

# 2024 Annual Forecast

49 MIN READ

Jan 3, 2024



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## Overview

In 2024, a series of local, national and supranational elections in countries with a combined population of roughly 3 billion will shape global affairs for years to come. Some of these elections will take place in countries with long democratic traditions (such as the United States and the United Kingdom), while others will happen under authoritarian regimes (such as in Russia and Iran) where elections offer ruling elites a pretext to remain in power. Some of the votes will happen amid difficult socioeconomic conditions (such as in South Africa and Pakistan) while others will take place amid rising geopolitical tensions (such as in Taiwan and the European Union). Despite their many differences, they each share a common characteristic: The leaders who emerge from them will shape international relations for most of the remainder of this decade.

The November election in the United States, which could result in significant policy changes on issues ranging from trade and technology competition with China to support for Ukraine's war efforts, is arguably the most consequential. While the new U.S. president will only take office in January 2025, most of the planet will spend 2024 anticipating the outcome of an election that will affect virtually every part of the globe. China will follow the U.S. electoral campaign particularly closely as it spends 2024 advancing its macroeconomic rebalancing while trying to avoid a financial crisis. Beijing will also follow the Taiwanese election in January with special interest, as the island is expected to elect an anti-China government that will rely on support from the White House to avoid Chinese aggression. While a conventional Chinese invasion of Taiwan is highly unlikely in 2024, tensions will remain high and will give rise to constant fears of shipping disruptions and drive military spending across Asia.

In the meantime, June elections for the European Parliament could prove a turning point for the ambitious EU green agenda, as nationalist political parties that push for a slower energy transition are likely to gain ground in the supranational legislature. This will come on top of the bloc's increasing struggles to provide financial and military support for Ukraine, which will make Russia believe that time is on its side and will prevent any meaningful peace negotiations in 2024. Against this backdrop, Russian President Vladimir Putin will face almost no obstacles in his push for reelection in March.

2024 will also see impactful elections in some of the most important emerging economies. India's general elections in April-May will be a massive event involving roughly 1 billion voters, but the outcome will prove unsurprising, with the governing Bharatiya Janata Party and its allies likely to remain in power. While this will mean policy continuity in one of the world's most important emerging markets, it will also mean the persistence of intercommunal tensions that have shaped the country in recent years. Polls for Mexico's June presidential election also suggest political continuity in Latin America's second-largest economy, but this will not necessarily mean full policy continuity, especially on issues such as climate change. Things will prove considerably more complex in South Africa, where

lingering economic problems, stalled reforms and worsening crime will present the biggest challenge in three decades for the governing African National Congress.

Finally, 2024 will see the conflict in Gaza enter a new stage as Israel has little option but to remain involved in the strip at a very high human, political and economic cost for both Israelis and Palestinians. Meanwhile, the weakening of Israel's government could see the country added to the long list of places holding elections this year. This would come as an elusive nuclear deal between the United States and Iran also keeps the risk high of regional escalation, which could include the targeting of oil and gas infrastructure in places like Saudi Arabia.

## FORECAST

# Global Trends

7 MIN READ Dec 21, 2023 | 18:45 GMT

The World Prepares for a Close U.S. Presidential Election

**Ahead of a close presidential election in November, the U.S. government will seek to shore up voter support through policies such as strengthening the U.S southern border, while the rest of the world will prepare for a potential second Trump administration that would usher in the return of trade wars and skepticism about NATO.** While the U.S. election in November will not lead to a change of government in 2024, the rest of the world will start to weigh the potential implications of a Donald Trump victory long ahead of the vote. President Joe Biden will likely broaden his platform to appeal to moderate voters through new measures to support oil and gas investment and expanding construction on the wall along the border with Mexico. The White House will struggle to push funding for Ukraine through Congress, which will lead the Biden administration to look for other ways, such as using existing authorized funds, to help support Kyiv. While a Biden victory would entail foreign policy continuity beyond 2024, a Trump victory would likely see renewed U.S. efforts to disentangle itself

from certain international issues, including a potential exiting of the Paris Agreement and an end to most support for Ukraine against Russia. Trump would also shift U.S. trade policy priorities, launching more tariff threats against the European Union and China while trying to reduce the U.S. trade deficit. Trump would also express skepticism about NATO among other disruptions to trans-Atlantic ties, resulting in European countries like France pushing more heavily for strategic autonomy and reduced military reliance on the United States. Russia meanwhile would view a Trump presidency as a potential way to end the war in Ukraine on terms favorable to Moscow. And Trump would present different challenges to China than would Biden, increasing the prioritization of trade and tariff issues versus the Biden administration's focus on strategic threats from China's technology sector.



# U.S. Election Likely to Be a Biden-Trump Rematch

Both President Joe Biden and former President Donald Trump are likely to win their respective nominations, barring a major health emergency for either or a significant legal decision involving Trump. If Biden wins a second term, it would likely point to continuity of U.S. policy. If Trump returns to the White House, he would usher in major changes to U.S. domestic and foreign policy, including a return to his America First foreign policy platform pitting the U.S. against its allies on key issues, such as Ukraine.

## If Biden Wins

- Heavy focus on energy transition and curbing U.S. emissions to fight climate change
- Continue financial and arms support for Ukraine and Israel to continue their fights against Russia and Hamas
- Prioritize placing restrictions on China's tech sector, with little focus on bilateral trade issues and tariffs
- Focus on improving ties with Europe through maintaining stable relations with NATO, working to resolve points of contention with the EU, such as on steel and aluminum tariffs
- Attempt to raise U.S. corporate income tax rate to 28%, but likely to agree to extend Trump-era tax breaks that sunset in 2025
- Support rules-based international global order, as well as stable institutions in the U.S.
- Promote ESG and LGTBQ+ causes, gun ownership restrictions, and women's reproductive rights in the U.S. culture wars

## If Trump Wins

- Promises to reexit the Paris Agreement, roll back the Inflation Reduction Act's green aspects, such as the EV tax credit, and end Biden's incoming green regulations on fuel efficiency standards and emissions limits for power plants
- Promises to end support for Ukraine against Russia and try to negotiate a deal with Russia on ending the war
- Prioritize bilateral trade issues — and tariffs and the trade deficit — in China policy, perhaps at a higher prioritization than technology issues
- Likely to launch new trade wars and attempt to place tariffs on key U.S. allies and partners, such as on European autos
- Promises to introduce new tariff policy to place "reciprocal" tariffs on companies equal to their tariffs on specific goods
- Likely to attempt to push out civil servants and install loyalists in more government offices and challenge norms through the significant use of executive power
- Possible constitutional crisis if Trump wins and is convicted in one of his felony trials or quashes the charges against him

## Key Dates

**Jan. 15** Iowa Republican Caucus (first Republican primary)

**Jan. 19** First of two dates on which U.S. government funding ends

**Jan. 23** New Hampshire primary (first Democratic primary)

**Feb. 4** Second of two dates on which U.S. government funding ends

**March 4** Trump's alleged 2020 election interference criminal trial starts

**March 5** Super Tuesday

**March 24** Trump's alleged hush money concealment criminal trial starts

**May 20** Trump's classified documents criminal trial starts

**July 15-18** Republican National Convention

**Aug. 5** Proposed trial date for Trump's alleged Georgia election interference criminal case

**Aug. 19-22** Democratic National Convention

**Nov. 5** U.S. presidential and congressional elections

**Dec. 17** Electoral College votes

## The Fed's Interest Rate Cuts Provide Relief to Developing Economies

**The easing of U.S. monetary conditions will provide some financial relief to struggling developing economies and a financial boost to more stable emerging economies.** The Federal Reserve is expected to cut interest rates by mid-2024, though a deeper than anticipated decline in U.S. economic growth and inflation could accelerate the process. Lower U.S. interest rates would not solve, but would help, the financial problems of low-income and lower-middle-income economies such as Egypt, Pakistan and Tunisia. But upper-middle-income economies such as Brazil and Mexico would see larger private capital inflows, providing them with greater scope to support economic growth through interest rate cuts. Having hiked interest rates more than other parts of the world, Latin American economies such as Colombia and Chile would benefit significantly from lower domestic interest rates. Financially challenged sub-Saharan African and South Asian economies would benefit less from lower U.S. interest rates, as they rely more on concessional official financing. Their ability to attract greater private capital inflows will in many cases remain very limited in the context of weak credit fundamentals. This will also apply to countries currently undergoing debt restructurings, such as Ghana, Sri Lanka and Zambia.

## Nominal U.S. Dollar Index

The Federal Reserve (and the European Central Bank) is unlikely to increase interest rates in 2024; high-yielding emerging markets will benefit from increased capital flows and developing economies do not have to fear further deterioration of global financing conditions.

Nominal broad U.S. dollar index; Jan. 2006=100; daily; not seasonally adjusted



Source: Federal Reserve Bank of St. Louis

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## Tech Sector Supply Chain Decoupling Continues as U.S. Restrictions Expand

**The U.S. will expand technology restrictions on China, benefiting India, Malaysia, Vietnam and other Southeast Asian countries seeking to attract investment.** The

Biden administration will expand restrictions on China, including annual updating and expanding of controls on the export of equipment used to manufacture high-end semiconductors and on the export of high-performance chips for training artificial models.

The United States is also likely to expand some of the sectors it targets, adding quantum computing, for example. It will also expand the types of restrictions it uses, such as implementing an outbound investment screening mechanism. Chinese companies meanwhile will likely announce new deals to stop using Western suppliers as Beijing incentivizes its domestic companies to use domestic suppliers even when the latter's products are inferior to imports. This will contribute to even more decoupling as Chinese companies increasingly seek self-sufficiency. More Western companies, particularly in the electronics and semiconductor sectors, will take steps to reduce their

own reliance on suppliers from China, boosting growth in alternatives like Malaysia, India and Vietnam.

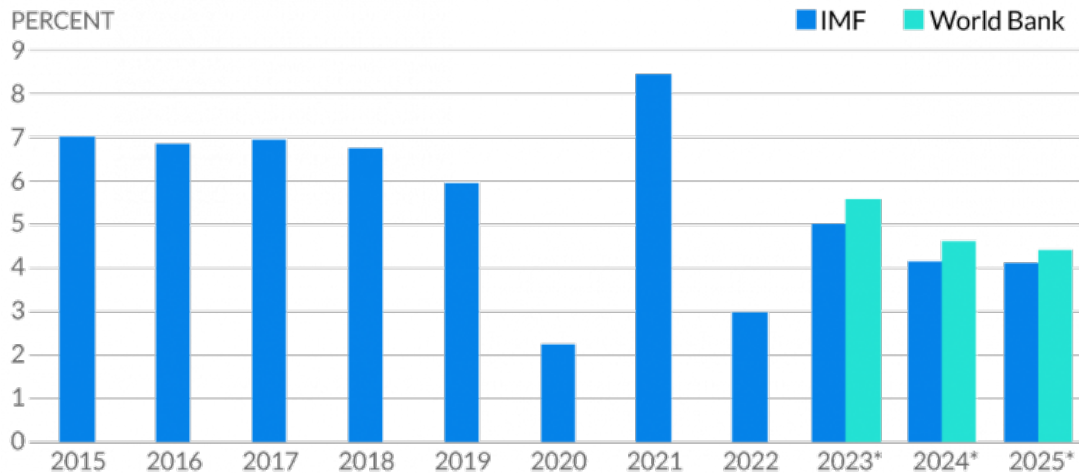
## China's Slowdown Impacts Commodity-Dependent Low Income Countries

**China's economy will slow down in 2024, but not to the point of producing a financial crisis, which means that the impact on emerging economies will be manageable.** In the face of an unusually uncertain economic outlook, China will continue to pursue macroeconomic rebalancing. Although the country's one-year outlook is fraught with greater than usual risks, the authorities will be able to maintain economic growth of about 4-5% while avoiding broader financial instability thanks to the extensive financial and regulatory instruments at their disposal as well as their willingness to provide greater policy stimulus if necessary. Should economic growth be at risk of falling below 4%, Beijing will provide greater policy support to the economy. The authorities are likely to rely on a mixture of monetary and fiscal policy expansion and focus more on supporting consumption rather than investment. China's slowing growth will impact both emerging and developing economies, but not dramatically so. Commodity-exporting Latin American and sub-Saharan African economies and China-focused East and Southeast Asian economies will experience a marginal deceleration of economic activity. If on top of China's slowdown the United States faces a deep recession (something unlikely in 2024), however, the economic impact on Latin America, sub-Saharan Africa and Southeast Asia would be much greater. Finally, if China were to go into a more sustained downturn, it would translate into a weaker currency and increased exports, which would lead to a further increase in trade tensions with its main trading partners, the United States and Europe.

## China's GDP Growth

In the context of rebalancing away from real estate investment- and infrastructure-intensive development, China's growth will continue to slow in 2024 even as the authorities will step up policy support to prevent the economy from underperforming.

### Real GDP Change, YoY



\*Forecast (IMF: October 2023; World Bank: June 2023)

Source: IMF; World Bank

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The AI Exploitation, Development and Regulation Race in the West Intensifies

**The race to exploit, develop and regulate AI will accelerate in 2024 as new AI technologies are released, companies increasingly adopt AI solutions for their challenges and the European Union implements its AI Act.** The European Union will likely finalize its European AI Act, a measure that will probably serve as model legislation for other countries in 2024 and as they create their own AI regulations. While the new act risks stifling AI development across European industry and society, most aspects will not go into effect until after 2024. The United States is unlikely to make progress on legislative action on AI during the election year. While many of the deadlines for executive branch agencies imposed by Biden's 2023 executive order imposing AI regulations will arrive, this is unlikely to have more than a limited impact on the U.S. tech sector's development of AI. A number of new AI-enabled offerings will hit the market in 2024 from major AI developers including OpenAI, Google's Deepmind and Meta, and more

companies will likely start using them, leading to sustained concern about the long-term implications of AI on society and jobs. Nevertheless, many of the long-term risks associated with AI posing existential, societal and ethical dilemmas will not reach a breaking point in 2024. Although voices calling for regulations and otherwise slowing down the AI revolution will increase, AI companies themselves will not do so voluntarily.

# As AI Technology Accelerates, So Do EU and U.S. Regulation Efforts

Both the European Union and the United States will proceed with major regulatory efforts for AI announced or implemented in 2023 following the emergence of ChatGPT and other similar technologies. The EU Artificial Intelligence Act is the world's first broad regulatory structure for AI, but critics say that it will stifle AI development in the European Union through some of its onerous requirements. By comparison, the Biden administration's AI executive order primarily focuses on regulating – and promoting – AI use in the government as the United States prioritizes the development of AI, which critics warn could lead to abuse of AI in the United States. In addition to the executive order, several legislative proposals have been introduced in Congress, but are unlikely to pass during an election year.

## U.S.: AI Executive Order

- Signed Oct. 30
- Most aspects enter effect in 2024
- Viewed as an initial step in U.S. AI regulations
- Requires foundation models posing serious risks to national security to notify the government when training the models and share red team testing results
- Sets the technical training compute threshold for high risk foundational models at  $10^{26}$  flops; currently, no AI model is thought to be subject to these requirements
- Orders the creation of red team testing standards for AI systems
- Orders the creation of guidance for AI content authentication and watermarking
- Orders review of AI threat to critical infrastructure
- Orders the development of a National Security Memorandum on the safe and ethical use of AI and countering adversaries' military use of AI
- Requires creation of a report on the labor market impacts of AI
- Orders the State Department to lead negotiations on international frameworks for AI
- Accelerates the hiring of AI professionals to help boost U.S. AI use in government
- Orders the streamlining and modernization of the U.S. immigration process to attract AI talent

## EU: AI Act

- Agreed to Dec. 8
- Still requires formal approval in 2024
- Likely to enter effect 2025–26
- Bans a number of AI applications, such as emotion recognition in the workplace, social scoring and creating a facial recognition database
- Creates different regulations based on high, limited and minimal risk for AI use cases
- High-risk use cases must provide details about their models and are subject to more requirements, such as conformity assessments and model evaluations
- High-risk use cases include employment management, critical infrastructure, law enforcement and credit scoring systems.
- Limited and minimal risk use cases require notification of users they are dealing with AI
- Creates a special two-tiered regime for so-called foundation models, like GPT-4, that underpin AI applications
- High-impact foundation models face stricter regime that requires red teaming and other obligations
- Foundation models trained using  $10^{25}$  flops are automatically categorized as high-impact models. Currently, only GPT-4 is thought to be subject to the high-impact regime
- Other foundation models must comply with transparency obligations
- Open-source AI models largely exempt from most of the strict requirements



## Skepticism, Backsliding Concerns Regarding Climate Change Will Grow

**Growing economic costs and political consequences of ambitious climate goals will blunt Western efforts to curb climate change in 2024 even as countries draft new emissions reduction plans to be submitted during 2024.** In practice, this could see a slowdown in the introduction of new regulations for companies and even delays or the easing of existing policies. In the United States, investor and political backlash against corporate America's climate policies will also increase in the election year amid the backdrop of a broader push against ESG investment strategies beyond just the environmental component of ESG. European Parliament elections in June could result in more far-right parties gaining influence, potentially stymieing the European Commission's effort to aggressively pursue the energy transition. The 2024 U.S. election will prevent any major progress by the Biden administration on climate change, while the potential election of Trump — who has promised to dismantle Biden's climate agenda and exit the Paris Agreement — creates a high degree of uncertainty for companies considering substantial investment decisions related to the energy transition. Backlash in the West will weaken its ability to pressure non-Western countries to significantly update their nationally determined contributions following COP28's so-called Global Stocktake, which found that the world's climate ambitions were far behind what is needed to achieve the Paris Agreement's goals.

### FORECAST

## Eurasia

6 MIN READ Dec 21, 2023 | 18:45 GMT





ANATOLII STEPANOV/AFP via Getty Images

## The War in Ukraine Grinds On but Cease-fire Negotiations Remain Elusive

**Western material and financial support for Ukraine's war efforts will fall due to resource and political constraints amid an apparent stalemate on the frontline through 2024, but a cease-fire between Moscow and Kyiv or even substantive negotiations is unlikely.** Major gains on the battlefield are unlikely in 2024 by either side due to resource and manpower constraints amid increasing entrenchment along the frontline, which will prevent either from amassing sufficient forces for a significant breakthrough. Still, Moscow will continue attempts to encircle Ukrainian strongholds along the frontline in order to portray the Biden administration's support of Ukraine as a failure and to hurt its chances at reelection in 2024, while Ukraine will attempt its own tactical gains to convince the West that sufficient weapon supplies can allow it to resume taking ground. Political and financial constraints in the West on ramping up arms production will mean that Ukraine will only receive enough weapons to continue defending itself rather than conduct offensives capable of inducing Moscow to enter negotiations. Ukraine will remain uninterested in negotiations because there are still no

signs the West can provide security guarantees strong enough to deter future Russian aggression, meaning that a cease-fire would give Russian forces time to regroup. Moscow will gain confidence in its strategy of ramping up its military-industrial complex and using shadow mobilization to degrade Ukraine and win a war of attrition that would force Ukraine and the West into negotiations in 2025 or later.

## Russia's War in Ukraine

Russian forces will seek continued incremental gains in eastern Ukraine while repelling any further Ukrainian attempts to gain ground in the south.



Data: Institute for the Study of War

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Putin Maintains Power as Russia's Economy Shifts Further Toward a War Footing

**Russian President Vladimir Putin will remain firmly in power as Russia's economy remains stable amid record investments to increase war production and continued**

**cuts in social spending necessary to limit the budget deficit.** Putin will remain Russia's president following a March 2024 election with little room for participation by dissenters even by Russian standards. Meanwhile, for the first time since Soviet times, more than a third of Russia's budget will be spent on security and military production. Real GDP growth will continue amid high oil and gas prices, while the deindexing of some social payments will allow the government to decrease spending in real terms and avoid strains on the budget, albeit at the price of stagnating living conditions for many Russians.

Russian inflation will remain high, while the ruble exchange rate will continue to slide, but these developments will not have broader political or economic ramifications as Moscow will continue to plug the deficit through withdrawals from Russia's sovereign wealth fund. Following the election, Putin will conduct further unpopular measures to criminalize dissent and further mobilize the economy for the war effort. In a low-likelihood scenario, Russia could conduct another wave of formal mobilization similar to that seen in fall 2022 in order to gain a decisive manpower advantage over Ukraine and thereby more credibly threaten a large-scale offensive, though this is unlikely because Russia probably can acquire enough manpower through its current approach of shadow mobilization and the steady removal of draft exemptions to continue the war. A broader mobilization would damage Russia's economy by aggravating its labor shortage and inflation, and would do little to guarantee Moscow's ability to seize and hold large new portions of Ukraine. The West will continue its cat-and-mouse game of attempting to enforce sanctions and observance of the G7 oil price cap regime, but Russia's illicit export networks will limit any reduction to its revenues.

## South Caucasus Tensions Persist Despite Possible Azerbaijan-Armenia Peace Deal

**Progress on a peace deal between Armenia and Azerbaijan is likely, but the risk of flare-ups or a return to full-scale war in the region will remain elevated as**

**Azerbaijan seeks to maintain leverage against Armenia.** Yerevan will continue to seek a peace agreement with Baku, but disagreements over the terms of regional transit corridors will continue to obstruct the negotiations. Armenia will use growing political ties with, and military support from, the West to resist Baku's strongest demands. But given it has very little leverage, Yerevan will likely accept Baku's demands for transit across southern Armenia and demarcating their shared border. Following Azeri President Ilham Aliyev's reelection Feb. 7, Azerbaijan will continue its military buildup along its borders with Armenia to prepare for a possible invasion and to gain leverage in peace talks. If substantial progress is not made during the first half of the year, the risk of Azerbaijan trying to seize a significant portion of southern Armenia will increase during the summer, when conditions for a large-scale military operation will be optimal. Russia's influence in the South Caucasus will not fade to insignificance, despite increasing signals from Yerevan of a desire to distance itself from Moscow, as Armenia will remain within the Collective Security Treaty Organization and its economy will remain tightly linked with the Russian economy. Meanwhile, bilateral relations and trade ties between Azerbaijan and Russia will reach new highs. East-West regional transit in the South Caucasus will continue to go primarily through Georgia, while Baku will facilitate the development of north-south infrastructure linking Russia to Iran. Should Baku invade Armenia to establish a land connection with its Naxcivan exclave, Azerbaijan and Turkey would come under Western pressure and threaten to reorient away from the West toward closer ties with Russia, China and Iran.

## Simmering Tensions Between Armenia and Azerbaijan

With Nagorno-Karabakh now under Azerbaijan's control, Baku's focus is shifting to its internationally recognized but undemarcated western border and to southern Armenia, through which Baku seeks to establish a corridor to its Naxcivan exclave.



## Georgia and Moldova's European Ambitions Put to the Test

**Social and political tensions will be high before and after elections in Georgia and Moldova, where incumbents are likely to remain in power amid deep divisions over their countries' geopolitical orientation.** Georgia will hold parliamentary elections in late 2024 in which the ruling Georgian Dream party will use Georgia's new EU candidate status to claim that the country is moving closer to EU membership despite insufficient progress in meeting the bloc's accession criteria. While Georgian Dream will likely win the election, the pro-Western opposition is likely to hold large demonstrations before and after the vote, whose results it will contest. Georgian Dream's reelection will likely see Georgia double down on its geopolitical balancing act between Russia and the West. In a low-likelihood, high-impact scenario, a genuinely pro-Western



government could take power, either by winning the election outright or by gaining enough seats to destabilize the current government and eventually assume power following mass protests. If this happens, Georgia will be more likely to implement democratic institutional reforms and seek to reduce economic ties with Russia. In Moldova, pro-European President Maya Sandu will likely win reelection in the autumn and overcome pro-Russian forces in a close race, allowing the country to continue its pro-European course. Protest activity will increase before and after the election, however, and actual reform will remain slow, as Sandu's administration will not have an overwhelming political mandate or the economic resources for more forceful action to remove Russian influence over the country.

## FORECAST

# Asia-Pacific

7 MIN READ Dec 21, 2023 | 18:46 GMT



TED ALJIBE/AFP via Getty Images

## China's Slow Recovery Further Chills the Business Environment

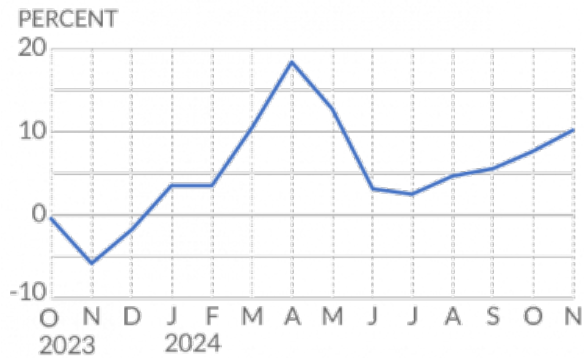
**China will boost fiscal support in 2024, but growth will remain slow, weighing on the consumer recovery; meanwhile, business diversification will proceed as compliance risks grow.** The Chinese government will offer some state financing support for real

estate companies deemed too big to fail in early 2024 in a bid to boost sectoral sales and associated household consumption. But a rapid real estate recovery is highly unlikely, as Beijing will maintain restrictions on excessive debt growth in the sector as a whole, keeping consumer confidence low in real estate as an investment avenue. Beijing will also finance infrastructure, tax breaks and easy credit for businesses and households as it has in the last three years, but will largely resist consumer stimulus amid concerns about local debt. If consumption, youth unemployment and real estate remain down by the July midyear economic meeting of the Politburo, however, Beijing may consider modest consumer stimulus funded by sovereign debt to offer a temporary boost to growth despite the debt risks. Without major stimulus or a strong recovery in the global economy, China's slowing growth trend will continue, but even amid debt restructurings for developers and local banks, a financial crisis is unlikely given Beijing's financial power. China's economic priorities for the next five years (to be outlined at the Third Plenum in Q1) will be financial and geopolitical risk mitigation, industrial self-reliance and addressing income inequality, none of which will help restore foreign business confidence. Meanwhile, despite U.S.-China efforts at diplomatic reengagement, more Western economic restrictions (including U.S. tech controls) and Chinese retaliation (such as rare earth export restrictions, legal scrutiny of foreigners as espionage threats and discriminatory use of data security review against foreign companies) will drive slow supply chain and investment diversification out of China. An expanded National Security Law in Hong Kong to be passed in 2024 will intensify this diversification.

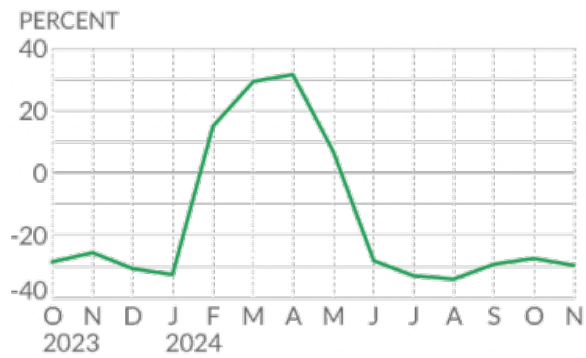
# China's Slow Economic Recovery

China's economic recovery will be partial and slow going in 2024, barring any major government stimulus, which is unlikely.

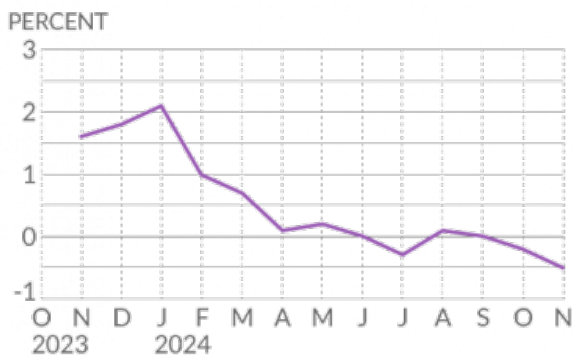
### Retail Sales YoY growth



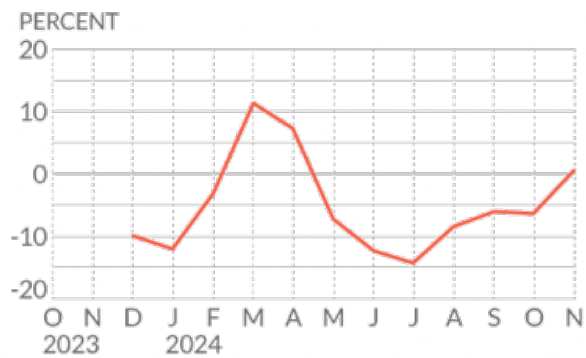
### Home Sales growth, YoY, top 100 developers



### Consumer Price Index, change YoY



### Exports growth by value, YoY



Sources: National Bureau of Statistics; Bloomberg; Trading Economics

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Taiwan Election Raises Business Risks, U.S.-China Tensions, and Asia's Defense Buildup

Taiwan's January elections will likely prompt Chinese retaliation that fuels U.S.-China competition and accelerates regional supply chain diversification and defense spending. A likely win by William Lai of the Democratic Progressive Party in Taiwan's Jan. 13 presidential election would spur Chinese retaliation. Following the election or May inauguration, China could launch live-fire military drills near Taiwan that mimic



the effects of a blockade without China fully enforcing it. China could also partially suspend the cross-strait Economic Cooperation Framework Agreement, raising tariffs on Taiwanese goods like petrochemicals and textiles, but not on chips or other high electronics, which China needs for its own industrial development. These threats to physical and supply chain security will erode political will in the United States and Europe to limit economic competition with China, increasing the chances of additional trade and investment restrictions. Beyond immediate election retaliation, China will escalate other forms of military coercion throughout 2024 (including incursions into Taiwan's air defense identification zone and naval exercises east of Taiwan), raising fears of war and shipping disruptions and driving military spending across Asia. A Chinese invasion of Taiwan remains unlikely in 2024 — partly due to China's incomplete military modernization and reliance on global imports of critical technologies — but business fears about war will contribute to supply chain diversification from China and Taiwan to Japan, Southeast Asia and India. If a more accommodative opposition party beats the Democratic Progressive Party in January, China will ease economic and military coercion against Taiwan through 2024, lowering concerns about conflict and Washington's tensions with Beijing.

## Elections Test U.S.-Korea-Japan Trade and Security Cooperation

**Elections in Japan, South Korea and the United States could weaken their trilateral partnership, exacerbate security threats on the Korean Peninsula and around Taiwan, and impede critical minerals and technological collaboration.** Low public approval and political scandals are likely to see Japanese Prime Minister Fumio Kishida either resign in the first half of 2024 or fail to win the leadership election for the ruling Liberal Democratic Party in September. In either scenario, his replacement could slow the expansion of the military budget in favor of a refocus on cost-of-living issues. This would embolden China's military coercion in the waters east of Taiwan and south of Japan.

In South Korea, the conservative People Power Party's likely weak performance in legislative elections in April will result in the government of President Yoon Suk-yeol prioritizing domestic issues such as wages and affordable housing, slowing foreign engagements like the summits with Japan that have eased bilateral trade barriers. Campaigning ahead of the November U.S. presidential election and the prospect of a return of Donald Trump will raise fears in Seoul and Tokyo about Trump's transactional approach to overseas basing, eroding confidence in U.S. deterrence in the Pacific and potentially reviving Yoon's consideration of the pursuit of nuclear weapons, thereby stoking tensions with North Korea. These fears could also push Seoul and Tokyo to limit economic competition with China and slow cooperation with Washington on critical minerals and high-tech supply chains.

## Military Tensions Intensify in the South China Sea, North Korea and Myanmar

**The risk of military incidents and diplomatic crises in the South China Sea and on the Korean Peninsula will rise, though war remains unlikely, while the Myanmar civil war poses a low risk of inflaming separatist movements across Southeast Asia.** The Philippines will expand joint patrols with the United States and Australia, and begin them with Japan, in the South China Sea. This will raise the likelihood of military collisions and political crises with China that imperil diplomatic and trade ties but are unlikely to spur broader conflict. On the Korean Peninsula, accelerating weapons tests and satellite launches by North Korea, and increasing border deployments by both sides, will raise the chance of border skirmishes between North and South. This could involve limited maritime clashes or artillery fire in unpopulated areas. The risk of war remains low, as both sides have much experience with handling such skirmishes, but incidents will still raise foreign concerns about business continuity in South Korea.

Meanwhile, though Myanmar's civil war will likely elude resolution because rebel forces lack the wherewithal to overrun major urban centers, the junta's losses from the rebels' major offensive that began in October point to a low-probability, high-impact scenario whereby border regions wrest greater autonomy from the government. This could balkanize Myanmar and potentially stoke existing regional separatist movements, like those in the Philippines, Thailand and Indonesia, for example.

# China Raises Military Tensions

China's maritime activities in the South China Sea and around Taiwan will be the primary driver for rising military tensions in the Asia-Pacific region in 2024 and risk incidents that worsen China's bilateral relations.

**Territorial claims**

 China	 Philippines
 Vietnam	 Malaysia
 Brunei	 Indonesia

- Key disputed features claimed by China**
- |                       |                 |
|-----------------------|-----------------|
| ① Scarborough Shoal   | ② Mischief Reef |
| ③ Second Thomas Shoal | ④ Vanguard Bank |
| ⑤ Luconia Shoals      | ⑥ Natuna Besar  |
| ⑦ James Shoal         |                 |



Note: The maritime boundary claims depicted are not necessarily authoritative

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Indonesia Intensifies Resource Nationalism, Eastward Economic Development

**Despite Indonesia's political transition in 2024, the country will see significant policy continuity, likely meaning additional resource export bans and economic development in the country's eastern isles.** Indonesian President Joko "Jokowi" Widodo's successor will be elected Feb. 14 and take office Oct. 20. Though Indonesia's three presidential front-runners have vowed policy continuity with Jokowi, political elites could level a nepotism case against the new government if Defense Minister Prabowo Subianto wins the presidency alongside Jokowi's son, Gibran Rakabuming Raka, as vice president, posing a modest risk of political instability and civil unrest. Prior to October, Jokowi will redouble efforts toward resource nationalism, aiming to increase foreign investment in mineral refining by banning exports of raw ores like gold, copper, tin, iron or zinc, as Jokowi previously did with nickel and bauxite, to raise Indonesian industries up the value chain. Jokowi will also continue efforts to relocate Indonesia's capital to Borneo — by August 2024, though the move will likely be delayed — to spread development beyond Java and Sumatra to underdeveloped eastern regions under the 2024 national budget. The eastward development initiative will boost agricultural outputs, including fertilizer, seeds, rice, corn and wheat, as well as for infrastructure such as roads, rail, bridges and natural gas pipelines.

## FORECAST

# Middle East and North Africa

6 MIN READ Dec 21, 2023 | 18:47 GMT



JACK GUEZ/AFP via Getty Images

## Israel Takes Control of the Gaza Strip

**Israel will occupy the Gaza Strip, facing an insurgency, regional instability, diplomatic pushback and domestic political uncertainty.** Israel will struggle to find a civilian partner that can govern Gaza since the Palestinian Authority will demand restarted two-state negotiations that Israel's current far-right-dominated government does not have the support to carry out. Instead, Israel will reoccupy the strip, which will end rocket attacks but also make Israel responsible for the reconstruction and civil management of the territory. Remnants of militant groups like Hamas will carry out attacks on Israel throughout the year in Gaza, while the West Bank will see continued violence that could escalate as Hamas shifts its operations there and to Lebanon and Syria. Israel will face Hamas-led harassment on the northern border from Lebanon and Syria. Although both Hezbollah and Iran will try to hold Hamas back from attacks that might spark another major regional war, militant attacks on the northern border will compel Israel to consider expanding covert and overt military operations in both Lebanon and Syria to restore the credibility of its deterrence. Meanwhile, Israel's actions in Gaza will be

diplomatically unpopular, likely leaving Saudi-Israeli normalization frozen and seeing increased U.S. criticism of Israel's government. It will also be unpopular in Israel itself, especially as an insurgency takes hold and no clear governing solution emerges. As a result, the government of Israeli Prime Minister Benjamin Netanyahu will struggle to hold itself together, and the risk of its collapse will rise.



## Israel's Three-Front Challenge

With threats from Lebanon in the north, Gaza to the south and the West Bank, Israel will face insurgency and regional instability in 2024. Israel may consider covert and overt military operations in Lebanon and Syria to increase deterrence.





## Tensions Between Iran, Israel and the U.S. Will Create the Risk of Regional Escalation

**The United States and Iran are highly unlikely to reach a deal on Tehran's nuclear program while Israel is likely to retaliate against Iran for supporting Hamas, which will result in a high risk of regional escalation, including the risk of attacks on oil and gas infrastructure.** Iran's stockpiles of highly enriched uranium will continue to increase in 2024, and Iran may even return to pre-September 2022 levels of 60% U-235 enrichment, increasing U.S. and Israeli concerns about nuclear proliferation and Tehran's ultimate intention regarding whether to build a bomb. As the conventional Israel-Hamas war winds down, Israel is likely to increase covert activity against Iran and Hamas. This will keep the indirect war between Israel and Hamas high during 2024. High tensions will lead Iran and its proxies to maintain their asymmetric strategy of targeting Israeli ships and other Israeli-linked targets, though a resumption of Iranian-linked activity targeting oil and gas infrastructure in places like Saudi Arabia would only become likely in the event of an escalation in Iran-U.S. tensions. Domestically, Iran will hold an Assembly of Experts and a parliamentary election March 1. This Assembly of Experts may wind up selecting Iran's new supreme leader given that Supreme Leader Ali Khamenei is 84 years old.

## Turkey's Economy Stabilizes

**Turkey will work to stabilize its economy by maintaining its technocratic strategy, giving Ankara greater flexibility to pursue an opportunistic foreign policy.** As a part of its fundamental economic policy shift that began after the May 2023 presidential election, Turkey will continue to tighten its monetary policy, pursue more orthodox fiscal policies, and work to reduce inflation to stabilize the economy and attract foreign capital

inflows in 2024, though economic growth will likely slow due to a more restrictive macroeconomic, and especially monetary, policy. After March municipal elections, Turkey will seek to reduce its budget deficit through additional tax hikes in a further effort to stabilize the economy. A more stable economy would allow Ankara to pursue a more opportunistic foreign policy in a bid for economic and diplomatic benefits.

With regard to the Israel-Gaza and Russia-Ukraine conflicts, Turkey will try to play the role of mediator to boost its soft power status. With Europe and the West, it will be more conciliatory as it tries to secure defense packages (like an F-16 upgrade package) from the United States. But in its near abroad, Turkey will be more assertive against Kurdish separatists in Syria, Turkey and Iraq, and will back Azerbaijan against Armenia, probably by supplying Baku with weapons. Finally, Turkey will retain the option to return to hawkishness (such as resuming assertive maritime drilling activities in the Eastern Mediterranean) to distract its citizens if economic conditions worsen.

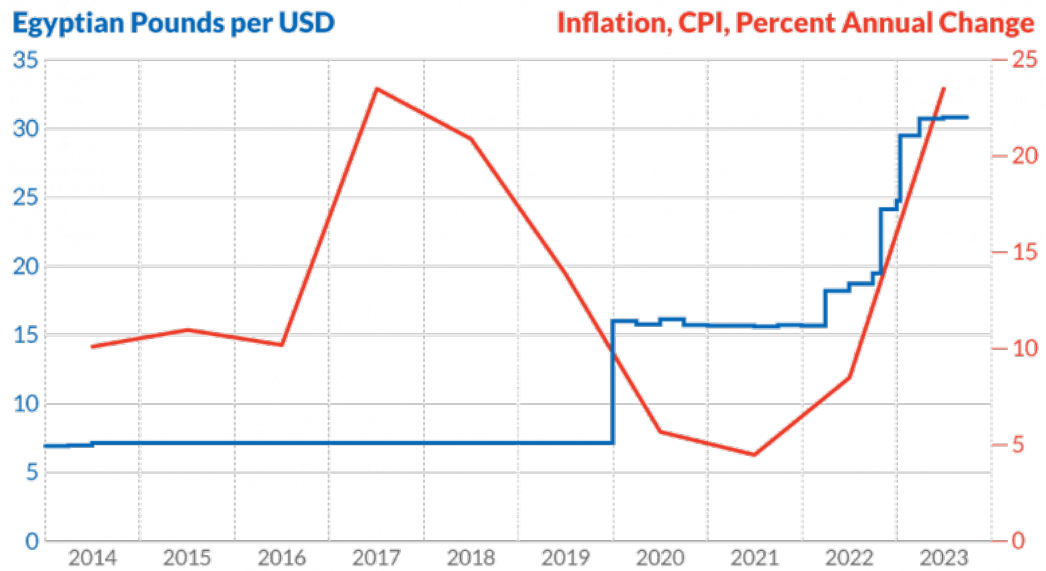
## Egypt's Economic Crisis Will Spur Cairo to Continue IMF Reforms

**Egypt will implement IMF-requested reforms to secure funding and improve its attractiveness to lenders and investors, which will increase the risk of social unrest but not to the point of destabilizing the government.** The Egyptian government is likely to devalue the Egyptian pound, improve its balance of payments and continue the privatization of state-owned assets throughout 2024 to unblock additional tranches from its IMF program. It hopes to demonstrate to prospective lenders wary of its recent credit rating downgrade that it is pursuing sustainable reforms that make investments in Egypt less risky. The devaluation of currency will cause domestic dissatisfaction due to increased inflation, but is unlikely to lead to protests unless food inflation increases significantly, which would be more likely if food subsidies decrease. Though unlikely, if protests were to erupt in response to economic concerns, the Egyptian government would severely crack down on dissent with mass arrests. Egyptian President Abdel Fattah al-Sisi

will also continue to consolidate control with support from the military, which is integrated in Egypt's economy, through sales from Egypt's sovereign wealth fund, though attracting private investors would be more helpful in increasing its foreign exchange reserves.

## Egypt's Currency Exchange and Inflation Rates

The ongoing Egyptian economic crisis has worsened as inflation has increased, and the Egyptian currency has already been devalued several times. In 2024, Cairo will likely devalue the currency again and inflation will likely increase.



Source: IMF; U.S. Treasury

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In the Gulf Arab Region, Derisking Takes Center Stage

**Economic competition between Gulf Arab states will deepen, particularly between Saudi Arabia, the United Arab Emirates and Qatar, which will seek economic advantages against one another while derisking their foreign policies abroad.** Saudi Arabia will demand companies relocate to Riyadh or risk losing access to lucrative government contracts, offering generous tax breaks for those that do relocate. The Gulf Cooperation Council's most advanced economies will also try to lure international investment with domestic economic policy adjustments such as altering public spending patterns, deepening social reforms and changing tax regimes. Such moves will come against

the backdrop of increased global competition for investment. These governments will also seek to derisk their foreign policies. In Saudi Arabia and the United Arab Emirates, this will manifest in attempts to ease tensions with Iran and to find ways to reduce their involvement in Yemen as they try to end the security threats there from Iran and its ally, the Houthis. In Qatar, this will shift Doha's relationship with Hamas — which it has hosted since 2012 — to one that will emphasize reducing the risk of Israeli covert action against Hamas in Qatar itself. Yet the Gulf Arab countries will not abandon their policies of intervention abroad. In Sudan, Lebanon, and Libya, they will continue their current policies so long as this does not generate security risks to their homelands.

## FORECAST

# Europe

6 MIN READ Dec 21, 2023 | 18:47 GMT

The EU Seeks to Maintain Global Relations and Internal Cohesion as Elections Approach

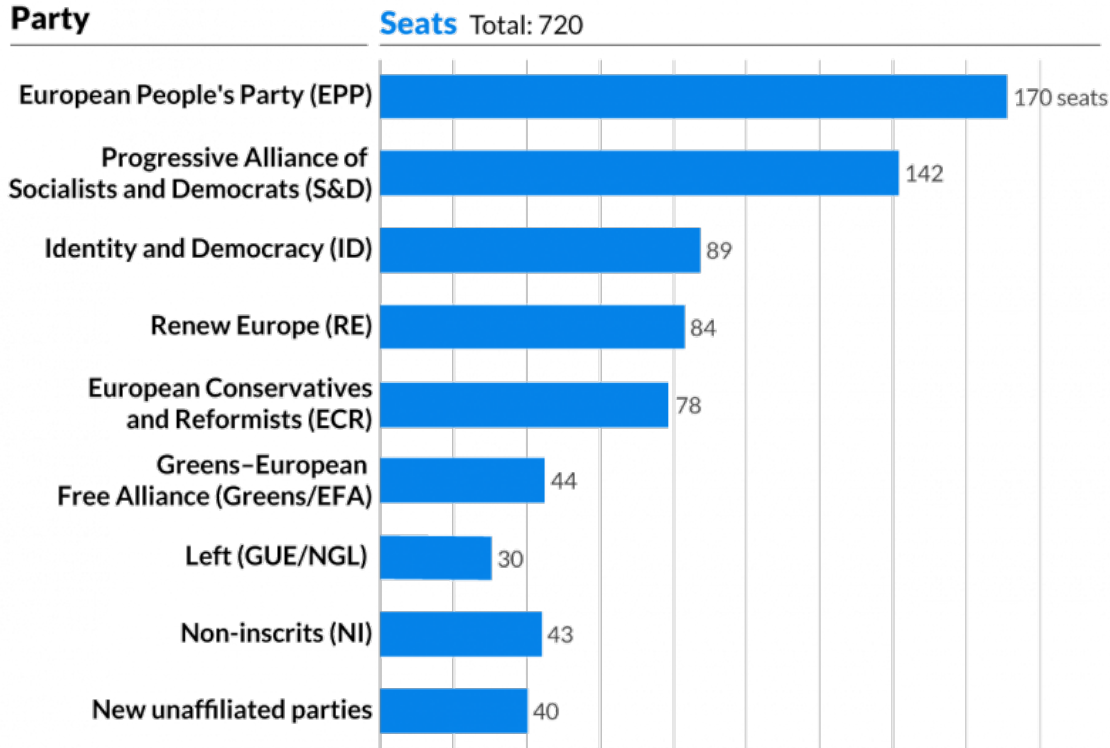
**Brussels will seek to maintain strong cooperation with Washington ahead of the U.S. presidential elections, to derisk its relations with China and to maintain unity over Ukraine amid building war fatigue. June elections meanwhile will likely yield more conservative, yet still largely moderate, EU institutions.** The European Commission will seek to complete its policy agenda ahead of EU elections in June 2024, accelerating efforts to conclude negotiations on initiatives such as the Net Zero Industry and AI acts and on the reform of the bloc's pharmaceutical legislation, releasing policy proposals under the Economic Security Strategy unveiled in 2023, and presenting strategic visions on key areas such as defense and energy. Brussels will also try to finalize deals with the United States on the trade of steel and critical minerals, but this will become increasingly complicated as the U.S. presidential election approaches. Brussels will also seek to preserve critical trade and business ties with China while pursuing its strategy of

derisking, which means the bloc will refrain from imposing extensive export controls and investment restrictions. Still, an ongoing anti-subsidy investigation on Chinese electric vehicles, and possible new ones on steel and wind turbines, could result in import duties and Chinese retaliation. War fatigue will start picking up among European voters and policymakers, which will lead some EU countries more openly to criticize military support for Ukraine in 2024. Military deliveries to Ukraine will continue, but aid will change in nature and decrease in volume as countries run out of old equipment to give. EU elections will likely produce a more conservative, yet still moderate, Parliament and Commission, which will not differ substantially in terms of approach and policy priorities from the outgoing ones but that will be more protectionist and less environmentally ambitious. The growing influence of far-right parties across member states will complicate finding EU consensus on issues such as enlargement, immigration and climate.

# Projected Results of the European Parliamentary Election

Polls suggest right-wing groups will make substantial gains in the June elections for the European Parliament, boosted by the rising popularity of their member parties at the national level, with the Identity and Democracy (ID) and the European Conservatives and Reformists (ECR) groups projected to secure 85 and 79 seats, respectively.

Projections as of Dec. 21, 2023



Source: Politico

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## Policy Gridlock in Germany, Italy and France

Europe's largest countries will experience political turbulence throughout 2024, with frequent intracoalition disputes in Germany and Italy and a difficult coexistence between government and Parliament in France. In Germany, an already fractious coalition government will increasingly struggle to implement legislation as internal divisions grow. Intracoalition tensions will increase over spending priorities following a constitutional court ruling that hinders the reallocation of 60 billion euros (about

\$66 billion) from pandemic funds, which will also expose the government's budgetary maneuvers to more legal and political challenges, complicating policymaking and increasing political instability. Additionally, a likely far-right victory in state elections in eastern Germany will complicate government parties' ability to compromise as their popularity wanes. In France, a divided Parliament will continue to complicate government efforts to pass legislation, meaning economic and social reforms will be watered down or shelved. Labor reform efforts may prompt further demonstrations and strikes while internal tensions over controversial immigration reform passed with the backing of right-wing opposition parties will increase the risk of a government collapse. A strong performance by the far right in EU elections, which is likely, could put further pressure on President Emmanuel Macron, possibly leading to Cabinet reshuffles. In Italy, worsening economic conditions and electoral calculations among ruling coalition members ahead of EU elections will likely reduce government cohesion in 2024. Should economic conditions deteriorate significantly and the government prove unwilling or unable to implement necessary fiscal and economic adjustments, the risk of a technocratic administration taking over in 2024 would increase, though new elections remain unlikely.

## Policy Shifts and Party Tensions in the U.K. Ahead of a General Election

**Ahead of general elections, the British government will seek to improve its popularity through tax cuts, stricter immigration policies and possible policy shifts that could increase political instability and policy uncertainty.** The United Kingdom will hold a general election in the final months of 2024 (and possibly earlier), which will result in increasing policy uncertainty as the governing Conservative Party trails the opposition in opinion polls. The focus of policy changes will likely relate to reducing household costs, with an improving economy leaving more space for the government to deliver preelection tax cuts in the country's Spring Budget. Migration will also continue to feature prominently in the government's agenda, but different views within the

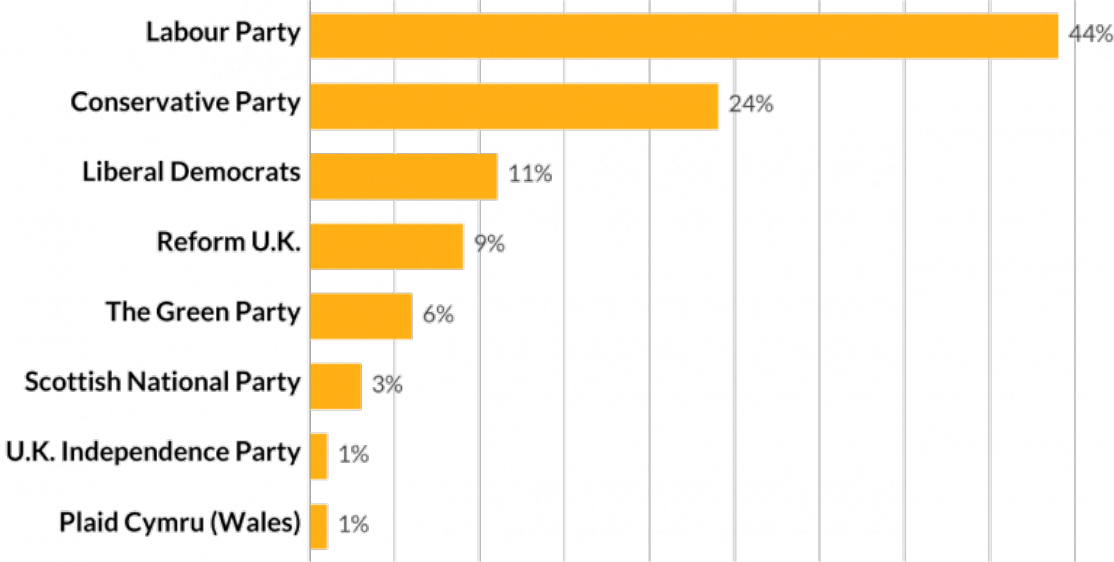
Conservative Party on the matter will likely lead to internal turbulence, with the right wing of the party pushing for more drastic measures than the government is willing to pursue. While a political crisis triggering early elections is possible, Conservative rebels are unlikely to topple the government as the vote approaches. Still, intraparty disputes could cause political turbulence and fuel policy uncertainty, which in turn may cause limited market volatility. U.K.-EU relations will remain on an overall positive trajectory, but significant developments toward further cooperation are unlikely ahead of their respective elections.

### Projected Results of the British Parliamentary Elections

In the United Kingdom, 2024 will be characterized by an electoral campaign that sees the incumbent Conservative government trailing the opposition Labour Party by 20 points in the polls. While this margin will likely shrink over the course of 2024 as the economy stabilizes and inflation falls, Labour is expected to maintain a relatively comfortable lead.

*Projections as of Dec. 17, 2023*

#### Projected share of votes



Source: Politico

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Poland to Mend Ties With the European Union



**A pro-EU government in Poland will repair ties with Brussels after years of confrontation, giving Warsaw a more proactive role in EU policymaking and opening the door to additional funding.** Following tense relations with the European Union under the previous euroskeptic administration, the new Polish government will prioritize improving ties with Brussels, seeking to unlock billions of euros in stalled EU funds earmarked for Warsaw but frozen as part of a rule-of-law dispute. Still, the new government will face institutional constraints in its efforts to dismantle some of its predecessors' economic and social reforms, making progress on this front slow. Warsaw's rapprochement with Brussels will give Poland a more proactive role in the EU decision-making process. While Poland will play a more constructive role in the EU green agenda, it will remain reluctant to support migration reforms. Warsaw will maintain its military, logistical and humanitarian support for Ukraine and seek to improve relations with Kyiv even though the new Polish government will continue to face domestic pressure from farmers and truckers. Poland will also seek greater involvement in EU defense initiatives while preserving strong defense and nuclear energy cooperation with the United States. Warsaw's rapprochement with Brussels will also take the country further away from Hungary as existing bilateral disagreements concerning Russia and Ukraine are compounded by differing views on EU issues.

# The New Polish Government's Agenda

Poland will transition from eight years of populist Law and Justice party rule after the election of a center-left coalition government led by Donald Tusk. Based on the coalition agreement signed by Tusk's centrist Civic Coalition (KO), the left-wing Lewica party and the center-right Third Way (PL2050/PSL) coalition as well as the three parties' electoral promises, the new government's agenda will seek to pursue the following goals:

Energy and Climate	
<ul style="list-style-type: none"><li>• Accelerating green energy transition, funding energy projects, boosting renewable energy in electricity, developing nuclear energy, modernizing energy networks</li></ul>	<ul style="list-style-type: none"><li>• Toughening stance on state-controlled energy company Orlen</li><li>• Ensuring affordable energy, enhancing environmental protection</li></ul>

EU Relations and Foreign Policy	
<ul style="list-style-type: none"><li>• Emphasizing Poland's active role in the EU's decision-making process</li><li>• Maintaining strong relations with the U.S.</li></ul>	<ul style="list-style-type: none"><li>• Relaunching relations with Ukraine</li><li>• Professionalizing and depoliticizing Polish diplomacy</li></ul>

Security and Defense	
<ul style="list-style-type: none"><li>• Enhancing Poland's international role</li><li>• Strengthening EU/NATO positions</li></ul>	<ul style="list-style-type: none"><li>• Continuing modernization of the military</li><li>• Revising recently signed military procurement deals</li></ul>

Economy and Industrial Policy	
<ul style="list-style-type: none"><li>• Unlocking frozen EU funds to support public investments</li><li>• Improving transparency in public finances and governance of state-owned companies</li><li>• Making tax laws more predictable</li><li>• Addressing labor shortages and rising labor costs</li></ul>	<ul style="list-style-type: none"><li>• Safeguarding farmers' interests, stabilizing agricultural markets</li><li>• Improving conditions for housing development</li><li>• Enhancing local government autonomy and finances</li><li>• Increasing health care funding</li></ul>

Domestic Policies and Society	
<ul style="list-style-type: none"><li>• Restoring judicial independence</li><li>• Depoliticizing state bodies</li><li>• Amending laws to prosecute hate speech related to sexual orientation and gender</li><li>• Increasing wages for public service employees</li></ul>	<ul style="list-style-type: none"><li>• Restructuring public media</li><li>• Affirming separation between church and state</li><li>• Broadening welfare support</li></ul>

Source Poland's government coalition agreement

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# South Asia

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Ritesh Shukla/Getty Images

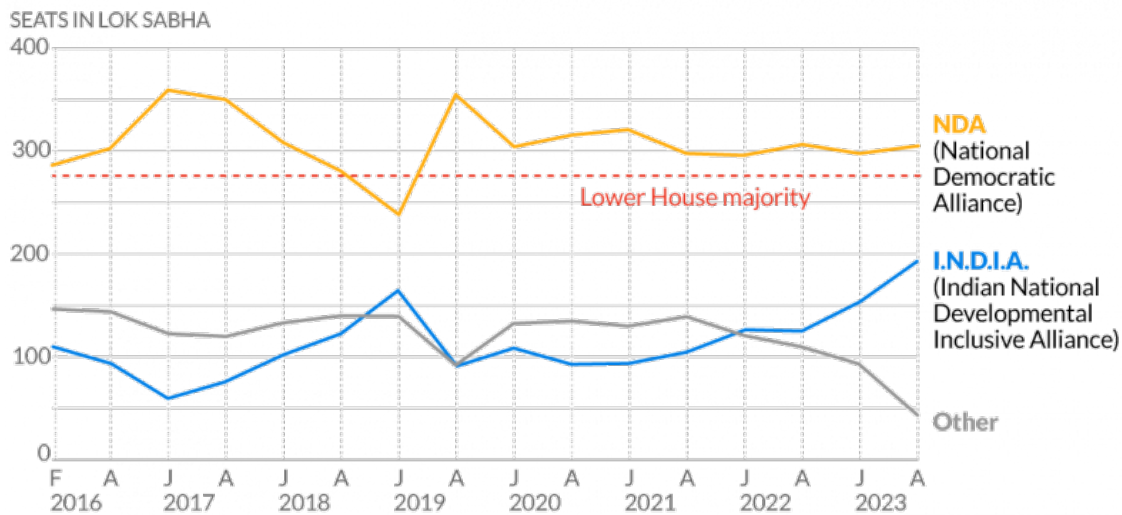
## India's Elections Will Increase Intercommunal Tensions

**The government of Prime Minister Narendra Modi will focus on economic development and social subsidies to boost its chances of reelection in April-May general elections; its election rhetoric will meanwhile increase the risk of intercommunal violence before and after the vote.** Polls indicate Modi's Bharatiya Janata Party is likely to win India's general elections in April and May. Election season will see campaign rhetoric surrounding religious, ethnic and caste issues become harsher, with the BJP's Hindu-nationalist ideology exacerbating religious divisions. Against this backdrop, violence is likely in various states. Modi will center his campaign and post-election strategy on economic and welfare programs to improve women's standard of living, reduce youth unemployment and address farmers' grievances. The government will offset any increased spending on these programs to maintain a fiscally responsible policy.

The government will also introduce policies throughout the year aimed at boosting domestic manufacturing and stabilizing high food prices amid spikes in inflation and climate-related setbacks to agricultural production. In the foreign policy sphere, India will continue its cooperation with the United States to ensure stability across the Indo-Pacific region and to counter China's growing influence. To this end, India and the United States in 2024 will likely cultivate military-to-military ties aimed at bolstering defense cooperation and India's industrial base. Potential arrestors such as India's ties with Russia and a foiled Indian attempt to assassinate a U.S.-based Sikh separatist are unlikely to significantly hamper ties. India-China relations meanwhile will remain a complex blend of economic collaboration and rivalry for regional influence. India will likely continue trying to lessen its reliance on China, boosting domestic manufacturing in sectors like technology and defense in a bid to further develop India's industrial base. India might also seek support from allies such as the United States and Japan to help it reduce its imports of Chinese goods like electrical equipment.

## Elections for the Lower House of the Indian Parliament

An August 2023 opinion poll by the India Times shows continuing support for Modi's ruling coalition and that the NDA likely would receive a majority of seats if elections were held now.



Source: India Times Mood of the Nation poll, August 2023; Carnegie Endowment for International Peace

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## Pakistan Holds a High-Stakes General Election

**Pakistan's general election will likely lead to increased political polarization, an implicit strengthening of the military's role in politics, and efforts to navigate**

**between IMF reforms and unrest over difficult economic conditions.** Pakistan is scheduled to hold general elections Feb. 8, though the risk of militant attacks could cause the government to delay the vote. In the likely event that former Prime

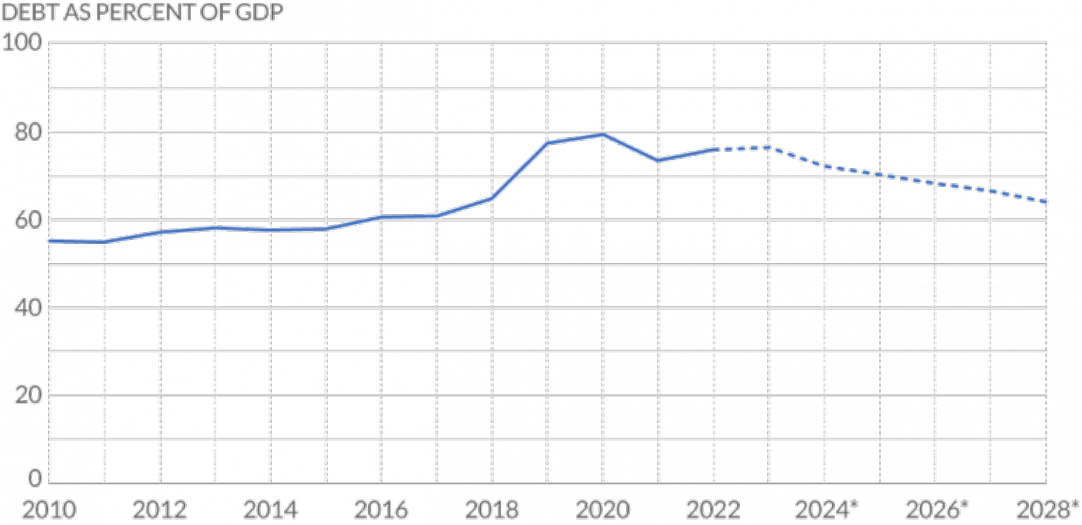
Minister Imran Khan is barred from running, he may support another Pakistan Tehreek-e-Insaf candidate over whom he can exert influence. Disagreements within the PTI regarding Khan's replacement could hinder party unity and electoral chances. Should Khan in fact be allowed to run and win, civil-military tensions will increase and high levels of social unrest are likely. A win for former Prime Minister Nawaz Sharif's Pakistan Muslim League-Nawaz by contrast would reaffirm Pakistani military influence in the country's politics. Disagreements between Sharif and the military would be possible, however, particularly concerning how to handle threats of militancy and relations with India and Afghanistan. Sharif would try to lower inflation and improve the country's cost-of-living crisis. Though the eventual premier will want to continue making improvements to Pakistan's economy like the drop in inflation from 23.6% to 12.2% in 2024 forecast by the IMF, Sharif or whoever wins will recall that previous IMF austerity measures have led to unrest; Sharif could prove more willing to backslide on reform for fear of such protests. Although sporadic unrest might disrupt supply chains and other business activities, the projected economic growth and decreased inflation in 2024 should strengthen investor confidence in Pakistan. Meanwhile, though limited inflows and continuous debt repayments have contributed to a reduction in foreign exchange reserves, the arrival of IMF funds should help stabilize the economy and bolster foreign exchange reserves.



# Pakistan's Government Debt as Percent of GDP

Pakistan's government debt as percent of GDP is expected to see a gradual decrease in its gross debt as the country works toward stabilizing its economy.

*General government gross debt*



\*2023 estimate; 2024–2028 projections

Source: IMF

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## Social Unrest and Political Tensions Persist in Bangladesh

### FORECAST

# Americas

5 MIN READ Dec 21, 2023 | 18:48 GMT

## Continuity Expected Following Mexico's June Elections

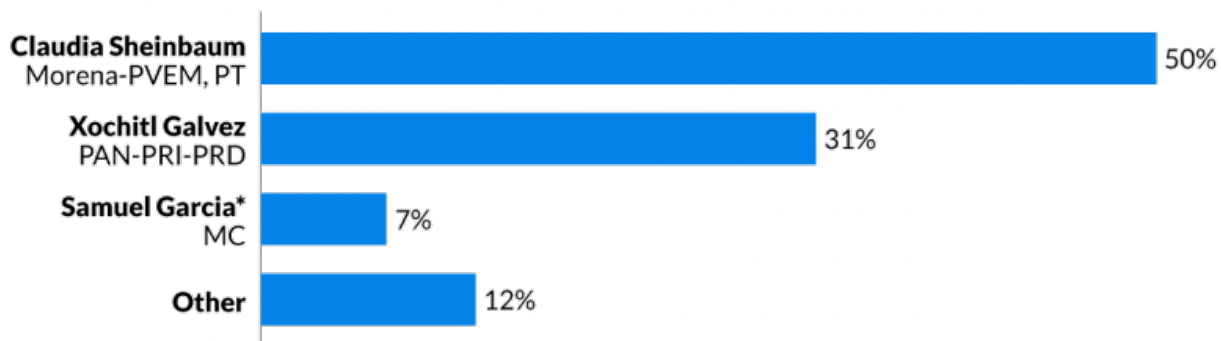
**Mexico's presidential election will likely result in continuity including prudent fiscal policy and poverty alleviation measures, but preference for state-owned companies in the electricity sector could lead to power supply issues and high electricity costs**

**for businesses.** Ahead of the June 2 presidential and congressional elections, outgoing President Andres Manuel Lopez Obrador will seek to finish his flagship infrastructure projects, including the Maya Train Line in the Yucatan Peninsula and the Interoceanic Corridor of the Isthmus of Tehuantepec, and he will continue to bypass environmental regulations to do so. If Claudia Sheinbaum, the ruling party candidate, becomes president, she will maintain many of Lopez Obrador's policies, including fiscal responsibility, resource nationalism, educational grants, public pensions and a focus on regional development. But unlike her predecessor, she would accelerate the green transition. If conservative opposition candidate Xochitl Galvez wins the presidency, she would advocate greater private investment in the energy sector, but would keep Lopez Obrador's social programs. Regardless of the election's outcome, Mexico's economy will continue to benefit from geopolitical tensions between the United States and China, as businesses derisk supply chains through friendshoring or relocate production and manufacturing to countries with friendly diplomatic relationships with home markets. But underinvestment in distribution infrastructure in Mexico tied with increasing energy demand will raise electricity costs and create power supply issues for companies. An economic slowdown in the United States could also jeopardize economic growth in Mexico.

## Mexico's 2024 Presidential Election

With six months until the election, the ruling-party candidate, Claudia Sheinbaum, holds a commanding lead.

*November 2023 poll asking which candidate respondents would vote for in the 2024 presidential election*



Source: Wilson Center

\*Samuel Garcia dropped out of the race in December.

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## Argentina to Experience Unrest Amid Deep Spending Cuts

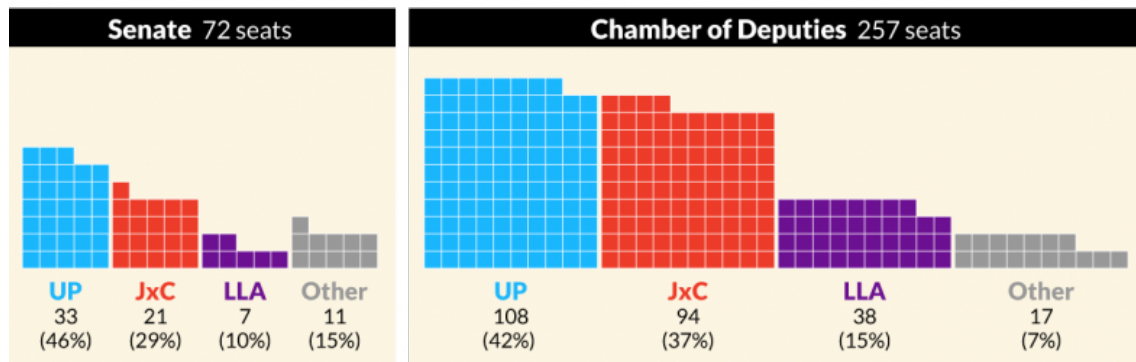
**In Argentina, a heavily divided Congress will prevent the new government from implementing some of the most radical elements of its agenda, such as dollarization, while Buenos Aires' efforts to deregulate and lift subsidies will lead to further inflationary pressure and elevate the risk of social unrest.** President Javier Milei's party, Liberty Advances, lacks a majority in Argentina's Congress, which means that it will have to negotiate most elements of its pro-business agenda with opposition parties. As a result, the government will be forced to water down or even abandon some of the reforms it has promised. Notably, Milei's vow to shutter the Argentine Central Bank and dollarize the economy would require constitutional reform, something almost impossible given the current makeup of the legislature. As a result, Milei will focus on severely cutting public spending, including electricity, natural gas and public transportation subsidies that benefit millions of Argentines; funding for state institutions and entities; and other welfare programs. These measures will result in protests by the groups affected by them, some of which will turn violent. In the meantime, the



government's plan to reform labor laws to make it easier for companies to lay off workers will result in strikes and protests by unions. The lifting of subsidies for energy and transportation and the removal of price controls on basic food products will contribute to very high inflation levels, increasing the risk of severe social unrest.

## Congress of Argentina

President Javier Milei's party, Liberty Advances (LLA), lacks a majority in Argentina's Congress, which means that the party will have to negotiate most elements of its pro-business agenda with opposition parties.



Source: EPRS

Note: Total may exceed 100% due to rounding.

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## Brazil Will Reduce Deforestation, but Expand Oil Production

**Ahead of municipal elections in October, Brazil's government will promote infrastructure investment, poverty alleviation programs and an environmental protection plan focused on greatly reducing deforestation while expanding oil and gas projects.** Through the New Growth Acceleration Program, the Brazilian government will spend roughly \$350 billion to build schools and health centers, develop and urbanize favelas, and expand internet services. During its first year in office, the Brazilian government has been able to negotiate with the Big Center, the dominant center-right legislative bloc in Congress, to pass legislation. But if the government breaches its zero-deficit target, or if criminal charges are brought against former President Jair Bolsonaro, the conservative Congress will prove less willing to negotiate, which would result in policy paralysis. President Luiz Inacio Lula da Silva will continue his cornerstone

policy of cracking down on illegal deforestation of the Amazon, which represents Brazil's largest source of carbon emissions. As oil exploration and production increases in 2024, however, environmental activists and Indigenous groups will ramp up protests to pressure the Lula administration for energy reform and more stringent environmental protections. But these demonstrations are unlikely to sway the president, who wants to keep fuel prices low in Brazil.

## Embattled South American Governments to Face More Challenges in 2024

**Growing violence, economic malaise and political fragmentation will continue to challenge embattled governments across South America in 2024, leading to social unrest and political gridlock.** With allied parties in Colombian President Gustavo Petro's coalition threatening to end their support for him in early 2024, his government may lose its thin majority in Congress, requiring him to substantially moderate his policies, including his pension and labor reforms. The government's peace negotiations with dozens of criminal and militant groups will formally continue, but the decentralized structure of Colombia's gangs and lack of local support for the negotiations will lead more groups to walk away from discussions. In Chile, after voters rejected a constitutional reform in late 2023, the government will not convene a third constitutional convention. This means businesses operating in Chile will benefit from regulatory clarity and the pro-market character of the current Chilean Constitution. The left-wing government will probably shift toward the center, focusing, for example, on anti-crime policies to address public concerns regarding rising violence. After Chilean President Gabriel Boric's progressive tax reform was rejected in 2023, he will try again in early 2024. But without a majority in Congress, his reforms will likely be blocked. In Peru, sporadic protests calling for President Dina Boluarte's resignation and early congressional elections will flare up throughout the year, likely disrupting business activity and

threatening supply chains in the country. In 2024, the Peruvian Congress plans to debate a law that would permit the reelection of legislators and change the country's unicameral legislature into a bicameral one. With approval for Congress standing at less than 10%, the vote will likely be a political flashpoint that will cause substantial unrest.

## FORECAST

# Sub-Saharan Africa

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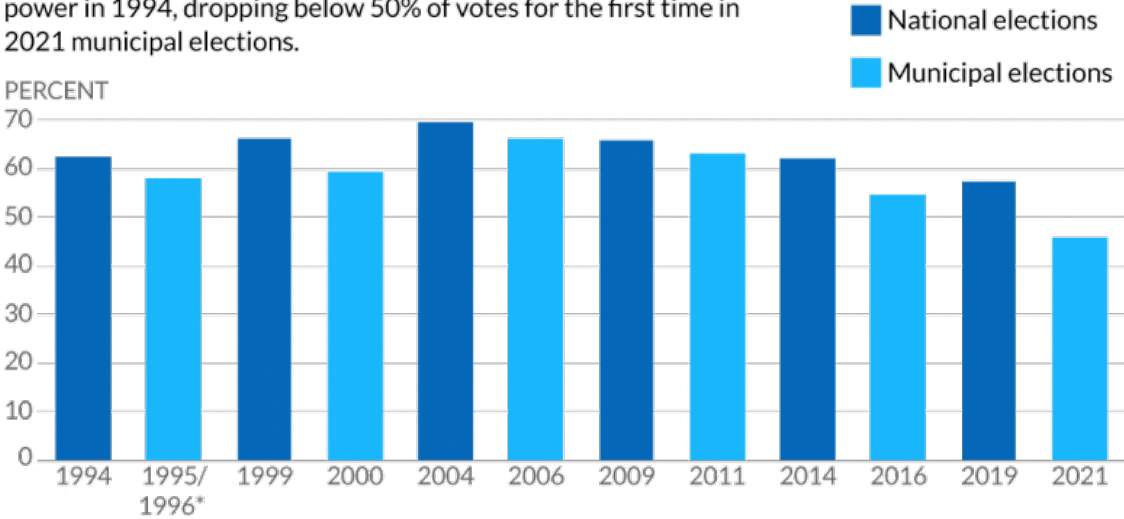
## Momentous General Elections in South Africa

**In South Africa, political uncertainty in advance of general elections will exacerbate risks of unrest and limit prospects for reform, while the African National Congress' waning popularity means that the party may not maintain its parliamentary majority, which would delay the implementation of much needed reforms.** In advance of elections in mid-2024, South Africa will likely experience increased political violence and unrest as tensions rise and opposition groups lead demonstrations against the ruling ANC. While escalation akin to the July 2021 unrest is unlikely given security forces' preparedness, some violence and looting will likely trigger supply chain disruptions and perceptions of lawlessness, which will reinforce investors' hesitancy to invest in South Africa. The ANC's record-low levels of support mean that the electoral outcome is highly uncertain. But the party's political dominance and the absence of parties with a realistic chance of unseating it means that the most likely outcome is a narrow ANC parliamentary majority. This would enable President Cyril Ramaphosa's reelection and would likely portend five more years of economic malaise and piecemeal reforms amid

party disunity. If the ANC loses its parliamentary majority but retains a plurality, it would likely attempt to govern on its own, but might be forced to seek coalition agreements to reelect Ramaphosa and pass its agenda, but this would force policy compromises that would further diminish the president's reform plans. The loss of the ANC's majority would very likely usher in a period of political chaos as parties jockey for influence. In a less likely scenario, the ANC could win a plurality but fail to make stable agreements with opposition parties, likely facilitating political volatility and/or deadlock. In the least likely scenario, the ANC could lose a plurality of seats in an unexpected electoral defeat, leading an opposition party (likely the Democratic Alliance) to attempt to form a minority government, although this would depend on the margin of victory and would be constrained by opposition from the ANC and other parties, likely leading to extended political disorder.

### The African National Congress' Share of Votes Since 1994

Support for the ANC has markedly declined since the party took power in 1994, dropping below 50% of votes for the first time in 2021 municipal elections.



Source: Bloomberg \*Municipal elections were split over 1995 and 1996

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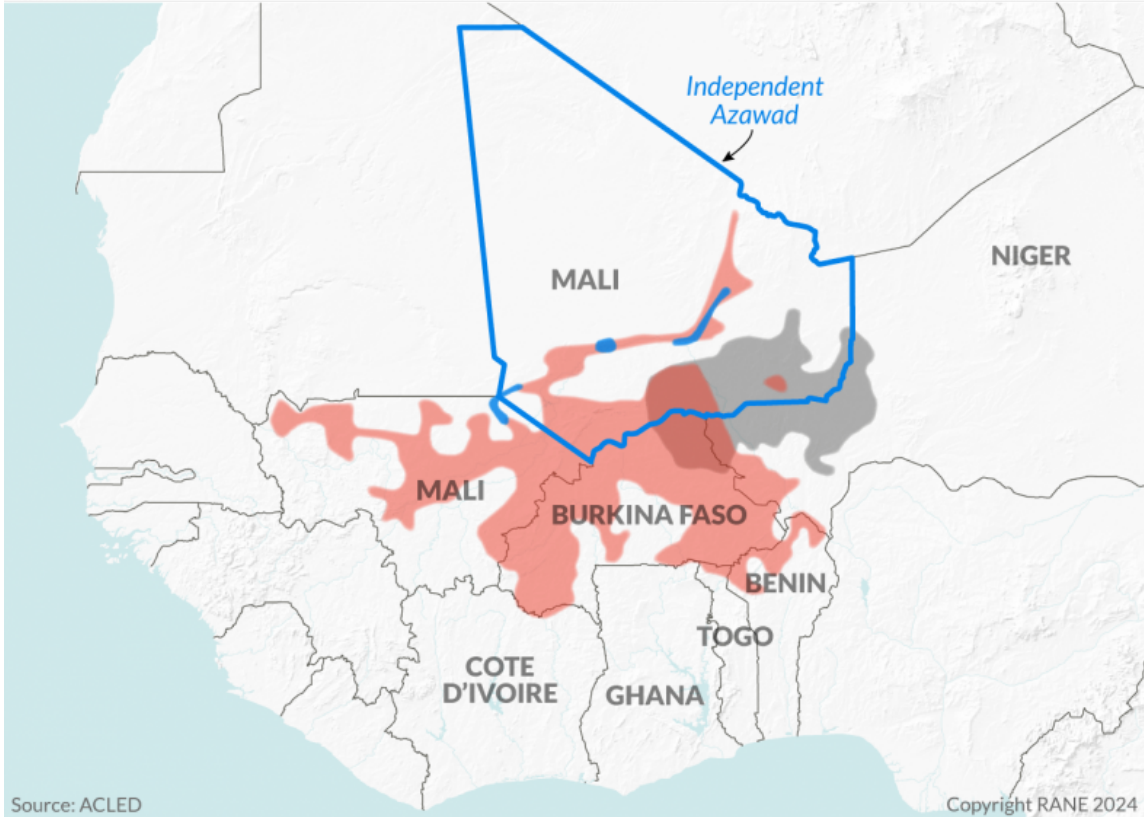
### Insecurity and Political Instability in the Sahel Pave the Way for Russian Influence

**Sahelian countries will remain vulnerable to political instability as jihadist groups threaten regional hubs, creating new and deeper opportunities for Russian influence in the region.** In Burkina Faso, Mali and Niger, attacks by Islamic State Sahel Province and Jamaat Nusrat al-Islam wal-Muslimin on regional capitals and business hubs will likely raise the risk of military coups. As worsening insecurity will likely be a key driver of 2024 coups, new coup leaders in Burkina Faso, Mali and Niger will likely attempt to show that they are taking more extreme action against jihadists and rebels. This will likely lead to closer relations with Russia, and possibly to paramilitary Wagner Group deployments in Burkina Faso and/or Niger. (Wagner is already deployed in Mali.) A coup in Niger could also lead to the closure of the U.S. drone base there if the new leader aligns more closely with Russia, drastically reducing the country's surveillance capabilities and further reducing the Western footprint in the region. As the only Sahelian country that retains a French deployment, Chad is highly vulnerable to a coup given widespread criticism of Interim President Mahamat Idriss Deby's closeness with Paris, several key upcoming political dates (including a presidential election) and an active rebellion in the country's north. In addition to creating a new theater for Russian influence, a coup in Chad that installs a leader hostile to French presence would likely accelerate France's regional reorientation toward more behind-the-scenes partnerships and support for littoral West African states' security coordination.

# Western Sahel Militant Attacks in 2023

IS-Sahel attacks concentrated in the triborder area, while JNIM operations were much more expansive. Tuareg rebel groups under the CMA banner started carrying out attacks only in the latter half of the year, with more violent activity expected in Azawad in 2024.

- Jamaat Nusrat al-Islam wal-Muslimin (JNIM)
- Coordination of Azawad Movements (CMA)
- Islamic State Sahel Province (IS-Sahel)



## High Stakes Elections in Investment Destinations Senegal and Ghana

**Contentious elections in Senegal and Ghana will likely raise threats of violent unrest and uncertainty over economic reforms, causing investor hesitancy and business disruptions throughout the year.** Senegal will hold presidential elections in February, when Prime Minister Amadou Ba will have the upper hand against a host of opposition candidates given opposition divisions. Perceptions of government abuses — including interference in the judiciary, manipulation of the electoral commission and the use of state security forces for officials' personal gain — will likely trigger unrest in major cities, likely

causing supply chain and business disruptions spooking Western investors. Ba has said that he will implement fiscal consolidation measures in line with the ongoing IMF program, although he could still backtrack upon taking office. Ghana will hold general elections in December, when Vice President Mahamudu Bawumia will run against former President John Mahama. Economic grievances will drive this election given that Ghana is on the tail end of its worst economic crisis in a generation, meaning protests against austerity measures and high costs of living may escalate into violence as the election nears. Backlash against the current IMF program is highly likely, although this does not necessarily guarantee an opposition victory. Nonetheless, uncertainty over whether Ghana's next president will adhere to the IMF program will likely compound investor hesitancy, prolonging Ghana's difficulty accessing credit markets through 2024.