



# The World in 2022



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## The World in 2022

“The farther backward you can look, the farther forward you can see,” Winston Churchill once quipped. Predicating expectations of the future on an understanding of history is as important today as it was in his day. It forms the backbone of our World in 2022 analysis.

But even Churchill wasn’t wise enough to foresee the COVID-19 pandemic and the unprecedented economic problems it would create. He couldn’t have known that measures meant to save lives would lead, perhaps unavoidably, to a contraction of available labor, a raft of business failures and shortages in normally available products, and that these in turn would result in pressures on societies throughout the globe, like distrust in government and disruption of normal social processes.

With that in mind, the following document is intended to be a forecast not of great powers but of the things that will shape the world in 2022. The economic fallout of the pandemic is just one of

them. Others include the United States, the EU, Russia and China. No other powers have the combination of global weight, economic heft and military might to bend the world to their interests, and so to varying degrees they influence competition in and among all nations throughout the world. The geopolitics of sub-Saharan Africa or Central America, for example, must be seen in this context. (Note: Unlike a pandemic, nation-states have imperatives and constraints, which we will include below, and can thus be forecast.)

A calendar year is an arbitrary time frame — and a very short one as far as human history goes. Nations don’t rise or fall on 365-day schedules any more than viruses understand the concept of heliocentrism. Knowing when a geopolitical trend that has been underway for as long as a generation will bear fruit is difficult. Presuming to is facile. But sense of time is possible, and direction knowable, even if the date of arrival assumes a certainty we have no right to claim.

## COVID-19 and Its Discontents

In looking at the economic effects of the endless COVID-19 pandemic, it seemed to us that from the beginning, the socio-economic system was hovering between a recession — primarily a financial event, originating in financial imbalances, solved through economic processes by the market and the state, and leaving the physical system of production and consumption intact — and a depression — which involves the physical destruction of key elements of the economic system. The Great Depression in the United States, for example, destroyed businesses and financiers, generating massive unemployment, decreasing demand and thus destroying more businesses. Economic infrastructure was fundamentally disrupted.

In 2020, things were creeping slowly toward depression. The “disappearance” of a large segment of the workforce, the closure of economic sectors, and the failure of global and national supply chains due to transportation disruptions combined with a range of other problems to systemically hinder economic productivity. Fortunately, these

failures appear neither catastrophic nor irremediable (at least for now).

Even so, there are two key industries that are in danger, and their continued disruption could be dire. The first is agriculture. There is a shortage in the production of natural gas, components of which are vital to the production of fertilizer, without which adequate amounts of food production is impossible. In looking forward to the planting season in 2022, there is the real possibility of a limited availability of fertilizer. That would produce a crisis in food production unless the agricultural system was able to acquire natural gas-based fertilizer or some substitute in enough quantities to supply the public. (Unrelated but poorly timed problems such as droughts in the Southern Cone, Canada and Australia have only made things worse.)

A second danger involves maritime shipping, particularly trans-Pacific shipping. The United States and Europe import massive amounts of pharmaceutical inputs from Asia. Supply chain problems are such that the Unit-



## Stocks and Price Fluctuations in Global Food Trade



### Top import countries

Egypt  
Indonesia  
Turkey  
China  
Nigeria

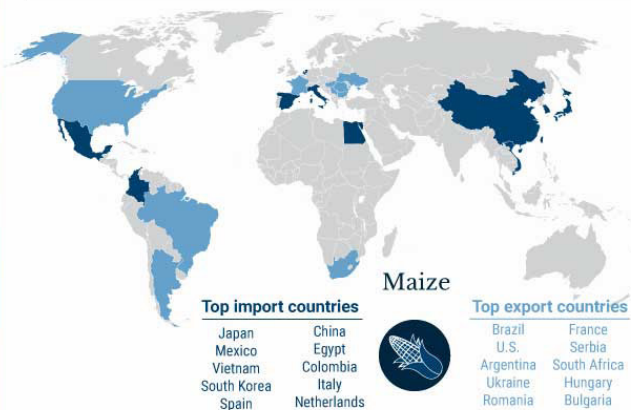
### Wheat



### Top export countries

Russia  
U.S.  
Canada  
France  
Ukraine

Argentina  
Australia  
Poland  
Germany  
Kazakhstan



### Maize

#### Top import countries

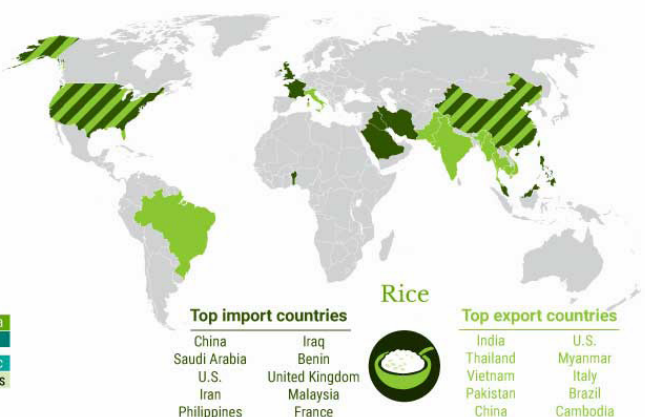
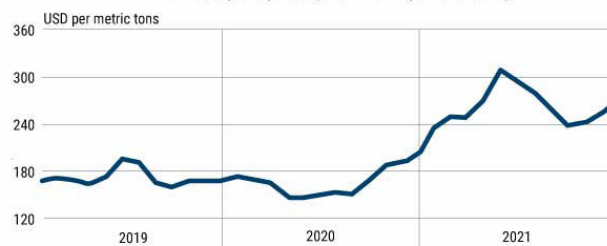
Japan  
Mexico  
Vietnam  
South Korea  
Spain

#### Top export countries

Brazil  
U.S.  
Argentina  
Ukraine  
Romania



### Maize export price (U.S. No. 2 yellow, Gulf)



### Top import countries

China  
Saudi Arabia  
U.S.  
Iran  
Philippines

### Rice



### Top export countries

India  
Thailand  
Vietnam  
Pakistan  
China

U.S.  
Myanmar  
Italy  
Brazil  
Cambodia

Source: Food and Agriculture Organization of the United Nations

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ed States is already short of a range of medicines. It is unlikely that other sources could supplement or complete production of medicines, nor could the United States or other countries create new sources for all the things they would need to produce on their own. As with food, this could be a matter of life and death for much of the world.

Shortages like these frame all other trends in the international system. If the supply chain supporting these products fails, then the behavior of the international system changes in unpredictable and dangerous ways. The social pressures on governments unable to feed or treat their people would be intense, to say the least. If the supply chain holds, things should be relatively normal. Governments and businesses around the world know what's at stake, so we believe they will intervene, however clumsily, before catastrophe catches up to us.

Still, the fact that there is a catastrophe to avert at all is a new phenomenon in recent history. Whether or not it happens, it is still a massive shift in globalism. Nations have operated on the assumption that products imported will generally be available and transportable. COVID-19 and the supply chain crisis have shown that that won't

always be so. Even as the situation improves in the long run, the memory of uncertainty and its cost drives home the fact that dependence on other countries, even those with the best of intentions, is a risk. This will not lead to autarky — self-sufficiency in all economic matters — but to a greater concern about relying on others.

It's an issue that arguably matters more than ever before. A long-standing tenet of economics is that the price of a product rises as its scarcity rises. A more recent explanation for price rises is excess money in the financial system. In the second explanation, which is valid when the productive system is intact, excess money bids up the price of goods. Central banks focus on managing the money supply in order to have a financial system that is sufficiently liquid for investment and sufficiently controlled for stability.

Shortages due to systemic failures in the economy cannot be solved by managing the money supply, no matter what your monetary policy is. There are simply not enough goods to go around. Injecting money into the system, at least in the short run, merely complicates the problem. (The same applies to unemployment.)

Thus is the problem with the global system today. Production and delivery have to a significant degree broken down. Prices are surging, creating massive social differences between those who have money and those who don't. There is economic interest in rectifying supply, but the physical ability to do so is limited by shortages and structural issues. Over time, the problem will be solved. The political unrest wrought by economic disparity is harder to fix. The normal processes used to manage the economy and society — budgeting, central bank policies, etc. — are largely useless in this regard, even if they claim (or are claimed) to have ultimate authority.

Social unrest — at least the unrest brought on by people not being able to buy things — has generally been contained by limiting movement and excess consumption. (Think travel restrictions and restaurant occupancy rules, for example.) But as restriction fatigue sets in, tensions will rise, partly from pent-up energy and partly from anger at a world that no longer looks or functions as it used to.

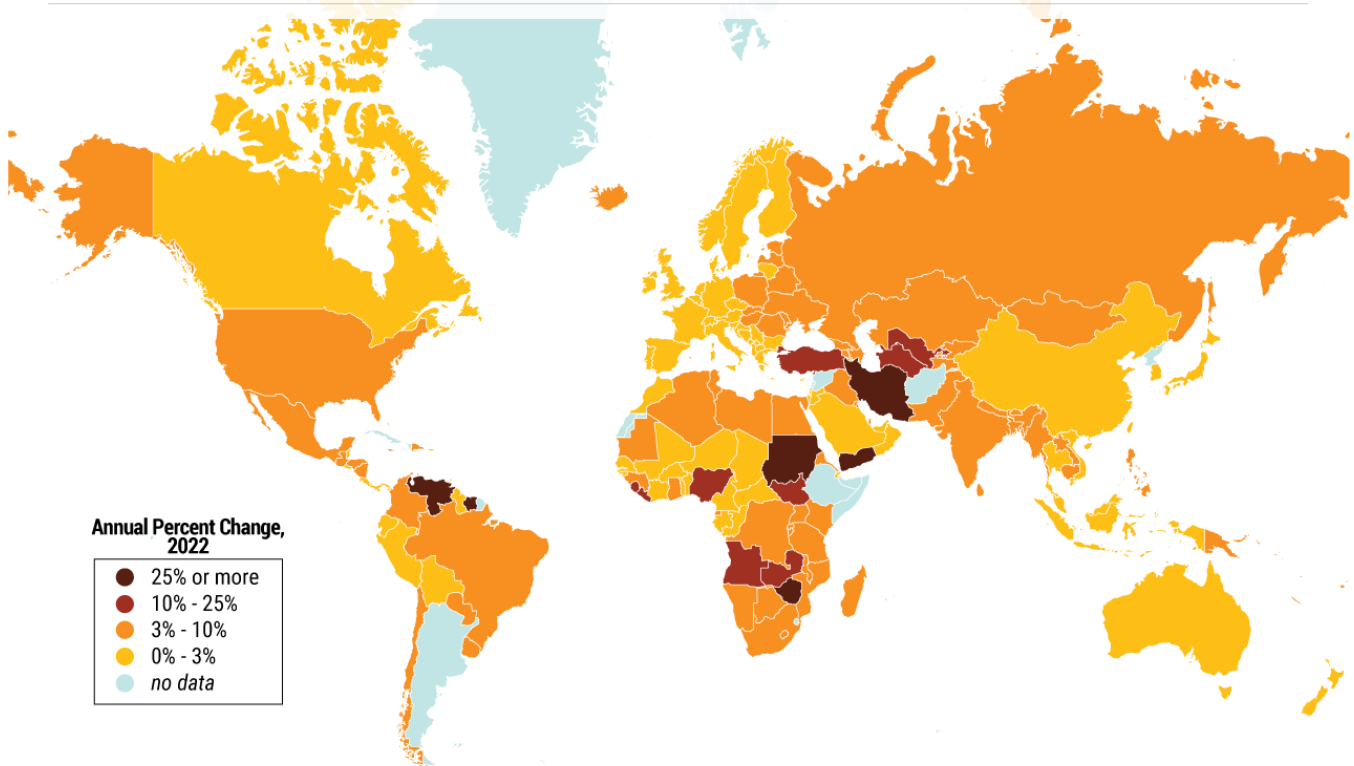
For an uncertain amount of time, the culture of abundance will be gone, and with it the foundations of most modern, industrialized cultures. It will not be illness or death caused by COVID-19 that

creates social and political bitterness but the unavailability of once plentiful goods and the loss of economic promise that that denotes. Fairly or not, governments will be blamed, and governments will be charged with making things right. Quick, efficient solutions will be difficult if not impossible to come by.

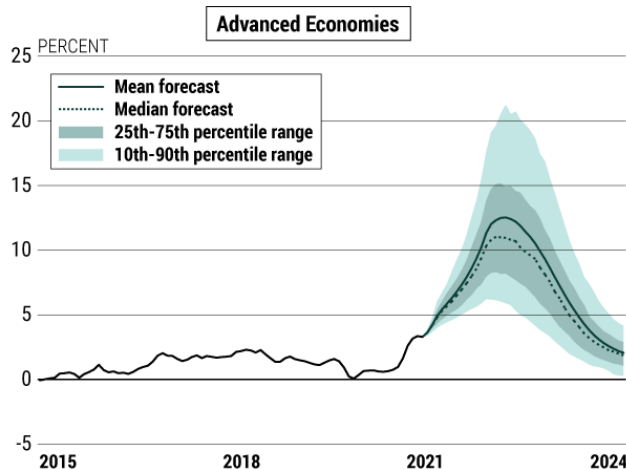
Economic recovery will be particularly difficult in developing economies. Many of these countries didn't have much workforce that could do its job remotely. Access to vaccines continues to be a challenge. Poverty increased, as did the percentage of workers in the informal sector. Many governments here lack the fiscal capacity and institutional strength to throw money at their problems or spur economic recovery. The pandemic set some of these economies back by years, even decades, while debt has become so acute that it harkens back to the debt crisis of the 1990s. Financial problems, currency values and food inflation will have a major impact on these locations.

Shortages and rising prices are already visible, and it seems as though they will persist or even worsen. Nations everywhere are acting as if this is a recession by increasing spending and printing money. But it seems as though

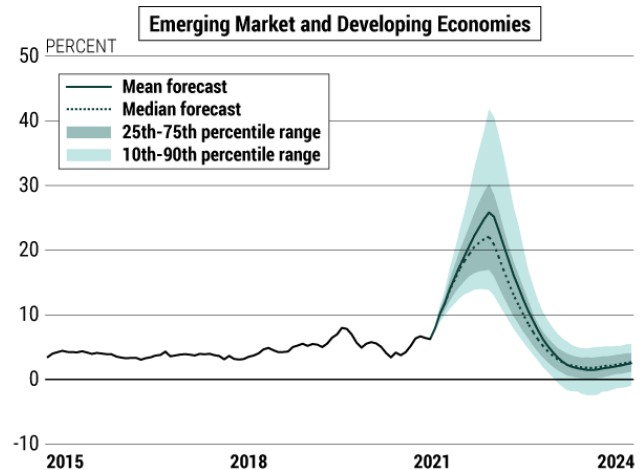
Inflation Rate | *Average Consumer Prices*



HEADLINE INFLATION WITH ADVERSE SECTORAL AND COMMODITY PRICE SHOCKS AND ADAPTIVE EXPECTATIONS SHOCK



Source: IMF

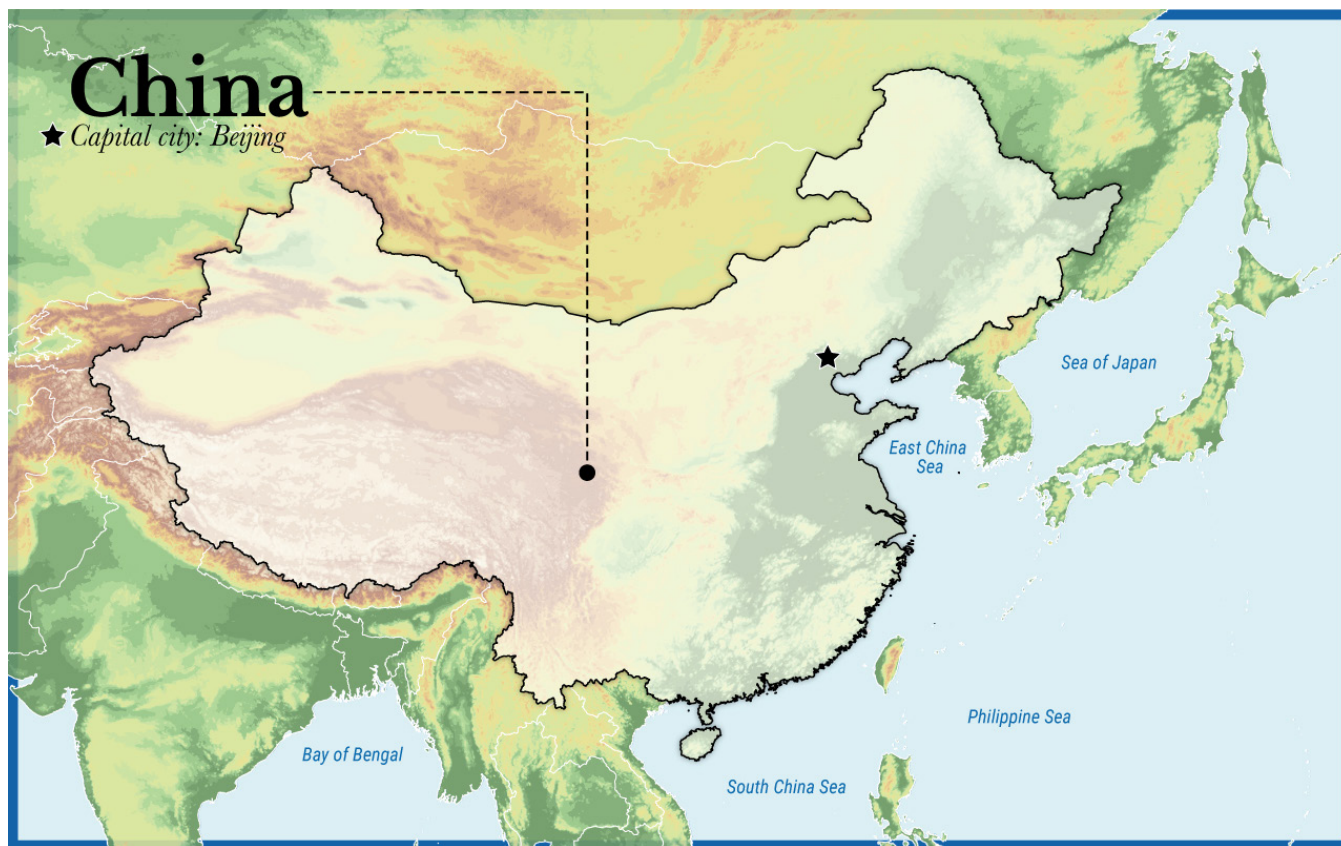


Graphic redesign by Geopolitical Futures

these measures may increase prices more than the law of supply and demand dictates. The economic system is destabilized, and the political system

is doing what it knows how to do. Of course publics are restive. How long they'll remain that way is the only unknown.





## Imperatives

1. China must maintain territorial integrity in the face of external, ethnic and foreign challenges.
2. China must have unlimited access to global markets.
3. China must maintain its export-based economy.
4. China must deal with the cyclical crisis of its internal economy.

## Constraints

1. China has deep social and economic divisions.
2. China's ability to increase exports is limited by its move up the value chain.
3. China cannot engage U.S. forces without excessive risk of failure.

## Analysis

Contemporary China emerged from the rubble of Maoism. Mao was primarily concerned with maintaining the power of the Communist Party after a long, brutal civil war and then a war against Japan. He crushed the bourgeoisie and isolated China to protect it. The price for doing so was poverty and repression. His successor, Deng Xiaoping, understood that the problem was no longer the power of the party but the impoverishment of the country. Under his stewardship, China shifted toward a less centralized economy, finding opportunities to sell goods outside its borders. The new regime built an economy based on exports.

China became a transformative force in the global economy. In more recent years, however, growth has been hampered somewhat by its move up the value chain and by an irrational reliance on debt. It was hampered by a social dimension too. Massive inequality emerged between its poorer central regions and its wealthy coastal ones — a problem compounded by the vagaries of the real estate market on which much of the financial sector is based.

Importantly, all this was apparent before the pandemic. To be sure, the

fallout from COVID-19 lowered demand and hamstrung transportation and shipments — extremely bad things for an export-oriented economy. (Even by Beijing's own ordinarily optimistic numbers, the economy contracted in terms of trade and manufacturing.) But the bottom line is that China's economic problems started well before the pandemic took hold.

Beijing will therefore spend the next year as it will spend much of the next decade: recalibrating its economic and financial systems without ushering in social unrest that could threaten the ruling party. Thus, the biggest danger to China will be internal divergences. The country is home to a variety of ethnic groups, some hostile to Chinese domination, with extreme variance of income and standards of living.

The economy must grow, but it must grow more equitably. President Xi Jinping, then, is caught between the competing imperatives of growth and equality. It's the same tightrope Chinese leaders have walked for centuries. More noteworthy is that China's rapid economic development has brought Beijing face to face with a threat it has rarely encountered: naval warfare. China is an exporting nation, so it needs access to the seas. Chinese industry

## Per Capita Disposable Income by Administrative Division - 2019



is clustered disproportionately in and around the ports of its eastern sea-board. If the ports are closed for any reason, the factories focused on export will be unable to ship their wares, and the Chinese economy will stagger or collapse.

Geography works against China in this regard. From the Aleutian Islands to Japan, from Taiwan to the Philippines, Indonesia, Vietnam, Singapore and Australia, China's access to the

world's oceans can be blocked by the relatively narrow passages between islands. Most of these countries are at least distrustful of China if not outright hostile. China has no significant long-term allies; it is effectively isolated as a nation. It cannot afford for any navy to block the maritime chokepoints on which its entire economy depends.

For China, an attack to open these passages by seizing the islands around them carries a high risk of failure,



## China's Maritime Chokepoints





vulnerable as it would be to enemy missiles and aircraft. Thus, China has feigned interest in war but has refused to initiate it, thereby intimidating countries that are facing it by choice and not geography, particularly the United States and Australia.

The prospect of war, such as it was, has died down in recent months, but the military reality for China remains. Beijing cannot ignore the risk that its ports could be closed or its passage

to sea-lanes blocked, however unlikely either scenario may be. War can be a good way for a country to escape an economic crisis, but Beijing can't afford to add to the social and economic tension its people are already undergoing this year. Nor can it assume the risk of losing a war with the U.S. over, say, the South China Sea, especially when winning the war would fail to fundamentally alter China's geographic dilemmas.

So in 2022, China's international en-

China's Gross Domestic Product By Region, 2020



gagement will recede as its economic and financial crises grow. That's not to say it will be a hermit; it just means that Beijing's prime imperative is to prevent

serious economic and financial problems from turning into something much worse for its people.

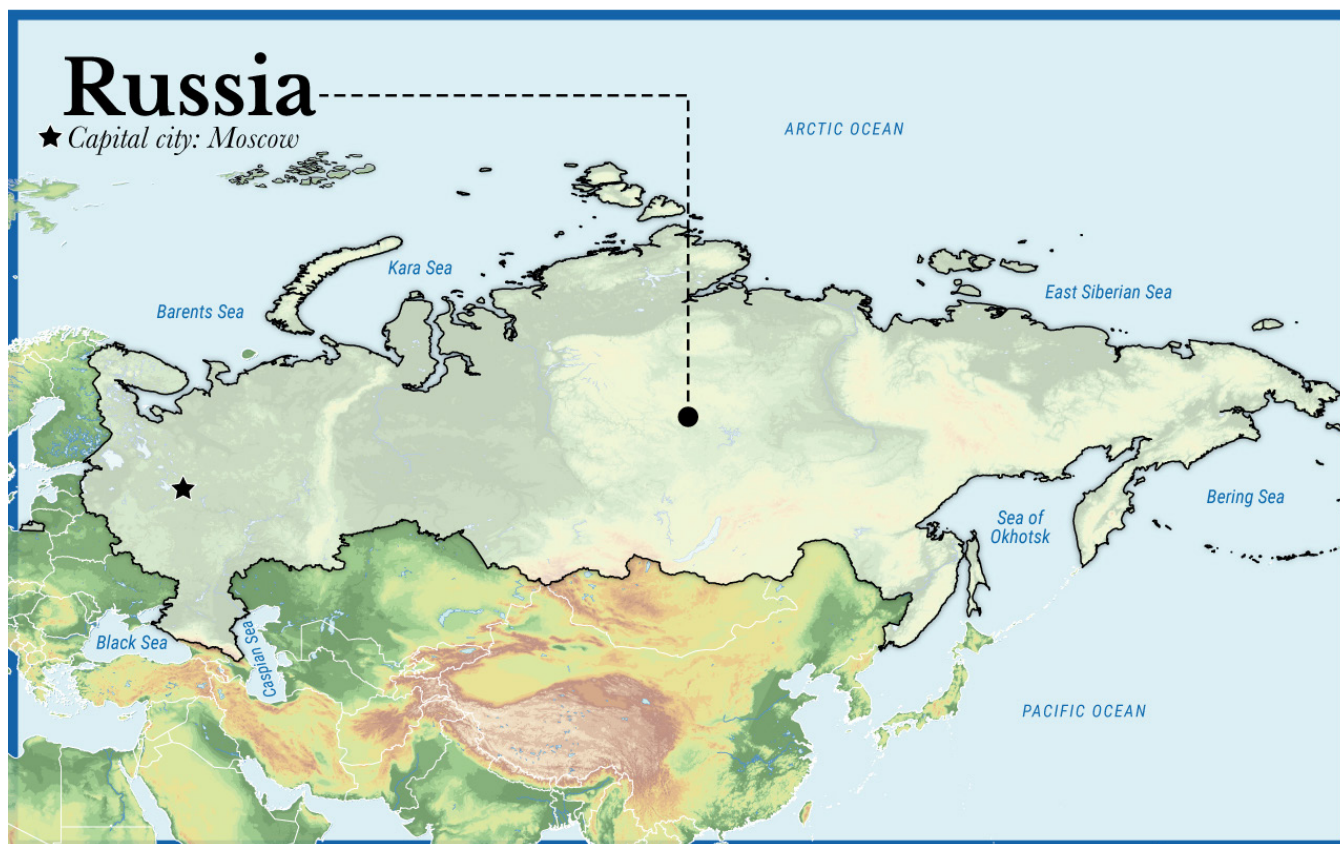
## Forecast

**There will not be a U.S.-China war.**

**2022 will be among the first years of a likely decade-long period of economic dysfunction for China.**

**Beijing will use extensive repression tactics to contain social and economic fragmentation.**

**China will avoid intense involvement in international affairs. Where it does engage, it will do so economically rather than militarily.**



## Imperatives

1. Regain control of, or at least neutralize, the buffer states.
2. Improve relations with Europe to help develop the economy.
3. Undermine NATO by dividing the EU.

## Constraints

1. Russia's sheer size and geographic composition strain economic development.
2. Russia can offer military assistance but minimal economic assistance to buffer states it needs to influence.
3. Historically unpredictable relations with China require diversions of assets to its Far East.



## Analysis

Nearly every political entity seated in what we now call Russia has been plagued with the same problem: It was so vast that it could not be efficiently or prosperously governed. This fundamental weakness was compounded by the fact that it was always vulnerable to invasion from its west, so it had to dominate its borderlands and thus establish buffer zones to put even more distance between its heartland and its enemies in Europe. In a way, the Soviet Union achieved the dreams of the czars of old by securing Moscow through an array of satellite states.

The collapse of the Soviet Union stripped Russia of its buffer zones. States of the southern Caucasus (Azerbaijan, Georgia and Armenia) broke away, as did all of Central Asia and the Baltics. The most important regions it lost were Ukraine and Belarus, which lie along the North European Plain, the avenue by which Russia had been attacked for centuries.

Worse, the new Russian state was incapable of either improving the economy or, in improving the economy, avoiding traditional pitfalls of wealth inequality. Whereas Russia had once been poor but secure, it was now poor and weak.

### Russia's Buffer Zones



Moscow thus had two imperatives. The first was, absent formal integration, to regain influence in its buffer zones, especially those that border Europe. The second was to create an economy that generated strength and, more important, created a system of buffer regions interested in joining rather than being relegated to security blankets. In other words, Russia doesn't want restive buffers.

Russia spent much of 2021 pursuing the first imperative, most notably in Belarus and Ukraine and in the southern Caucasus. The second imperative, though, is arguably more essential. Russia's weakness as a great power has been the restiveness of its buffers. Russia needs an economy that is able to sustain its buffers without alienating them or crippling the mainland Russian economy. Russia has never successfully done this, not during the imperial era, not in the Soviet era and not in the current era.

But if it has any chance to do so, Russia must have access to markets, expertise, partnerships and capital. The place that fills all these needs is Europe. Which means Russia, in an economic sense, must be part of the European system. It has taken a step with energy, but the sale of hydrocarbons (and other

raw materials) will not make Russia secure. It has to be able to operate at the leading level of economies, something that requires a strong relationship with Europe generally and with Germany in particular. In 2022, this dynamic will hover over the resolution of borderland disputes in Ukraine and elsewhere.

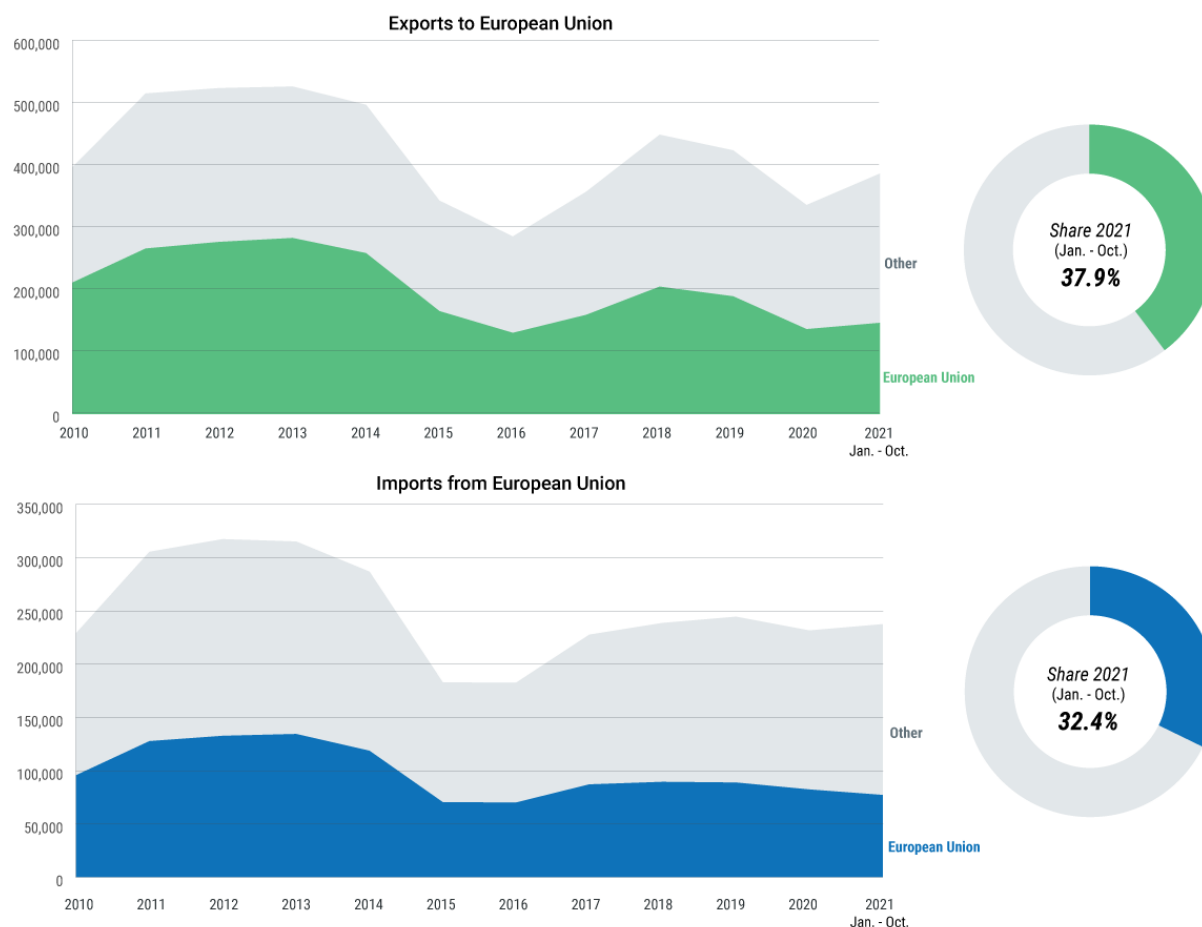
To be sure, achieving all that Russia hopes to achieve — improving commercial ties with Europe, creating buffer states that are happy to be buffer states and so on — will almost certainly generate tension at home. For one thing, capital is controlled largely by the state and by the oligarchs, neither of whom will be eager to integrate their wealth into European models. For another, if the supply chain crisis wrought by the pandemic persists, it will be impossible for Russia to obtain the necessary technologies quickly enough to make much of a difference this year. Last, there is a long, rich history of culture that will simply make it difficult for Russia to "Europeanize" its economy.

Therefore, Russia is likely to achieve through threats and diplomacy an effective approximation of its strategic needs. Moscow's ability to align this solution with an economic solution is far less likely because the solution requires the destruction or transforma-

tion of the current financial system, a cultural transformation and the easing of COVID-19. Russia will likely retain at

least political control of its buffers, but it will likely lack the economic means for a new relationship with the buffers.

## Russia - European Union Trade



Source: Federal Customs Service

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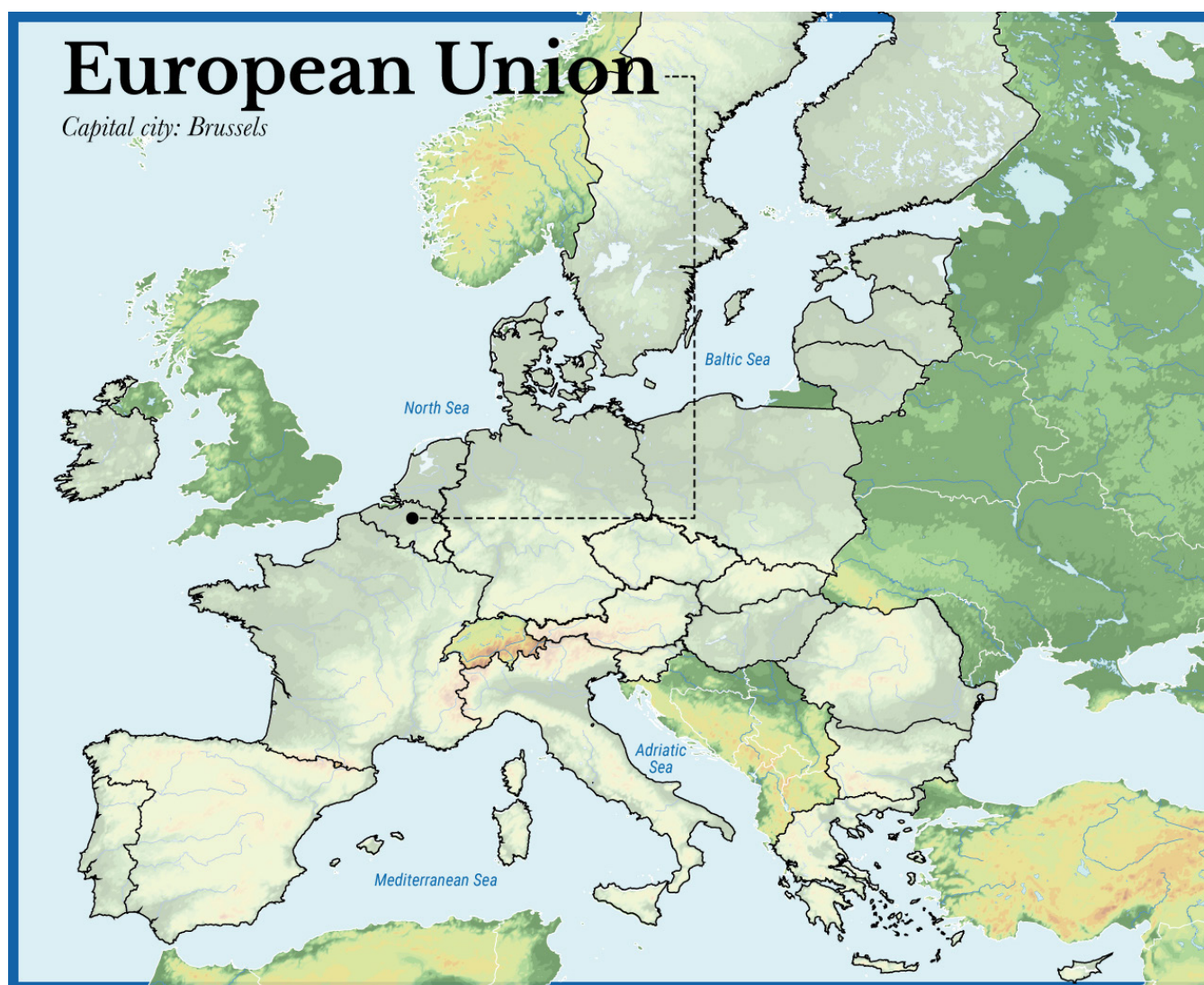
## Forecast

**Russia will continue to conduct covert and non-military operations to take control and maintain control of its buffers.**

**These operations will rankle the United States and Europe.**

**Russia will not be able to dramatically modernize its economy because of competing imperatives.**





## Imperatives

1. Maintain enough equilibrium to avoid internal conflict and war.
2. Create an economic system with no major losers.
3. Avoid involvement in the broader geopolitical system.

## Constraints

1. EU member states have their own imperatives.
2. No economic policy can avoid hardship to some.
3. The EU has no central authority for rapid decision-making.

## Analysis

The paradox of Europe is that it created the modern global system but, in doing so, set the stage for wars that would eventually undermine its position in that system. The end of World War II marked the end of the European era, the Continent's most powerful states relegated to subsidiaries in the newly arrived American competition against the Soviet Union.

It was during this time that Europe began to integrate, not through imperial conquest but through cooperative treaties, the purpose of which was to make sure the Continent would never tear itself apart again as it had in both world wars. The means to that was a framework that imposed prosperity for all and dispensed with the jealousies and distrust of the past. The idea was that if there was a lasting peace, Europe could capitalize on its expertise and disciplined labor to generate enough wealth and goodwill that there would be no need for war.

But it was always going to be difficult, if not impossible, for Europe to ignore the multitude of different nationalities, cultures, languages and ethnic groups that constitute its members, and the fact that many of those groups, fairly or not,

had built up decades if not centuries of resentment toward others.

The European Union was created on the basis of national equality, but over time Germany — a central belligerent in both world wars — emerged as its most powerful member. Germany's rise was always noted with unease by countries like Poland and France, but they could stomach their misgivings so long as it was Europe's economic engine rather than the de facto leader of the EU. But a series of events — the 2008 global financial crisis, the migration crisis and the COVID-19 pandemic — showed Germany's outsized influence over institutions such as the European Central Bank. Members grew concerned over what they saw as the imposition of German cultural and political norms on their values and German economic solutions to non-German economic problems. Germany's needs tended to be the ECB's policy, and as these events increasingly affected the EU, the tension within the EU expanded.

This led inexorably to Brexit. Of course, Britain has always stood apart from the Continent, generally involving itself in the latter's affairs as it wished, and indeed London's withdrawal was driven by questions of culture, sovereignty and distrust of Europe. EU negotiations

## Divisions in the EU

### GROUP ONE

Countries with vetoes, negotiating with U.K. separately on specific issues

#### IRELAND

Ireland does not want a hard border with Northern Ireland

#### SPAIN

Spain has a long-standing territorial claim to Gibraltar and is trying to negotiate a deal for joint management

#### CYPRUS

Cyprus is negotiating the status of sovereign U.K. military bases directly with the British government

### GROUP TWO

Countries that have publicly contradicted EU position on Brexit

#### DENMARK

Danish officials have said Chequers is a good starting point for EU-U.K. negotiations, contradicting main EU position

#### POLAND

Polish officials have criticized Ireland being allowed to have a veto on any Brexit agreement reached between Brussels and the U.K.

#### HUNGARY

Hungarian officials have criticized Brexit as "Brussels' failure" and have expressed desire for tight security relations with U.K. post Brexit

#### ITALY

Italian officials have accused the EU of trying to "swindle" the U.K.

#### GREECE

Greek government paper says a hard Brexit would be catastrophic for the Greek economy and must be avoided

### GROUP THREE

Countries that support Brussels' position on Brexit



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were designed to make withdrawal as difficult as possible. The result was the departure of Europe's second largest economy, and its most powerful military, without much effort on the part of Brussels to keep it close.

Brexit may not have created European tensions based on cultural mores and memories, but it's easily the starkest reminder of Europe's inherent divisions and one of many catalysts that is bringing those tensions back to the fore.

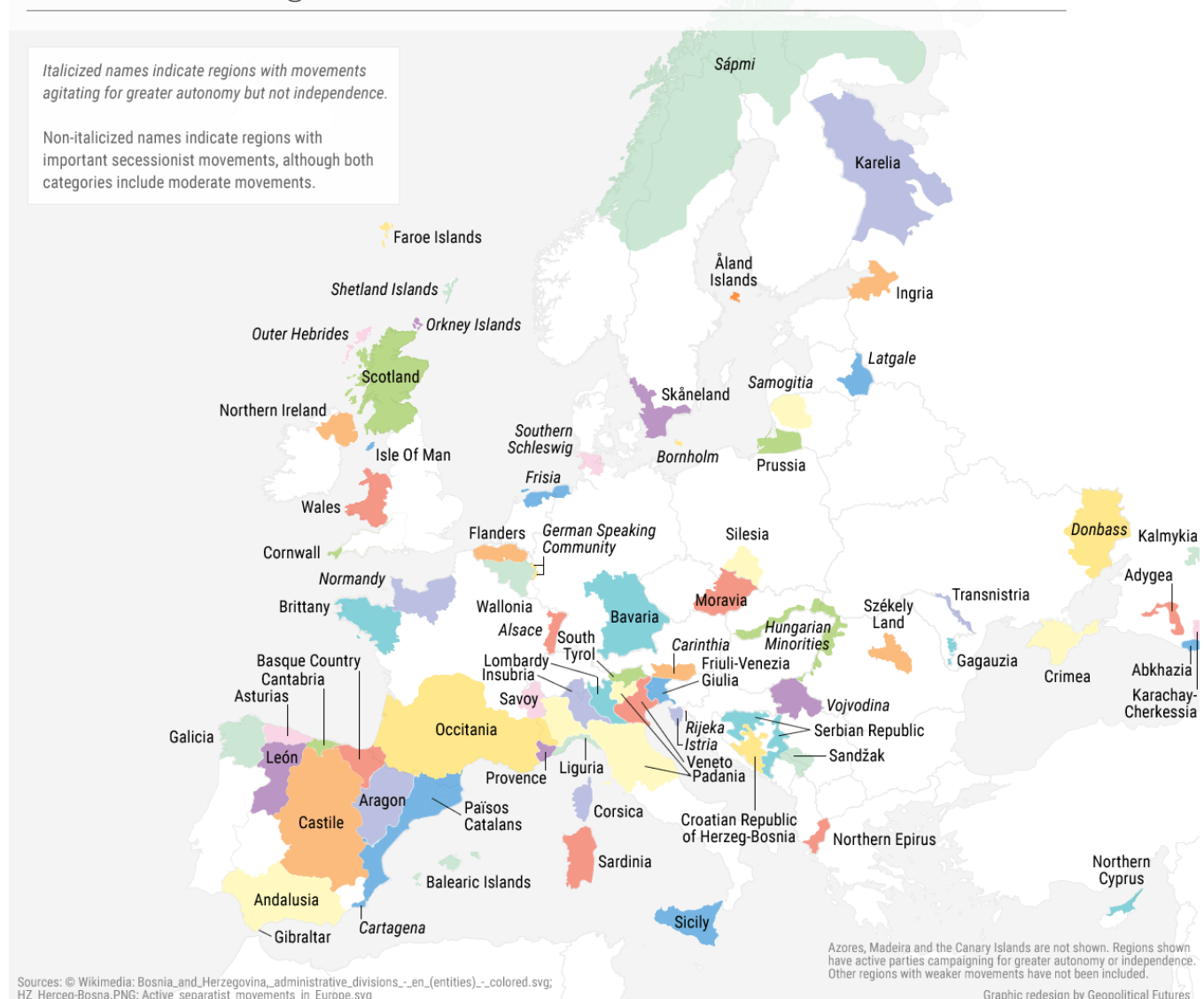
As is the pandemic. COVID-19 has left Europe with particularly severe financial and supply chain problems. Debtor countries in southern Europe desperately need a cheaper euro. Northern countries want to maintain a strong euro — but not stronger than needed for (German) exports to be profitable. France is trying to supplant Germany as the most dominant power in the union. Energy shortages abound. Members differ on their attitudes toward Russia.

The bottom line is interests die very

slow deaths, especially in multicultural places with a long memory. That doesn't mean another world war is in the offing; it just means that issues like the pandemic affect countries differently and require different solutions. There is no single European position.

This applies to NATO too. European military capabilities are on the whole unable to challenge Russia, and aside from Poland and a few other peripheral countries, there is no appetite. And even if there were, the EU is not equipped to deal with military conflict any more than it is equipped to manage the supply chain crisis.

## Areas with Strong Nationalist Tendencies



A profound geopolitical shift is taking place in which the discussion of European interests is turning into a discussion of national interests. The one certainty about these issues is that citizens will demand that their own nations put them first, and that their governments will comply. If the supply

chain problem intensifies, the tensions we already see forming could tear the union apart. But it is also obvious that northern Europe needs a military to replace the U.S. So while the EU will shatter, a limited European military alliance will emerge and develop over the long term.





## Forecast

**Inherent economic divisions will be aggravated by supply chain issues. Europe with Germany at its center will change into a Europe with no clear center.**

**Some form of a European military force linked to NATO will be the glue holding Europe together to the extent it retains unity.**

**France will emerge as a main force trying to build unity, and Britain will return to its old role of drawing Europe apart. The traditional geopolitics of Europe will re-emerge, putting the post-Cold War world behind it.**



## Imperatives

1. The U.S. must maintain control of the world's oceans.
2. The U.S. must limit the economic and social impact of the COVID-19 pandemic.
3. The U.S. must never allow a hegemonic power to form in Eurasia.
4. The U.S. must secure access to the Gulf of Mexico.

## Constraints

1. The U.S. cannot risk warfare with major powers in Eurasia.
2. There are factors aggravating the supply chain crisis that Washington cannot control.
3. As the leading global power, the U.S. faces many demands competing for its resources and attention. It cannot meet these demands on all fronts.

## Analysis

The United States is the only global power in the Western Hemisphere. It has a range of economic, military and intelligence options to ensure that its neighbors don't threaten its interests — which they rarely do. The United States is secure from land wars since the only countries it has land borders with, Mexico and Canada, are neither interested nor able to wage war against it.

Having secured the Atlantic and Pacific in World War II, America's fundamental interest, then, is to protect the oceans from challengers to its power. Both world wars and the Cold War were built around this strategic interest.

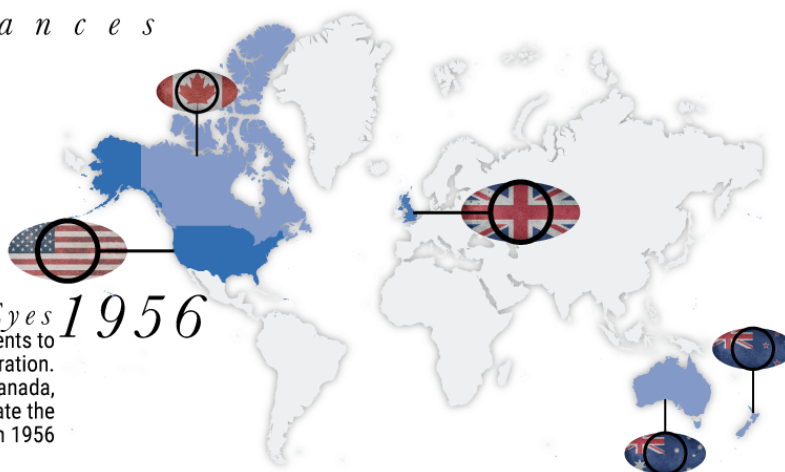
Contemporary U.S. strategy can be understood in this context. Washington is less concerned about the internal affairs of Europe than in making sure Russia can't dominate the peninsula. (Which it can't.) Likewise, it's less concerned with Western Hemispheric affairs themselves than it is with the freedom of navigation its hegemony there provides.

So if Washington's primary imperatives are achieved with its land borders and the Atlantic Ocean, that just leaves the Pacific. Its overriding imperative in 2022, therefore, is to maintain control of the Pacific such that China cannot challenge it. This puts the U.S. directly at odds with China's fundamental interests of securing access to the world

## Members of Five Eyes

*a l l i a n c e s*  
**1941**  
*The Atlantic Charter*  
The U.K. and U.S. sign the Lend-Lease Act, which provides the **U.K.** with the necessary materiel to block a German invasion and gives the **U.S.** access to all British naval bases in the Western Atlantic, and the Atlantic Charter, which reflects their shared vision for the post-WWII world

*The Five Eyes* **1956**  
The **U.S.** and **U.K.** sign a series of agreements to enhance security and intelligence cooperation. The agreements are extended to Canada, Australia and New Zealand to create the Five Eyes alliance in 1956



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oceans to sustain its economy. Beijing cannot tolerate foreign domination of the South China Sea, and the United States cannot cede its presence if doing so allows China to contest the Pacific. This means the U.S. has adopted

a strategy of maintaining relations with a string of nations east of China: Japan, Taiwan, the Philippines, Indonesia, Vietnam and Singapore, all of which can be the kind of chokepoint China fears.



Source: Office of the Director of National Intelligence

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A crucial ally outside of this chain is Australia, which is not part of the South China Sea line but is nonetheless critical to controlling the Pacific. The U.S. alliance with Australia is a long one, and so it is an unsurprising member of a new structure that also includes the U.K. known as AUKUS. Given American strategic interests, this alignment addresses the key issue for the United States, and the U.S. provides each with a wide range of support. U.S. interests in other alliances are waning.

Though the picture abroad may be rosy, the U.S. situation at home is far less so. It entered a period of instability around 2010 that has more or less continued thanks to issues surrounding financial health, race, social distinctions and values, economic failure, and a crisis of confidence in the governing class. All of these were compounded by the pandemic, which has further polarized the populace and hamstrung the economy. For better or worse, these issues will not fundamentally prevent the United States from conducting its foreign policy as usual.



# Forecast

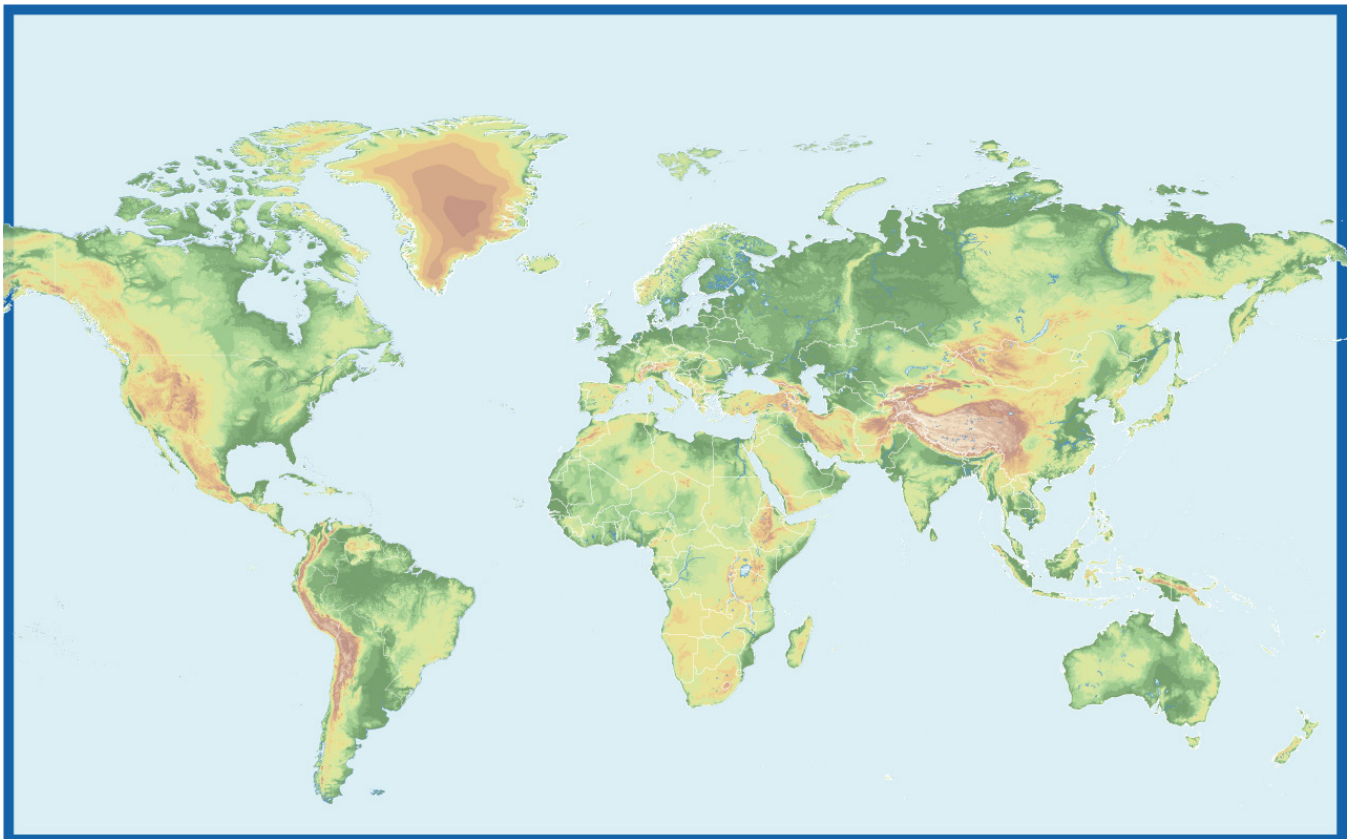
**The United States is entering a period of domestic disorder that will last a decade or so.**

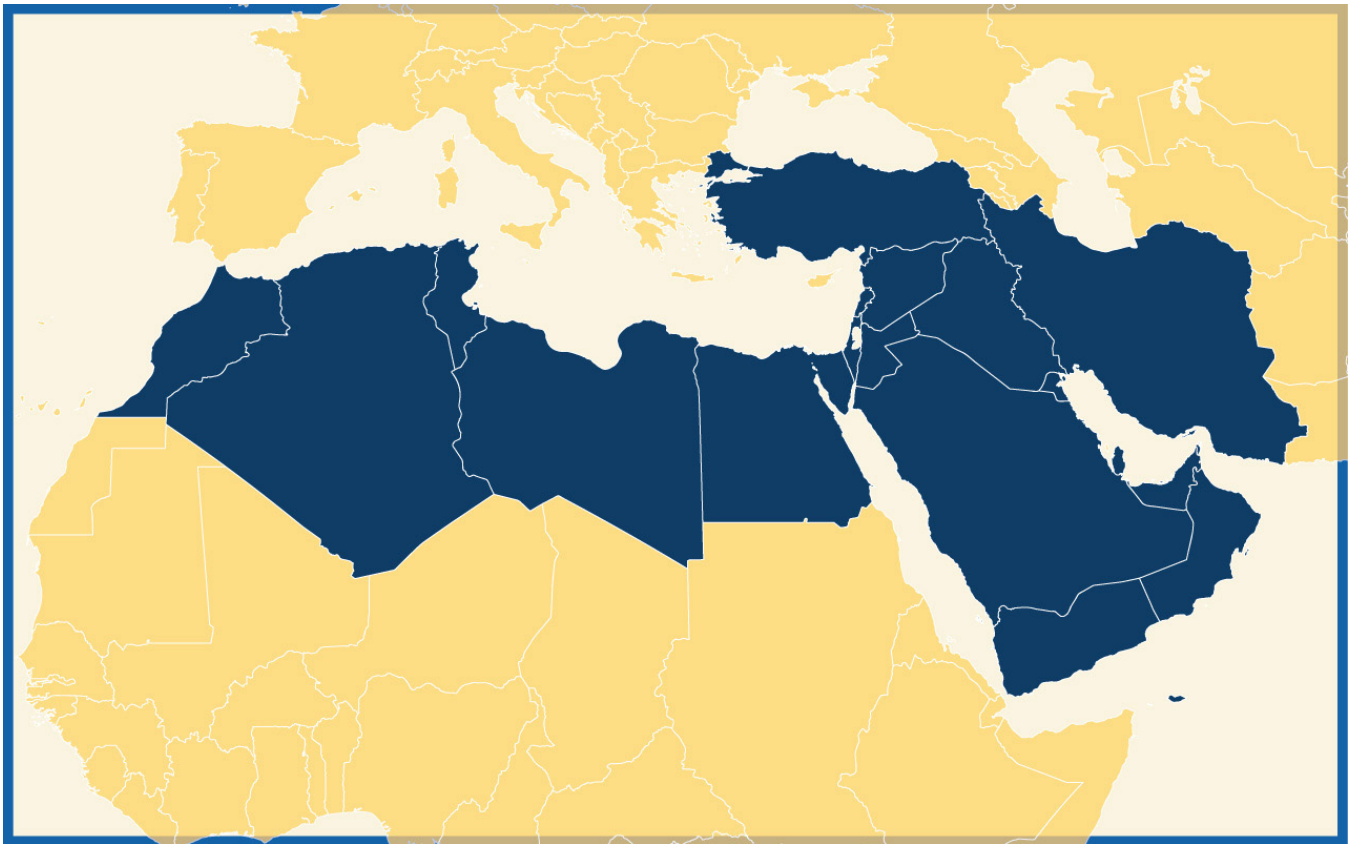
**The crisis will not affect U.S. foreign policy, even if it looks like it will.**

**U.S. interests in the Western Pacific will intensify. China will continue to avoid conflict with the U.S. while signaling threats the U.S. will not respond to.**

**With an eye on Russia, the U.S. will try to rebuild NATO more urgently, regardless of what Europe wants.**

## The Rest of The World





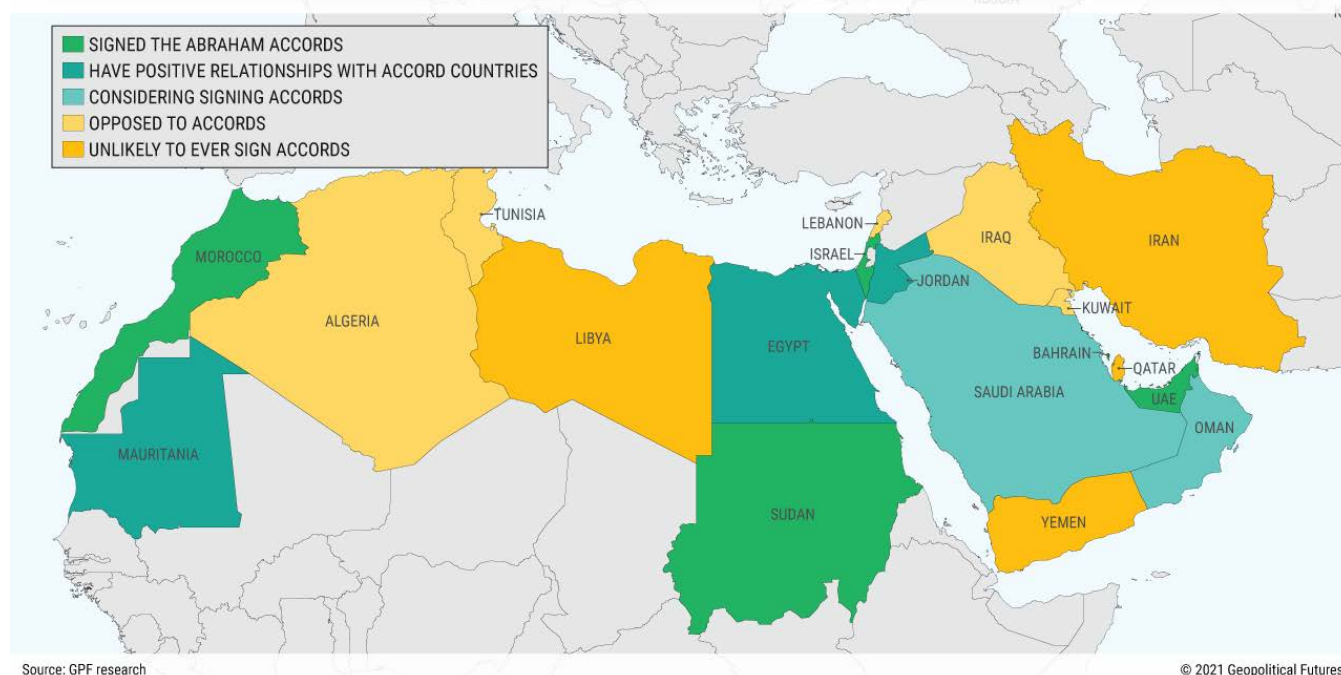
## The Middle East

The Middle East is as turbulent as ever, but its political issues, unresolved though they may be, have lost their global significance in a rapidly changing world. The 2020 Abraham Accord between Israel and the United Arab Emirates, two countries with no record of past war, raised expectations that Saudi Arabia would soon make peace with Israel. King Salman demurred but allowed Bahrain, a country dependent on Saudi largesse and protection, to sign its own accord with Israel. Even though Saudi Arabia's approach to

economic and social development has become aggressive thanks to the dynamism of Crown Prince Mohammed bin Salman, the kingdom's foreign policy is still cautious and conservative.

Riyadh realized that peace with Israel would have no tangible impact on restraining Iran's regional ambitions and curtailing its military buildup and nuclear program. It also concluded that the answer to Iran's regional policy lies in the Vienna nuclear talks under the watchful eyes of the U.S., not in a pact with Israel. Unlike the Saudis, who see the possibility of peace with Israel as a

## Ties to Israel in North Africa and the Middle East



means of stopping Tehran's expansionist policy, the Emiratis did not sign the Abraham Accord to protect themselves from Iran — they signed it as a way to maintain a comparative advantage vis-à-vis future competitors. The UAE's leaders believe an affiliation with Israel's high-tech industry will allow them to maintain the UAE's economic prominence.

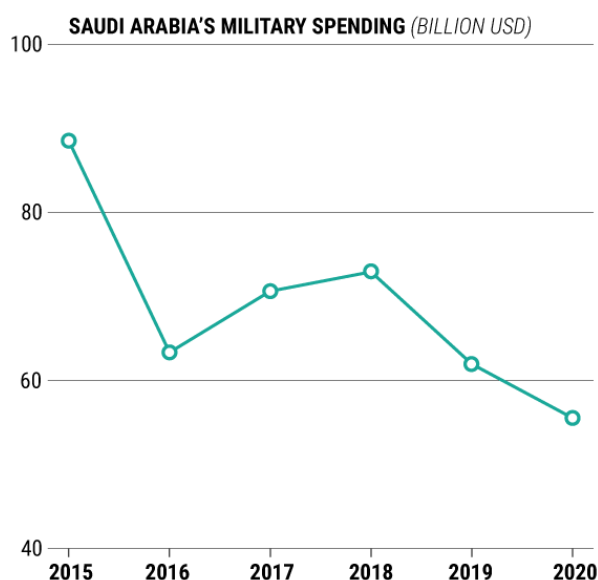
Indeed, economic factors, not Israeli threats to attack Iranian facilities, will shape the future of the Middle East. Abu Dhabi recently normalized its relations with Turkey after a decade of animosity and pledged to invest \$10 billion there. Moreover, the UAE main-

tains strong economic ties with China. (It's difficult to imagine that with the most efficient security apparatus in the region, the UAE didn't know about China's secret naval facility just 50 miles north of Abu Dhabi, discovered by the CIA last spring.) The reopening of the 4,000-mile freight line connecting Islamabad and Istanbul via Tehran, idle for 10 years, suggests an emerging trend in Middle Eastern relations that focuses on economic cooperation, not war. (Trade ties with Pakistan are significant because Pakistan has already established rail and sea freight service with China.) The loud rhetoric and high-profile military exercises, notably the recent Red Sea naval drill that in-

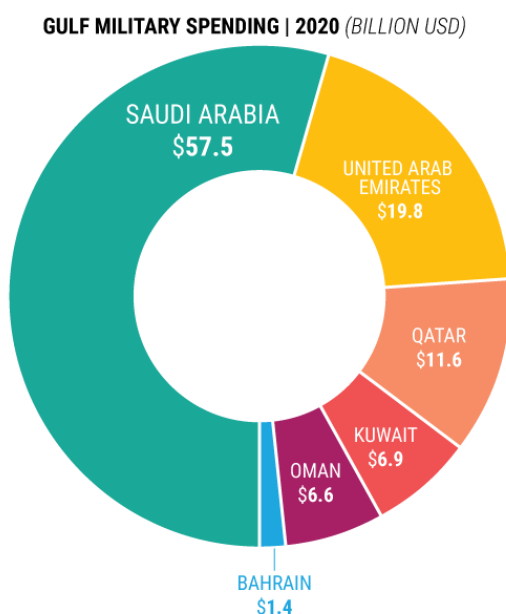
volved U.S., Israeli, UAE and Bahraini vessels, are less an escalation than they are a reminder for Iran to become more accommodative in the Vienna talks. Exhausted by conflict and mount-

ing domestic unrest, Iran wants peace, not war. The transition of the Middle East from confrontation to cooperation takes time, although there are no other options.

## Military Spending in the Gulf



Source: Trading Economics



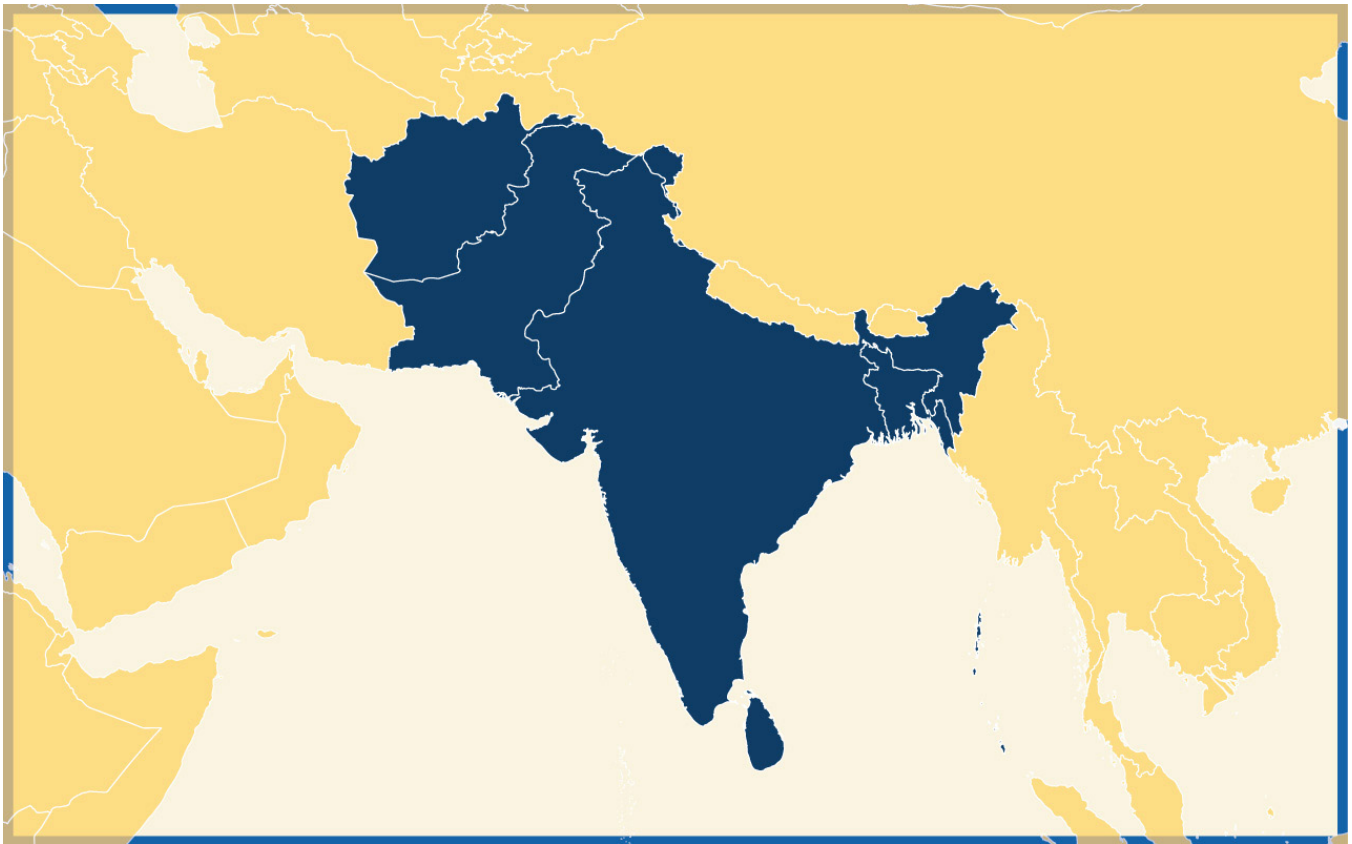
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## Forecast

The Vienna nuclear talks will result in a settlement. The Israeli Air Force will not attack Iran's nuclear sites.

Turkey's currency crisis will worsen.



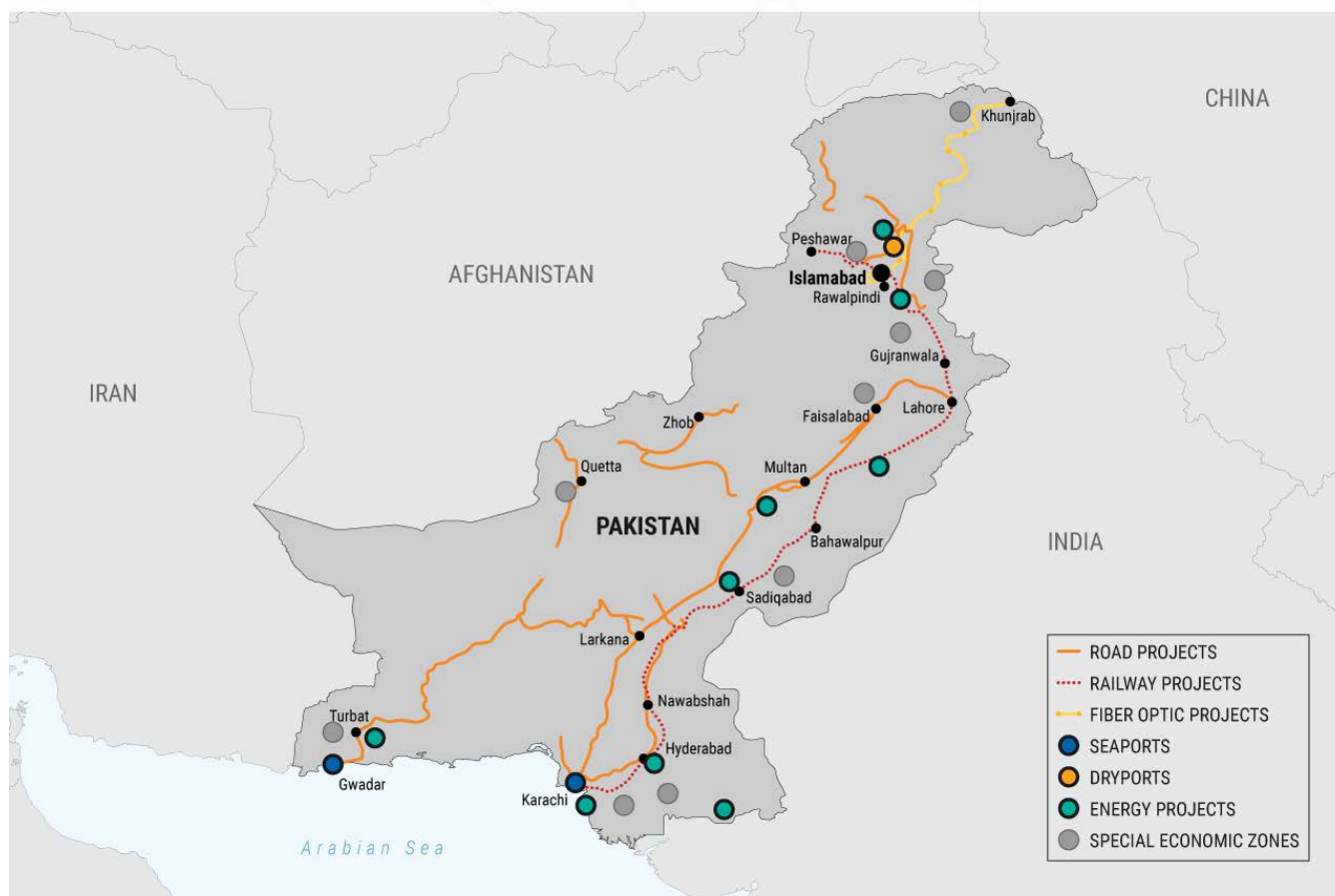


## South Asia

South Asia derives much of its geopolitical relevance from its position along the Indian Ocean and from being at the intersection of outside powers' interests — namely China, Russia and the United States. The Indian Ocean is a vital transit route for oil from the Middle East to East Asian consumers, and South Asia's coastlines offer the best position to secure and monitor these routes. China seeks to break out of the Pacific westward to Middle Eastern and European markets. India, a longtime

regional competitor of China, is a major impediment to this goal. For this reason, China has prioritized infrastructure projects with Pakistan, Myanmar and Sri Lanka, and New Delhi has become a desired partner for the United States, Japan and Australia — each of which wants to see China contained in the Pacific. At the same time, Russia benefits from good ties with India as part of Moscow's interest in maintaining stability in Central Asia. Having a reliable, stable partner on Central Asia's southern flank supports this Russian need. Given the competing interests of

## China-Pakistan Economic Corridor (CPEC)



Sources: CPEC Authority Office - Pakistan, Muhammad Ahmed Farooqui and Syed Mobasher Aftab 2018 IOP Conf. Ser.: Mater. Sci. Eng. 414 012046

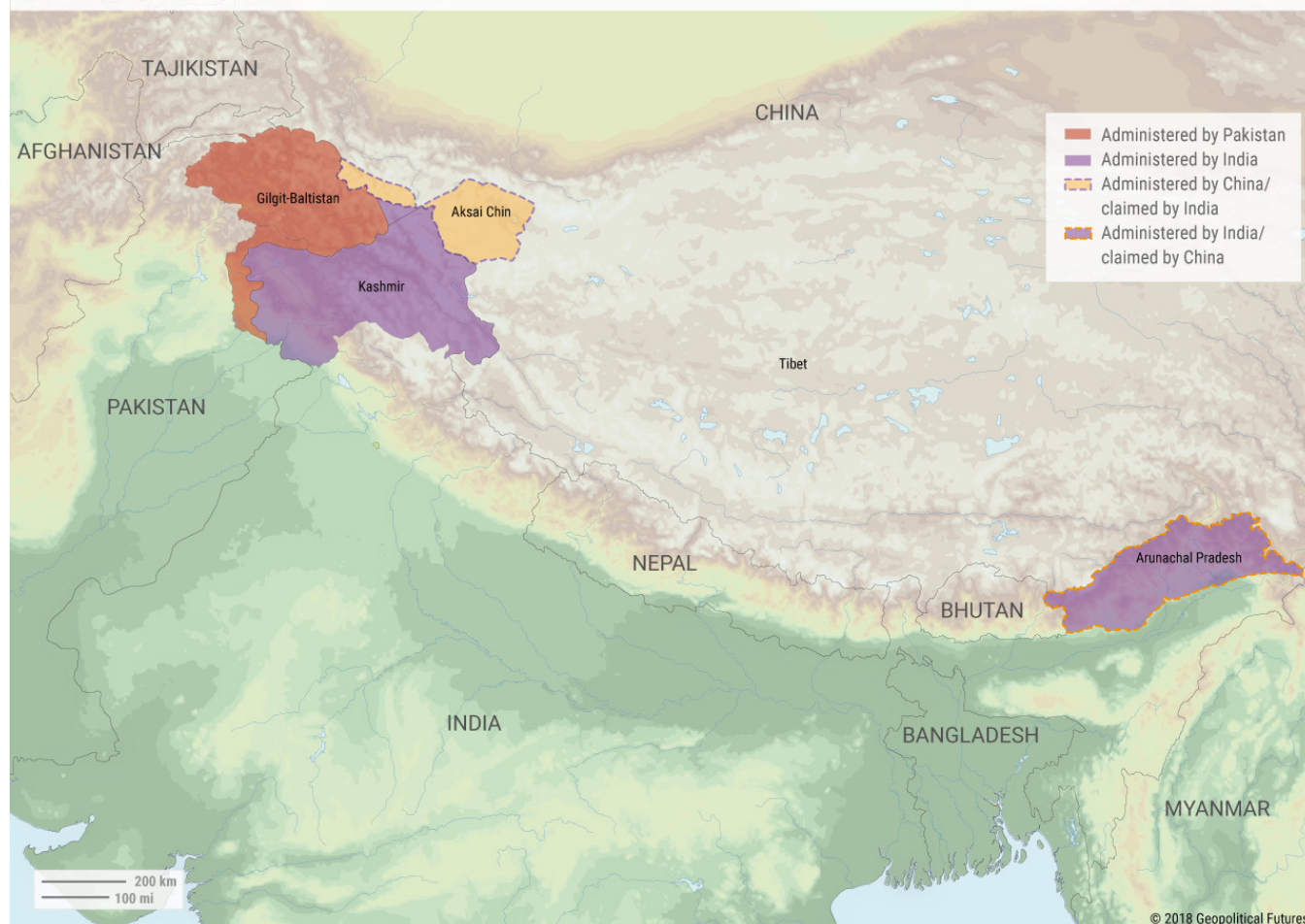
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outside powers, countries in this region use varied economic, diplomatic and military ties to ensure that they do not get too committed to any foreign camp, thereby enabling them to more easily maneuver in favor of national interests.

India is by far the region's most powerful country, and its rivalry with Pakistan dramatically shapes regional relations. Understanding this rivalry, and India's constraints in it, is therefore critical for understanding the region.

Britain's partition of the subcontinent resulted in the Muslim-dominated Pakistan and Hindu-dominated India; territorial disputes between the two countries remain to this day. Outside powers seeking influence in the region cannot overcome or resolve this rivalry. Instead, they align with one side or another, depending on where they find overlapping interests. Maintaining the Indo-Pakistani balance of power is a strategic goal for the United States, as is ensuring the safety of trade routes

## South Asia Power Struggle



linking the resources and raw materials of Africa and the Middle East to Asia via the Pacific Ocean.

Even though India is the region's strongest nation, New Delhi has always struggled to project power. One reason for this is the country's basic composition. Since it gained independence in 1947, India has had the herculean task of trying to manage a highly diverse and populous country without sacrific-

ing too much of its own central power. The Congress party, which dominated national government in the decades immediately after independence, emphasized a power-sharing deal where states held a high degree of autonomy over their own affairs. This helped prevent regional conflict but robbed New Delhi of some of its ability to influence domestic affairs. The impact is particularly apparent in economic areas — taxation, foreign investment, the formal

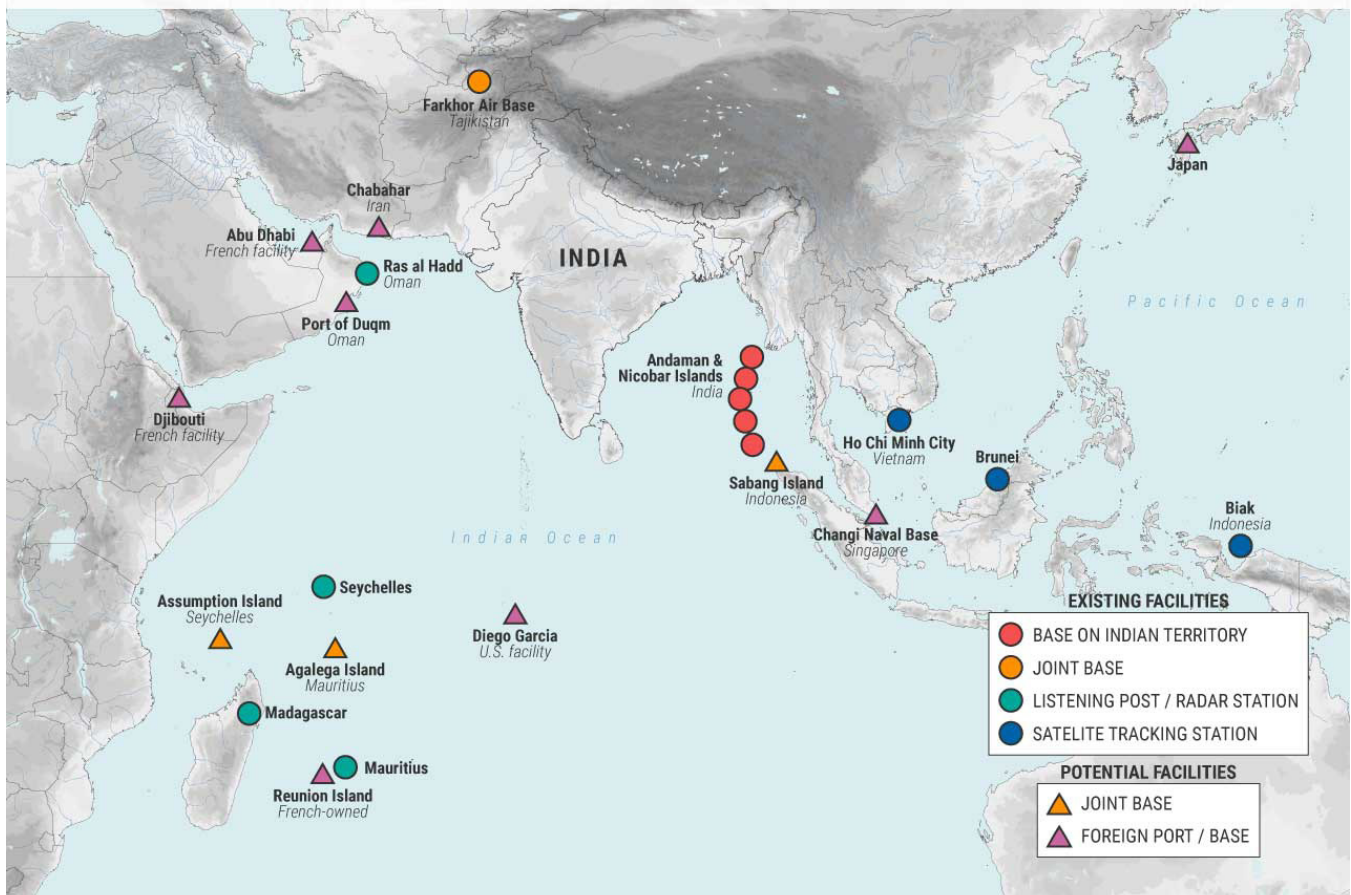


economy — which directly affects the ways the central government handles national-level and external problems. The administration of current Prime Minister Narendra Modi marks a reversal of this trend.

Meanwhile, India is maintaining a well-balanced foreign policy. It secures its position against Chinese influence by aligning with the U.S., even as it maintains good ties with Russia in order to better understand and man-

age the risks arising from a potentially unstable Central Asia. A new challenge for 2022 and beyond is the U.S. withdrawal from Afghanistan. The power vacuum has made many in South and Central Asia worry about the prospect of instability spilling over into their territory. So far, the need for reconstruction funds has kept the more extremist tendencies of the Taliban in check (relatively speaking). Many outside powers are reluctant to take a leading role in reconstruction efforts because

### India's Overseas Facilities



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outside powers historically fare poorly in Afghanistan. The possible exception to this is China. While Beijing has not publicly declared interest in Afghani-

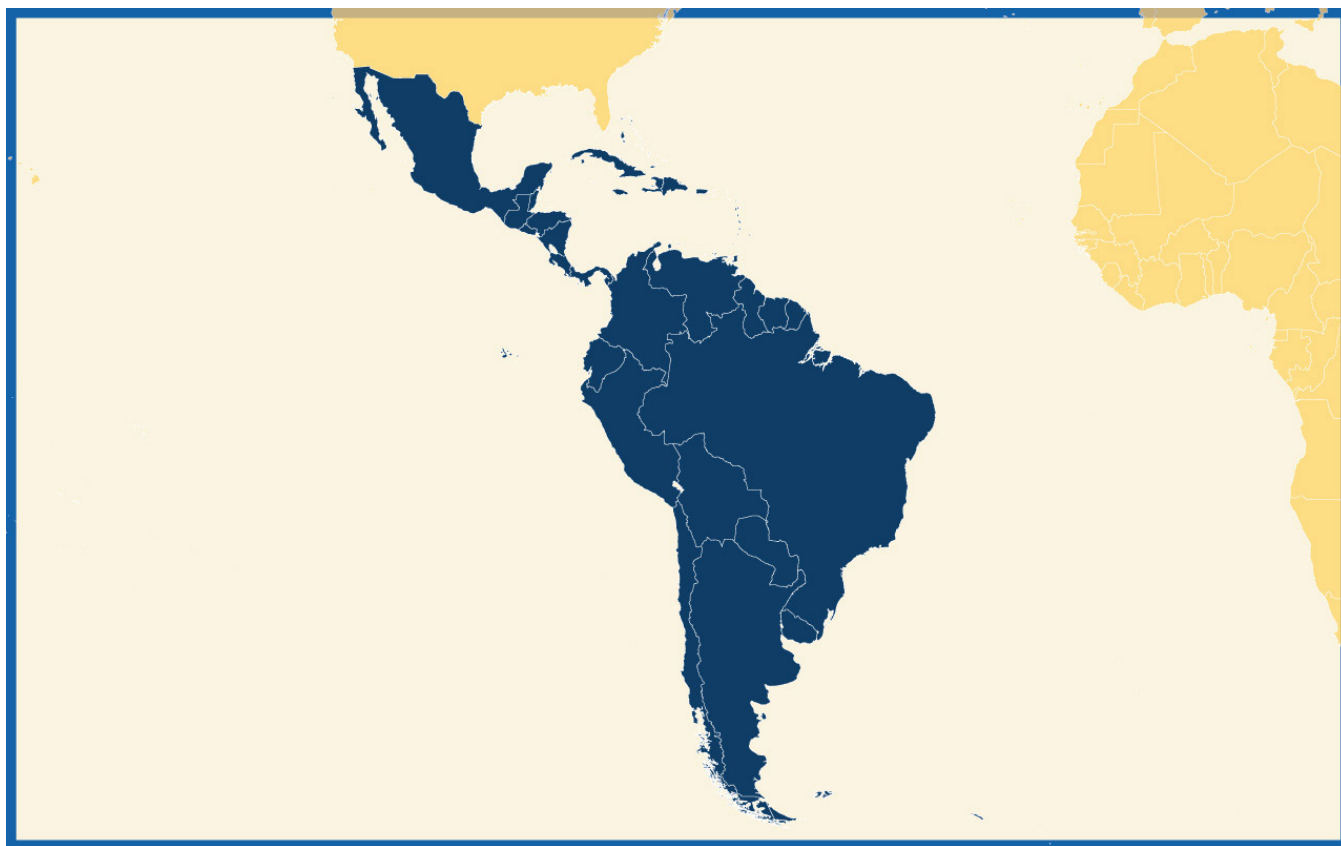
stan, low-level meetings and business operations suggest China may be interested.

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## Forecast

**India will work to improve ties with Central Asia and strengthen alliances with secondary powers like Japan and Australia.**



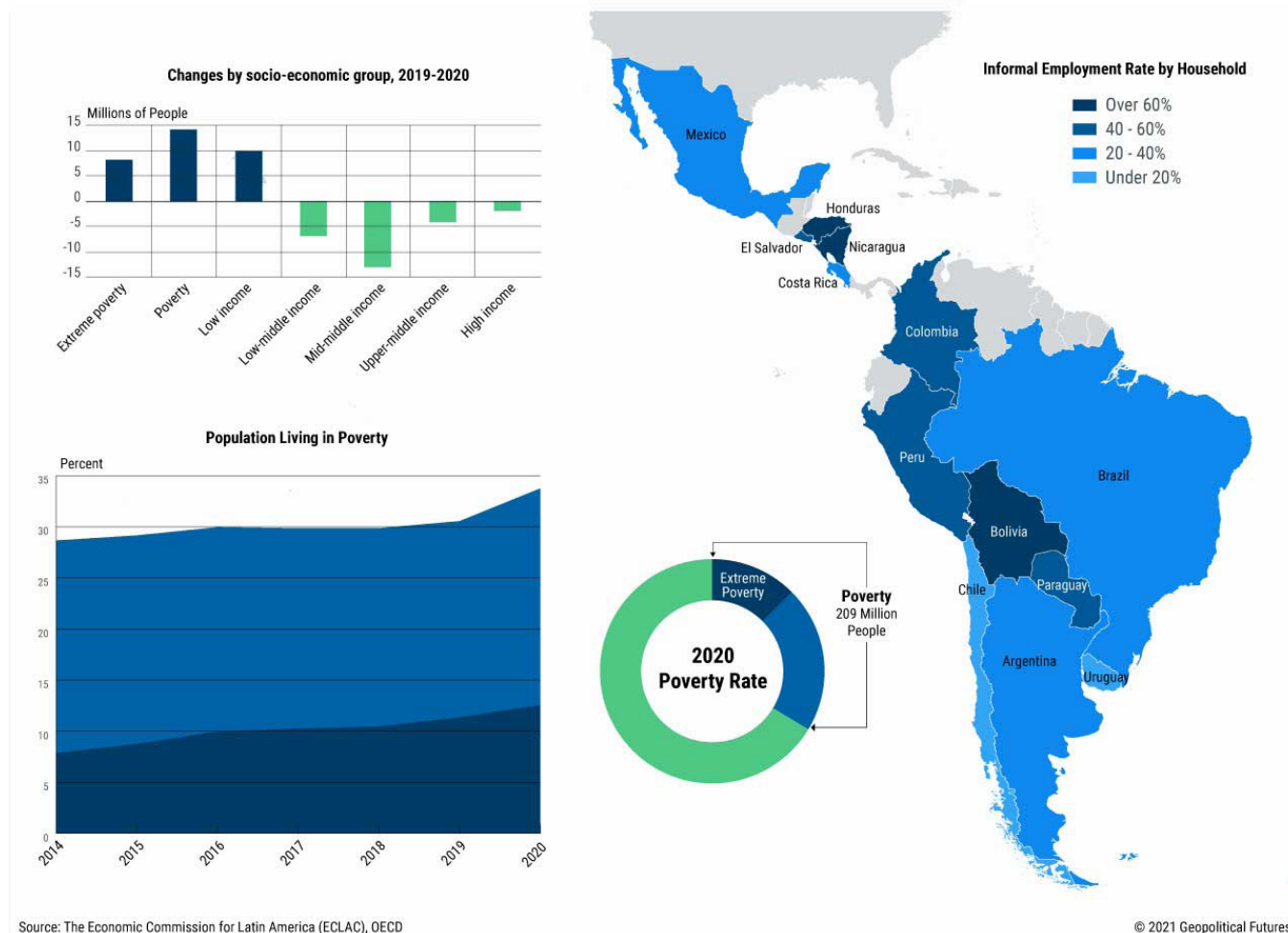


## Latin America

The COVID-19 pandemic hurt Latin America worse than most other regions. The region accounts for just over 8 percent of the global population, but as of the end of 2021, it accounted for approximately 18 percent of confirmed cases worldwide and 30 percent of deaths. Poor health infrastructure, insufficient vaccine availability and the inability of much of the labor force to work online conspired to wreck the region. A third of registered jobs lost globally were from Latin America, and

the regional average loss of income was double the global average. Inflation in the region's five largest economies is also outpacing the average inflation rate of emerging economies. Unsurprisingly, poverty is at a 12-year high, and extreme poverty at a 20-year high. Economic and development gains from the past decade have been wiped out in the past two years. The International Monetary Fund, the Organization for Economic Co-operation and Development and other institutions believe South America won't rise to pre-pandemic economic levels until 2023-24 at the earliest.

## Growing Poverty in Latin America



Moreover, wealth disparities have only gotten worse, as the pandemic increased inequality, reduced the size of the middle class and made it harder to access basic goods. A problem for any region, wealth distribution has been particularly contentious here since the colonial era. Residual class systems, restricted upward mobility and so on are ultimately the basis for the region's characteristic fluctuation between two

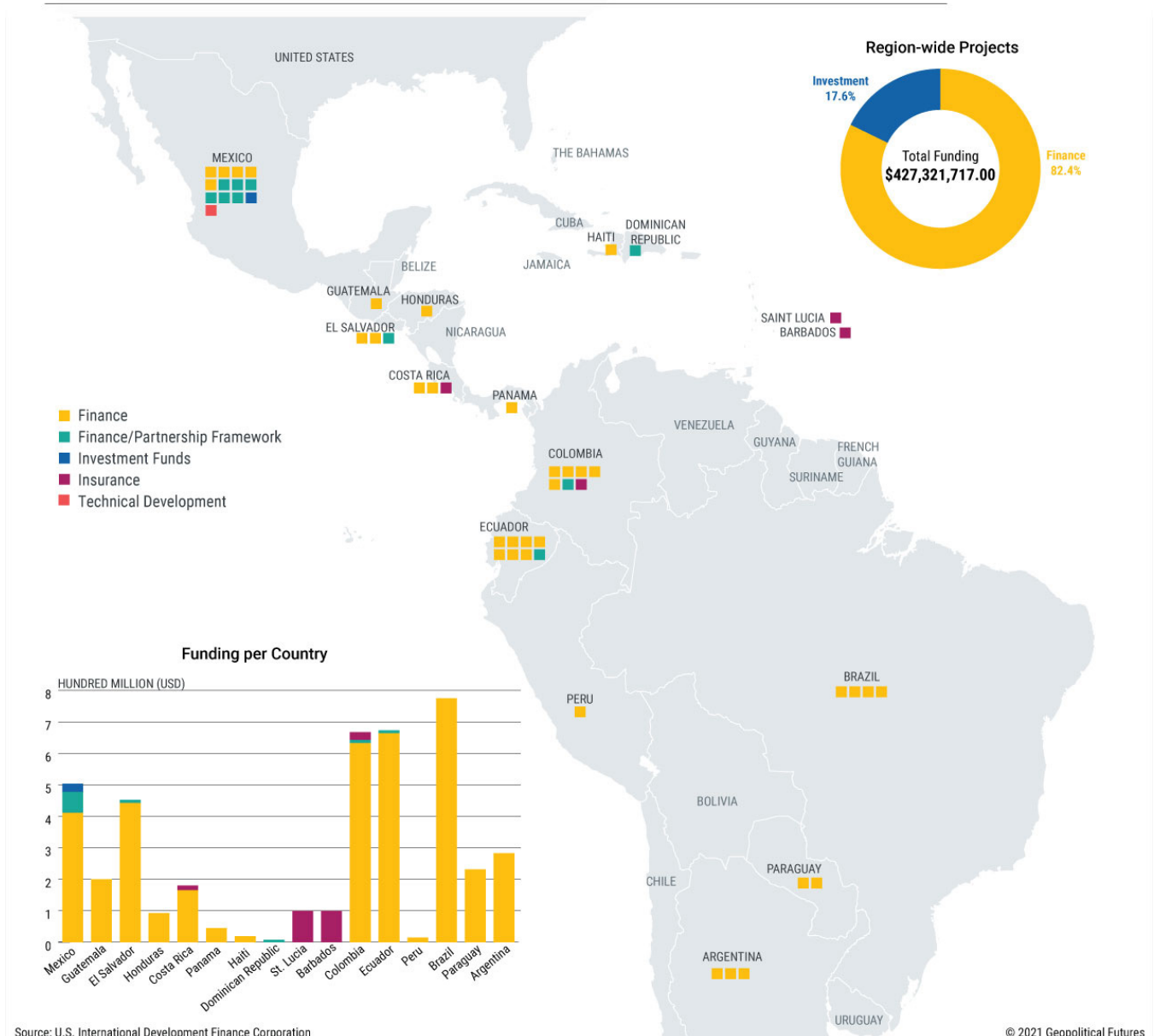
economic models — one favoring a conservative, business-forward and free market framework, and one favoring strong public spending, support for the lower class and a pervasive government presence. Regardless, in times of economic hardship, people in the region look to the government for solutions. Extreme economic disruption often requires an extreme solution, and in this part of the world this has tended

to engender greater political-economic polarization.

Poverty and increased self- and informal employment mean regional governments have more to do to address their people's needs and fewer resources

with which to do it. Most of these governments don't have the money to stabilize the economy, support vulnerable populations and spur economic growth at the same time. Instead, they must rely heavily on private business, trade partners and foreign investment. Fur-

### U.S. DFC Projects in Latin America, 2019-2021



ther complicating the situation is that governments can't necessarily control, say, cargo availability and trade prices — things that would help in the recovery process.

All of this comes as the U.S. is reengaging the region. In the wake of the Cold War, Washington was the undisputed power in the Western Hemisphere; no other country was making signifi-

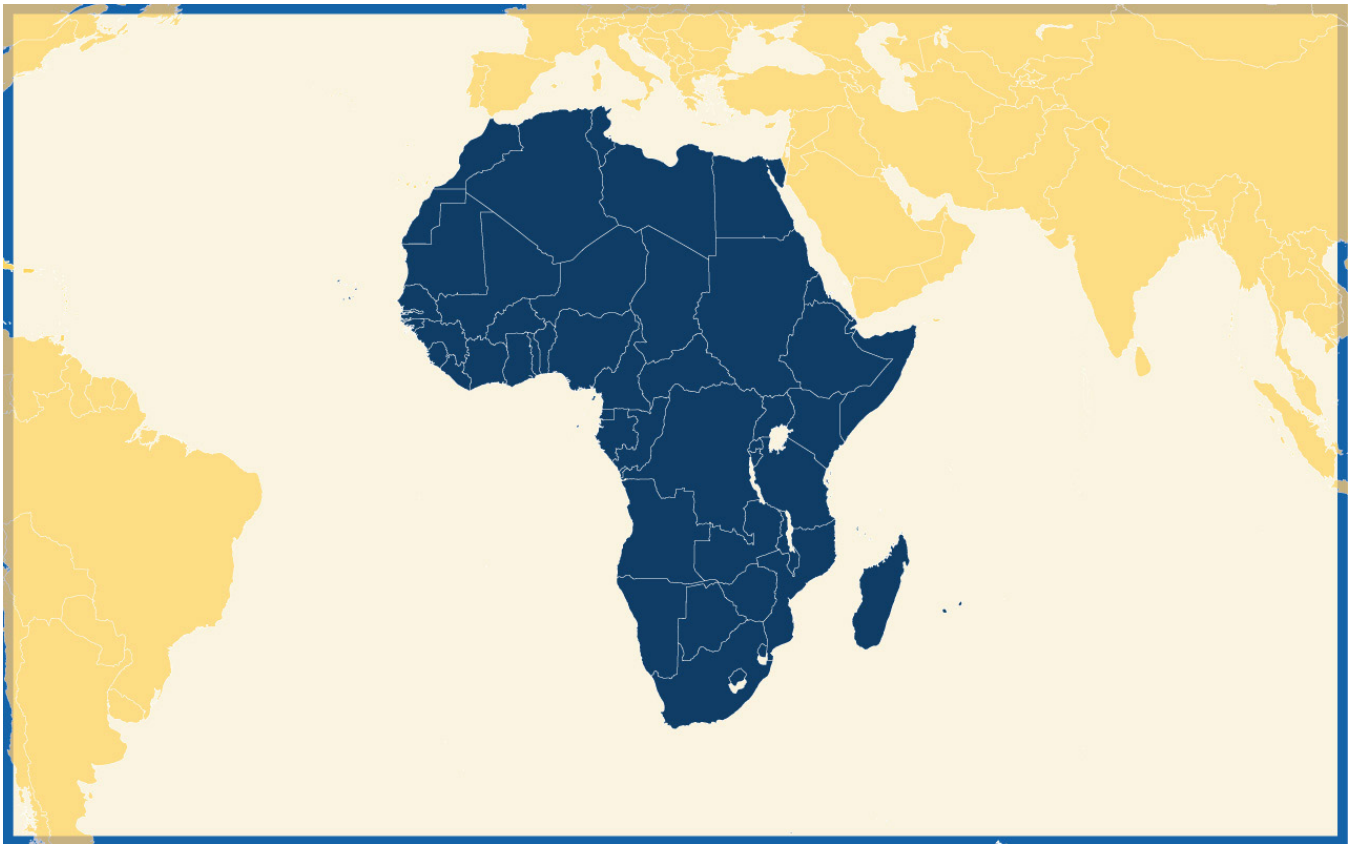
cant moves in the region. This is now changing. Migration from the Northern Triangle, near-shoring initiatives, and Chinese and Russian advances (particularly economic) into the region have forced the U.S. to pay greater attention to Latin America. This dynamic makes the region ripe for economic competition among outside powers — and puts Latin America in a position to seek better terms.

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## Forecast

**The U.S. will rely on public-private efforts to secure its influence in the region. It will also welcome economic engagements from allied nations like Japan or South Korea.**

**Latin American countries will increasingly move away from collective efforts to engage with outside powers in favor of individual efforts.**



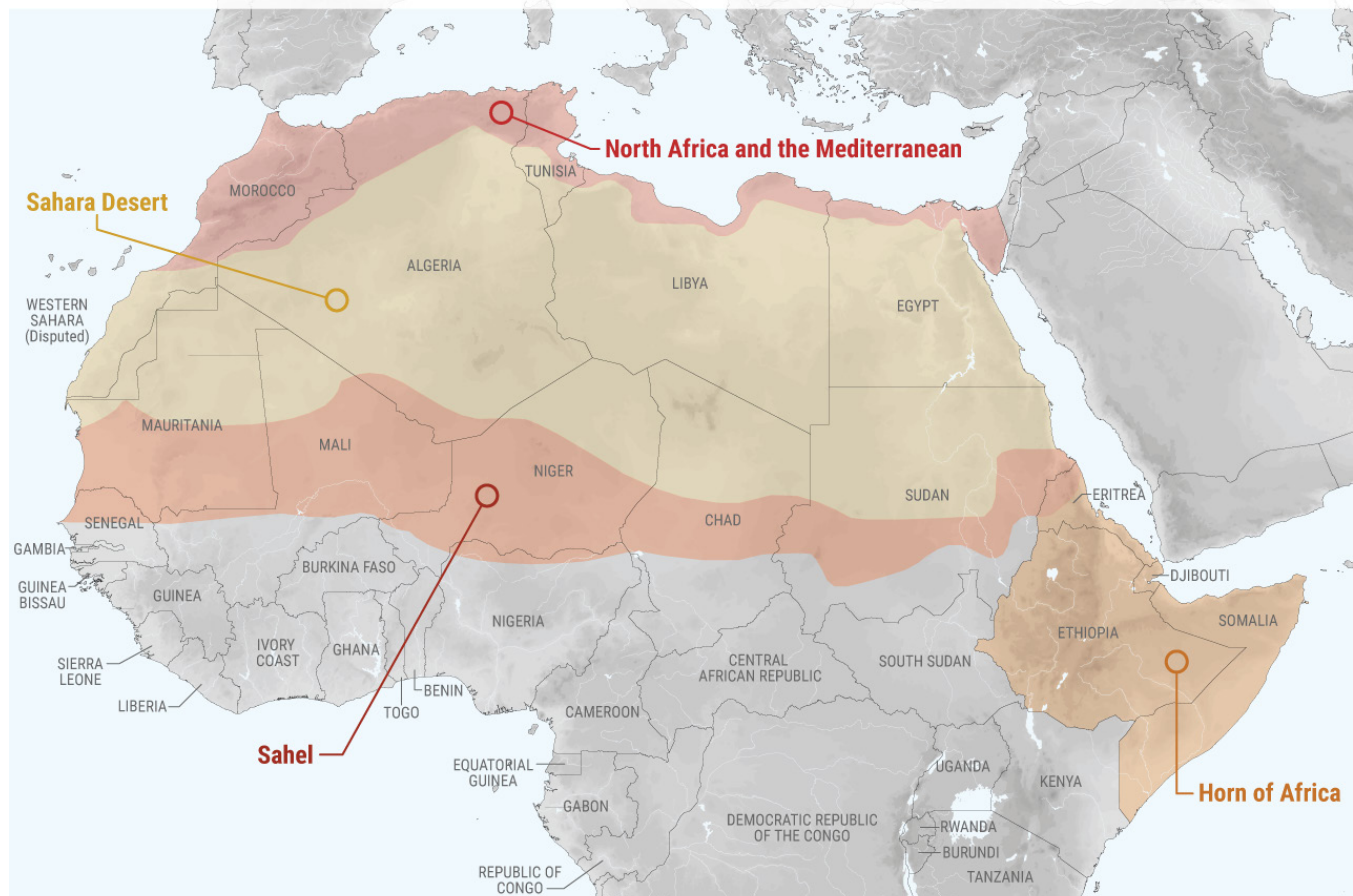
## Africa

A history of colonialism left many African states with artificial national borders and arrested the development of political and economic institutions. It also fostered regional infrastructure that is geared toward exports and outside markets rather than toward internal connectivity. Add to this the fact that many of these nations are on the global periphery and the result is a general inability to influence the international system on their own. More often than not, they are roped into the geopolitical intrigue of others.

Even so, a few regions within the continent — namely, North Africa, the Horn of Africa and the Sahel — are either resource-rich enough or so geostrategically located that they play an outsized role in global affairs. So long as regional powers are competing for Mediterranean dominance, North Africa plays a crucial role providing port access on the Med's southern coast. Global powers such as the U.S. and Russia have bases and vessels in the Mediterranean. France and Italy are the major European powers seeking to control the sea. French interests there



## Biogeographical Regions of North Africa



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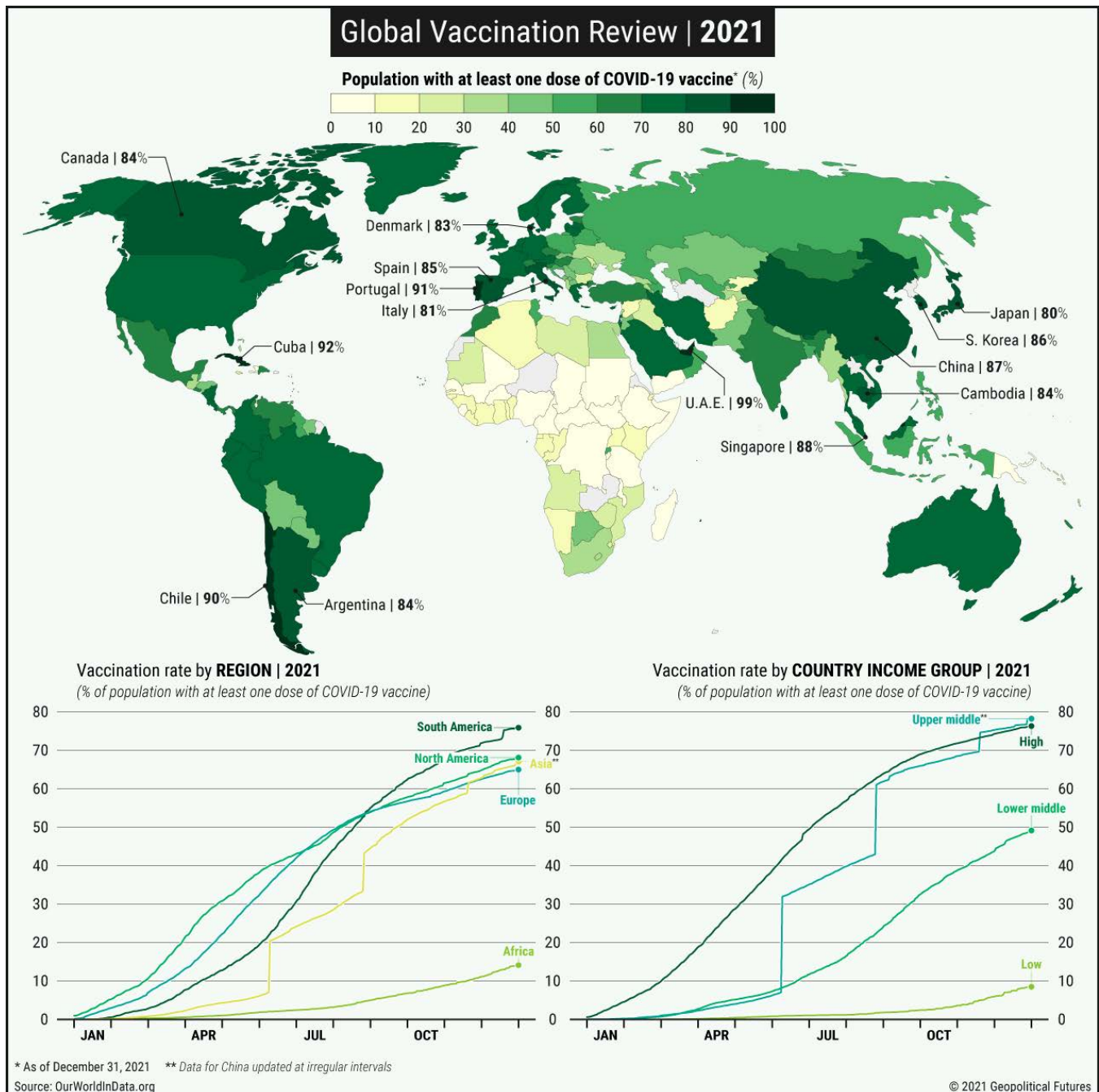
have clashed with those of Turkey, which wants to reclaim control over the Eastern Med and the Horn of Africa, the point where Africa and the Middle East meet and provide access to the Suez Canal. In turn, Turkish ambitions have run up against those of the UAE and Saudi Arabia, which also see the region as their sphere of influence. Western powers like the U.S. position themselves in the Horn of Africa to guarantee maritime passage and to

militarily check Iran. The Sahel is important because of the presence of Islamist militant groups, the competition for natural resource deposits, and migrant outflows (posing a security risk to southern Europe).

These countries perpetually seek internal stability, which has been made more difficult through the recent global economic downturn. They are also driven by the need to maintain their status

as independent actors in the face of competition for natural resources and

strategic maneuvers by outside powers.



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## Forecast

Outside powers will use natural internal divisions within countries for strategic and economic gain.

European and U.S. efforts to draw down their respective military presences in Africa will be slowed due to the risk of losing economic opportunity and political influence to competitors like Russia, Turkey or China.