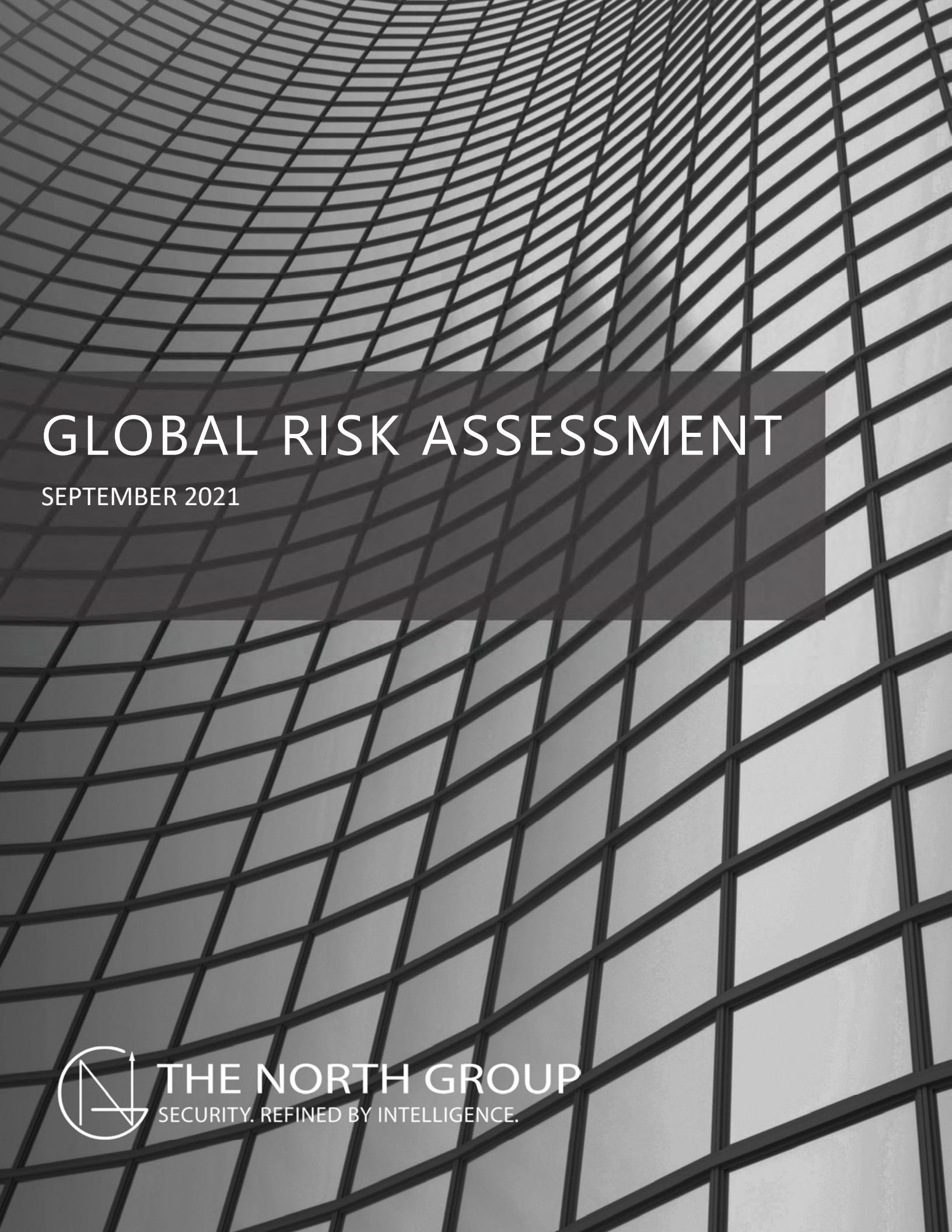

GLOBAL RISK ASSESSMENT

SEPTEMBER 2021

THE NORTH GROUP

SECURITY. REFINED BY INTELLIGENCE.

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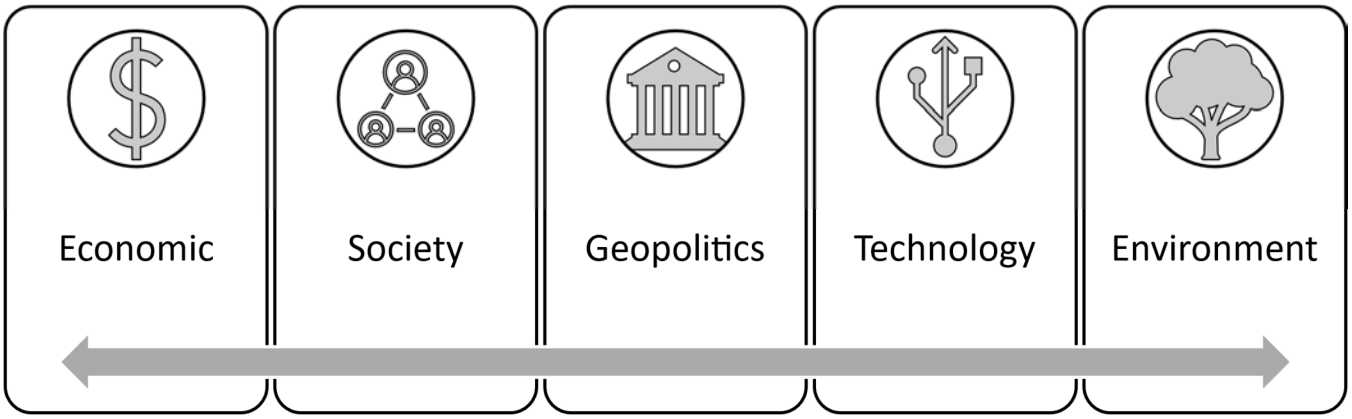
INTRODUCTION

At The North Group, we believe that security is only possible through understanding and managing risk. The challenge of a global risk assessment is that diverse people in diverse places experience diverse issues. What is unique about this moment in history is that, in an interconnected world, risks are changing consistently across all mediums and landscapes.

This report examines how risk changes in five categories: Economic, Society, Geopolitics, Technology, and Environment.

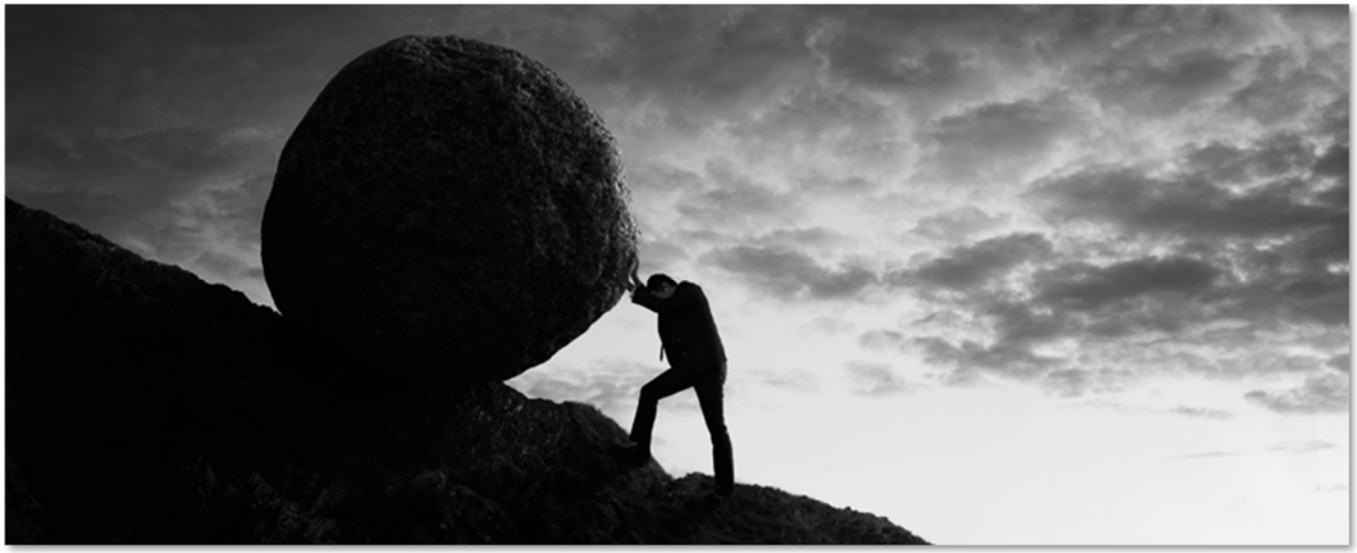


ECONOMICS

COVID-19 has generated economic instability worldwide. Due to halted travel and stay-at-home orders, organizations' ability to operate within and beyond borders has taken a significant blow. COVID-19 has sapped economic activity and is likely to cause structural shifts in the global economy going forward as countries plan for recovery and revival. A build-up of debt is likely to burden government budgets and corporate balances for many years, and emerging economies could be at risk of submerging into a deeper crisis. Businesses could face increasingly challenging consumption, production, and competition patterns for years to come, and they must adapt to survive.

The economic consequences of the pandemic have raised unemployment to extremely high levels. Global unemployment is expected to grow to a record 200 million by 2022.[1] Unemployment is compounded by internal conflict and environmental change, all of which diminishes the global food supply. [2] The Office of the Director of National Intelligence reports that "The number of people experiencing high levels of acute food insecurity doubled from 135 million in 2019 to about 270 million last year and is projected to rise to 330 million by the end of 2021." [3]

Although multi-national trade may rebound from the weakened economic state caused by the pandemic, economists caution that these efforts may be disrupted by open-ended or growing effects of the pandemic.[4] The resurgence of global infections due to the COVID-19 Delta variant may have a greater economic impact on already struggling local-level businesses, as the burden of financial support from governments escalate. The severity and longevity of these impacts affect select countries that depend on remittances, tourism, or oil exports.[5]

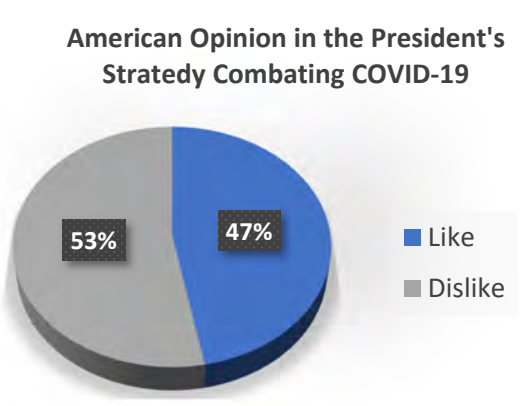


SOCIETY

Civil society depends on trust – the higher a society's trust, the lower the rates of crime and corruption.[6] Recent trends in politics and economics have increased distrust within societies around the world. Increased wealth inequality, mistrust of election officials, and mismanagement of the COVID-19 pandemic have eroded societal trust in the government and the public. The pandemic restrictions and rise in unemployment have hit impoverished groups the hardest; inadvertently, worsening the already damaged social hierarchy. [7] As the socio-economic disparity grows, the divide between the groups in a society grows with it.[8] Building trust and rapport among an organization is vital to thrive in the modern day.

South Africa has the highest income inequality globally, which aggravates the long-standing racial tensions in the country.[9] In July of 2021, former President Jacob Zuma was jailed for contempt of court. This ignited a week of intense rioting in the country's eastern portion, where over half of the South African GDP is produced. The value of the South African Rand fell by 2%, hundreds of stores were looted, and over USD 1 billion of property was destroyed.

South Africa's economy shrank by 3% during the third quarter.[10] Over two hundred South Africans were killed as the violence highlighted racial disparity. Black South Africans and Indian South Africans targeted one another, setting up checkpoints and conducting vigilante killings.[11] This is one of many examples that highlight how a lack of societal trust will lead to turmoil; in an economic, political, and public setting.

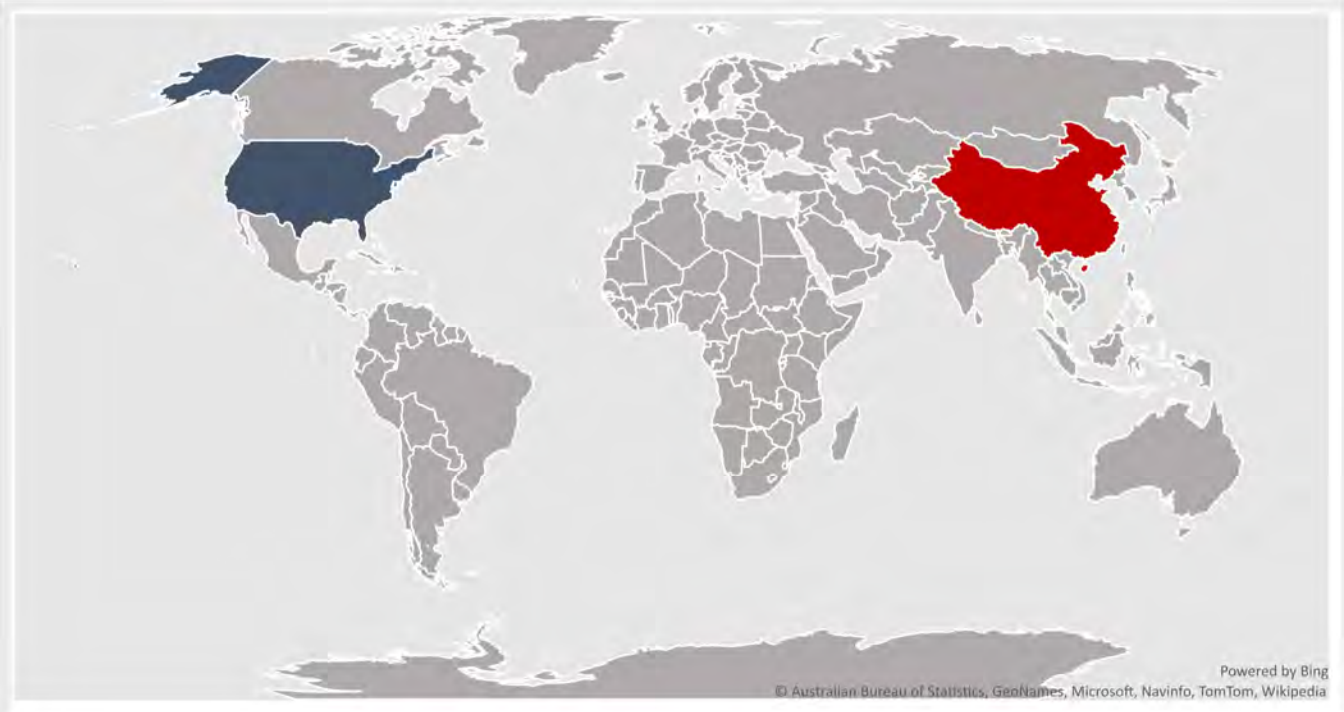


Levels of trust directly affect public compliance; the COVID-19 response is the most recent example to date. An Axios survey conducted in September 2021 revealed that 53% of Americans do not trust the Presidents' strategy in combatting the pandemic.[12] Government initiatives will often fail when the constituents become open with their lack of trust. Confusion regarding vaccine efficacy has led to widespread refusals. A recent example are the firings of New York medical personnel due to vaccine refusal; so many were dismissed that New York activated the National Guard to fill the shortages.[13] National Guard intervention historically incites confusion and outrage among the population of the area affected; leading to further civil unrest.

Building a high-trust society is the key to effective emergency management and social cohesion. Organizations that operate effectively and transparently increases trust. Whether governing a business, a municipality, or a nation, building a culture of trust is key to countering the risks of an increasingly polarized society.

GEOPOLITICAL

For the past thirty years, the United States dominated the globe militarily and economically. Though America remains the predominant world power, the People's Republic of China (PRC) has emerged as a regional power capable of countering American interests in East Asia and along Chinese trade routes. The Chinese state pushes smaller powers into conforming to its interest, targeting not only nation-states, but also corporations and individuals. Chinese rivalry with the U.S. means that activities from business deals to Twitter posts will take on political significance. Making an effort to do the majority of business domestically while limiting PRC involvement is best in preventing Chinese aggression.



Chinese politics are motivated by a mix of revised Marxist-Leninism and nationalism taken from Chinese philosophy. The Chinese perceive themselves as the "Middle Kingdom," located at the center of the world, at the top of its hierarchy. The humiliation of the European colonization, especially during the Opium Wars of the nineteenth century, looms large in the Chinese collective memory. The desire to reassert China's place in the world, especially in Asia, is a key driver of Chinese foreign policy.[14]

Resistance to Chinese assertiveness is restructuring the global security framework from one centered on NATO to one centered on the Indo-Pacific. The new Australian-British-American partnership, AUKUS, complements the Quadrilateral Security Dialogue, comprised of Britain, Australia, Japan, the United States, and India. Advanced technology is now shared with Australia, along with further cyber-security cooperation, and employing more American warplanes in Australia.[15]

A return to multipolarity poses several security risks. First, there is the risk that non-state actors may be caught in a geopolitical crossfire. In 2018, Canada arrested Meng Wanzhou, an executive at Huawei, for U.S. extradition. Days later, two Canadian consultants, Michael Spavor and Michael Kovrig were arrested in Beijing on spying charges. Their trial dates were scheduled one day before the sentences of Ms. Meng.[16] Whether Mr. Spavor or Mr. Kovrig are guilty is irrelevant. Their arrest was not intended to protect the Chinese state but rather a strategic messaging campaign to

Canada and the United States. In September of 2021, the United States and China reached a deal. Ms. Meng was released in exchange for the two Canadians. [17]

Second, China will employ retaliatory tariffs and embargoes in pursuit of its supremacy. When Australia called for an independent investigation into the origin of the Coronavirus, China imposed sanctions on certain Australian exports.[18] Though this did more to anger Australia than elicit an apology, economic targets usually comply or suffer the consequences. In 2019, the National Basketball Association, fearing a loss of the league's $1.5 billion contract with the Chinese telecom corporation Tencent, issued an apology after an NBA coach tweeted his support of Hong Kong protestors.[19] When fashion giant H&M expressed concern over Chinese use of forced labor in Xinjiang province, the Chinese organized a boycott, leading to a 23% slump in Chinese sales.[20]

Third, multipolarity means that competition over strategic resources will destabilize the global supply chain, especially for the rare earth metals crucial for smartphones, processors, and advanced weapons systems. While these metals are abundant, China has a monopoly on the processing of rare earth metals. There is only one facility capable of processing rare earth metals outside of China, owned by the Lynas Corporation in Australia. The U.S. Department of Defense has allocated resources to invest in domestic rare earth metal processing, but until that is complete, Chinese imports will account for around 90% of all rare earth imports into the United States.[21]

The reality of dealing with China, politically or economically, is that what happens with China is controlled by China. The Chinese government will attempt to coerce any individual, brand, or nation that does not conform to the state ideology. Geopolitically, Indo-Pacific interests have already begun to balance against Chinese aggression. Non-state actors should do the same: harden and diversify supply chains; build a brand that is not reliant on Chinese government approval; and prepare to compete with Chinese investors in developing markets.

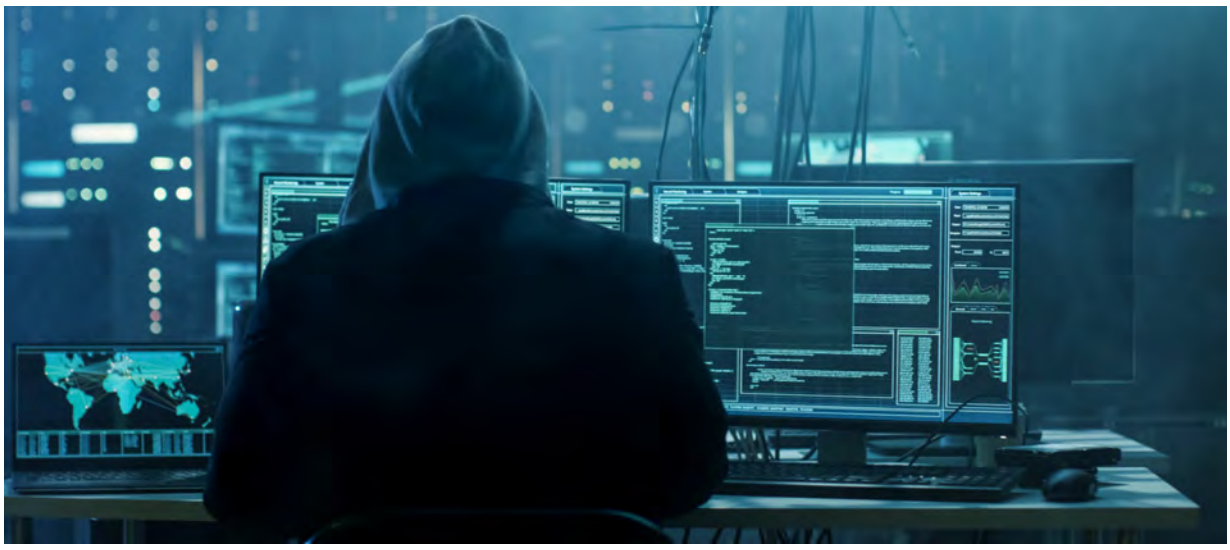
TECHNOLOGY

Recent advances in technology have caused dynamic shifts in security risks. When cybercrime changes, network security must adapt. The one thing that does not change is the user. Instead of targeting network vulnerabilities, criminals target individuals. Credentials which give employees remote access to vital organizational data are easily stolen by criminals through phishing schemes and other vulnerabilities. Rather than kicking down the network's door, criminals are stealing the key and operating with ease. These acts can easily be countered by relevant and applicable cyber-security training on a regular basis.

The lines of communication between the workplace and the home office are easily susceptible to sophisticated phishing attacks that can threaten an organization's data and even cripple its ability to operate. While there may be VPNs, passwords, and a competent I.T. department, employees working from home are more likely to click malicious links or use personal devices for work. Organizations permit 65% of their employees to access work applications from unsecured, personal devices.[22] Criminals target these devices because they are soft targets compared to company devices, which are often managed by an I.T. department. When criminals appropriate usernames and passwords, they gain the ability to commit damaging attacks on their target organization. Prior to a true cyber-attack, the perpetrators will often hold the organization hostage through ransomware.

Ransomware is a kind of cyber-attack in which hackers gain access to an organization's data, encrypt it, and demand a ransom payment (usually in cryptocurrency) for its return. The data is often corrupted, leaked, or not returned at all, even after the payment is made. In 2021, the Colonial Pipeline, which supplies oil and gas to the American Southeast, was the victim of a ransomware attack. The hackers were paid $4.4 million to return the data. Before it was returned, the Southeast regions saw gas shortages, panic buying, and a debilitated transportation system.[23]

A ransomware attack happens every eleven seconds. In 2018, the average ransom fee was $5,000. By 2020, that number soared to $200,000. Most victims experienced another attack soon after recovering their data, and nearly half of victims' data was corrupted upon return. These attacks are facilitated by a lack of preparedness but can be prevented and countered by assigning relevant and applicable cyber-security training to an organization's workforce.



ENVIRONMENTAL

Climate change poses massive risk to communities across the globe. Some of the obvious risks are the damages resulting from extreme storms, wildfires, or droughts. The weather itself, however, is not the greatest risk. Infrastructure designed for milder weather is unable to survive harsher weather and extreme temperatures. Alterations to an environment can threaten formerly secure regions, infrastructure, and communities. At the local, state, and country level, proactivity is required to combat these situations when they arise.

As the climate transitions from mild to harsh, unexpected weather events can overwhelm existing infrastructure. The natural gas facilities froze when a week-long ice storm pummeled the Texas power grid in February 2021. The Electric Reliability Council of Texas (ERCOT) implemented partial grid shutdowns. The worst loss ERCOT anticipated in the event of a winter storm was a reduction of 14GW of the average 66GW. During this storm, the grid lost 30GW of production, nearly half of the total capacity. With no heat or power, ERCOT consumers paid inflated rates. Consequently, hundreds of Texans who lost access to electricity died. The total cost of the storm was over $20 billion.

Losing power during a storm is a disaster. Losing an entire grid is a crisis. When Hurricane Ida struck New Orleans in 2021, the city's aging infrastructure failed. All eight power connections to the city were severed, including a large steel tower that took weeks to repair. Even a month after the storm, over 17,000 Louisianans remained without power.[24]

The effects of climate change are amplified by patterns of land use and urban development. Floods are on the rise as the Total Impermeable Area (TIA) increases in urban areas. Parking lots, roads, and warehouses slow hydrologic processes, increasing the risk of flash floods. Combined with an increase in rainfall caused by climate change, the risk of flooding increases exponentially. Floods in Germany and the Low Countries (Belgium, Netherlands, and Luxembourg) in 2021 were categorized as a 500-year event. A July 2021 Typhoon in China forced nearly one million people to relocate.[25] Even when hydrologic processes can handle the increased rainfall, runoff from impermeable surfaces is polluted, damaging ecological and public health.

As the count of extreme weather events rises, infrastructure designed for mild conditions will frequently fail catastrophically. Centralized power grids, concrete city blocks, parking lots, and inefficient buildings will be hit hardest by powerful storms. Hardening the grid, providing green space, and planning for sustainable hydrologic functions are necessary to maintain stable infrastructure in the coming years.

CONCLUSION

While the types and levels of risk vary across the Economic, Societal, Geopolitical, Technological, and Environmental landscapes, the order in which they are managed is almost identical. We must understand the risk to achieve true security through risk management. Continuing outdated and irrelevant risk management practices for the sake of "doing things the way they have always been done" is a clear path to failure. The world is everchanging, which means we must adapt to overcome.

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