

Rising Geopolitical Risk —Another Story of the Global Economy

Economists tend to have a high regard for their own works. Whatever they say on the current economy or predict about the future economy, they are generally very confident in their analysis, independently from any other social or political phenomenon. The economy follows their story and not any other expert's story. In this regard, the year 2017 will be unique in my view. Almost all economists are saying that developments in the global economy or any national economy will depend on the nation's politics or on geopolitical crises which could emerge all over the world. My perception is that the global economy and most of the major nations' economies are in generally good shape, but that geopolitical risks spreading around the world could affect the trend of economic recovery.

Our issue for March/April 2017 highlights the story of rising geopolitical risks in 2017, a key to global economic prosperity. For an economist, economic prosperity is to be achieved independently from geopolitics, but today it is not possible to eliminate any geopolitical development's impact upon the economy, whether you like it or not.

Starting with an overall assessment of today's global geopolitical risks by a distinguished risk

analyst, Dr. Keiichiro Komatsu, other experts contribute to our wide range of risk stories. Prof. Masahiro Kakuwa, chief economist of Showa Shell, introduces the Scenario Approach in Risk Management. Given that we are living in a world surrounded by risks, we will have to learn about risk management, and his approach provides us with the tools for it. Then we move to stories of specific regional and geopolitical risks deserving attention covering the Middle East, Russia, China, Europe, North Korea, US foreign policy and cybersecurity.

The stories show that those who are averse to risk may have to change their attitude, since we cannot achieve business and economic success without taking some risks wisely. I hope these articles will enable you to feel better equipped with knowledge and discretion in analyzing risks.

Exceptionally for this issue, I mention in the cover lead, which usually introduces only the cover story articles, the activities in Asia of the Konrad-Adenauer-Stiftung, a good model of an international think tank that could inspire you to better risk analysis and management.

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COVER STORY 1**Future Prospects of Geopolitical Risks: Adapting to the New Normal Era 4***By Keiichi Komatsu*

After surveying the overall geopolitical challenges we face, the author offers some proposals to mitigate them, such as increasing economic cooperation between wealthy countries and poor ones to mitigate income inequality, a principal cause of geopolitical risk.

COVER STORY 2**The Scenario Approach to Risk Management as Applied to Geopolitical Risks 12***By Masahiro Kakuwa*

The author employs a thought experiment in using his scenario approach to reconstruct part of the *Top Risk 2016* from Eurasia Group with a focus on the Trump question. He demonstrates how his scenario approach can be used in risk management.

COVER STORY 3**Geopolitical Risk in the Middle East & North Africa: Shatter Belts & Great Power Rivalry 17***By Peter E. Paraschos*

Global competition and cooperation among the US, Russia and China will have major implications for regional order and stability in the Middle East. It is still not clear whether there will be a new Cold War or not in this region.

COVER STORY 4**Returning to Relevance: the Russian Challenge to Geopolitical Stability 21***By Constantine A. Pagedas*

The author suggests that by gaining a useful political ally in Donald Trump, Russia and Vladimir Putin will have a brighter 2017.

COVER STORY 5**Economic Risks under the Xi Jinping Administration 26***By Long Ke*

Pessimistic views about the Chinese economy in 2017 could be changed if the country achieves a real market-oriented economy through a free floating exchange rate system, after liberalizing interest rates, privatizing state-owned commercial banks, and rebuilding a real market-based securities market.

COVER STORY 6**Brexit & Its Consequences 30***By Jacques Mistrál*

The author gives his views on possible developments in EU-UK negotiations on Brexit and their consequences for the UK and EU economies.

COVER STORY 7**The Current State & Future Prospects of Geopolitical Risk from North Korea 34***By Chanwoo Lee*

To deal with the rising geopolitical risk from North Korea, given the premise of its denuclearization as the starting point for a solution, the author says that an agreement on a nuclear freeze and economic development cooperation to eliminate North Korea's vulnerability would be necessary.

COVER STORY 8

Interview with Matthew P. Goodman, Senior Adviser for Asian Economics at CSIS

US Foreign Policy in a New Paradigm — What Does It Mean for Global Geopolitics? 38*By Japan SPOTLIGHT*

Interview with a distinguished US foreign policy expert in the Asia-Pacific area reveals what a new paradigm in the Trump administration's foreign policy may look like and its possible geopolitical consequences.

COVER STORY 9**Cybersecurity: a Challenge to Business in the Era of the Fourth Industrial Revolution 42***By Naoyuki Haraoka*

A brief introduction to *The World Economic Forum Global Risks Report 2016*, giving an overview of cyberattacks around the world. Close collaboration between business and government will be necessary to deal with this issue.