



# Australia's Top Risks FY2022-23

## The Bottom Line for Business

How top geopolitical risks could affect Australian business in FY2022-23 – and what you can do about it.



# In brief

The geopolitical environment in which Australian businesses operate is becoming increasingly fluid and complex.

In recent years, geopolitical megatrends have presented Australian businesses with new and rapidly evolving challenges. Structural changes to the international system, rising global mistrust, Industrial Revolution 4.0, and the dramatic impacts of the climate crisis have all been exacerbated by the COVID-19 pandemic.

Geopolitical risks tend to be highly interconnected and contagious. As such, they should not be considered in isolation.

For Australian businesses, global megatrends take shape in specific individual risks. These can then be grouped into scenarios or 'risk clusters' based on their interconnectivity and the degree of contagion among them.

Our analysis sets out the rapidly changing risk environment and identifies 16 individual risks and three potential scenarios or risk clusters.

According to KPMG's Dynamic Risk Assessment (DRA), the risk cluster scenarios that look to have more severe potential implications for Australian businesses than any individual risk are:

1. Increased public scepticism and scrutiny of business
2. Economics and politics collide in the region
3. Inability to adapt to an evolving region

Outside of these three risk cluster scenarios, each identified individual risk also has important implications for business, and several risks may act as 'Black Swans'. This means they may play out in unexpected ways.

## The report sets out key questions for Australian businesses:

- How can you better translate stated values into action and ensure they are lived experience in your corporate culture?
- What can you do to stay on top of rapidly shifting public sentiments and the government's policy response?
- What opportunities exist for you to build social licence through mutually beneficial relationships with key stakeholder groups?
- How should your business model focus on regions that operate under very different political and economic models?
- How flexible and resilient are your businesses' supply chains to geopolitical unpredictability?
- Should your business invest in understanding the interconnected nuance of political, social and economic volatility?
- What geopolitical trends pose a risk to your business? What are the uncertainties?
- What sectors of your business are vulnerable to geopolitical risk and what is the likelihood and severity of this risk?
- How can you ensure your business is resilient to geopolitical risks and adverse shocks?

The report also provides targeted and practical recommendations to support businesses in navigating the complex and volatile geopolitical context.

The insights in this report should prompt Australian business leaders to consider whether they are sufficiently aware of and prepared for this rapidly evolving risk environment.

This report is an Australia-focused version of '[Top Risks 2022: The Bottom Line for Business](#)', put together by KPMG International based on our global alliance partner Eurasia Group's annual [Top Risks report](#).

To create a dynamic risk analysis specific to the Australian business context, KPMG Australia surveyed experts from across the firm to develop the top Australia-specific business risks.

These risks were run through a Dynamic Risk Assessment (DRA). DRA is a risk assessment tool that helps organisations make better-informed decisions by understanding what can happen when individual risks combine and interact.

Our global alliance partnership with Eurasia Group brings their predictive geopolitical analysis of global interconnected risks together with KPMG's understanding of business across industry to address company business impacts with actionable plans – using robust analytics and on-the-ground insights from senior policy insiders.

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# Making sense of a complex risk environment needs more than two dimensions.

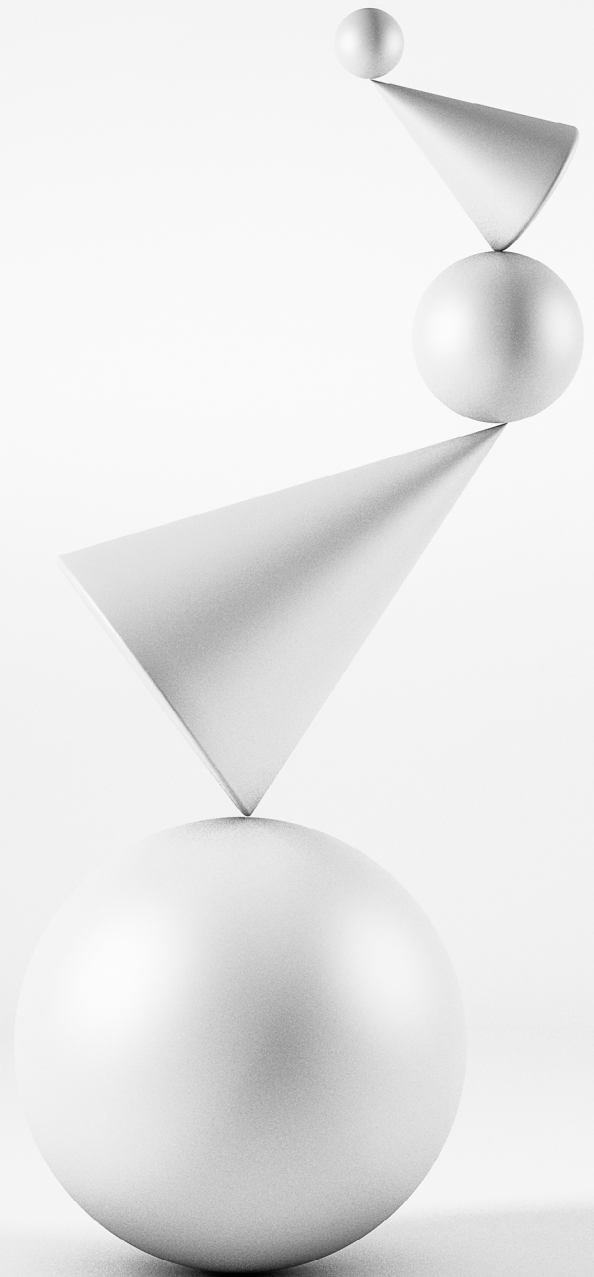
KPMG's Dynamic Risk Assessment (DRA) considers not only the likelihood and severity of geopolitical risks, but also how these risks relate to and impact one another. In terms of their connections and impact, risks are broken down into two categories: individual risks, including Black Swan risks, and clustered risks.

## 1. RISK CLUSTERS

Highly connected groups of risks form *risk clusters*, which represent combined risk scenarios, which have a significant impact on the business environment if they occur. These clusters are the basis of this report and our Bottom Line for Business analysis.

## 2. INDIVIDUAL RISKS

Individual risks do not have the same degree of interconnectivity and are less likely to have high impacts on or be significantly impacted by other risks. DRA identifies unexpected risk combinations which have the potential for severe consequences. These are similar to '*Black Swans*' which might be obvious to experts in hindsight and which are increasingly dominating the risk environment (see p.19).



# Connections and Impact

Figure 1

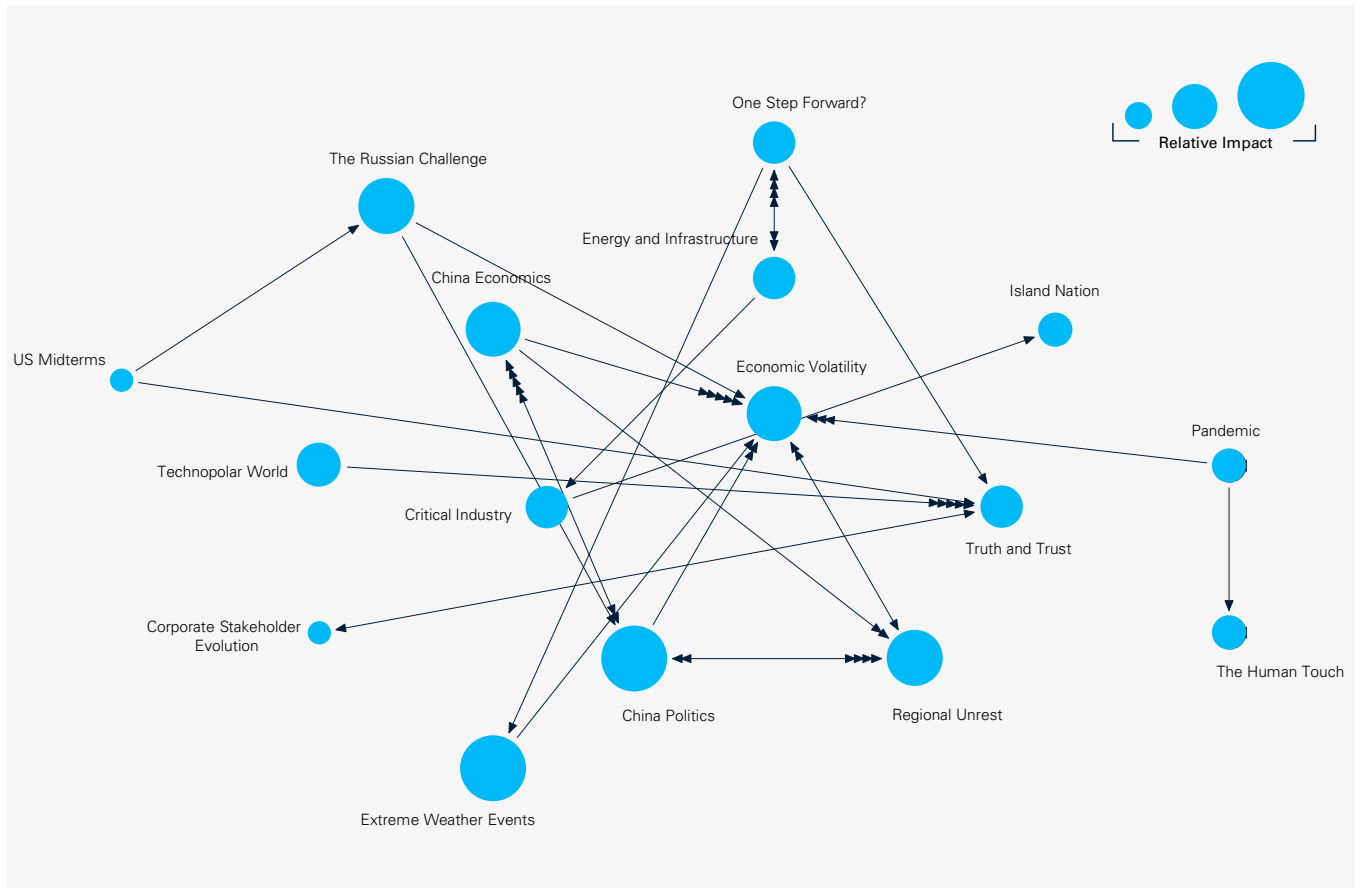


Figure 1 displays the network relationships between the individual geopolitical risks examined in the FY2022-23 Australian DRA. Our experts believe *Extreme Weather Events* and *The Russian Challenge* to be the most likely and severe geopolitical risks for FY2022-23. However, they are not highly interconnected with other risks, and not likely to trigger or be impacted by other risks. Individually *China Politics* ranked lower in likelihood and severity, however the network analysis shows that it is important to watch given its risk interconnectivity. The same is true for the risks of *China Economics*, *Regional Unrest* and *Economic Volatility*.

The interconnectedness of these risks means they could trigger a domino effect with a more severe collective impact on the business environment.

For a full analysis of each of these geopolitical risks and what they mean for business, see p. 16.

Risk clusters represent a combination of related risks that are strongly interconnected. Events associated with one risk are most likely to drive events associated with other risks in the same cluster. These risk scenarios are important for Australian businesses to respond to and mitigate.

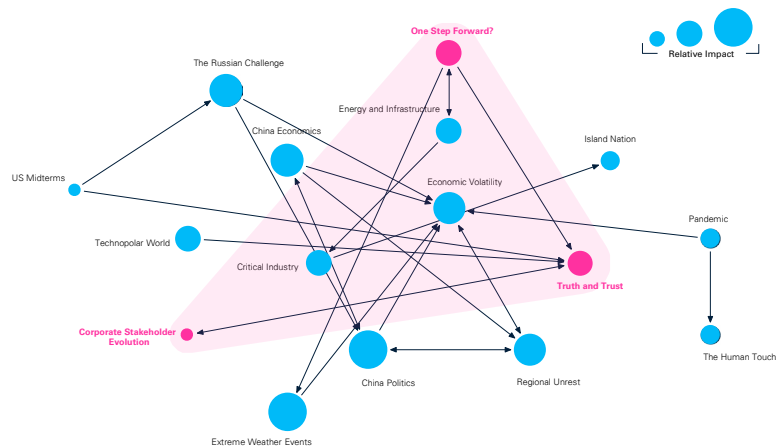
### Three major risk cluster scenarios with important impacts for Australian businesses.

#### SCENARIO 1

##### Increased public scepticism and scrutiny of business

Individual risks: Truth and Trust; One Step Forward?; and Corporate Stakeholder Evolution.

This cluster shows a relationship among government and media misdirection, loss of confidence in governments, and the slow pace of change in decarbonisation and sustainability efforts. This cluster is unique in that these risks are not shared in another cluster.

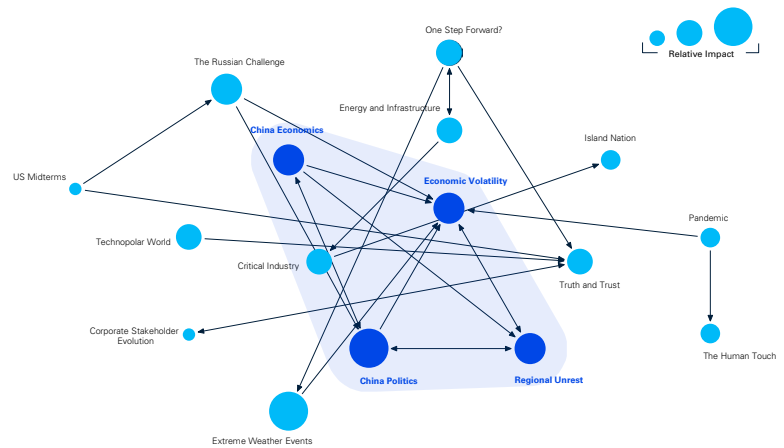


#### SCENARIO 2

##### Economics and politics collide in the region

Individual risks: China Economics; China Politics; Economic Volatility; and Regional Unrest.

As the main economic and trade engine in the region, economic and political developments in China have potential spill-over effects/impacts on neighbouring countries or other countries that are economically interdependent with China. This cluster, with four risks, has the potential to generate the greatest impact within the shortest timeframe.

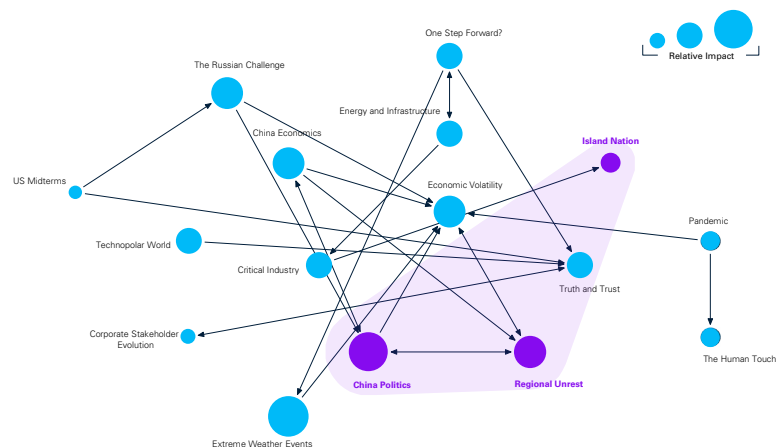


#### SCENARIO 3

##### Inability to adapt to an evolving region

Individual risks: China Politics; Island Nation; and Regional Unrest.

This cluster indicates that the Asia-Pacific region is changing rapidly, and Australian relations with the region are evolving. This is in large part driven by Australia's increasingly complex relationship with China. The question is, is Australia keeping up with the changes?





# Increased public scepticism and scrutiny of business

Ideological, cultural and political shifts within Australia and across neighbouring nations are forcing businesses to take a position – willing or unwilling – on social and political issues. Corporate social policies are no longer set and forget – they must be able to respond to geopolitical issues and rapidly shifting social values.

*This scenario combines the risks of Truth and Trust, One Step Forward?, and Corporate Stakeholder Evolution.*

Consumer expectations are rapidly changing. Many consumers are increasingly demanding that governments and businesses meet their expectations on environmental and social issues. It is not enough for organisations to market their stance as good corporate citizens, they need to be seen to be genuinely 'walking the walk'.

The need for business to monitor rapidly shifting public opinion is nothing new. But in FY2022-23, heavily polarised political views and cultural pressures, weaponised through social media, means no business can be sheltered from rapid changes in public opinion that may be difficult to predict. Confounding this challenge is the rise of misinformation and the subsequent erosion in trust that leads many consumers to be sceptical of corporate and governmental messaging.

This year's [Edelman Trust Barometer](#) finds "society locked in a vicious cycle of distrust," with trust in government at a worrying low. However, business is seen as a stabilising force, with the potential – and responsibility – to step into the environmental, social and governance breach. Citizens are paying close attention to business performance in solving society's problems.

Public scepticism and scrutiny increases businesses' risks of consumer boycotts, reputational damage, and legislative crackdowns from regulators who either perceive certain businesses as acting against the national interest, or feel the political need to please voters.

There are many polarising themes that consumers will expect organisations to take a position on. These include inequality, migration and human rights, environmental responsibilities, COVID response, corporate accountability, and social inclusion and discrimination. This makes corporate political strategy no longer a tactic for boosting businesses' reputation, but a necessity for economic survival.

**Multinationals will have to spend more time and money navigating environmental, cultural, social and political shifts.**

**EURASIA TOP RISKS FOR 2022:  
#9 CORPORATES LOSING THE CULTURE WARS**



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The pressure on businesses to be responsible actors will not only come from consumer groups but also current and potential employees. As the competition for talent continues to define a highly competitive labour market, a socially and environmentally conscious organisational culture, supported by a reputation as a 'trusted' brand, can help to give organisations a distinct advantage in attracting and retaining the highest quality talent. The corporate performance benefits of this outcome should not be underestimated.

There are challenges in adopting a genuine approach to purpose and responsibility. [Eurasia Group](#) explains how multinationals caught between major powers face a two-way risk. If they speak out against human ESG issues, as consumers in some markets demand, they could face backlash from regulators and consumers in other markets. If they do not, they could well upset consumers and regulators elsewhere.

## Public scepticism and scrutiny

**Businesses cannot afford to be passive political and social players.**

SOURCE: EDELMAN TRUST BAROMETER



**58%**

of consumers will buy or advocate for brands based on their beliefs and values.



**80%**

of people will invest based on their beliefs and values.



**60%**

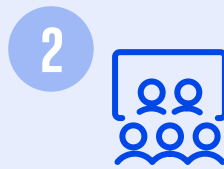
will choose a place to work based on their beliefs and values.

## Three key questions for Australian businesses to consider in 2022:



### Walk the walk

How can you better translate your stated values into action and ensure they are lived experience in your corporate culture?



### Know your audience

What can you do to stay on top of rapidly shifting public sentiments and the government's policy response?



### Partnering for success

What opportunities exist for you to build social licence through mutually beneficial relationships with key stakeholder groups?





# What can you do?

**Protect your social licence to operate through proactively adapting to rapidly shifting social expectations and being seen to live your values.**

**Building social licence involves gaining legitimacy, credibility, and ultimately trust through mutually beneficial relationships with citizens and key stakeholder groups. That is, you really have to 'walk the walk'.**

Traditional, short-term approaches to reputation management – like public relations, advocacy, and corporate social responsibility – can provoke community cynicism and be not only insufficient to gain public and stakeholder support, but also counter-productive. Brand perception and reputation can shift rapidly, and in unexpected ways.

Ensure your strategy, risk and compliance processes incorporate these changing values. Improve your range of capabilities and tools to listen deeply to stakeholders and understand public opinion – not just the views of peak bodies and influencers. Uncovering the underlying sentiment – including that of silent majorities – will enable an assessment of the current state of social licence, a benchmark from which a strategy can be developed, and improvement measured against.

To do this, businesses will require corporate diplomacy strategies and climate IQ plans. This is very different from devising a traditional stakeholder engagement strategy. It's about helping a business win hearts and minds throughout the entire lifespan of a project or operations. It's about meaning it, and doing it.



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# Economics and politics collide in the region

In this scenario, four individual risks (China Economics; China Politics; Economic Volatility; and Regional Unrest) add up to create a potential situation where growing economic challenges in the region collide with increasing pressure on regional political stability.

This potential scenario identifies the risk of economic pressures and political tensions increasing in the Asia-Pacific region, leading to conflict, unrest, and disruption.

In this scenario, the challenges of COVID-19, the climate crisis, and geopolitical tensions are leading to increasing economic volatility in the Asia-Pacific.

These are causing inflation, supply chain disruption, interest rate rises, and other stressors for governments, corporates, and individuals.

Asia-Pacific countries could be weakened by economic and political pressures, causing unrest and economic downturn.

Around the world, including in the Asia-Pacific region, uncertainty is driving nation-states to become increasingly focused on domestic priorities and national interests, rather than cooperation and economic integration.

This volatile environment means that rather than nation-states understanding cooperation as a benefit, the new international economic order may be characterised by mistrust and concern over the potential security risks of economic interdependence. International trade and investment may become less about the movement of goods and capital according to economic principles of supply and demand, or competitive advantage – they are the sinews of power.

In this scenario, the political and economic status of several countries and territories could combine to create a challenging set of circumstances for Australian businesses.

China's economic health is of outsized importance. Like most countries in the wake of COVID-19, China is facing a plethora of domestic issues and challenges. As China continues to grapple with managing COVID-19, its economic prosperity is taking a hit from which it may take years to recover – possibly pushing it away from its previously presumed trajectory of becoming the world's number one economy by 2030.

The risk that strategic competition between China and the United States continues would mean that firms tied into global supply chains could face serious disruption from continued trade disputes and uncertainty over tariffs and non-tariff barriers.

According to this potential scenario, President Xi Jinping's goal would be to continue to build independence and reduce China's vulnerability to external shocks by relying more on domestic production, distribution and consumption.

Multinational firms could face an increasingly difficult environment inside China as the 'two-way political risk' – the task of keeping both Western and Chinese consumers happy – becomes harder to manage.

Moreover, the strengthening of the relationship between China and Russia, although far from an alliance, signals further challenges to the idea of the West as the primary setter of global and regional standards and norms.

In this potential scenario, Chinese President Xi Jinping's vision of achieving 'national rejuvenation' is likely to be met with increasing resistance from Western actors.



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In a region where economics and politics have collided, with an absence of clearly defined global leadership, business could face an increasingly fragmented and interventionist regulatory environment. This means a lack of regulatory harmonisation which could translate into disjointed regulatory shocks, compliance headaches, and increased transaction costs for companies wanting to successfully operate and expand internationally.

For Australian businesses, particularly those with an international export market, the Asia-Pacific region, including China, sits at or near the top of supply and demand rankings. For many Australian businesses, continued

prosperity depends largely on the political and economic stability of the Asia-Pacific, its manufacturing capability, its appetite for Australian goods and services, and its role as a key link in supply chains. As this risk scenario shows, regional unrest has the potential to significantly impact markets and supply chains for Australian businesses.

## Three key questions for Australian businesses to consider in 2022:

1



### G-Zero-ready business

How will your business manage in a world where no one country is willing or able to assume global leadership? How should your business focus on markets that operate under very different social, political and economic models?

2



### Supply chain resilience

How flexible and resilient are your businesses' supply chains to geopolitical unpredictability in the region?

3



### Geopolitical intelligence investment

has your business invested in understanding the interconnected nuances of political, social and economic volatility?



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# What can you do?

## Get your supply chains in order

The first step is to know your supply chain inside and out, upstream and down, with the key being access to timely, accurate data. KPMG in Australia identified [trends](#) affecting supply chains in 2022 and strategies to help reduce disruption and improve resilience in a volatile geopolitical landscape. There are five key considerations to assist companies as they face more supply chain challenges in the region:

- Operations need to be flexible and resilient enough to adapt and adjust in real time to changes in trade flows, new regulations, the impact of COVID-19, climate change, trade tensions and other geopolitical movements.
- Technology should be effectively utilised to help reduce operating costs, provide visibility, and diversify the ways customer needs are met.
- Capability to adapt to digital operations and drive actionable improvements from data is important.
- Fleet management and supply chain networks should be responsive to increasing customer requirements.
- Collaboration and supplier partnerships and ongoing risk monitoring are all needed to build supply chain resilience.

## Develop a finely tuned policy radar/ corporate diplomacy strategy with real-time updates and pattern recognition

Expect a flurry of (increasingly fragmented) regulatory activity in the next few years across taxation, climate and energy policy, industrial relations, competition policy and more. In this context, business should enable better informed risk-taking by harnessing the power of big data and AI to monitor public sentiment, political shifts, and regulatory trends, complemented with subject matter expertise.

In a year where the global pandemic still dominates, and the effects of Long Covid are just starting to be felt, an effective corporate policy radar should be geared towards anticipating possible ad hoc COVID-19 regulatory interventions as contagions flare up randomly and the tail risk of new variants persists.

Business should embrace the need to establish a coherent, fit-for-purpose plan to seize opportunities and shield investments and operations from political, social, and economic shocks. Potential negative repercussions from misinformation and disinformation campaigns, as well as foreign interference, should also be addressed.



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# Inability to adapt to an evolving region

The Asia-Pacific region is undergoing large-scale shifts driven by emerging geopolitical, environmental and technological trends. These challenges will continue to drive changes in Australia's regional relationships, and Australian businesses must ensure they're keeping pace.

*In this scenario, the individual risks of China Politics, Regional Unrest, and Island Nation combine to create a potential risk cluster where Australia is unable to keep pace with rapidly shifting regional dynamics. Australian businesses must understand and adapt to these changes to survive and thrive.*

Over the past half century, the Asia-Pacific region has transformed dramatically, and is continuing on a course of historic transformation. The Asian Development Bank [argues](#) that if the potential of the Asian Century is realised, Asia could have over 50 percent of global GDP by 2050, driving a substantial proportion of the world's consumption, shifting the world's centre of gravity. In the decades ahead, Asian economies will go from participating in global flows of trade, capital, talent and innovation to determining their shape and direction. The question is no longer how quickly the region will rise; it is how it will lead.

The common thread across this diverse region is growth across key economic and social indicators. Asia is a hub of world trade, home to some of the world's largest companies, the fastest-growing part of the internet, and the engine of global consumption growth.

However, along with the positive stories, the region also faces challenges which we need to make sure we fully appreciate. The breakneck pace of growth has left many countries struggling to provide the services that their populations need. The expanding middle class requires new infrastructure, manufacturing, service provision, logistics, and approaches to trade and investment. Democracy is fragile, and populism, with its tendencies of nationalism and protectionism, is on the rise.

The climate crisis is dramatically affecting countries in this region because of their densely populated coastal areas and

dependence on natural resources and agriculture, among other factors.

In addition to the tragic health consequences, the COVID-19 pandemic has pushed over 80 million people into extreme poverty in the region. Rising poverty, increasing food and water insecurity, forced migration and displacement, and increased disaster vulnerability will create tensions within and among countries and heighten insecurity and instability across the region.

Another critical driver of change in the Asia-Pacific region is China's economic growth and growing role. Developments in China have considerable implications for the region's prosperity and security – both opportunities and risks. China's rapid development over the past few decades has transformed its role in the Asia-Pacific region.

This is also the geography where the strategic competition between the US and China is playing out, and developments between the two countries will have a considerable impact on the region's prosperity and security. Trade deals like the Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), neither of which include the US, are as geopolitical as they are economic. The US has introduced its own Indo-Pacific Economic Framework (IPEF) as its way of expanding US presence, and arguably countering Chinese influence in the region.

Nations in the region are carefully balancing their interests as they negotiate their relationships between the two major powers vying for influence.



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While Australia's relations with the region are generally positive, they could be [improved](#). Australia's reputation as an open and inclusive country has been brought into question during COVID-19 with our tight border restrictions, creating some perceptions that the island nation of Australia has become insular – dubbed 'Fortress Australia'. This reputation of being out of touch with the region undermines Australia's interests, both security and commercial.

The Asia-Pacific region is evolving rapidly. Are Australian businesses sufficiently aware of these trends and developments in our region? Are we ensuring we build this knowledge into our forward planning?

## Three key questions for Australian businesses to consider in FY2022-23:



### Risk vs uncertainty

What geopolitical trends in the region pose a clear risk to your business? Which are uncertain?



### Understand the impact

What sectors of your business are vulnerable to geopolitical volatility in the region? What is the likelihood and severity of this risk?



### Build resilience

How can you ensure that your business is resilient to geopolitical volatility and adverse shocks in the region?



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# What can you do?

## Differentiate between risks and uncertainties, and know what to do

For some, adapting to changing regional geopolitics can mean diversifying, but we all know diversification is much easier said than done. Navigating regional geopolitical volatility and pursuing emerging markets and opportunities contain elements of risk and uncertainty. Understanding the difference between risk and uncertainty and what that means for your business will be critical for success.

Whereas risks need to be managed, uncertainty must be explored, tested, and validated. Risk can be distributed, insured against, hedged, and reduced – in short, it can be quantified and controlled. Uncertainty is not subject to exact quantification and represents all the possible future states, both positive and negative.

To navigate regional volatility successfully, Australian businesses would be wise to invest in geopolitical intelligence, and dedicate time to understanding the interconnected nuances of political, social and economic volatility. Companies can then begin to prioritise opportunity rather than react to stressors.

At the very least, 'geopolitics' should no longer be a single line item on a risk register. Identifying and prioritising risks and opportunities (and estimating their monetary impact) based on relevance to your operational model and business strategy will allow a clearer view on causes, escalating factors, and consequences, as well as prevention, mitigation, and recovery controls.

The Top Risks list is a start, but the next step should include a broader and deeper view of macro-, sector-, and country-specific as well as region-wide risks, with impacts tailored to your business.

## Invest in scenario modelling

The business community may not be able to shape the direction of Australian politics or regional geopolitics (although there's growing acceptance that economic security is national security, and the business voice is of real value), but we can ensure we know what's going on and how it might affect our business. If seeking to pursue new markets in the rapidly changing Asia-Pacific region, call on a panel of experts with broad perspectives to design possible extreme scenarios (positive and negative).

How do these scenarios affect your business from financial, non-financial and reputation perspectives? Test and fine-tune policies and mitigation procedures using individuals from outside of the process to constructively challenge input. Companies more adept at understanding these less easily definable exogenous threats are likely to be better prepared to manage geopolitical events and their economic consequences – and identify and act on opportunities.

[More on Dynamic Risk Assessments](#)

[More on Growth Strategy](#)

[More on Scenario Modelling<sup>1</sup>](#)

1. This example comes from KPMG's Finnish member firm. KPMG Australia also conducts tailored scenario modelling exercises for a wide range of clients.



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# Individual risk analysis

Beyond the three major risk clusters and their respective bottom lines for business, the Australian business community should be considering the geopolitical risks individually.

While our expert processes found that some risk issues were highly intertwined they also discovered risk issues important enough to be considered *stand-alone* risks. The table below shows which risks through severity or likelihood businesses should analyse in the context of their people or operations, and create mitigation strategies suitable for their environment.

## WHAT IT MEANS

## WHY IT MATTERS FOR BUSINESS

### RISK: EXTREME WEATHER EVENTS | SEVERITY RATING: MAJOR LIKELIHOOD RATING: ALMOST CERTAIN

The prevalence and severity of natural disasters will continue to increase throughout 2022 and into the immediate and mid-term future. This will cause disruptions in food, energy and critical material supplies. Governments will take a more interventionist approach, which will impact traditional insurance models and create more community protection funds.

Businesses should model scenarios for the potential of extreme weather events to learn how this may impact their people, operations and supply chains. The frequency and severity of extreme weather events will rise, and businesses should be prepared to build resilience.

Businesses should also be prepared for sudden and unexpected shifts in the regulatory environment, both domestically and internationally.

### RISK: CHINA POLITICS | SEVERITY RATING: MAJOR LIKELIHOOD RATING: LIKELY

President Xi's vision of self-sufficiency to "make China strong" and its relationship with Russia is likely to be met with increasing global political tension and intensifying pushback from the West. China's growing role and the response of status quo powers could create increasing levels of tension across the Asia-Pacific region.

Businesses have increasingly become caught up in the political aspect of Australia's relationship with China, highlighted by the raft of tariffs and non-tariff barriers imposed on Australian goods. Resilience to political disruption and seeking to reduce their reliance on the Chinese market is likely to be critical for Australian business. Exploring what mitigating measures can be put in place, such as diversification, is an urgent priority.

### RISK: TRUTH AND TRUST | SEVERITY RATING: SIGNIFICANT LIKELIHOOD RATING: ALMOST CERTAIN

Around the world, many governments continue to conflate fact and fiction to drive their own agendas.

Misinformation and Fake News is disseminated by government and non-government actors across traditional and social media channels, making the truth hard to know, leading to further erosion of trust.

Businesses should become attuned to operating in a complex information environment, with consumers sceptical of previously established facts and susceptible to targeted influence.

### RISK: THE RUSSIAN CHALLENGE | SEVERITY RATING: SIGNIFICANT LIKELIHOOD RATING: ALMOST CERTAIN

Relations between Russia and the West are tense. Russia wants to see a restructure of the EU and NATO security architecture. That, combined with ongoing concerns about election interference and cyber operations, means Russia is on the verge of precipitating an international crisis.

The implications for Australian business will likely evolve throughout 2022 and beyond. Current sanctions on Russia are spilling into the global economy, particularly impacting sectors such as energy, food and agriculture. This can be felt in an array of supply chain disruptions and inflationary pressures. In addition, the Australian Government has warned of a heightened cyber security threat.





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## WHAT IT MEANS

## WHY IT MATTERS FOR BUSINESS

**RISK: CHINA ECONOMICS** | SEVERITY RATING: SIGNIFICANT LIKELIHOOD RATING: LIKELY

China's economic challenges will impact its own and the region's economic prosperity. Investment flows, trade restrictions and sanctions from China will face increased scrutiny in Australia and will continue to impact domestic policy, supply chains and investment decisions.

For Australian businesses, particularly those with an international export market, the Chinese economy sits at or near the top of supply and demand rankings. The state of the Chinese economy, its manufacturing capability, its appetite for Australian goods and services, and its ability to be a key link in every supply chain will be highly important.

**RISK: PANDEMIC** | SEVERITY RATING: SIGNIFICANT LIKELIHOOD RATING: LIKELY

Varying approaches to the pandemic will be met with mixed results, leading to further outbreaks and economic disruptions. Subsequent low economic growth, rising inequality and high inflation will generate more frustration in populations. This will influence voting behaviours, placing more pressure on political incumbents to respond to public demands.

Back to 'business as usual' will not be possible in 2022. Organisations will have to continue contending with sub-optimal market conditions and a tendency for populations to increasingly vote against political incumbents.

**RISK: ENERGY AND INFRASTRUCTURE** | SEVERITY RATING: SIGNIFICANT LIKELIHOOD RATING: LIKELY

Medium and long-term decarbonisation targets will collide with short-term demands for affordable energy in 2022 and into 2023. Governments around the world may take a backwards step in favouring energy and infrastructure policies that delay climate action. Demand for infrastructure investment will continue to outpace supply, contributing to a long-term failure in building the infrastructure required to support economic prosperity in the future.

Governments' willingness to accelerate ambitions to halve pre-industrial emissions or achieve net zero by 2030 (versus 2050) will present opportunities for businesses. Businesses may be encouraged, with grants and investment opportunities, to lower emissions through investment in new technologies. Those who transition to sustainable operating models quicker may see an increase in public sentiment and decreased costs in the longer term.

**RISK: ONE STEP FORWARD?** | SEVERITY RATING: SIGNIFICANT LIKELIHOOD RATING: LIKELY

Australia will not meet other countries' expectations with regard to decarbonising and sustainability targets, impacting trade relations and access to capital. Increasing community expectations will drive government intervention relating to environmental regulation, challenging corporates.

There will be increasing pressure on companies to meet new environmental standards, with a growing number of consumers likely to opt for companies and brands that are considered eco-friendly. A groundswell of opposition – people who will protest with their credit cards – will mean businesses will be required to take a stronger stance on climate change. Corporates will need to respond to sometimes unexpected government regulatory changes.

**RISK: US MIDTERMS** | SEVERITY RATING: MODERATE LIKELIHOOD RATING: LIKELY

The 2022 mid-terms will likely be of huge historical significance. The potential risk that they are conducted in a volatile context of fraud allegations on both sides will lay the path for a 2024 presidential election that may see a split legislature unable to agree on which presidential certification is legitimate, or a political majority in federal and state jurisdictions allowing the subversion of voter will.

A return to 'Trumpism' under a majority Republican Government could see the US adopt a weakened and ineffective federal bureaucracy, large-scale civil disobedience in the response to bipartisan allegations of voter fraud and suppression and a return to erratic, isolationist foreign policy. This would likely have flow-on effects for Australian businesses that operate in the US, as well as in the region. Australian foreign policy would be affected.



SCENARIO 1

SCENARIO 2

SCENARIO 3

INDIVIDUAL RISK ANALYSIS

BLACK SWAN RISKS

**WHAT IT MEANS**

**WHY IT MATTERS FOR BUSINESS**

**RISK: ISLAND NATION** | SEVERITY RATING: SIGNIFICANT LIKELIHOOD RATING: POSSIBLE

Australia remains, or is perceived as, an out of touch 'island fortress' which challenges its relationship with ASEAN and the region. Australia's geopolitical strategy and political alliances impact its trading and investment relationships with regional countries who have a reliance on Chinese trade and support.

The ASEAN market, as well as Pacific Island Countries, present a significant and emerging market for Australian business. However, political and security interests in the wake of increased Chinese activity in the region present a wedge to commercial interests.

**RISK: CORPORATE STAKEHOLDER EVOLUTION** | SEVERITY RATING: MODERATE LIKELIHOOD RATING: LIKELY

Consumers and employees, empowered by 'cancel culture' and enabled by social media, will make new demands on multinational corporations and the governments that regulate them.

Multinationals must be prepared to take stances on environmental, cultural, social, and political issues that impact their business or are important to their customer base. This will involve spending more time and money on reputation services and political analysis.



SCENARIO 1

SCENARIO 2

SCENARIO 3

INDIVIDUAL RISK ANALYSIS

BLACK SWAN RISKS

# Black Swan risks

Combining the insights of our experts DRA uncovers immensely powerful scenarios no expert could anticipate working alone. Similar to *Black Swans* these scenarios suggest fundamental transformations to the assumptions of doing business.

While the majority of risks covered in the DRA were considered relatively contagious in that they could influence and be influenced by other risks, *Black Swan* risks lie at the other end of the spectrum. Rare, random, and high-impact, many argue these are becoming more frequent. While businesses can't prepare for every scenario, in the increasingly volatile geopolitical environment we are facing, it is critical that we establish the capabilities to be better prepared for the unexpected.

## RISK

## WHY IT MATTERS FOR BUSINESS

### RISK: TECHNOPOLAR WORLD

Technopolar World describes the concern that tech giants are designing, building and managing a new dimension of geopolitics – the digital space. Neither they, nor governments, can yet effectively govern these spaces.

FY2022-23 will see continued struggles between governments and these organisations – and indeed among governments themselves – about data privacy, cyber security, and the ethical use of artificial intelligence.

Businesses will need to contend with further erosion of societal trust (*see scenario 1*), as well as digital fragmentation. Competition between major actors like China and the US will intensify disruptions in economically critical tech supply chains, such as those for semiconductors. The competition will also spread into standards setting and rule creation.

### RISK: CRITICAL INDUSTRY

Critical Industry refers to Australia's reliance on international supply chains to provide the fundamental inputs of key materials and human resources.

Impacts to PPE equipment supply during the COVID-19 pandemic bought supply chain vulnerability to the front of many Australian businesses' minds. Many pivoted well to address short-term needs and there is a renewed effort by the Australian Government to increase self-sufficiency – or at least 'friend-sourcing' from politically trusted partners.

Opportunities for 'co-investment' with government will increase in the coming years as more large-scale manufacturing and infrastructure projects are brought online in Australia.

### RISK: THE HUMAN TOUCH

The Human Touch refers to the risk that border and migration control does not meet Australian skills and capability requirements. Virtual import of talent, technology changes, ways of human work and interaction change replace traditional migration. This changes demographic, population and economic growth assumptions.

Businesses will still feel the effects of a COVID-19 induced skills shortage in 2022 and into 2023. Demand for skilled labour, particularly in the ICT and engineering space, will remain high. A reduced supply and high demand in conjunction with the 'Great Resignation' will see businesses forced to re-evaluate their employee value propositions and remuneration rates in order to attract and retain the right people.

## This report was produced by the Australia Geopolitics Hub.

The Australia Geopolitics Hub (AGH) provides thought leadership to track and effectively navigate geopolitical complexity and risk. The AGH draws on specialised capabilities from KPMG in Australia and from member firms across the KPMG global network to provide tailored and practical insights and roadmaps for these volatile geopolitical times.



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