ANKURA REPORT: GEOPOLITICAL FAULT LINES, FISSURES, FLASHPOINTS, AND FRACTURES IN 2020

Our geopolitical team has identified a few strategic trends we believe clients may expect to see in 2020. The world never fails to surprise, so we undertake this challenge with humility, but also with confidence, after a year of closely following world developments that both made and didn’t make headlines.

**Fault lines** are trends we are watching that could potentially become small geopolitical earthquakes that could trigger economic or security tsunamis.

**Fissures** are small cracks that could potentially widen into divisive chasms that could develop into full-blown paradigm shifts, changes in the balance of power, or seismic economic swings.

**Flashpoints** are areas of increasing tension that could degenerate into economic or military conflict.

**Fractures** are geopolitical hot spots and wild cards that have low probability but high impact.

Read our assessment of what to watch for in 2020 as we find ourselves deeply entrenched in an increasingly connected world where geopolitical drivers are catalysts for a new collection of political fractures, fissures, flashpoints, and fault lines.

**POLITICAL**

**Fault line:**
**Waning US Influence.**

2020 will likely bear witness to Washington’s continued retreat from multilateralism on a gradual but steady glide path toward moderate isolationism. This pivot away from traditional alliances and norms will continue to challenge and reshape the existing global order. Shifting US foreign policies on everything from trade to aid have created uncertainty among our allies, and has contributed to a deceleration in global growth and an acceleration in global insecurity. As Washington increasingly applies a national security lens to protect US interests, other states will gradually do the same throughout 2020 and beyond. This year, we can expect to see American allies alternate between efforts to placate Washington and attempts to form new alliances that exclude the US. 2020 will likely bear witness to American adversaries such as
China, Russia, Iran, and even Turkey capitalizing on this US retrenchment to expand their spheres of influence. In particular, China will increase its political presence on the global stage in areas like climate change and technology, while Russia, Turkey, and Iran fight over the vacuum the US is leaving in the Middle East, in the wake of its departure from Syria and Iraq. This continued withdrawal will oblige global leaders to choose between competing political systems, economic rules, and technological ecosystems. This reshaping of the global political environment will prolong market uncertainties, stunt global growth, and inhibit business opportunities in many areas.

The absence of strong US response to the COVID-19 pandemic could push these fault lines into fractures as countries now turn inward to address the economic, health and security damages of the epidemic. We expect to see sovereign nations begin to hoard critical commodities and limit cross-border transactions as a result. These actions could further limit already constricted trade flows and could result in conflicts down the road.

**Fissure:**
*Growing Chinese assertiveness in Asia will result in China setting new global norms and standards.*

Even as trade conflicts persist, China will continue to expand its global footprint this year as it leverages its Belt and Road Initiative (BRI) to mitigate against the trade war’s economic damage and resulting deceleration in growth. Despite mounting concerns over debt traps and Chinese human rights abuses in Hong Kong and Xinjiang, BRI expansion will continue, increasing Beijing’s political influence around the world. Meanwhile, despite anemic promises of phased trade deals, the continuing trade conflict will drive China to diversify its trading partners and make purchases from more politically agnostic countries to replace US producers. The US will struggle to regain these market shares despite weak Chinese agreements to resume purchasing US goods on a pre-trade war basis. As a growing global power, Beijing will start imposing its own norms and standards. We see this competition already coming into play with Huawei and 5G technology and infrastructure. The divide between the US and China will grow in 2020, forcing adversaries and allies alike to choose their partnerships and alliances carefully.

**ECONOMIC**

**Flashpoint:**
*Protracted trade frictions contribute to synchronized slowdown.*

Despite mini-trade deals, the trade war will continue in 2020 and will expand to other regions — the EU being the most likely to see an increase in trade tension in the coming months. The economies of the US and China are both slowing as a result of trade friction and prolonged state monetary policies. Both will stabilize just under 2% and 6% growth respectively, with global growth around 3%. Even if the two countries come to an agreement removing all tariffs, the shift against policy coordination and increased globalization will weigh on growth in emerging economies. Furthermore, as we get closer to the 2020 US presidential election, the US may shift its war tactics from trade to technology and investment. This will hurt both the Chinese and the American economies in the short term, as the two economic behemoths struggle for technological supremacy, potentially establishing a bipolar global technology system. As a cautionary note, this fight will have an outsized negative impact on ascendant economies. In a world with slower growth, emerging economies will suffer disproportionately as the amount of investment and access to capital decreases. Developed economies will be able to shoulder higher costs to get the same goods, but as emerging economies continue to shrink, their buying power substantially decreases, diminishing the ability to provide social services to their people. Social unrest will grow, compounding the problem.
Fracture:
*Nation states begin to retreat from globalization in earnest.*

Globalization may have reached its peak in 2019, and countries around the world may start retreating in 2020. The promise of the rising tide lifting all boats did not materialize, leaving a swath of unmet economic expectations around the world. These broken social contracts are causing fear and unrest in the middle classes around the world. Much of the global middle class blames globalization for increasing inequality. In 2020, the sentiment that majorities are excluded from the benefits of globalization will continue to feed populist policies. We expect to see increasing popular resentment and frustration manifest in the form of social unrest, protests, and strikes. Labor concerns will have more weight and become an important part of new trade deals in 2020, and the gradual but steady retreat from globalization will manifest itself in higher costs of doing business.

No corner of the globe will escape economic recession by the end 2020. The economic consequences of the COVID-19 pandemic on top of the geopolitical oil price shock will reverberate through the global economy for years to come and is likely the end of globalization as we currently know it. The epidemic has deepened economic divides along socioeconomic strata and will put pressure on states with poor healthcare infrastructure to deliver their populations from the economic and social fallout of the pandemic. Commodity-dependent countries will suffer most, and we expect to see significant problems throughout all of Latin America and the Gulf States. It will be harder to conduct cross-border transactions as mobility will remain limited throughout 2020; trade will suffer as countries keep key commodities for national stockpiles; and labor shortages will increase costs and add delays. Transportation, freight, and logistics costs will increase through the end of the year and potentially into 2021, and businesses can expect to face new regulatory and compliance costs that accompany government bailouts, stimulus, and recovery plans.

Social:
*Fault line: Social unrest is becoming more frequent, more widespread, and more violent, impacting global economic growth and governability.*

Social unrest will continue to spread in 2020. Although countries have different and specific triggering events, many of the underlying frustrations are similar: corruption, dismal economic prospects, inequality, and sociocultural alienation. The social discontent is not only manifest in the lower class “have-nots,” but also about those in the middle class who feel the system is stacked against regular hard-working people. Ubiquitous social media serves to unite seemingly disparate and otherwise alienated populations, and often ignites and amplifies discontent that can erupt anywhere the middle class feels squeezed. This year, we expect social media will continue to catalyze protests, making it easier and quicker to organize the masses and potentially facilitating cross-border contagions similar to the Arab Spring, allowing protesters to cross-monitor tactics in other regions. As governments crack down violently, we expect to see an increase in prolonged leaderless movements that will be harder for governments to resolve through negotiation.
or use of force. In 2020, policy-making will become increasingly perilous as reformist agendas fall victim to social tensions, and social climate dampens prospects for economic growth. The Chile protests last year cut the economic growth outlook for Chile's GDP by 1% and Hong Kong's economy shrank 3.2% due to the continued protests there. Further economic instability will make it even more likely for global unrest to continue in 2020. Countries to watch include India, the United States, Malaysia, Indonesia, Iran, and Iraq.

SECURITY

Fissure: The rise of criminal violence is threatening good governance.

The development and internationalization of organized crime, continued humanitarian crises across the Middle East and South America, massive migratory movements, and the illicit trafficking of forbidden or expensive goods, allow criminal gangs to proliferate and prosper, robbing sovereign governments of millions of dollars in revenues. As a result, we are seeing an intensification of criminal violence against an increasing array of targets. The Americas and Africa are the two most exposed continents, due to the strength of organized crime networks, the availability of weaponry (legal and illegal), and weak governance plagued with endemic corruption. Many of the ascendant economies depend on tourism as a major revenue generator, and the unstemmed increase in violence threatens that vital income. In response, governments are increasingly forced to spend resources on security that would otherwise go to infrastructure or other business investments. We expect this trend to increase throughout 2020, as local crime, violence, and corruption persist and proliferate throughout Latin America, Africa, and the Middle East. Additionally, we expect to see increased violence associated with economic inequality, politically sensitive election outcomes, and identity politics throughout the Americas, including the US. As states fail to respond to the rise in criminality, businesses bear the costs of securing their people, assets, and operations, increasing operational costs and burdens and lowering profits.

As COVID-19 ravages the globe, we anticipate a potential increase in violent crime. Already several countries are releasing inmates in an attempt to stave off contagion in crowded prisons, and many governments have declared martial law to give authorities maximum ability to deal with the outbreak. These measures will inevitably result in decreased security as authorities struggle to enforce the law in areas that will be hardest hit like Latin America, South Asia, and the Middle East. This violence will make it increasingly difficult to operate in these areas and will increase both security and transportation costs. Moreover, it will make it increasingly difficult to find and screen labor as regional violence intimidates local labor forces.

Flashpoint: The low-probability but high-risk scenarios for 2020 reside in Asia, and concern North Korea, Iran, and China.

Miscalculations between Washington and Iran or Pyongyang could result in regional conflagrations with incalculable second- and third-order effects. The US and Iran cut diplomatic ties in 2019 over Tehran's nuclear program, and the relationship has suffered several setbacks since. These include military drone strikes, cyberattacks, and the detention of Western oil tankers. In late December, Washington ordered a drone strike on Tehran's top military commander, increasing hostilities...
and resulting in a retaliatory strike on a US military camp in Iraq. Despite President Trump's efforts at diplomacy with North Korea, Kim Jong Un has apparently resumed nuclear testing and has ramped up rhetorical provocations against the US and its ally, South Korea. Both countries might view the US political deadlock and the impeachment proceedings as a sign of US weakness and vulnerability to press their luck. Either conflict would negatively impact markets and massively disrupt supply chains.

TECHNOLOGICAL

Fault line: National security concerns drive geopolitical conflict in the race to master Big Data, AI, and 5G.

In 2020 the rivalry between Washington and Beijing will continue to intensify as they compete for first-mover advantage over emerging technologies like Big Data, Artificial Intelligence, and 5G telecommunications. These systems are vitally important to national security and are critical to transforming the driver of economic competitiveness — the financial services industry. The geopolitical competition to master the technologies that will create and deliver new products and services, transform business processes, and secure the homeland will unfold in a gripping fight for supremacy between Washington, Beijing, and Brussels this year as they each strive for technological leadership in research, commercialization, and deployment. In 2020 we expect to see expanded attempts to impose sovereign controls over the internet, aimed at segmenting cyberspace along national borders. Additionally, we expect rivals to deploy new economic tools that will threaten to restrict trade, limit information exchange, and stifle the free flow of capital.

LEGAL

Fault line: 2020 will see the intensification of global sanctions that further segment markets along security lines.

Washington will waste little time executing sanctions against Huawei this year, indefinitely barring the Chinese tech powerhouse from dealing with US companies. We expect China to respond in kind, restricting China firms’ access to US suppliers, and neighboring countries under Beijing’s influence might follow suit. These actions are likely a precursor to an upcoming raft of security-motivated export controls on “emerging technologies,” specifically targeting robotics, quantum computing, and AI, as determined by both the US Office of Foreign Assets Control (OFAC) and the Department of Commerce. While some states, such as Russia, Belarus, and North Korea, will continue to make overtures for greater integration with Huawei, the US will increasingly pressure European partners to question Huawei’s cybersecurity hygiene, especially the UK, where the US is threatening to curtail intelligence sharing if London integrates Huawei 5G

Fissure: Privacy demands will transform the way technology companies and their affiliates collect, protect, and use data.

2020 looks set to be the year when privacy regulations really span the globe, and we expect to see it incorporated into everything from trade agreements and negotiations to national security policies. Data is most valuable when businesses can legally move it across borders, which means that this year, technology companies will have to develop better ways to comply with privacy regulations and to calculate the dollar value of personal data. We expect to see an increasing number of states and countries craft regulatory privacy guidance similar to that of the European Union’s General Data Protection Regulation (GDPR) and California’s Consumer Privacy Regulation (CCPR). Already some technology companies have begun to limit access to data in an effort to distinguish themselves as privacy-friendly to skeptical customers and, in Google’s case, to get consumers to trust them with their health data. Businesses need to prepare to bear the cost of additional compliance measures and can expect to increasingly pay for data they previously harvested for low or no cost.
technology. The threat of sanctions will extend beyond tech into energy, as Congress strongly opposes Russian pipelines into European markets, such as Nord Stream 2 and Turkish Stream, which are approaching completion. US-EU relations are likely to strain further as the US tries to pull Brussels onto their side of the fence over Russian, Chinese, and Iranian exports. 2020 will see an increased sanctions compliance burden and regulatory uncertainty across the most lucrative of industries such as energy, technology, and manufacturing.

**Fissure:**

International mediating institutions to lose effectiveness in 2020.

As trade sniping continues, nations will find a smaller platform for recourse as the appellate court of the WTO will remain shuttered for 2020. The United States, unhappy with the WTO’s inability to check Chinese trading practices, has blocked the replacement of retiring judges. Without the WTO’s final dispute-settlement process, states will increasingly seek one-on-one resolution, bilateral remedies, or tit-for-tat escalation, making it harder to adjudicate disputes. Moreover, the absence of a final arbiter might perversely incentivize states to implement additional protectionist measures as they will no longer face the threat of WTO sanctions. As trade mediation flounders, security mediation will also turn increasingly bilateral, as the UN security council member states remain irreconcilable over the world’s most geopolitically charged crises in Ukraine, Venezuela, and North Korea. Overall, states will turn increasingly inward for policy and economic decisions in 2020. The resulting pivot to bilateral agreements will force businesses to navigate a myriad of different and costly compliance regimes and risks weakening rule enforcement.

2020 will see increased bipartisan scrutiny over the immense market share of American tech giants as the Department of Justice will continue to probe the largest players in Silicon Valley with renewed intensity before election season. Congress will also issue its findings on whether tech firms’ dominance of e-commerce illegally harms the market. Although Congress is unlikely to implement antitrust legislation, its review could set a legal basis for future legal action against the tech giants. Potentially more problematic, Google, Alphabet, Amazon, Facebook, and Apple will also undergo increased scrutiny from state-level authorities, which are proving to be less constricted in launching inquiries and suits against tech advertising, data collection, privacy inadequacies, and anti-competition practices. The protracted conversation over tech dominance will generate legal and regulatory risks and impede American tech interests in the near term.

**ENVIRONMENTAL**

Fault line:

Decarbonization takes center stage.

Evidence that climate change threatens our way of life, and that refusing to adapt is financially unsustainable, is increasingly becoming clearer. Extreme weather events are more frequent and more devastating, and the cost of dealing with their aftermath is rising quickly. The US alone has spent over $1.7 trillion in extreme weather event recovery since 1980. Looking forward, it is estimated that rising temperatures could lower global GDP by 15% to 30% by 2100, compared to 2010 levels, and threaten over 1.2 billion jobs worldwide. As the costs become overwhelming, new regulatory mandates are on the horizon. Increased pressure will force boards to identify, measure, and report on climate risk exposure and push companies to....
develop mitigation plans, adapt compliance programs, and advance strategies to meet decarbonization goals. Pressure to act will be acute in Europe and Japan, where investors, governments, political parties, and social activists are largely aligned on doing more. EMs will also feel pressure from institutional investors and multilateral banks requiring climate change adaptation. We assess that bolder commitments toward decarbonization will focus first on shifting power sources away from coal and oil into renewables and nuclear, and create new opportunities for minerals (particularly those necessary for the decarbonized economy). Besides, transportation electrification, building-energy efficiency, and smart urbanization — relying on information and communications technologies for resource management optimization and reducing emissions — will see increased investments. However, as the world marches toward decarbonization at different paces, regulatory disagreements and environmental dumping will likely create tensions and a justification for restrictive trade measures.

Fissure: 
Resource activism likely to become more prominent.

On the heels of Greta Thunberg’s success in 2019, climate militancy will continue to intensify, focused on protecting natural resources from “depletion” and shielding the environment from further “depredation.” Likely actions will include public shaming of corporations or projects, mass demonstrations at key international policy events (G7, World Bank annual meeting, United Nations General Assembly), disruptive actions at the sites of projects. Although climate action is generally peaceful, more forceful actions, such as illegal occupation and civil disobedience or terrorism, cannot be discounted. It is also likely that climate activists will seek to expand their outreach by coalescing with other disenfranchised communities seeking greater social recognition, such as women, minorities, and indigenous people, for greater impact. Most exposed are sectors whose role in climate change is well-documented, such as oil and gas, mining, construction, agriculture, or transportation. However, no sector is immune to activism, as all activities generate a carbon footprint and negative externalities for the environment, including the retail and digital sectors. As methods to track account for carbon footprint get refined and more commonly used, more industries and sectors will come under fire and be held accountable in the court of public opinion.

Flashpoint: 
Arctic as a new center of great power competition.

As the Arctic is warming faster than predicted and its thick ice barriers melt away, opportunities in shipping and mineral exploration become increasingly feasible. Ice melting will expand Arctic shipping routes along the western coast and the eastern coast, shortening distances between Europe and Eastern Asia, as well as between Alaska and the Eastern US. Ice melting will also make it technically easier to start exploring natural resources (oil, gas, and minerals). That does not mean that financial viability will be guaranteed. However, the prospect of economic windfall will lead to intensified great power competition between Russia, China, and the US. Much of the ice melting on the eastern side of the Arctic is providing Russia a strategic advantage. Moscow has capitalized on that, multiplying commercial
and military investments to strengthen its territorial defense and its ability to control the Northern Sea Route. Meanwhile, China declared itself a “near-Arctic” power and has made significant investments in shipping and transportation infrastructure in Iceland and Greenland. As its two main competitors move ahead, the US lags in both strategy and investments in the Arctic. Although it claims to be in a “new age of strategic engagement,” the US is putting few resources into developing the capacity to exploit natural resources or take advantage of the new shipping lanes. It is also refusing to officially commit to sustainable development guidelines discussed at the Arctic Council, the consortium of neighboring countries. As a result, US businesses interested in opportunities in the Arctic might thus find themselves at a disadvantage.

INSIGHTS

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