



IMPACT ANALYSIS

2023 GLOBAL FORECAST



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War in Ukraine

As we approach one year of the war in Ukraine, the fighting has reached a stalemate. At this time, neither side can score a decisive victory. Ukraine remains reliant on external support from the U.S., EU, and UK, while Russia has mobilized 300,000 men and deepened military ties with Iran. Russia's mobilized forces are significant in number but appear to be poorly trained and equipped.

The likelihood of a negotiated ceasefire is low, and the most likely scenario is a prolonged conflict characterized by Ukraine's ability to inflict casualties against Russian forces using advanced weapons systems provided by its allies. Russia, meanwhile, will continue to target Ukraine's civilian infrastructure with drone and missile attacks. Russia will also attempt to undermine external support for Ukraine. Energy supply, inflation, and economic slowdown are important concerns for Ukraine's allies, but their support is unlikely to wane.

Other credible but less likely scenarios are a ceasefire by Ukrainian advances that push Russian forces back to the Crimean peninsula, or Russia's mobilization may begin to have an impact. Under pressure from its allies, Ukraine may be forced to negotiate a truce. This would, however, be highly unstable, and the prospect of further fighting would remain high.

The possibility that Russia will use a nuclear weapon in the conflict remains low, as is the risk of a wider conflict that involves the North Atlantic Treaty Organization (NATO). Nevertheless, these scenarios should not be ruled out entirely.

China and the U.S.

China-U.S. relations have continued to sour recently, with policy conflicts occurring over the Chinese technology industry and the status of Taiwan. For example, in late 2022, President Biden enacted a policy to prevent the export of advanced semiconductors to China and prevent U.S. citizens from supporting the production of advanced chips at Chinese factories. Meant to prevent Chinese companies from benefitting from U.S. expertise, China immediately condemned this policy, with the government characterizing the decision as harmful to both American and Chinese tech companies.

U.S. policy surrounding Taiwan was also a sore spot in relations with China, as President Biden stated in an interview that the U.S. would intervene to defend Taiwan, breaking the previous policy of strategic ambiguity. Though this statement was walked back by other government officials, the damage was done, with China then conducting military drills around Taiwan. Since then, incursions of Chinese aircraft into Taiwanese airspace have increased and are likely to continue for the foreseeable future.

Though tensions have been rising from an economic perspective, the likelihood of direct conflict between the two nations remains highly dependent on the security of Taiwan. China has continued to voice its desire for reunification with Taiwan by any means necessary. How the leaders pursue this policy will have effects beyond U.S.-China relations alone.

Europe's Energy Security

The war in Ukraine has severely impacted Europe's access to natural gas, a primary source of heating and electricity. Although much of Europe was able to build up sufficient storage in 2022 – helped by a mild winter - the International Energy Agency (IAE) is warning that inventories could be at 65 percent of capacity for the 2023-2024 winter season. Countries will therefore be working hard to identify alternative sources of natural gas to Russia and alternative energy sources. If they cannot, there would be an increased risk of energy rationing, power cuts, and disruption to business operations.

China and COVID-19

In December 2022, China implemented a new set of more lenient COVID-19 guidelines to reduce the economic burden of lockdown restrictions. The government likely also hopes to lessen the risk of nationwide demonstrations following November protests over the death of ten citizens in a fire. This incident, many believe, was the result of extreme COVID-19 lockdown requirements.

China has faced a continuously slowing economy riddled with severe unexpected disruptions and mass reductions in domestic consumption since the start of the COVID-19 pandemic. The reopening of the Chinese economy will likely alleviate supply chain concerns and increase global demand as the country's economy recovers.

However, the new guidelines do not entirely rule out the possibility of future abrupt lockdowns at a local level. Additionally, local protests may continue due to persisting COVID-19 restrictions implemented by local governments that may not follow the updated guidelines. Coupled with economic concerns such as a downturn in the real estate market and unemployment, the recent mass protests in November may increase the likelihood of similar demonstrations occurring in 2023.

Inflation and Recession

In 2022, inflation reached a 40-year high in the U.S. and the UK. As of December 2022, inflation in the Organization for Economic Cooperation and Development (OECD) countries was sitting at 10.4 percent. High inflation affecting so many countries at the same time is historically notable. The causes are primarily the sudden increase in demand for products and services after countries exited from COVID-19 lockdowns, the war in Ukraine, and China's Zero COVID policy.

While inflation likely peaked towards the end of 2022, restrictions to energy supply because of the war in Ukraine, ongoing difficulties in the food supply chain, and increased demand from China as it exits its Zero COVID policy will keep prices high. Central banks will therefore try to counter inflation by further raising interest rates. Unfortunately, this combination of high inflation and interest rates will likely trigger a global recession and increase political instability in many countries.

Layoffs

Multiple companies announced layoffs in 2022, with more likely to follow in 2023. In the U.S., job cuts increased by 13 percent in 2022 compared to 2021; however, the overall number of layoffs is low compared to other years. The most significant cuts are in the technology sector, but layoffs in financial services are increasing. Companies are likely preparing for a recession by reducing workforces now. The continued strong labor market will somewhat cushion the cuts, but layoffs and unemployment figures will be strong indicators of the extent of the economic slowdown and inflation. If unemployment increases significantly, there will be an elevated risk of protests and unrest.

Labor Unrest

High inflation levels have triggered strikes and protests in many countries by workers calling for increased wages to counter the impact of high food and fuel prices. A strong labor market has meant that employees likely felt they had greater leverage over their employers, and at least 1.6 million workers in the U.S. are scheduled to renegotiate their contracts in 2023. There are also increasing numbers of workers joining unions. As a result, further strike actions and associated protests are likely in 2023. However, the recent increase in layoffs and possible economic slowdown may undermine workers' bargaining power.

Inequality

According to the 2022 World Inequality Report, “the richest 10 percent of the global population currently takes 52 percent of global income, whereas the poorest half of the population earns 8.5 percent of it.” The COVID-19 pandemic increased poverty and exacerbated inequality through wage losses incurred by workers. Now, high inflation means that wages are struggling to keep up with price increases. The International Labour Organization (ILO) estimates that global monthly wages fell in real terms to -0.9 percent in the first half of 2022. This is the first negative global wage growth recorded since 2008. Additionally, government financial support programs introduced during the pandemic to support households against the rising cost of living have ended or will end in the coming months putting a further strain on household income. Inequality will continue to drive resentment and threats to high-net-worth individuals.

Food Prices and Availability

2022 saw a significant food and availability crisis due to a number of variables, including the COVID-19 pandemic, climate change, and the Russian invasion of Ukraine. Before the war in Ukraine, food prices had already increased due to significant supply chain issues and extreme weather events. However, once the attack began, Russia blockaded Ukrainian ports that typically supply substantial grain to the global market. This caused the UN Food and Agriculture Organization's Food Price Index to hit an all-time high. Furthermore, the number of people facing food insecurity hit 345 million, an increase of 210 million since 2019.

Since March 2022, the index has continued to drop each month. This is partly due to a deal between Russia and Ukraine that allowed Ukraine to resume grain exports through the Black Sea. However, prices have stabilized at relatively high levels. Several factors can drive food prices back up, including increased demand in China following the reopening of their economy, extreme weather events, and the potential for a breakdown in the Russia-Ukraine Black Sea Agreement. There is a demonstratable link between food prices, food security, and social unrest.

Social Unrest

In response to a confluence of issues, including the cost of living, recession, and other socio-economic and political developments, significant social unrest is very likely in the coming year. For example, Pakistan and Nigeria will hold elections this year, likely leading to protests. At the same time, France has announced pension reforms that will likely trigger widespread demonstrations. Protests and unrest will continue to pose travel and operational risks to businesses.

Iran

Iran was rocked by protests in 2022 after 22-year-old Mahsa Amini died in the custody of the country's morality police. Thousands of protestors have been detained since the start of the protests, and the regime has ordered and carried out executions of protestors. The UN and EU have called for the executions to be halted immediately, but the government has not indicated it will do so.

Though some government officials indicated in early December that the morality police would be disbanded, this has not yet been actualized, and the government has continued its hardline policies toward protestors. As a result, the theocratic government faces a level of opposition not seen in years, potentially threatening the stability and political environment of the country.

Externally, the regime is grappling with flaring tensions with other countries in the region; Israeli Prime Minister Benjamin Netanyahu has strongly condemned the actions of the Iranian government and urged the U.S. to increase its support for Israel.

Managing the internal and external threats posed by these situations will be difficult for the Iranian government and will significantly impact regional stability should conditions worsen.

Brazil

On January 8, 2023, supporters of former President Jair Bolsonaro broke into the Supreme Court, the presidential palace, and the Congress building. Rioters destroyed property and clashed with security forces. The riots came as Bolsonaro, though he has condemned the riots, declared that the recent 2022 election that he lost was fraudulent. Rioters reportedly hoped the insurrection would force the military to intervene and reinstate Bolsonaro. Since the riots, over 1,000 people have been arrested in connection, with several dozen already being officially charged. Brazil's new President, Luiz Inacio Lula da Silva, and the Supreme Court will also likely engage in investigations of public officials that may have been involved in inciting these riots. Additional arrests of public officials and any investigations into members of Bolsonaro's family could lead to an increased risk of violent unrest.

However, following the turbulent 2022 election cycle, President da Silva will likely increase political and social stability over 2023. The new administration is set to enact stricter climate policies that will likely lead to increased investment in the country as global investors more frequently factor Environmental, Social, and Governance (ESG) considerations into their investment strategy. The administration is also likely to maintain a healthy relationship with China, leading to increased Chinese investment in the country.

U.S. Political Polarization and Domestic Extremism

Politically motivated domestic extremism will remain the primary terrorism threat to the U.S. in 2023. The ideologies driving these threats are diverse, but the most significant risk is from individuals that have extreme right-wing views. These individuals are often radicalized online and are inspired by the manifestos of previous attackers rather than connected to an organized group. Attacks are most likely to involve firearms, bladed weapons, or Improvised Explosive Devices (IEDs) and target minority communities in crowded public locations.

Political polarization increases the expectation of stakeholders that executives and companies will take a stance on divisive issues. This increases the risk of negative attention from ideologically opposed individuals and groups.

Corporate Activism

According to the Edelman Trust Barometer, businesses are the most trusted institutions, and societal leadership is now a core function of the business. Employees, clients, and customers expect CEOs to discuss controversial issues. For example, in 2022, the U.S. Supreme Court overturned Roe V Wade removing the constitutional right for women to have abortions legally. This led to several U.S. states severely restricting access to abortion. In response, many companies changed their health insurance policies to allow women to travel to states where abortion is legal. However, taking sides in controversial discussions increases the scrutiny of the company and executive behaviors, which raises reputational risks and threats from individuals and groups with opposing views.

Nigeria Elections

Nigeria's next presidential election will bring a change in leadership, with current President Muhammadu Buhari reaching the constitutional term limits. Though eighteen candidates are running for President, only four enjoy moderate support and have a chance of winning.

This election will likely be contentious, as the current administration has a job approval rating of only 27 percent and is scoring similarly low in other metrics. Outgoing President Buhari has promised that the elections will be transparent and credible, attempting to strengthen public perceptions of the democratic system. As the February 23 election draws nearer, election-related violence will likely increase.

Nigeria's large population – 200 million and growing – consists of a relatively high number of young people who value economic growth and education. The country risks losing its population to emigration if it continues with its lackluster performance, hurting its long-term economic growth. The consequences of this election will go well beyond the borders of Nigeria, influencing the political climate of all of West Africa.

The Sahel

The Sahel is the current epicenter of Jihadist violence, and the terrorism threat in the region will be severe in 2023. Groups affiliating with Al-Qaeda (AQ) and the Islamic State are responsible for most of the violence. Instability in the Sahel and West Africa is exacerbated by weak governance. The region has experienced six coups (two unsuccessful) since 2020, and France has withdrawn its military forces from counterterrorism operations in the area.

Al-Qaeda in Afghanistan

Following the U.S. withdrawal from Afghanistan in 2021 and the subsequent takeover by the Taliban, the situation in the country has continued to deteriorate, with potential regional and global security implications. The Taliban has long been tied to the international terrorist group Al-Qaeda (AQ) and has been consistently accused of providing a safe haven to AQ leaders. In July 2022, the U.S. killed AQ leader Ayman al-Zawahiri in a drone strike in the Afghan capital Kabul. The U.S. subsequently accused the Taliban of violating the Doha agreement that stated the Taliban would not allow AQ to operate under the territory they control. The assistance the Taliban provides to terrorist organizations is likely even more significant than what is publicly reported. The Taliban control of Afghanistan could lead to AQ, as well as other terrorist organizations, achieving a significant regroup throughout 2023. Some assessments suggested that AQ could stage transnational terrorist attacks from Afghanistan within three years of the U.S. withdrawal. This would likely be in India or Pakistan, but attacks in other locations, such as North Africa, cannot be ruled out entirely.

Pakistan Elections

Pakistan's former Prime Minister Imran Khan and his party announced the dissolution of two of the country's four provincial assemblies, Punjab and Khyber Pakhtunkhwa (KP). This will require provincial assembly polls to occur over the next several months. Imran Khan's plans mean that Pakistan may have to engage in six months of staggered elections, including a potential forced early general election, to aid his party in re-taking national power.

Pakistan has recently faced a significant economic crisis. The country holds a substantial foreign debt to creditors such as China and the U.S. The State Bank of Pakistan's foreign exchange reserves were recently reported to be at historic lows.

The country has also recently faced growing security concerns with a significant uptick in terrorist attacks by Taliban insurgents. Pakistan will likely face continued political instability throughout 2023, increasing regional economic and security concerns.

Forced Leadership Changes

The uncertainty heading into 2023 is likely to be harmful to political stability. Climate disasters, social unrest, and the anticipated recession will exacerbate financial difficulties in several countries and increase the risk of forced leadership changes through coup d'état, government collapse, or conflict.

Climate and Natural Disasters

The eight warmest years on record have occurred since 2014, and climate-related disasters are becoming increasingly frequent. In 2022, there were heatwaves in America, Asia, and Europe, catastrophic flooding, and severe storms. Ten climate-related disasters caused more than US\$3 billion worth of damage each.

1. Hurricane Ian in the U.S. and Cuba: More than US\$100 billion.
2. European drought: More than US\$20 billion.
3. Flooding in China: More than US\$12.3 billion.
4. Drought in China: More than US\$8.4 billion.
5. Flooding in East Australia: More than US\$7.5 billion.
6. Flooding in Pakistan: More than US\$5.6 billion.
7. Storm Eunice in Europe and the UK: More than US\$4.3 billion.
8. Drought in Brazil: More than US\$4 billion.
9. Hurricane Fiona in the Caribbean and Canada: More than US\$3 billion.
10. Flooding in South Africa: More than US\$3 billion.

Source: Christian Aid

More high-impact events are likely in 2023, with some models forecasting it will be the hottest year ever. Current analysis suggests a meager chance of achieving the 1.5 degrees Celsius target set by the 2015 Paris Agreement. Some modeling suggests that 2024 will be the first year the world could breach 1.5 degrees warming after an El Niño climate pattern develops later this year. In the scenario where climate targets do fall short, the world will continue to warm, and extreme weather events will become more frequent. Consequently, there will be increased competition for resources, political instability, and conflict.

Radical Environmentalism

The perceived lack of climate change progress means climate change protests are likely to get more frequent, elaborate, and extreme through 2023. While Extinction Rebellion (XR) in the UK has called for less civil disobedience in favor of mass peaceful protests, other groups, such as Just Stop Oil, plan to continue with disruptive demonstrations and publicity stunts.

For some activists, global climate change is an existential threat supported by mainstream scientific evidence. There is a growing risk that they will increasingly view institutions and governments as unwilling or unable to address climate change. The more frustrated such individuals become, the more desperate they will become, fearing that action is imperative and needed to save the world. For some radical environmentalists, the only response will be increasing levels of violence.

North Korea

In 2022, North Korea conducted a record 70 missile launches, much to the dismay of its neighbors. Such missile tests are likely to continue, as Kim Jong Un announced his intention to expand the country's military power, including an increase in nuclear weapons significantly.

Though the country has not tested nuclear weapons since 2017, expanding the nuclear arsenal would likely coincide with new tests. Intelligence agencies have documented increased activity at the country's only nuclear testing site, indicating more testing may be imminent. The potential increase in North Korean military capabilities has not gone unnoticed by neighbors; Japan recently announced an increase of over 50 percent in defense spending over the next five years, primarily fueled by concerns about North Korea and China.

North Korea has also taken provocative actions towards South Korea, sending numerous recon drones over the country in December. South Korea has bolstered its anti-drone capabilities and vowed to prevent further incursions.

The prospect of full military conflict between North Korea and its neighbors remains steady, but further provocations may increase this risk. Kim Jong Un's long-term intentions are difficult to pinpoint, but the regime's continuation is likely paramount among them.

Space

Space is becoming an increasingly important geopolitical arena. The increasing activity of the private sector means that competition for space dominance is no longer just between nation-states. The most high-profile of these is SpaceX's Starlink system and commercial satellite imagery that Ukraine uses in its war against Russia. Starlink has been (unsuccessfully) targeted by Russia, who said that its use in Ukraine makes it a legitimate military target. However, it is not just the importance of space in war but in technology used in our everyday lives, such as GPS. As the number of satellites increases, more systems will be space-dependent, and competition for dominance will continue to grow.



IMPACT ANALYSIS

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