



Ten Global Risks in 2025 for Japanese Companies

Among the events in 2024, the most significant one for the global business of Japanese companies appears to be the U.S. Presidential Election in November. Contrary to the pre-election predictions, former President Donald Trump won a landslide victory, and the Republican Party also secured majorities in both the House and the Senate. The majority of voters viewed the Democrats, who champion democracy, human rights, and international order, as a party of urban elites. Instead, the public supported Trump with a strong leadership to address domestic issues such as inflation and unemployment.

However, it is highly unpredictable what course of actions the President-elect will take. His "America First" policy and skepticism towards multilateral cooperation are expected to continue as guiding principles. Furthermore, unlike his first term, Trump 2.0 is anticipated to operate with significantly reduced checks and balances. Key figures in his administration and Congress are unlikely to restrain or maintain balance through his policies.

Amid heightened risks of global conflicts, how will the circumstances in the U.S. and other areas affect business activities? To consider this question, Industrial Growth Platform, Inc. (IGPI) has outlined 10 major global risks Japanese companies will face in 2025.

1. Inward-looking America and Its Market

The U.S. stock market experienced a rise following Trump's victory in the presidential election, fuelled by expectations of significant deregulation and tax cuts after he takes office. However, for Japanese companies, his economic policies pose numerous risks.

As advocated during his campaign, the U.S. is expected to adopt inward-looking policies starting in 2025, including protectionism, universal tariffs, and immigration restrictions. Japanese companies that have benefited from free trade under the USMCA (United States-Mexico-Canada Agreement) with manufacturing footprints in Mexico, may face profitability challenges due to potential tariffs. In addition, such policies could drive up procurement costs, including labour costs, for operations in the U.S.

A more pressing issue is the erratic nature of these policies, with uncertainties in their implementation, targets, stringency and timelines. Trump's economic measures appear to conflict with one another. For example, tariffs and immigration restrictions may reignite inflation, worsening the lives of his working-class supporters. Efforts to control inflation through interest rate hikes could strengthen the dollar, making domestic manufacturing less competitive. Tax cuts may further deteriorate U.S. fiscal conditions. Consequently, Trump's economic policies will require a delicate balance to manage their side effects. In the absence of such a balance, businesses and markets should prepare for erratic policy changes,

cancellations, and adjustments.

It remains uncertain how Scott Bessent, Treasury Secretary nominee, will address these challenges. In any case, Japanese companies must consider the rise of "country risk" in the U.S. from unpredictable and inconsistent economic policies. While some Japanese firms have recently strengthened their lobbying and intelligence capabilities regarding the U.S. government, they may still face unacceptably high risks associated with trade, investment, and cross-border M&A with the U.S. This could force Japanese companies that are heavily reliant on the U.S. market to re-evaluate their business portfolios.

2. War in Ukraine and the Collapse of International Order

Trump's approach to foreign policy is expected to stem from "America First" and unilateralism. After taking office, he is anticipated to scale back military support for Ukraine and reduce U.S. contributions to NATO.

Trump has pledged to end the war in Ukraine immediately upon assuming office, but it is unclear how he will achieve this. If a demilitarised zone is created in Ukrainian territory, as proposed by Vice President-elect Vance, parts of Ukraine may remain occupied by Russia. Moreover, this ceasefire plan could heighten the risk of Vladimir Putin to rebuild his military capabilities and potentially igniting new crises in neighbouring countries. In Sweden, the government issued copies of pamphlet advising citizens on how to prepare for war. Submarine cables in the Baltic Sea were cut and tensions are already high in the region.

This issue is not a distant concern even if Japanese companies have no presence in Europe. Should the ceasefire tacitly admit the change in Ukrainian territory by Russia's force, it would signal to the international community that the U.S. tolerates the dismantling of the current international order. Such a stance by the U.S. would likely be factored into the calculations of Chinese President Xi Jinping, as he seeks to unify Taiwan and expand influence in the South China Sea. This may further increase tensions in Asia, potentially risking sea lane, semiconductor supply chain or regional security for example.

In response to Trump's victory, President Biden permitted Ukraine to use U.S.-supplied long-range missiles against Russian territory, with U.K. and France followed with similar movements. While this was presumably intended to secure Ukraine's bargaining chip for upcoming ceasefire negotiations, it is uncertain if or how these policies will shift after Trump takes office.

3. European Union or Disunion?

Can Europe and NATO ensure their own security without the U.S.?

Trump's re-election, characterised by unilateralism and transactionalism, has deepened the perception among European countries that they can no longer rely on the U.S. for security. This realisation has fostered momentum for European unity, as evidenced by the October defence agreement between Germany and the U.K.

As the U.S. is expected to decline its contributions to NATO, deterrence against Russia requires the close cooperation among European countries. However, Europe does not appear quite monolithic in its

stance on threats and challenges. There remains the significant risk of failed cooperation or fragmentation. It is notable that Russia is increasing its influence towards certain Eastern Europe nations. Not to mention Hungary's strong opposition to supports for Ukraine and sanctions against Russia, Slovakia elected a pro-Russian President Pellegrini in April 2024. In Romania's November presidential election, the authority has identified the influence operations by Russia (all three nations here are members of EU and NATO). Also, the European Parliament found "significant irregularities" in Georgian parliamentary elections, where the authoritarian pro-Russian ruling party won, resulting in mass protests over the suspension of EU's accession by the Georgian government.

Political instability is also evident in Western Europe. Germany's coalition government dissolved due to the political obstacles to approve its fiscal policy to balance support for Ukraine with social welfare spendings. French Prime Minister Michel Barnier resigned his post over austerity policy to reduce fiscal deficit. The instability of these two central EU nations raises questions on who will take leadership in uniting Europe to continue support to Ukraine.

Responses to China further highlights division among EU member states. France and Italy supported additional tariffs on Chinese EVs in October, while Germany, with its automotive supply chain heavily reliant on China, adopted a cautious stance.

The unity of Europe rests on fragile ground partly due to the dependence on China and Russia in terms of resources and economy. Without robust cohesion, the risks posed by the Ukraine crisis could become even more pronounced.

Additionally, the EU's regulatory leadership on climate issues might be at risk of waning. Long-lasting high energy prices influenced by relations with Russia, internal economic struggles, and weakening unity could cast a shadow over its political drive to pursue ambitious agendas.

4. Spread of Instability in Middle East

The political tension in Middle East continues to escalate with increasing complexity. The conflict between Israel and Iran, and its proxies such as Hezbollah (known as Axis of Resistance), has intensified. Israel's invasion of Gaza to dismantle Hamas has caused significant casualties and displacement. In parallel, Israel conducted airstrikes and incursions into Lebanon to weaken Hezbollah, resulting in direct clashes between Israel and Iran.

In Syria in December 2024, anti-government forces led by Hay'at Tahrir al-Sham (HTS), seized control of major cities, including its capital Damascus, toppling over five decades of Assad dynasty. This shift was enabled by the weakened support of Iranian-backed forces and Russia.

Looking ahead to 2025, several risks could emerge. For Iran, the collapse of Assad's regime could disrupt supply lines of weapons and ammunition for Hezbollah, further weakening its frontline against Israel. Should President Trump support Israeli Prime Minister Netanyahu's hardline policies, Israel might intensify its offensive against Gaza and escalate tensions with Iran. Additionally, if Trump reinstates "maximum pressure" against Iran as seen in his first term, economic stagnation may drive Iran to accelerate its nuclear development.

The fall of Assad's regime also impacts Russia. Russia had obtained a lease on military bases in Syria (Tartus naval base and Khmeimim air base) in return for its support to Assad. Losing these bases could undermine Russia's ability to shadow NATO and Southern Europe and to maintain influence in the Middle East and Africa. The implications for the war in Ukraine are less certain. Some view Russia's inability to sustain military engagement across multiple fronts may enable Ukraine to lever its position in ceasefire negotiations. Others argue that Putin may offset losses in Syria by adopting a more aggressive posture.

Trump mentioned that the conflict in Syria was "not our fight". Without stable governance in a post-Assad Syria, prolonged factional struggles could ensue a potential to fuel the resurgence of Islamist extremist groups and further destabilise the Middle East. Israel, anticipating such risks, has increased military movements in Golan Heights buffer zone and conducted airstrikes on Syrian chemical weapons facilities to prevent their misuse by rebel forces.

For Japanese companies, Middle Eastern instability often manifests as volatility in energy prices and disruptions to maritime transport. However, in 2025, the broader scope of instability must also be taken into account.

5. Apparent Backlash of Green Economy

The World Meteorological Organisation (WMO) estimates that 2024 will record the highest global average temperature in history. Catastrophic natural disasters, such as those in Cuba, Spain, and the U.K., have underscored the urgency of climate change.

However, Trump has long dismissed climate change as a "hoax" and may withdraw the U.S. from the Paris Agreement once again after taking office. He is likely to heavily revise the Inflation Reduction Act (IRA) which promotes green initiatives, and ease restrictions on fossil fuel extraction and exports. These developments could dampen growth in sectors such as EVs, renewable energy, and hydrogen while depressing global oil prices and impacting oil-producing economies.

Nonetheless, it would be misguided to interpret these shifts as a deceleration of decarbonisation activities. It is pointed out that investments tied to the IRA are concentrated in Republican-led states, and even U.S. oil companies are advocating government support for carbon capture and storage (CCS) projects. These dynamics, coupled with Trump's inconsistency in policy setting, suggest that a whole backlash of green industries could be unlikely and parts of green business promoting U.S. manufacturing industries and employment might still be encouraged.

In addition, from 2025 onwards, international rule making or standard setting on decarbonisation is expected to proceed without the participation of the U.S. government. During Trump's first term, when the U.S. exited the Paris Agreement, private-sector initiatives like the Task Force on Climate-related Financial Disclosures (TCFD) gained traction and now represent international standards for climate-related disclosure. At COP29 in November 2024, we saw significant progress made on international coordination for carbon credit trading under Article 6 of the Paris Agreement. Further works on detailed rules are expected to accelerate.

Japanese companies will benefit from close watch on the fields where standards and regulations are

being developed, and the areas attracting global investments to align their businesses accordingly.

6. China's Stagnation and Its Appeal to the Global South

China's economy continues to suffer from the real estate crisis. Falling property prices have dampened consumer spending, while investment growth remains sluggish. In 2024, China will have narrowly achieved its GDP growth target of approximately 5%, largely through export. However, the growth of export appears unsustainable. While China's weak domestic demand has not been able to absorb its overcapacity and has sought external markets, tariffs on Chinese EVs in the major markets such as U.S. and Europe raise questions on China's future in exports. Social unrest is also becoming apparent due to widening wealth gaps and rising unemployment in younger generations. Incidents of "revenge against society" attacks (indiscriminate acts of violence) are increasing domestically.

Trump administration is expected to maintain export control on advanced semiconductor to China and raise tariffs on any Chinese goods. These trade policies are likely to further strain China's macroeconomic conditions.

With U.S.-China relations deteriorating, Beijing is actively strengthening ties with other countries, particularly the Global South. Its diplomatic engagement with ASEAN and Africa, along with efforts to expand BRICS and the Shanghai Cooperation Organisation (SCO) alongside Russia, reflects its strategy to create an economic and financial bloc countering the West. Notably Turkey, one of the NATO members, has sought BRICS membership. Following Trump's re-election, China could promote narratives portraying the U.S. as a disruptor of international order and a failure of Western democracy. By doing so, it seeks to amplify disillusionment with the West while garnering support for its bloc. While the Global South countries often prioritise economic advantages and maintain a cautious stance towards committing to any major power bloc, increasing Chinese and Russian influence may destabilise supply chains for Japanese companies, particularly those relying on critical minerals.

It should be noted that worsening U.S.-China relations are pushing China to improve ties with Japan. We could expect some progress in resolving issues on import bans of Japanese seafood related to ALPS-treated water, as well as cooperation in trade, investment and green development. However, navigating the complex dynamics between Japan, the U.S., and China will require careful evaluation of risks and opportunities in supply chain interdependencies.

7. Korean Peninsula Affected by the Conflict in Europe

In 2024, closer military ties between Russia and North Korea drew global attention. In June, they signed the comprehensive strategic partnership treaty committing mutual assistance in the event of aggression against either party. North Korea reportedly provided Russia with weapons and ammunition, and even sent approximately 10,000 troops to support the Ukraine conflict. In return, Russia is believed to have provided North Korea with technical assistance.

This alliance elevates Korean Peninsula issues to a significant global risk. North Korea recently amended its constitution to define South Korea as a "hostile state". Amid the growing tensions in the

peninsula, it should be noted that in the event of conflict, Russia's intervention might be plausible. Furthermore, strengthened ties with Russia could allow North Korea to reduce its dependence on China, enabling greater freedom to conduct nuclear tests.

From 2025 onwards, Trump administration may pressure South Korea to increase its defence expenditure or reduce the U.S. troop presence in Korean Peninsula, which could lead to weaken South Korea's deterrence against North Korea. This in turn has fuelled domestic debates on nuclear armament, especially among South Korea's political left.

It can be observed that the war in Ukraine is destabilising East Asia via North Korea. In addition, South Korean President Yoon Suk Yeol was impeached in December 2024 due to his attempt to impose martial law. Given his emphasis on U.S.-Japan-South Korea alliances, the erosion of his administration will further destabilise East Asia.

For Japanese companies, European conflicts are not distant concerns; they pose a threat to the stability that supports business operations in Asia.

8. Political Instability in Japan

The year 2024 is sometimes referred to as "The Year of Elections". Japan also held its House of Representatives election in October. The ruling coalition of the Liberal Democratic Party (LDP) and Komeito lost their majority, marking their worst defeat since relinquishing power to the Democratic Party in 2009. While Japan has not witnessed the rise of far right or populist parties rejecting multilateralism, as seen in other countries, dissatisfaction with the current political and economic landscape (exacerbated by issues including campaign finance scandals and inflation) has shaken public trust in the existing ruling parties.

Local elections in 2024 highlighted another shift: some candidates who had not been considered as front runners by traditional mass media gained significant support through social media, implying a decline in public confidence in mainstream media. In general, such trends in loss of trust in political and mass media, could foster populism, a phenomenon now visible in Japan which is worth paying attention to.

A weakened ruling coalition can likely destabilise domestic policy management. However, from a global risk perspective, the greater concern lies in Japan's diminished international diplomatic presence, which could lead to adverse international political and economic developments. Since the second Abe administration, Japan has been instrumental in strengthening the QUAD and promoting a rules-based order in the Indo-Pacific region. Yet, with the U.S. predicted to turn away from multilateral cooperation in 2025, South Korea's political instability under President Yoon, and China and Russia seeking stronger ties to the Global South, will Japan's government be able to handle the internal affairs to demonstrate strong leadership in the Indo-Pacific region? If regional order deteriorates, Japanese companies face risks such as destabilised supply chains for critical minerals and resources, as well as increased country risks in trade and overseas investments.

Furthermore, the U.S. may pressure Japan to expand its defence spending, a challenge the current

administration might struggle to navigate effectively. Should Ishiba administration be unsuccessful in finding the narrow paths to make consensus with both the U.S. and Japanese National Diet, this could exacerbate tensions in East Asia, particularly over Taiwan.

9. Africa and Major Powers' Influence

As China and Russia deepen their ties with the Global South, Africa emerges as a strategic hotspot within this story. At the 2024 Beijing Summit of the Forum on China-Africa Cooperation (FOCAC), China pledged 360 billion yuan (approximately USD 51 billion) of financial support. China also emphasised the benefits of free trade and criticised unilateral protectionism, aiming to foster goodwill towards China while sowing distrust towards the West.

Russia, meanwhile, uses propaganda in countries such as the Central African Republic, Burkina Faso, and Mali to promote pro-Russian and anti-Western narratives. It also strengthens dependencies of some of the politically fragile countries on Russia by providing military aid. The aim of Russia's actions appears to be securing natural resources and diplomatic support.

Conversely, Western countries also recognise Africa's strategic importance. The EU and Japan are working to build relationships with nations including the Democratic Republic of Congo, Namibia, and Zambia as key sources of critical minerals. European enterprises are developing green hydrogen projects in countries such as Mauritania and Namibia.

While many African nations are cautious not to align too closely with any one bloc, growing dependence on China and Russia and disillusionment with the West could cause risk to supply chains for strategic materials.

Finally, the civil war in Sudan requires special mention. The ongoing conflict between the Sudanese Armed Forces (SAF) and the Rapid Support Forces (RSF) since April 2023 has displaced over 10 million people and caused severe famine. Foreign actors such as Russia, Iran, and the United Arab Emirates, with stakes in Sudan's gold, Red Sea trade routes, or Islamist factions, continue to provide military support to both sides, resulting in prolonging the conflict. Despite being described as the world's worst humanitarian crisis, the situation has received far less attention than the conflicts in Ukraine or the Middle East. The prolonged violence increases risks of refugee surges and the infiltration of extremist groups.

10. AI Supremacy and Its Supply Chain

In 2024, we observed the further spread of generative AI and intensified competition among Big Tech firms in AI development and investment. While AI comes with transformative opportunities and risks, its geopolitical implications for Japanese companies are worth close attention as well.

There are very few nations which can independently develop the supply chains for AI in terms of both software and hardware. On the software side, in the near future, only the U.S. and China appear to have the resources to develop foundation models like GPT, which require cutting-edge talent, engineers and massive investments. On the hardware side, countries must have advanced semiconductor manufacturing capabilities and access to abundant electricity and water resources to maintain data

centre operations. For instance, the U.S. power generation company has announced that it will restart Pennsylvania's Three Mile Island nuclear power plant, dedicating its output to Microsoft.

As a result, Japanese companies integrating AI into their core capabilities such as transportation, energy, robotics, and healthcare will inevitably rely on overseas foundation models. This dependency poses risks, including potential constraints on output reliability and competitiveness by foreign firms owning these models. Using foreign cloud infrastructure for AI models could also expose learning and usage data to foreign regulatory access. Companies may also need to tailor their model choices to the legal and geopolitical contexts of their target markets, adding complexity to their operations. For instance, given U.S.-China derisking trends, it is unlikely Japanese firms would utilise the Chinese foundation models.

While there are some advocates for developing domestic foundation models to reduce dependence on foreign entities, this could be a challenge or an unrealistic goal. A more feasible approach might involve fostering shared foundation models among allied nations and extending such collaborations to ASEAN and Indo-Pacific countries with shared values. However, the transactional nature of Trump's administration may leave the risks associated with U.S. dependence unresolved for this topic.

Conclusion: Navigating Uncertainty through Risk Identification and Scenario Planning

Trump's sweeping victory in the U.S. elections and his approach to policymaking - executed without transparency or objective criticism - are expected to inject unpredictability into global political and economic dynamics in 2025. Even meticulously planned cross-border M&As could face abrupt disruptions due to political factors. However, identifying areas of uncertainty, exploring possible scenarios, and formulating risk mitigation strategies remain achievable.

In 2025, the gap in risk resilience and competitiveness will become evident between companies that have bolstered their intelligence and risk management functions, and those that have not.

IGPI hopes that this document serves as a reference for risk analysis, strategy planning, and execution amidst the uncertain environment of 2025.

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