to imagine. Absent this alignment, the episode would be an embarrassing failure for the Biden administration and deeply divisive for US-Europe relations.

Another Russia-related risk pertains to the US midterms. As Risk #3 argues, there is a direct line between the midterms and the 2024 presidential race, including the potential for a broken or stolen election. Russian actors will interfere in the midterms at a low level, with troll farms of fake accounts spreading misinformation and state media highlighting hot-button issues in the US. This activity would fuel further American distrust in the democratic process ahead of 2024, though it would not cross the line and trigger severe US sanctions. Yet, Moscow may find the US midterms an irresistible opportunity to sow greater discord in a deeply divided superpower (especially if the broader European security issue hasn't been "resolved" to Russian satisfaction). This could lead to more direct involvement by the Russian security services in spreading misinformation or hacking and releasing information from candidates or officials. Many members of Congress, including Biden's allies, are already on edge, and some are openly frustrated by Biden's refusal to levy heavier sanctions in response to past election interference. Congressional pressure could prompt new sanctions, and it will take less Russian provocation than in the past to get the White House on board. A ban on secondary market trading of Russian debt could also be triggered by election interference.

Russian cyber operations will elevate the overall tension in relations with Washington. Policymakers and the media have trouble distinguishing between routine espionage and actions that are more malicious; the former will continue unabated, and the risk of the latter remains real. If the Russian government or a loosely aligned non-state actor damaged critical infrastructure, it would provoke a strong US response, risking a cyber war with extensive economic damage. The drumbeat of incursions—combined with hacks and counter-hacks from the US—will raise the overall temperature in the relationship.

Lingering in the background is the investigation into the "Havana syndrome," the unexplained illnesses experienced by some 200 US government personnel around the world. The evidence surrounding the syndrome and any Russian culpability remains murky, but it continues to burden the relationship. If Moscow is ultimately found to be responsible, the consequences will be severe.

Finally, Russia's close relationship with China will become a growing cause for US concern. Putin is more confident believing that he has Beijing on his side; Moscow will amplify its standing policy of lashing out against the US and US-led alliances in the Indo-Pacific and elsewhere. A blowup of the situation in Ukraine is likely to be accompanied by China vetoes favoring Moscow in the UN Security Council at a minimum, but possibly with more provocative Chinese military maneuvers in the South China Sea as well. A "rogue" Russia is no longer operating in isolation.

### Chronicle of a volatile relationship

#### 2021

- 26 January:** Presidents Biden and Putin hold their first phone conversation
- 3 February:** The US and Russia renew the New START arms control treaty for another five years
- 17 March:** In an interview, Biden agrees with a characterization of Putin as "a killer"
- March/April:** Russia builds up military forces near its border with Ukraine, stoking fears of an escalation of the conflict in Ukraine's Donbas region
- 15 April:** US imposes new sanctions over Russia's election interference in 2020 and its SolarWinds cyber intrusion
- 6 May:** Colonial Pipeline shuts down over a ransomware attack later traced to Russian actors; other cyber incidents follow
- 24 May:** Tensions rise over Belarus's forced landing of a Ryanair flight to arrest an opposition activist
- 16 June:** Biden and Putin meet in Geneva, which leads to inter-governmental dialogues on strategic stability and cyber-related issues
- 21 July:** The US and German governments reach an agreement that will allow Russia's controversial Nord Stream 2 gas pipeline to go forward
- October/November:** Russian troop movements near Ukraine's border prompt warnings from the US that an attack on Ukraine would lead to severe economic penalties
- 1 December:** Putin says Russia wants legal, binding security guarantees that would halt NATO's eastward expansion
- 7 December:** Biden and Putin agree to hold discussions over Ukraine and eastern European security
- 30 December:** Biden and Putin hold planning call for January talks

Source: Eurasia Group



# 6 Iran

**The US and Iran enter 2022 on the brink of crisis. Iran’s nuclear program is advancing rapidly, unconstrained by the limits of the nuclear accord. With diplomacy on ice, Washington is groping for an alternative strategy to constrain Tehran and placate growing Israeli calls for aggressive action, but the Biden administration has limited options. Israel will increasingly take matters into its own hands—which once again raises the specter of Israeli strikes on Iranian nuclear facilities. These pressures will collide this year, leaving oil prices and regional states jittery and increasing the risk of conflict.**

Iran’s hardline president, Ebrahim Raisi, entered office with a chance to seal a quick deal with Washington, accept short-term nuclear constraints, and rebuild Iran’s economy. He chose the opposite path. He appointed an ardent opponent of the nuclear accord as his chief negotiator and is building nuclear capabilities that cannot be undone. Iran’s “breakout time”—the time required to produce enough highly enriched uranium for a nuclear bomb—is now down to one month. While Tehran has said it still wants a deal, its actions suggest otherwise.

This has left Washington in the lurch. The Biden administration, which expected to reach an agreement with Tehran last year, failed to plan for a scenario in which Tehran wasn’t interested. With the chaotic US withdrawal from Afghanistan and ongoing pivot to Asia, the US is aiming to reduce its footprint in the Middle East. That has emboldened Tehran and alarmed Israeli leaders, who view an Iranian nuclear weapon as an existential threat.

With hopes for reviving the 2015 nuclear deal fading, Tehran will race to make technical advances that bring it closer to a bomb in order to pressure the West to make concessions. Iran will accumulate more highly enriched uranium,

# The Biden administration failed to prepare for the possibility that Iran would not be interested in reviving the nuclear deal

deploy more advanced centrifuges, and further test techniques for turning uranium into metal that can be used for a bomb. Many of these steps cannot be reversed, establishing a new and more dangerous baseline for future negotiations. Iran will also continue to obstruct international monitoring of its program, fueling further international concern about whether it has resumed its covert effort to build a deliverable nuclear weapon.

The United States will struggle to pivot to a new Iran policy. Washington will apply new sanctions, but there is little more Biden can add to Trump's "maximum pressure" sanctions. Iran's economy will worsen under the weight of existing sanctions, but no single US step will push it over the edge (particularly with comparatively high energy prices at present). Economic pressure and political isolation may eventually put real pressure on Iran but won't alone force political action this year. And Biden will be reluctant to intensify military pressure on Iran, in contrast to the Trump administration (or even that of Barack Obama).

Israel has no such reluctance, and that's what makes the 2022 escalation most dangerous. Washington's hesitations

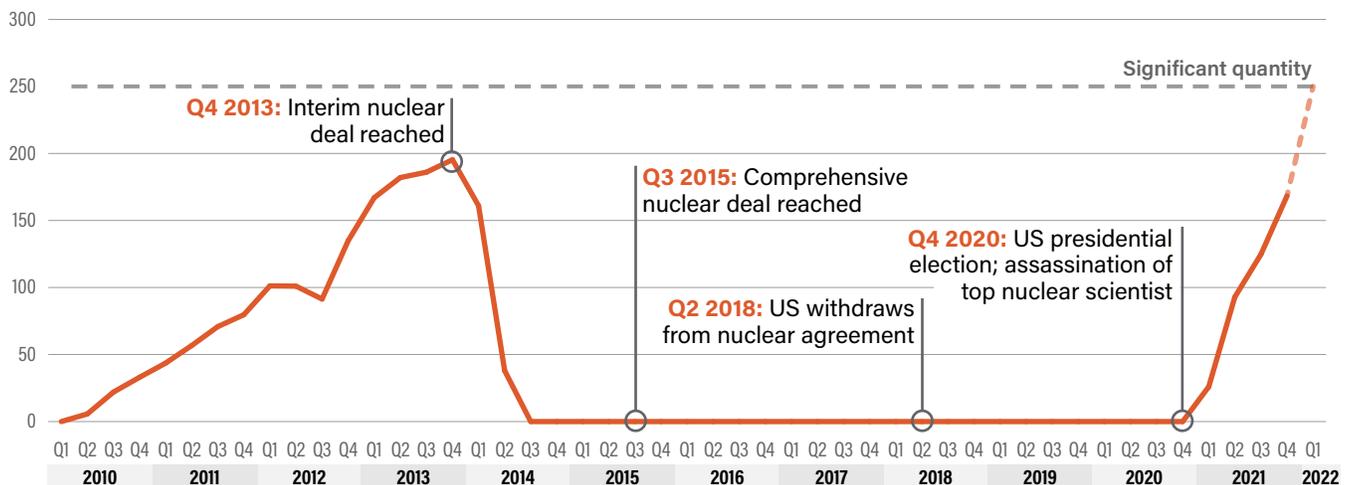
will persuade Israel that the Biden administration lacks the political will to build up its military option and therefore Jerusalem will feel compelled to pursue its own strategy. That means more Israeli sabotage attacks and potentially even direct military strikes on key Iranian defense and civilian sites, which will provoke Iranian retaliation, including from Syria and Lebanon, at sea, and in cyberspace. Tehran may well respond to Israeli attacks with retaliation against American targets, putting Iraq in the crosshairs next year and risking a broader regional war. Clashes in the Gulf are less likely, given Gulf states' growing interest in engaging directly with Iran and Iran's economic incentives to maintain good ties with its neighbors.

Oil markets will feel upward pressure as tensions rise. The shadow war will spook shippers, insurers, airlines, and corporates with a physical presence in the Middle East, given the vulnerabilities of civilian infrastructure. Threats of Israeli airstrikes will do the same. New US sanctions may not have a big impact on Iran, but they will add compliance burdens for firms and banks.

Last year was a calm one for Iran. This year, as everybody pursues their own Plan B, will be anything but.

## Iran is expected to accumulate at least one bomb's worth of 20% enriched uranium in the first quarter of 2022

Stockpile of 20% U-235, UF<sub>6</sub> form, kilograms



Note: Significant quantity refers to the approximate minimum quantity required to, after further enrichment, fuel one nuclear weapon. Based on average production rates at the end of 2021, Iran is expected to at least cross that threshold in Q1 2022.

Source: International Atomic Energy Agency; Arms Control Association



# 7 Two steps greener, one step back

**It's an especially disruptive time in the global transition from fossil fuels to renewables. The result will be both higher energy prices for consumers and a near-term policy collision with climate goals.**

In 2022, long-term decarbonization targets will collide with short-term energy needs. We saw this last year as governments raced to make mid-century net-zero commitments but then took a detour toward subsidies and other policy interventions as economic distortions created by Covid-19 and supply chain disruptions created energy shortages. This upward pressure on costs will intensify in 2022 and force governments to make an unpleasant choice: mollify anxious voters with policy that delays climate goals or tough it out in a hostile and unpredictable energy market environment.

Energy demand, production, and investment will remain out of sync this year as the transition to a global economy powered by renewable energy sources gains traction. Near term, economies are trying to squeeze fossil fuels out of their energy mixes without generating enough investment in renewable replacements or backup solutions. Making matters worse, leaders such as Putin have used their leverage to disrupt energy markets many times in the past. The tension between green goals and the need to keep energy costs down will prove politically toxic this year, with rising energy costs, greater price volatility, and mounting pressure on consumers to change their behavior.

The dynamic set at the UN climate summit in Glasgow tells the story. Climate goals were expanded in the run-up to COP26 as the coverage of net zero commitments grew from 30% to 90% of the global economy. Details remain scarce on how countries will reach net zero, however, with COP27 looming in November. The Glasgow Climate Pact also included language on phasing out coal and reducing “inefficient” fossil fuel subsidies that are at odds with government responses to the current energy crisis, both in Europe and Asia. Authorities must square long-term climate goals with the need to meet today's energy needs, a difficult-to-impossible task.

## The energy transition is happening, but it won't be smooth

Finally, severe weather events will simultaneously cause outages and stoke higher demand for energy globally. They will also force hasty political decisions on climate actions that exacerbate energy distortions.

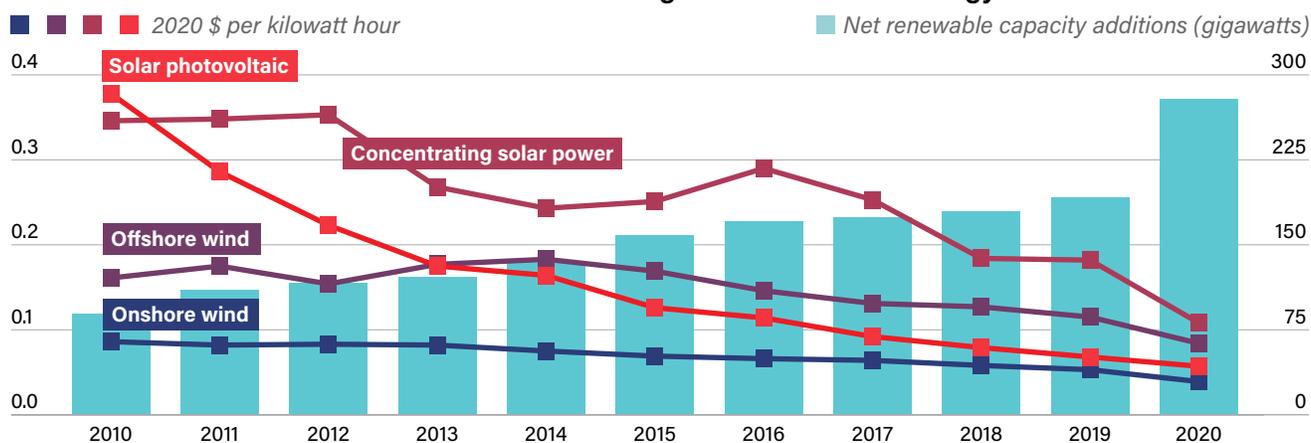
The economic impact will be felt this year. The surge in retail and wholesale energy costs in late 2021 will undermine economic growth prospects for large parts of Europe and Northeast Asia well into 2022. As China continues with its massive household gasification program, its demand for gas will continue to rise, driving up prices seasonally and creating new supply shortages that once again force it to ration power deliveries to industry next winter. The US is also likely to experience continued high natural gas prices as investment in the unconventional sector is stymied by a combination of bearish investor sentiment and unclear policy signals from the Biden administration. These rising energy costs will stoke global inflation and provoke anti-incumbent sentiment, causing instability in

some emerging markets and affecting elections in France and the US (please see Risk #1).

There will be few coordinated global responses to energy shortages this year. Having based its economic and geopolitical agenda on long-term climate policy leadership, the European Union will not reverse course in its drive to decarbonize and set the global green standard. In the United States, partisan divides and short-term economic imperatives make American commitment to ambitious climate goals ambiguous at best. Resolving environmental challenges is central to China's emerging political goals, but short-term supply dislocations and local employment needs will force continued reliance on fossil fuels.

The long-term direction of travel is rapid decarbonization. But moving toward green goals and providing energy to populations are out of sync this year; the energy transition is happening, but it won't be smooth.

### Costs continue to fall for solar and wind technologies as renewable energy is added



Source: International Renewable Energy Agency, International Energy Agency



# 8 Empty lands

**The United States is no longer interested in playing the role of global policeman. Beijing is not about to take Washington's place.**

No matter how many times Biden says that “America is back,” retrenchment remains the bipartisan consensus in Washington. To the extent that Washington is looking abroad, it's focused mainly on countering China's rise. Beijing will spend 2022 focused on mounting challenges at home as Xi works to secure a third term at the 20th Party Congress, contain Covid-19, and redirect the priorities of the private sector (please see Risk #4). Xi wants to ensure his power expands, but Covid-19 doesn't—and that leaves little room for foreign policy adventures.

Other powers with interests in global stability, such as the EU, the UK, and Japan, will exercise more influence without fully filling the global power vacuum. Many countries and regions will suffer the consequences.

**Afghanistan** is the most obvious example. The collapse of its government last summer and the chaotic withdrawal of US forces left Afghanistan in the hands of an extremist, disorganized, and inexperienced Taliban force. The Taliban do not exert control over much of Afghanistan. They will struggle to stop the local Islamic State affiliate from drawing in militants from other parts of the world to settle in ungoverned expanses of the country. The US has sharply limited intent or capacity to intervene, and China has shown little interest. Afghanistan is returning to its pre-9/11 position as a global magnet for international terrorism.

The risks of terrorism are also acute in the thinly governed **Sahel**. The conflict with Islamist militants has spread from Mali across the region, resulting in large-scale terror attacks in Burkina Faso, Niger, Mali, and Chad. But France is scaling back its military presence, and the US has stepped back since 2017 when four soldiers were killed in Niger. The escalation

## No one will fill the global power vacuum; many countries and regions will suffer the consequences

of the insurgency would have broader implications for political stability and provide another space for terrorist organizations to regroup and plot attacks on the West.

The seven-year war between a Saudi-led coalition and Iran-backed Houthi rebels in **Yemen** presents similar risks. After scaling back military support for Riyadh, the United States has done little to push for a cease-fire or to ease suffering. The effects will extend beyond Yemen. Houthi attacks damage oil facilities critical to the global economy in Saudi Arabia and increase regional tensions with Iran. Counter-terrorism efforts will continue to falter, giving breathing room to the capable Al Qaeda affiliate there.

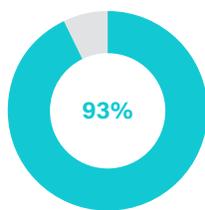
Both **Myanmar** and **Ethiopia** are in the throes of civil conflict. In Myanmar, the ruling junta cannot fully contain a civil disobedience movement and resistance from armed ethnic minority organizations. The United States has treated Myanmar as a low-priority issue, and while China supports the junta, it has done little to push for a resolution. The main risk for outsiders will come from refugee flows, especially to India and China, which are both trying to keep fleeing civilians out. Some of the

same dynamics are present in Ethiopia. More than a year into the civil war, military momentum continues to swing between government and antigovernment forces with devastating results. The US approach has been incoherent, while China has given the government some diplomatic cover and arms. The conflict, which shows no immediate signs of stopping, risks destabilizing the Horn of Africa and increasing refugee flows.

Likewise, the bleak situations in **Venezuela** and **Haiti** also risk refugee flows in North and South America. The political and economic crisis in Venezuela has already spurred millions to leave, and the US has put little effort into improving the frozen situation. Haiti is mired in political instability, which has already caused thousands of Haitians to flee to the US southern border.

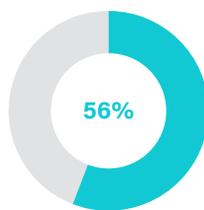
During the Cold War, thinly governed spaces across Asia and Africa became battlegrounds for proxy conflicts between Washington and Moscow. The competition was global and zero sum. That's not the case anymore—the United States and China are content to let some places languish. It's another clear sign that we're not in a Cold War 2.0 (please see related Red Herring).

### Share of population that is food insecure

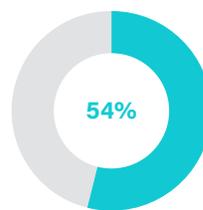


Ethiopia

(Tigray, Amhara, and Afar regions)



Afghanistan



Yemen



The Sahel

(Mali, Burkina Faso, and Niger)

Source: World Food Program



## 9 Corporates losing the culture wars

**The world's biggest brands are earning record profits. But they're going to have a more difficult year navigating politics. Consumers and employees, empowered by "cancel culture" and enabled by social media, will put new demands on multinational corporations (MNCs) and the governments that regulate them. Multinationals will have to spend more time and money navigating environmental, cultural, social, and political minefields.**

Consumers—and employees—have corporate boardrooms on the defensive. Social media is even more powerful and pervasive, and the threat of being "canceled"—in this case, consumers ostracizing or blocking a company from markets—is real. The political and sporting calendar this year means that activists have ready-made flashpoints to highlight divisive issues: the Beijing Winter Olympics (forced labor, human rights), the FIFA World Cup in Qatar (ditto), and the US midterms (voting rights, abortion). The emergence from the pandemic, even if slow and halting, has given employees leverage: The "Great Resignation" means companies need to make themselves more attractive to new hires, and it gives those workers who remain more leverage to change companies from the inside. Meanwhile, consumers will enlist policymakers in their campaigns.

What do consumers and employees demand? They want companies to take stands on "culture war" issues, workplace diversity, voting rights, forced and child labor, supply chains that respect the environment and human rights, free speech, and more.

## Multinationals with operations in the West and China will face a “two-way risk”

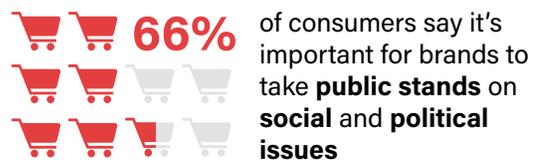
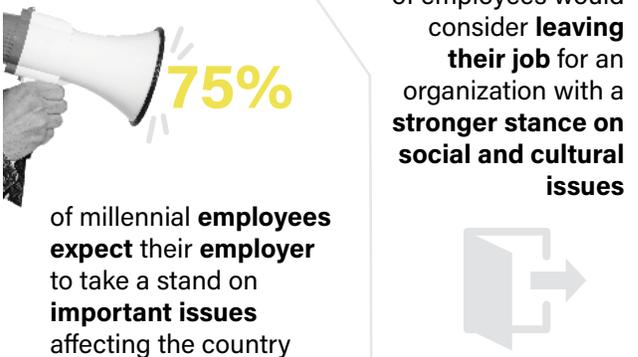
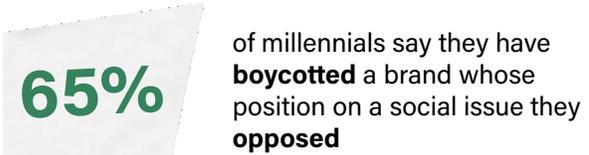
Compliance is expensive. It means reorienting supply chains. Firms will have to monitor beyond first- or even second-tier suppliers. In cases in which a significant portion of suppliers or workers operate in markets associated with human rights abuses, compliance will necessitate either relocation to less-desirable places or the bifurcation of supply chains.

Mushrooming and contradictory regulations will create a confusing operating environment for MNCs, especially in the area of clean supply chains. Policies from different markets will come with their own set of domestic priorities and sustainability ambitions. A forthcoming European Commission proposal on corporate due diligence seeks to set a global benchmark, but it won't stop countries from layering on new conditions. Noncompliance will also be costly, as energized regulators face their own constituent pressures.

In addition, multinationals caught between the West and China will face a “two-way” risk. If they speak out against forced labor in China, they face fury from Chinese regulators and consumers. If they don't, they face backlash from regulators and consumers in the US, Canada, the UK, and the European Union. Legislators may not want to force countries to choose between the West and China (please see related Red Herring), but consumers and regulators are doing their best to step in.

Companies that make consumer products including clothes, electronics, and household items will face the most scrutiny because of their brand recognition. And the attention won't just be in the US, Europe, or China. Emerging markets with younger populations and access to social media platforms, such as Thailand or Indonesia, will also add to the pressure on MNCs.

### Damned if they do, damned if they don't



Source: SproutSocial, 5WPR, CNBC/SurveyMonkey, Gartner, Glassdoor/Harris



# 10 Turkey

**President Recep Tayyip Erdoğan will drag Turkey's economy and international standing to new lows in 2022 as he tries to reverse his plunging poll numbers ahead of elections in 2023.**

Erdogan and his ruling Justice and Development Party are less popular than ever with Turkish voters. It's easy to see why: Unemployment is high, inflation is soaring, and the lira is weaker and more volatile. The president is responsible for Turkey's economic doldrums, and voters blame the government for the current state of affairs. Driven by a belief that high interest rates cause high inflation, Erdogan has rejected orthodox economic assumptions to force a monetary easing cycle just as consumer price increases are accelerating. Erdogan's monetary policy has driven real interest rates deeper into negative territory, leading to more dollarization of the economy. Moreover, he has abandoned Turkey's 5% inflation target as official price increases surged by more than 20% and hailed the lira's drop to record lows as a competitive advantage. Erdogan wants to build a 1990s-style, weak-currency-driven export economy. The cost is a poorer and angrier public.

Erdogan's sights are set on 2023, but the impact of these policies will be felt this year. He will try to mollify households with renewed credit expansion, yet that risks feeding more dollarization. The central bank will do what the president asks, exacerbating balance-of-payment risks, given the need to roll over large amounts of external debt for the banking sector and corporates. There is a growing risk that Ankara will turn to market-unfriendly interventions, but none of these measures will stop the bleeding. New measures unveiled in late December will provide some short-term economic relief but stoke fiscal and inflationary risks that could lead to an accelerated economic unraveling.

Erdogan's foreign policy positions will remain combative as part of an effort to distract voters from the economic crisis. The Halkbank trial, which should finally begin and conclude sometime this year, risks becoming a major

## Erdogan's foreign policy positions will remain combative to distract voters from the economic crisis

flashpoint, particularly if the bank is found guilty of Iran sanctions violations and Erdogan refuses to settle. The challenging outlook for Turkey's bid to acquire more F-16s and modernization kits from the US, meanwhile, could derail efforts in both Ankara and Washington to maintain a marginally constructive bilateral agenda. An impatient Erdogan, looking to score political points at home, might prematurely call off the talks and turn instead to Russia for more defense deals. That would trigger additional US sanctions.

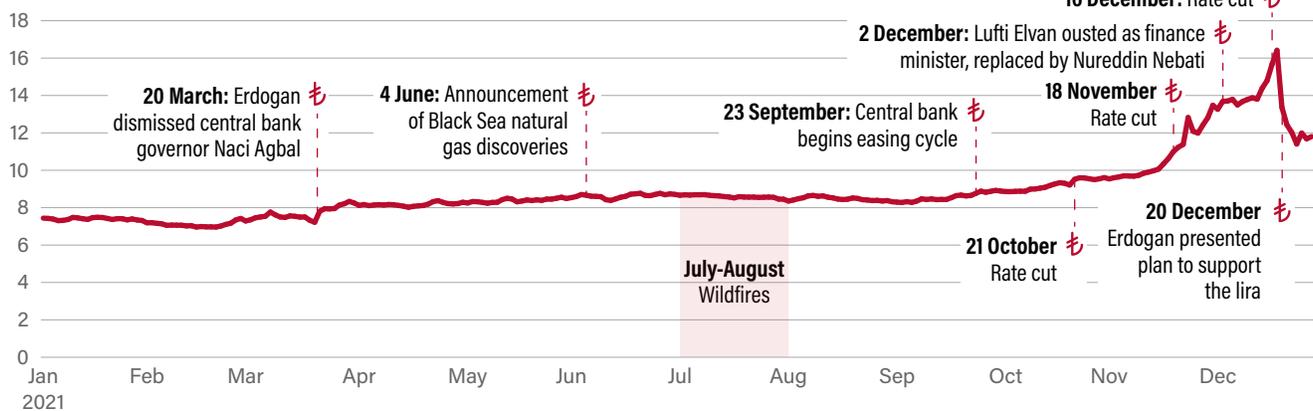
Even if Washington opts for more limited responses, the developments will provoke knee-jerk reactions from Erdogan. His erratic choices will also fuel concerns

about risks of major Turkish overreach in Syria and a conflict with Greece or Cyprus over contested waters. None of these moves will earn Erdogan points at home, at a time when a tanking lira and runaway inflation cripple voters' ability to make ends meet.

If economic conditions deteriorate faster, Erdogan could be forced into holding early elections this year, exacerbating the above risks. Given Turkey's institutional weakness and the potential for democratic backsliding and violence, snap polls would risk plunging the country into chaos and further consolidate its place as the preeminent emerging market basket case.

### Turkish lira

USDTRY



Source: Wall Street Journal



# RED HERRINGS

## Cold War 2.0

We keep hearing this argument: The US and China are locked in a new Cold War. It's wrong.

Hawks in the Biden administration and Congress want to accelerate the decoupling of the US and Chinese economies, but China is America's largest goods trading partner (two-way goods trade totaled \$560 billion last year), and the two countries are bound together by highly complex supply chains. Plus, Wall Street is increasing its presence in China, and trade officials on both sides want to stabilize ties for the good of their own economies. True, the US is trying to pursue an "industrial strategy," and China is turning inward with its "dual circulation" push. And the global big tech ecosystem is fragmenting. But Washington's economy and Beijing's are becoming more, not less, integrated overall.

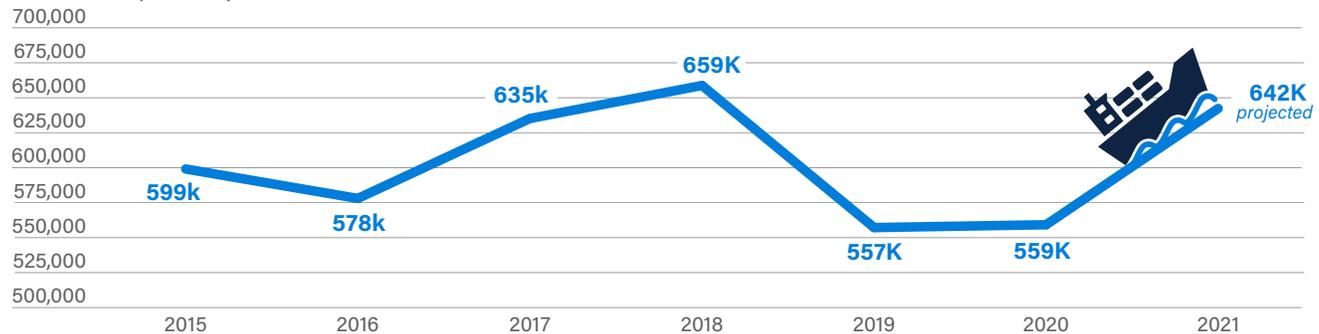
Beijing's aggressive diplomacy has given US alliances a shot in the arm, particularly in Asia, but Washington can't marshal a coalition of democracies to contain China (and knows it). The West needs active relations with China in ways that were unimaginable with the Soviet Union. And the EU, in particular, wants no part of a new Cold War.

At the same time, Beijing remains diplomatically isolated. Even Russia has misgivings about China, which continues to expand trade and investment inroads into Central Asia. Countries caught "in the middle" have to—and will—engage

extensively with both the United States and China. And while Washington and Beijing will sometimes point fingers and shake fists at one another, both sides know the other isn't headed for Soviet-style collapse.

### Total US goods trade with China has recovered from the depths of the trade war and pandemic

millions of \$ (nominal)



Source: US Census Bureau, Eurasia Group

### Taiwan

Fears that China will soon invade Taiwan have reached a fever pitch. Xi has said that his country's "great rejuvenation" is predicated on Taiwan's reunification with the mainland, China conducted a record number of sorties into Taiwan's airspace last year, and the cross-strait military balance is moving in Beijing's favor. But it's not just China that's inflaming cross-strait tensions. Biden invited Taiwan's digital minister to participate in his democracy summit in December, broadened cooperation on a range of issues, and repeatedly said that the US would defend Taiwan in case of a Chinese attack. While administration officials have quickly stressed each time that Washington's policy remains one of "strategic ambiguity," Biden's statements and actions make China nervous. And top US military officials increasingly treat a Chinese move on Taiwan as a matter of when, not if, further upping the ante.

But there are four reasons to take a breath. First, Xi is not saying anything new. Each of his predecessors said that China would never accept an independent Taiwan. Second, China has not come close to doing what it did during the Taiwan Strait Crisis of 1995-1996: fire short-range ballistic missiles into waters close to Taiwan. Third, neither Washington nor Taipei is approaching Beijing's red lines: The US is sticking with the "One China" policy, and Taiwan is not going to declare independence. And some (albeit limited) stress-testing of those red lines supports strategic stability. Fourth, were China to attack Taiwan, it would risk a humiliating military defeat, devastating economic sanctions, and sweeping diplomatic isolation.

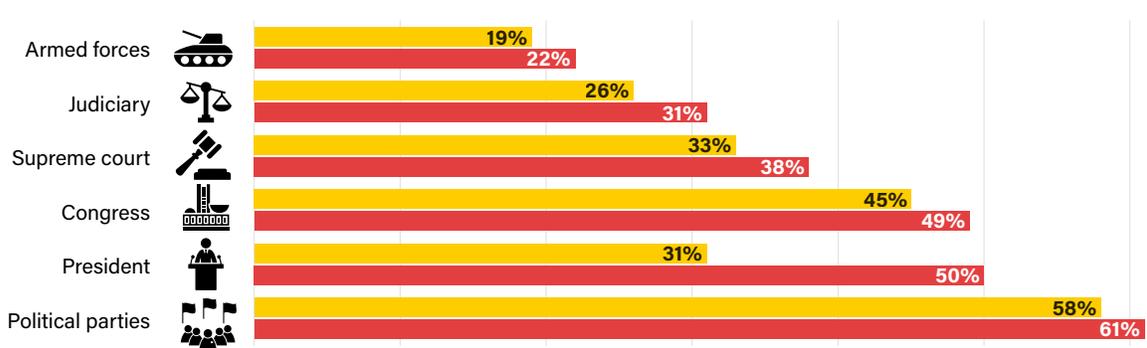
If you're a leader of China for life who thinks long term, why act rashly? Better to wait for the military balance to swing further into your favor—as it will over time—or for a major political crisis in the US that distracts Americans or a new US president who's unwilling to fight for Taiwan. That way you can change the political map without firing a shot. Xi understands and can afford to bide his time.

Beijing will continue intimidation of Taipei ahead of the 20th Party Congress this fall, while the United States will continue to increase its military footprint and diplomatic commitment in the region. Neither country will risk war over Taiwan.

### Brazil

This year will be an extraordinary one for politics in Brazil. President Jair Bolsonaro's popularity will sag as the economy worsens, making Luiz Inacio Lula da Silva the favorite to win October's presidential election. Expectations of a Lula victory will unsettle markets, given his promises for higher state spending, and a desperate Bolsonaro will challenge the legitimacy of Brazil's democratic institutions. But worries that democracy in Brazil is at risk or that Lula will make a radical turn to the left that triggers a financial crisis of confidence are both overstated.

## Distrust in institutions in Brazil



Source: Datafolha, September 2021

Bolsonaro is highly likely reach a runoff against Lula. Facing the prospect of defeat, he will intensify his attacks on Brazil's courts, media, and electoral process itself to keep his base mobilized and burnish his antiestablishment credentials. If he loses the election, he will probably challenge the results and allege the election was stolen. We've seen this story before.

Brazil's democracy isn't at risk. Brazil's democratic institutions are entrenched and strong. The judiciary, governors, congress, and the media are independent and will check a rogue effort to overturn an election result. The military won't follow any attempt by Bolsonaro to defy the election results, and the Federal Supreme Court has taken steps to cut funding for pro-Bolsonaro online groups that have fueled previous mobilizations.

Lula, meanwhile, will take a pragmatic turn on economic management if (when) he wins. The likely pick of a centrist running mate for Lula—former Sao Paulo governor Geraldo Alckmin—is a clear sign of what is to come. Lula will have to deliver on promises for more spending but will compensate with higher taxes and a new fiscal rule. Given a very high debt and tax burden, that isn't good news. The result is lackluster growth and a very difficult third mandate. But the country isn't headed for political or economic collapse.

As the locals say, Brazil isn't for amateurs. Don't get suckered.

## Migration

In 2022, there will be no shortage of Middle Eastern and African migrants seeking to reach Europe's shores. But this year won't bring a repeat of the 2015 migrant crisis.

There is no appetite in Europe to open the door to large numbers of migrants as in 2015. The EU has managed to cut irregular arrivals by roughly 90% from its 2015 peak. But even that is not enough for some member states. Europe will act aggressively (and collectively) to keep out would-be illegal migrants and bolster its ability to do so.

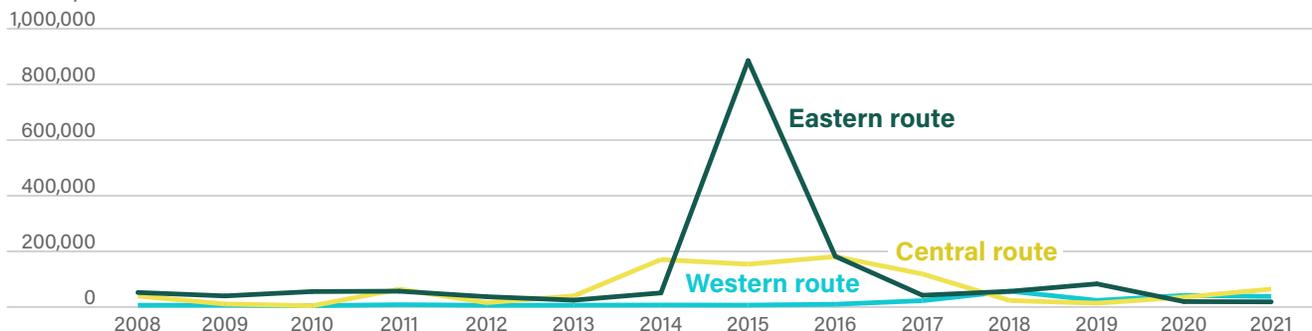
Brussels will cut deals with transit countries, seeking to replicate the success of the 2016 EU-Turkey migration pact. The EU response to recent migratory pressures stemming from Belarus sets the example. Europeans engaged countries across the Middle East and beyond, deployed sanctions, and provided financing to halt the arrival of migrants and repatriate those stuck outside its borders.

And EU members at the frontlines of inbound migration will unilaterally toughen border enforcement to prevent and deter arrivals. EU capitals will either actively support or turn a blind eye to harsh measures, even when they violate migrants' rights and contravene international treaties.

Migration remains a politically sensitive issue across the EU. We'll certainly see alarmist headlines. But another refugee crisis is not in the cards.

## Irregular arrivals to the EU (2008-2021)

Data up to November 2021. Western route refers to Western Mediterranean and Western African routes.



Source: Frontex and Spanish Ministry of Interior, European Council



This isn't getting any easier. Heck, it almost doesn't matter what the "this" refers to. Uniquely in our lives, much of how the world works is "in play"—the political accountability of the United States; core global alliances and the balance of power; the rules of the road for international relations and the global economy; and even the dominance of national governments in determining all these outcomes. Throw in the pandemic, climate change, and new disruptive technologies that change all of the above. It makes us particularly value the process behind our Top Risks report: Start with a blank piece of paper, question baseline assumptions, and consider ideas that aren't in the onslaught of information that makes up the daily news.

We hope you feel that way too. It's been 24 years now since we started Eurasia Group with an idea and a lot of hard work. We tremendously appreciate your support for our efforts. As fun as it is to look back, you've made it possible for us to do something more challenging and more important—to look ahead. We promise to give you our best as the year plays out.

With thanks and warm wishes for 2022,

Ian and Cliff

Brasília London New York San Francisco São Paulo Singapore Tokyo Washington D.C.

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