



# TOP RISKS 2024

Ian Bremmer  
*President*

Cliff Kupchan  
*Chairman*

- 1 The United States vs. itself
- 2 Middle East on the brink
- 3 Partitioned Ukraine
- 4 Ungoverned AI
- 5 Axis of rogues

- 6 No China recovery
- 7 The fight for critical minerals
- 8 No room for error
- 9 El Nino is back
- 10 Risky business

- Red Herrings*
- US-China crisis*
- Populist takeover of European politics*
- BRICS vs. G7*



Ian Bremmer  
*President*

Cliff Kupchan  
*Chairman*

**2024. Politically it's the Voldemort of years. The annus horribilis. The year that must not be named.**

Three wars will dominate world affairs: Russia vs. Ukraine, now in its third year; Israel vs. Hamas, now in its third month; and the United States vs. itself, ready to kick off at any moment.

**Russia-Ukraine** ... is getting worse. Ukraine now stands to lose significant international interest and support. For the United States in particular, it's become a distant second (and increasingly third or lower) policy priority. Despite hundreds of thousands of casualties, millions of displaced people, and a murderous hatred for the Russian regime shared by nearly every Ukrainian that will define the national identity of tens of millions for decades. Which is leading to more desperation on the part of the Ukrainian government, while Vladimir Putin's Russia remains fully isolated from the West. The conflict is more likely to escalate, and Ukraine is on a path to being partitioned.

**Israel-Gaza** ... is getting worse. There's no obvious way to end the fighting, and whatever the military outcome, a dramatic increase in radicalization is guaranteed. Of Israeli Jews, feeling themselves globally isolated and even hated after facing the worst violence against them since the Holocaust. Of Palestinians, facing what they consider a genocide, with

no opportunities for peace and no prospects of escape. Deep political divisions over the conflict run throughout the Middle East and across over one billion people in the broader Muslim world, not to mention in the United States and Europe.

And then there's the biggest challenge in 2024 ... **the United States versus itself**. Fully one-third of the global population will go to the polls this year, but an unprecedentedly dysfunctional US election will be by far the most consequential for the world's security, stability, and economic outlook. The outcome will affect the fate of 8 billion people, and only 160 million Americans will have a say in it, with the winner to be decided by just tens of thousands of voters in a handful of swing states. The losing side—whether Democrats or Republicans—will consider the outcome illegitimate and be unprepared to accept it. The world's most powerful country faces critical challenges to its core political institutions: free and fair elections, the peaceful transfer of power, and the checks and balances provided by the separation of powers. The political state of the union ... is troubled indeed.

None of these three conflicts have adequate guardrails preventing them from getting worse. None have responsible leaders willing and able to fix, or at least clean up, the mess. Indeed, these leaders see their opponents (and their opponents' supporters) as principal

adversaries—“enemies of the people”—and are willing to use extralegal measures to ensure victory. Most problematically, none of the belligerents agree on what they’re fighting over.

Climate change has long been considered by many our greatest global challenge, but the world is on the road to responding—collectively, even though too slowly—because everyone understands the nature of the problem. There is too much carbon (and methane) in the atmosphere, with a lot more coming because it’s necessary for economic growth, leading to long-term damage to biodiversity and affecting everyone but mostly the poorest. None of this remains controversial: it’s just a question of who compromises how much—and who pays what and when. We have a pretty good sense of where we are heading accordingly.

Not so for any of the major conflicts driving geopolitical risk this year. The terms of confrontation are not shared: not the narratives, not the history, not even the basic facts of the ongoing fighting. And in all three cases, we are creating generations of incensed people prepared to dig in and battle for as long as it takes. Maybe an end to the fighting can come when one or both sides are exhausted ... but the prospects of a sustainable peace? In Europe, in the Middle East, and in America, we’re not remotely close.

We call this a G-Zero world, a world without global leadership. Where the United States, the world’s sole remaining superpower, doesn’t want to be the world’s policeman, the architect of global trade, or the cheerleader of global values. And no other country is prepared to take that role for itself. We now see three major confrontations that are the direct result of our G-Zero world. By its nature, the G-Zero

will cause more unsolvable conflicts in the years ahead—the only questions are where, when, and how destabilizing. And whether the resulting crises help fix the underlying problem with our “geopolitical recession” or only serve to make it worse.

\*

There are plenty of bright spots. Most of the rest of all those elections, especially the big ones (India, the European Union, Indonesia, Mexico), aren’t troubled at all. And then there’s a big issue you might find surprising since it’s less gloomy than usual: The US and China will be the adults in the room this year. With all the fighting going on in the world, the two biggest economies aren’t looking for reasons to start another conflict, despite the lack of trust and mutually unaligned political and economic systems. US-China tensions don’t even make the Top Risks list, in part because the Chinese economy and the US domestic polity are so troubled and distracting. Geopolitically, the world’s most strategically consequential bilateral relationship has become a cleaner dirty shirt.

The wild card, more than ever, is technology—specifically, artificial intelligence. The upsides will start materializing more dramatically as new applications find their way into every major corporation across every economic sector. And as hundreds of millions of people begin to upskill themselves in their jobs, AI will become a copilot before it takes over your job. But the technology is also developing far faster than the ability to govern it, and a technopolar world for artificial intelligence means crisis response and reaction will come only after things break ... let’s hope in 2024 those things aren’t that big.

And now, our top risks.





# 1 The United States vs. itself

**While America’s military and economy remain exceptionally strong, its political system is more dysfunctional than that of any other advanced industrial democracy ... and in 2024 faces further weakening. The US presidential election will worsen the country’s political division, testing American democracy to a degree the nation hasn’t experienced in 150 years and undermining US credibility on the global stage.**

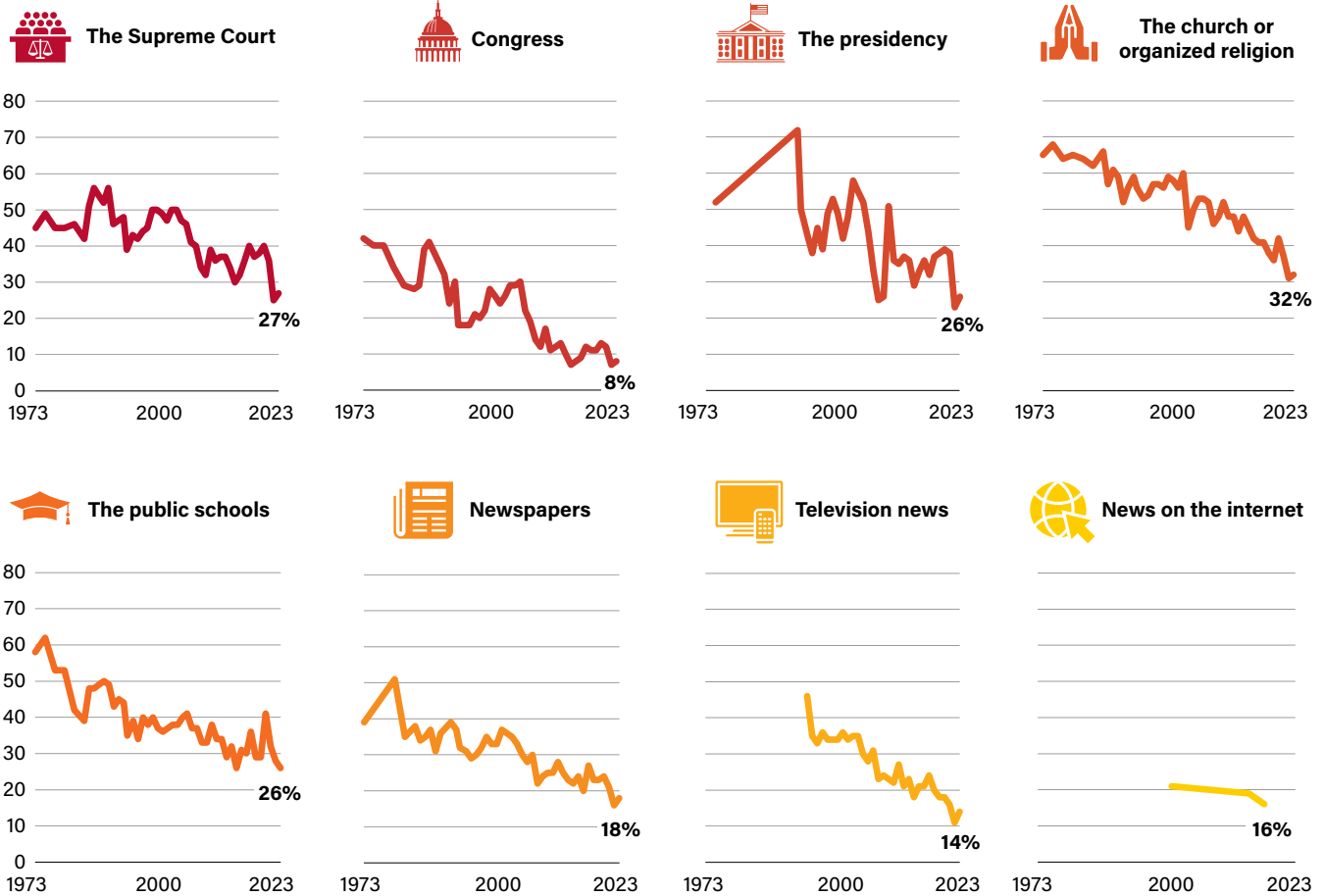
The US political system is remarkably divided, and its legitimacy and functionality have eroded accordingly. Public trust in core institutions—such as Congress, the judiciary, and the media—is at historic lows; polarization and partisanship are at historic highs. Add algorithmically amplified disinformation to the mix, and Americans no longer believe in a common set of settled facts about the nation and the world.

The two major parties’ likely presidential candidates are uniquely unfit for office. Former President Donald Trump faces dozens of felony criminal charges, many directly related to actions taken during his term in office, most critically including his efforts to overturn the results of a free and fair election. In any stable, well-functioning democracy, the 2024 contest would be principally about those. The United States is presently far from that. On the other side of the aisle, President Joe Biden would be 86 years old at the end of his second term. The vast majority of Americans want neither to lead the nation.

This division will worsen in the run-up to the election. From the moment he secures the nomination (not guaranteed, but overwhelmingly likely), Trump will hijack Republican and American politics, as even the most reluctant of Republicans in Congress—and most conservative media, activist groups, and monied interests—will fall in line with him. His policy

## Americans' confidence in political and social institutions continues to decline

Please tell me how much confidence you, yourself, have in each one—a great deal/quite a lot (%)



Source: Gallup

pronouncements—however outlandish—will shift the national narrative and shape the policy direction on Capitol Hill and in statehouses across the country before a vote is cast. The result will be even more policy extremism, division, and gridlock.

Knowing he faces prison time if he loses in November, Trump will use his online pulpit, control of the Republican Party, and friendly media to delegitimize both the system that is prosecuting him and the integrity of the election. His victim narrative and preemptive claims of fraud will find a receptive audience of Americans who agree, putting implicit pressure on Republican state governments and election officials to manage the election in ways that would benefit him (such as by purging voter rolls more liberally or tightening voting restrictions). While these

efforts are unlikely to overturn the electoral process, they may well disrupt it. And they are sure to persuade many of Trump's supporters to doubt the election outcome's legitimacy—a problem that will be exacerbated by AI-fueled disinformation and social media echo chambers (please see Top Risk #4).

In a world beset by crises, the prospect of a Trump victory will weaken America's position on the global stage as Republican lawmakers take up his foreign policy positions and US allies and adversaries hedge against his likely policies. US support for Ukraine will face stronger headwinds on Capitol Hill, straining the transatlantic alliance and leaving Ukrainians and their frontline European supporters in the lurch. Kyiv will take increasingly reckless actions to make what gains it can

**Biden and Trump are both uniquely unfit for office. Most Americans want neither to lead the nation**

before the next president takes office, while hopes for a definitive end to US aid in 2025 will stiffen Russia's resolve to keep fighting (please see Top Risk #3). In the Middle East, Trump's prominent support for Israel and willingness to bomb Iran for transgressions will embolden Israeli Prime Minister Benjamin Netanyahu and limit Biden's political space for policy maneuver. Pressure from congressional Republicans, meanwhile, will make it politically harder—albeit not impossible (please see Red Herrings)—for Biden to preserve the “thaw” with China this year. The shadow of Trump will lead US allies and adversaries to brace for his return to office, with destabilizing consequences long before Inauguration Day.

If Trump wins the election, Biden will concede. But while Democratic leaders may be less likely to claim the election was “rigged” than the former president, they will still treat Trump as illegitimate, believing he should be in jail and is unfit for office. Some congressional Democrats will likely vote against certifying his election on the grounds that he is not qualified to serve under the 14th Amendment, undermining trust in American electoral institutions. The response in major cities would be a repeat of the massive street protests during the 2016 presidential transition, but in a country even more bitterly divided and with an opposition coalition more convinced that Trump 2.0 beckons the end of American democracy. Whether driven by extremist elements, clashes with counter-protesters, or opportunistic bad actors, widespread violence is a real (and indeed nearly inevitable) risk. The danger will intensify over the course of a Trump administration as he pardons those arrested for storming the Capitol on 6 January, allowing them to return to their quasi-militias and organize against what they see as elite leftist institutions.

If Trump loses, he won't accept defeat. Instead, he will do everything in his power—legal or illegal—to contest the outcome and impugn the legitimacy of the process. He has fewer options for challenging the results than he had as president in 2020, owing to the passage of the Electoral Count Reform Act and the fact that he's not the incumbent. But that will not stop him from trying—especially when he faces the prospect of prison time. Trump will allege mass fraud once again. He will incite widespread intimidation campaigns against election workers and secretaries of state in both red and blue states, demanding that they “find” extra votes for him. He will lean hard on Republican governors to submit slates of Republican electors in states Democrats won. And he will pressure Republican senators and representatives to object to states' slates of electors

to disqualify Democratic electoral college votes. While none of these efforts is likely to succeed, they will inflict damage on already low public confidence in the integrity of America's democratic institutions.

Barring an unlikely Democratic landslide, Republicans are poised to see a Biden win as illegitimate, alleging either that the election was “stolen” or that politically motivated investigations made it more difficult for Trump to campaign. They will see Trump's incarceration during the Biden administration as Democrats jailing the opposition leader for political purposes. This could create an unprecedented political crisis, destroying the remaining trust in federal institutions Republicans still have and leading to calls for Biden to pardon Trump the same way Gerald Ford pardoned Richard Nixon to avoid national disunity. While large-scale violence is less likely in this environment, America's political divide would deepen, and the nation's fragmentation into red vs. blue states, cities, and towns would accelerate.

And then there's the tail risk (unlikely but plausible) that you'd rather not think about: What if the world's most powerful country is unable to hold a free and fair election on 5 November? Efforts to subvert the election could come from cyberattacks, deep fakes and disinformation, physical attacks on election process and oversight, and even terrorism to disrupt voting on the day. There's no more geopolitically significant target than the upcoming ballot—a softer and more vulnerable target than most homeland security challenges—with plenty of foreign (and more than a few domestic) adversaries that would love nothing more than to see more chaos in America.

The United States is already the world's most divided and dysfunctional advanced industrial democracy. The 2024 election will exacerbate this problem no matter who wins. With the outcome of the vote essentially a coin toss (at least for now), the only certainty is continued damage to America's social fabric, political institutions, and international standing.

## **The election will test American democracy to a degree the nation hasn't experienced in 150 years**



# Trump: The final season?



## What if he wins again?

Trump's 2016 upset was met with horror from the American left and concern from allied world leaders, but generally positive reactions from American business leaders and optimism from global financial markets, which saw the lower taxes and deregulation of a Trump administration as a net positive for the US economy. The response next time around would be significantly more troubled, as a second Trump administration would have fewer guardrails than the first, reduced fiscal space, and more radical policy divisions among US states following eight additional years of polarizing politics.

A second Trump administration would take steps to consolidate executive power, weaken checks and balances, and undermine the rule of law. Trump would try to capture federal institutions by purging thousands of civil servants he sees as obstacles and replacing them with inexperienced loyalists. Much of a second Trump cabinet would be senior Republicans: Former cabinet members Nikki Haley, Robert Lighthizer, and Mike Pompeo—known as capable within the broader policy community—are all likely to return. Key policy risks from the cabinet would include trade protectionism—with goals of broad-based 10% import tariffs and stripping most favored nation status from China—and unpredictability from the Department of Defense, where appointed leadership will be comprised of political loyalists more like Mike Flynn than Jim Mattis. At the same time, a core of Trump's policy advisers in the White House (including the likes of Steve Bannon, Stephen Miller, and Kash Patel) would have virtually no relationships with elite business leaders or foreign dignitaries—and limited willingness to prioritize an audience with them.

Having gutted the “deep state,” Trump would be less constrained to break the rule of law. His first order of business would be to weaponize the FBI, the Justice Department, and the IRS to block proceedings against himself and his allies and persecute his political enemies. Biden and his family would be in the crosshairs, but how far this revanchist McCarthyism goes—to opposition lawmakers, media figures, donors, critics—is a question of enormous import, especially in its signaling importance to determine behavior across the political spectrum, at best chilling political dissent and at worst squelching it nearly entirely.

There would be little remedy at the federal level to restrain a second Trump administration if it acts lawlessly. A divided or Republican-controlled Congress would be

unable and unwilling to check Trump's executive excesses, with impeachment and removal off the table even under a Democratic Congress. While a conservative Supreme Court, one-third of whose members were appointed by Trump, would remain independent, it would have limited power to enforce its rulings against a renegade president, setting up the potential for a constitutional crisis the likes of which America hasn't seen since the end of the Civil War.

The decentralized nature of the US system would remain a counterweight to dysfunction in Washington, as a weaker federal government would devolve power to the states and allow a free market of competing political and economic strategies to flourish. The flipside of this decentralization is that red and blue states would continue to grow polarized, not just on policy but increasingly in terms of who they attract to live, do business, and invest. This would create a fractured business and investment environment that would be difficult for companies to navigate as policies and regulations diverge from state to state and their choice of location becomes an implicit political statement (please see Top Risk #10).

Foreign companies would have a harder time understanding the political geography of America and spend more time trying to get on the good side of Trump's political apparatus. Relationships across the federal government—and particularly with Republicans who have Trump's ear—would become essential for foreign governments, even more so than they were in the first term. And investors are likely to see massive opportunities in deregulated industries but grow increasingly concerned about the US fiscal picture.

However positively markets may view its concrete policies, a second Trump presidency—with all its personalistic, authoritarian, and mercurial tendencies—would deal grievous harm to US democracy. It would also begin to raise foundational questions about the long-term stability of the US as an investment destination, the trustworthiness of its financial promises, the credibility of its commitments to foreign partners, and the durability of its role as the lynchpin of the global security order.

**Trump would take steps to consolidate executive power, weaken checks and balances, and undermine the rule of law**



## 2 Middle East on the brink

**On 30 September 2023, National Security Advisor Jake Sullivan said that “the Middle East is quieter today than it has been in two decades.” He jinxed it. Just eight days later, Hamas’s terrorist attacks shook the region to its core, jolting the world out of its complacency on the Palestinian issue, shattering Israel’s sense of security, and turning the Middle East into a powder keg.**

To be sure, there’s still a lot of truth to Sullivan’s claim: Iran and the Gulf states are the closest they’ve been in years thanks to the China-brokered breakthrough between Riyadh and Tehran. Qatar and the Gulf Cooperation Council fixed their problems. The ceasefire in Yemen holds. Syria is back in the diplomatic loop. The Abraham Accords remain up and running. And yet ... everybody forgot about the Palestinians.

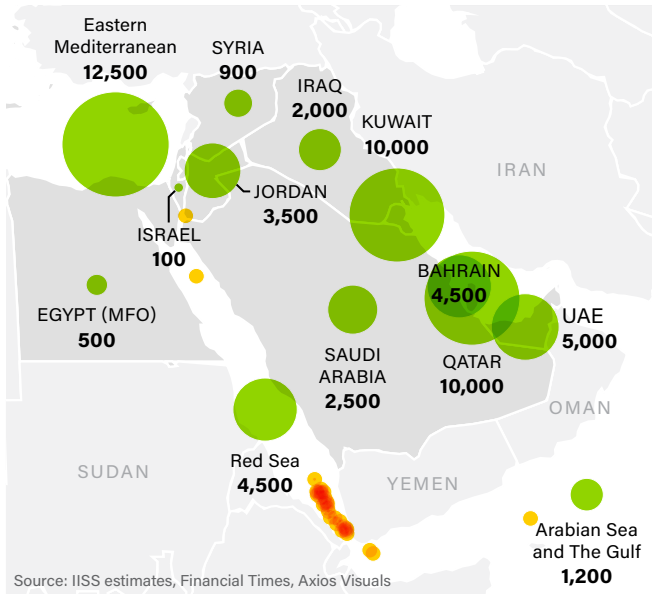
Now, one thing is certain: The region is no longer quiet, and it won’t be for ages. There is a network of deterrence relationships—Israel and the US on the one hand, Iran and its proxies on the other, and the Gulf states in between—that has so far contained the war to Gaza ... just. No country wants a regional war to erupt. But the powder is dry, and the number of players carrying matches makes the risk of escalation high. The current fighting in Gaza is accordingly likely to be only the first phase in an expanding conflict in 2024.

One path to escalation would be a decision by Israel to strike Hezbollah. Israel’s post-7 October security posture is defined by a commitment to restore regional deterrence and address long-standing security risks, with a bias toward preempting threats before they materialize. Top Israeli leaders have pledged to “remove” the threat from Hezbollah on their northern border, and the war cabinet is debating an operation to push the militant group beyond the Litani river in southern Lebanon as called for by UN Security Council Resolution 1701. That would lead to a showdown with Hezbollah. Israeli Prime Minister Benjamin Netanyahu has his own reasons to keep the Gaza campaign going or start another one in the



## Bracing for conflict

● US personnel in the Middle East ● Incidents involving shipping vessels (Nov. 19 to Dec. 18, 2023)



north: avoiding ouster and possible jail time (please see box in Top Risk #5).

If Israel were to attack preemptively, it would probably wait to do so until after the fighting ebbed in Gaza to avoid a full-fledged, two-front war (initial withdrawals of some Israeli troops from Gaza should be assessed accordingly). The US military would almost certainly provide support to the Israeli effort. Iran, in turn, would assist Hezbollah, the most important link in Tehran's power projection strategy in the Levant. A spiral of escalation could turn the shadow war between the US/Israel and Iran into a kinetic one.

A similar spiral could be initiated by Hezbollah with the backing of Iran if its leader, Hassan Nasrallah, thought the level of Palestinian casualties in Gaza—or the West Bank—had become intolerably high. And if Iran believed that Hezbollah was at risk of being existentially degraded, its level of support for the group would increase.

Houthi militants are also pursuing escalation. The Yemen-based former rebels have a formidable arsenal of weapons supplied by Iran and are keen to boost their standing at home and within the Tehran-backed "Resistance Front." They have a longer leash—but also less protection—from Tehran than Iran's other regional proxies, and they are more risk-acceptant. The Houthis have been launching missile and drone attacks on Israel, US warships, and commercial shipping vessels since November, threatening safe passage through the Strait of Bab al Mandab and the Gulf of Aden—key transit waterways for oil and goods to Europe, North America, and Asia. In response, the US has formed a multinational naval task force to protect shipping and deter the Houthis. But the Yemeni group

will remain undeterred and continue to shoot. In doing so, it could inadvertently kill US citizens, which would demand a stronger response from Washington. If the Houthis stay on this path, strikes on their bases in Yemen are increasingly likely, bringing the United States and its allies more directly into the war.

Finally, Shia militias operating in Iraq and Syria have systematically increased their attacks on US bases, with Tehran's blessing but at least partially driven by local political dynamics. These attacks are difficult to deter, and the possibility of unintended consequences is rising accordingly. Risks associated with US casualties are particularly stark. Washington has made clear that any US deaths will lead to large-scale retaliation, and that Iran will be held directly accountable.

All these pathways pose risks to the global economy. Most of the world's largest shipping companies have already suspended transit through the Red Sea in response to the Houthi strikes, paralyzing a critical waterway that sees 12% of global trade pass through it. Ongoing Houthi attacks will keep freight insurance rates elevated, disrupt global supply chains, and create inflationary pressure. In addition, the closer the conflict comes to Iran, the greater the risk of disruptions to oil flows in both the Red Sea and the Persian Gulf, pushing crude prices higher. Any moves by Israel, the US, or others to block Iran's 1.4 million barrels per day of oil exports via sanctions or military strikes would provoke retaliation by Tehran that puts larger volumes of oil and LNG exports from the region at risk (though the worst-case scenario, a closure of the Strait of Hormuz, remains a very low probability).

## The Middle East is a tinderbox, and the number of players carrying matches makes the risk of escalation exceptionally high

The conflict will also widen existing global divisions and disrupt politics. Anti-Israel sentiment is inflamed across the Middle East, among Muslim populations around the world, and—increasingly—within the Global South. The United States is currently as isolated globally in its support for Israel as Russia was over its invasion of Ukraine. As the war in Gaza drags on, the schism between Washington and the rest of the world will grow.

Divisions will deepen within the US as well, where public opinion on Israel-Palestine is shifting with the nation's demographics. A majority of Gen Zers now view the 7 October attacks—the worst violence against Jews since

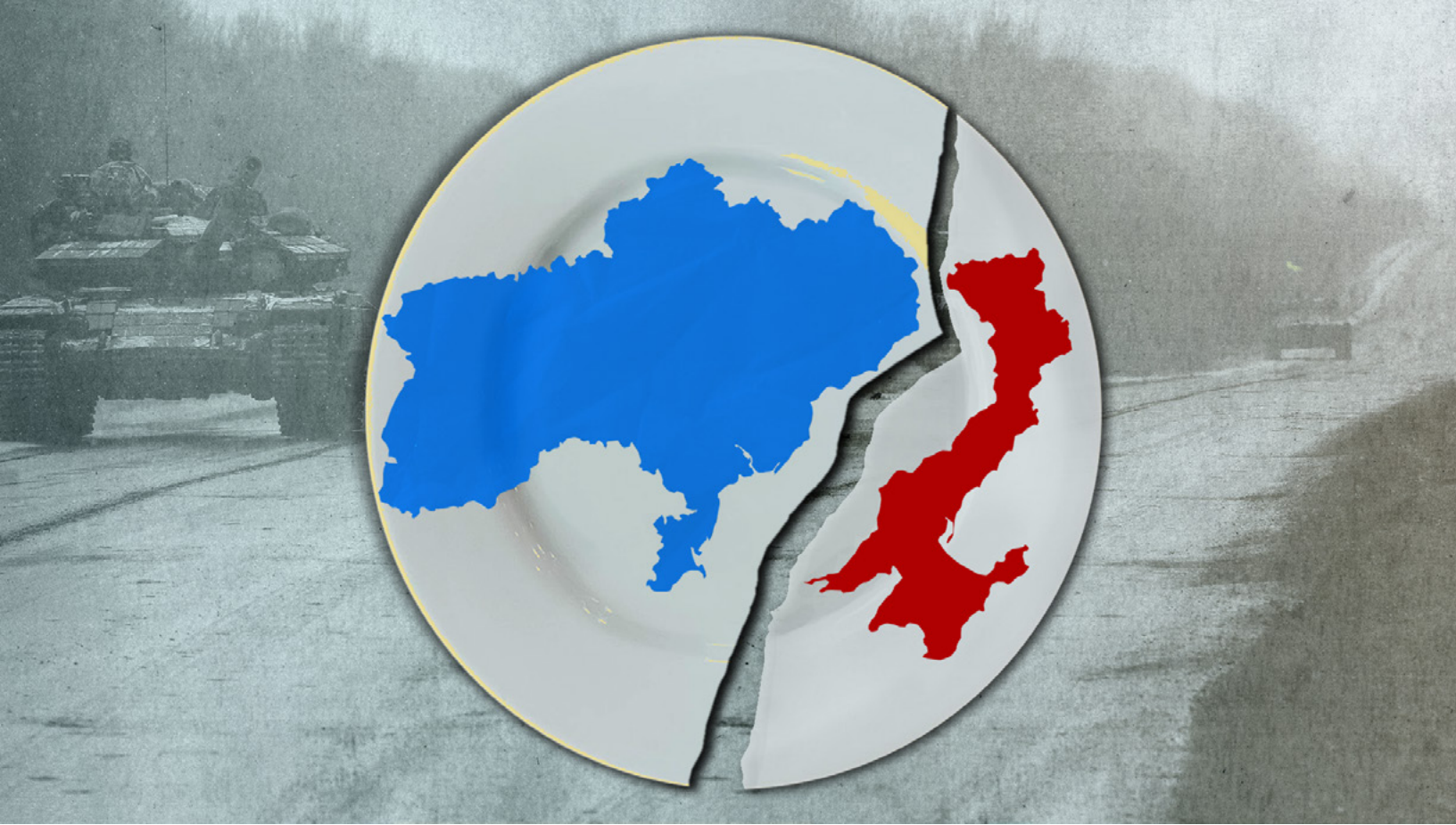
## The US is as isolated globally in its support for Israel as Russia was over its invasion of Ukraine

the Holocaust—as justified. Discontent among young Americans, minorities, and progressives with President Joe Biden’s steadfast backing of Israel will hurt Democrats in the 2024 election.

The most dangerous schism, though, remains between Israelis and Palestinians. Israelis across the political spectrum overwhelmingly support the complete destruction of Hamas, whatever that means and however improbable it may be. A growing majority of Palestinians in the West Bank and Gaza, meanwhile, support Hamas. More temporary ceasefires to the current fighting in Gaza remain possible, especially given the strong international pressure behind them ... but they’re extremely unlikely to prove sustained. The longer the war goes on, the more both populations will radicalize. This will increase the risk of insurgency in Gaza, deadly clashes in the West Bank and Jerusalem, and terrorist attacks in Israel that provoke a further military response. It goes without saying that the expansion of Israeli-Palestinian

violence makes the prospects for an eventual two-state solution increasingly dim.

Finally, and perhaps most troublingly, this conflict will stoke political and religious extremism across the Middle East and elsewhere. Demonstrations could erupt in Arab and Muslim countries as Israeli forces kill or displace larger numbers of Palestinian civilians in Gaza, or in response to settler violence and repression in the West Bank and Jerusalem. These upheavals could destabilize countries with large populations of Palestinian refugees such as Egypt and Jordan and—in the extreme—force their governments to cut ties with Israel. All along, Islamic terrorist groups will use images and casualty figures from Gaza as propaganda and recruitment tools, and violence against Jews will spike in many countries. Fatal violence linked to the war has already hit Europe, and the United States is also vulnerable.



### 3 Partitioned Ukraine

Ukraine will be de facto partitioned this year, an unacceptable outcome for Ukraine and the West that will nevertheless become reality. At a minimum, Russia will keep control of the territory it now occupies on the Crimean peninsula and in Donetsk, Luhansk, Zaporizhzhia, and Kherson oblasts—about 18% of Ukraine’s territory—as the war settles into a defensive struggle with a fairly static line of control. But Russia now has the battlefield initiative and a material advantage, and it could take more land in 2024. This year is an inflection point in the war: If Ukraine doesn’t solve its manpower problems, increase weapons production, and set a realistic military strategy soon, it could “lose” the war as early as next year.

Kyiv has taken a body blow from ebbing US political and material support for Ukraine. Americans are increasingly split on the war, and many Republican lawmakers actively oppose more aid. Even if Congress approves additional military assistance for 2024, this will probably be the last significant appropriation Kyiv will get from Washington. If Donald Trump wins, he will drastically cut aid. If President Joe Biden wins, another large package is a long shot unless Democrats improbably win both the House and the Senate.

The outlook for European assistance is only slightly better. German budgetary challenges on one side, growing Hungarian opposition on the other, and a lack of leadership from most everyone else will make it hard for the Europeans to fill the gap in military aid the Americans will leave over the medium term. While Europe is ramping up production capacity, it doesn’t have the infrastructure to provide the high volume of ammunition (including all-important artillery shells), heavy tanks, howitzers, and infantry fighting vehicles that Ukraine needs.



The material balance has also shifted in Russia's favor. On manpower, Russia is attracting significant numbers of men to new contracts, so a politically fraught second mobilization this year is unnecessary for now. President Vladimir Putin has also successfully converted his economy into a war operation. Roughly one-third of government spending and 6% of GDP will be devoted to the war in 2024, and Russian domestic production of missiles and artillery shells is now greater than before the war. North Korea is providing a large volume of additional ammunition, and Iran continues to provide (and now produce in Russia) drones (please see Top Risk #5).

Ukraine is in a more troubled position. On manpower, it must mobilize and train new recruits to improve force quality. Kyiv is considering mobilizing 500,000 additional troops, which is probably impossible but shows the quandary Ukraine is in as it confronts the army of a much larger country. Kyiv also needs to scale up its domestic defense production, especially of drones for the battlefield and to hit targets inside Russia.

Russia's material advantage will be reflected on the battlefield, where Moscow has seized the initiative and is now attacking in Donetsk Oblast, showing limited but effective offensive capability for the first time in over a year. Russia will form additional armies with fresh recruits and continue to develop offensive capability, ratcheting up the pressure on Ukraine.

### Land war settling into defensive struggle with static line of control



Source: Rochan Consulting, Eurasia Group

## A de facto partition of Ukraine is inevitable

For their part, Ukrainians will be forced to entrench and defend during 2024, and in a predominantly artillery-based war, defense is much easier than offense. This means that Kyiv probably won't lose much land this year. But Ukraine will need to develop its military forces and come up with effective military strategies for both 2024 and 2025 by early in the year. Ukraine will also need to end the growing domestic infighting between the presidential administration and both the military leadership—which contributed to the failure of last year's counteroffensive—and other political leaders like Kyiv Mayor Vitali Klitschko.

The upshot is that Ukraine must make progress on mobilization, training, defense production, strategizing, and political infighting. If it succeeds in most of these tasks, Kyiv will be in a strong position to defend its existing territory in coming years, with a future that could include hard security guarantees from the West, eventual NATO membership, reconstruction aid, and EU integration—a better geopolitical trajectory than could have plausibly been expected before the Russian invasion two years ago. But if it fails, Ukraine is likely to lose the war in the near future, where losing means giving up more territory in Donetsk and possibly Kharkiv oblasts, and then being forced to accept a much more unfavorable ceasefire or settlement.

Ukraine is at risk of losing, but Russia has no way to “win.” Whatever longer-term gains its forces can make on the ground in Ukraine, NATO is now strengthened by new members Finland and (soon) Sweden. This month, the EU will open a membership process for Ukraine, Georgia, and Moldova, an outcome that wasn't on the table before Putin ordered his invasion. Russia has faced 11 rounds of sanctions, with more on the way. Half of its sovereign assets have been frozen, at least some of which are likely to be seized to finance Ukrainian reconstruction. Europe will no longer buy Russia's commodity exports, which instead must be sold to China, India, and others on the cheap. Moscow has been rendered permanently dependent on Beijing. All of this, just to get pieces of eastern and southern Ukraine that will take years and years to consolidate.

Still, a partitioned Ukraine will pose real risks. The first pertains to the Black Sea, where Ukraine has developed a new export route through the littoral waters of NATO members to the Bosphorus. Russia is currently deploying mines in the area and could start to sink ships this year. Should Moscow mistakenly strike a NATO or Western vessel, naval warfare between the alliance and Russia could ensue.

## Diminishing Western support and growing political infighting will leave Ukraine feeling increasingly desperate

Diminishing Western support and growing political infighting will leave Ukraine feeling increasingly desperate, which will cause President Volodymyr Zelensky to become more risk-acceptant (please see box in Top Risk #5). He will turn to asymmetric warfare away from the frontlines in an attempt to degrade the Russian military, keep Ukraine in the headlines, and potentially bring NATO into the conflict. More targeted killings are likely, focusing on individuals connected to the war and occupation. The Ukrainians will also launch deep strikes with drones and missiles in Crimea and Russia targeting military and economic infrastructure—possibly including Russian oil and grain facilities on the Black Sea, which would lead to global oil and food market disruptions. Attacks are also likely on the Kerch Strait Bridge, Russian railroads, and Russian cities, which would provoke stepped-up Russian attacks against Ukrainian cities. The risk of a miscalculation or accident that results in NATO casualties and draws the United States more directly into the war will be heightened accordingly.

Tapering US political and material support will deepen a rift in the transatlantic alliance, which is the cornerstone

of the international system. Europeans view current and likely future cuts in US assistance to Ukraine as an Afghanistan 2.0 policy lurch, but with much higher stakes for European security. Their concern is magnified by the risk that Trump will try to take the US out of NATO if he wins in November. Russia's upper hand will make the Kremlin feel like it successfully stared down the West on an existential issue, emboldening Putin to lean on unsupportive countries in the EU and NATO (such as Hungary and Slovakia) and driving further division.

A partitioned Ukraine will also undermine US credibility on the global stage. The United States made a major security commitment to help Ukraine protect itself and regain its land for "as long as it takes." Domestic politics is leading the US to renege on this commitment, worsening the image of the US as an unreliable partner (please see Top Risk #1). Rogue and revisionist states will be emboldened accordingly (please see Top Risk #5). What's more, the war's trendline will make Ukraine a political loser for Biden during an election year, giving Trump a boost. A Trump win would accelerate this decline in US credibility.



# 4 Ungoverned AI

**Gaps in AI governance will become evident in 2024 as regulatory efforts falter, tech companies remain largely unconstrained, and far more powerful AI models and tools spread beyond the control of governments.**

Last year brought a wave of ambitious AI initiatives, policy announcements, and proposed new standards, with cooperation on unusual fronts. America's leading AI companies committed to voluntary standards at the White House. The United States, China, and most of the G20 signed up to the Bletchley Park Declaration on AI safety. The White House issued a groundbreaking AI executive order. The European Union finally agreed on its much-heralded AI Act. And the United Nations convened a high-level advisory group (of which Ian is a member).

But breakthroughs in artificial intelligence are moving much faster than governance efforts. Four factors will contribute to this AI governance gap in 2024:

**1) Politics.** As governance structures are created, policy or institutional disagreements will cause them to limit their ambitions. The lowest common denominator of what can be agreed politically by governments and what tech companies don't see as a constraint on their business models will fall short of what's necessary to address AI risks. This will result in a scattershot approach to testing foundational AI models, no agreement on how to deal with open source vs. closed source AI, and no requirements for assessing the impact of AI tools on populations before they are rolled out. A proposed Intergovernmental Panel on Climate Change (IPCC)-style institution for AI would be a useful first step toward a shared global scientific understanding of the technology and its social and political implications, but it will take time ... and is not going to "fix" AI safety risks on its own any more than the IPCC has fixed climate change.



## Breakthroughs in artificial intelligence are moving much faster than governance efforts

**2) Inertia.** Government attention is finite, and once AI is no longer “the current thing,” most leaders will move on to other, more politically salient priorities such as wars (please see Top Risks #2 and #3) and the global economy (please see Top Risk #8). As a result, much of the necessary urgency and prioritization of AI governance initiatives will fall by the wayside, particularly when implementing them requires hard trade-offs for governments. Once attention drifts, it will take a major crisis to force the issue to the fore again.

**3) Defection.** The biggest stakeholders in AI have so far decided to cooperate on AI governance, with tech companies themselves committing to voluntary standards and guardrails. But as the technology advances and its enormous benefits become self-evident, the growing lure of geopolitical advantage and commercial interest will incentivize governments and companies to defect from the non-binding agreements and regimes they’ve joined to maximize their gains—or to not join in the first place.

**4) Technological speed.** AI will continue to improve quickly, with capabilities doubling roughly every six months—three times faster than Moore’s law. GPT-5, the next generation of OpenAI’s large language model, is set to come out this year—only to be rendered obsolete by the next as-of-yet inconceivable breakthrough in a matter of months. As AI models become exponentially more capable, the technology itself is outpacing efforts to contain it in real time.

Which brings us to the core challenge for AI governance: Responding to AI is less about regulating the technology (which is well beyond plausible containment) than understanding the business models driving its expansion and then constraining the incentives (capitalism, geopolitics, human ingenuity) that propel it in potentially dangerous directions. On this front, no near-term governance mechanisms will come close. The result is an AI Wild West resembling the largely ungoverned social media landscape, but with greater potential for harm.

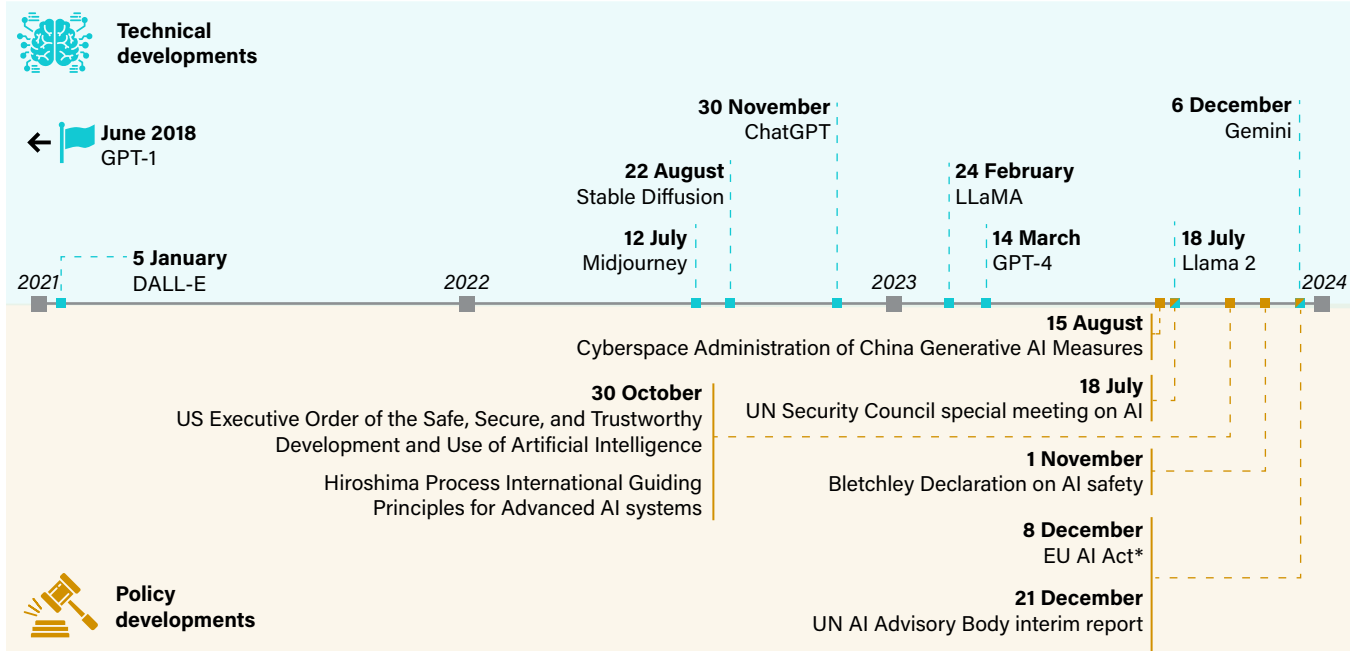
Two risks stand out for 2024. The first is disinformation. In a year when four billion people head to the polls, generative AI will be used by domestic and foreign actors—notably Russia—to influence electoral campaigns, stoke division, undermine trust in democracy, and sow political chaos on an unprecedented scale. Sharply divided Western societies, where voters increasingly access information from social media echo chambers, will be particularly vulnerable to manipulation. A crisis in global democracy is today more likely to be precipitated by AI-created and algorithm-driven disinformation than any other factor.

Beyond elections, AI-generated disinformation will also be used to exacerbate ongoing geopolitical conflicts such as the wars in the Middle East and Ukraine (please see Top Risks #2 and #3). Kremlin propagandists recently used generative AI to spread fake stories about Ukrainian President Volodymyr Zelensky on TikTok, X, and other platforms, which were then cited by Republican lawmakers as reasons not to support further US aid to Ukraine. Last year also saw misinformation about Hamas and Israel spread like wildfire. While much of this has happened without AI, the technology is about to become a principal risk shaping snap policy decisions. Simulated pictures, audio, and video—amplified on social media by armies of AI-powered bots—will increasingly be used by combatants, their backers, and chaos agents to sway public opinion, discredit real evidence, and further inflame geopolitical tensions around the world.

The second imminent risk is proliferation. Whereas AI has thus far been dominated by the United States and China, in 2024 new geopolitical actors—both countries and companies—will be able to develop and acquire breakthrough artificial intelligence capabilities. These include state-backed large-language models and advanced applications for intelligence and national security use. Meanwhile, open-source AI will enhance the ability of rogue actors to develop and use new weapons and heighten the risk of accidents (even as it also enables unfathomable economic opportunities).

AI is a “gray rhino,” and its upside is easier to predict than its downside. It may or may not have a disruptive impact on markets or geopolitics this year, but sooner or later it will. The longer AI remains ungoverned, the higher the risk of a systemic crisis—and the harder it will be for governments to catch up.

## Technological breakthroughs moving faster than governance efforts





## 5 Axis of rogues

Russia, North Korea, and Iran are the world's most powerful rogue states. And they have been working to strengthen their cooperation since Russia invaded Ukraine in February 2022, united by the draconian sanctions levied against them, their shared hatred of the US, and their willingness to violate international law to disrupt a global status quo they believe serves Western interests at their expense. They are agents of chaos in today's geopolitical order, bent on undermining existing institutions and the governments and principles that uphold them.

Once seen by Russia as a nuisance at best and a liability at worst, North Korea has become an essential resource for Vladimir Putin's war effort in Ukraine thanks to its pariah status, militarized economy, and large stocks of Soviet-standard artillery ammunition. Meeting in Russia's Far East in September 2023, Kim Jong-un and Putin struck a deal that sends North Korean artillery shells, rockets, and ballistic missiles to Russia in exchange for Russian food, energy, and—most importantly—technological assistance, especially on satellite development and deployment.

Russia and Iran, longtime partners in a bid to protect Bashar Assad's regime in Syria, have also upgraded their relationship from a limited tactical alliance to a more comprehensive and strategic military and economic partnership. Tehran has supplied Moscow with kamikaze drones to terrorize Ukrainian cities—now also being built in Russia—and drawn on its decades of experience to help Moscow evade Western sanctions. For its part, Russia has become Iran's chief external weapons supplier, its top source of foreign investment, and a key trading partner. Moscow also provides diplomatic cover for Tehran's nuclear program at the UN Security Council and has developed warm relations with Iranian proxies at war with the US and Israel in the Middle East.



While less prominent than Russia's bilateral ties within the axis, North Korea and Iran have a decades-long history of cooperation on nuclear and ballistic missile development. This cooperation has reportedly extended to North Korea supplying weapons and missile designs to Hamas, the Houthis, and other Iranian-backed militant groups.

In 2024, deeper alignment and mutual support among these rogue states will pose a growing threat to global stability as they boost one another's capabilities and act in increasingly coordinated and disruptive ways on the global stage.

Russia will be the primary driver of risk as it seeks to bolster its warfighting capabilities in Ukraine while working to deflect Western attention elsewhere. In exchange for North Korean artillery shells and rockets to sustain its war of attrition, Moscow will provide Pyongyang with technologies and know-how to advance its missile, submarine, and satellite programs, with major repercussions for Northeast Asian security. And in exchange for stepped-up provision of Iranian drones, munitions, sanctions relief, and ballistic missiles with which to strike Ukrainian cities, Moscow is poised to

### Aiding and abetting



Source: YonhapNews, CNBC, Washington Post, Reuters

## The world's most powerful rogue states have been working to strengthen their cooperation since Russia invaded Ukraine

supply Tehran with fighter jets and advanced weapons technology. Along with growing Russian support for Iran's proxies, this will alter the regional balance of power in Iran's favor at a time when Tehran and its proxies represent a much more direct security challenge to the West (please see Top Risk #2). Both bilateral deals would strengthen Russia's hand in Ukraine and increase the war's damage and costs (please see Top Risk #3).

The severity of existing Western sanctions against all three rogue states and the close cooperation among them means they will not be deterred by fear of further sanctions and isolation. This will unleash them to wage asymmetric warfare short of direct military attacks on the US and Europe, including via cyberattacks, support for terrorism, and disinformation campaigns designed to disrupt elections and sow chaos. More generally, the axis's coordinated sanctions-busting and rule-breaking will undermine the compelling and deterrent power of Western sanctions, emboldening other would-be rogues.

It bears noting that China is not a member of the axis of rogues. Beijing did not openly condemn Russian aggression in Ukraine, but neither did it endorse the invasion or do much to help Putin's war effort beyond purchasing discounted oil and allowing flows of dual-use goods to continue. (If India and the UAE were less friendly to the United States, analysts would be likening their Russia policies to China's.) Beijing has looked on warily at the deepening security cooperation between Moscow and Pyongyang—indeed, Chinese officials didn't know Kim was going to Russia until after it was publicly announced ... and they were piqued by it. And while it has ramped up oil imports from and diplomatic support for Tehran, Beijing has no desire to jeopardize its more strategically important interests in the Gulf (particularly its ties with Saudi Arabia and the United Arab Emirates) by helping Iran make regional trouble.

That said, China is often well-served by the three rogues' anti-Western operations and maintains a de facto policy of pro-axis neutrality. Indeed, without active acquiescence from China, the axis's rogue activities would be less impactful. Short of violating international sanctions or jeopardizing its own interests, expect Beijing to continue to do business with and legitimize the axis as it undermines the US and its allies this year.

## Deeper alignment and mutual support among these rogue states will pose a growing threat to global stability

Three caveats are in order. First, Russia, Iran, and North Korea leaning on each other is a sign of their desperation and weakness on the global stage. When your best (and near only) friends are two rogue states, you're in trouble. Second, all of them seek to avoid an active shooting war with the West, which means continued caution when escalating direct attacks on the United States or its core allies. And third, despite their common interest in sowing chaos, dictators have trouble trusting each other,

making the entente a fragile one. This axis is a marriage of convenience and opportunity; its members are neither strategic nor ideological bedfellows—they are focused primarily on regime survival and geopolitical gain. As such, their relationships will remain largely transactional.

Still, the disruptive potential of their growing cooperation—especially with a boost or at the very least a blind eye from Beijing—should not be underestimated.

## America's dangerous friends



America's enemies are becoming more dangerous, but even its friends could drag it into expanded conflicts this year.

**Volodymyr Zelensky.** President Joe Biden has been Ukraine's staunchest supporter since Russia's invasion in February 2022. Having pledged to stay by Kyiv's side "as long as it takes," he has shepherded \$113 billion in military and other aid that has proven vital to Ukrainians' ability to defend themselves. Biden has done this even though he neither likes nor trusts President Zelensky. However, political support for Ukraine within the US has wavered as the war has dragged on, seriously undermining Biden's ability to keep the aid coming past this year. And if Donald Trump—who considers Zelensky a personal adversary—wins in November, Ukrainians can wave goodbye to their biggest backer (please see Top Risk #1). Cracks have also emerged within Ukraine, where infighting between Zelensky and Chief of the Armed Forces Valery Zaluzhny (over military strategy) as well as Kyiv Mayor Vitali Klitschko (over Zelensky's allegedly authoritarian leadership) has spilled into the open, threatening Ukrainian political unity and fueling more skepticism among Kyiv's friends.

Under pressure domestically and frustrated with both diminishing US support and increasing difficulties on the battlefield, a desperate Zelensky will be willing to take bigger risks to turn the war around and maintain his political standing before Trump potentially takes office (please see Top Risk #3). This includes more aggressive attacks against targets in Russia, Crimea, and the Black Sea, threatening a response from Russia and potentially forcing the United States to become more directly involved in the war.

**Benjamin Netanyahu.** Israel is America's closest ally in the Middle East, the only democracy in the region, and the largest cumulative recipient of US foreign aid. It is no surprise that Biden—a self-described Zionist and longtime Israel supporter—strongly backed Israel's initial response to Hamas's 7 October attacks, despite his complicated relationship with Prime Minister Benjamin Netanyahu. Since then, however, a public rift has opened between the two over the conduct and endgame of the war in Gaza. They are also at odds about the role the Palestinian Authority should play in Gaza's postwar governance as well as the viability of a two-state solution. Fundamentally, Biden wants to see the war end, while Netanyahu has political and personal reasons to keep it going or even escalate it.

Determined to stay in power and out of jail and emboldened by the possibility that his friend Trump returns to power in January 2025, Netanyahu will push back against pressure from Biden to end the war. He will ignore calls for restraint in Gaza while eyeing more conflict with Hezbollah in the north (please see Top Risk #2). He will also continue to inflame tensions in the West Bank and thwart any efforts to create a Palestinian state in the future. As a result, the United States will be inextricably tied to an intensifying conflict over which it has limited influence—one that will further strain US relations with the Arab world, the Global South, and even some allies, as well as create political challenges for Biden at home. Should Netanyahu decide to preemptively strike Hezbollah or even Iran itself, the US would find itself drawn into a much broader Middle East war.

**William Lai.** Washington's long-standing "one China" policy and its security cooperation with Taiwan have been critical to deterring both a Chinese invasion and a declaration of independence from Taipei. Although Biden has repeatedly said the US would defend Taiwan against a Chinese attack, "strategic ambiguity" remains the official stance, and the president has no desire to risk a crisis with Beijing over the island. But the uneasy status quo in the Taiwan Strait will soon be tested if Taiwan elects Vice President William Lai, the ruling party candidate whom China views as the most pro-independence Taiwanese leader in a generation, as president (and his running mate Hsiao Bi-khim, Taiwan's former representative to the US, as vice president).

While Biden will oppose any de jure independence moves from Lai, the domestic politics of the Taiwan issue will prevent the US president from objecting to the smaller, symbolic steps toward de facto autonomy Lai is likely to take. Yet even these will be enough to provoke a beyond-precedent military response from Beijing, such as violating Taiwan's airspace or waters or conducting ship inspections. Biden will be forced to respond to Chinese aggression with a show of resolve in support for Taipei that could jeopardize the US-China thaw and risk a dangerous cycle of escalation.

Ukraine, Israel, and Taiwan will all continue to be major US allies. But their leaders' pursuit of their national—and, occasionally, personal—interests will further entangle Washington in growing conflicts.





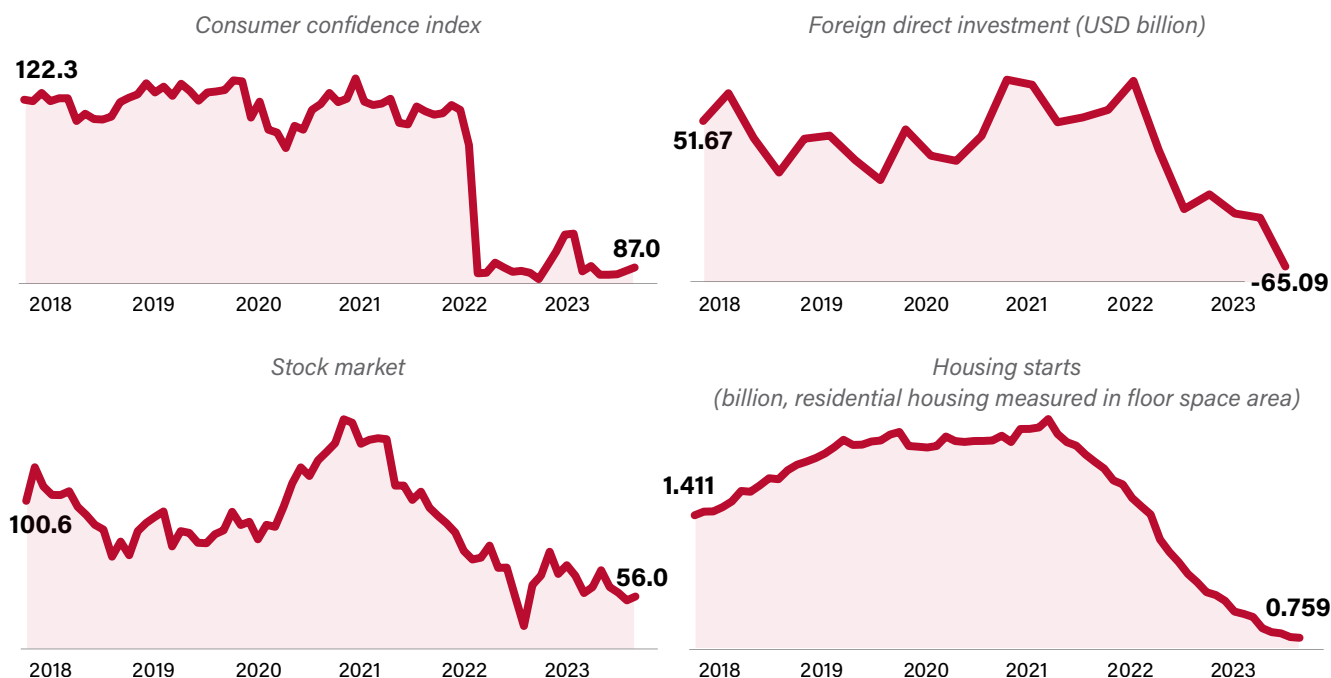
## 6 No China recovery

**Any green shoots in the Chinese economy will only raise false hopes of a recovery as economic constraints and political dynamics prevent a durable growth rebound. Consolidation of power at the top (Eurasia Group’s Top Risk #2 for 2023) has snuffed out policy debate and animal spirits just as China’s past growth engines have been exhausted, and there is little the government will do to reverse either trend. Beijing’s failure to address the country’s sputtering growth model, financial fragilities, insufficient demand, and crisis of confidence will expose gaps in the legitimacy of the Chinese Communist Party (CCP) and increase the risk of social instability.**

We’ve already seen warning signs of deepening malaise emerge in 2023, from the exit of foreign investors and Moody’s outlook downgrades to stalled property purchases and a stock market slump. This year, appetite to re-invest in the country will continue to be dampened by vague and conflicting policy signals, growing concerns about geopolitical risk, and the CCP’s ongoing regulatory crackdowns.

The persistence of constraints such as unfavorable demographics, eroding labor cost advantages, high indebtedness (particularly at the local level), Western “de-risking” efforts, and continued reliance on state investment for growth will further diminish hopes of a resurgent Chinese economy. While Beijing will try to restore confidence and prop up demand by throwing more money at the problem—building yet more infrastructure to meet its likely 5% growth target (again) for 2024—its efforts will have limited impact in the absence of a true shift toward bold reform.

## Key economic indicators on downward trajectory



Source: Eurasia Group, Macrobond, NBS

Four additional economic factors will impede a recovery in 2024:

- 1) Fading zero-Covid rebound.** The tailwind from last year's reopening will disappear as slowing income growth, higher unemployment, local government fiscal consolidation, falling property prices, and cascading defaults weigh on confidence and consumption.
- 2) Real estate weakness.** Previously a pillar of China's economy, the real estate sector won't provide a much hoped-for boost despite recent stabilization efforts, with new construction remaining anemic owing to weak homebuyer demand and slumping land purchases by cash-strapped property developers over the past two years.
- 3) Low external demand.** International demand for Chinese exports, especially from the US and Europe, will prove less resilient than in 2023, constrained by high interest rates and slow global growth (please see Top Risk #8).
- 4) Government economic response.** Beijing's whack-a-mole approach to emerging episodes of financial

stress such as developer defaults and bank collapses (as opposed to larger-scale, more preemptive reform) will sap confidence and test the government's already-stretched administrative capacity.

Then there's politics. President Xi Jinping's concentration of power and prioritization of security over growth will not only weigh on consumer, business, and investor confidence, but it will also make the regime slower to respond to rising economic and financial vulnerabilities. This doesn't mean that China faces an imminent crisis. Rather, these conditions will entrench the country's economic malaise and expose cracks in the CCP's veneer of competence and legitimacy.

Absent an unlikely loosening of Xi's grip or a radical pivot toward large-scale consumer stimulus and structural reform that restore confidence and reignite growth, China's economy will underperform throughout 2024. While the CCP's rule is stable, there remains a longer-term risk that Beijing will react too slowly to warning signs of financial contagion and social unrest, increasing the chances that the government could one day lose control of both.

**Absent an unlikely loosening of Xi's grip or a radical pivot toward bold reform, China's economy will underperform**





# 7 The fight for critical minerals

**In 2024, governments around the world will take protectionist measures that disrupt the flow of critical minerals, increasing price volatility and reshaping downstream supply chains.**

Critical minerals sit upstream of virtually every sector that will drive growth, innovation, and national security in the 21st century, from clean energy to advanced computing, biotechnology, transportation, and defense. Extraction of these essential raw materials is asymmetrically distributed across geographies, with single countries mining at least half of the world's lithium (Australia), cobalt (the Democratic Republic of Congo), nickel (Indonesia), and rare earth elements (China). Meanwhile, around 60% to 90% of most critical minerals are processed and refined in China.

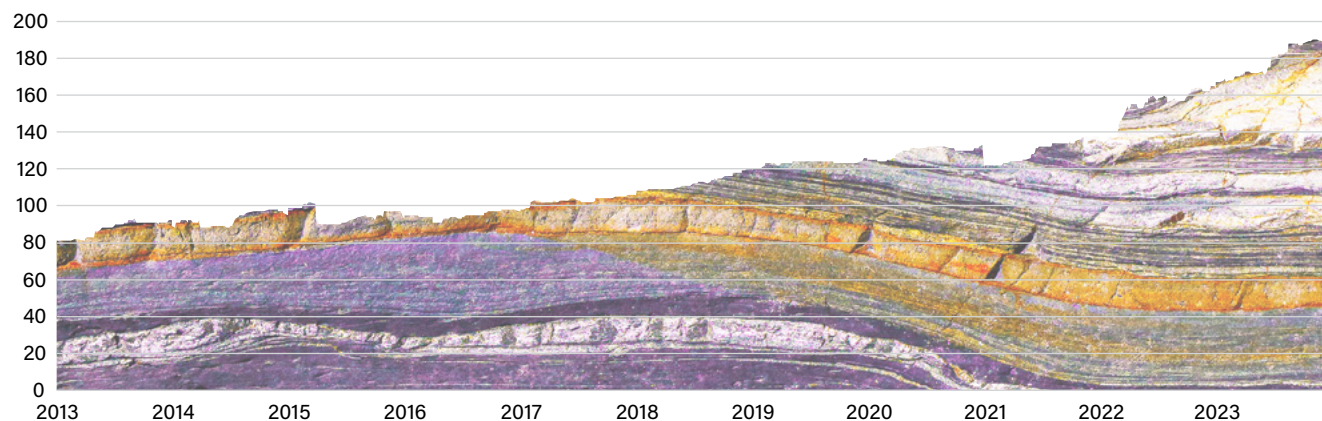
The highly concentrated nature of critical mineral mining, processing, and refining makes mineral supply chains vulnerable to bottlenecks and chokepoints. But not all critical minerals are created equal. Some like gallium and germanium—used in semiconductors and solar panels—can be partly swapped for other elements in the event of a supply crunch. Yet others like lithium and graphite—“battery metals” essential to the production of electric vehicles—are less substitutable. The most vulnerable supply chains are for the niche, illiquid, and Chinese-dominated rare earth metals such as neodymium and dysprosium, required in everything from consumer electronics to high-tech defense applications.

Demand for critical minerals has surged in recent years as advanced economies such as the United States and the European Union have begun subsidizing domestic manufacturing to boost their advanced computing and clean energy sectors amid their growing tech competition with China. Yet these countries' ability to meet the surging demand for minerals created by these industrial policies is being complicated by their dependence on Chinese-controlled minerals. That is a strategic vulnerability so deep that the Pentagon has taken the unprecedented step of directly financing mining and refining operations. US-aligned nations have also entered into multilateral deals such as the Minerals Security Partnership intended to scale up supplies domestically and from friendly trade partners. In both cases, however, long lead times for new mining



## Export interventions are surging for critical minerals

Total export-related measures on critical minerals



Note: Export measures include bans, quotas, licensing, and subsidies. Critical minerals refer to 51 commodities defined as such by IRENA's compilation of 35 national critical minerals lists. Analysis may include mineral by-products like oxides.

Source: Eurasia Group, Global Trade Alert, International Renewable Energy Agency (IRENA)

and refining projects ensure these efforts won't fix their supply vulnerabilities soon.

Making matters worse for themselves, the US and the EU have also enacted import restrictions in an attempt to reduce their dependence on China and promote cleaner supply chains. The problem with this strategy is that stringent mineral origin mandates in the US and clean supply chain laws in Europe—the former focused on national security and the latter on human rights, environmental, and sustainability standards—limit their procurement of critical minerals to geopolitically acceptable sources, exacerbating supply challenges and increasing price volatility.

As the US and Europe scramble to secure minerals, the governments of many producer nations are imposing a growing number of export restrictions on these minerals. Nations sitting atop raw material deposits—largely but not exclusively developing countries—see a once-in-a-generation opportunity to leverage their position in the world's most important supply chains to attract investment, create jobs, retain profits, move up the value chain, and gain foreign policy leverage. These include established critical minerals players such as Australia, Canada, Chile, the Democratic Republic of Congo, Indonesia, and Zambia, as well as countries with underdeveloped mineral deposits in sub-Saharan Africa, South Asia, and the Middle East. Many of them have begun and will continue to impose export measures on raw mineral ores that create market

## Critical minerals importers and exporters will intensify their use of industrial policies and trade restrictions

inefficiencies, increase price volatility, and risk undermining private investment and production. Most consequentially, China is fine-tuning an export control regime to weaponize its mineral dominance in the hopes of gaining leverage in its expanding tech competition with the United States and its allies. Last year, Beijing imposed export restrictions on gallium, germanium, and graphite, and in late December the government enacted export bans on machinery used to refine and separate rare earth elements.

This year, competing pressures from critical minerals importers and exporters will become acute as governments intensify their use of industrial policies and trade restrictions.

On the importer side, a wave of new EV gigafactories will come online across North America and Europe in 2024 with operations that are subject to strict sourcing requirements. The new US Treasury rules that took effect on 1 January enforcing restrictions on subsidy eligibility for EV supply chains, aimed squarely at countering Beijing's dominance of battery metal supply chains, will test America's ability to procure non-Chinese minerals and related products.

On the exporter side, China will begin enforcing the export licensing requirements for graphite it set up last year in response to US export controls on its semiconductor industry. Rare earth elements could be next. President Joko Widodo (Jokowi) could extend Indonesia's banner export restrictions on nickel to other metals such as copper in the run-up to this year's presidential election; while Jokowi is not running again, the frontrunner in the race to succeed him, Prabowo Subianto, would further Jakarta's resource nationalism if elected. And in sub-Saharan Africa, Tanzania will enact a ban on raw lithium exports, Nigeria will enforce the export ban on mineral ores it passed last year, and Ghana will consider similar policies. These moves will restrict the flow of critical minerals and could disrupt important supply chains, such as those of Western EV battery manufacturers in the event of a Chinese graphite export ban.



# 8 No room for error

**The global inflation shock that began in 2021 will continue to exert a powerful economic and political drag in 2024. High interest rates caused by stubborn inflation will slow growth around the world. With macroeconomic policy buffers largely exhausted, governments will have limited scope to stimulate growth or respond to shocks, heightening the risk of financial stress, social unrest, and political instability.**

While 2023 saw a significant deceleration in inflation and the end of the monetary tightening cycle, global interest rates remain highly restrictive. Despite expectations of a substantial easing in monetary policy, persistently above-target inflation will lead central banks to keep interest rates high in 2024. Their efforts to cool inflation without sparking a recession will be hindered by inflationary pressures over which they will have no control: The ongoing war in Ukraine will keep commodity prices high and volatile (please see Top Risk #3), the ongoing war in the Middle East will raise freight costs and disrupt global supply chains (please see Top Risk #2), and El Nino will threaten food prices (please see Top Risk #9). Moreover, political and geopolitical calculations by major oil producers will keep oil prices—which usually act as a countercyclical stabilizer in times of low growth—relatively elevated, while industrial policies aimed at boosting national security and supply chain resilience will lead to growing geoeconomic fragmentation and higher prices.

Sticky inflation and tight financial conditions will weaken global demand and exacerbate economic insecurity. Faced with persistent inflationary pressures and rising debt-servicing costs, households and firms will retrench. Fiscal policymakers—especially those under pressure from market stress—will be reluctant to step in, instead focusing on reducing public spending after several years of pandemic-related deficits. Chinese growth, once a safety net during global downturns, will remain too weak to fill the gap (please see Top Risk #6). As a result, much of the world will experience subdued growth, and many countries will dip into recession.



## Persistently above-target inflation will lead central banks to keep interest rates high in 2024

With policy space already diminished by the pandemic response, “de-risking” efforts, the energy transition, the Russia-Ukraine war, and soaring interest costs, any additional negative supply shocks would prompt central banks to tighten rather than ease monetary policy to rein in inflation expectations, depressing growth further. At the same time, widening political divisions within many countries and geopolitical tensions among them will reduce the scope for domestic crisis response and global policy coordination.

These economic headwinds will deepen voter discontent in a year when two-thirds of adults in the democratic world will go to the polls, hurting weak incumbents and boosting populist challengers. In the United States, despite improving economic fundamentals, negative perceptions of the economy will be a drag on President Joe Biden’s reelection bid, while in the United Kingdom, the Conservative Party is set to be voted out on the back of weak growth. In South Africa, meanwhile, the ruling African National Congress faces the prospect of losing its parliamentary majority for the first time since the end of apartheid thanks to a chronically weak economy.

In countries without scheduled elections in 2024, a shrinking economic pie will cause fiercer fights over the distribution of scarce resources, leading to social unrest and political instability. Those with the lowest growth rates, highest debt levels, and most divisive politics will be most vulnerable. Some governments will be under intense pressure to enact fiscally unsustainable populist or heterodox policies, in turn exacerbating their inflation and debt problems. In Nigeria, popular discontent will

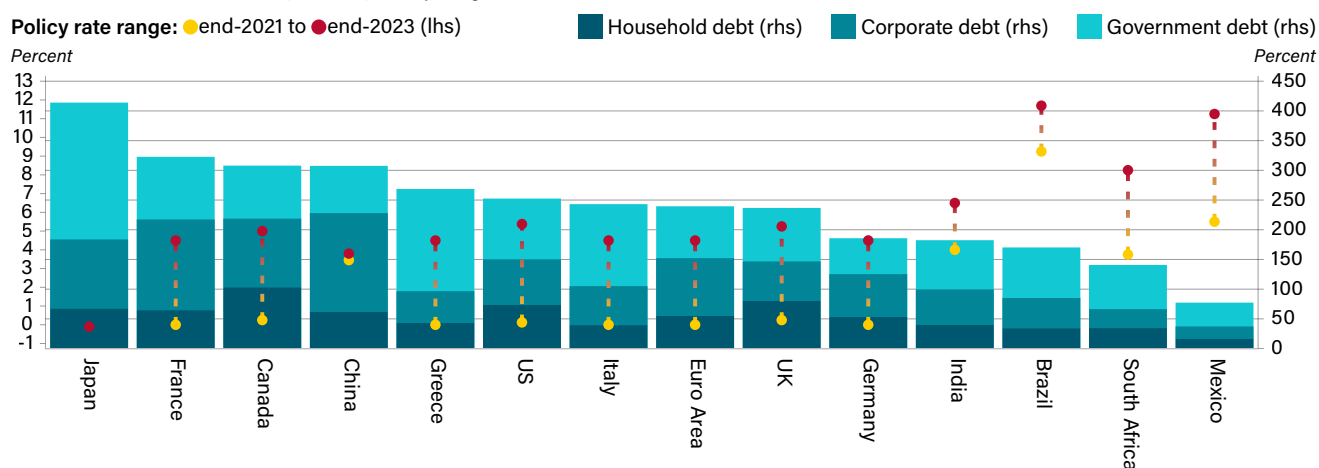
undermine the government’s ability to advance reform priorities such as removing fuel subsidies and introducing more flexibility in the foreign exchange market. In Brazil, a slowing economy and faltering government approval ratings will prompt President Luiz Inacio Lula da Silva to weaken the country’s fiscal framework. And having just been elected to implement radical changes, Argentina’s President Javier Milei will struggle to address deep economic imbalances amid mounting social backlash.

Heightened economic, financial, and political strain will provoke debt distress in emerging and frontier economies with the least capacity to respond. In addition to those already undergoing debt restructurings—Zambia, Ghana, Sri Lanka—borrowers such as Pakistan and Egypt could be forced to default on their debts. The largest creditor nations, most notably China, will be reluctant to provide meaningful multilateral debt relief. Developed markets with high debt levels such as Italy and Canada, meanwhile, will also face fiscal and financial strain in this environment. Although they will have enough economic and political capacity to address these challenges, rising debt service costs will crowd out spending on public goods.

While financial markets proved resilient in 2023, persistently high interest rates, tepid growth, and exhausted buffers will heighten the risk that something breaks. Last year’s bond market volatility and the banking crisis triggered by the collapse of Silicon Valley Bank could return, or other interest rate-sensitive markets such as real estate, corporate debt, and insurance could face real stress. With growth subdued and policy set to remain tight, further accidents are bound to happen.

### High post-Covid debt levels set to collide with much higher interest rates

Non-financial sectors debt (% GDP) and policy rates



Source: Eurasia Group, Macrobond, BIS





# 9 El Nino is back

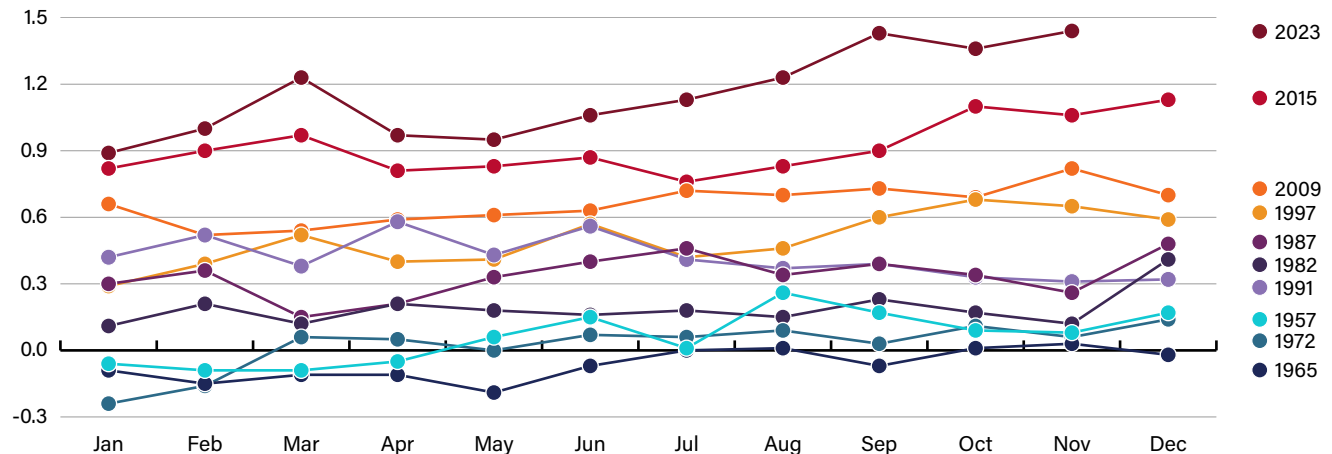
**After a four-year absence, a powerful El Nino climate pattern will peak in the first half of this year, bringing extreme weather events that will cause food insecurity, increase water stress, disrupt logistics, spread disease, and fuel migration and political instability.**

El Nino is a predictable pattern that increases the frequency and magnitude of extreme weather events such as heat waves, droughts, storms, and floods due to higher global temperatures stemming from warmer currents and winds in the Pacific Ocean. The last time a strong El Nino occurred (in 2016), it contributed to making that year the hottest on record. Since then, however, baseline temperatures have increased further owing to climate change. With El Nino peaking in the first half of the year and its effect on global temperatures lagging by a few months, 2024 will likely set a new record.

El Nino will affect much of the world, but countries in the Indo-Pacific, Latin America, and Southern Africa will be hit hardest. South and Southeast Asia, Central America, northern South America, and Australia all risk prolonged dry periods and record high temperatures, increasing the likelihood of unusually severe and widespread drought. In Brazil, dry conditions in parts of the country will exacerbate the risk of fires, accelerating deforestation and threatening sources of fresh water and hydroelectric power generation. The northern US and Canada are also likely to experience warm, dry weather, leading to elevated forest fire risk after an unprecedented 2023 season that saw fires rip through Canadian forests and blanketed New York under a thick cloud of smoke. Further south, increased rainfall could cause flash flooding in California after years of drought, while the Southeastern US is also expected to see higher than normal rainfall. Eastern Africa will face a higher risk of flooding in the eastern Horn and of drought further inland, while Southern Africa could experience elevated temperatures and increased drought.

## 2023 was the hottest year on record entering a strong El Nino

Difference from 1901-2000 average global temperature (°C)



Source: NOAA NCEI

In some regions, extreme weather caused by El Nino will threaten agricultural production, leading to potentially severe disruptions in food supplies. In South and Southeast Asia, poor harvests of rice, wheat, corn, palm oil, sugar, and coffee would be especially disruptive, given already high food prices. Drought in Southern Africa would particularly affect South Africa, Zimbabwe, and Mozambique, the region's largest agricultural producers of wheat and corn, while droughts in Brazil and Australia could further constrain supplies of wheat, corn, and rice. Livestock and fisheries will be exposed to an increased risk of serious losses owing to severe weather.

Localized disruptions to food supplies in some regions will increase food prices, heighten food insecurity, and provoke unrest. Though some global staple prices have retreated from recent highs, renewed price pressures will drive social and political instability in countries where food prices remain elevated, such as Pakistan, Sri Lanka, the Philippines, Indonesia, and Malaysia. High food prices will also increase instability in regions such as North Africa and the Middle East that are heavily dependent on food imports, with Egypt, Tunisia, and Lebanon among the most vulnerable countries.

El Nino will increase water stress in regions with a high concentration of water-intensive industries—a global risk we highlighted last year that El Nino is set to exacerbate. Droughts will make the logistics of river and canal

transport more challenging. Even lower water levels in the Panama Canal will more dramatically disrupt one of the world's busiest shipping hubs. Reduced hydroelectric and nuclear power generation are a related concern, especially in parts of South America, South and Southeast Asia, Europe, and East Africa. Lastly, competition over shared water resources will intensify between neighboring countries such as Ethiopia and Sudan, India and China, and India and Pakistan.

El Nino will also increase the chance of natural disasters caused by extreme weather events such as fires, cyclones, landslides, and floods. These occurrences will bring downside risk for homes, businesses, and infrastructure, with important implications for a global insurance industry already reeling from the consequences of climate change. In some inundated areas, tropical diseases will become more frequent, with a heightened risk of spikes of cholera in East Africa and dengue fever in South and Southeast Asia and Central and South America.

The combination of food insecurity, water stress, and natural disasters will put the most pressure on countries with limited adaptation capabilities—many of them already suffering from elevated political and economic fragility. This will threaten lives and livelihoods among the most vulnerable populations in the most vulnerable countries, driving internal migration (in Africa, Asia, and the Middle East) and cross-border refugee flows (in the Americas).

## Extreme weather caused by El Nino will threaten agricultural production and food prices





# 10 Risky business

**Two years ago, we warned that customers, employees, and investors—mostly on the left—were bringing the US culture wars to corporate boardrooms (please see Eurasia Group’s 2022 Top Risk #9). That’s still happening.**

Since then, courts, governors, state legislatures, and activist groups—mostly on the right—have started to punch back. In 2021, Texas banned state investment funds from working with financial firms that boycott fossil fuel companies to comply with ESG standards. In 2022, Florida revoked Disney’s long-standing special tax status in retribution for the company’s criticism of the “Don’t Say Gay” law signed by the state’s Republican governor. In 2023, conservatives nationwide launched a boycott of Bud Light after transgender influencer Dylan Mulvaney promoted the beer on Instagram, causing sales to plummet and forcing out two senior executives. The year closed with a knock-down fight against elite university presidents over their response to campus activism, antisemitism, and the Israel-Hamas war.

America’s growing political polarization is fragmenting the internal market along party lines. Red and blue states increasingly diverge on issues as varied as LGBTQ rights, education policy, and even whether companies can require on-site employees to be vaccinated, making it costlier for companies to operate in all states. Last March, for example, after Walgreens decided it would not distribute the abortion pill mifepristone, California Governor Gavin Newsom announced his state would no longer do business with the pharmacy chain (though he could not ultimately follow through on the threat). A couple of months later, seven Republican state attorneys-general sent a letter to Target warning that the retailer’s Pride Month merchandise could violate their states’ child protection laws. Since 2021, 18 states have passed laws or issued orders to ban or limit the teaching of race, gender, and sexuality issues in schools.

This year, as the November elections approach, Donald Trump’s megaphone grows louder, and new fronts open in America’s culture wars, conservatives will continue to jettison their free-market instincts in favor of retaliatory, “anti-



# Business leaders will find themselves in a lose-lose environment of higher policy uncertainty and regulatory risk

woke” political activism, doubling down on their use of state legislatures and the courts to assert states’ rights over federal regulatory authority.

For instance, last year’s ruling by the US Supreme Court banning affirmative action in university admissions opened the door for conservative politicians, activists, and attorneys-general to ramp up legal challenges against corporate diversity, equity, and inclusion programs. Groups such as the National Center for Public Policy Research and America First Legal are already filing shareholder complaints and bringing lawsuits against major corporations such as Starbucks and McDonald’s. Legal battles will also play out across states over transgender protections, environmental regulations, abortion restrictions, gun control, and other hot-button issues. As the Supreme Court continues to rule in ways that shift decision-making authority toward states (such as in the *Dobbs v. Jackson Women’s Health* decision on abortion rights) in these and other divisive policy areas, more legal and regulatory fragmentation will ensue.

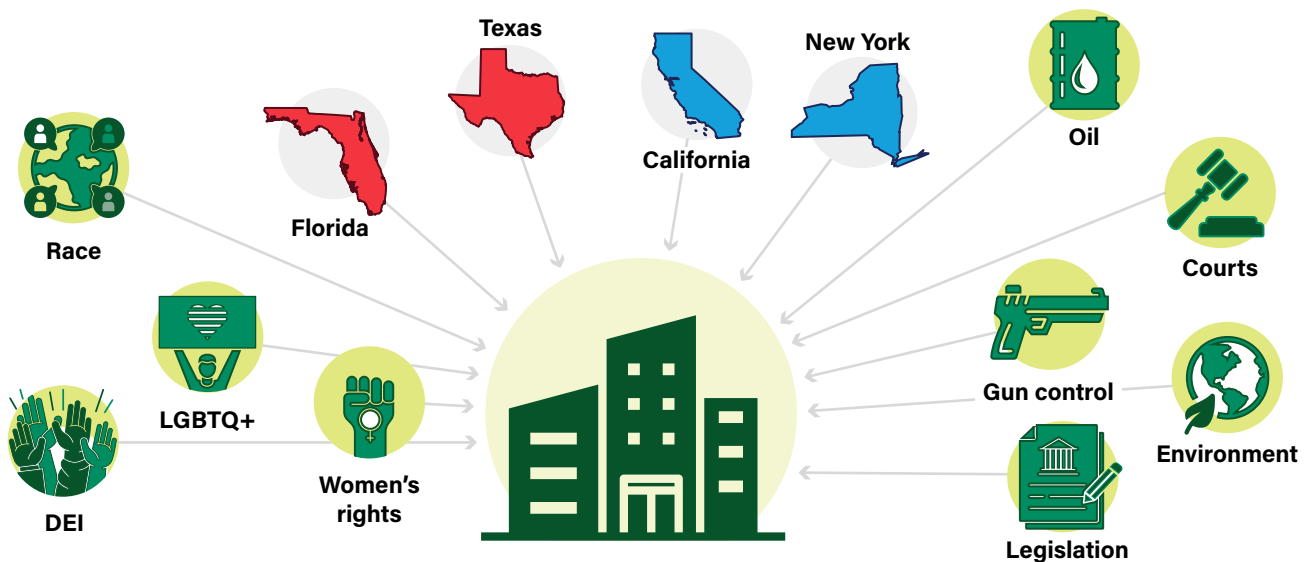
Companies will also face growing risks from a widening red vs. blue divide among America’s state capitals this year as the shades of each color darken within states and the number of state government trifectas reaches its highest level in decades. In 2024, one party or the other will control the governor’s mansion and both legislative chambers in 40 of the 50 US states, home to about four in five Americans. In all these states, the same party that holds the trifecta will also hold the top three executive positions: governor, attorney general, and secretary of state. This consolidation

of one-party rule will play out in the policy space as state lawmakers press the advantage conferred by their dominance to impose maximally conservative or liberal policies on the nation’s thorniest issues, leaving little room for bipartisan compromise and deepening policy polarization even further.

Firms operating in both blue and red states (read: most of the Fortune 500) will struggle to adopt cohesive nationwide strategies that satisfy Democrats and Republicans alike. Increasingly, these companies will face a tough choice: comply with laws and regulations that offend their corporate and customer values and risk getting “canceled,” or exit certain state markets. And with the GDP of some US states rivaling that of sovereign countries—California’s economy is larger than the UK’s, Texas’s GDP tops Italy’s, and New York’s economy is bigger than Russia’s—these are expensive decisions.

While the decentralization of US politics—and the resulting free market of political and economic strategies—may be both a growth driver and a stabilizing feature during a contentious election year that will result in significant dysfunction at the federal level (please see Top Risk #1), companies caught between conservatives and progressives will nonetheless see their decision-making autonomy limited and their cost of doing business rise. Forced to navigate conflicting laws, regulations, and court rulings across red and blue states, business leaders will find themselves in a lose-lose environment of higher policy uncertainty and regulatory risk.

## Corporate America grappling with competing pressures



Source: Eurasia Group



# RED HERRINGS

## US-China crisis

This year will prove another turbulent one for US-China relations, with several irritants that will threaten to derail the thaw the two sides established over the course of 2023.

First, if Vice President William Lai wins Taiwan's presidential election, Beijing will take aggressive military and economic steps to discourage his pro-independence ambitions. Policymakers in Washington will respond with a show of support for Taiwan (please see box in Top Risk #5). Second, China's drive to assert its regional interests will continue to produce close encounters with US military assets in or above the Taiwan Strait and the South China Sea. Third, tech competition between the US and China will continue apace as Washington expands restrictions on China's semiconductor and artificial intelligence industries while Beijing retaliates with further export controls on critical minerals and green technologies (please see Top Risk #7).

Yet we expect the US and China to maintain comparatively stable ties in 2024. There are several reasons why.

While committed to "systemic competition," President Joe Biden's administration is more immediately determined to put a floor beneath the relationship and preserve the guardrails established by Biden and Chinese President Xi Jinping at

## Diplomatic rapprochement has buttressed stability, will likely remain a bilateral priority in 2024

! US   ! China   ! Virtual

<b>2023</b>	<p><b>Jun</b></p> <p>18-19 ! US Secretary of State Antony Blinken kicks off series of visits, meets with Xi and Foreign Minister Wang Yi</p> <p><b>Jul</b></p> <p>6-9 ! Treasury Secretary Janet Yellen meets Premier Li Qiang, urges "mutually beneficial" economic relationship</p> <p>16-19 ! US climate envoy John Kerry visits China for talks on environmental cooperation</p> <p><b>Aug</b></p> <p>27-30 ! Secretary of Commerce Gina Raimondo meets with Chinese counterparts</p> <p><b>Oct</b></p> <p>9-11 ! Senate Majority Leader Chuck Schumer leads first congressional delegation to China in several years</p> <p>22-29 ! California Governor Gavin Newsom travels to China for a series of meetings</p>	<p><b>Nov</b></p> <p>4-7 ! Kerry meets with Chinese counterpart Xie Zhenhua</p> <p>6 ! US and China hold first nuclear arms control talks in five years</p> <p>8-10 ! Yellen meets with Chinese Vice Premier He Lifeng</p> <p>16 ! Raimondo and Chinese Commerce Minister Wang Wentao commit to improving technical discussions</p> <p>16 ! At APEC summit, Biden and Xi pledge increased cooperation on fentanyl and AI and restoration of high-level military dialogue</p> <p><b>Dec</b></p> <p>14 ! Yellen gives speech on US-China strategy highlighting importance of maintaining stability and avoiding crises</p> <p>21 ! US and China restart high-level military dialogue</p>
<b>2024</b>	<p><b>Jan</b></p> <p>1 ! Biden and Xi exchange letters on the 45th anniversary of establishing diplomatic relations</p>	

Source: Eurasia Group

the Woodside Summit. Election-year politics in the US will limit cooperation and occasionally dial up hostile rhetoric and actions (please see Top Risk #1). But new diplomatic and military-to-military channels will help manage tensions with Beijing.

Beijing's recent charm offensive—a far cry from the “wolf warrior” diplomacy of Xi’s first two terms—will continue, as China’s domestic economic challenges and the structural issues underpinning them (please see Top Risk #6) remain defining priorities in 2024 and beyond. The importance of social and economic stability at home and the need to ease the fears of foreign investors and trading partners will continue to override inclinations for a more

pugnacious foreign-policy approach. Moreover, given the significant uncertainty—and growing concern—about how Donald Trump might approach US-China relations in a second term, China’s leadership has incentives to reinforce engagement while the option is still on the table.

The most important geopolitical relationship in the world is still fundamentally adversarial and marked by mistrust; several flashpoints will exacerbate bilateral tension throughout 2024. But preserving stability is better for both sides this year, neither of which wants to risk major decoupling or conflict. The two countries will carefully manage the relationship’s decline as they weather any expected turbulence.



# Populist takeover of European politics

A surge in support for far-right and populist parties within many European countries is fueling concern that the centrist consensus that has defined Europe's postwar order could break down in 2024.

In 2023, Geert Wilders and his Freedom Party secured mainstream support for the first time to win the Dutch elections. Robert Fico's left-wing nationalist Smer came back to power in Slovakia. Support for the far-right Alternative for Germany (AfD) surged to record highs. Far-right and far-left parties in France currently have over 50% support combined. Economic headwinds, migratory pressures, some Ukraine war fatigue, and intra-EU discord are kindling fears of a populist sweep at the European Parliament elections in June.

But Europe's center will hold in 2024.

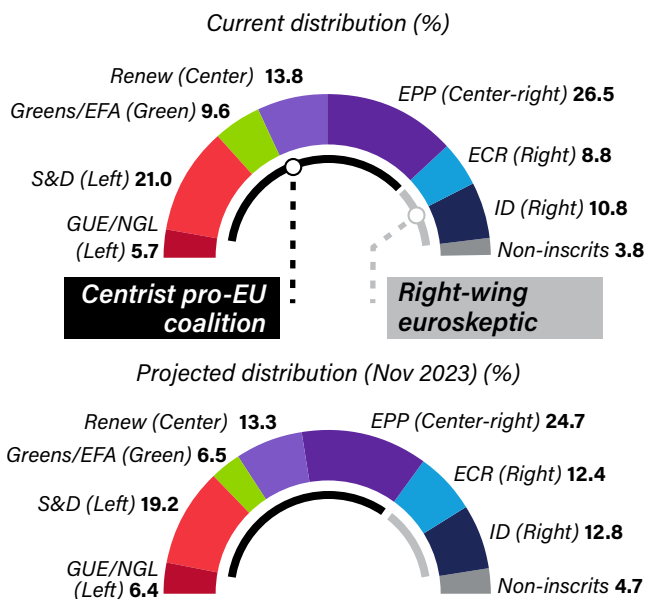
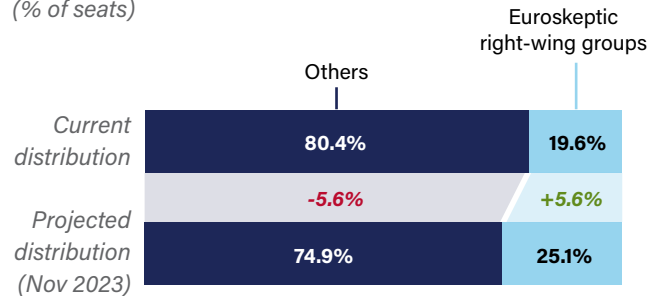
Euroskeptical and populist parties should capture around a quarter of European Parliament seats. An alliance of Europe's center-right parties with far-right and populist parties is politically unlikely. Even if their politics align, they will not account for a sizable majority in the European Parliament. Therefore, the traditional European coalition—comprising the center-right, social democrats, liberals, and Greens—will maintain power in the EU's legislature, and the European Commission (the bloc's executive) will be chosen by consensus among centrist candidates.

Hungarian Prime Minister Viktor Orban will continue obstructing EU decision-making, but centrist governments in the majority of member states will manage to find workarounds. Moreover, Orban will no longer have the support of his crucial former allies in Warsaw after Polish voters replaced a xenophobic right-wing government with an EU-friendly centrist one in 2023. Despite pushback from Hungary and other headwinds, financial support for Ukraine is likely to be maintained near current levels this year. Even in countries led by antiestablishment parties, such as Italian Prime Minister Giorgia Meloni's Brothers of Italy, decision-making will remain overwhelmingly pragmatic—even centrist.

Populists and right-wingers will continue to make gains and strike fear into the European political establishment.

## Centrist pro-EU parties will retain a majority

Projected seat distribution following June's elections for European Parliament compared to current distribution (% of seats)



Source: Der Föderalist (dynamic scenario) 6 November. European Parliament and Eurasia Group

But limited setbacks for mainstream parties in European Parliament, national, and local elections will neither upend the European political order nor fundamentally derail revamped EU ambitions following the twin crises of the Covid-19 pandemic and the Ukraine war.



# BRICS vs. G7

On 1 January, the BRICS welcomed new members Saudi Arabia, Iran, Egypt, the United Arab Emirates, and Ethiopia. Some have argued that this expanded BRICS will become an anti-US counterweight to the G7 and the West. This view also holds that China will co-opt the organization, and through it, expand its influence over the Global South.

We disagree.

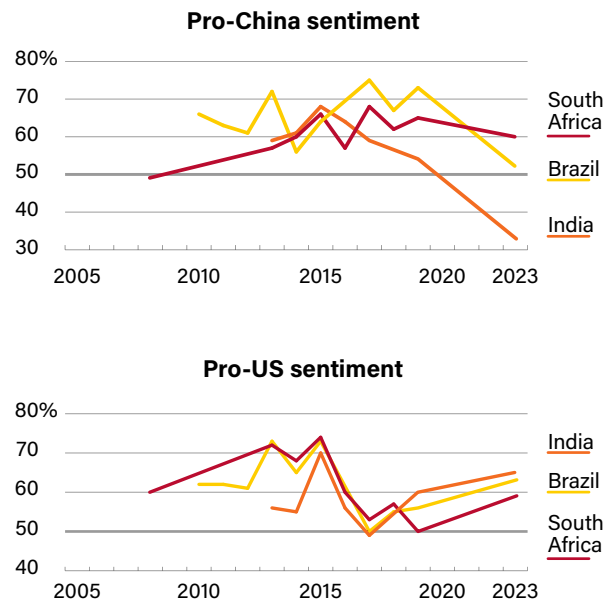
The expanded BRICS, like the original organization, will be a weak group, with much less institutional coherence than the G7. The group's original members—China, India, Russia, South Africa, and Brazil—have little in common beyond a shared desire to boost their status on the global stage. They also have dramatically different political and economic systems. The addition of new members will make consensus—a requirement for the group to take any action—even harder to reach than it already is. The expanded BRICS now includes two pairs of countries that are longtime rivals: China and India plus Saudi Arabia and Iran.

China will have important influence in the BRICS, to be sure, but its attempt to co-opt the group won't work. India is a critical member—especially and increasingly as a leader of the Global South—and will oppose most initiatives that strengthen Chinese clout. Also, most BRICS countries seek good relations with both the US and China and don't want to jeopardize their existing (and in some cases growing) diplomatic and commercial ties with the G7. Therefore, they will place limits on Chinese sway.


The BRICS will not emerge as a China-led rival to the G7 this year—or anytime soon.

## China unlikely to lead BRICS

*China favorability vs US favorability*



Source: Pew Research Center



We hope you'll take all this in the spirit it's intended: We've entered a year of grave concern, but supported by the hope that tough times bring out the best of us. This isn't going to be particularly enjoyable, especially for our fellow citizens here in the United States. It's personally painful to watch our country go through a tumultuous time, with those we care about affected by it. It's nothing compared to what we've been seeing in Ukraine, Gaza, or South Sudan ... and yet for a nation that has spent too much time presuming "it can't happen here," 2024 is a necessary wake-up call.

It's critical we don't just talk about these global issues to help make business and policy decisions, but also to connect with those closest to us. If we can't make a difference with those we know and love, we're lost.

One of us (Ian) just returned from the South Pole. Having the entire world on my shoulders—even if for just a moment—felt like the right thing to do to prepare for the year. Antarctica is an entire continent that's been kept peaceful and pristine, for humanity and our animal friends, for generations now. Yeah, we're melting it. But otherwise, it turns out we can be capable global custodians when we set our minds to it.

Let's remember that. Thinking about the year ahead of us, we're not that into Mars. We're focused on doing a better job with the planet we're on first.

With our best wishes to you for our year ahead,

Ian and Cliff

New York | London | Washington DC | São Paulo | Tokyo | Singapore | San Francisco | Brasília

This material was produced by Eurasia Group for use by the recipient. This is intended as general background research and is not intended to constitute advice on any particular commercial investment, trade matter, or issue and should not be relied upon for such purposes. It is not to be made available to any person other than the recipient. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic or otherwise, without the prior consent of Eurasia Group. Photo credit: Reuters, Getty

© 2024 Eurasia Group, 149 Fifth Avenue, 15th Floor, New York, NY 10010

