

Geopolitical Risks Awaiting Us In 2023: How to Navigate? - Mehmet Öğütçü



What's in store for the global economy and geopolitics this year? Well, it looks as if the year will not be pretty. **A raging war in Europe**, which can further expand, sky-high inflation engulfing the whole world, an energy crisis, disruption in world trade, supply chain, and investment flows, a looming **worldwide recession**, a cornered Iran, and an unstable China will likely create strong headwinds for government, business, military leaders as well as individuals.

Never in recent history have **geopolitical risks** shaped economies, energy flows, the water crisis, food supply security, financial

flows, and the position of countries in the world system more strongly than they do now. That's why companies, governments, banks, insurers, and generals must take these risks more seriously. It is inevitable to take them into account in business decisions and government policy choices. That's why opportunities abound to support leaders in risk mitigation and management who will closely monitor and analyze geopolitical challenges, volatility, and uncertainties.

The main geopolitical and economic challenges facing us all in the coming year are:

1. **Authoritarian states** trying to gain legitimacy through economic nationalism, technology war, sanctions, supply chain relocations, fragmented geopolitics, global security issues, and the increasingly politicized globalization process will accelerate. Global inflation shock waves started in the USA in 2021 and affected the world in 2022. In 2023, its impact will be felt more with strong economic and political fluctuations. The last two generations have seen global GDP triple, almost every country get richer, and more than a billion people lifted out of extreme poverty. We see this progress reversed with new shocks. Billions of people will become more vulnerable due to the Covid-19 pandemic, the Russia-Ukraine war, rising global inflation, energy shortages, and loss of economic, security, and political gains. The global middle class will shrink, followed by more severe political instability within and between countries. Worldwide social unrest, the rise of the far right, racism, immigrants, refugees, Islamic fundamentalism, and terrorist attacks (this time via more cyber-attacks) will continue to haunt us in 2023.

2. **The US-China rivalry** is a strategic challenge for all of us that will shape not only 2023 but the coming decades. America is determined to do whatever it can to stop, or at least slow, the rise of China. Where, how, and whether the rest of the world will position itself alongside Beijing or Washington will become important. Countries, even multinational firms, will be forced to make a fundamental choice. China's poor

economic performance, the health catastrophe triggered by the abrupt end of the “zero Covid” strategy in the country, Xi Jinping’s relationship with Putin, whether the EU will lose its autonomy and come more obviously under the American security umbrella, how China’s ties with Europe will evolve, the loss of breath of the Belt and Road initiative, the inhibition of US-based multinational companies from China’s strategic industries, and whether New Delhi is truly ready to establish closer relations with Washington will remain on the agenda as essential questions. We’ve (mostly) survived the pandemic, but China’s relaxation of restrictions could pose a serious health risk to the rest of the world in 2023, with millions of Chinese still at risk of Covid starting to travel.

3. The Russia-Ukraine war, sanctions on oil and gas, disruption of traditional energy and investment flows that benefit China and India, and the shift of Middle East oil and North African gas to Europe will continue to be hot topics. Russia has no chance of winning the war in Ukraine despite causing so much humanitarian and infrastructure damage. The European Union is stronger than ever. NATO has rediscovered its *raison d’être*. The G7 is getting stronger. American hard power remains unrivaled globally – at least for now. But a cornered Russia can transform from a global player to the world’s most dangerous state. It could pose a serious and widespread danger not only to the EU and the US but also to its surrounding neighbours. Stuck in Ukraine, with little to lose from further isolation and Western retaliation, and faced with intense domestic pressure to show power, Russia may turn to an asymmetrical war against the West. Besides the nuclear threat, Kremlin-affiliated hackers can accelerate increasingly sophisticated cyberattacks against Western firms, governments, and infrastructure.

4. Iran, one of Russia’s most important military allies, is experiencing the most tremendous internal unrest since the 1979 revolution that brought the Islamic Republic to power. Tehran is also faced with an extremely hostile geopolitical environment. Since the death of 22-year-old Mahsa Amini, who died after being arrested by the Iranian ‘morality police’, Iran has faced a great deal of internal turmoil and protests. At the same time, Tehran dramatically escalated its nuclear program and almost

completely ended its chances of reviving the nuclear deal. And now it supplies deadly weapons to Putin's army. New conflicts and further Western sanctions can be expected in 2023. As a result, Tehran may advance its "regionalism" strategy, seeking wider cooperation with Asian countries, particularly Russia and China. The activities of Kurdish and Azeri separatist movements against the central government may increase. Iran has become a permanent member of the Shanghai Co-operation Organization, which strengthens its role on the Eurasian chessboard and the Moscow-Beijing-Tehran axis. It will cooperate with Moscow in the Caspian Sea, the epicenter of various energy pipelines and projects connecting the Central Asian and Caucasian oil and gas fields to Europe. The far-right and religious government in Israel may attempt unexpected moves against Iran.

5. The energy crisis, which marked the last year, will, unfortunately, create much more difficult market conditions and increase costs for households and businesses, especially in the second half of 2023, with the combination of geopolitics, economy, and production factors. The financial burden on energy-importing countries will increase and further widen the gap between OPEC+ and mainstream consumers. Of course, investments in renewable resources, which are getting cheaper, will step up, and efforts against **climate change** will intensify. Water shortages will become a global and systemic problem this year, and efforts to transition from water crisis to water risk management will accelerate. Food supply security will be more of a concern. Governments, international organizations, investors, **insurers**, and private companies will work hard to strike the food-water-energy equation and how to deal with these challenges on their own.

6. Asian risks. Higher interest rates will ensure a challenging economic environment in Asia. Growth in economies with high levels of household debt, such as Australia and South Korea, is set to slow sharply, even as a systemic crisis is avoided. Political uncertainty in Southeast Asia, as elections take place in Thailand and loom in Indonesia, will encourage manufacturers to look to India as they seek to reduce reliance on China. Improvements in India's business environment and progress in

bilateral trade deals make it an increasingly viable investment destination. China's domestic challenges, as it seeks an exit from zero-covid policies, will probably lead it to adopt a less confrontational approach in international affairs. North Korea remains a risk. Japan to continue building stronger military capabilities. The Taiwan-China-US standoff to continue. A reduction in geopolitical risk would be welcomed by markets after the turbulence of 2020-22.

7. **Generation Z**, born between the mid-1990s and the early 2010s, is the first generation who cannot do without the internet. Digital devices and social media have managed to connect them across borders to create the first truly global generation. This makes them a new political and geopolitical actor, especially in the US and Europe. Generation Z, with the ability and motivation to organize online to reshape corporate and public policy, can turn politics upside down at the click of a button, complicating companies' business. That's why we all must understand the expectations, priorities, and concerns of this generation.

8. We may not be fully aware of it, but who will emerge from the presidential and parliamentary ballot boxes in **Turkey** next summer is eagerly awaited by the international community as much as many Turks are. The election results are seen as an important geopolitical risk or opportunity. The debates on whether Russian geopolitical revisionism will bring Turkey closer to the West or shift it to the Beijing-Moscow-Tehran axis will not be concluded in 2023 either. Efforts such as reconciliation with Gulf countries, Egypt and Israel, normalization of relations with Syria, and easing the tension in Libya are expected to continue.

In a nutshell, 2023 will be fraught with so many geopolitical risks that will intensely engage the insurance industry and with less good news. Let's prepare well in advance to manage them effectively if we do not want to fall victim to, and pay dearly for, these risks.



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