

Cambridge Centre for Risk Studies

2022 Risk Summit

RISK FLASH - GEOPOLITICS

Tamara Evan

Risk Affiliate, Centre for Risk Studies

Centre for
Risk Studies

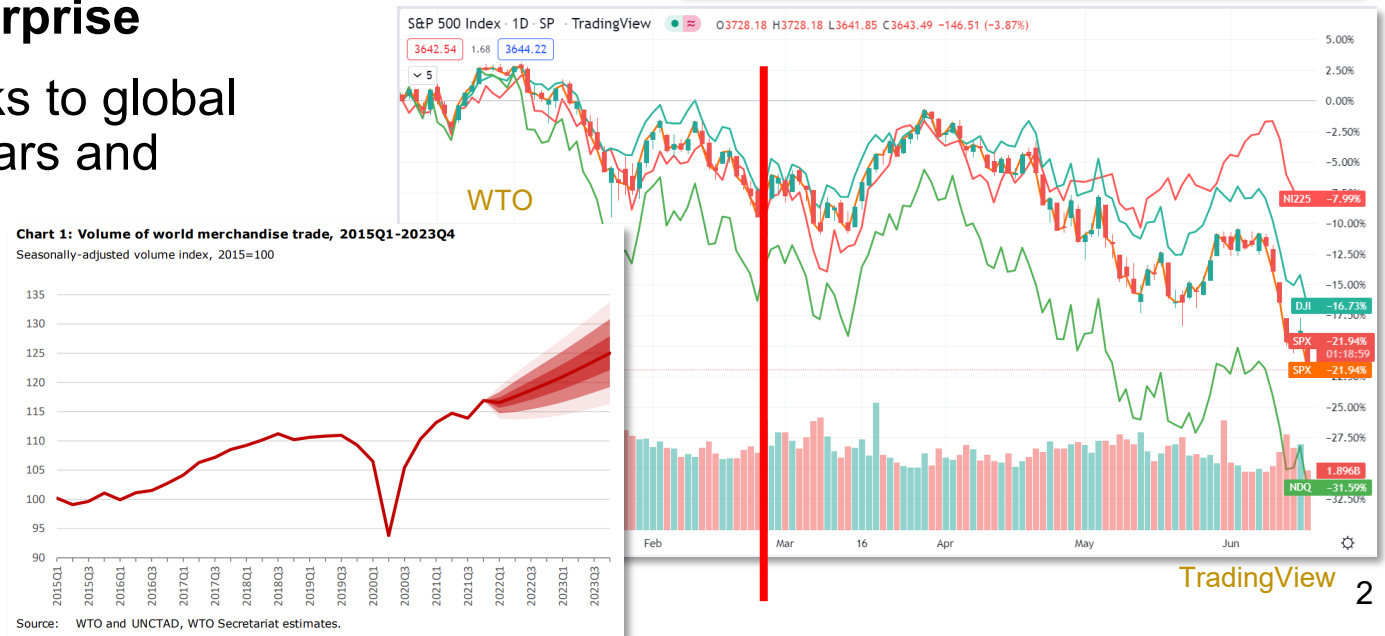


UNIVERSITY OF
CAMBRIDGE
Judge Business School

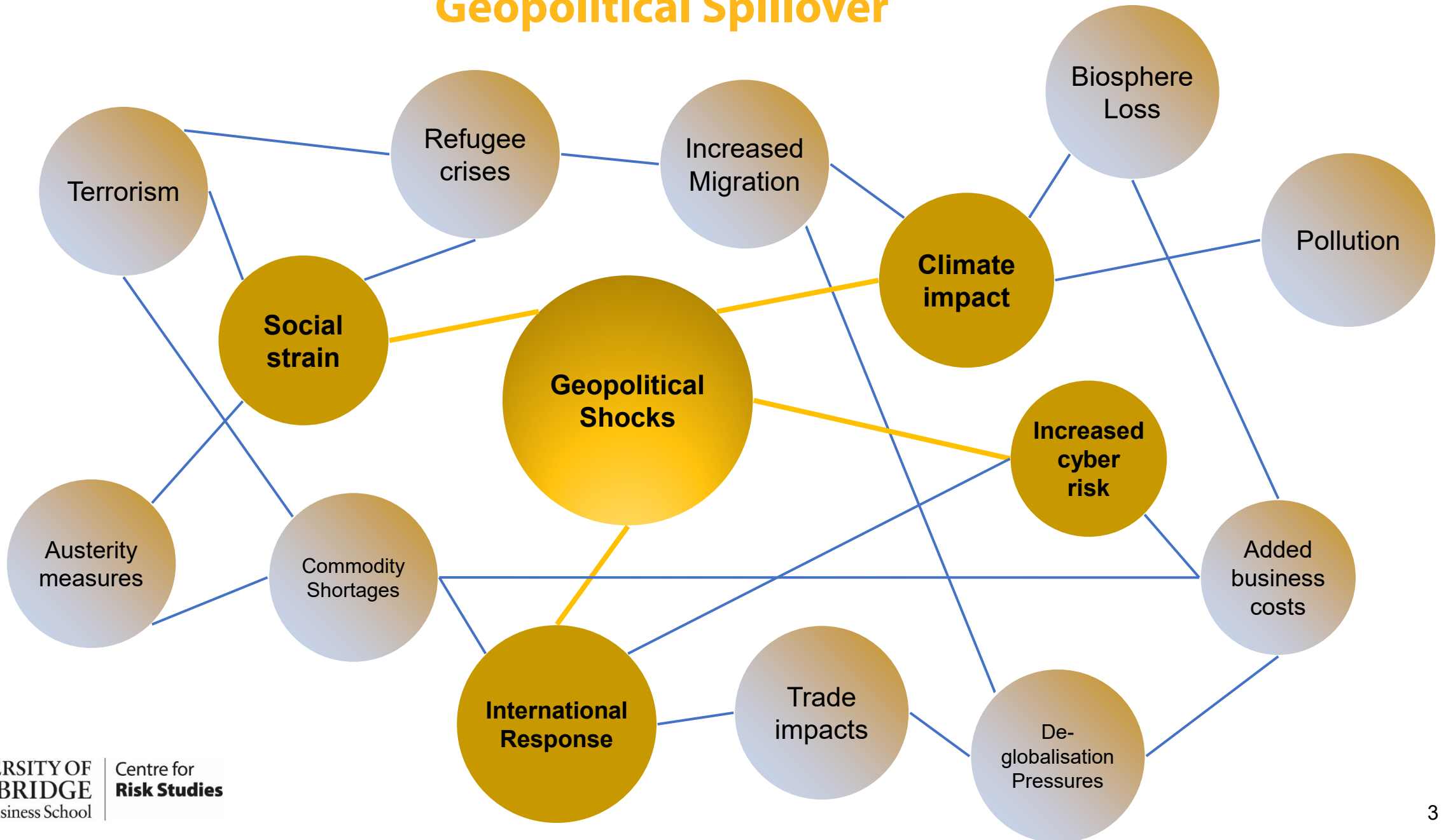


A Risk To The Status Quo

- The Russian invasion of Ukraine is 118 days old
- Initial attempts as a decisive assault by Russian troops has led to a concentrated effort to secure the Donbas region and an overall war of attrition in which Ukraine remains at a strategic disadvantage
- The extent of the “prelude” to the invasion is up for debate
 - Russian forces began amassing on the border in March 2021
 - However, Russia has been technically waging war in Ukraine since 2014
 - **Yet the invasion took markets by surprise**
- Interstate conflict is one of the greatest risks to global GDP, yet mitigating risks stemming from wars and other shock events may be seen as an inevitability, with response the purview of national governments rather than all enterprises



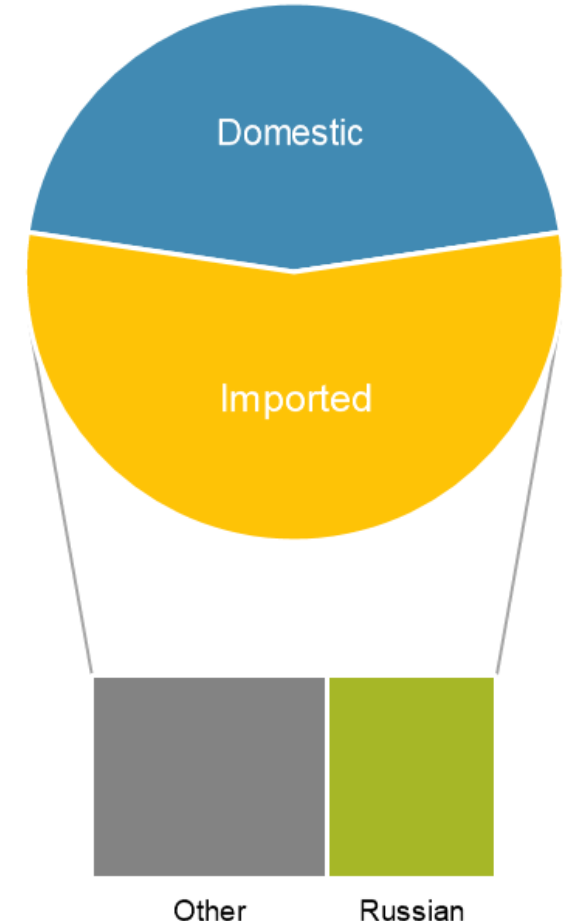
Geopolitical Spillover



The Story So Far

- Sanctions against Russia have begun to push ripples out across the world economy, chiefly affecting the cost of energy and goods, thus driving a global inflationary spiral
 - A greater threat persists in the potential fragmentation of the Eurozone and other parts of the global financial system, including another Euro Crisis
- In late May 2022, the European Council issued a sixth package of sanctions against Russia, banning crude and petroleum products, except temporarily those deliveries by pipeline
 - Multiple nations have planning for a ‘massive increase’ in green energy usage over the next five years to end reliance on Russian fossil fuels, including new regulatory policies for companies seeking to build wind and solar farms
 - However, the recovery from the worldwide pandemic has contributed to a 2 billion ton increase in carbon emissions and consistently high demand which renewables sources cannot yet meet
- The off lining of key Ukrainian manufacturing industries has triggered a shortage in car parts and semi-conductor grade neon required to manufacture microchips, threatening tech and manufacturing outlooks

EU Energy Sources



Outlook for Ukraine

- In March 2022, we published a series of scenarios for plausible outcomes from the war in Ukraine for use by risk professionals and other stakeholders



A. Ukrainian Capitulation

After a long conflict, Russia gains a Pyrrhic victory in Ukraine

B. Regime Change in Russia

Putin is ousted, leading to a back track on the battlefield

C. NATO-Russian War

Direct catastrophic military engagement between NATO and Russia

D. Painful Compromise

A stalemate in Ukraine leads to dire economic conditions that drives all parties to negotiate

- In the short term, violence is set to continue in Ukraine, particularly in the East
- In the medium term, the overall risk landscape will expand – an increase in energy costs, increased risk of cyber disruption, harassment of ships and planes, etc
- In the long term, Russia's isolation will lead to a new geopolitical status quo, leading to a marked return to geopolitical multipolarity

Outlook Elsewhere

- Since January, China has made significant incursions into Taiwanese air space and defensive zones
 - Coupled with a deepening rivalry between China and the United States, we can anticipate increased military tension in the Asia Pacific region, and a division in US diplomatic focuses between the Pacific and Ukraine

China vows to ‘crush’ any attempt by Taiwan to pursue independence

John Lee Wins Hong Kong’s Rubber-Stamp Election

“If the US continues to go down the wrong path,” a foreign ministry spokesperson said, “the US will have to pay an unbearable price.”

- The likelihood of a status quo in which US-Chinese geopolitical rivalry is a full blown, unassailable fact and broad cost of doing business becomes close to a surety in the medium to long term.

Transition to renewable energy at ‘standstill’, says report

- The global transition process will very likely be characterised by geopolitical competition and a lack of coordination between major powers
 - This will see the disruption of the global energy system, causing profound change in the geopolitical status quo both nationally and internationally, with significant impacts on the business world

Business Outlook

- The continuing geopolitical conflict between Russia and Ukraine also increases the spillover risk of **global cyber attacks**
 - Ukraine is likely to be the chief defender of these attacks, meaning that businesses operating in the area of conflict are at highest risk
 - As the conflict continues, however, Russian APTs are likely to be emboldened to strike out against NATO powers and their extended national interest operations, meaning the risk rises for everyone
- The off lining of key Ukrainian manufacturing industries has triggered a shortage in European **car parts** and 50% of the world's semi-conductor grade **neon** required to manufacture microchips, threatening tech and manufacturing outlooks
 - This in itself adds to the slowdown of urgently needed energy transitions in the transport and logistics sectors
- The impact of war on a major bread basket nation has also contributed to huge additional business costs for food manufacturers, and a shortage of key cereals used to prop up industrial and domestic food production, livestock, and other agricultural industries
 - Since the invasion of Ukraine, more than 24 countries have enacted export restrictions on food supplies, affecting around 17.3% of globally traded calories; the majority of these nations are developing economies, such as India, Hungary, Turkey, Indonesia, Argentina, Serbia and Egypt

Centre for
Risk Studies



UNIVERSITY OF
CAMBRIDGE
Judge Business School