

A nighttime photograph of a city street with light trails from cars. In the background, there are tall skyscrapers with lit windows. The foreground shows a multi-lane highway with a median and a guardrail. The overall scene is illuminated by city lights, creating a vibrant blue and white color palette.

SPECIAL REPORT

THE ROAD TO 2040

The Road to 2040

We look into the future and forecast what the world will look like in a quarter of a century. We predict several disruptions in the global structure by 2040 and conclude that much of the instability over the next 25 years will be focused in the European and Asian continents.

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A Word on Geopolitical Forecasting

Forty years ago, in 1975, the world was transfixed with pictures of helicopters taking off from the U.S. Embassy in Saigon. The pictures created a sense not only of American vulnerability but also of decline. This sense was compounded by the state of American society. The oil embargo of 1973 had wreaked havoc on the American economy. Inflation was over 9 percent. Unemployment was at 8.5 percent. A 30-year mortgage on a home was available at about 9 percent interest. Just a decade before, the country witnessed the assassinations of John F. Kennedy and Martin Luther King, Jr. and riots throughout the United States in their wake. Richard Nixon had resigned as president a year before.

It was a reasonable assumption that the United States was in deep and irreversible decline in the world and at home. It is hard to see how any rational person could have predicted what laid ahead in the 1990s, only 15 years away. It was not the United States that had collapsed, but the Soviet Union, and the economic malaise of the 1970s had been replaced by an economic boom that dominated the last decade of the century.

Forecasting requires far more than a grasp of the current situation. It requires that the current situation be taken seriously, but only in a broader context; a context that takes into account, not only the passing events, no matter how dramatic they might be, but the deeper structure. The realities of the 1970s appeared to be overwhelming and defining. The United States was failing on all sides, it appeared. And that was true, but only on one level. On another level, the deep structure of the world pointed in a different direction. It was only when events were examined globally and deeply that the reality of the time became apparent: the decade of the 1970s was simply an episode in American history, and not a defining moment. The temporary nature of some crises is particularly difficult to recognize when the facts are accompanied by noisy gloom and political figures who wish to discredit others based on how they perceive events.

Things that seem defining, even for a decade, can turn out to be ephemeral. However, most forecasting is linear. It assumes that what has happened for a decade will happen for another decade. Thus, it was expected that the Soviet lead in the space race would cause them to dominate in space; that Japan would overtake the United States economically; that the U.S. learned its lesson and would never again fight another war like Vietnam. And so on. It is not only circumstances characterized

by long duration that delude, but even passing events, such as financial crises, political uncertainties and personalities. Some of these may define the path, but the fact is that few of them will even be remembered a year later, let alone decades later. The phrase, from Karl Marx, “all that is solid melts into air” applies to the events that grip our attention at any moment, a truth he discovered amidst his many errors. This moment passes into nothingness and what follows is where we live our lives.

Therefore, we must distinguish between the passing event – even events of a decade – and the deep processes that are underway. That will give us the broad framework for considering what 2040 might look like. At the same time, this forecast requires a clear understanding of the current reality, interpreted in the broadest sense. Only then can we get a sense of how that reality will evolve into the world we anticipate in 2040. To forecast, we must know what is important and, even more critical, we must know what is not.

The Current Reality: Hemispheric Asymmetry

In the early 20th century, the shift in power from the Western Hemisphere to the Eastern Hemisphere fundamentally reshaped the international system. Previously, the Eastern Hemisphere had dominated the world and invaded the Western Hemisphere on two significant occasions. The first invasion was the movement of Siberian tribes into the Americas, which resulted in the foundation of aboriginal civilizations. The second was the invasion of Europeans from Atlantic Europe starting in 1492 and the subsequent establishment of European culture in the Americas. Until the 20th century, there had never been a large scale movement from the Western Hemisphere to the east.

In 1917, after over 400 years of unidirectional migration, a million men from the Western Hemisphere landed in Europe and were decisive in ending the First World War. This force withdrew and then returned in the 1940s, expanding its presence to Asia and the Middle East. Soon after, the United

States emerged as the world hegemon. Since the fall of the Soviet Union in 1991, no European power has been a global power. This fact has changed the global reality fundamentally. The single most important geopolitical fact of our time, therefore, is that the Western Hemisphere and, in particular, its leading power, the United States, has moved from an occasional to permanent presence in the Eastern Hemisphere, shifting its geographic focus.

This shift represents a millennial change in the sense that the core dynamic that had been in place for centuries reversed itself. As we will see, this has resulted in a relatively stable Western Hemisphere – with the United States, as the sole global power, at the helm. North America has weathered crises, including the 2008 financial crisis, better than most European and Asian countries and seems impervious to external influence. We foresee this stability continuing for decades to come.

In contrast, the Eastern Hemisphere has destabilized and, in particular, the European-Asian land mass (Eurasia, as we put it) has become especially precarious, with political and economic crises emerging in the European Union, Russia, China and the Middle East. This fundamental asymmetry between the hemispheres is the underlying reality of the global system and shows no sign of subsiding.

Therefore, the main trend over the next quarter of a century will be the continued and intensifying instability in the Eastern Hemisphere and increasing stability in the Western Hemisphere. To clarify, this does not mean intervening factors cannot weaken the asymmetry in the short and middle term. However, these temporary events will not have the ability to change the underlying trend.

The United States

The United States has become the center of gravity in the international system. It produces almost 25 percent of the world’s GDP. It controls the world’s oceans and uses its economic and

military power to attempt to shape events around the world. No other country is able to project a comparable range of powers and level of influence on a global scale.

The emergence of the United States has been extraordinary. For most of the 19th century it would have been considered a Third World country by current standards. Three things changed this. First, an incredibly productive agricultural system emerged that was not only massively productive, but also had the capacity early on to transport its production globally, particularly to Europe. The second cause was the accumulation of capital by the agricultural sector and vast waves of immigration from Europe of impoverished workers, many with skills, which began the American industrial revolution in the late 19th century. The third cause of the U.S.'s turnaround was the collapse of the prior center of global power, Europe, as the result of a series of catastrophic wars. In 1991, the Soviet Union collapsed and for the first time in 500 years, there was no European global power.

Rise to Global Hegemon

The United States emerged as the global power at an astonishing pace. It was not prepared for that role culturally, strategically or institutionally. It had dominated 20th century wars more from the sheer weight of its power and the exhaustion of its allies and enemies, than through any sophisticated long-term strategy. There was a logic to American behavior, but to a great extent it was invisible even to the Americans.

The logic was simple. The United States dominates North America and North America is an island. Like any island nation, it must secure control of the island, prevent enemies from attacking by sea and use the sea to facilitate maritime trade. Therefore, the United States, like the smaller island of Great Britain, had to become a dominant maritime power. It did this by both using its industrial power to build a fleet and taking advantage of the decline of Europe to become the maritime hegemon.

The foundation of American strategy was to prevent a unification of Eurasia. This unification would create a pool of resources and manpower that could challenge the United States at sea. In both world wars and the Cold War, the goal of the United States was to first block German domination of Eurasia and then the Soviets. This strategy has governed American leaders, even though they lacked a crystal clear understanding of it.

However, the grand strategy of the United States constantly faced a strategic problem. As soon as American forces set foot in Eurasia, the demographic reality left those forces outnumbered. That meant that the costs and risks of war were always high. Therefore, the preference of the United States was to allow the Europeans to maintain their own balance of power and, in the event of war, fight each other to a standstill. The reluctance to enter war was the hallmark of American strategy before and during both world wars.

In World War I, the United States stayed out until a German victory became probable and then intervened with massive force. In World War II, it relied on the Soviet Union to do what it had to do, which was fight a war of attrition with Germany and then, in 1944, invade northern Europe. The strategy was to engage in war reluctantly and at the last possible moment.

The lesson that the United States took away from World War II was that they should not have followed this strategy. They should have been involved earlier, at Munich, to diplomatically block the Germans, or engage in a war before the German war machine was ready. For that to have happened, the United States would have had to develop its military a decade before and, indeed, not fully demobilize after World War I. This lesson carried forward to the post-World War II era, when the United States only partially demobilized and then rebuilt its forces in order to contain the Soviet Union.

The Americans regarded the Cold War strategy as successful to the extent that it achieved their ends

without a war with the Soviets. Their conclusion was that the strategy in World War I and II was erroneous and the cheapest long-term strategy was to maintain a decisive military force and use it early in conjunction with allies, but never to simply depend on them.

Approaches to the Middle East

The U.S.-jihadist war's first phase followed the Cold War prescription of maintaining a substantial military force and using it as the primary means of dealing with an enemy, preserving an alliance as a useful but secondary tool. In this case, the strategy failed because the mission differed from that of the Cold War, where the goal was to overawe a conventional military force and, failing that, to defeat it. The goal in Afghanistan and Iraq after the destruction of the enemy's military force was to occupy and pacify the country. The problem was that the American model of pacification was built on its experience in Germany and Japan, both of which were completely prostrate and compliant from devastation. The United States had not only defeated the German and Japanese military, it had shattered their societies. However destructive the wars in Iraq and Afghanistan were, they could not compare to the devastation caused in Germany and Japan and, therefore, the will to resist continued.

The United States could not eliminate resistance. It could at most reduce it. From a historical perspective, the deaths in Iraq, totaling almost 4,500, were trivial. But the cost outweighed the benefits, as reduction of violence required a permanent stationing of large numbers of troops in Iraq and this would still not eliminate the threat of terror attacks on the homeland. As this reality sank in, withdrawal became the most logical solution.

The United States had important interests in the region, but needed to devise a more effective and less costly strategy. The Cold War model – outstripping the capabilities of a country, exhausting the nation psychologically and twisting the economy and society out of its optimal form – would

not work. Consequently, the answer lay in variants of the world war strategies. In those wars, the United States pursued a balance of power and intervened only when the stakes were enormous and the balance of power had failed.

In applying the strategy to the Middle East, this model would shift the burden to the major regional powers simply through inaction. Without being able to rely on the United States, the regional powers, who do not have the option of withdrawing, are compelled to take action and, in taking action, ensure that no regional power emerges as a hegemon. In the Middle East, there are four major powers: Turkey, Iran, Saudi Arabia and Israel. All are ethnically different and all have different interests. They can cooperate in defeating an enemy like Islamic State, or create a system of competition and conflict with each other. The American interest is to make certain no power emerges that will present a strategic threat to the United States. Given that all powers are focused on each other and regional issues, a threat cannot emerge unless the regional balance of power collapses and, if it collapses, the emergent power can either be ignored or dealt with then, directly or indirectly.

The U.S.'s conclusion from its foray in the Middle East was that the Cold War strategy's strength was its inflexibility, but that inflexibility was costly in terms of resources and dangerous in the event of miscalculation. It also placed the primary warfighting burden on the United States. The U.S.-jihadist wars caused the United States to understand the price of this strategy in an environment that was not critical to its own security. The turn to a regional balance of power approach represents what American foreign policy will look like in the next 25 years.

Limiting Russia

In the case of Russia, the United States has an overriding interest in ensuring Russia cannot move westward into the European Peninsula. In a Cold War model, the United States would place extensive force along the frontier. But Russia is

far less powerful than the Soviets and a multi-generational confrontation is unlikely due to both Russian weakness and the fact that the balance of power does not necessarily favor Russia, even without the United States. Russia's population is 144 million people. The combined population of the countries that could confront Russia – the Baltic states, Poland, Slovakia, Hungary, Romania and Bulgaria – is about 86 million. To the extent that population is a factor, the Russians face a potential enemy more than half its size that does not have to contend with Russia's ethnic tensions and challenging distances.

In short, the optimal strategy of the United States is to confront Russia with a line of resistance without itself becoming overly exposed. The countries named have an interest in preventing the Russians from overrunning them, an interest greater than the American interest in them not being overrun. In other words, they have a larger incentive to contain Russia than the Americans. Therefore, the U.S. believes support in terms of supplies, training and some presence, such as air power and some limited ground forces, is sufficient.

This will be the American strategy from now until 2040, not only in the case of Russia, but in all its diplomatic relations. It will look to some like isolationism, but it is actually prudent engagement. The British and Romans did not constantly handle regional problems by sending military force. In India, for example, the British created an indigenous military controlled under British officers and allowed competing regional forces to operate against each other. The British military presence in India was minimal, but it effectively controlled a vast population.

Conclusions

Unlike previous global powers, the United States, as well as North America, are to a great degree self-sufficient. Whatever the attractions of international trade, the U.S. in particular does not require trade to sustain itself. Given that it is the only global power and, as we explained, Eurasia is in

disarray, the U.S. is likely to remain the only global hegemon for centuries to come.

The global shift away from Europe during the 20th century, culminating in the collapse of the Soviet Union, has created a shift of power to the Western Hemisphere. It is a shift as dramatic as the emergence of European global power in the 16th century and as deeply rooted in global geopolitical realities. Such emergences may well be troubled, but they are long lasting. They survive much longer than just a generation or two. One key to their longevity is that they are not driven simply by a single new trend; rather, they represent a paradigm shift, influenced by far-reaching changes in politics, economics, military power and culture. The other key element is the management of that power over the long term. Constant intrusion by a global hegemon will exhaust it rapidly. The Cold War strategy is unsustainable for the United States. Paradoxically, the American revolution was waged against the British model of the management of power. The United States will have to adopt the very thing it was created to oppose: the constant shifting of directions, alliances and risks.

At the same time, the United States has an overriding interest in securing North America by controlling the seas and preventing threats from arising in the Eastern Hemisphere. As we will detail, we see the U.S.'s challenge in Europe, Russia, China and the Middle East not as preventing the rise of powers that can confront the United States, but containing the instability in these regions to the best extent possible.

The U.S. will of course experience significant social, economic and strategic problems in the next 25 years. These will be within the normal bounds of disorder that the country has managed during the previous 25 and, indeed, 100 years. But there is no apocalypse on the horizon. At the same time, it has an interest in maintaining its security at the lowest possible cost and that means adopting a new strategy, one more consistent with its approach to the two world wars than the Cold War. And this strategy will be carried out with more

tactical sophistication given the increasing experience of the United States as the sole global power.

That said, it will face an increasingly disorderly world, particularly in Eurasia.

Europe

The European Union was created with two purposes in mind. The first was to maintain peace. Europe had been wracked with war and horror in the 20th century. Conflict wrecked its economy, psychologically traumatized the continent and lost Europe its place in the world. Integration promised to bring the nationalist tensions that caused the conflicts under control. The EU's second purpose was to ensure prosperity through the creation of a free trade zone, with a level regulatory system managed from Brussels, and a selectively utilized single currency. European integration, particularly the integration of Germany into a single system, was designed to achieve both ends. The vision, vague and never agreed to by all parties, was the creation of a federation, or at least a confederation, that would result in some variation on the United States of Europe.

Two fundamental institutional flaws in the European Union have limited its success. The first was that European states did not want to surrender any fundamental part of their national sovereignty to the European Union. As a critical example, within the eurozone, monetary policy was created by a central bank, while fiscal policy, including the ability to tax, was in the hands of the nation-state. In the end, the European Union was not an integrated political entity, but merely an alliance system framed not by a compulsory constitution but a treaty that inherently gave nations the right not only to secede but to ignore directives. The second flaw was the creation of a free trade zone, which has led to some significant challenges in the union.

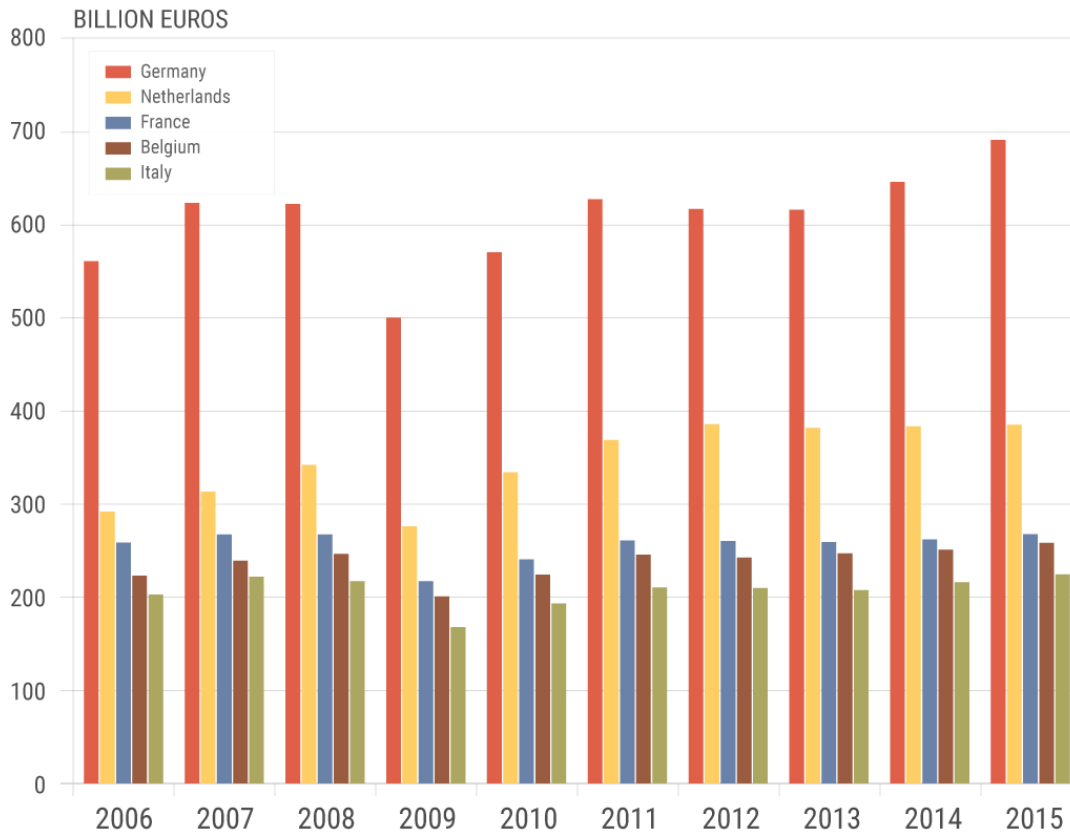
The Problem with Free Trade

The idea that a free trade system benefits all players is, for the most part, correct in the long run, but the benefits arrive at different times for different players. In a free trade zone with very different members, some are able, for structural and cultural reasons, to take advantage of its benefits much sooner than others. This leads to massive inequality in the system, which has political consequences. This scenario happened in Europe.

The most important power in Europe is Germany and it obtained a rapid and overwhelming advantage from the free trade zone. It is the largest economy in Europe and the fourth largest in the world. The free trade zone has allowed German exports to grow to almost 50 percent of the country's GDP, about half of which comes from other EU countries. At the same time, the less developed and dynamic areas in southern Europe have experienced unemployment levels comparable to those in the U.S. during the great depression, diverging massively from the German experience. Most importantly, there was no consensus on how to deal with the 2008 financial crisis and its consequences have become a permanent feature of the European system. The problem was not the financial crisis, but the fact that Europe's institutions, built on the willingness of diverse nation-states to cooperate, could not cope with the crisis.

The perils of the free trade system have not yet set in but logically must. Germany's prosperity rests on exports. Exports maintain the country's economic performance, provide for high employment and prevent social unrest. Under any circumstances, increasing Germany's exports is hard to imagine because having the fourth largest economy in the world exporting more than half its GDP is like having an elephant balance on a ball. Any contraction in demand would send the economy reeling. In fact, Germany is already in that vulnerable position, dependent on the appetites of foreign countries for its exports to maintain core aspects of its economy. Therefore, Germany's ability to manage its economy and maintain social stability

TOP 5 EXPORTERS TO THE EU-27



Source: Eurostat 2016

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depends on countries it cannot control being able and willing to buy its goods.

The Weak Link

Germany is, therefore, the weak link in Europe. If it cannot keep exports high even for relatively short periods of time, it will experience significant economic dislocation, particularly in employment. That, in turn, would create political and social instability, which would undermine the position of Europe's most important country, redefining the European reality. Add to this the issue of population decline. As with the population explosion, which assumed an unending rise in population leading to catastrophe, the current fear is a perpetual population decline leading to catastrophe. Viewing change in apocalyptic terms is understandable. It is rarely correct. The population de-

cline has consequences only if population levels fall faster than productivity. If they fall slower, then per capita GDP actually rises.

However, in the case of Germany, given its extreme vulnerability on exports, the likelihood of GDP falling faster than population over time is very real. And, therefore, Germany has a double vulnerability. Obviously, migration will affect the decline, but not the basic argument. Moreover, European society has difficulty integrating radically different cultures. The European state is built on a common historical and cultural norm. It is its reason for being, unlike the United States, which is built on the absorption of new cultures. This inability to integrate limits the amount of migration Europe can accept without destabilization.

As Germany's economy declines, the rest of the European Union will be impacted by the descent of its most powerful member. However, we foresee one country emerging as a new major player in the continent: Poland. Poland's historical dilemma is that it is caught between a powerful Germany and a powerful Russia. This has been the case since the 19th century. We are forecasting that this will no longer be the case by 2040. German economic power will decline due to over-dependence on exports and military power will not replace it. Germany can try to create a significant military power, but even a successful war would not solve Germany's economic problem and under these circumstances would likely hasten problems by loading military expenditures on an economy that is contracting. Russian military might will increase in the early phases of its terminal crisis causing tensions with Poland, but will fade as its core economic and political problems become less manageable.

By the mid-2020s, both Germany and Russia will grow weaker and, while Poland may not surge by itself, its relative weight will increase dramatically. This process will be aided by the fact that, unlike Germany and many other European countries, Poland is not uneasy with its nationalism. Indeed, Central Europe is the region most at home with national interest – not a significant geopolitical factor, but an important cultural one. As the Eurasian crisis intensifies, Poland will become a key power emerging on its periphery.

Conclusions

To summarize, the two fundamental weaknesses of Europe are the unwillingness of nation-states to give up their ultimate sovereignty to a supra-national state and the free trade system. The latter problem divides into two parts. First, there is the general issue that free trade does not benefit all members equally and in the same period of time. The second is the unique construction of the EU's free trade zone with a massive exporter at its center, an exporter likely to lose market share and thereby destabilize its own internal economy.

As we look forward to 2040, two features of Europe will change. First, the European Union cannot maintain its free trade dimension and since that dimension is at the heart of the EU, the union itself, including the euro, will at the very least contract geographically and will more likely disappear. Second, Germany will experience a significant economic decline, based on inevitable fluctuations and contractions in its ability to export. To some extent, this may be compounded by an aging and contracting population, but this trend is not at the heart of the matter. The rest of northwestern Europe, excluding Britain, will also experience a decline, linked to Germany's slump. Power and economic dynamism will, therefore, shift away from Western Europe and to Central Europe, with Poland both leading the region and taking a dominant role in the continent.

Russia

To understand Europe's evolution, we must first understand the dynamics underway to Poland's east, in the former Soviet Union, and particularly Russia. Russia is in a desperate geopolitical and economic position. These two factors feed on each other, making it difficult for Russia to function and, over the coming years, difficult for Russia to survive in its current form.

The geopolitical problem can be seen from the map below. Europe is divided between the peninsula, surrounded by the Baltic Sea, North Sea, Atlantic and Mediterranean, and its adjacent sea, the Black Sea. The base of this peninsula runs from St. Petersburg to Rostov-on-Don. That line is roughly coterminous with the eastern borders of the Baltic states, Belarus and Ukraine, which act as buffers between Russia and Europe. Russia is militarily difficult to defend if all three of these regions are hostile. It lacks strategic depth, as well as any natural barriers on which to base a defense. The Germans and French, who had to start their attacks to the west of the three buffers, were exhausted by having to fight their way eastward.

RUSSIA'S EUROPEAN BUFFER ZONE



Therefore, ever since the creation of the Russian Empire in the early 18th century, maintaining control over these regions has been fundamental to Russian strategy. The Baltics are currently part of NATO, while Ukraine is precariously in the Western camp. If the West solidifies its position in Ukraine, Belarus will, if not inevitably then with great likelihood, shift its stance as it finds itself surrounded on three sides by pro-Western powers more powerful collectively than Russia. It does not matter whether that comes from regime change or the regime changing its alignment. A shift by Belarus would create a new geopolitical reality. The borderlands west of Russia would all be aligned against Russia for the first time since the 17th century. A major force in this evolution will be the weakening of the Russian economy.

Economic Stagnation

Russia has historically lagged in economic development. After the fall of the Soviet Union, when the Soviets shook off the economic burden of their even weaker vassal states, the expectation was that Russia, after a period of instability, would stabilize and develop into a fully European country. That did not happen in spite of historically high prices for natural resources, particularly oil. However, with the decline of the Chinese economy, as we shall see, the price of oil fell in 2014 and we see no force, on either the supply or demand side, that will dramatically increase the price in the coming decades.

We have entered a unique period in the energy market, which will have significant implications for Russia. Of the three pillars of the global system – the U.S., Europe and China – two are in

severe economic distress without any clear path to recovery over the next few years. On the supply side, new technology has brought a substantial amount of oil and natural gas to the market. Either of these events could lower energy prices. Both together – particularly the lack of clarity on how energy demand will rise, as these are not cyclical events – indicate an extended period of low prices. By the 2040s, new emerging economies will be taking China's place, but the structural shift in energy availability will likely constrain prices for an extended period of time and severely limit Russia's revenue flow.

The historic failure to develop a modern economy when commodity prices were high created a situation where Russia is now more dependent on energy sales for cash than Europe is dependent on Russian exports. Europe would be hurt by a cutoff of Russian energy, but the cost to the Russian economy would represent an existential threat to Moscow. Therefore, the use of energy cutoffs has declined precipitously and we expect them to remain low. Consequently, there is little economic incentive for any of the buffer states to remain in the Russian camp. It is undeniable that the decline in energy prices shifts the geopolitical balance of power. This is true for all energy exporting countries, but particularly true for Russia, given its internal and external circumstances.

During the Russian Empire and the Soviet Union, resources were frequently exported from Russia to subordinate parts of the empire and Soviet Union. Rather than a consistent flow of resources from the colonies – as we will call parts of the empire and USSR for purposes of this discussion – to the imperial power, as is normally the case, the Russians often stabilized colonies by underwriting them. Therefore, while Russia inherited vital geographic buffers from the USSR, this was an advantage that carried with it a substantial economic cost.

The second pillar of the system, under both the Czars and Communist Party, was the security apparatus that guaranteed the regime and the

integrity of the empire and union. Sometimes stability was maintained by providing resources. Sometimes it was sustained by fear of the secret police. And sometimes both were needed. It was the interplay of the two mechanisms that maintained the empire and when both weakened, as happened in the 1980s, the system failed as a whole. Maintenance of a regime by terror is costly and inefficient as, by definition, it limits economic innovation and development. Maintenance of an empire by transferring wealth to the colonies is similarly irrational.

After the fall of the Soviet Union, neither the security apparatus nor the transfer of resources from Moscow to the periphery worked. The Soviet Union fragmented and the Russian Federation was strained as well, since Moscow controlled the federation budget but lacked resources to support the nation. As a result, there was massive economic and social dislocation, as well as early indicators of some regional secessions. At the same time, the security apparatus ceased to function. Rather than serving as a non-financial check on dissolution, the apparatus became part of the financial process of privatization and security officials were more interested in their own enrichment than in securing the federation.

It was inevitable that a member of the FSB – Russia's security agency, which was one of the successors of the KGB – would succeed Boris Yeltsin. Only the FSB could counter the centrifugal forces. What Vladimir Putin did was align the interests of the FSB as an institution, the interests of the oligarchs and the interest of the Moscow-based government. Based on oil revenue, Putin created a coherent system for funding regional and local governments and used the FSB to bring oligarchs not aligned with the new structure under control or eliminate them. On the surface, it appeared that the old imperial systems were back in place, at least within the Russian Federation.

This was an illusion. It was an illusion first because the foundation of Moscow's wealth was based on a commodity, oil, whose price Russia

could not control. In addition, much of that wealth was being managed in a way that benefited one of the foundations of the Putin government, the oligarchs. Finally, the FSB, like the KGB at the end of the Soviet period, was both a guarantor of the regime and a participant in the oligarchic system. As such, it had two interests, but enriching itself became its priority. This worked in times of relative economic comfort, but during economic stress, the FSB was less a guarantor of the state than its own interests.

Putin understood that what had undermined both the Soviet Union and the Russian Empire was the tendency of Moscow to transfer large amounts of resources to subordinate states on its periphery and the use of the security system to control Russian dissent. The collapse of the Soviet Union freed Russia from responsibility for the peripheral states of the USSR. Russia only wanted negative control over these nations — that they not become hostile to Russia or permit potentially hostile forces to be based there. It maintained the system in which the central government accumulated state-based revenue and distributed it to the regions.

Collapsing Internal Unity

Two things happened that again weaken Russia's leverage. The West began encroaching on states Russia saw as crucial, first the Baltics and then Ukraine. Then, the foundation of the Russian state, oil prices, experienced a catastrophic decline. The reasons for this decline had to do with China, which will be discussed next. China kept the price of oil, as well as other commodities, high because of its export of manufactured goods to the West. With the 2008 crisis, Chinese exports declined and never fully recovered. Oil prices were maintained at high levels until 2014 because of the consistent expectation that exports would return to pre-2008 levels. They did not for various reasons. When the markets finally understood the secular shift in the energy markets, prices collapsed.

With that collapse, the primary tool for maintaining internal unity collapsed as well. Over time,

reserves will be eroded and the ability to maintain the federation budget, and, therefore, transfers to the regions will decline. Without those transfers, the areas outside of Moscow and St. Petersburg, both critical to Russia and with resources of their own, will find themselves in declining economic condition similar to the 1990s. Their only option will be developing taxation or production systems on their own and, in doing so, Moscow will become less and less relevant to the regions. As a result, the federation may not be overthrown, but will simply fail over time.

Historically, the method for maintaining control would be the use of the security apparatus to compel cohesion. However, the FSB is compromised, being part of the oligarchic system diverting funds, and it is obligated to maintain the cohesion of the system. The compromise that created a solution for the crisis of the first decade after the fall of the Soviet Union could sustain itself only with the creation of an advanced industrial economy using commodity exports for capital, or with sustained high prices for commodities. The first did not happen for structural reasons and also because of diversions of income. The second could not happen because commodity prices vary.

It is our view that the decline of commodity prices is actually a fundamental readjustment to the system. The shift from industrial to service exports, the long-term contraction in Western economic growth and the development of new modes of energy production mean that there is no secular force driving the rise of oil. As it stands now, the emergence of new economic powers, which will certainly happen in the next 25 years, is likely to be matched with new sources of energy, including hydrocarbons and others.

Conclusions

The contraction in oil revenue will have long-term consequences in Russia. There will neither be sufficient resources for Moscow to sustain the region, nor an effective security apparatus to compel unity. From this, it follows that well before

2040, the Russian Federation will at best operate as if it is a confederation, with regions linked but not under Moscow's control. Alternatively, this may be combined with genuine secession of various regions, particularly in the High Caucasus, the Pacific Maritime region and Karelia. Whatever the details, the likelihood of Russia remaining intact is low.

In the interim, the danger of conflict with Russia rises as it weakens to the point that it can no longer sustain a significant military capability. The use of this force both internally and, more importantly, externally in order to maintain a sense of embattlement that has frequently fueled Russian unity increases as the regime in Moscow sees itself under threat. It should also be emphasized that as Moscow loses control of the periphery, a major issue arises: control of Russian nuclear weapons. This may become an extremely unsettling and even dangerous situation.

China

Global capitalism seems to require a country or region that specializes in low-wage labor in order to produce baseline products for markets. Before China, it was Japan. In the late 19th century, it was the United States. The low-wage country experiences very rapid growth and in turn loses its comparative advantage on wage rates and develops an advantage in some other area. This is an inevitable process where the low-wage producer can either fail altogether or become a more advanced economic power. The midwife for this shift is an economic and financial crisis as the high-growth period ends – usually due to financial dislocations and rises in wage rates – and a new model emerges. Sometimes that new model develops relatively seamlessly, as it did in Japan. Sometimes the transformation results in social and political chaos.

Growth Turns into Economic Malaise

China has been maturing since the early 2000s, transitioning from a low-wage high-growth econ-

omy, to a lower-growth, higher-wage economy. It reached its inflexion point in 2008 when its ability to export contracted both because importing markets were in financial crisis and its wage advantage was evaporating. The latter was due to China's financing of inefficient business, which drove inflation, but also the inevitable rise in wages in an environment where skilled labor was at a premium. China never recovered fully from 2008 and has been bypassed by other countries as low-wage producers. As an example, production in Mexico is less expensive than China at this point.

The Chinese fear in this circumstance was unemployment. During its rise, the Chinese Communist Party was heavily supported by the eastern cities, which were experiencing mass unemployment. The party understood the threat of joblessness better than anyone. Therefore, in spite of the changing landscape of the international economic system, the Chinese maintained a strategy of full employment, which, put another way, was a strategy of maintaining businesses that were operating at minimal returns or even at losses, through aggressive lending.

This compounded the problem. It reduced the rate at which exports were declining, but only created a core countervailing force, which was inflation. The more inflation rose, the less competitive Chinese products were on the global market and the more money had to be pumped into the system in order to sustain jobs. Thus, China's competitiveness dropped. The fear of unrest due to unemployment forced the Chinese to try to limit the inevitable adjustment of the economy to its new reality. Unemployment rose along with the price of labor and China's ability to export declined further.

The solution normally would be to increase domestic consumption. But the reality of China was unlike that of Japan before it. The Chinese had a massive, poor population in the interior, where household incomes for more than a billion people were \$4 a day or less. Increasing consumption of the type of products China had exported among this group was severely limited, while increasing

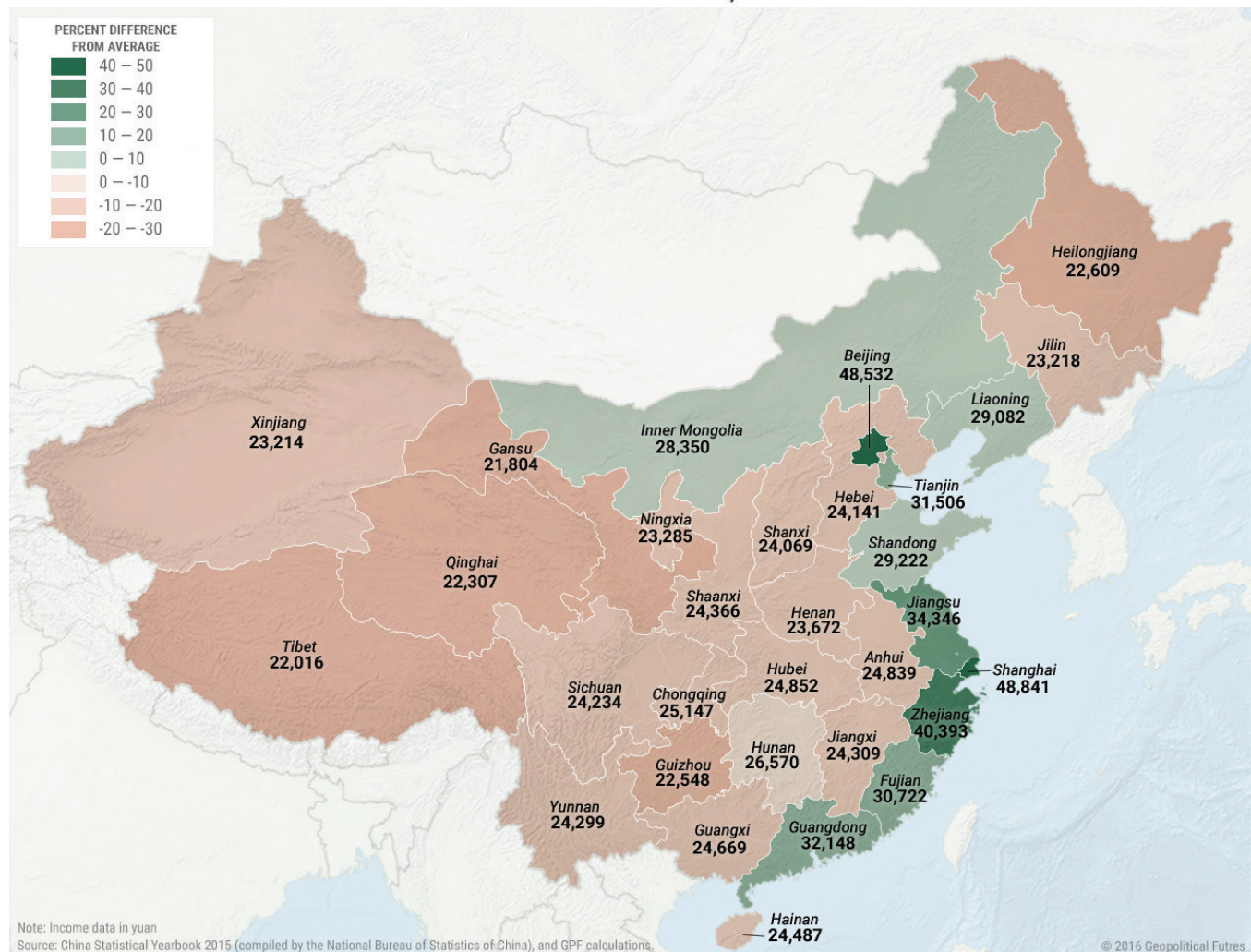
consumption in regions along the coast, where unemployment was now rising, was equally difficult.

China's final strategy was to shift its exports from low-end goods to higher-end technology. Apart from the capital expenditure needed to do more than simply assemble iPads, the problem was that the Chinese were trying to solve their problem by entering an already enormously competitive market. They were going up against the Americans, Germans, Japanese, South Koreans, British and others. The idea that China could rapidly enter this market and increase exports enough to make a difference was unreasonable.

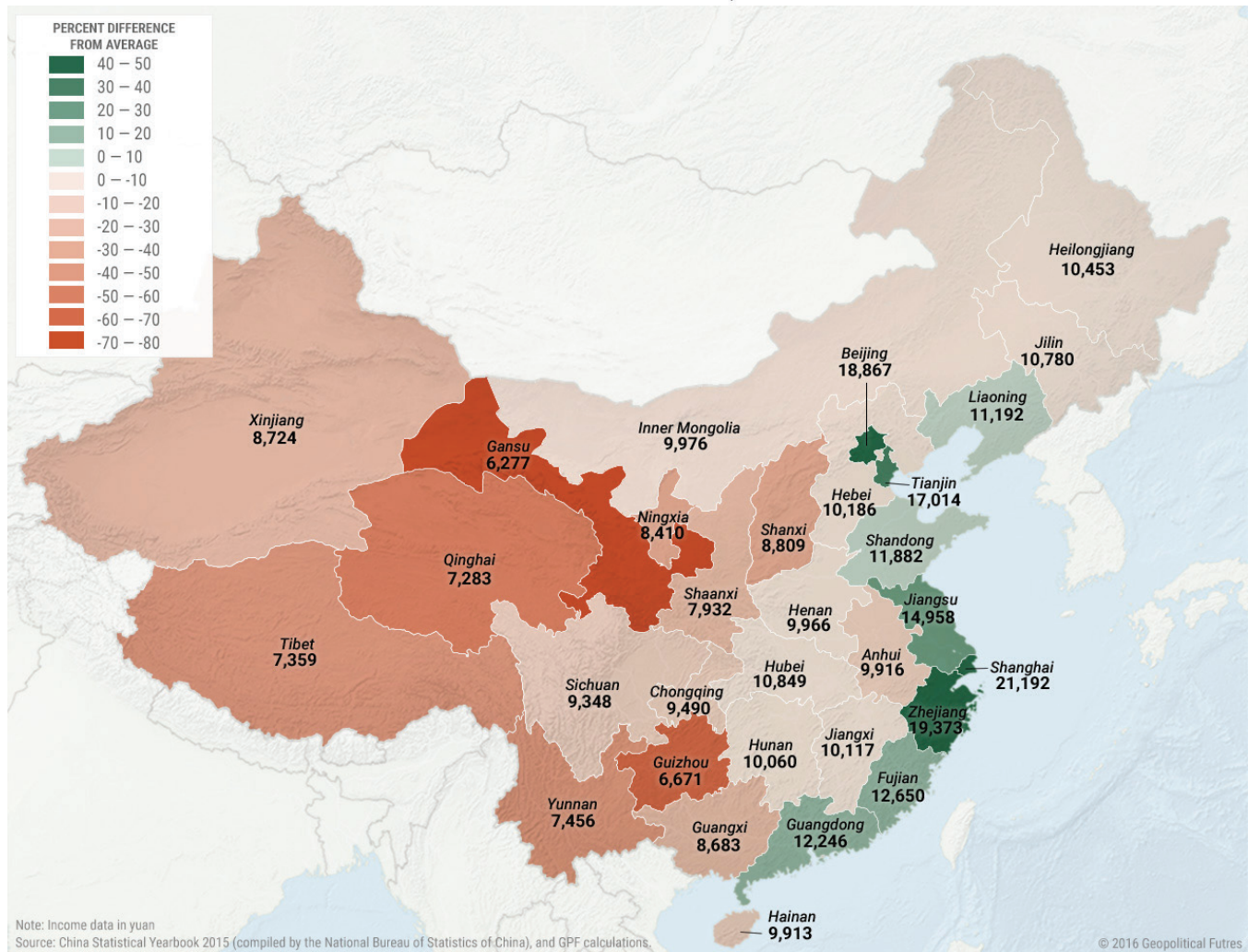
Regionalism Re-emerges

The problem had, by the mid-2010s, turned from a primarily economic issue into a political one. A large number of Chinese in the interior region had participated only limitedly in the economic boom and were faced with a class crisis and economic disappointment. The migrants to the coast were facing both inflation and potential job loss. The coastal economic elite, who had prospered dramatically during the growth period, were concerned about their position and moving assets and capital out of China en masse. They also resisted massive transfers to the interior.

CHINA'S ANNUAL PER CAPITA INCOME, URBAN HOUSEHOLDS



CHINA'S ANNUAL PER CAPITA INCOME, RURAL HOUSEHOLDS



China now began to face a core problem. When the country is open to the rest of the world, the coast becomes prosperous, the interior remains poor and the state, torn between the two, is incapable of maintaining political cohesiveness. This is what happened in the 19th century when the British forced China to open itself to trade. When China is enclosed, so that foreign interaction does not create internal stress, China remains relatively poor but cohesive. This was Chairman Mao's strategy, isolating and unifying China. Deng Xiaoping, who led China until 1992, gambled on having his cake and eating it too. It fell to Xi Jinping, the current Chinese president, to try to deal with the demons Deng had unleashed.

Xi fought to bring unity by carrying out purges of those he said were guilty of corruption, in order to assert his control of the party and make clear the consequences of disobedience. He also crushed any opposition group that might have been forming and cracked down on social unrest by utilizing the security system that remained intact and continued to obey Xi and the party. He did not go so far as to try to break the coastal elite or expropriate massive wealth and, therefore, walked a tightrope between Mao's strategy of enclosing China and Deng's of simply encouraging the Chinese to enrich themselves. He is neither Mao nor Deng, but a bit of both.

In a country where the contradictions are so deep, the ability to find a middle ground is limited. Xi's

challenge is to rationalize an economy grown dependent on loans that act as subsidies, stabilize the resulting financial system, maintain maximum possible employment, limit the decline of exports, placate the interior and, finally, maintain the central position of the party, the only unifying element in China.

The sheer number of contradictory demands makes subtlety difficult. A highly nuanced approach means that no one problem can be solved. It will at best be mitigated. Therefore, over time, one or more of these aspirations is disappointed and those who were harmed by the failure will become hostile. The solution to this is increasing repression – hence the crackdown on corruption – which is at first highly targeted and, as the process continues, far more focused and intense. The less you can manage a situation, the more you must resort to the instruments the state provide you.

The Weakness of Dictatorship

Thus, the first response to this problem is what we are already seeing, dictatorship. But the ability of a dictatorship to work depends on the operational integrity of the state and its security apparatus, which in China primarily involves the People's Security Bureau – the Chinese FBI. But, ultimately, maintaining central control depends on the People's Liberation Army, which is the ultimate guarantor of the Chinese regime. China has ended the cycle that began with Deng's change of policy, and concluded with Xi's elevation. Therefore, the central question is: Will China now settle into a variety of dictatorship or will it fragment?

In predicting the cementing of a dictatorship, we would be arguing that the current situation in China will solidify. But to argue that, we need to argue that the PLA is sufficiently unified and will continue to be, in order to guarantee the dictatorship. We must also believe that the tensions between competing interests are not so great that the PLA will be drawn into these competing factions and join the competition, rather than suppress it.

In an inherently regional country, Mao was able to suppress and minimize regional interests. In crushing any opposition, he also crushed the distinctions that led to divergence between regions. But Mao is not solely responsible for creating this unity. Japan did most of the work of reducing the country to such penury that the desire for peace and unity overwhelmed all other considerations. Mao's strategy worked because Japan did the hard work.

Therefore, it is not enough to ask whether the security apparatus will impose dictatorship. This is already happening. And it is not enough to ask whether the PLA will hold together. The more important question is whether competing interests in a country divided by many differences, but most of all by wealth, can be suppressed by military force, or whether the wealthy coastal regions will resist their reduction to poverty while the state transfers funds to the interior. We also need to consider whether external actors linked to coastal interests will be drawn into the situation.

Japan on the Rise

This scenario, characterized by a declining economy and struggle to unify the country, will lead to China weakening and a vacuum emerging in East Asia. That vacuum will be filled by Japan. The country is the world's third-ranking economic power. Unlike China, Japan does not have to deal with a vast, impoverished population. However, the two countries do have some factors in common. Both went through an extended period of surging economic growth driven by low wages and exports. Like China, Japan reached the limits of this process in 1989-1991. The commitment to full employment confronted declines in exports and resulted in a financial and banking crisis that redefined the country, as happened in China after 2008.

However, Japan did not face a fundamental threat to its political system as a result. Japan enjoyed a social solidarity most countries lack. So long as it was able to roughly continue the commitment

to full employment, the social contract that was a key dimension of Japanese solidarity remained intact. It has been said that Japan lived through a lost decade (or two) because of minimal economic growth. But another way to look at it is that the country managed the transition from a high-growth to low-growth economy without social or political chaos.

Japan remains an enormous economy and a substantial military force, with the world's seventh largest defense budget totaling only 1 percent of GDP, which could be readily expanded. The country has maintained a substantial military capability for years. The variable is not whether it will have a military. That's settled. The issue is how it will use the military. And, at least as important, how it will use its economy.

In either event, we do forecast that Japan is even now, in many ways, the leading East Asian power, albeit an extraordinarily reluctant one. Its social stability and broad economic and military might create a power center. However, as China declines, the question of whether Japan will be the leading East Asian power will cease to be meaningful. By default, if not intent, the decline of China will make Japan the leading power and the pressures of that status will compel Japan to increasingly act in that capacity.

Conclusions

It is simple to forecast that China will not be the growth engine it has been in the past. Apart from cyclical factors, the process of controlling the country from the center is ultimately incompatible with prosperity. The resulting rise of regionalism would create regions that are wealthy and those that are not, causing constant turmoil.

It seems to us that the disparity in China is profound and widespread and not easily suppressed by a centralized dictatorship for several reasons. First, the reed on which this centralization would rest is the unity of the PLA and under stress this cannot be guaranteed. Second, the divergences

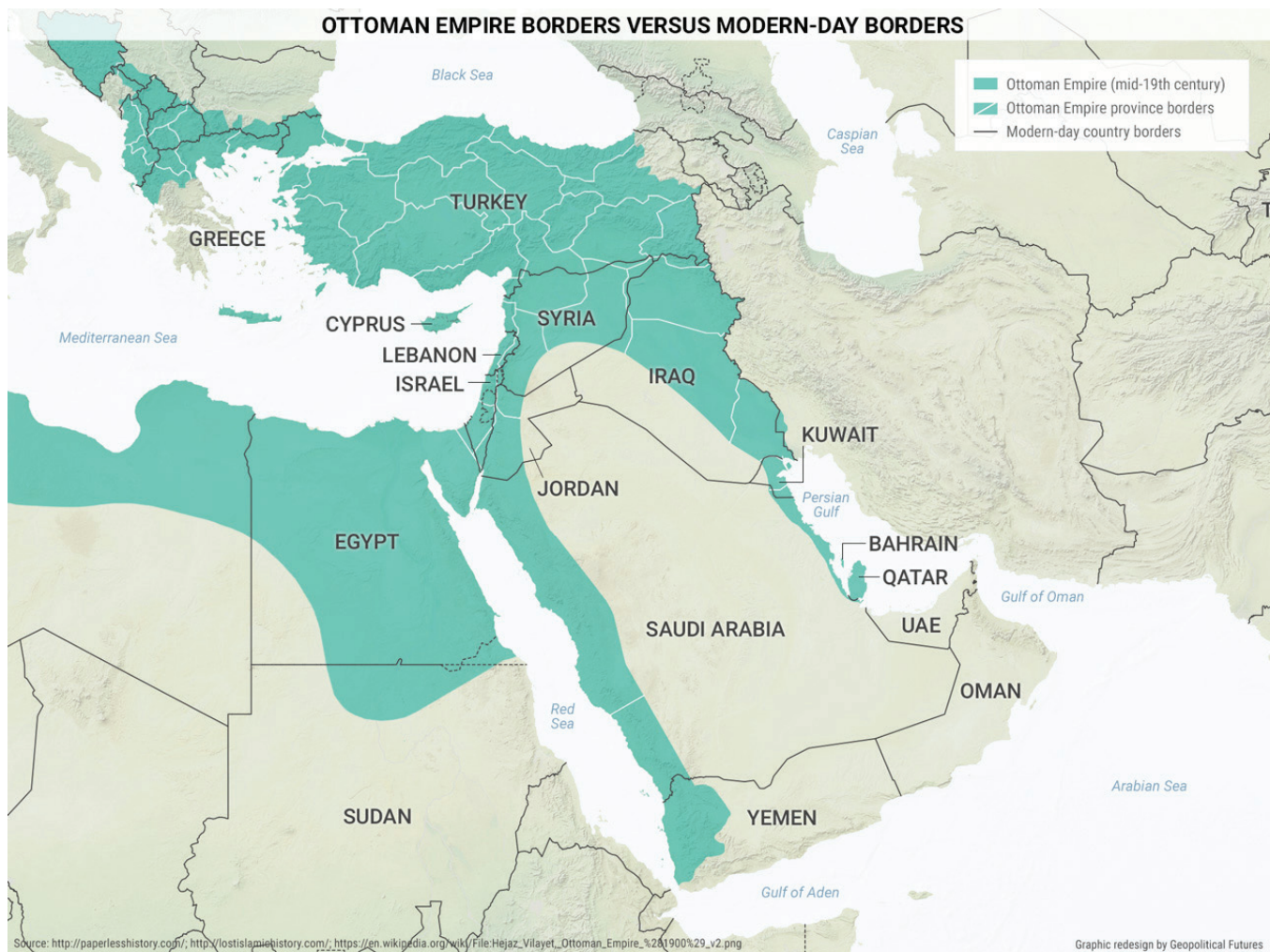
are so deep that within the next 25 years, we believe the other Chinese traditional pattern will re-emerge. Finally, and likely least important, the rest of Eurasia is in the process of fragmenting. Therefore, this general pattern would certainly serve as something of a template for the Chinese.

Out of this fragmentation of Eurasia and deterioration of the Chinese state and economy, Japan will emerge as the new regional power in East Asia by 2040. As we explained, its economic strength, military capabilities and social cohesion will make Japan the most likely country to fill the gap left by China.

The Middle East

When we speak of the Middle East, we are speaking of the core of the Islamic world. The Middle East is a small subset of the Islamic world, of course, but ever since the rise of Islam, the centers of gravity of the region have been Medina, Damascus, Baghdad, Cairo and Constantinople. When this core was stable, Muslims had a platform to expand into Iberia or the Hungarian Plain or east into the Asian periphery. When it was fragmented or subjugated, the Islamic world was without its geopolitical dynamism. Although the caliphate was contested by the 10th century and other smaller sultanates and emirates arose, the core Islamic geopolitical goal has always been the unification of the Arabian Peninsula, Turkey and the lands from the Mediterranean to Persia along with the Nile Valley under a single regime.

This region is the heart of the historic caliphate and the Islamic world pivots around it. The goal of uniting this territory was revived by the Ottoman Empire. Although the success of the empire was temporary, the dream of establishing a caliphate was not and other groups, with growing influence and capacity, have inherited this goal in recent years.



Fragmenting the Empire

The Ottoman Empire occupied the heart of the Middle East, its center located in contemporary Turkey. It united this region and expanded its influence through North Africa, into Central Asia and deep into southeastern Europe. The Ottoman Empire collapsed after World War I, along with the Habsburg, Hohenzollern and Romanov dynasties. Part of its collapse originated in an Arab uprising supported by the British and centered in Arabia. But by then, the Ottomans were crumbling and the emerging empires, particularly the British who were focused on the region because of its lifeline to India and the Suez Canal, assumed effective control of the region.

With the fall of the Ottoman Empire, Turkey emerged as a distinct republic. The Ottoman prov-

ince of Syria was divided into Lebanon, Palestine and Jordan, as well as the rump state of Syria. Iraq had as its heartland Babylonia and the lower Tigris and Euphrates Basin, with its boundaries varying over time. But the borders created by the British and French were fundamentally artificial. There had never been a state of Jordan. The British had supported two Arabian tribes fighting the Ottomans in World War I, the Hashemites and the Saudis. They favored the Saudis to rule Mecca and Medina and gave the Hashemites the area east of Jordan, Transjordan, which was later shortened to Jordan. They also gave the Hashemites Iraq. The area north of Mount Hermon was given to the French, who carved out a Christian state on the Mediterranean that they call Lebanon, after the mountain, lacking a better name. Palestine was created from a district of Syria.

The point here is that the fragmentation of the Middle East was inevitable with the fall of the Ottoman Caliphate. However, it was delayed by two sequential forces. The first involved the British and French, which had a double interest in the region. One was the Suez Canal and access to their colonies. The second was access to oil. This gave them, particularly the British, an incentive to maintain balance in the region. The second factor was the Cold War. The U.S. strategy of containment made Turkey and Iran critical to American interests. Unable to break through this barrier, the Soviets leapfrogged the line, taking advantage of processes in Iraq and Syria that created pro-Soviet regimes, following alignment with Egypt. As a result, the United States aligned with Israel and Jordan. These swirling alliances locked into place regional geopolitics by installing pro-Soviet dictatorships in some countries, and pro-American monarchies in others, created originally by the British, many as artificial as the secular states.

When the Soviet Union collapsed, Syria and Iraq lost their foreign backing, became entirely responsible for their own regimes' survival and, therefore, became even more repressive than before. The monarchies, having lost their fear of the Soviets, became more concerned about jihadis, many of whom fought the Soviets in Afghanistan, and returned home. The secular states lost all ideological pretensions and became personal dictatorships. The monarchies sought to defang the jihadis by co-opting them, a delicate operation.

Re-establishing the Caliphate

Al-Qaida developed out of this soil. Its intention was to recreate a caliphate. To do this, it needed to take control of at least one of the core states in the Middle East, as the foundation stone for their project. Its analysis of the situation was that the Islamic masses in general, and the Arabs in particular, were completely demoralized having been dominated by the Ottomans, Europeans and Americans. The Arabs did not believe that they had the strength to challenge the latest power, the Americans. In addition, existing regimes were

complicit with the United States and would work with the Americans to suppress uprisings.

Al-Qaida thought two things were necessary to achieve its goal. First, the group wanted to demonstrate the United States was not invincible. It wanted to prove that either the U.S. was too weak to fight or, better yet, was prepared to fight and could be presented as the enemy of Islam. Second, al-Qaida wanted its demonstration of power and the American response to trigger a jihadist uprising against existing regimes and create one or more Islamist states.

This strategy was the origin of 9/11. It succeeded in posing a challenge the United States could not decline and drew the U.S. into multiple conflicts in the Islamic world. Phase one was achieved, but the second phase was not. There was no generalized Islamist uprising in the region, at least none that came close to overthrowing regimes. In this sense, al-Qaida failed during the time it was the central figure in the Islamist movement.

However, two other opportunities emerged. The United States, having failed to create an effective pro-American regime in Baghdad, convinced itself after its 2007 agreement with the Sunnis – which they called the surge – that Iraq was sufficiently stable to allow withdrawal. But Iraq destabilized as the Americans withdrew by the end of 2011. The second opportunity for al-Qaida came with the Arab Spring that triggered an uprising in Syria, which quickly became an armed insurgency by the summer of 2011. It was an uprising of various factions with the single goal of destroying the secular dictatorship that governed Syria. What the rebels intended to replace the dictatorship with was unclear. Around this time, in Iraq, a successor force to al-Qaida emerged, dedicated to the same goal but following entirely different tactics.

The successor force was Islamic State. Where al-Qaida was primarily focused on shaping the battlefield through the use of terror, IS sought to create the caliphate through main force. The size of its military capability is unclear, but the

smallest estimates put its numbers at about the 30,000 range. Given the area it controls, larger estimates of hundreds of thousands of effective fighters seem more reasonable. Islamic State's most impressive dimension is its ability to absorb defeat, regroup, hold and then advance. This is the measure of a military force. The ability to absorb defeat without collapse is critical, and IS has it. This means, in effect, that al-Qaida's goal has been achieved. Apparent failure turned into possible success, if not for al-Qaida then for its successor, the Islamic State.

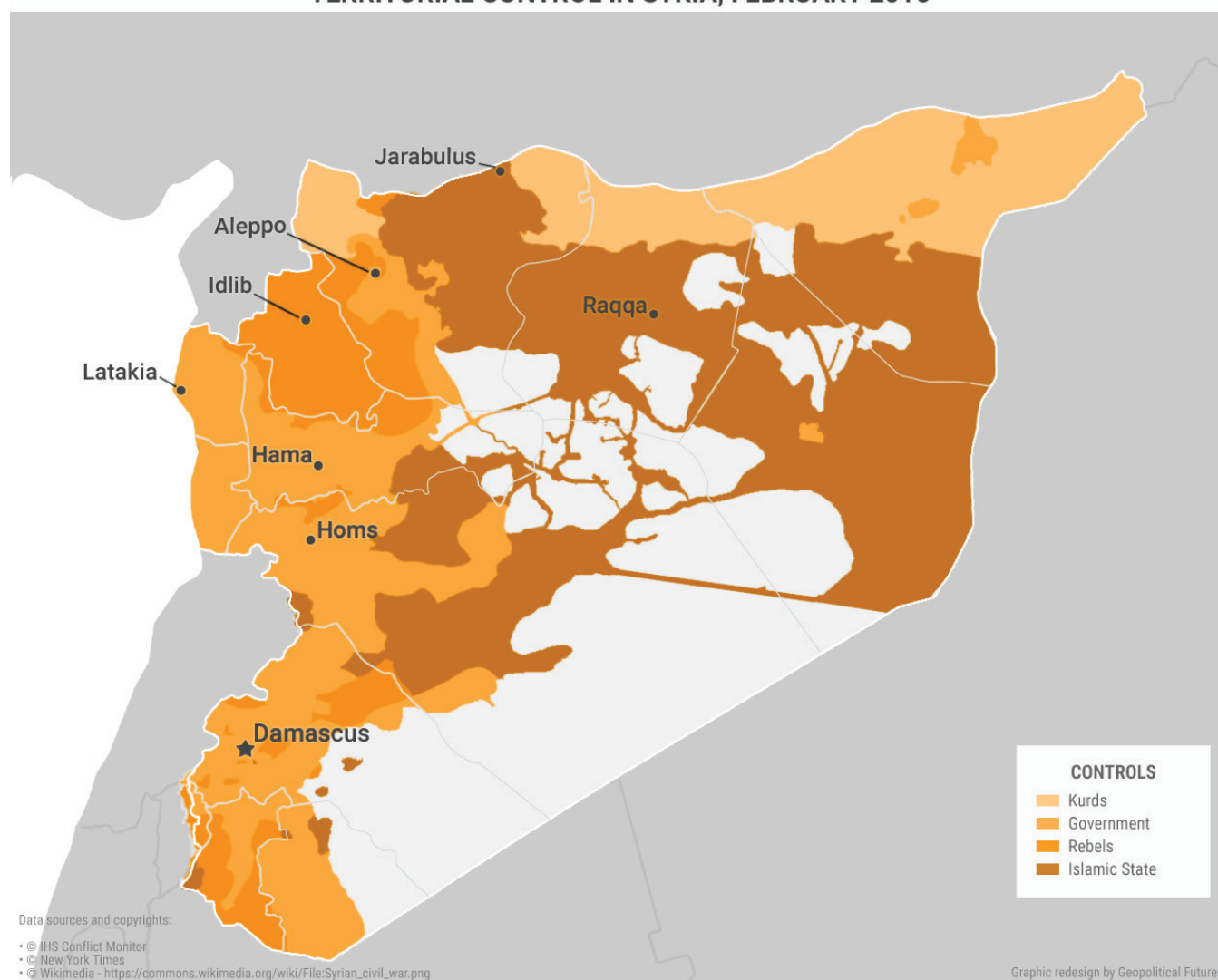
The jihadist movement has evolved from a global, sparse network capable of terror attacks, into a conventional force able to take and hold signif-

icant territory. IS has not captured Damascus or Baghdad, but this is not outside the realm of possibility. And it is clear that, within the territory it has captured, IS is in the process of creating a state governed by its principles.

Opposition to Islamic State

Historically, any such movement would have been crushed by the major powers. With the American withdrawal of its multidivisional force in Iraq, the U.S. effectively opened the door to IS. However, given its historical performance in the region, it is debatable whether the U.S. could have both defeated IS and also pacified the areas it had controlled. The United States has learned, as we

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discussed previously, that a balance of power strategy is far more effective than the use of direct force. In the Middle East, this means that the United States will provide support on the margins – from supplies to training to airstrikes – but it will not provide the main force needed to defeat IS. First, it does not have sufficient force in the region without major mobilization and, second, any victory achieved in this way will result in occupational warfare for which the U.S. is less suited.

Therefore, although it opened the door to a force like IS, the United States will not take primary responsibility for containing it. Syria and Iraq are surrounded by four major powers: Iran, Turkey, Israel and Saudi Arabia. At this point, each is content not to engage IS. Some, like Turkey and Saudi Arabia, might not be averse to a contained, Sunni military force waging war as long as it does not involve them. Iran is prepared to support a proxy force like Hezbollah, but is not in a position to engage in a major confrontation with IS. This is both because the logistics of large-scale power projection are beyond them and because the internal political situation in Iran might be inordinately strained by a major war effort. Israel is clearly averse to IS, but its conventional war-making strategy is to launch a rapid strike at an enemy's center of gravity and bring a war to a rapid end, so as to avoid a war of attrition. However, the structure of IS' military forces makes it difficult for Israel to identify a clear center of gravity, particularly considering the extent of Islamic State's territory. Israel cannot afford the rate of attrition that breaking IS might require.

At the moment, there is an assumption that IS is being contained by proxy powers, or that it will exhaust itself. We regard both of these assumptions as unlikely. The proxy forces facing IS have proven incapable of recovering the cities of Mosul and Ramadi, and have been unable to force massive withdrawals in Syria. IS is unlike any force that has been seen in the past in the region. It is a large, effectively multidivisional organization with an effective command and control system. Islamic State is not yet a nation-state but is in the process

of creating one. To be more precise, given the fact that all the states in the region are artificial, IS' territorial reach is no more artificial than any other. Moreover, given its size, ideology and apparent solidarity in the face of defeat, it is a force that is likely to expand its territory rather than contract under current circumstances.

Islamic State's strength will be a challenge when its reach goes beyond the frontiers of the major powers. All of its opponents will react at that time, but only two are capable of extended offensive activity: Iran and Turkey. Iran's ability to engage and defeat IS has thus far been limited to supporting some Shiite militias. In order to act effectively, it will have to strike with concentrated military force. Under these circumstances, the United States may go beyond simply supporting the Iraqi Army and vastly expand its air campaign against IS. This is not something we expect to happen in the short term, but depends on whether IS will become a greater threat over time. But in such a case, if the Iranians are forced to commit large numbers of forces against IS, they will be in a precarious position. They will either be dependent on U.S. air support or fear that the U.S. could turn against Tehran. Therefore, the Iranians would be taking a major risk by moving a significant force into north and central Iraq, not knowing what direction the U.S. might take. They would have to hedge their bets.

That would leave responsibility for confronting IS to Turkey. The country has been prepared to allow IS to engage regimes it opposes in Iraq and Syria, but has not allowed IS to advance into its territory. Given the dynamic of IS and its ideological and strategic goals, Turkey cannot assume that it will not advance. Therefore, Turkey is reluctantly being forced to plan for such operations, and, if it carries them out, would need American air power and perhaps other support to implement the attack effectively.

Conclusions

By 2040, we expect Turkey to be forced into the position of challenging Islamic State. This situation will be, in effect, the return of the Ottoman Empire in Arab territory. In an operation against IS, we expect Turkey to be successful, but its success would draw Turkey into an occupation that it could not easily withdraw from. Conclusion of such an occupation would be impossible without the use of more force. Such an increase in troops would, of course, be difficult to carry out and the Ankara government is far from eager to undertake this strategy. The major military force operating to the south of Turkey is unpredictable and Turkey might be forced to take military action, despite its reluctance. This possibility will become a certainty should the fighting along its border spill over into Turkey, which is not a negligible possibility to say the least.

Turkey is the largest economic power in the region. It has the largest military force and the ability to project economic and military power in multiple directions. Regardless of current political issues, the move against IS will set in motion a development that is inevitable: the emergence of Turkey as the dominant regional power. This power will not be limited to the south, but will extend to the northwest into the Balkans and north into the Black Sea Basin. The ideology of Turkey is unclear. The precise mixture of Islam and secularism is undefined. But the fact is that its reluctant struggle against IS will project Turkey into the position of pre-eminent power in the region by 2040.

There are many military and economic barriers challenging Turkey, from the highly fragmented and divided Kurdish population of the region, to events as far away as North Africa. However, Turkey is the most substantial nation-state in the region and struggling as it is with internal issues, it still remains united. We are watching the Middle East, Europe and the former Soviet Union experience various sorts of fragmentation and conflict. As this fragmentation intensifies and creates vacuums, we believe the vacuums will be filled, if

not exclusively then to a great extent, by Turkey. Therefore, we will see the country emerge as the pre-eminent regional power.

Conclusion: The World After Eurasia

The persistent theme in our vision of the world in 2040 is that Eurasia is in disarray and will be presenting a completely different profile, a less powerful one, to the world. The decay that we have seen in Europe and Asia following World War I is now reaching its conclusion. The Eurasian land mass will not be turned into a desert by its enemies. From Europe to China, there are extraordinarily capable and creative populations that will continue to create wealth for themselves and others. But all of these countries – with the exception of India, which is already divided in many ways – are undergoing a process of fragmentation that will reduce their weight in the international system.

As Eurasia's fragmentation continues, the logical outcome is the rotation of powers. Dominant powers at the center of Eurasia will become increasingly ineffective. At or near the periphery of a severely weakened Eurasia, we expect to see three regional powers emerge, the result of a combination of geographical location and intrinsic social,

economic and military strength. They are not the vast countries that have traditionally dominated Eurasia, but smaller yet still substantial states: Japan will return to being the major East Asian power; Turkey will be the dominant power in the Middle East; and Poland, leading a coalition from the Baltics to the Black Sea, will become a major player in Europe. Each of these countries will take their place, perched on the edge of the Sino-Russian land mass, as ascending powers in a rotation that is constantly underway in the world.

At the same time, some areas that are currently not seen as significant will emerge as economic powers, if not yet strategic challenges to the United States. They will be the high-growth, low-wage countries, and in many cases, simultaneously advanced industrial countries.

We are particularly interested in the evolution of two regions. The first is Latin America, where we have seen a remarkable level of political stability in the past 15 years or so, compared to prior periods. We have noticed an influx of foreign direct investment in recent years, indicating investors have recognized the region's advancements, particu-

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larly in countries like Mexico, Colombia and Peru. Brazil is, of course, the major economic power in the region and receives the bulk of investment currently, but even if Brazil holds its economic status, other nations will emerge in Latin America. This will be the outcome of increased stability both in Latin America itself and the Western Hemisphere in general, which has become vastly more stable than the Eastern Hemisphere. This forecast began by addressing the striking fact that the two hemispheres are diverging dramatically. As a result, Latin America is in a strikingly important position, yet still in an early stage of development that will likely last until 2040 for most countries.

Nearly as interesting is East Africa, from Ethiopia, Kenya and Tanzania and to Uganda. Early stage productivity has been developing rapidly in these countries and they are becoming an alternative – in an early stage – to China. The same may be said of the less developed countries of Asia, like Myanmar, Laos and the Philippines. Most interestingly, entry-level and advanced industries exist in many of these countries, including Mexico and Indonesia.

This forecast has reflected on the first consequences of the long cycle that began in 1991, with the collapse of the Soviet Union. The cycle of European domination lasted 500 years. We cannot say how long the American Epoch will last, but we can say, given the increasing disorder in the Eastern Hemisphere, we see no indication at all that the cycle is concluding. And such cycles take centuries. Certainly, the basic framework we have described – one destabilizing hemisphere and one stabilizing hemisphere – may only be the first phase of the epoch, but it is the one that will define the next 25 years. It will be a dangerous time, as are all times. It will be filled with error, miscalculation and foolishness, along with brilliance, precision and wisdom. All of these matter on a certain level, but in the long run – too long for most of us – these things shrink in significance, as history unwinds. A quarter century is a good time frame to see the contingent and the inevitable play out their respective hands.



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