


2025

Forecast



A World Without an Anchor

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GLOBAL

A World Without an Anchor

January 30, 2025

Throughout history, world order has been shaped by great powers. In the competition with them – and sometimes among them – lesser powers would tailor their behavior to the interests and intentions of greater powers and act accordingly. It wasn't always pretty, but it was orderly, if nothing else, and the behaviors of all powers great and small were thus predictable.

During the Cold War, for example, the intentions of the United States and the Soviet Union were the anchors around which less powerful countries – even the nonaligned ones – planned and acted. The limits of tolerance and interest shaped the global system and even defined the way emerging powers such as China would proceed.

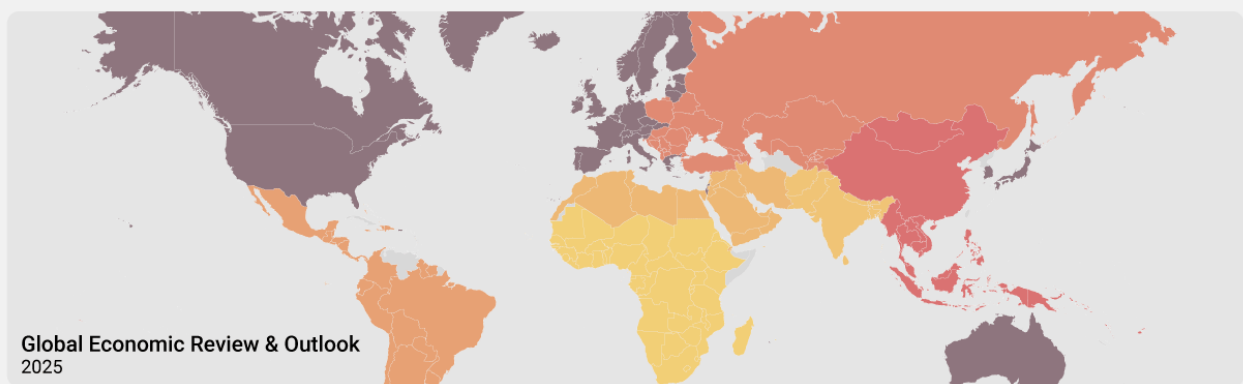
The Soviet Union is long gone, of course, and Russia has never been its equal. China is not yet strong enough to claim to be a great power. Europe is disunited and in disarray. Only the United States is capable of anchoring the world order. For years, it didn't matter that there wasn't anyone to counterbalance U.S. hegemony. Washington was still the primary architect and biggest beneficiary of the post Cold War order, even if it didn't have an adversarial counterbalance like the Soviet Union.

But now the world has changed. This is partly because the global order has overstretched U.S. interests and capabilities, and partly because Washington is less interested now in trying to govern the global system than it once was. U.S. voters reelected as president Donald Trump, a man who explicitly intends to redesign not only the U.S. government but also the country's relationship with the rest of the world. His election, then, is both the cause and a consequence of the changing world order. It's not that the intrinsic power of the U.S. is compromised; it's that Washington, in focusing on the changes it wants to make from within and without, won't have the same sense of urgency it once had to dominate the world. The new Trump era will thus be characterized by probative economic, martial and political forays into global affairs to see what makes sense, and what doesn't, in the new world order.

The United States' (relative) disinterest will give regional powers more latitude in managing their own affairs. For example, Israel consulted with the U.S. over how to handle its response to the Oct. 7 attacks, but it never felt compelled to do Washington's bidding, and Washington never felt like compelling it. In Syria, the new Islamist-led government in Damascus isn't beholden to the U.S. because the U.S. didn't help it come to power – a move in keeping with Washington's decision to let others take a more active role in regional affairs. In Azerbaijan, the government is enjoying a newfound sense of freedom of action now that, in light of the war in Ukraine, it has become essential in the trilateral energy relationships between Europe, Turkey and Russia. Even in Ukraine, the war has become a secondary issue to Washington. The U.S. (and the West) responded to Russian aggression, much like it had in generations before, but the urgency of the threat

has clearly subsided. It's unclear if the U.S. even cares about the outcome, which it has relegated to a regional, not global, affair. Some of these countries likely aspire to be a regional power. But regional power is regional; it does not create a global order.

Washington's pursuit of its own interests, meanwhile, will be fundamentally affected by – and will fundamentally affect – the ongoing restructuring of the global economic system. International sanctions continue to cause problems for Russia despite its best efforts to adopt alternative trade patterns. Its economic dependence on natural resources and its inability to overcome technological and demographic deficits make its campaign in Ukraine – not to mention whatever kind of recovery comes next – an uphill battle. Accordingly, Central Asian nations have begun to reexamine their economic ties to Russia, which they believe is unable to deliver on its once-steadfast bene-



Real GDP (annual % change)	2022	2023	2024e	2025f
World	3.2	2.7	2.7	2.7
Advanced economies	2.8	1.7	1.7	1.7
United States	2.5	2.9	2.8	2.3
Euro area	3.5	0.4	0.7	1.0
EMDEs	3.7	4.2	4.1	4.1
East Asia and Pacific	3.4	5.1	4.9	4.6
China	3.0	5.2	4.9	4.5
Indonesia	5.3	5.0	5.0	5.1
Europe and Central Asia	1.6	3.4	3.2	2.5
Russia	-1.2	3.6	3.4	1.6
Turkey	5.5	5.1	3.2	2.6
Latin America and the Caribbean	4.0	2.3	2.2	2.5
Brazil	3.0	2.9	3.2	2.2
Mexico	3.7	3.3	1.7	1.5
Middle East and North Africa	5.4	1.7	1.8	3.4
Saudi Arabia	7.5	-0.8	1.1	3.4
Iran	3.8	5.0	3.0	2.7
South Asia	5.8	6.6	6.0	6.2
India	7.0	8.2	6.5	6.7
Pakistan	6.2	-0.2	2.5	2.8
Sub-Saharan Africa	3.8	2.9	3.2	4.1
Nigeria	3.3	2.9	3.3	3.5
South Africa	1.9	0.7	0.8	1.8

Source: World Bank - Global Economic Prospects January 2025

e - estimate, f - forecast

EMDEs - emerging market and developing economies

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fits. They are increasingly turning to other potential benefactors such as Turkey and China. China, meanwhile, with its export-oriented economy, is reeling from trade spats with the U.S., slowed consumption growth and government mismanagement. Deflation is now a strong possibility. Beijing is still trying to transition the country to a consumption-driven economy, but that kind of structural change is slow and difficult to execute. India's economy, in general, is faring better than others in the Eastern Hemisphere. However, the country still faces structural issues that have led to a lack of investments and fostered unemployment, two forces that are dragging down its economy. The European Union is struggling to meet domestic economic needs, while trade wars (introduced by the U.S.) obstruct its economically important green energy transition and divide the bloc on how best to manage Ukraine. Together, these structural economic weaknesses throughout the Eastern Hemisphere will facilitate rather than hinder Washington's newfound introspection. The relative weakness of others means there is less risk to U.S. power.

The net result of this is a system of disorder – though not chaos – that will continue for the next year. In time, a new power will emerge to challenge the U.S. and create a new pole around which the international system can be anchored. It's unclear who that will be. Oftentimes in the past, great powers were born of great conflict. There have been no major wars this generation, at least not like those in the early 20th century, and it doesn't seem as though there are any on the horizon. No one expected the U.S. to become a great power. The idea that the United Kingdom would become a global empire was easily dismissed, until it did. Thus the next great power is in the making, and considering the state of play in 2025, it's as likely to be a China or an Iran as it is another American-style surprise.

Our global forecast for 2025 is, therefore, the continuity of this new normal: Washington's continued examination of its relationships, Europe's continued search for an identity, China's continued search for internal stability needed to propel it forward, and Russia's continued efforts to rebuild itself. Whether it can do so is unclear. Whether China can overcome its weaknesses is equally unclear, as are Europe's chances of achieving political and economic cohesion among its many constituent members. The new normal will persist until a new global power rises. In the meantime, we expect more regional conflict.

United States Model

February 4, 2025

In the United States, a new socio-economic cycle shows its hand, its flaws and its power over time as a president, sometimes heedless of the emerging reality, manages the political system that will govern it and, in turn, be reshaped by it.

It's important to remember that the president of the United States presides. He does not rule. His power rests in a profound awareness of the spirit of the nation and the forces that will shape it, ranging from the domestic economy to global interests. It is these forces and the president's grasp of them that define the presidency, but the forces – be it technological innovation or unforeseen economic calamity – are not of the president's own making. He presides over and facilitates the necessity that emerges and faces the inevitable. President Ronald Reagan politically engineered the financial foundation of our current cycle by creating a climate to increase investment capital and oversaw the founding of a new financial and social order following one of the models that new presidents employ on taking office: the ruthless and even reckless overthrow of the old.

The old order dated back to before World War II. Franklin Roosevelt took office in 1933 amid the Great Depression and the coming of a great war. He did not know how to solve the problem; he just knew that national security required an economic and social shift in American society. He set himself a target, which appeared reckless to his enemies and supporters, of creating a program for ending the Depression. To do that, he had to break the economic orthodoxy that had dominated political thought, an orthodoxy that essentially argued that a balanced budget, among many other things, was the key to prosperity. He undertook what was seen as a wild, haphazard and reckless set of shifts in how the government and the financial system worked. He did not end the Depression right then, but he set the stage for solving it, challenging and wrecking the orthodoxy, and opening the door to a fundamental shift in the U.S. economy that in turn set the stage for reshaping the way the world worked. The opposition was appalled, but the public was relieved that someone had grasped the magnitude of the crisis.

Deliberately or not, President Donald Trump has followed the Roosevelt model. Roosevelt set about signaling that the old order was exhausted and that all that had been solid had to be overturned. He recognized what his opposition did not: that the system was broken and that something had to be done. He faced great opposition, from those who denied that the Great Depression was the result of a systemic failure that would solve itself, from those who thought his plans too mild and from those who thought the intent of the 100 days laudable but were convinced that caution was still essential.

Roosevelt's solutions were not eternal. They eventually fell with the coming of the cycle ushered in by Reagan, but they saved the country by creating a middle class and financing a global war. Although his opponents never conceded and continued to revile him, Roosevelt and his heirs

made no concessions.

Trump is now in his 100-day period. Roosevelt's goal was to strip the old order of its power to rule by moral principles made obsolete and harmful. The current apparent randomness, unpredictability and recklessness should be seen in this light. Roosevelt's goal was to shatter the old elite blocking evolution. That is Trump's goal, albeit expressed radically differently. For Roosevelt, the elite represented the old orthodoxies on economics and the inevitable inequality that followed. Trump's main antagonist is an ideology, which for the sake of argument we will call hyper egalitarianism, that was, in his mind, demonizing the country and its citizens and imposing an order on cultural institutions and values to solve the inequities of the old order. It was also redefining moral obligations and even medical norms. In a real sense, Trump's goal is not to restore the country to what it was but to lay a new framework, which, we suspect, he has yet to devise. He is, for now, presiding over apparent disorder rather than aligning with what had been normal.

What will follow is a new economic cycle, shifting now as it has every 50 years. Each cycle was anchored in a new technology based on necessity. Andrew Jackson saw the creation of canals to bind the nation's economy together. Rutherford B. Hayes presided over the railroad revolution, Roosevelt over the automobile revolution and the emergence of the middle class, and Reagan over the new financial order that would give way to what we call the microchip era. Each of these technologies had its roots in economic and social necessities and was accompanied by many other innovations, but they are symbols of unheard-of solutions that are the essence of America. Crucially, once a president presides over the transformation, the nation is not bound by any president but proceeds to solve and create new problems on its own accord.

The era being created under Trump will also have pivotal technologies reshaping it, many of which may relate to the coming demographic crisis. The number of elderly Americans is growing while birthrates are falling. The elderly need to be taken care of, physically and financially. That means that a revolution in medicine and its understanding is indispensable, not only for certain diseases but also for the structure of life. If life is essential, then a new medical culture and technology will emerge, causing the usual anger and pain. But that is not all that is needed. The declining workforce will need to be supported by new technologies that combine genuine artificial intelligence with a new material science so that the constant reinvention of America, both a cultural and economic necessity, can take place. This will also require a reconsideration of all that was obvious in the past – that immigration is not essential for a shrinking workforce that is supplemented by technology.

It is now the task of the president, as it was of all presidents, to preside over the process, clear the pathway for others to solve problems and duel with the inevitable enemies in battle. Presidents do not rule, but they clear the ground. The historical probability is that consistent successes in cycles since the founding, and allowing for the inevitable conflict, will continue.

United States

February 05, 2025

The United States' goal is to preserve national security, economic well-being and internal stability in a world filled with countries pursuing the same ends, inevitably leading to competition and, at times, conflict. Sometimes a nation's objectives change – or how they are defined changes – but on the whole they are predictable. From this, it is possible to build a broad model of the way in which nations will act and interact. While this model must evolve – and do so rapidly in times of crisis, particularly war – the modes of interaction and the centrality of the pursuit of security and prosperity remain constant.

Our intent each year is to build a model of the state of play of the world, and then attempt to define particular processes and events that will take place. The model rules; the events implement. The model, in effect, defines the playing field. The forecasts seek to define specific episodes of the model's evolution. The forecasts are guided loosely by the model, as the world is always more surprising and less orderly than the model, and events are forecast in that spirit.

We have now published our global model for the year. Its central principle is that the world is for now without anchor. The United States, as the overwhelming power, seeks a strategy for reaping the benefits of its position, including stabilizing the world to help it attain those benefits. U.S. power will be seriously challenged in due course, but this year the challenges will be cautious due to the lack of a powerful counterbalance in the U.S. political process. From this will flow more specific forecasts.

Forecast

The U.S. will continue to attempt to influence international relations by economic, political and non-military means. The global economic slowdown, particularly in Europe but also in China, will constrain U.S. exports and the U.S. economy generally. The U.S. will also encounter the sorts of financial issues that tend to follow prolonged uncertainty, further weakening the economy. The American public, reasonably or not, will blame the governing party for this downtrend, diminishing its power to a degree.

U.S. labor supply issues will become more urgent. The demographic reality of an aging population and declining birthrate will create worsening shortages in the U.S. workforce. Workforce availability and competence will become increasingly important and will cause a modification, but not abandonment, of the U.S.' tighter immigration policy.

Necessity and sufficient financial capacity will drive new technological developments. So far, artificial intelligence development has focused on rapidly collecting, synthesizing and dissemi-

nating information. In the future, AI and similar technologies will need to concentrate more extensively on the production process directly, particularly in science and medicine. In this way, technology will help alleviate demographic problems. However, the growing adoption of AI will require significant investments in electricity generation, storage and transmission.

Domestic and global economic pressures will regenerate the U.S. political system. The fractured Democratic Party and independent opponents of the Trump presidency will begin building an opposition coalition. In the long run, this will produce a more routine American system in which a capable political opposition and the governing party battle, paralyze and accommodate each other.

China

For Beijing, economic malaise can take on an existential urgency.

January 24, 2025

After the 2010s – a period of exceptional economic growth – China entered a major downturn caused by the collapse of the country's crucial real estate sector, deteriorating local government finances, a dramatic outflow of foreign direct investment, declining domestic spending and high youth unemployment. These issues, which persist today, have taken a toll on the morale of Chinese society, creating a marked sense of dissatisfaction and uncertainty. It's important for any country to keep its people happy, but it's especially crucial for a country as large and populous as China, whose central governments have historically been vulnerable to uprisings from the poorer, restive interior provinces. Making sure these provinces get a share of the wealth enjoyed by the coastal regions has always been imperative, so economic downturns such as the one Beijing is managing today tend to take on an existential urgency.

Central to the government's ability to rebound from economic decline is its ability to maintain order and stability during the recovery. Chinese leaders successfully navigated previous challenges in the 1980s (high inflation), the late 1990s (the Asian financial crisis) and 2008 (the global financial crisis). But this time is different: China's problems originate not from the vagaries of the international economy but from Chinese policy itself. The solutions, then, will have to be home-grown, too, which explains why President Xi Jinping and his allies delayed them until September 2024: At a time of such economic precarity, it's hard to justify short-term pain, even if it eventually leads to long-term success.

Eventually, they realized that sporadic, careful reforms would not save the economy, so starting in late 2024, they enacted more aggressive policies to stimulate growth. The success of those policies will be measured not just in economic performance but also in social stability – and they will be implemented at a time of historic deflation and as a potential trade war with the United States looms.

Meanwhile, China has sought to divert attention from its economic problems by performing shows of force. Over the past year, clashes in the South China Sea have increased, especially with fellow territorial claimants like the Philippines, as have the size and frequency of military exercises and activities, especially around Taiwan. Along with Russia, China has expanded its footprints in the Arctic while upping its naval activities in the Indian Ocean. The primary objective of all this activity, of course, is to make sure that China maintains access to all the maritime trade routes on which its export-oriented economy depends, but distracting the world (and its own people) from its economic malaise is an added benefit.

Despite these military efforts, China has spent the past year trying to maintain the status quo in its relationships with other major powers. It increased trade and military cooperation with Russia, for example, without overtly supporting Moscow's war efforts in Ukraine. It showed a willingness

to reach some kind of accommodation over a border dispute with India, even as it maintains a competitive posture with its regional rival. It approached countries that are often wary of Chinese overtures such as Vietnam, Indonesia and Malaysia with economic openness while it plays on their fears of hostility. Even with the U.S., Beijing spent much of 2024 engaging in dialogue on economic and security issues, though no formal agreement was ever reached.

Beijing enters 2025 with the understanding that the need for economic stimulus outweighs the risks of short-term financial instability. It also enters the year with the understanding that it cannot forsake its trade and investment relationships, no matter how much it needs to boost domestic demand. In other words, China's main challenge is similar to its challenge for centuries – balancing between internal stability and external relationships while maintaining its reputation as a prosperous military power.

Forecast

More social unrest means stricter monitoring of society. Last year, the number of minor protests – referred to as “mass group incidents” in Chinese media – increased from the previous year, most of them owing to wage issues, factory relocations and closures, and grievances with local banks. Expect this trend to continue, and expect Beijing to more closely monitor its citizens, especially minorities, unemployed youth and those living in poorer conditions.

More crackdowns on corruption. In 2024, Xi's anti-corruption campaign – a program meant as much to sow ideological purity and dismiss political threats as to weed out lawbreakers – intensified. Given China's economic problems, it is almost certain that there are people who oppose Xi's decisions. All signs point to the fact that the unusually intense crackdown on top officials is bound to continue.

U.S.-China trade tensions will escalate. U.S. President Donald Trump has pledged to impose harsh tariffs on China, and if he does, it will hurt the Chinese economy. But if trade relations sour too much, it would also harm the many U.S. companies operating in China and further expose the United States' dependence on Chinese rare earths. For this reason, Washington and Beijing will make sure to avoid a full-on trade war and pursue cooperation in non-problematic fields and areas of common interest.

More military modernization, but no war. China's efforts to build a “world-class army” will continue this year, so expect more military drills, sometimes with allies, that demonstrate new capabilities. It will continue to be assertive in the region, especially as its economic problems persist, but it is unlikely to risk a military conflict, given the issues in the People's Liberation Army and the precarity of its position more broadly.

Russia

At this point, winning the war in Ukraine won't solve Russia's problems.

January 21, 2025

After the collapse of the Soviet Union, Russia, then a shell of its former self, was forced to spend the following decades restoring its military capabilities and rebuilding its economy. But Moscow was not content with being a regional power; it always meant to resume its role on the global stage.

Therein lies the rub. Russia's fundamental weakness has always been its vulnerability to invasion from the west – a fact that has compelled the Russian government to dominate its western borderlands and create buffer zones there that put even more distance between Moscow and its enemies. Present-day Belarus and Ukraine are especially important in that regard. Russia has strong economic and military ties with Minsk, and for a long time, it had similarly close ties with Ukraine. Taken together, this influence was, for Moscow, sufficiently insulative. But after the pro-Russian government in Kyiv was ousted in 2014 in a revolution that the Kremlin still believes was supported by the West, Moscow lost its buffer. The need to reclaim this buffer prompted a series of revanchist activities that eventually culminated in the invasion of Ukraine.

And it is that conflict – and the associated actions of Ukraine's allies – that now drives Russian policy. From Moscow's perspective, Ukraine's participation in NATO and the presence of Western forces near Russia's borders are a direct threat to its security, so Russia cannot tolerate a militarized Ukraine. Controlling Ukrainian territory is important, but it is secondary to the broader goal of limiting the influence of the U.S. and NATO. Displacing the U.S. and weakening NATO would thus be a major geopolitical victory, one that would allow Russia to reshape the Continent's security and political order to better serve its interests.

The problem is that the war in Ukraine was never fought exclusively on Ukrainian territory. From the outset, it has been fought in the economic arena. This battle has deprived Russia of direct oil and natural gas sales (its biggest economic earner) to Europe (its biggest buyer) thus threatening its economic security. Russia incorrectly assumed that Europe's energy needs would divide the Continent and force it back to the negotiating table relatively quickly. They didn't, and the West applied enough sanctions to limit the amount of revenue the Russian budget needed to finance the war. The introduction of sanctions was so disruptive that it forced the Kremlin to reconsider traditional trade routes and trade partners, even as it continued to support its civil sector. (If the past has taught Moscow anything, it's to not skimp on economic development or economic security.) Having divided the world into friendly and unfriendly countries, Moscow is once again trying to create a new trade system that will keep its resource-based economy afloat. East Asia and Africa have been essential, if insufficient, in this regard.

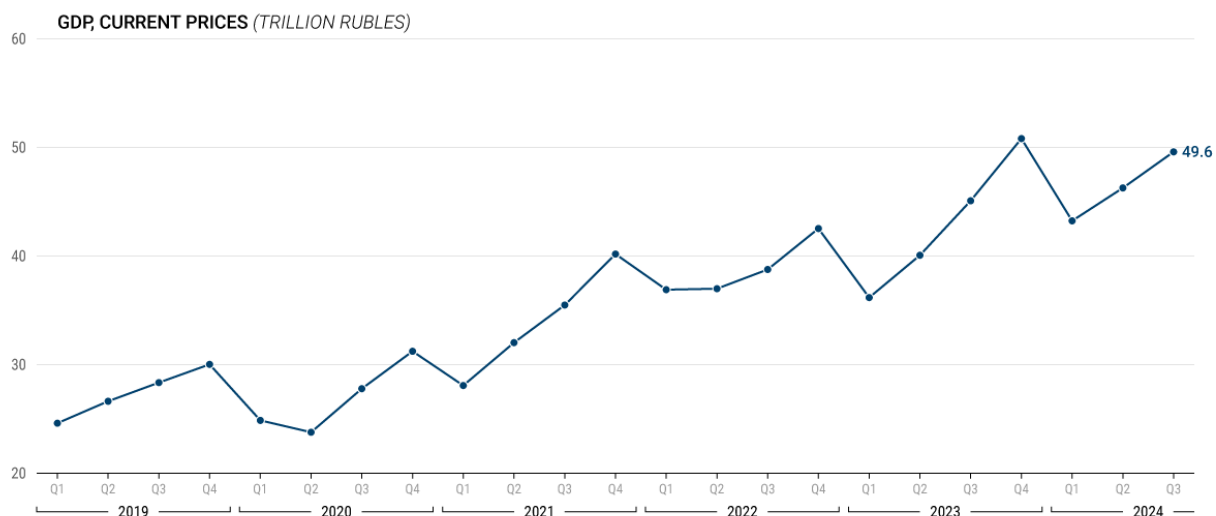
Meanwhile, government stimulus, the creation of parallel imports, financing reserves and revenue from the sale of resources have mitigated the effects of sanctions. In fact, Russian gross

domestic product indicators are positive. But the Russian budget will not be able to continue supporting social services, the war effort and the promotion of enterprises that have suffered under sanctions. And now that the public is increasingly wary of an increasingly expensive war, Moscow has reached a point where it needs to make some serious strategic decisions.

Forecast

Economic growth will slow. The Russian economy, once overheated by state financing and high demand, is starting to cool. Further qualitative and quantitative growth must be supported by greater investment, additional financing and an influx of labor – which Russia does not have. The general uncertainty of investing in Russia will deter even the most sympathetic of Russia's allies. Oil and gas revenue will not be enough to make up for these shortfalls, especially as Moscow struggles to secure new markets and contracts.

Russia's GDP

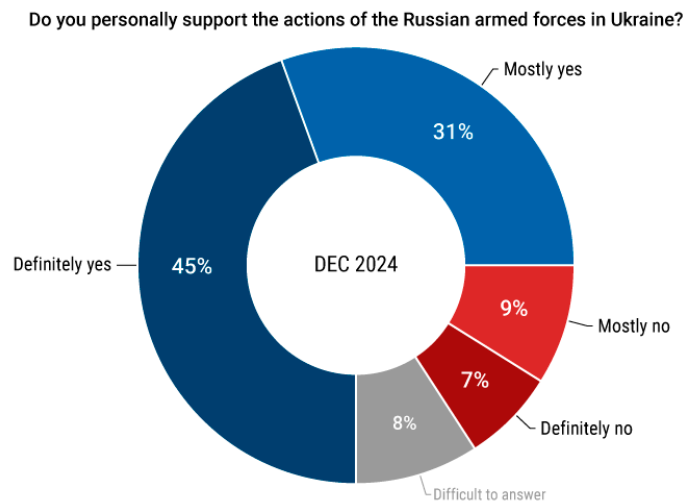


Source: Rosstat

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Russia will militarize regardless of the outcome in Ukraine. Russian insecurity will remain even if it wins the war in Ukraine. Moscow believes it would be a mistake to slow defense production and abandon its modernization plans in the face of the growing NATO presence in the Baltics, the increase in military expenditures throughout much of Europe, and the uncertainty surrounding a decisive outcome in Ukraine. Crucially, Russia is still vulnerable on its periphery: In the South Caucasus, Armenia is cozying up to the West, while instability in Georgia threatens Moscow's foothold in the region.

Poll | Russians' Support of the War in Ukraine

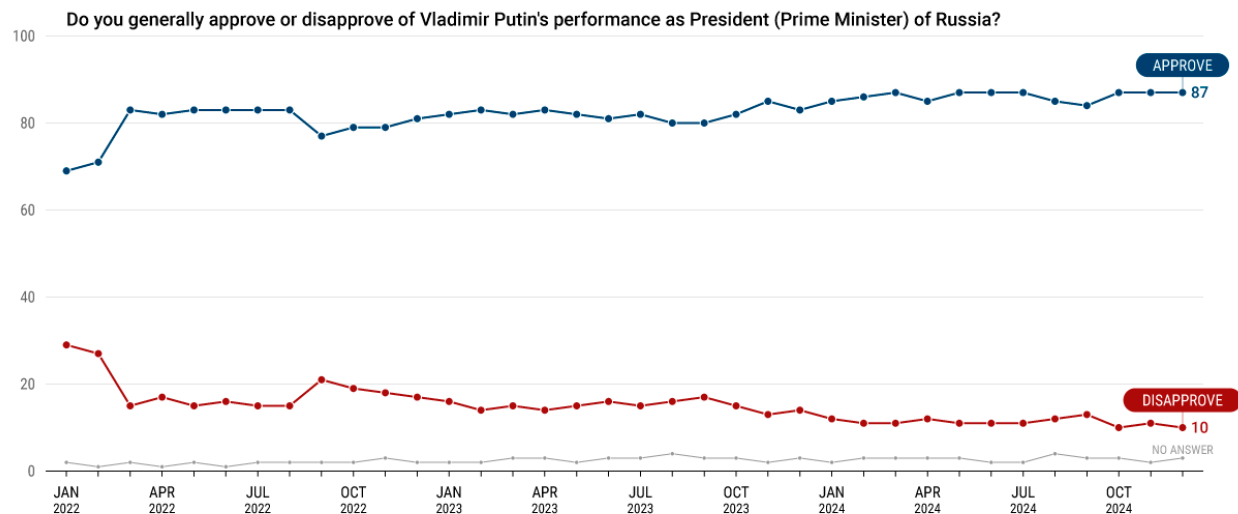


Source: Levada Center

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Vladimir Putin will remain in power. Despite public concern and economic anxiety, all available polling (some of which is conducted by the West) suggests Vladimir Putin is in no danger of losing the presidency. Most likely, the Kremlin will continue to divert the population's attention from failures in Ukraine and high spending on the military industry to diplomatic successes with friendly countries and, more important, everyday problems that have bothered residents for decades, such as migration and education reform.

Poll | Russians' Approval of Putin



Source: Levada Center

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Europe

Factors pulling the Continent apart outweigh those pushing it together.

January 29, 2025

The defining feature of Europe in 2025 will be political instability, complicating its ability to address immense internal and external challenges. Several states that are critical supporters of Ukraine in its defense against Russia are facing pivotal elections. In Germany, populist and extremist parties are gaining traction ahead of federal elections in late February, threatening a dramatic swing in Berlin's policies. Similarly, Romania and Poland, vital contributors to Ukraine's defense both politically and logistically, will hold presidential elections. Growing numbers of voters in both countries are questioning whether the costs of aiding Kyiv are worth it. Other major players, such as France and Italy, do not have elections scheduled but are likely to see continuing protests over tighter fiscal policies in the coming year.

In fact, frustration with persistent inflation and budget cuts is widespread throughout Europe. Populist leaders thrive in these polarized climates. They also frequently reap the rewards of public disagreements over the Russia-Ukraine war, Israel's actions in Gaza or the European relationship to the United States. In Germany and Romania in particular, populist parties have adopted conciliatory stances toward Russia, undermining European unity on sanctions and supporting Kyiv.

In this atmosphere of volatile public opinion and political unpredictability, Europe urgently needs to reconcile its internal instability with its external obligations. Whether and how it does so will determine the efficacy of its responses to the crises of 2025 and define its global role.

Forecast

The U.S.-Europe relationship will be tested – and potentially reshaped. Two interrelated factors will shape trans-Atlantic relations: the Russia-Ukraine war and U.S.-China tensions. As NATO's leading power and the single largest supporter of Ukraine since Russia's invasion in 2022, the U.S. will play the most decisive role in shaping the war's trajectory. Skeptical of Washington's continued commitment to supporting Kyiv, European leaders are discussing increasing their defense capabilities, and some countries are even considering deploying peacekeeping forces to Ukraine. However, their boldness will likely depend on NATO's (and thus Washington's) endorsement, as well as on developments in U.S.-China ties. A trade war between the world's two largest economies would have important repercussions for European economies, boosting or restricting European governments' abilities to continue to aid Ukraine. Looking further ahead, although the trans-Atlantic relationship remains the linchpin of European stability, there is growing recognition within Europe of the need for greater self-reliance in defense, energy security and technological innovation.

Instability in neighboring regions may exacerbate EU divisions. Serbia's government is struggling to placate citizens outraged over a deadly railway station collapse and political corruption in general. Meanwhile, elections in Kosovo and Albania risk heightened ethnic hatred and violence. Moldova is battling an energy crisis and Russian interference ahead of fall elections. Georgia's pro-Russia government is secure but still plagued by large pro-Western protests. Finally, Turkey's economy is beginning to stabilize just as a power vacuum has emerged in the Middle East. Ankara is aggressively pursuing its interests in the region, raising the potential for renewed friction with France and eastern Mediterranean states.

A new migration crisis threatens European cohesion. The shifting balance of power in the Middle East is an underappreciated concern in Europe, even though migration remains a key source of division in many European countries. Populist parties have seized on the possibility that Middle Eastern instability could send another surge of migrants to Europe's borders. Whether it materializes or not, the mere threat of another border crisis will complicate Europe's ability to respond collectively to immediate and long-term crises.

Middle East and North Africa

The region is still piecing itself together after the Oct. 7 attack.

January 31, 2025

The Middle East is an Arab-majority region, but with the exception of a 200-year period that began in the early 7th century, Arabs have never been the dominant power there. Starting in the ninth century, Persianate and Turkic powers were the regional hegemonies until the collapse of the Ottoman Empire, which led to colonial control by the British and the French. It was only after the end of colonialism that the modern Middle East emerged as a region of nation-states, albeit in the shadow of the Cold War.

Middle East and North Africa



Non-Arab powers have been ascending ever since, especially after the U.S. went to war in Iraq and Afghanistan following the 9/11 attack. Israel has been on the rise since it gained statehood in 1948. The 1979 Iranian Revolution brought to power Shiite Persian Islamists who through their proxies have steadily gained influence from Tehran to the Eastern Mediterranean. And though

Saudi Arabia and the United Arab Emirates, fueled by their petro-dollar economies, emerged as influential players in the region, their respective behaviors are driven largely by Israeli and Iranian activity. Meanwhile, the regional uprisings of 2011 further hollowed out many Arab nations, giving Turkey space to emerge as a regional player, albeit a marginal one.

That is until the Oct. 7 attack, the consequences of which include the decimation of Iran's chief proxy group, Hezbollah, and the collapse of the Assad regime in Syria. Most important, the two-way contest between Israel and Iran, reeling from Israeli gains and trying to hold on to what it can in Iraq, now includes a third player: Turkey. Much of what happens in the Middle East in 2025 flows from this new reality.

Forecast

The competition between Israel and Turkey will heat up. Conflicting interests will inevitably drive Israel and Turkey into some kind of confrontation. However, more immediate issues in Syria will prevent them from coming to blows in 2025: Israel will want to secure its northern flank from a growing Sunni threat, which has replaced the old threat of Iranian-backed and largely Shiite actors, while Turkey will try to curb Kurdish separatism in northern Syria and repel Iranian efforts to reclaim its position on the Iraqi-Syrian frontier.

Political discontent in Israel. Israel will likely find itself in internal crisis as this stage of the war in Gaza comes to a close (something the new Trump administration is pushing for). The political struggle between the Israeli right and its opponents – a fight that had been suspended by the fighting in Gaza, Lebanon, Syria, Yemen and Iran – will resurface, and it will be fueled by Israel's failure to fully neutralize Hamas. The future of Gaza and the fragile situation in the West Bank will be a key point of contention within the divided Israeli landscape.

A new power structure will take shape in Iran. The most significant domestic political developments in 2025 will take place in Iran, where an unprecedented leadership transition is looming. Iran's losses in the Levant and its need to reach an understanding with the Trump administration will shape the domestic power struggle between the more pragmatic elements of the regime and the more radical ideologues. Ultimately, the regime will have to negotiate some kind of compromise with Washington, given its political strife and economic disrepair, but constraints on both sides will obstruct the process. Either way, expect the Iranian military – a combination of the regular armed forces and the Islamic Revolutionary Guard Corps – to take more power in the political system.

Arabs fight a two-front war. Now that the threat from Iran has subsided, the Arab states will be focused on two fronts. First, they will try to prevent Turkey from replacing Iran as the regional hegemon. Second, they will have to manage Israel, the success of which hinges on the recovery plans for Gaza and, more broadly, the unanswered Palestinian question. They will want to make sure the Israeli-Palestinian conflict does not affect Egypt and Jordan, which remain vulnerable to regional fallout.

Russia rebounds. Like Iran, Russia has seen its position weaken with the collapse of the Syrian government. But it isn't without options. Its ties to both Ankara and Tehran will help it maintain some of its influence in Syria. The new Sunni Islamist rulers' need for external assistance will give the Kremlin leverage to negotiate the future of its air and naval bases in the country. Russia will also continue to work closely with Iran, which has implications for Azerbaijan, a state that will be important to Tehran given Baku's close ties with Israel.

India

The international picture is complicating New Delhi's rise.

February 6, 2025

India is a rapidly emerging global player with immense potential, but its rise is encumbered by its complex domestic politics and challenging strategic environment. The deeply fragmented international order adds another layer of difficulty. New Delhi must navigate a shifting United States, an intensifying U.S.-China rivalry, a weakening China and Russia's long-term decline, accelerated by its full-scale invasion of Ukraine.

India and South Asia



Since a debilitating 1991 financial crisis, India has transformed itself into a major geoeconomic force. At the time it was the world's 17th-largest economy by gross domestic product. Massive economic liberalization and structural reforms in the ensuing decades put the South Asian nation on a high-growth trajectory. By 2022, India had overtaken its former colonial master, the United Kingdom, to become the world's fifth-largest economy. The following year, it surpassed China as the most populous nation. While the Chinese economy falters, India's remains the fast-

est-growing among the major economies. Given Germany's slowdown, India could claim the title of fourth-largest economy by 2026.

However, India is not without problems of its own. Growth slowed from 8.2 percent in the 2023-24 fiscal year to a projected 6.2 percent. Unemployment stands at 8 percent, with youth unemployment in the double digits. The rupee has been falling against the dollar. And the international situation is treacherous.

Forecast

Ensuring continued economic growth is paramount. The foremost priority for the government of Prime Minister Narendra Modi is ensuring that the economic slump the country suffered toward the end of 2024 is temporary. This is all the more critical given the losses his ruling Bharatiya Janata Party incurred in last June's parliamentary elections. Preventing further economic backsliding may prove challenging, however, considering the worsening global situation.

India may be forced to enhance strategic relations with the United States. Even as India has developed a closer relationship with the U.S., it has tried to preserve ties with other key powers such as Russia, the source of as much as 60 percent of India's defense equipment. Continuing this balancing act will become increasingly difficult. Between the changes the Trump administration is implementing in U.S. foreign policy and India's need for foreign investment, New Delhi could find itself aligning even closer with Washington.

The U.S.-China rivalry will shape New Delhi's strategic partnership with Washington. Beijing needs to reach an understanding with Washington. The extent to which China achieves this goal will determine how closely the U.S. aligns with India. U.S.-China tensions present potential economic benefits for India, but a complete breakdown could have dire consequences for regional security.

India must cope with upheaval on both its eastern and western flanks. In the east, Bangladesh has aligned more closely with China and Pakistan since protests toppled the previously pro-India government last August. In the west, Taliban-ruled Afghanistan is at odds with Pakistan and developing closer ties with India. Both developments are worsening tensions between India and Pakistan. But the bigger challenge for India will be in the east, where it must contend with growing Chinese influence.

MISSION STATEMENT

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