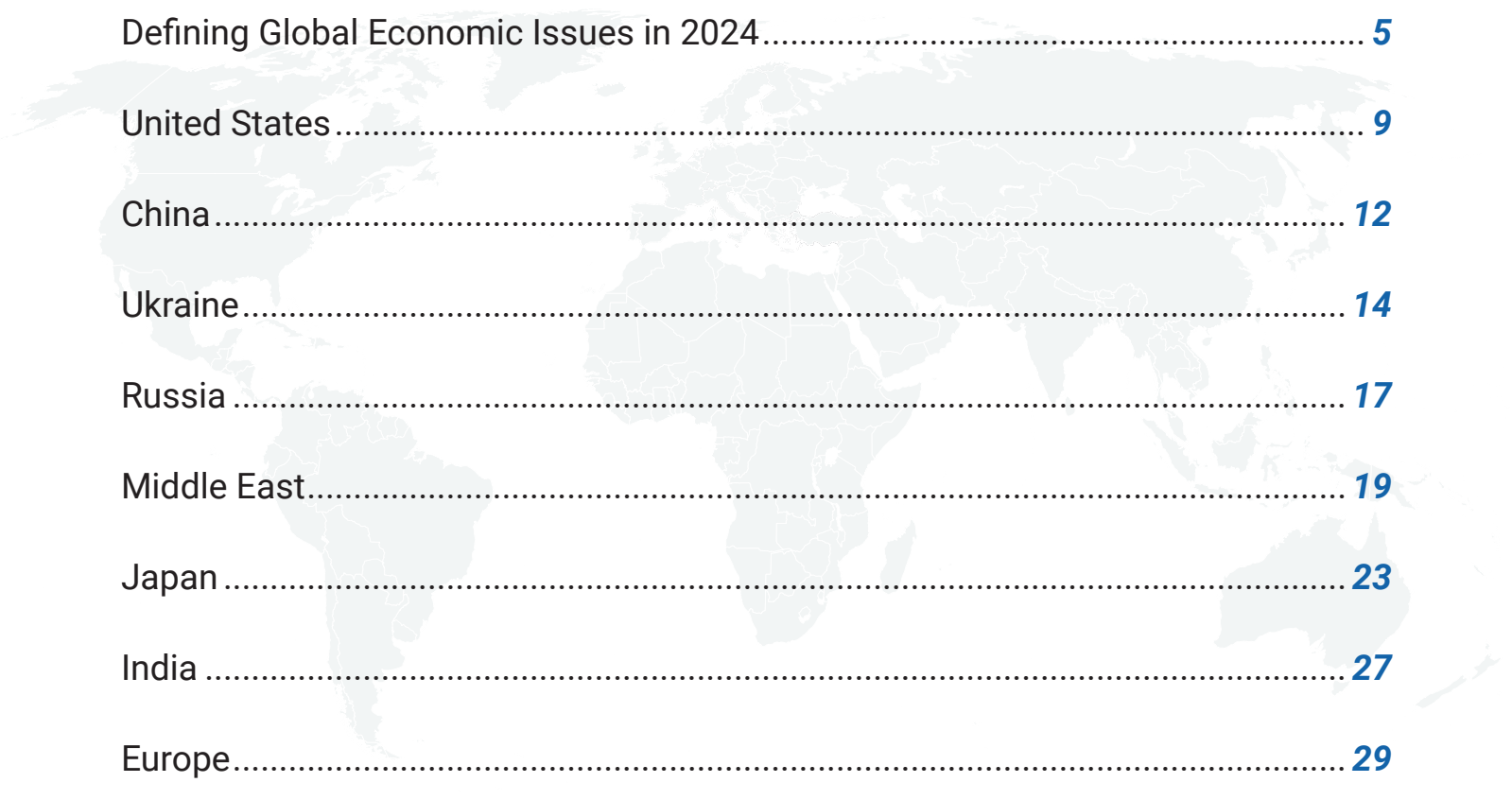


THE WORLD IN 2024



Forecasting national behavior is built on continuums. One continuum is a nation's history. Another is our analytic method. Simply looking at nations will not provide a systematic forecast. The method, no matter how tested in the past, cannot produce one. Only a grasp of history, filtered through a forecasting method tested consistently and repeatedly, will yield a realistic forecast. We don't look at a nation's every issue; we focus on the issues that reveal patterns and indicate change. Thus, our forecasts will look at the past before they look at the future.

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Global Forecast for the Next Year

This is not a detailed forecast of the fate of every country for 2024. Rather, it is an attempt to identify the main trends that will affect the future direction of the international system.

The United States

The United States remains an ineluctable factor in global affairs. Its status as the world's largest economy and strongest military power inevitably entangles it in almost every significant global and even regional issue. Financially, the U.S. is often drawn in not because of anything the government does but because crises usually depress prices, which in turn attracts private U.S. capital. When it gets involved militarily, the U.S. is typically seeking to prevent or contain instability that could directly or indirectly threaten a vital U.S. interest. In essence, the U.S. is repeatedly pulled into conflicts, whether by choice or by the actions of foreign players.

Forecast: The United States will experience more intense economic problems, as well as social and political strife, until the November elections. These are laid out in the full U.S. forecast.

The Ukraine War

The ongoing war in Ukraine remains the most persistent military issue, enduring for two years without a decisive victor. Ukraine, hindered by logistic limitations, has been unable to mount a significant advance toward Russia. Its American and European sponsors are increasingly focused on preserving a sovereign Ukrainian state without dramatically escalating or extending the war. Initially, Russia relied on the deployment of massed but inadequately supported tanks, but it has long since shifted to attritional warfare, aiming to gain terrain and break the Ukrainian line. Despite some successes, Russia has not come close to either crippling the Ukrainian army or breaking through and encircling even relatively small areas.

Russia's primary problem is demographics. An infantry-centric strategy against a prepared adversary demands a substantial number of troops. The Russians are now discussing drafting large numbers of civilians and recruiting foreign nationals. However, it takes many months to train a competent soldier, and sending poorly trained novices to the front is inefficient and likely to fail.

A cease-fire in 2024 is increasingly unlikely. Conditions were right for an agreement last year, but exploratory talks went nowhere. Though a more static battlefield normally would favor a deal, the Russians have not offered one. Having initiated the war and absorbing massive casualties, they do not want to return home with nothing to show for it.

Cease-fire or not, Russia will continue to seek out allies. Most significant would be partnerships with neighboring countries that can serve as a buffer with NATO. Hungary appears open to such a role, while the Balkans are as volatile as they've been in some time. Meanwhile, NATO's expansion to include Finland and Sweden will tighten part of the containment line.

Forecast: Regardless of the war's outcome, Russia will intensify efforts to create areas of influence designed to block foreign, particularly American, intrusions. The Balkans will be a key focus, as will Iran, Saudi Arabia and others in the Middle East. As is the case with many Russian maneuvers, this strategy will appear offensive but is actually defensive. The U.S. will respond with economic and military countermeasures short of war.

The Israel-Hamas War

An analysis of the Gaza conflict must start with two realities. First, no Arab power has meaningfully contributed to the defense of Hamas. The Arab world is deeply divided and afraid of upsetting the regional balance of power. Second, Isra-

el's worst intelligence failure since 1973 preceded Hamas' attack. Fifty years earlier, the Israelis knew Egypt and Syria were massing troops, but they underestimated the likelihood of an imminent attack and were unprepared when it came. In 2023, Israeli intelligence failed to recognize what Hamas was doing close to Israeli territory. From Israel's point of view, the common thread between the intelligence failures was a tendency to discount the significance of the threat even after detecting it.

Forecast: The outcome of the war and the failure to aid Hamas will inflame the Muslim world. Islamic groups' struggle to regain credibility will lead to more attacks on Israel, but nothing significant. More important are the deep divisions evident within the Muslim world. Between the Islamic State's suicide bombing in Iran and the ensuing exchange of missiles and drones between the Iranian and Pakistani governments, the signs of trouble are clear.

In Israel, the intelligence failure and the performance of the military will come under scrutiny, but the most intense focus will fall on the politicians who presided over the war. In the months before Hamas' surprise attack, controversial judicial reforms spawned widespread protests, including within the military, which likely contributed to the lack of attention on Gaza. The Israelis will also need to re-examine their relationship with the United States, with an eye toward more security agreements. Before the war, Israel had assumed it had sufficient force to protect itself without U.S. help. Its assumption was correct,

but not by the margin it thought.

China

In most recent years, China would have been near the top of any global forecast. However, in the past two years or so, the Chinese economic miracle ended. China's spectacular rise was based on exports and investment, and its most important economic partner was the United States. But the cracks that were already apparent – weak domestic consumption, excessive investment and a tired growth model – were greatly exacerbated by the outbreak of the pandemic. Growth stabilized in 2023 but at a level too low to restore public confidence, forcing the regime to reconsider the foundations of its claim to legitimacy. Despite a summit between Chinese President Xi Jinping and U.S. President Joe Biden, investment from the U.S. and demand for Chinese goods have not, and likely cannot, return to pre-pandemic levels. Obviously, this has rattled the Chinese regime, as evidenced by the increasingly common disappearance of senior officials in the military and foreign ministry.

Militarily, although China continues to focus its rhetoric on Taiwan, more of its attention has gone toward the Philippines. Beijing and Manila were engaged in promising talks when Washington persuaded the Philippines to expand their defense alliance to include four more U.S. bases. The U.S. then reached a defense cooperation agreement with Papua New Guinea. Together, these developments strengthened the

U.S. line of bases, stretching from the Aleutians to Australia, directed at containing China and retaining U.S. dominance over the South China Sea. China's aspiration to control its access to the Pacific and beyond therefore remains blocked, and the U.S. would likely contain any attempt by Beijing to break out violently.

Forecast: China's economic problems are more visible to Chinese and others than are its military problems, but the regime is painfully aware of both weaknesses and will be focused on rectifying them. Chinese businesses and workers will be under intense pressure to increase production, with a particular eye on raising exports. Significant foreign investment will not return until China's basic economic situation improves. Therefore, we expect Beijing to concentrate on stabilizing its regime and society while increasing production. It took several years for China to decline to this point, and it will take at least that long to recover.

Conclusion

We regard these nations and conflicts as the most consequential for the rest of the world. Many others went unmentioned in this wrap-up, not because they don't matter but because we do not expect them to change significantly enough to impact the geopolitical system. In the United States, we anticipate more social, economic and political instability, but we see this as part of a historical cycle likely to end in a fundamental shift, not with this election but in 2028. The Israel-Hamas war will continue but at

a slower tempo. The Russians will be the most active, trying to secure their country and regain their status as a significant power. They have a long time to go to achieve this. Finally, China is in the midst of malaise, and in our view it will remain there for an extended period.

Defining Global Economic Issues in 2024

Almost a year ago, we highlighted several trends that would define the world economy in the coming years. Briefly, they were trade and economic realignment, stagflation, and volatility and a likely slowdown in the tech sector. These remain relevant as we head into 2024. But the coming year will also bring more clarity, especially as the new direction and dynamics of trade and investment flows settle into a new normal. Below, we discuss three issues that will receive particular attention from us in the year to come.

China's De-Risking Strategy

Earlier this month, Moody's issued a downgrade warning on China's credit rating, citing the likely costs of bailing out local governments and state-owned firms and a real estate crisis. The next day, the ratings agency did the same to Hong Kong and Macau, as well as several banks. Moody's said China's 2020 national security law and electoral reforms had degraded Hong Kong's autonomy, which raises questions about the rule of law and investor protections.

Coincidentally, Moody's decision came only days before the start of the long-awaited trial

in Hong Kong of China critic and media tycoon Jimmy Lai, who faces a life sentence on charges of colluding with foreign powers, most notably the United States. Hong Kong is also planning next year to tighten its counterespionage laws and potentially grant the mainland even more control.

At the same time, however, Beijing is stepping up efforts to attract more investment from abroad. In November, amid other warm gestures, President Xi Jinping finally met with U.S. President Joe Biden for their first sit-down in a year. China also held its twice-in-a-decade high-level review of the financial sector, the Central Financial Work Conference, which it said afterward supported the Chinese Communist Party's core vision of the banking industry. The role of finance, according to China's leaders, is to serve the actual economy, while the government is responsible for maintaining stability, controlling risks, and supporting local innovation and development. It was a dramatic change from the 2017 conference, when the primary focus was on managing imbalances created by shadow banking, local government debt and the real estate bubble.

The conference report also noted Beijing's long-term commitment to gradually opening the Chinese economy to foreign investment and private competition. The challenge is figuring out how to get from here to there. The pandemic, Western supply chain "de-risking," higher interest rates in the U.S. and Europe, and falling Chinese asset prices have created near-term liquidity issues for China. Moreover, China's leaders appear to be moving toward more, not less, control over the national economy.

As 2023 draws to a close, it's still unclear what's next for China, but whatever it is will reverberate around the world. If China fails to liberalize, or even further centralize control, a likely beneficiary will be India. Though not as attractive an investment destination as China, India is the single country that comes closest to replicating China's size advantage for foreign firms looking to shift or set up production somewhere else. Besides its favorable demographics, India also benefits from its foreign policy of nonalignment. In time, it could become a global economic power.

Supporting Ukraine

Wars almost always end in negotiations, but in the case of the Russia-Ukraine war, opportunities for leaders to sit down in 2024 will be few and far between. The problem is the election calendar. Russia will hold presidential elections in March, followed by U.S. elections in November. In between those, Europeans in June will vote for the next European Parliament,

which will appoint a new European Commission, the bloc's executive. Even Ukraine may hold presidential elections; they are scheduled for the end of March, though the government's position at the moment is that they should wait for the war to end.

Changes to Russia's top leadership are extremely improbable, and the next government will continue to reorient the Russian economy away from the West and dampen the impact of Western sanctions. In the U.S., social polarization makes for a tense political environment, and the economy remains the top focus. Barring a miraculous breakthrough by either side on the Ukrainian battlefield, the Biden administration would be taking a serious political risk if it stakes its reputation on ending the war.

Faced with the prospect of an even longer war, the U.S. and Europe will have to continue rebuilding their defense industrial bases. Russia, having switched to a war economy much earlier, has a major advantage. Western governments only seriously started increasing military spending in 2023, but prices and interest rates only went up through the course of the year. Additionally, with elections on the horizon, politicians are loath to hike taxes, cut social spending, or backtrack on plans to subsidize the green transition, industry and digitization. Western governments' budget constraints will become increasingly obvious toward the end of 2024, especially as supporting Ukraine demands more of their resources.

Against this backdrop, Western governments will have to put up the cash to sustain the Ukrainian state and, where possible, help the country rebuild. Private investors are not keen on investing in war zones, and Kyiv needs as many grants and low-interest loans as it can get. However, as can already be seen, election season will complicate and probably delay spending decisions, especially in the United States. What aid the West can muster will likely need to prioritize Ukraine's defense needs; the rebuild will likely have to wait.

Ukraine's economy depends almost entirely on Western help. Even to sell its goods abroad, Kyiv relies on the West to facilitate shipping or, in the case of the Black Sea, provide security support. At the same time, ordinary Ukrainians' dissatisfaction with the government and its conduct of the war has been gradually rising. Whenever Ukraine holds elections again, it can be sure that Russia will try everything to influence the outcome. After all, regime change has been the Kremlin's goal from the beginning.

Supply Chain Disruption

The third issue is the potential for security degradation to further disrupt global supply chains. The last months of 2023 have been among the most brutal in recent Israeli and Palestinian history. The Hamas attack on Oct. 7 traumatized Israel and undermined its sense of security. Israel's military response in Gaza has been brutal. The concern for businesses is whether the situation will disrupt global oil

supplies – which it could do if the conflict draws in Iran or other producers.

Such was the case in 2022 after Russia invaded Ukraine. That year, a spike in inflation led many countries to quickly raise interest rates, limiting their capacity to use expansionary fiscal policy to fight the weakening economic activity. And though inflation has since largely fallen, interest rates remain high and growth remains weak. This has created a certain resilience in demand; higher energy prices may well lead to higher food prices, but more developed economies will adapt.

Meanwhile, given China's limitations toward growth, and considering it needs to maintain good relations with the U.S. (and vice versa), energy demand will likely grow in 2024, potentially adding upward pressure on the price of energy. China and the U.S. seem to have reached an understanding, as evidenced by Xi Jinping's visit to the U.S. this fall, but that doesn't mean Washington will end the decoupling or de-risking policies it has promoted to ease its dependency on global supply chains.

The rise in global conflicts will accelerate this push toward de-globalization. Higher insurance costs for international shipping since 2022, especially in areas affected by war, have forced countries and companies alike to prefer secure trade over free trade. Reshoring, near-shoring and "friend-shoring" all suggest a trade-off between efficiency and robustness, with just-in-time global supply chains giving way to just-

in-case arrangements. This will affect labor too; demographic problems in Europe, Japan and China will reduce the supply of workers at a time when immigration restrictions are driving up the cost of labor.

All of this makes for a difficult business environment that has made firms more or less accustomed to making adjustments on the fly. Though the end of the cost-of-living crisis will relieve some short-term constraints

on policymakers, they will need to be creative as they rebuild public finances and protect governments from increased borrowing costs – all while trying to eschew unpopular austerity measures. Political support for moderate, liberal policies will remain weak, and economic policymaking will become more insular, which, while potentially effective at the national level, will likely harm international cooperation on important climate and technological challenges.

United States

Historical Context

The United States is defined by two cycles. One is a socio-economic cycle, the other an institutional cycle. The former changes every 50 years, the shift invariably concurrent with a new president. The change is triggered by a social and economic system that has become untenable. The new president is frequently celebrated for the change and the old president condemned, though they merely signal the shift. The institutional cycle changes every 80 years, normally linked to a war.

What we have this decade is an important and unprecedented event in which the institutional cycle and the socio-economic cycle are changing at the same time. They may neutralize or intensify each other, or they may transpire indifferent to each other. We believe that the latter is more likely because the two involve different processes.

The core of the socio-economic cycle entails changes in social visions and economics. The last shift culminated in the election of Ronald Reagan. The era leading up to the Reagan presidency contained deep racial divisions in the

country, so deep that the National Guard and Army paratrooper units were deployed to Detroit to deal with riots, arson, looting and sniper fire. There were many deaths. The president, Richard Nixon, was forced from office for (unrelated) criminal actions. People fought over profound differences in views of sexuality. And the war in Vietnam seemed endless – and endlessly polarizing.

There was also plenty of economic dysfunction. In cities, deindustrialization aggravated racial issues as job losses affected those already struggling to maintain a semblance of lower-middle-class life, throwing them into extreme poverty. Nationally, unemployment was at times above 10 percent, but among Black Americans in Detroit, for example, it was closer to 20 percent. Inflation – already high – climbed to about 14 percent by the end of the 1970s. To fight inflation, Nixon took the U.S. off the gold standard and froze all prices in the United States.

The greatest problem was a shortage of capital, which stifled the development and modernization of new technologies. Meanwhile, Japanese automakers began to dominate the U.S. market.

The previous model put forth by Franklin Roosevelt that focused on increasing demand had done its job but was now obsolete, and took the tax code with it.

Institutional structures shift every 80 years, the last one coming after World War II when subject matter experts of the class that had won the war made expertise the foundation of our institutions. This replaced the structure that emerged after the Civil War, which had replaced the founding structure. Again, fundamental institutional shifts are linked to major wars. The current wars the U.S. is involved in are not major conflicts and thus will not transform the internal structure of the United States.

This does not mean marginal changes won't happen, particularly when the idea of institutions extends beyond the federal government. One important shift underway is in the function of universities. University education is a vast and expensive industry whose economic and even intellectual viability is being questioned. We have seen the first round of this crisis in the government's attempt to reduce pressure on graduates by absorbing loans and building support politically.

Such pyramided liability is not uncommon in government and normally holds its ground until it fails. We would not expect a climax until the next major banking crisis, which we do not think will come very soon. A major banking crisis involves a general breakdown, not a small number of failures. Broad failures are infrequent, but

they happen, and the vast financial structure of universities and student loans will compound the problems.

Another example is the loss of faith in experts, which was put on full display during the COVID-19 pandemic. After World War II, experts were empowered not just to advise but also to act. The system worked but became increasingly less useful. Then, during the pandemic, medical experts were making decisions far beyond the scope of medicine. The experts were experts only in their fields, and their decisions had consequences for everything ranging from supply chains to childhood education.

We would expect an institutional crisis to become pronounced over this next year, even absent a disruptive major war, as routine political rage might materialize into something deeper.

Forecast and Conclusions

Currently, the economy has few imbalances and is likely to stabilize at a relatively strong level this year. Compared with previous economic performances, especially those of the pre-Reagan era, today's economy is more robust, with predictable imbalances that can be institutionally imposed, including by the Federal Reserve. The current sentiment in the political system and financial communities is actually positive. Distrust has not yet forced the economy into recession. Based on precedent, a breakdown would be unlikely. However, the usual pessimism that is generated during an election year

is at play. The challenger to the incumbent tends to magnify the problems at hand. The supporters can spread the pessimism, on which they may have little influence and try to turn it into a self-generating force. But the length of the campaign period from selection of candidates to the actual vote places severe limits on this strategy.

Even so, institutions of the United States are ripe for disruption. We are 80 years removed from the last institutional shift, so the moment is here, albeit with some flexibility. We would be more confident in a looming crisis if the U.S. were involved in a larger war involving U.S. casualties. However, we expect the Ukraine war to reach a negotiated end in the next year and do not see the Israel-Hamas conflict significantly impacting the U.S.

We are of similar mind on social and economic matters. The economy is much stronger than

it was in the 1970s and the 1930s, which were the last moments of economic breakdown in our model. We do not see a major breakdown in the next year.

Nor do we believe that the 2024 election will be the pivotal moment for the socio-economic crisis to come to a head. That won't happen until the election of 2028, almost 50 years after the previous marker, Ronald Reagan's election. We do not know who will be the next president, but we do not see the president as a very powerful figure. Aside from their symbolic role, presidents are trapped by any number of constraints outside their control.

It will be a noisy year, and there will be rage, but our model shows that this will not be the year of major shifts. The obvious caveat is if a much larger war breaks out. If that occurs, we obviously will have a different forecast and red faces, common in our craft.

China

A Cycle Unfolds

China's central change has long been economic. The country has been impoverished by wars, internal instability and the need to appear to be a great power. For much of its modern history, the Chinese economy remained weak. This shifted around 1982.

There is a cycle to the emergence of major global economies lasting roughly 40 years. It was first seen in the emergence of the United States. Following the U.S. Civil War, the United States was economically shattered. By about 1890, the U.S. began focusing on securing investment from and, even more important, exporting to Europe. By 1910, the United States was producing and selling about half of the world's manufactured products and exporting them primarily to Europe. This process was broken by about 1929, resulting in the Great Depression. World War I had cracked the foundation of the European economy, and by the mid-1920s, Europe could no longer absorb American production. Forty years after the American surge began, the U.S. economy went into crisis.

A similar process can be seen in post-World

War II Japan. Smashed by World War II, the Japanese economy began to recover by focusing on manufactured goods, which were exported primarily to the United States. About 40 years later, U.S. businesses and the economy, overwhelmed by Japanese products, generated political barriers to Japanese goods. The Japanese economy staggered and around 1990 went into a deep recession, which many call the Lost Decade.

China has undergone a similar process. In the early 1980s, the regime shifted the Chinese economy from producing for the domestic market to manufacturing exports, primarily for the U.S. but also for other nations. China sought foreign investment as well. As the American economy and then the Japanese economy appeared unbeatable, China appeared to have taken their place. China was the power exporter and investment target for several decades and appeared to be about to dominate the world. As in the other examples, this process generated economic limits, as well as political ones. The cities and the provinces along the coast got rich, while the poorer, underdeveloped interior regions got left behind. The economy began to weaken in 2020, and by 2022, that weakening

accelerated dramatically. As with the other cases, China's system faced economic and political barriers, and roughly 40 years after it began its rise, the Chinese economy went into failure mode.

It's important to note that in the other two cases, the economic process was closely linked to war. The U.S. went into economic crisis because of the Civil War, had a growth period, and then went into economic crisis as a result of World War I and did not recover until World War II. Japan went into crisis because of World War II and began its transition to recovery during the Korean War when U.S. investment and demand for supplies were critical factors. China did go into economic failure due to World War II and Japanese occupation, but its emergence in the 1980s was not linked to war.

Forecast and Conclusions

We see the Chinese economy slowly emerging from its slump in the year ahead. But China still faces internal tensions within both the population and the regime. The country's economic problems, when viewed closely rather than from the standpoint of models, have created significant instability. All of China's regions require investment, but the government lacks the resources to invest everywhere, which results in unemployment and business failures. This generates unhappiness in the population and attempts by the government to repress the frustration. We have already seen examples of this in China, and we expect it to continue or

accelerate in 2024 with increasingly repressive measures.

The same sort of instability will exist in the regime. We have already seen significant shifts in the government. The president is seeking to build a structure filled with loyalists. He is also seeking highly capable personnel able to develop the country. Many countries around the world seek similar capabilities, but this condition presents a paradox. Loyalty and competence are frequently contradictory. As a result, we would expect personnel shifts to accelerate in 2024.

We do not see military action against the United States in the year ahead, for the same reason that China has bluffed but avoided war in previous years. Any large-scale military operation would have to depend on naval action, and any naval action against the United States means facing large numbers of anti-ship weapons launched not only from the sea but also from bases with multiple layers of defense. The Chinese cannot risk a defeat as it would delegitimize the government. Given the quality of U.S. space-based intelligence and multiple layers of defense and attack, a Chinese victory would be far from certain, and the risk of defeat makes war initiation politically dangerous.

Therefore the major events of 2024 for China will be some degree of economic recovery and managing the unrest. The economy should be steady, and while it may grow in 2024, it will be nothing like it was in the previous growth period.

Ukraine

The war in Gaza, an election year in the U.S., the continued disruption of supply chains and oil markets – whatever the reason, there has been a lot of talk lately about the state of Western aid to Ukraine. Just last Thursday, reports emerged that the United States had run out of money to help Ukraine. This week, new reports said Washington may halt the supply of Patriot missiles – a proven defense system – at a time when Russia is pouring missiles and drones into its war effort to its west.

Naturally, reports like these have called into question Ukraine's odds of survival, let alone its chances of victory, as well as the West's overall strategy. Support for Ukraine isn't dead, of course. White House officials held a meeting on Jan. 8 with leaders from the technology and defense industries to discuss options for providing Ukraine with advanced U.S. equipment such as unmanned aerial systems and demining gear. This discussion took place as President Joe Biden's supplemental aid package faced delays in Congress. Meanwhile, German Chancellor Olaf Scholz criticized fellow EU member states for what he considers insufficient support for Ukraine and called on them to provide more military and financial aid.

Even so, 2024 will raise difficult questions about the war – and the West's role in it. But no matter how loud the public's cries grow, the answers to those questions will depend on how Russia, Ukraine and the West define victory.

Russia's goals in Ukraine need to be seen in the context of a recent foreign policy paper published by Moscow last year. It states, "In response to the unfriendly actions of the West, Russia intends to defend its right to exist and to develop freely by all available means." This suggests that Moscow means to force a change in Western policy or prevent the West from accomplishing its stated objectives. It also highlights the way Moscow plans to resist what it sees as a U.S.-led Western effort to undermine Russia. The Kremlin's strategic objectives involve forging alliances with and assuming leadership over other nations adversely affected by the U.S. in an effort to fundamentally change global power dynamics.

The new policy means that the Russian definition of victory goes well beyond the war in Ukraine, which Moscow believes is one front in an existential conflict that will end with Russia becoming a global power again. In practice, this

suggests Russia will continue to prosecute the war until the West feels pressured enough to break with Ukraine – all while avoiding a direct confrontation with NATO, which would contravene its efforts to reposition itself as a global power.

Ukraine's definition of victory is more straightforward: territorial control. Its goals are to reclaim all territory taken by Russia since 2014, ensure security guarantees from the West through EU and/or NATO accession, receive reparations from Moscow for its reconstruction, and try Russian leaders for war crimes. (How – and how much – Russia would pay is unclear, but the need for reconstruction funds is not up for debate in Ukraine, even if it is among the West.) So far, no one who matters in the Ukrainian government has publicly said Kyiv would compromise on land reacquisition. The reason is obvious: Saying so would harm military morale and Ukraine's position in any future negotiations. It would also be politically impossible; opinion polls consistently show that the overwhelming majority of Ukrainians think their country can and will reclaim all of its internationally recognized territory. However, the likelihood of Ukraine freeing all of its territory by force of arms remains low, and whatever chance it does have depends on the largesse of Western militaries.

Which brings us to the West. Though the West's definition of victory is squishier – it may include goals and objectives from any number of countries – the idea of a common Western win is

feasible so long as there is a unified front, and so long as four main goals are kept in mind. First, the West needs to help Ukraine expel Russia from as much occupied territory as possible. Second, it needs to make sure Russia doesn't attack elsewhere such as the Balkans or the Caucasus. Third, it needs to make sure the war either weakens Russia or ends on terms that prevent Russia from invading Ukraine (or another territory) again. Last, it must avoid direct military confrontation between NATO and Russia.

All four goals stem from the perception that Russia is a threat to non-NATO countries and to the West alike. After all, European states on the new containment line like Poland and Romania believe their security, to one degree or another, will depend on the outcome of the war. Ukraine's Western allies have tethered the outcome of the war to the status of the European and trans-Atlantic alliance structures. When Russia invaded in February 2022, it assumed incorrectly that the diverging interests of NATO and EU members would tear the groups apart, and that therefore the economic consequences would be minimal. Institutional unity will exist only so long as there is a common threat perception of Russia.

This unity will likely be tested in every Western country facing elections in 2024, including the United States and the United Kingdom. Elections for the European Parliament are scheduled for June. How they respond to the tests will likely redefine support for Ukraine in the coming year. Russia, too, heads into a presidential

election campaign season, and though there will be no surprises as to who will win, Moscow appears to believe that if it can simply hold on long enough, it will have an advantage.

There are two reasons for Moscow to believe Western military support for Ukraine will weaken. First, Moscow sees hope in Western governments' domestic political challenges and in upcoming elections, particularly in the U.S. Moscow is encouraged, for example, by arguments from constituents that the U.S. and Europe should focus on China, and the worse the U.S. economy becomes, the more these arguments resonate.

Second, Moscow expects that non-Western pressure will make Western powers uneasy. Countries in Africa and Latin America are not necessarily empathetic to Ukraine, as they consider the conflict unfinished business from the Cold War, while countries like China and India have condemned the war but have also kept doing business with Moscow, helping Russia keep its economy afloat.

In other words, Russia believes 2024 will test the fragile unity the West has reached over Ukraine. Its calculus is that, if pressured, Western powers could curb or even stop their support, forcing Ukraine to call for peace, even if it means

giving up sovereignty and large chunks of land. This will allow Russia to impose conditions on Kyiv and its partners, or so the thinking goes.

Moscow may be right, of course, but it's just as possible that it underestimates Western determination and the fundamental reasons for backing Ukraine. After all, debate and disagreement over how political or socio-economic problems need to be solved are features, not bugs, of democratic political institutions. Protests and political change are also part of the deal. Western support is based on national security calculations, and those haven't changed much since February 2022.

Either way, the varying definitions of victory likely mean that everyone is in for a long war. So long as the West continues to offer its support, neither Ukraine nor Russia can deliver a swift, decisive blow. That leaves negotiations, the goals of which for both countries would be incompatible, if not outright contradictory. NATO and Russia want to avoid a direct confrontation. Ukraine's economy has been hammered, most of its ports are closed, hundreds of thousands of men and women are fighting, and millions of people have fled the country. All this points to a long-term peacebuilding process beyond 2024, regardless of when the kinetic fighting ends.

Russia

After the Soviet Union collapsed, Russia was in a state of crisis. Its economy slowly recovered thanks in part to an influx of technologies and foreign currency from commodity sales, the creation of cash reserves and foreign investment. Only after it achieved sustainable economic growth was Moscow able to pursue its larger geopolitical imperatives – regaining regional and global power, resuming its role as an important geopolitical actor, securing its borders and preventing further disintegration of its territory. The Kremlin implemented several policies toward these ends, making sure it was actively participating in foreign trade to ensure a constant influx of money, modernizing its armed forces and trying to maintain influence in former Soviet territories.

It was during this cycle of long-term recovery that Russia entered another crisis as Europe and the West severed trade ties following the invasion of Ukraine. This forced Moscow to rapidly pivot to the east, obtain new sources of technology and substitute imports.

In other words, Moscow had to solve urgent short-term problems created by its war in Ukraine even as it continued to deal with long-

term issues wrought by the collapse of the Soviet Union. The forecast for 2024, then, revolves around this reality.

In particular, the Kremlin will continue to adapt its economy to new geopolitical trends and Western pressure. Whether or not negotiations take place to end the war in Ukraine, the impact of the West's sanctions regime will be felt for some time. Since the flow of money through trade and access to technological goods remain important, Moscow will want short- and long-term partnerships to create sustainable ties that it can rely on. Establishing and prioritizing new long-term ties with Asian nations, for example, will be vital for Moscow as it staves off sharp declines in incomes and living standards due to the potential for more sanctions and shortages, which, in turn, could lead to civil unrest.

It will also be important for Russia to continue to stimulate domestic production to substitute imports, reduce its dependence on external technologies and provide jobs to the Russian people. In fact, the Russian economy is entering 2024 on a fairly firm foundation, having fared better than expected last year thanks to

Russia's ability to reorient trade to Asia, operate parallel imports, government incentives and a generally unsaturated market.

But there's reason to believe Russia is approaching the limits of growth in a number of sectors, including industrial production. This means the economy will have to find additional sources of growth, which will be difficult for a variety of reasons. Every region and industry needs additional investment, including foreign investment, to goose production, but geopolitical uncertainty, the threat of secondary sanctions and the instability of the ruble could scare away investors from high-risk projects. Many of Russia's new partners are too busy with their own problems to help as much as the Kremlin would like. And Moscow already faces labor shortages not only in remote regions that the Kremlin wants to develop (such as the Far East) but also in the European part of Russia, where most of the population lives. Meanwhile, businesses must operate under tight monetary controls as the central bank tries to curb inflation, which may continue to rise if production does not keep pace with demand.

None of these financial hardships, however, will discourage the government from attending to its military needs. The modernization of existing weapons, the creation of new military technologies, the growth in weapons production and the strengthening of combat capability are all priorities for the Kremlin in 2024. From Moscow's perspective, building up its forces in western Russia is a necessary adjunct to the

war in Ukraine, which it cannot afford to lose. The formation of new military districts in this area should be seen as a demonstration of strength and combat readiness, especially in light of Finland's NATO accession, and the effort to strengthen the army's position should be seen as a negotiating tactic for any future talks with the West.

However, it would be a mistake to say Russia is bolstering its armed forces for the sole purpose of defeating Ukraine. Moscow understands that the West will never agree to give Russia all of Ukraine, and it understands that it should avoid direct confrontation with NATO – and both these conclusions will, to some degree, limit the actions of both sides. Rather, its military buildup is part of a long-term effort to restore the status of Russia as a great power and regional security guarantor, one that can quickly respond to events in its near abroad. After all, Ukraine isn't the only flashpoint in Russia's vicinity; the South Caucasus and Central Asia are also potential sources of instability and security threats. Russia will pay special attention to the participation of various countries in various exercises in the post-Soviet space, modernizing military posts and bases and preparing a rapid response system along its entire border.

If Russia's main objective in 2023 was to adapt to new realities on the fly, then the theme of 2024 will be to refocus on long-term objectives that will help Russia reclaim the status it has lost.

Middle East

In response to the Hamas attack on Oct. 7, Israeli Prime Minister Benjamin Netanyahu vowed to change the Middle East. An Israeli army spokesman confirmed that Israel is willing to act anywhere in the Middle East to achieve its security interests. There are no indications of a resolution on the horizon, as the situation in Gaza will probably linger for the foreseeable future. But Israel remains determined to oust Hamas and replace it with symbolic Palestinian rule.

With the U.S. presidential election approaching, this will likely have to wait until next year. But it is no exaggeration to say that the future of the Middle East rests mainly on the future of Gaza. The Palestinian issue is just the tip of the iceberg when it comes to the region's crises, but all neighboring countries and regional and international powers realize that solving the region's many issues depends on a comprehensive answer to the Palestinian question. Resolving the region's issues – the wars in Syria and Yemen, the crisis in Iraq, the collapse of the Lebanese state and Iran's pursuit of regional hegemony – will be on hold pending resolution of the conflict in Gaza. Addressing economic stagnation in moderate countries such as Egypt and Jordan and spurring ambitious development projects

in the Gulf states, namely Saudi Arabia, also hinge on the outcome of the Israel-Hamas war.

Regional Military Escalation

As tensions rise in several areas of the region, U.N. Secretary-General Antonio Guterres recently warned that the Middle East is a powder keg about to explode. The U.S. is cautiously leading regional efforts to isolate Iran because of the subversive activities of proxies like the Houthis in Yemen and Shiite militias in Iraq. Earlier this month, Washington intervened militarily in the Red Sea to deter the Houthis from launching more missile and drone attacks against ships heading to the Israeli port of Eilat. The U.S. did not resort to the military option enthusiastically, knowing it might not wholly deter the Houthis. Despite the strikes, the Biden administration said it was not at war with the group.

Last month, an Israeli missile attack killed the top commander of Iran's Islamic Revolutionary Guard Corps in Syria. Israel also killed five IRGC officers in an airstrike in Damascus last week, the same day that Iran launched air defense drills. Also last week, the IRGC attacked targets in Erbil, the capital of Iraq's Kurdistan region,

and Idlib, northwest Syria, with long-range ballistic missiles. It then launched strikes against a separatist group called Jaish al-Adl inside Pakistani territory – prompting the Iraqi foreign minister to say that Iran bombed friendly countries because it could not strike Israel. Iran's attack was in response to bombings claimed by the Islamic State in the southeastern city of Kerman and an attack in the town of Rask in Sistan and Baluchistan province, claimed by Jaish al-Adl.

The Iranian strikes came amid internal criticism regarding the regime's lack of direct response to Israel's actions. It appears that one of the goals of the IRGC attacks was to confirm that Iran's policy of strategic patience and avoiding full-scale involvement in military conflict does not mean weakness. The strikes also attest to the regime's isolation and empty threats that disillusioned many of its Shiite supporters in the region. Iran could have ordered its proxies to avenge the attacks that targeted the Iranian heartland. But it chose instead to send a message to Israel and the U.S. that their firepower would not deter its regional ambitions. Tehran realizes that the Middle East is undergoing fundamental changes and wants to ensure they do not compromise its regional interests.

Ultimately, however, Iran's attacks against U.S. military bases in Iraq and Syria and the disruption of transit through the Red Sea are making noise without impacting the course of events. There are indications of cracks in Iran's so-called "axis of resistance" – which the U.S. perceives as positive indicators. Moderate Arab countries

are now pinning their hopes on peacemaking as the ultimate solution to the region's crises and economic difficulties.

Peak Iranian Influence

Iran's recent actions mark the culmination of years of expansion for Tehran. Former U.S. President Barack Obama's reluctance to intervene in the Syrian conflict in 2011, his announcement of the U.S. intention to withdraw from Iraq that same year, and his conclusion of a nuclear deal with Tehran in 2015 indicated to Iran that it could prevail in the Middle East. Even the administration of his successor Donald Trump, which adopted a hardline approach toward Tehran and helped Israel emerge from its regional isolation by concluding the Abraham Accords in 2020, did little to demonstrate that the U.S. presence in the Middle East would continue to dominate.

But fomenting regional tensions does not benefit Iran anymore. The current escalation weakens its regional allies and puts them out of service in pursuit of its broader interests. Tehran's proxies have exceeded their ability to support its influence. The U.S. has called on the Houthis to stop obstructing navigation in the Red Sea, and whether or not they comply, the result will be the same: The Houthis will no longer serve Iran's regional project. Hezbollah, which decided to modestly support Hamas after its October attack, also missed the point that Israel would escalate the military situation in the north and turn the fighting into a war of attrition. It looks

as if military escalation will continue until Iran accepts that it is an ordinary country, not a regional superpower.

No Solutions on the Horizon

It does not seem that this year will lead to political breakthroughs in the Middle East, as the fallout of Hamas' attack is still unfolding. Though Arab countries and Israel are intent on making peace, progress is slow given the regional situation and the complexity of the political issues standing in their way.

Talks on resolving the Palestinian issue began from the first moment of the war, reviving the peace process that had stalled for decades. Discussions focused on the aftermath of the Israel-Hamas war and how to ensure a sustainable peace that could end the region's conflicts. U.S. President Joe Biden realizes that the final year of his term in office may give him a historic opportunity to achieve peace in the Middle East. But this goal, which has preoccupied every American president for more than seven decades, is unlikely to be achieved this year. Israel will not undertake fundamental changes while the fighting continues. The composition of the Israeli government and Iran's regional proxies make peace an enormously challenging endeavor. Nevertheless, Arab leaders – specifically those in Saudi Arabia who believe success of the NEOM megaproject hinges on close cooperation with Israel – welcome regional integration with a focus on security and economics. They also want to corner Iran by neutralizing its

regional proxies.

Saudi Arabia has made normalization with Israel contingent on establishing a Palestinian state, which Israel still opposes. Though Netanyahu reportedly told Biden in a call that he did not oppose the establishment of a Palestinian state if it is demilitarized, Netanyahu soon thereafter publicly reiterated his rejection of the establishment of such an entity. In response to Israel's opposition to statehood, U.S. Secretary of State Antony Blinken said Arab countries are not keen to rebuild Gaza only to have it leveled again in a few years. Officials in the U.S. State Department have argued that Israel will have to make tough choices to ensure Arab states are willing to participate in the process.

The Middle East is inching toward formulating a major regional deal that includes stopping the war in Gaza, establishing an inclusive government there that does not exclude Hamas as a political movement, and ensuring long-term stability. The package will not necessarily lead to the establishment of a Palestinian state but will allow Saudi Arabia and other Arab and Islamic countries to save face and continue to pursue normalization with Israel. Israel will accept a clearly defined path for Palestinian political rights, without specifying the nature of these rights in advance, as a precondition for normalizing relations.

American diplomats have said that Netanyahu, regardless of his defiant populist rhetoric, will have to face the regional reality. If his govern-

ment fails to make concessions, it alone will have to deal with the chaos in Gaza. The Biden administration thinks Netanyahu's shaky political situation at home requires him to heed U.S. pressure. Biden, whose own approval ratings are declining, is bracing himself for an uphill battle against a surging Donald Trump, his likely Republican presidential challenger. He wants to reassure critics within his party that he understands Palestinian grievances and is not giving Israel the green light for unrestricted war. His administration believes there is a path to comprehensive peace in the region, but it has yet to crystallize its starting point.

Any peace process will probably have to wait until the military escalation subsides and Iran's regional goals are curbed. For Saudi Arabia, stopping Iran and ensuring unimpeded maritime traffic are more important than Israel's willingness to make concessions to the Palestinians. Last week, Saudi Foreign Minister Faisal bin Farhan reiterated his country's willingness to recognize Israel pending resolution of the Palestinian issue. Biden also recently announced that Saudi Arabia and Israel are on the verge of reaching a peace deal. For the Saudis, encouraging beneficial interaction between Middle Eastern states is one way to prevent the powder keg from exploding, at least for now.

Japan

In the decades since World War II, Japan's economy has gone through highs and lows most other nations experience only over the course of centuries. After the war, the country focused on reconstruction and building a sense of stability. Under Allied occupation, land and labor reforms were carried out and a plan to create a self-sustaining economy was developed. This, coupled with Tokyo's strong export policies and the rapidly growing demand for Japanese goods, jumpstarted economic development.

By the early 1970s, as oil prices and labor costs soared, the value of the yen rose and overall global demand for Japanese goods weakened. Japan's standard of living didn't rise as quickly as its economic growth largely because of the high rate of capital reinvestment and growing pressure from its trading partners (notably the United States) to allow the yen to appreciate and to lift import restrictions, which were imposed to protect Japan's domestic market. By the mid-1980s, however, Japan's standard of living was comparable to other developed countries. In 1985, Japan agreed with its trading partners to let the yen appreciate against the U.S. dollar, which doubled the yen's value within two years and encouraged Japanese companies to move

production overseas. Meanwhile, Japan's asset price bubble burst in the early 1990s, leading to a serious downturn. The Nikkei 225 (the main index of the Tokyo Stock Exchange) lost half its value within a year after reaching an all-time high in 1989.

Throughout the 1990s, in what came to be known as the Lost Decade, Japan's economy was stagnant. Conditions improved in the early 2000s, though growth rates were modest and punctuated by periodic slumps. Like the rest of the world, Japan was hit hard by the global economic crisis that began in late 2007. Following another period of stagnation, then-Prime Minister Shinzo Abe introduced a set of monetary policies aimed at reviving the nation's economy. Though the measures helped drive growth in the short term, Japan slipped back into recession in 2020, in large part due to the economic impact of the COVID-19 pandemic. Its economy, the fourth-largest in the world, rebounded but was left with a number of serious structural problems.

Security Matters

For decades after the end of World War II, de-

fense and security matters took a backseat as Tokyo tried to rebuild its economy. Article 9 of its postwar constitution renounced the use of force and limited the country's military to self-defense capabilities. Japanese society mostly supported this approach. The country slowly recovered from the devastation of the war, restricting its relations with other nations to trade, investment and other economic matters while avoiding any major security-related cooperation. It relied solely on American troops stationed in the country under a bilateral treaty for its defense needs. A surge in Japanese military capabilities was long considered a non-starter both at home and in the region.

During that time, however, the security situation in the Indo-Pacific changed dramatically. China became increasingly militarily assertive, laying claim to large parts of the South China Sea and repeatedly threatening to take Taiwan by force. North Korea conducted increasingly frequent tests of new and powerful weapons. Countries throughout the region began to take notice. The U.S. forged a coalition of allies in the Indo-Pacific comprising Australia, the Philippines, India, New Zealand, South Korea and, of course, Japan, as well as a number of smaller Southeast Asian states and Pacific island nations.

Japan's transformation has gone largely unnoticed by much of the world, in part because it's been a smooth transition. But it's also been a rapid one. By early 2023, Japan revised much of its postwar security posture, creating a more robust and forward-leaning strategy. The ad-

ministration of Japanese Prime Minister Fumio Kishida released a new National Security Strategy, National Defense Strategy and Defense Buildup Plan. The blueprint was put on full display in meetings with U.S. President Joe Biden, Defense Secretary Lloyd Austin and Secretary of State Antony Blinken. Tokyo also announced its intention to increase defense spending by nearly 60 percent over five years, abandoning an informal cap of 1 percent of gross domestic product that was put in place in the 1970s. This alone represents a huge departure from its long-standing defense policy.

Looking Ahead

This shift is transforming Japan into a country that's not only more willing to involve itself in matters beyond its own borders but also more likely to act in ways that reflect its strategic position, regional interests and economic might. Japan is striving to become a regional leader in the Indo-Pacific, a goal that now appears to be within its reach. It's quickly becoming a reliable security ally to many other players in the region, including countries with which cooperation seemed impossible just a few years ago.

It has yet to fully resolve wartime grievances with South Korea but has found common ground in countering the North Korean and Chinese threats. High-level meetings are still conducted mostly with the participation of the United States, but there are signs that the two countries will soon be able to work together without the presence of their common ally. In

the year ahead, we can expect to see further signs of closer ties between them as North Korea grows more hostile toward the South. Japan will also continue to cooperate with other significant regional players like India, another rising nation on both the economic and security fronts. A strong relationship between the two is likely to concern China, especially since Beijing's own downturn has facilitated their ascendance. We can expect Japan to cultivate closer security cooperation with members of the Association of Southeast Asian Nations such as the Philippines and Vietnam, both of which have already elevated strategic ties with Japan, signing a series of agreements on military cooperation, joint drills and training programs. Tokyo has even pledged development aid to support Manila's defense modernization plans – another move that would have seemed impossible a decade ago.

One thing we're not expecting to change is Japan's alliance with the United States. For Tokyo, it's imperative from both an economic and a security standpoint to maintain Washington's support. For the United States, Japan is among its strongest allies in the region, one that it can rely on in a potential armed conflict. Though it would be understandable if Japan's military buildup raised concerns in the U.S., Washington has thus far backed Tokyo's resurgence. Japanese politicians and society have likewise been supportive, with approval rates increasing each year – another sign that the transition will continue throughout 2024.

Meanwhile, Japan is likely to continue to expand its economic influence in distant regions, including Central Asia, Africa and Latin America, in the coming year. Its influence still lags behind China's, with most of its investment projects only in the early stages, but with some strategic planning, it can grow its footprint in these areas, building lasting relationships based on mutual benefit.

And there are promising signs that the Japanese economy can, in fact, support all these new investments in the military and projects abroad. Its GDP growth rate is above 1 percent, unemployment remains very low due to labor shortages, corporate profits are high, and the stock market has seen its largest earnings since the asset bubble burst in the early 1990s.

But it also has challenges. The rapidly aging population and record-high debt-to-GDP ratio are two major long-term concerns, even if they don't pose a substantial risk this year. In the short term, inflation caused by an undervalued yen has created problems for the Bank of Japan. And though it has already introduced measures to address the issue, more structural change will be needed to stabilize the economy down the line.

This year, Japan will continue its rise as an influential economic power and an increasingly active security player in the Indo-Pacific. Countering North Korea and China will be the unifying factor in most of its alliances. Its investment-based expansion will continue, al-

beit slowly. Tokyo must be careful not to lose sight of its long-term goals for the sake of its short-term ambitions. The Bank of Japan has already started to reverse its unconventional monetary policy, and the yen should strengthen as a result. More efforts aimed at slowly tightening monetary policy can be expected in 2024, though drastic interest rate spikes are unlikely since this would increase Japan's already high debt burden. The government will need more capital as it increases defense spending, pays for increasingly expensive pension and health care costs, and continues to subsidize critical industries, especially the semiconductor business.

The Bank of Japan has set an inflation target of 2 percent for 2024. Though unpopular with the general population, inflation can actually be beneficial for the wider economy, Japanese debt and the budget. It's essential that the government implement a reliable fiscal consolidation strategy that ensures it has the funds necessary to financially support its ambitions. This will involve restructuring long-term interest rates and normalizing monetary policy to allow for the appreciation of the yen.

India

The stunning economic transformation of India over the past three decades is one of the most important and underappreciated implications of the end of the Cold War. For 44 years after its independence from Britain, India functioned as a command-style economy. Forced by a severe balance of payments crisis to turn to international financial institutions for assistance, the country embarked upon a path of economic liberalization in 1991. Over the next two decades, economic growth doubled to well over 6 percent per year, and the share of Indians living below the poverty line dropped from nearly half in the early 1990s to 34 percent in 2010.

India's rise as a global geoeconomic player is the driving factor behind its emerging strategic alignment with the United States. After China, India has been the fastest growing economy for about two decades. It went from being the 11th largest economy in 2012 to the fifth largest in 2022. Last year, it overtook China as the most populous nation on the planet. Washington hopes to leverage India's economic growth to manage the challenge it faces from a more assertive China.

However, domestic political strife threatens to

impede India's ascent. In parallel with its massive economic reforms and growth, India's politics have transformed over the past 30 years. From independence until the 1990s, the country's main secular left-of-center party, the Indian National Congress, faced no major challengers at the national level. For much of India's history, it was firmly under the control of the Nehru-Gandhi dynasty, which provided three generations of Indian prime ministers. But severe economic problems, coupled with a leadership crisis in the wake of two major assassinations (Prime Minister Indira Gandhi in 1984 and former Prime Minister Rajiv Gandhi in 1992), weakened the hold of the party.

Around the same time, right-wing Hindu nationalism emerged as a significant social and political force, represented by the new Bharatiya Janata Party. Founded in 1980, the BJP went from two seats in Parliament in the 1984 elections to well over 150 when it formed its first government 12 years later. Although the Congress party played a key role in the liberalization of the economy in the 1990s and during its two stints in power from 2004 to 2014, the political culture of the country had significantly changed by the early 2010s, with religious nationalism

having replaced secularism as the dominant national ideology.

Under the leadership of current Prime Minister Narendra Modi, the BJP made a roaring comeback in the 2014 elections, more than doubling its parliamentary seats. Paradoxically, however, Modi's India has experienced faster economic growth combined with intensifying right-wing Hindu nationalism. The latter threatens to undermine the stability of the country.

Elections are slated for the spring, and the ruling BJP is expected to at least retain its majority, giving Modi a third term as chief executive. India's economy will likely continue to surge ahead as it benefits from the diversion of Western investment away from China. And barring any unforeseen developments, Modi will probably continue to balance the economic imperatives of the state with the growth of a new Indian identity centered on the majority Hindu religion, which is key to his political success. However, over the medium to long term, the rise of Hindu nationalism could corrode the secular foundations of the state, destabilizing it in the process.

On the foreign policy front, India's role in the international security space will continue to increase. For much of India's history, the military was tied down in South Asia by its regional rival Pakistan, but the weakening of the Pakistani state, especially in the past five years, has enabled India to look beyond the region. This trend will continue to enable India to focus on building its capabilities to deal with China on land and at sea.

Being a key partner of the United States in the Indo-Pacific region places India in the middle of the U.S.-China struggle. If Washington and Beijing are unable to reach an accommodation in the coming year, then we can expect increased conflict between the Chinese and the Indians. Meanwhile, violence in the Middle East has undermined the security of shipping in the northwestern Indian Ocean basin, forcing New Delhi to take a greater role in the region's maritime security. This, in addition to tensions along their shared Himalayan border, could become a point of friction between the Indians and the Chinese.

Europe

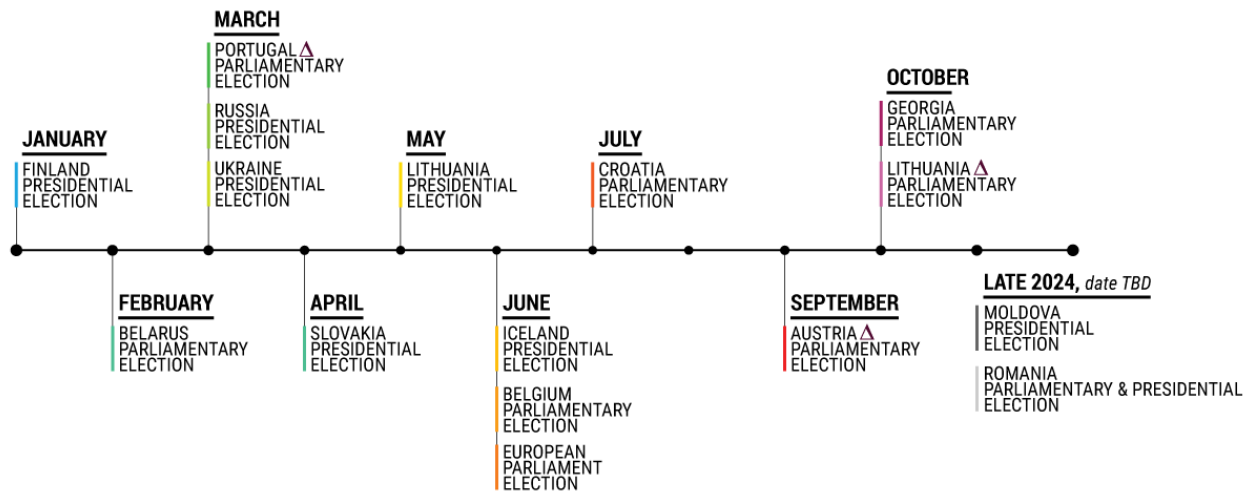
Strikes and demonstrations are nothing new for Europe, but two factors distinguish the latest bout: its transnational nature and its concentration in specific economic sectors. Farmers are or were recently protesting in Bulgaria, France, Germany, the Netherlands, Poland and Romania, while rail and other public transit employees have gone on strike in Bulgaria, Germany, Poland and Romania. These features increase the potential for pan-European coordination among disgruntled workers and thus persistent and widespread economic and political disruption. Further, sovereignty in the EU is distributed among various levels of government, compli-

cating public efforts to respond to the unrest.

Perhaps the most important geopolitical risk concerns EU unity toward Ukraine, which is entering year three of its defense against Russia's invasion. A key component of Russia's plan for victory entails creating or exacerbating divisions among Ukraine's Western supporters, without whose support Kyiv would be severely outmatched. Coincidentally, the European election calendar in 2024 is loaded, presenting multiple opportunities for the Kremlin to deploy disinformation and other hybrid attacks in support of its preferred electoral outcomes. What's

Potential Changes of Government or Policy in the EU in 2024

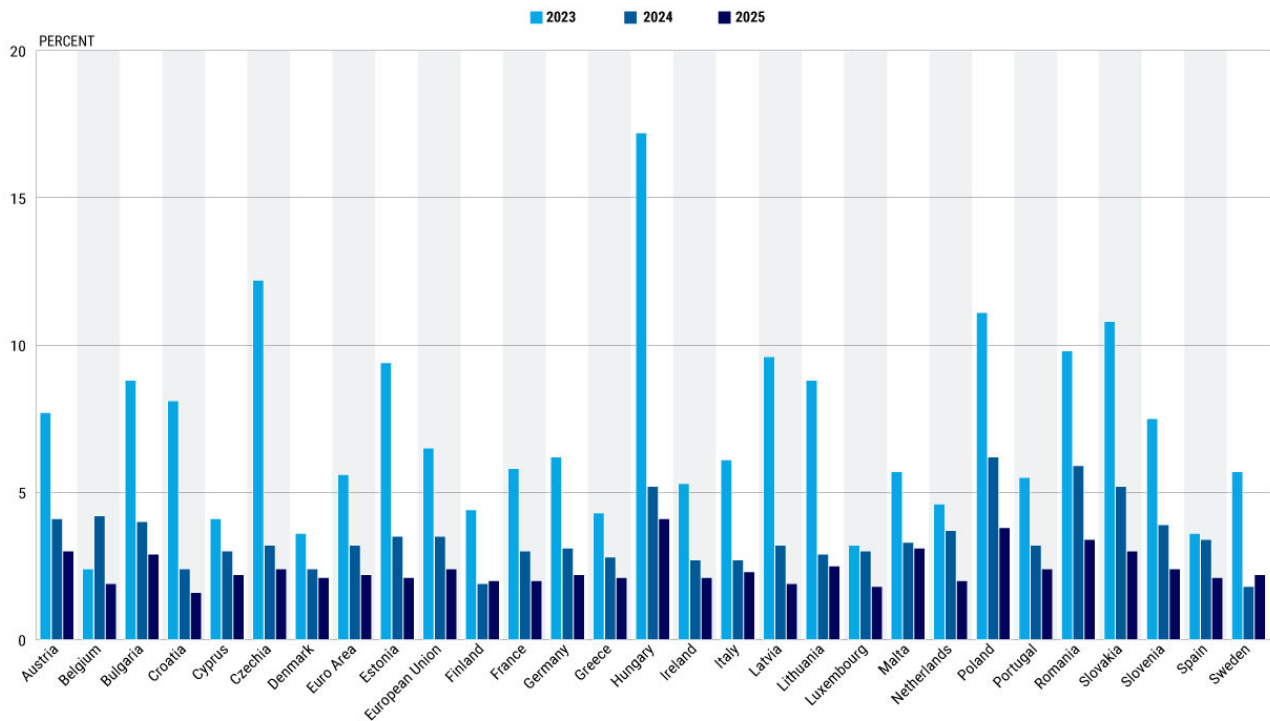
△ Country where government or policy direction may change



Source: EIU

Graphic redesign by Geopolitical Futures®

European Union Inflation Forecast, 2023



Source: European Commission

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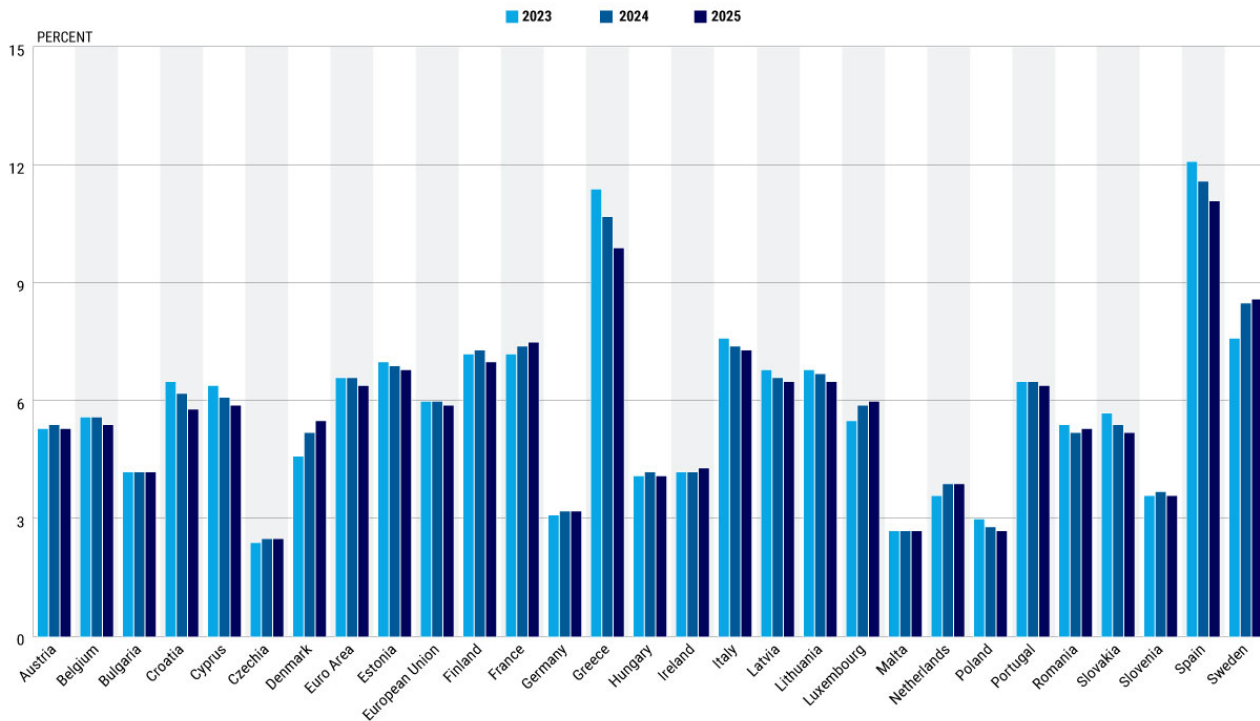
more, several of the countries set to vote are geographically close to the Russian frontier, such as Austria, Finland, Lithuania, Romania and Slovakia.

However, the most important elections for Russia are those of the European Parliament in June. The parliament itself is weak, but it helps determine the composition of the bloc's executive, the European Commission. The current commission firmly opposes Russia's aggression toward Ukraine and has worked to maintain European cohesion in supporting Kyiv. When Russia attempted to block Ukraine's access to the Black Sea, the commission put forward funding for new infrastructure to facilitate Ukrainian trade. (The project also helps consoli-

date NATO's new containment line against Russia from the Baltic Sea to the Black Sea.) The EU is also renegotiating its multiyear budget to include funding for Ukraine's reconstruction, allowing member states to invest even before the war has ended. Russia will do what it can to exploit socio-economic problems in Europe, so expect more protests and political instability than usual, especially in the first half of 2024.

One reason Europe wants to lock in long-term funding for Ukraine now is to get ahead of growing fatigue with the war and its associated costs. The farmers' protests are a prime example of said costs. In Poland, Romania and other countries bordering Ukraine, farmers have demanded trade protections and have inter-

European Union Unemployment Forecast, 2023



Source: European Commission

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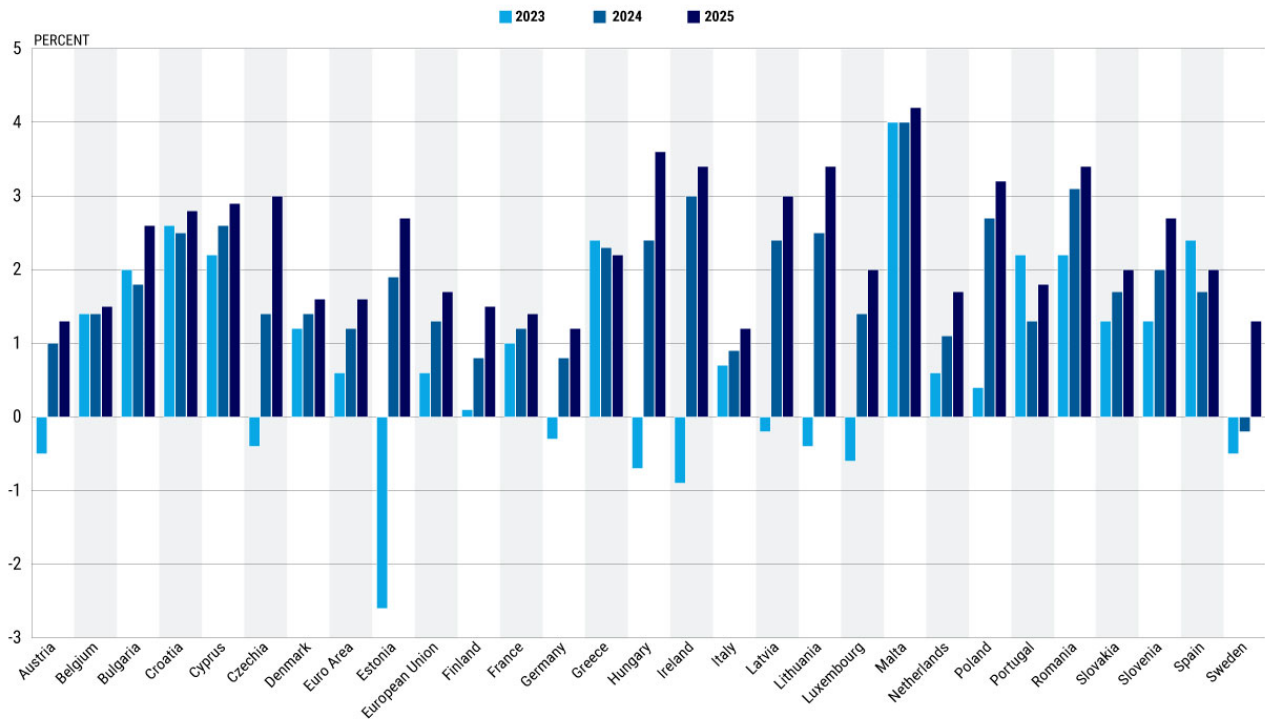
mrequently blocked border crossings to curb the influx of cheaper Ukrainian produce. Being outside the EU, already highly competitive Ukrainian produce does not have to meet the bloc's high standards and thus frequently ends up on the gray market. Many truckers have joined the farmers' protests, angry that Ukrainian drivers are undercutting their wages. This despite the fact that Polish and Romanian farmers received financial aid from the European Commission in 2023 to cope with Ukrainian competition, and the transport sector has grown rapidly over the past two years as Ukrainian trade shifted to land routes.

Though there is an element of political gamesmanship and Russian manipulation at play, Eu-

ropean businesses are facing real challenges. In Germany, for example, where the government is searching high and low for savings after a court ruling forced it to overhaul its spending plans for 2024 and beyond, it was Berlin's decision to cut a diesel subsidy that set off the protests. Farmers across Europe already were complaining that the EU's rising environmental standards, bureaucracy and free trade agreements threatened their competitiveness.

In fact, the German economy as a whole shrank in 2023 for the first time since the onset of the COVID-19 pandemic. 2024 does not look any better. Under pressure from the U.S., Berlin is attempting to reduce its strategic vulnerabilities to China, but its broad and deep dependencies

European Union GDP Forecast, 2023



Source: European Commission

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on Chinese trade and investment and a lack of good substitutes mean the process will be slow. Meanwhile, Germany’s sluggish economy and the EU’s reimposition of tight public spending rules, among other factors, will weigh down European growth as a whole.

Next door in France, President Emmanuel Macron rang in the New Year with an overhaul of his government. The move indicates not so much a change in strategy as a desire to break with the political tumult of 2023, which started with mass protests over pension reform and ended with protests over an immigration law. Paris hopes to spend 2024 focused on other issues, such as creating jobs and raising labor participation. More important, it wants to coun-

teract the rising popularity of the far right, led by Marine Le Pen, which is poised to expand its influence in the next European Parliament. With the most controversial changes in the rear view and new faces in the Elysee, France hopes to have left the worst of the protests in 2023.

Beyond its borders, France’s complex relationship with Russia – including their competition for influence in Africa – means it cannot ignore Ukraine. At the same time, its distant territories and military bases in the Indian and Pacific oceans will continue to compel Paris to coordinate with Washington on global issues. However, France’s primary focus in 2024 will be the Mediterranean. According to the EU’s border agency, illegal border crossings into the EU ex-

ceeded 355,300 last year, the highest total since the peak of the migrant crisis in 2016. Considering the current situation in the Middle East and parts of North Africa and the Sahel, the EU may face another refugee crisis this year.

Migration will thus become a critical political issue throughout Europe, significantly influencing future elections, including the European Parliament elections in June. The growing discontent with the political establishment suggests that mainstream parties might adopt some of the radical suggestions from both the far right and far left, particularly regarding immigration. Con-

currently, the recent surge in farmers' protests toward the end of 2023 has thrust a range of topics related to EU policies into the spotlight, including the European Commission's green agenda. As political parties across the bloc intensify their campaigns for the 2024 election, European conservatives and anti-establishment parties are poised to leverage this dissatisfaction with green policies. The debates surrounding green and migration policies are expected to dominate the 2024 political landscape, with their outcomes potentially shaping the strategic direction of the next European Commission.

Latin America

Background

For decades, Latin American countries have oscillated between two distinct political ideologies often categorized as the right and the left. This fluctuation goes much deeper than politics; it's woven into the region's social and economic fabric and has been for centuries. In the colonial era, people who held wealth and administrative power in Latin American nations favored remaining close to Spain and generally resisted independence, which threatened their status. Over time, this group evolved into the political right, which generally supports free-market economics, represents wealthier classes and prioritizes relations with the U.S. and the West. The modern left, meanwhile, evolved from working-class colonists and laborers, who spearheaded the independence movement and advocated for more autonomy, rights and government support for the people. Today, the left also supports a stronger role for government and is more open to partnerships with non-Western nations.

Colonial governance systems, coupled with the region's geographic barriers, laid the groundwork for the poverty, corruption and organized

crime endemic to the region. Among the top factors that contributed to these conditions were political systems that kept wealth and power concentrated in the upper classes. The economic dependence on natural resources and exports further deepened the disparity, resulting in a pronounced rural-urban divide. Wealth became concentrated in urban areas, while rural communities grew increasingly underdeveloped and lacked access to basic services. The political seesawing also contributed to the region's frequent economic, social and political instability. Governments were unable to reach certain corners of their countries due to geographic obstacles, creating power vacuums that were often filled by organized crime groups, which were able to meet the needs of people who felt left behind by the state.

More recently, a number of global developments have posed serious challenges for Latin American countries. The COVID-19 pandemic hit the region's economies hard, and governments had limited resources with which to stimulate a recovery. Poverty levels rose, and criminal enterprises thrived. The wars in Ukraine and Gaza intensified the strains on the global economy by disrupting markets and limiting capital available

for foreign investment, including in Latin America. The prolonged economic malaise exposed governments' shortcomings while increasing migratory pressure, allowing organized crime to flourish and weakening people's ability to lift themselves out of poverty.

Forecast and Conclusions

In Latin America, 2024 will be defined by the pursuit of structural economic reforms. Top among the driving forces of these reforms will be the rising demand for the region's top commodity exports: agricultural products, metals, minerals and energy. Governments will want to cash in on this opportunity by creating an environment in which foreign investors want to spend their cash. Another motivation is improving economic conditions for the people and businesses that operate in these countries in order to address long-standing security issues.

Governments alone don't have the financial capacity to stimulate enough economic growth to make a difference in the business or security environments, so the participation of foreign companies, consumers and investors will be key. But inspiring investor confidence and securing much-needed funds from these actors requires governments to pursue structural reforms.

They will manifest in the region's politics, economy and society in different ways. This year, they will have a clear political dimension as governments try to pass legislation and other

measures to implement changes and pursue their reform agendas. Non-traditional parties and new voices will lead the debate on the best path forward. Since the benefits of structural reforms come slowly, governments will in the short term prioritize international trade by diversifying their trade portfolios and tapping into as many markets as possible. There will be a preference, however, for advanced economies in the Americas as well as in markets in South Asia and East Asia. As governments do their best to woo investors, multilateral institutions could help bridge the gap in capital. Governments will also promote entrepreneurship and innovation to leverage the region's technological potential.

There will also be a renewed focus on the relationship between governments and security forces, particularly the national police and military. The reforms won't be universally supported, so we expect to see some social unrest. The ability to contain protests will be key to implementing the changes and showing investors that social stability in Latin America is possible.

No single event will indicate the accuracy of this forecast, but several developments will act as signposts throughout the year. They include the return or expansion of foreign corporate operations to the region, foreign investment inflows, the opening of new trade offices, an increase in the number of start-ups, and domestic security reforms. A decade from now, 2024 will be seen as the year that jumpstarted structural change in Latin America.

AUKUS

The trilateral security partnership comprising the United States, the United Kingdom and Australia – known simply as AUKUS – is among the most interesting alliances in recent memory, and it has the potential to be among the most consequential in the world in 2024.

Uniting three countries that fought together in both world wars and a variety of lesser conflicts, AUKUS can be thought of as an offspring of the Five Eyes, a post-World War II intelligence-sharing initiative formed by the U.S., the U.K., Australia, Canada and New Zealand that is very much active even today. It is also what Winston Churchill had in mind when he wrote “A History of the English-Speaking Peoples,” which was as much a celebration of the nations the U.K. spawned as it was a history of nations themselves.

Implicit in the formation of the Five Eyes was that its members alone were to be trusted with one another’s secrets. This owes partly to the fact that they all share strategic interests – that because they are all maritime powers, theirs are the dominant interests in the world’s seas. (After all, it was the threat posed by German ships that helped draw the U.S. into World War II as it supplied and supported Britain.) But it also

owes to something more: Although the Five Eyes is primarily a military alliance, its members generate nearly 30 percent of the world’s gross domestic product, and they have similar cultural, political and commercial understandings.

AUKUS has a strategic purpose, of course. Originally billed as a mechanism to help Australia acquire nuclear-powered submarines, it will eventually involve enhanced intelligence sharing, indigenous military-industrial capabilities, tighter security operations and the joint development of new weapons. But in no uncertain terms, its objective is to contain China’s navy and prevent it from dominating any part of the Pacific.

But it is not only the Pacific with which it is concerned. The Atlantic is not at risk right now, but just as it was a central figure in both world wars, so too could it be in the future. AUKUS members understand that any existential threat they face will come from the sea. Its members are all islands – even the United States, which essentially must defend the seas around it. And while the U.K. is the geopolitical model off which AUKUS is based – an island that fought with economics, technology and financial mar-

kets among many other theaters of war – the U.S. has replaced Britain as the center of gravity in the international system and must therefore be prepared to support its fellow members. (Anecdotally, I once was invited to a conference organized by the Australian air force. Everyone wore the uniform of their respective country, but everyone was comfortable with the idea of the alliance being their natural condition.)

No alliance is immune to tension, and AUKUS is no exception. Yet 2024 will bring its members closer together, with New Zealand likely joining their ranks and Canada considering the same. This affects the world profoundly. The alliance is now primarily a naval one, but its economic

might cannot be ignored, especially because it is arrayed specifically against China. In some ways, AUKUS is the natural outcome of global culture and national interests. The acquisition of nuclear submarines and aircraft simply represents that truth. The economic reality of AUKUS will begin to be felt more heavily as China's economy remains unstable and as it becomes a more sophisticated alliance, incorporating all dimensions of power into its mission. Military is the most obvious aspect of national power, but there are many facets, and this coming year will be devoted to aligning that power and using it on a global level, as New Zealand and Canada align their realities.

MISSION STATEMENT

Geopolitical Futures understands the world through the rigorous application of geopolitics: the political, economic, military and geographic dimensions that are the foundation of nations. The imperatives and constraints contained in these define the nation. We study the past to understand the future. At its core geopolitics assumes, as does economics, that events are governed by these impersonal forces and not by individual whim or ideology.

Geopolitical Futures is rigorously non-ideological. Our staff may have their personal beliefs, but they must check them at the door. Therefore, we strive to be objective and indifferent to the opinions swirling around the world. We believe that liberal democracy can survive only if there is a segment of society, which we call the learned public, who is not caught up in the passions of the moment, but is eager to look at the world as it is. It is this learned public that will influence the political system toward the prudence that flows from understanding, and whom we serve with the methods we have developed.

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