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Ten Global Risks for Japanese Companies in 2026 and Implications for Management

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In 2025, the world witnessed the transition to a Trump administration in the United States, accompanied by rapid and far-reaching political, economic, and social shifts. The list of striking individual developments is virtually endless. Decoupling driven by US-China rivalry has become entrenched, fragmenting supply chains and engineering chains for advanced technologies and critical materials, constraining the strategic flexibility of multinational enterprises and eroding predictability. Europe faces structural headwinds amid the protracted war in Ukraine and its recalibrating relationship with the United States. The international political presence of the Global South continues to grow by the day. Meanwhile, the rapid diffusion of AI is reshaping the foundations of productivity on the economic front, even as it forces a reconsideration of regulation, accountability, and governance in the social sphere.

Yet these developments should not be understood as isolated or episodic phenomena. Rather, they appear to be the structural risks during a transitional period in which the very lens through which the world is views is being reorganised. They reflect a confluence of international politics, economics, technology, and institutional change. For corporate management, the critical task lies in calmly assessing the interactions among these forces, clarifying the likelihood and impact of these global risks, defining ex-ante and ex-post responses, and integrating them coherently into business strategy.

This paper overviews ten major risks that Japanese companies are likely to confront in 2026 and discusses the managerial perspectives required to understand and address them in structural terms.

Ten Global Risks for Japanese Companies in 2026

1. Protracted US-China Rivalry and Decoupling
2. Japan-China Relations and the Military Miscalculation Risk around the Taiwan Strait
3. AI-Driven Disinformation in the US Midterm Elections
4. Persistent Non-Performing Assets in China's Property Sector and Recession Risks
5. Stalemate in the Russia-Ukraine War and Deepening European Fatigue
6. Escalation of the Israel-Iran Confrontation
7. Measuring the Value-Added Productivity of AI
8. Drift and Fragmentation in Climate Actions
9. The Rising Presence of Emerging Powers
10. Intensifying Regulation against Big Tech

1. Protracted US-China Rivalry and Decoupling

US-China rivalry is no longer a transient source of tension; it is becoming embedded as a structural and secular risk to the global economy. The advent of the post-globalisation era is overturning long-standing assumptions about international division of labour premised on efficiency, while deepening the formation of economic blocs anchored in national security. Critical and foundational technologies — such as AI, quantum computing, and advanced semiconductors — are now viewed as the core of national competitiveness, prompting both Washington D.C. and Beijing to deploy a full arsenal of export controls, investment screening, and industrial subsidies to secure technological advantage. In practice, many global corporations are already building self-contained value chains both within and outside China. Yet the existing interdependence — across both hardware and software — remains substantial, and maintaining these parallel structures entails significant costs.

As a result, global companies face new cost and risk factors defined by regulations that actively induce decoupling. Manufacturing and R&D footprints, data flows, and even financial transactions must be aligned with regulatory regimes on both sides, in some cases forcing a fundamental redesign of business models.

Supply chains are increasingly bifurcating into a “US bloc” and a “China bloc,” intensifying pressure on so-called middle countries — often in the Global South — to choose sides. Governments are compelled to strike difficult diplomatic balances between economic interests and security imperatives, rendering the international order ever more fluid. At the same time, multilateral institutions such as the World Trade Organization, which once played a stabilising role in shaping and sustaining free trade, are losing rule-making capacity. In their place, competing regulatory initiatives led by individual economic blocs are proliferating. Capital flows, too, are polarising, with the reassertion of dollar hegemony alongside the gradual emergence of a digital-renminbi adding further complexity.

In this environment, companies can no longer rely on a simplistic binary choice of alignment. Instead, they face an unavoidable challenge of simultaneous compliance and strategic selection: determining what benefits can be derived from each side and what relationships must be cultivated to secure them.

2. Japan-China Relations and the Military Miscalculation Risk around the Taiwan Strait

The most acute source of uncertainty in Asia’s security environment lies in rising tensions across the Taiwan Strait. Chinese military air and maritime activity around Okinawa and Yonaguni Island has increased both in scale and sophistication, normalising so-called “grey zone” situations that blur the boundary between peace and conflict. This heightens the risk of accidental clashes, where breakdowns in on-the-ground communication could allow a single incident to cascade into a broader crisis. Japan-China relations deteriorated sharply following Prime Minister Takaichi’s Diet testimony in November 2025 concerning a Taiwan contingency and a situation threatening Japan’s survival.

Under these conditions, Japan faces the difficult task of redefining the US-Japan security framework. The development of counter-strike capabilities, the reorientation of defence posture toward the southwestern islands, base realignment, and integrated operational planning all point toward a more proactive deterrence posture that goes beyond the traditional framework of exclusively defensive defence and US force support. Public support for enhanced defence capabilities is growing, and heightened vigilance toward China may facilitate political decision making. Yet these moves also risk amplifying China's threat perceptions, making their execution amid escalating tensions ever more delicate.

Economically, Japanese firms must reduce dependence on China in areas such as rare earths, electronic components, contract manufacturing, and inbound tourism, while absorbing the costs of supply chain reconfiguration. Although supply chain fragmentation would also harm China's economy — encouraging a degree of restraint in escalation — complete disengagement is neither realistic nor feasible. Managing this inescapable interdependence amid heightened bilateral tensions will continue to inject significant uncertainty into corporate activity.

3. AI-Driven Disinformation in the US Midterm Elections

The 2026 US midterm elections are likely to mark a critical inflection point in what might be called "AI information warfare," testing the resilience of democratic systems. Advances in generative AI have automated propaganda activities that once required substantial human and financial resources, enabling the mass production and dissemination of disinformation at minimal cost. Highly realistic synthetic audio and video, along with continuously generated, micro-targeted false narratives, have begun to erode the infrastructure of electoral communication.

In the United States, where regulations governing political advertising, transparency obligations, and social media usage vary widely by state, a unified federal response remains difficult. This patchwork regulatory landscape risks creating loopholes readily exploited by malicious actors. As trust in traditional media continues to erode, voters face increasing cognitive burdens in discerning truth from falsehood, and the public deliberative space at the heart of democracy is showing signs of institutional fatigue.

Foreign actors — including China, Russia, and Iran — are further refining AI-enabled techniques to amplify social cleavages within the United States. Polarisation obscures detection of foreign interference and magnifies the impact of information manipulation. Domestically, legislative and judicial progress on AI regulation remains slow, leaving platform companies caught between strengthening self-regulation and safeguarding freedom of expression. Any erosion of trust in electoral legitimacy would reverberate through policy implementation and international leadership. The 2026 midterms thus risk exposing deep structural vulnerabilities of democracy in the AI era, casting a long shadow over the stability of US politics.

4. Persistent Non-Performing Assets in China's Property Sector and Recession Risks

China's economy has yet to escape the aftershocks of its property-sector crisis. A central concern is the cascading debt risks centred on local government financing vehicles (LGFVs). As land-sale revenues collapse and local fiscal foundations weaken, many local governments have accumulated debt to sustain infrastructure investment and employment. With the contraction of the property market and the deterioration of collateral values, LGFVs' repayment capacity is increasingly in question. The spillover into the financial sector risks triggering a classic credit-deflation dynamic, embedding downward pressure on growth.

Beijing has so far refrained from offering a clear local-government bailout scenario, seeking to curb moral hazard rooted in expectations of central rescue. The resulting policy uncertainty has further reinforced caution among economic actors. Stagnant property prices — critical given the dominance of real estate in household asset portfolios — are suppressing consumption. While service consumption is relative resilient, demand for durable goods is softening. Combined with excess production capacity, this raises the risk of deepening deflationary pressures.

Rising youth unemployment constitutes another structural risk. Restructuring of the education sector, and subdued private sector investments have constrained job creation. Moreover, demand for while-collar labour has proven insufficient to absorb the large inflow of new graduates. As a result, social frustration is becoming more pronounced. The government faces a difficult dilemma between maintaining social stability and sustaining growth. While industrial policy is shifting from a manufacturing powerhouse toward technological hegemony — focusing resources on semiconductors, EVs, and AI — heightened external restrictions leave the growth trajectory of these sectors uncertain. Overall, China risks slipping into a prolonged low-growth trap, exerting persistent downward pressure on the global economy.

5. Stalemate in the Russia-Ukraine War and Deepening European Fatigue

Europe's structural vulnerability lies in the prolonged stalemate of the Russia-Ukraine war, which continues to impose chronic fatigue. The absence of decisive shifts on the battlefield is widening political, economic, and social fault lines within Europe. Divergent national positions on sanctions — shaped by energy dependencies, domestic economic conditions, and geography — have prevented the EU from acting as a fully unified bloc. Populist parties espousing anti-immigration and anti-elite platforms are exploiting these divisions, politicising refugee inflows and public security concerns.

At the same time, European countries are compelled to rearm. At NATO's June 2025 summit, member states agreed to raise defence spending targets to 5% of GDP — a heavy burden for fiscally constrained states that risks crowding out social security and education spending. While defence industry consolidation within Europe may accelerate, dependence on the United States remains high, and strategic autonomy will take time to achieve. Rising deficits and electoral pressures will continue to test governments' capacity to balance national security with public tolerance for fiscal strain.

Energy system transformation further undermines long-term competitiveness. Efforts to sever reliance on Russian gas have kept LNG prices elevated, even as Russian gas re-enters via indirect routes. High energy costs threaten the viability of core industries such as heavy manufacturing, chemicals, and automotive production, raising the risk of offshoring. Delays in renewable energy infrastructure have entrenched structurally high prices, fuelling inflationary pressures and locking in competitive erosion.

The stalemate of the war thus remains a long-term risk, draining Europe's military, fiscal, social, and industrial resilience.

6. Escalation of the Israel-Iran Confrontation

The antagonistic relationship between Israel and Iran is likely to remain a central source of instability in the Middle East in 2026. In June 2025, amid ongoing US-Iran nuclear negotiations, Israel carried out strikes on Iranian nuclear-related facilities. Although the ensuing "twelve-day war" ended in a ceasefire, escalation risks remain elevated.

Despite sustaining significant damage, Iran is believed to retain both the will and capacity to pursue nuclear development, while Israel continues military pressure. Although questions have emerged within the United States — even under a Republican administration — regarding the extent of support for Israel, Washington's security commitment towards Israel remains substantial. Even as Iranian proxy forces such as Hezbollah and the Houthis have weakened, the risk of direct Israeli action against Iran and subsequent escalation persists.

Such confrontation would destabilise energy markets. Any materialisation of Iran's threat to disrupt the Strait of Hormuz would immediately dislocate global oil supply and trigger sharp price spikes.

Gulf states face delicate diplomatic balancing acts. Saudi Arabia and the UAE maintain security ties with the United States while deepening economic engagement with China; intensified Israel-Iran conflict would strain these multipolar strategies. For Japan, with its heavy dependence on Middle Eastern energy, even limited escalation would have outsized consequences.

7. Measuring the Value-Added Productivity of AI

The year 2026 may mark a transition from inflated expectations to measurable economic returns from generative AI adoption. Governments are beginning to quantify AI investment's contribution to GDP growth, potentially treating AI capital as a standard variable in macroeconomic analysis. Productivity gains are most evident in finance and professional services, where improvements in output quality and decision-making speed may be reflected in performance metrics. However, while AI can boost value-added in the short term, its effects on employment and income distribution are likely to materialise with a lag.

White-collar automation will become more pronounced, extending beyond routine clerical tasks to encompass research, analysis, and document drafting. Firms will be forced to restructure employment, even as new roles emerge where human-AI complementarity is high. The effectiveness of labour reallocation will shape future growth differentials and alter the competitive landscape among countries.

At the same time, AI's black-box nature creates legal grey zones: liability for erroneous decisions, the legality of AI-driven labour management, and algorithmic discrimination all demand clarification. Absent a balanced evolution of regulation and innovation, firms may curb AI deployment to mitigate compliance risks, leaving productivity potential unrealised.

Debate will thus intensify over productivity metrics in the AI era, beyond traditional total factor productivity. New factors — such as the accumulation of AI capital, its complementarity with human capital, data quality, and regulatory coherence — will become decisive drivers of economic growth. As their value becomes increasingly measurable, disparities in industrial competitiveness among countries are likely to come into sharper relief.

8. Drift and Fragmentation in Climate Actions

Triggered in part by the Trump administration's scepticism toward climate action, climate policy has entered a phase characterised by simultaneous acceleration and drift. Competition over renewable energy subsidies may expand clean technology adoption, yet also fuel friction through the misuse of industrial policy. Security-driven domestic manufacturing incentives distort international division of labour and deepen market fragmentation. Retaliatory subsidy dynamics among the US, Europe, and China risk undermining coherent decarbonisation efforts.

Carbon border adjustment mechanisms (CBAMs) pursued by the EU and the United Kingdom have drawn criticism over extraterritorial discrimination and excessive reporting burdens, prompting some countries to explore their own versions. Without international alignment on emissions coefficients, coverage, and transition periods, such measures risk devolving into thinly veiled protectionism.

More troubling is the climate finance gap in developing countries. While adaptation and mitigation needs continue to grow, financial support from advanced economies and private capital remains limited. Frequent climate disasters and fiscal constraints hinder resilience building, entrenching inequality and geopolitical vulnerability in emerging economies.

Although national climate targets are politically ambitious, implementation capacity often lags. Bottlenecks in renewable deployment, grid expansion, and local consent fuel policy fatigue and widen the gap between goals and reality. Decarbonisation without coherent international execution risks eroding competitiveness and employment, even as inconsistent policy accelerates climate deterioration itself.

9. The Rising Presence of Emerging Powers

India, Indonesia, and Mexico are rapidly gaining prominence as the next growth poles of the global economy. As US-China decoupling advances, these countries have become key beneficiaries of "China plus one" strategies, fostering manufacturing clusters. India seeks expansion in semiconductors and smartphone assembly; Indonesia is building an integrated EV battery ecosystem anchored in nickel resources; Mexico's geopolitical position and the USMCA are accelerating nearshoring and deepening integration with North American supply chains.

Expanding domestic markets provide a second growth pillar. Rising middle classes, urbanisation, and digital payment infrastructure support consumption-led growth models, enhancing resilience against external shocks. Nonetheless, policy predictability and transparency remain concerns, and regulatory change risk continues to shape investment decisions.

Geopolitically, these emerging powers are establishing themselves as non-aligned middle states, maintaining security and investment ties with the United States while preserving trade and infrastructure cooperation with China. As great-power rivalry intensifies, their bargaining power will rise, potentially shaping regional orders. Their ascent symbolises the multipolarisation of the global economy and will significantly influence post-globalisation supply chain configurations.

10. Intensifying Regulation against Big Tech

Technology industries now exert unprecedented influence over national policy, placing Big Tech at the centre of regulatory pressure. In semiconductors, the United States is integrating export controls, outbound investment restrictions, and subsidies into a comprehensive industrial security strategy. As AI training and inference drive explosive demand for compute, advanced chips have become strategic assets for both states and firms.

Meanwhile, data centre expansion strains power grids, renewable energy plans, land, and water resources. Hyperscalers increasingly shape national energy strategies, acting as quasi-state actors. Political sensitivity around power shortages or grid delays may prompt tighter regulation and taxation of data centre investment.

Antitrust scrutiny is also intensifying. In the US, advertising dominance and app-store practices are contested, while the EU's Digital Markets Act strengthens conduct regulation and penalties for gatekeepers. M&A is becoming a less reliable growth strategy, forcing firms to rethink innovation acquisition.

Competition among platforms in cloud services, AI models, and operating systems is entering a new phase. Battles over compute, data, and user bases will intensify, and regulatory design will critically influence the speed and direction of innovation. Big Tech regulation thus represents a structural risk at the intersection of energy, industrial, and security policy, with profound implications for the global technological trajectory.

Conclusion

A review of the risks confronting corporates in 2026 reveals striking similarities to the ten major risks which IGPI identified for 2025. This continuity suggests that decoupling, the erosion of multilateralism, challenges to the status quo by force, rising energy costs, the ascent of the Global South, and technology-driven disruption are not transient shocks but medium-term structural risks inherent in an ongoing reordering of global order. With this perspective, proactive risk management is not beyond reach.

Key managerial lenses include:

- Viewing geopolitical risk not as an external backdrop, but as a determinant of supply chains, technology, and financial strategy;
- Moving beyond binary alignment with the US or China, dynamically optimising business portfolios and footprints under persistent market fragmentation;
- Identifying competitive advantage arising from advanced technologies and the regulatory reconfiguration accompanying them; and
- Treating supply chain redundancy and diversification not as costs, but as sources of resilience-based competitiveness.

What is required is not merely reactive crisis management or preventive measures, but a fundamental redesign of management and business portfolios premised on structural uncertainty. For integrating these risks proactively into strategy — rather than managing them passively as exogenous threats — this paper aims to serve as a reference point for corporate leaders navigating an increasingly complex global landscape.

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