



TOP RISKS 2025

Ian Bremmer
President

Cliff Kupchan
Chairman

- 1** The G-Zero wins
- 2** Rule of Don
- 3** US-China breakdown
- 4** Trumponomics
- 5** Russia still rogue

- 6** Iran on the ropes
- 7** Beggar thy world
- 8** AI unbound
- 9** Ungoverned spaces
- 10** Mexican standoff

Red Herrings

Trump fails

Europe breaks

Global energy transition stalls



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From a certain perspective, 2025 looks extraordinary. If we encountered our planet today as an alien species, without fear or favor, what would we see? A growing population of eight billion people in the midst of unprecedented expansion and growth; staggering opportunities after tens of thousands of years of stagnation.

Even looking at the geopolitical headlines, we can work up some optimism about 2025. The major wars that dominated the past year are receding. Three years after Russia invaded Ukraine and attempted to overthrow its leadership, negotiations (and even a possible ceasefire) appear close. So, too, in the Middle East, after more than a year of fighting in Gaza and beyond, there's less stomach or purpose for expanding the violence. And in the United States, a hotly contested presidential election led to an undisputed winner with a clear mandate and almost nobody claiming it was unfree, unfair, or stolen.

But take a closer look and we've got big problems.

The United States and China, the two most powerful countries in the world by a wide margin, assertively reject responsibility for the rest of the planet. They cast an eye at enemies

first and foremost within their own borders and worry increasingly over threats to their own stability. Both are informed by political and economic value systems focused on the short term, despite the increasingly obvious reality that they're not working for most of their people—especially the increasingly disillusioned youth.

A “community of nations” is today the stuff of fairy tales, with governance that isn't meeting the needs of citizens. Our challenges are global, whether those related to climate, technology, the economy, or national security. They can't be solved without far stronger international cooperation than is thought desirable or would be feasible with the institutions that exist today. And the political actors most essential to strengthening global institutions are moving in the other direction.

We are heading back to the law of the jungle. A world where the strongest do what they can, while the weakest are condemned to suffer what they must. And the former—whether states, companies, or individuals—can't be trusted to act in the interest of those they have power over.

It's not a sustainable trajectory.



1 The G-Zero wins

Eurasia Group has warned for over a decade now about the dangers of a G-Zero world: an era when no one power or group of powers is both willing and able to drive a global agenda and maintain international order. That global leadership deficit is growing critically dangerous.

In 2025, this is a recipe for endemic geopolitical instability that will weaken the world's security and economic architecture, create new and expanding power vacuums, embolden rogue actors, and increase the likelihood of accidents, miscalculation, and conflict. The risk of a generational world crisis, even a new global war, is higher than at any point in our lifetimes.

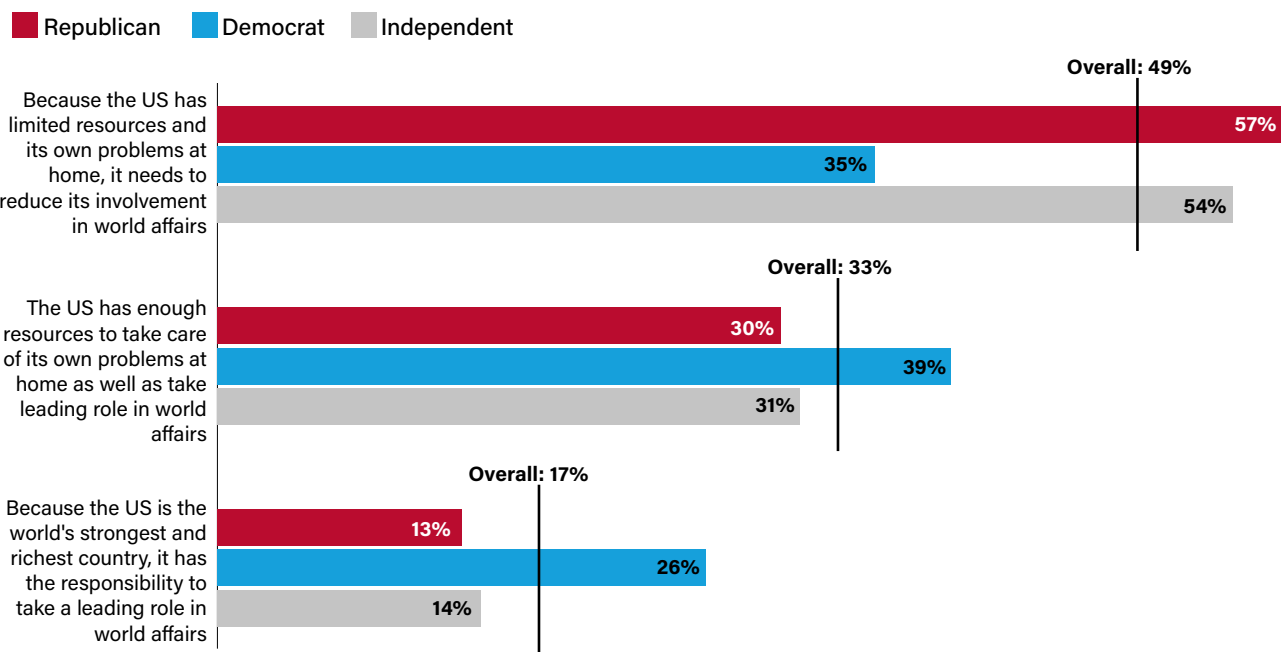
The central problem facing the global order is that core international institutions—the United Nations Security Council, the International Monetary Fund, the World Bank, and so on—no longer reflect the underlying balance of global power. This is a geopolitical recession, a “bust cycle” in international relations that can be traced back to three causes.

First, the West failed to integrate Russia into the US-led global order after the Cold War, provoking deep resentment and antagonism toward the US and Europe. Now a former great power in severe decline, Vladimir Putin's Russia has become the world's most dangerous rogue state and is actively building military-strategic partnerships with other chaos actors on the global stage, most notably North Korea and Iran.

By contrast, in the early 2000s, China *was* brought into the international order—crucially as a member of the World Trade Organization—but on the presumption that global economic integration would encourage its leaders to liberalize their political system and become responsible global stakeholders as defined by the West. That didn't happen. Trade with the West made China far richer but no more democratic or supportive of the rule of law. Deepening tensions, and even confrontation, between China and the West are the result.

US responsibility in world affairs

Overall, when it comes to maintaining the US role in the world, do you think:



Source: Chicago Council Surveys, 21 June - 1 July 2024. n=1,043

Finally, tens of millions of citizens in advanced industrial democracies concluded that the globalist values their leaders and elites had been promoting no longer worked in their favor. Rising inequality, shifting demographics, and dizzying technological change have made many of these people fundamentally mistrustful of their governments and of democracy itself, in turn reducing their countries' ability and willingness to lead on the global stage. Most notably, President-elect Donald Trump has both fed and profited from the surge in unilateralist sentiment in the US.

There are three ways out of a geopolitical recession: one, reform existing institutions to operate more effectively and command broad legitimacy; two, build new, replacement institutions better aligned with the underlying balance of power; and three, destroy old architecture and impose a new set of rules by force.

All three are happening. But in 2025, the most effort is being expended on the third.

The United States is powerful enough but unwilling to lead. Much more than in 2017, Trump's return with a politically consolidated, solidly unilateralist administration will accelerate America's decisive abdication of its longstanding role as world sheriff, champion of free trade,

and defender of global values. It's called "America First" for a reason.

Other advanced industrialized democracies are unprecedentedly weak and unable to fill the leadership gap left by America's inward turn. Germany's government has collapsed, with populist parties likely to make gains in the upcoming federal elections. France is in the throes of a protracted political crisis. The UK is led by an unpopular new government still finding its feet. Italy is comparatively stable for once, led by the Trump-aligned Giorgia Meloni, but that's hardly enough to bolster the global order. Japan's Liberal Democratic Party has lost its majority, and new Prime Minister Ishiba Shigeru is unlikely to last long. South Korea is in complete disarray. Canada's Justin Trudeau is out imminently. For erstwhile US allies, playing geopolitical defense is the order of the day—keep your head down and hope the disruption spotlight doesn't shine on you.

With little in common beyond a general desire for a more multipolar world, the Global South is neither powerful nor organized enough to lead the world out of the geopolitical recession. India, the strongest and most plausible global leader among developing states, remains a lower-income country, focused on building bridges mainly in support of its national interests. And despite their growing heft and

We're entering a uniquely dangerous period of world history on par with the 1930s and the early Cold War.

global ambition, states like Saudi Arabia and the UAE lack the standing to drive far-reaching global reforms.

For its part, China—the second most powerful country on Earth and only viable US challenger—couldn't lead even if it wanted to. Not only does it lack the legitimacy and “soft power” needed to attract a stable following, but its ongoing economic woes, combined with President Xi Jinping's prioritization of national security and political control, leave Beijing preoccupied with domestic challenges. Meanwhile, China's partner Russia, a rogue state hemorrhaging human and economic capital, has no plausible claim to leadership.

In short, given the deepening G-Zero leadership deficit that characterizes the world heading into 2025, prospects for peaceful reform or renewal of the global order are not

present. What's left is ever greater geopolitical instability, disruption, and conflict. With no one able and willing to uphold global peace and prosperity, the risk of economic disruptions and dangerous military clashes will grow. Power vacuums will expand, and global governance will languish, leaving rogue actors and human misery to proliferate in their wake. The world will become more divided and more combustible.

Our Top Risk this year is not a single event. It's the cumulative impact of the G-Zero leadership deficit on the breakdown of the global order. We're entering a uniquely dangerous period of world history on par with the 1930s and the early Cold War. This geopolitical reality is the force behind all the Top Risks in this year's report. And the tail risk of something truly catastrophic is getting fatter every day.



2 Rule of Don

Donald Trump’s second term will not be like his first. Emboldened by the scale of his 2024 electoral triumph and the firm support of a unified Republican Party, Trump is coming into office more experienced and better organized than in 2017, surrounded by battle-hardened loyalists with a stronger sense of how to wield the levers of bureaucratic control. The team around him is more personally devoted to and ideologically aligned with the president-elect than last time: The populist JD Vance, not the evangelical Mike Pence, will be his vice president. The incoming president’s consolidated control over the congressional GOP, a 6-3 conservative majority on the Supreme Court, and a more enabling media environment characterized by the growing influence of Twitter/X and populist podcasts will all help him advance his agenda in his second term.

Trump and those in his orbit feel that their first-term agenda was thwarted by disloyal appointees and political adversaries within the so-called “deep state.” Attempts to assert the White House’s power over the federal government and politicize independent agencies will, accordingly, be at the top of Trump’s priority list. His nominees so far indicate an intent to wholeheartedly pursue efforts such as purging the federal bureaucracy and administrative state of professional civil servants and installing loyalists in roles he believes were behind politically motivated attacks against him, especially in internal power ministries such as the Justice Department and the FBI. To wrest control over the vast apparatus of federal spending, Trump will lean on loyalist appointees, threaten retribution against disobedient votes in Congress, and—where needed—seek to unilaterally rescind congressionally appropriated funding, likely provoking a court fight that could further tilt the balance of power to the executive branch over the legislative.

Trump 2.0 team is stacked with more loyalists

● In Trump's personal orbit ○ Outside the orbit



Source: Eurasia Group

Having gutted the “deep state” that he believes not only thwarted but also impeached and indicted him for political reasons, Trump will stretch the norms of Washington to their breaking point. Control over the power ministries will be used to shield Trump and his allies from accountability, and efforts will be made to persecute and intimidate their political enemies and critics. Whether the purges and persecutions succeed is beside the point. Public threats and burdensome investigations are enough to chill dissent and call into question a bedrock guarantee of the US Constitution, equality before the law, raising the prospect that processes long taken for granted as neutral and fair will not remain so.

The erosion of independent checks on executive power and the rule of law will increase the extent to which the US policy landscape depends on the decisions of one powerful man in Washington rather than on established and politically impartial legal principles. Mergers between firms Trump perceives as adversarial will face higher regulatory scrutiny. Investors will have to parse the president-elect’s social media accounts, and those of a shifting and contentious cast of advisors, to place bets on whether Trump will follow through on his regulatory and tariff plans affecting the global economy. This is the foundation of what could become the biggest risk for companies in 2025 and beyond: the personalistic nature of the Trump presidency.

If Trump systematically rewards politically aligned business figures with preferential treatment on regulatory, legal, and contracting matters—among other things—he will enable a system where proximity to power, not market competition, determines success (please see Box 1: Oligarchs and pitchforks). This will amplify crony capitalism in the world’s largest economy, with risks for firms that must spend more time and money cultivating transactional relationships with Trump’s political apparatus than creating economic value. Those that don’t play along will find themselves at a disadvantage. However positively markets and companies view many of Trump’s concrete policies, this shift will inject structural volatility into US policymaking and degrade America’s business and investment climate, potentially hampering long-term economic efficiency, productivity, and growth.

Democracy itself—regularly scheduled free and fair elections that determine who will wield political power—is not under imminent threat from the Rule of Don. America is not on the verge of becoming a dictatorship or even a mixed regime like Hungary’s, where Prime Minister Viktor Orban and his Fidesz party have systematically consolidated their control over the media, captured public institutions, hollowed out checks and balances, and rendered elections decidedly un-free and unfair.

US institutional guardrails survived Trump’s first term and remain resilient, if weakened. The courts, the military, an independent adversarial media, and the US Constitution are all restraints on Trump’s ability to exercise unilateral control, as are the Republicans’ very narrow majority in the House of Representatives and the moderating presence of institutionalists in the Senate. Democrats are early favorites to win the House in the 2026 midterms, severely restraining Trump’s legislative ambit in the latter half of his term. Federalism also limits any president; state-level election administration means that rigging elections (a la Putin) is implausible. The economy and financial markets are further constraints still, especially given the extent to which Trump and those around him care

Trump's indifference to longstanding American values will make 2025 and the years to come open season for political vandalism.

about their performance. Most of all, Trump's destructive impulses will continue to be constrained by his own lack of discipline and disinterest in governance. The first Trump administration's bureaucratic infighting delayed policy implementation and led to chaotic rollouts, while its fast-and-loose approach to procedural rules imperiled them before the courts. Though the current team is more seasoned than that of 2017, a low-grade level of internal chaos will be a recurring feature over the next four years.

That said, even if Trump does not destroy democratic institutions, his indifference to longstanding American values will make 2025 and the years to come open season for political vandalism. Just like broken windows left unrepaired signal that no one cares about property damage and invite escalating crimes, even petty violations of longstanding political norms left unchallenged will show that democratic guardrails can be ignored with impunity. The institutional landscape is not as it was in 2016, before Trump's first election: That he will not release his tax returns or divest from his family business, will hire family members to key positions, and will communicate directly to the public and to foreign leaders through social media speaks to the extent to which institutional norms have already shifted over the last decade. As more norms are flouted and "windows" are broken with impunity over the next four years, the erosion of democratic norms, political institutions, and the rule of law will likely accelerate further. While major corruption scandals are commonplace in US presidential history—Watergate, Teapot Dome, Iran-Contra—the second Trump presidency will bring the first instance of serious institutional backsliding in the US since Reconstruction.

It will likely not be the last. Once precedents are broken by one party, the other tends to follow suit more easily. US democratic norms, political institutions, and the rule of law have eroded progressively since the start of the 21st century. The partisan judicial wars that began with the ideological fights that sank the confirmation of Robert Bork in 1987 eventually led to the elimination of the filibuster for circuit court nominees and now to the norm that Supreme Court justices receive lifetime appointments with no votes from the opposing party. Republicans were able to eliminate the filibuster for Supreme Court nominees only because Democrats had done so already for lower courts. This race-to-the-bottom, tit-for-tat game dissipates public trust in the rule of law, which is harder to rebuild than it is to destroy.

The framers of the Constitution were keenly aware that the system they designed in 1787 was resilient but not foolproof. It would require, in their minds, leaders of good character and virtue and constant vigilance from an active citizenry committed to democratic values above all. Ben Franklin's famous quip—that the result of the Constitutional Convention was "a republic, if you can keep it"—reflects their understanding that there was nothing inevitable about the survival of the American experiment, whether in its early-19th-century form or its early-21st-century one. We have no doubt that the republic will survive another four years of Trump. Whether the nation that emerges from his term will continue to be one ruled by laws or, as John Adams put it, devolve into a government of men is a different—but no less consequential—question.

Box 1: Oligarchs and pitchforks



Trump will not break the US political system. It is already broken.

Americans have been held to different standards by their government for decades, but this two-tiered system isn't about Democrats vs. Republicans—it is, fundamentally, about haves vs. have-nots. The wealthiest US citizens not only can fund political campaigns but also buy favorable regulatory and legal treatment and lobby for policies that perpetuate their economic interests, creating a self-reinforcing cycle where economic inequality perpetuates political inequality, which in turn further cements economic inequality. As a result, the United States is today the least politically representative, most economically unequal advanced industrial democracy in the world.

But here's the really bad news: The Rule of Don threatens to take this to a level not seen since the Gilded Age. In return for Elon Musk's efforts to help elect Trump, the most transactional president in US history has rewarded the planet's richest person (by a wide margin) and arguably its most powerful private citizen even before 5 November—with personal control of the space company that much of the US space program relies on, America's top electric vehicle (EV) producer, and a decent slice of the global public square via ownership of X—with unparalleled influence over the US government. Now, not only does Musk have the president-elect's ear, but he joins him in calls and meetings with global leaders and technology rivals, is leading a government-slashing effort, and has effectively acquired the ability to veto legislation. Regardless of how one feels about Musk's politics or policy agenda, the concentration of so much power in the hands of a single unelected individual should give everyone pause.

If Indian Prime Minister Narendra Modi brought loyalist billionaire businessman Gautam Adani onto a phone call with a foreign leader or an Indian CEO, we would rightly

wonder whether India had become an oligarchy. Yet that behavior has become normalized in the United States in recent months, and it will become much more so over the coming year—even if the Trump-Musk relationship eventually sours. After all, as Musk's ballooning wealth sours, even the expectation of pay-to-play under the Rule of Don can pay off handsomely. It's no wonder that so many major CEOs (several of whom were prominent Democratic donors) have already made ritual pilgrimages to Mar-a-Lago and multi-million-dollar contributions to Trump's inaugural fund. The rules of the game have changed, and everyone knows they'd better play along or get left behind.

But America is not India: It is the wealthiest and most dynamic economy in the world and (still) the sole global hegemon. Its descent into a de facto oligarchy will ripple far and wide. It will depress economic innovation and productivity as the US government rewards the most politically connected firms (and implicitly or explicitly punishes the rest) rather than the most competitive ones. Corruption will flourish. Long term, the US would become a less attractive business and investment environment, and Americans would see their living standards stagnate. Moreover, the co-optation of US foreign policy by unaccountable oligarchs with their own private goals—often in conflict with the national and global public interest—would create increased geopolitical risk and further deepen the G-Zero vacuum of leadership (please see Top Risk #1: The G-Zero wins).

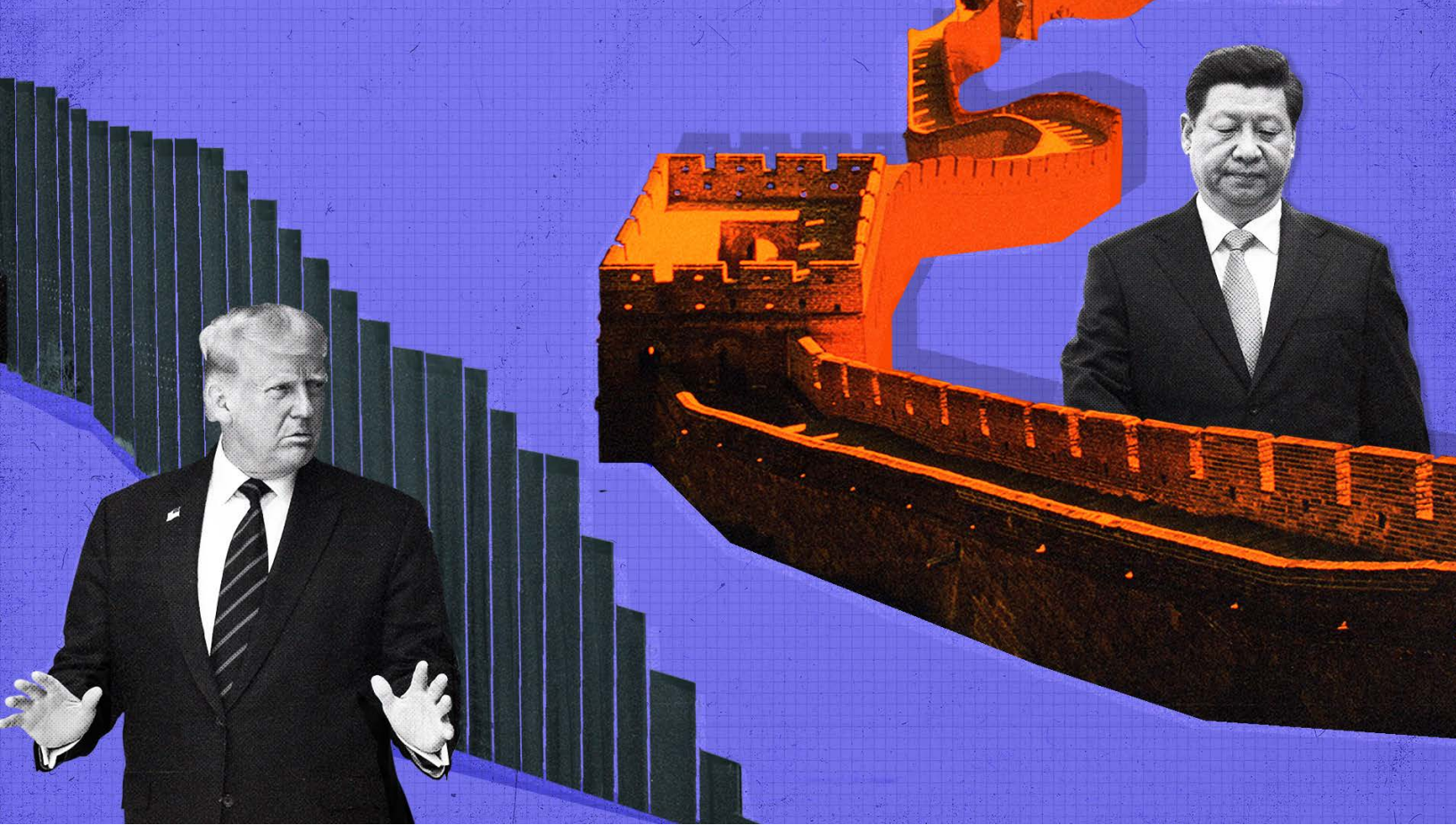
And then there's the backlash to the plunder taking place, already manifested in the deep structural mistrust in America's political-economic system and its leaders. Pitchforks are coming. People of all political persuasions increasingly believe the only possible solutions will be found outside the political system, and a growing number see violence as a legitimate response. This is why so many were willing to storm the Capitol on January 6 and why two men tried to assassinate then-candidate

Trump (one nearly succeeded). Neither of those would-be assassins were charismatic figures, so they received little popular support. Not so Luigi Mangione—the fresh-faced Ivy League grad who murdered the CEO of UnitedHealthcare and has become a folk hero in many corners of the internet. These tensions are even visible in the alliance between Trump and tech oligarchs like Musk, whose defense of skilled immigration visas has sparked fierce backlash from Trump’s nativist base and “America First” figures in the Mar-a-Lago crowd. While Trump currently sides with the tech barons on this issue, the rift highlights how easily oligarchic deal-making could collide with populist rage—and fracture Trump’s 2024 coalition soon after it takes power.

Oligarchs, pitchforks, and a weaponized (dis)information environment make for a toxic combination. In the near term, this will mean more security for political and business leaders and their families, along the lines of the \$23 million that Meta paid for Mark Zuckerberg’s personal security detail in 2020. But the structural tensions will go unaddressed, and they will continue to infect more and more aspects of American life.

They will, in any case, change politics. Will Trump turn anti-corporate, mirroring the stances of the populist Vance and Health Secretary-designate Robert F Kennedy Jr.? Will entrepreneurs on the Democratic side seize on the “yes, but...” public reaction to the UnitedHealthcare assassination? Or will the revolution come for all politicians as radical homegrown movements present a real threat from within?

2025 kicking off with a major terrorist attack by a US citizen in New Orleans and the Cybertruck suicide bomb in front of a Trump Hotel in Las Vegas was an ominous start to the year on that front...and that was 1 January. The United States responded to 9/11 with a collective rally around the flag and an outpouring of support for President George W. Bush. That’s inconceivable in 2025, where such attacks will bring internal division, with American citizens seeing fellow countrymen on opposite sides of the political spectrum as “enemies of the people.” Not the trend you want to see in the world’s most powerful country.



3 US-China breakdown

The détente established by presidents Joe Biden and Xi Jinping at Woodside in November 2023 kept US-China tensions contained last year. Donald Trump’s return to office will break this stability, unleashing unmanaged decoupling in the world’s most important geopolitical relationship and increasing the risk of economic disruption and crisis.

The relationship will change trajectory because of a combination of factors, most critically trade policy. Trump will move to announce and implement new tariffs on Chinese goods shortly after his inauguration—possibly within weeks—with the intention of wielding them as a cudgel to extract a deal from Beijing. While falling short of his threatened 60% blanket tariff, the top rate on some products will quickly increase to or beyond 50%-60%, and the average applied rate on all Chinese imports will roughly double to around 25% by the end of 2025. Even a more moderate scenario—where top rates rise to just 40% if Treasury Secretary-designate Scott Bessent prevails over trade hawks like US Trade Representative Jamieson Greer—would cross Beijing’s red lines.

Despite entering 2025 in a weaker economic position than during the last trade war, Chinese leaders are prepared to respond more forcefully and will be less likely to offer concessions, fearing domestic perceptions of national humiliation. Events in 2020—when relations broke down during the Covid-19 pandemic—convinced China’s leaders that Washington is bent on containing China’s rise and, potentially, unseating the Chinese Communist Party (CCP) regime. The Trump administration’s early moves across multiple fronts—including the appointment of vocal China hawks such as Marco Rubio, Mike Waltz, and Stephen Miller—will reinforce this conviction.

One key front to watch is technology policy. The Chinese government and many citizens viscerally object to US policy as an attempt to freeze Chinese technology at current levels and impede the country’s economic development. Even events

The breakdown in US-China relations will deepen bilateral suspicion, animosity, and mistrust...and the risk of unintended escalation will increase.

outside Trump's control, such as the 19 January deadline for ByteDance to divest TikTok, will strike a nerve with ordinary Chinese. In the realm of export controls, Trump's security hawks will put more Chinese firms on the entity list, make licensing more difficult, expand controls into additional sectors like biotech, close circumvention loopholes, broaden the use of extraterritorial tools, and continue Biden-era advanced chip restrictions. In a shot across Trump's bow, Beijing last December showed that it's ready to retaliate against US tech containment efforts with its own restrictions on the export of critical minerals.

Actions targeting the CCP's legitimacy and visas for Chinese students will further inflame tensions. During his first term, Trump restricted CCP members' travel visas and reportedly sought to turn Chinese public opinion against the party. Congressional China hawks will continue their push to restrict visas for Chinese students who plan to study in areas that are sensitive to US national security—another move that resonates strongly with the Chinese public. The first mandatory congressional report on CCP members' assets will add friction, as will any other move perceived as meddling in China's internal affairs—including sanctions related to the erosion of Hong Kong's autonomy, references in Secretary of State-designate Rubio's confirmation testimony to genocide in Xinjiang, and allegations that Covid-19 resulted from a lab leak.

Taiwan policy, while not an immediate crisis trigger, will contribute to the breakdown. Hawks such as Rubio and Waltz will advocate closer ties with Taipei and challenge “strategic ambiguity” over US military intervention, seeking to give Taiwan a more explicit security guarantee. Even if Trump himself cares little about Taiwan, his administration—and Congress—will accelerate the expansion of defense ties and relax constraints on Taipei in areas that are sensitive to Beijing. Expect more asymmetric defense systems, military training, and looser rules on US “transit” visits for Taiwanese President William Lai and his team, but probably no direct challenge to the status quo.

For now, Beijing judges its pressure tactics are containing Lai, who is seen as an irredeemable separatist. Lai is unlikely to rock the boat as long as his popularity is high and Taiwan's economy remains strong. But any unprecedented US or Taiwan moves—however improbable—would trigger a strong Chinese response, including violations of Taiwan's

territorial waters or airspace. If Beijing perceives that Taipei makes significant moves toward greater de facto independence or Washington crosses its “red lines”—for example, the secretary of defense visits the island or US naval vessels make a port call—it could escalate militarily via a blockade or seizure of an outer island. These risks will grow as Taiwan's 2028 elections approach and Beijing ramps up pressure to prevent a Lai victory, making it harder to sustain a narrative that peaceful “reunification” is possible.

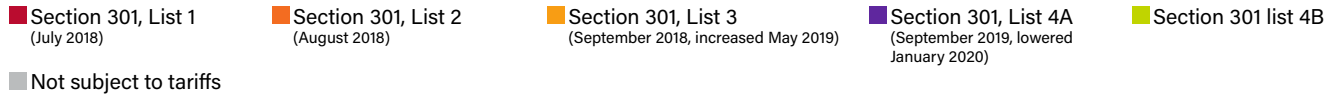
Neither China nor the US will seek a crisis this year as the leaders of both countries try to focus on domestic issues. Xi faces serious economic challenges, growing social stability concerns, and a military in disarray. He would prefer a stable external environment while he addresses these issues. For his part, Trump is not interested in causing a stock market crash at home and would like a deal he can sell as a win. With unified government and consolidated control over his party, Trump is in a better position than Biden ever was to negotiate with one voice.

But the structural conditions for compromise are not there. What Beijing is prepared to offer—purchases of agricultural goods and energy exports, enhanced market access for US firms, investments in the US, modest assistance on Ukraine—won't placate Trump and the hawks in his administration. Moreover, unlike the Biden era of managed decline—during which outgoing National Security Adviser Jake Sullivan and Foreign Minister Wang Yi provided a rudder for the relationship and coordinated 25 different high-level bilateral channels—there will be limited management and communication mechanisms to backstop US-China relations under Trump.

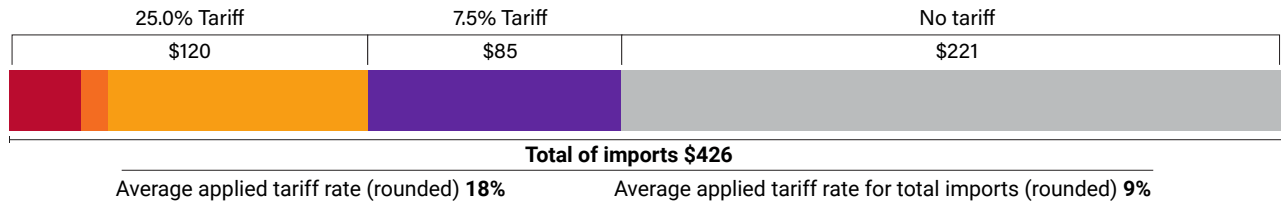
The Trump administration's combined actions and rhetoric will overwhelm the relationship's weak stabilizers and result in Chinese retaliation. While Beijing might start with symbolic tariffs hoping that the market and inflationary reaction will press Trump to soften his position, his persistence will trigger progressively harsher responses: the suspension of purchases of US agricultural goods; export controls on critical minerals and defense supply chains; targeted investigations that curb market access for US corporations (especially semiconductor and Xinjiang-linked firms); the suspension of military, law enforcement, and other diplomatic channels; and asymmetric moves such as intercepts of US patrols in the

Potential impact of Trump's tariff hikes

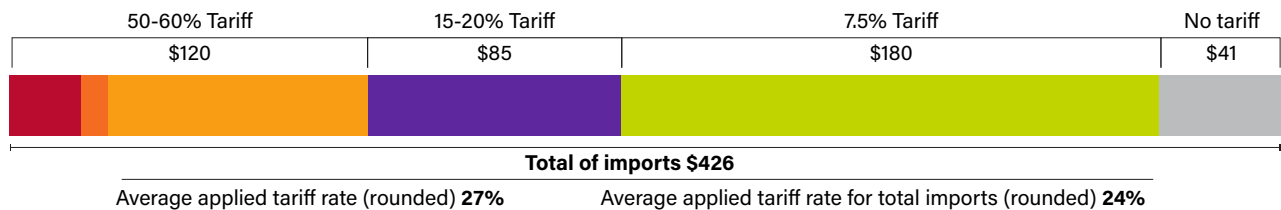
All \$ in billions, rounded



Current tariff impact on 2023 trade volumes



Illustrative impact of expected increases based on 2023 data



Note: Estimates of tariff revenue are static and do not account for dynamic effects, such as the reduction of US imports of Chinese goods; total revenue generated will likely be lower than these estimates.

Source: US Census, USITC data, calculations by Erica York of the Tax Foundation, Eurasia Group

region or pressure on US allies (watch Beijing's anger at Manila over the Typhoon missile deployment). A major Chinese military exercise near Taiwan or the South China Sea will be on the table.

Two wildcards hang over US-China ties this year: Trump and Elon Musk. How the president-elect himself plays his personal relationship and first meeting with Xi will affect the timing, even if not the overall trajectory, of the breakdown. Meanwhile, adviser-in-chief Musk's significant commercial interests in China make him a potential moderating force. But Beijing will doubt his ability to deliver deals, and Musk is unlikely to test his influence on a foreign policy issue that's singularly challenging for him to impact.

The costs of unmanaged decoupling will be significant. Trump's tariffs will deal a blow to Chinese exports, the one remaining bright spot in an otherwise anemic economy suffering from persistently weak domestic demand. Exports to the US account for 3% of Chinese GDP; steep tariffs will threaten Beijing's ability to meet its growth targets. While Beijing will deploy stronger stimulus to offset the impact, Xi's preference for stability over growth means policy support will continue to be incremental

and reactive, and domestic demand will remain muted. Americans will pay through higher prices (please see Top Risk #4: Trumponomics). Unmanaged decoupling will disrupt global supply chains and force a rewiring of trade flows, increasing costs for businesses and consumers worldwide (please see Top Risk #7: Beggar thy world).

More parts of the global economy will become fragmented as the US erects a higher fence around an ever-larger yard of economic arenas considered critical to national security, potentially targeting new sectors like healthcare with export and investment restrictions. Efficiency and innovation will suffer. Most countries around the world have no interest in participating in a new Cold War, making one unlikely in the near term. But key US allies and trading partners such as Japan, South Korea, Mexico, and the EU may increasingly be forced to choose sides—at least in the growing number of national security-related areas—at a significant cost to their economies.

The breakdown in relations will deepen bilateral suspicion, animosity, and mistrust...and the risk of unintended escalation will increase. Though neither side wants confrontation, avoiding one in the coming year will require challenging high-wire diplomacy.



4 Trumponomics

Donald Trump is about to inherit a robust US economy, but his policies will undermine its strength this year through higher inflation and reduced growth.

The US economy enters the year in strong shape. Output is above pre-pandemic trends, unlike in other major economies. Unemployment remains low, hovering around 4%. Inflation is on track to return to the Federal Reserve's 2% target, allowing interest rates to begin coming down from their peak. And stock markets and business sentiment alike betray optimism that the best is yet to come.

They are about to be disappointed. President-elect Trump's agenda poses underappreciated risks to the US economic outlook. Two of Trump's core campaign promises will be particularly detrimental.

First, he has vowed to significantly hike tariffs ("the greatest thing ever invented") to correct "unfair" practices and reduce America's trade deficit, which he views as intrinsically bad for the country. China will bear the brunt as Trump slaps 50%-60% tariffs on some goods and roughly doubles the average applied tariff rate on all Chinese imports to nearly 25% by the end of 2025. While this will fall well short of the 60% blanket tariff on all Chinese imports he's threatened, Beijing will feel compelled to respond—first by raising tariffs on US imports, then by targeting US dependencies on critical minerals and supply chains—and the US-China relationship will descend into unmanaged decoupling (please see Top Risk #3: US-China breakdown). American consumers and businesses will pay higher prices for imported goods and inputs; the dollar will also strengthen, making US exports less competitive.

Trade partners with large bilateral surpluses or acting as a staging ground for Chinese circumvention of US tariffs will also be in "Tariff Man's" crosshairs, as will countries thought by Trump to be free-riding off US protection or otherwise not

Trump will follow through on his core campaign promises to a greater extent, and to greater effect on the US economy, than businesses and investors expect.

paying enough for whatever they're getting from America. Trump will wield tariff threats as a cudgel to extract concessions from trading partners, but he also won't be shy about following through, believing tariffs will materially reduce macro imbalances and benefit America. This year, Mexico, Vietnam, Japan, South Korea, Taiwan, Canada, and Europe will all be vulnerable to tariff threats. Many targets will give in to Trump's demands to avoid tariffs despite the costs, handing him early wins (please see Red herring: Trump fails) and emboldening him to double down on his transactional approach; such will be the case of Mexico (please see Top Risk #10: Mexican standoff).

Other countries will retaliate with measures of their own that will hurt American exporters and raise the risk of a disruptive global trade war. In the worst-case scenario, critical supply chains could break, and global trade could slow to the point that the US economy might be tipped into recession. Even if tit-for-tat trade wars are averted (as is more likely), initial US tariff hikes will still disrupt supply chains, distort trade flows, and raise costs for US businesses and consumers—all without meaningfully reducing the overall US trade deficit. Lower-income Americans are likely to be most affected.

The second key pillar of Trumponomics is the president-elect's border agenda. The Trump administration will take steps to crack down on migration at the southern border—such as by reinstating programs like “Remain in Mexico” and Title 42—and will also curtail parole programs and bolster funding for enforcement agencies to conduct mass deportations of undocumented migrants already in the country. Trump won't remove 15 million-20 million immigrants as he promised on the campaign trail—there may not even be that many undocumented people living in the US. But with committed immigration hawks Stephen Miller and Tom Homan in charge of executing his agenda, Trump could well deport up to 1 million people in 2025 and upward of 5 million (3 million-3.5 million more likely) over the course of his four-year term.

Reduced illegal immigration and mass deportations will shrink the US workforce, drive up wages and consumer prices, and reduce the productive capacity of the economy. Legal immigration won't fill the gap. Businesses in the sectors most reliant on migrant labor, such as agriculture, construction, and hospitality, will be hit especially hard as workers become scarcer. Undocumented workers are also

consumers and taxpayers (contributing to Social Security and Medicare in addition to paying billions in federal, state, and local taxes); the crackdown will hurt demand growth and widen the federal deficit, too.

Together, Trump's trade and immigration policies will weigh on US economic growth and fuel inflation. Two other pieces of Trump's policy mix will spur growth but are unlikely to deliver as much of a boost as markets and businesses hope—certainly not enough to offset the fallout from tariffs and deportations.

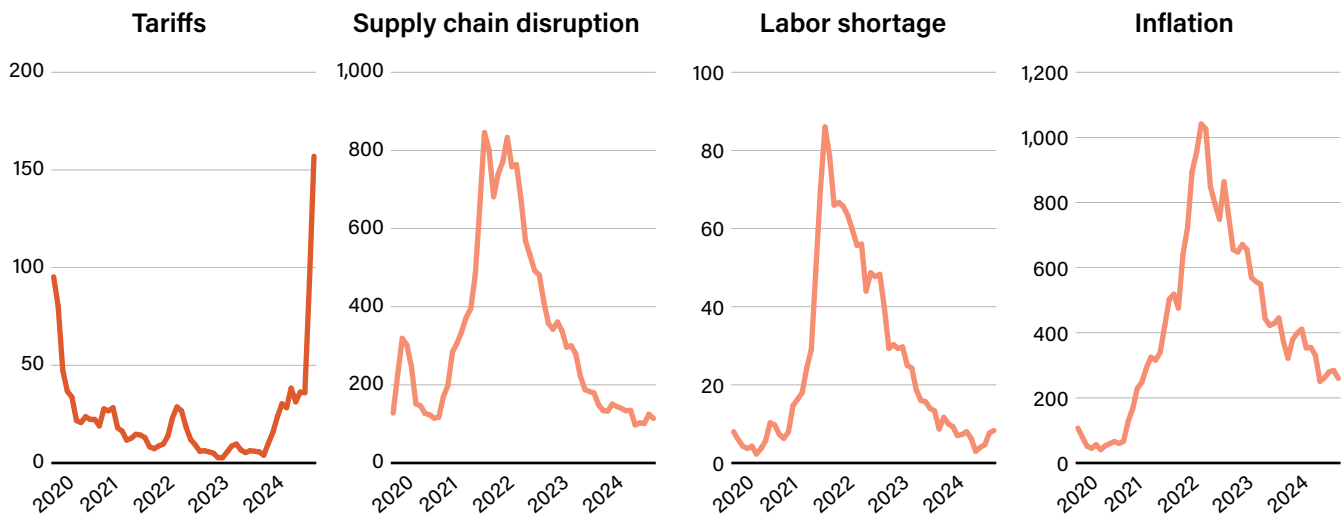
One is deregulation. The financial sector, Big Tech, the crypto industry, and fossil-fuel producers will benefit from a more permissive regulatory regime under Trump. But the macro impact will be limited: The US economy is already among the most loosely regulated in the developed world, and much of the low-hanging fruit was already picked in Trump 1.0. Domestic energy production is already at record highs, for instance, and lower oil prices will discourage additional output this year. Reforms to the permitting process for oil, gas, and infrastructure projects will likely unleash a new wave of investment, but that would play out over the course of several years, not in 2025.

The second is the promise of lower taxes. Republicans will permanently extend Trump's 2017 tax cuts on corporations and the wealthy, which expire at the end of 2025, at a cost of over \$4.5 trillion over a ten-year period relative to current law. But with the US fiscal deficit running at 6.5% of GDP and only a razor-thin Republican House majority, Trump is unlikely to be able to slash taxes much further without offsetting spending cuts. Even if the Department of Government Efficiency (DOGE) led by Elon Musk and Vivek Ramaswamy can achieve some cost savings and efficiency gains in the federal budget, the scope for spending cuts will be limited. Still, deficit and debt-to-GDP levels—already unprecedentedly high for peacetime—are set to balloon over Trump's term, putting upward pressure on Treasury yields and long-term borrowing costs.

The combination of higher deficits, inflationary pressures, and a smaller workforce will compel the Federal Reserve to keep interest rates higher for longer this year than it would have otherwise, in turn strengthening the dollar and holding US growth back further. This will cause tensions with Trump, who may try to jawbone Fed Chair Jerome Powell into easing policy, spooking markets and forcing Powell to

Concerns spike over tariffs, but executives remain complacent about other Trump risks

Mentions of key words in S&P transcripts of conference calls with corporate executives



Source: Bloomberg

double down to signal his independence. Together with US tariffs, higher interest rates and a rising dollar will also rock a global economy already suffering from lackluster growth (please see Top Risk #7: Beggar thy world).

Many business leaders and investors are inclined to downplay these risks. After all, they remember how well the economy did during Trump's first term and are skeptical about Trump's intentions and ability to follow through on them.

But the second Trump administration will begin under different macroeconomic circumstances than the first. Corporate valuations relative to earnings are much higher than in 2017. Deficits are structurally higher, and government debt as a percentage of GDP has ballooned since the pandemic. Inflation is still running slightly above target, and interest rates remain high. Compared to 2017, the downside economic risks are significantly greater.

Moreover, Trump 2.0 is not Trump 1.0. Not only does the president-elect have unified government and consolidated control of the Republican Party, but he is building a more personally loyal and ideologically aligned administration than last time. His team will come into office ready to implement—rather than thwart—Trump's agenda.

This isn't to say that the scale of actual policy disruption will match Trump's campaign rhetoric. Tariff implementation could come in below expectations, especially when trading partners acquiesce to Trump's demands. Some threats were surely bluster all along. Logistical and political roadblocks will limit the scale of mass deportations. Lobbying by major CEOs, advisers like Musk, and respected cabinet members like Treasury Secretary nominee Scott Bessent might convince Trump to temper his most disruptive policies. Bad inflation numbers or a market selloff before the midterm elections would pressure him to soften his positions.

But Trump *will* follow through on his core campaign promises to a greater extent, and to greater effect on the US economy, than businesses and investors expect. And that's not all. The very uncertainty about what Trump will or will not do inherent in the president-elect's personalistic governance style (please see Top Risk #2: Rule of Don) will itself increase economic policy volatility and uncertainty and act as a drag on trade, investment, and growth in 2025 and beyond. In the long term, this will risk undermining the predictability and performance of the world's most dynamic economy, preeminent investment destination, and issuer of the global reserve currency.



5 Russia still rogue

Russia is the world's leading rogue power, now by a large margin following the collapse of Iran's ability to project power (please see Top Risk #6: Iran on the ropes). This year, Moscow will pursue more policies that undermine the US-led global order, despite a likely ceasefire in Ukraine. Russia will take hostile, asymmetric steps against EU countries—particularly those on the front lines—as they continue to support anti-Russian policies. It will also continue its role as leader of the Axis of Rogues (please see last year's Top Risk #5: Axis of Rogues)—the strategic military partnership with Iran and North Korea that could significantly disrupt global stability this year.

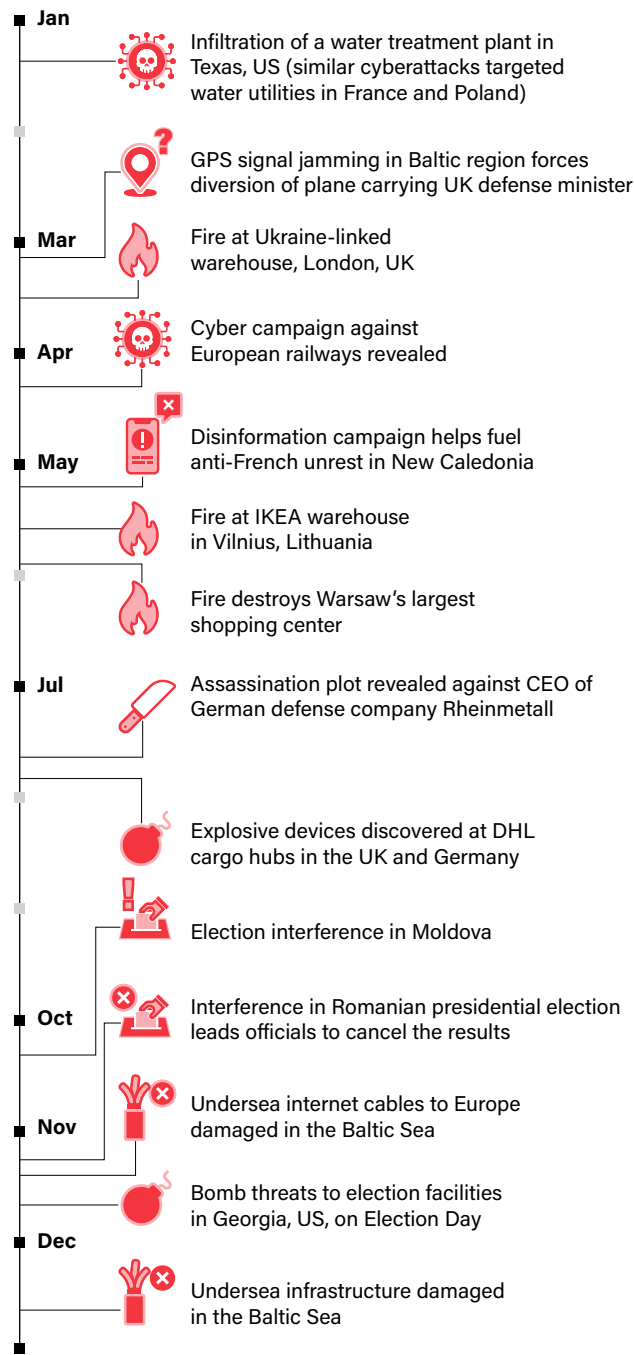
Putin's revisionist goals toward the US-led West are a core driver of his foreign policy. The Russian president strongly objects to NATO expansion and Russia's exclusion from the European security system. These grievances lie behind Putin's desire to undermine Western democracies and provoke chaos in the US-led Western alliance system.

Putin believes Russia is at war with NATO in Ukraine and that victory is of existential importance. Over the course of the war, Russia's need for weapons and manpower drove the formation of the axis with North Korea and Iran. Moscow received large shipments of important weapons and munitions from both countries, and more than 10,000 North Korean troops are fighting and dying to help retake Russian land in the Kursk region.

Early this year, both Russia and Ukraine will seek leverage in future talks and be more willing to take risks. That means more intense missile and drone strikes on each other's territory, heavy fighting at the front lines, and assassination attempts by both sides targeting elites. The dynamic will be escalatory.

Russia's hybrid campaign in 2024

Incidents formally attributed to Russian actors or with suspected Russian involvement



Source: Eurasia Group

Against this backdrop, President-elect Donald Trump is likely to achieve his long-sought ceasefire in the war later in 2025. He wants the fighting stopped, regardless of EU efforts to assume more of the war's costs. Ukrainian President Volodymyr Zelensky needs a halt to the fighting because Ukraine is slowly losing the war. Trump's pressure for a ceasefire would ease the potential political fallout of the unpopular move because Zelensky could argue that

the US president forced him to accept it. Meanwhile, Putin's army is advancing on the battlefield, and he will be a harder sell on a ceasefire. But after 600,000 casualties and three years of sanctions, Russia has its own looming manpower and economic problems, and Putin will agree in part as an investment in his relationship with Trump.

The ceasefire terms will freeze forces in place and leave Russia in de facto control of conquered territory—a major concession to Russia. The deal will at most “fudge” the issue of Ukraine's relationship with NATO so that each side can claim a win, though reality will be clear: Ukraine's membership can occur only in the distant future, if ever. But while a halt to the fighting is likely, a peace agreement is not. Russia will still want regime change in Kyiv and Ukraine to formally cede territory. Ukraine will plan to live for another day when it can retake territory. Both sides will rearm, and sporadic fighting will continue along the line of control. The fragile ceasefire will probably continue through this year, but not much longer.

The ceasefire risks undermining the post-war European security architecture, leaving the continent exposed to renewed Russian attacks—on Ukraine and beyond. The Nordics, the Baltic countries, and Poland see Russia as an existential threat and will use all the resources they can to support a Ukrainian military buildup during the ceasefire. France, Germany, Italy, and others will likely follow the more hawkish European countries' lead—supporting the deal while also seeking to provide security guarantees to Ukraine and bolster Ukrainian and EU defenses. All EU members and the UK are likely to hold off on considering sanctions relief—in line with the likely US position, tying the removal of restrictive measures to progress in peace talks. The Europeans will also maintain the freeze on Russian assets, since the ceasefire won't deal with reparations.

Also relevant to Russian ambitions is Trump's transactional approach toward NATO, which will weaken the alliance and embolden Putin. While Trump will not attempt to withdraw from NATO, the credibility of Article 5 security guarantees will depend on individual countries' compliance with Trump's demands to increase defense spending and reduce their bilateral trade surpluses with the US. Trump will keep key military assets in Europe but will pull back US troops from deployment rotations, including expensive ones in Eastern Europe—exposing frontline countries.

In response, Moscow will continue its rogue policies toward those countries in the West that directly oppose it. Before the ceasefire, that means ongoing efforts to intimidate EU countries. After the cessation of the fighting, Russia will be in a somewhat stronger position relative to both Ukraine and NATO—having achieved at least some of its territorial goals. But EU countries and Russia will still

No other country in the world is doing more to directly subvert the global order than Russia.

pursue hostile diplomatic and security policies toward one another, knowing that a peace agreement is beyond reach and that the ceasefire is tenuous and unlikely to last. The optics of US-Russia policy will improve because of the Trump-Putin relationship, but little else in the geopolitics will change.

As a result, throughout the year, Russia will interfere in the domestic politics of countries it sees as adversarial, pursuing tactics like those it used in Romania last November, where it deployed cyber and other tools to materially influence the outcome of a presidential election. In addition, Moscow will very likely target undersea cables; for example, the Russian shadow fleet tanker Eagle S may well have cut a cable off Finland in the Baltic Sea. Moscow will continue attempts at arson and even assassination and meddle with GPS systems at airports. Moreover, it will continue to use Telegram to instill pro-Kremlin views in citizens of European countries and turn them against their own governments.

Russia will also prioritize its relations with Iran and North Korea. Moscow will need weapons and troops to pursue the war before the ceasefire and rearm after it. In return, Russia will provide both countries with advanced weapons technologies, increasing their ability to disrupt geopolitics. The greatest risk will be Russian policy toward the North Korean and Iranian nuclear programs. North Korean Supreme Leader Kim Jong-un's top priority is to acquire the technology that enables a nuclear warhead to re-enter the earth's atmosphere and strike a target. Russia will help him. Iran, meanwhile, could seek Russia's help weaponizing its nuclear program, which in turn could upend geopolitics in the Middle East (please see Top Risk #6: Iran on the ropes).

NATO Secretary General Mark Rutte said last December that Moscow was "preparing for long-term confrontation with Ukraine and with us." No other country in the world is doing more to directly subvert the global order than Russia. In 2025, its efforts will intensify.



6 Iran on the ropes

The Middle East will remain a combustible environment in 2025, for one big reason: Iran hasn't been this weak in decades.

Iran's geopolitical position has been dealt a series of devastating blows since the 7 October attacks. First, its client Hamas was defeated by Israel's relentless offensive in Gaza. Then, the crown jewel of its proxy network, Hezbollah, was nearly wiped out after losing its entire leadership and thousands of its fighters to Israeli air strikes, before agreeing to a ceasefire and withdrawing from southern Lebanon last November. Weeks later, Iran's ally Bashar al Assad was suddenly driven from power in Syria. With this one-two-three punch, the Axis of Resistance was effectively destroyed. Though Iran still has some (albeit less than total) control over Shia militias in Iraq and the Houthis in Yemen, its decades-long strategy of relying on proxies to deter Israel and project power regionally has run its course.

Iran retains a formidable arsenal of missiles and drones. But they're of limited utility against Israel, over a thousand miles away and well-defended thanks to its overwhelming military and technological superiority as well as US support. Iran also has its nuclear program, which has made it a threshold state with the ability to "dash to a bomb" in about six months—though it would likely need at least a year to develop a warhead small enough to fit onto a missile. But any move to build a weapon would likely be quickly detected and provoke swift American and Israeli preemptive strikes. Simply put, Iran is a sitting duck.

Israel, on the other hand, is on a roll. Emboldened by the past year of military successes and riding a domestic popularity high, Prime Minister Benjamin Netanyahu sees Tehran's present weakness as a once-in-a-generation opportunity to deal a knockout blow to Israel's sworn enemy. It doesn't hurt that a successful strike against Iran would help shore up his political standing at home. That means, at a minimum, more Israeli efforts to further degrade Iran's allies in the region this

Tehran is a wounded lion, but it still has claws.

year. It's also likely to mean covert operations against Iran itself through asymmetric means, such as assassinations of nuclear scientists and Islamic Revolutionary Guard Corps (IRGC) leaders, sabotage of critical infrastructure, espionage, cyberattacks, and the like. Israel may also choose to strike Iran unprompted to further degrade its conventional military capabilities or its oil production and export facilities. As it proved last year, Israel can unilaterally escalate both the shadow and the missile war at will, with little Iran can do to retaliate.

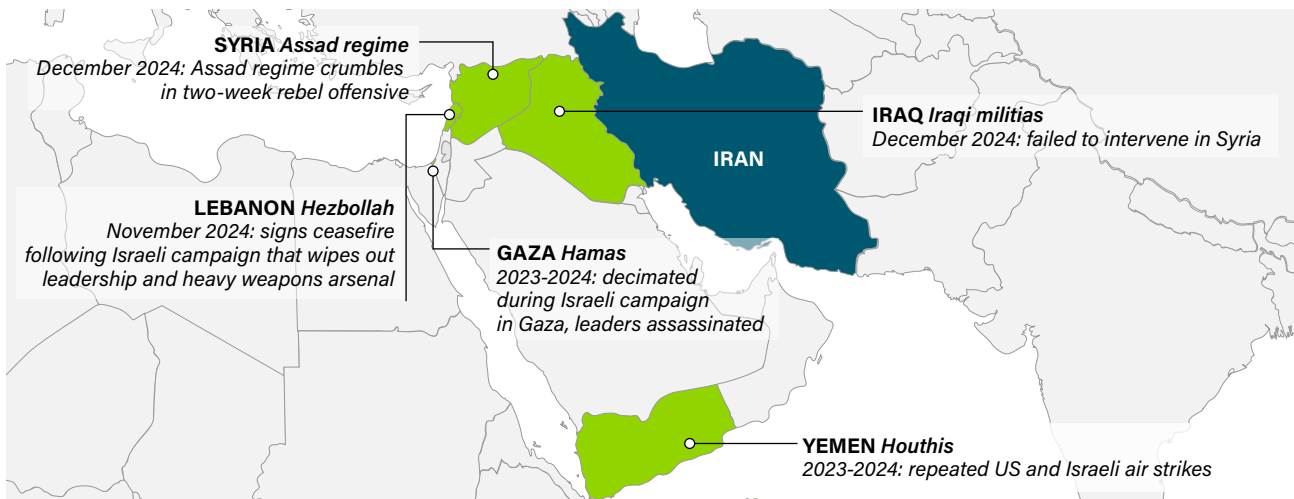
But what about Iran's nuclear program? Israel is eager to strike while the iron is hot, but it lacks the weaponry to destroy Iran's underground facilities. On their own, the Israelis can at most set the program back by a few months, which would in turn prompt Tehran to redouble its efforts to weaponize. To make a meaningful dent, Netanyahu needs 30,000-pound bunker-busting bombs specially designed to blast through Iran's hardened enrichment sites. Donald Trump could either give Israel these munitions or deploy US strategic bombers to drop the bombs themselves—the latter being a more effective but costlier option for the United States. Either way, Israel needs direct American support.

The chance to take down Iran's nuclear program and possibly help bring about regime change (please see Box 2: The Islamic Republic's 1989 moment?) will tempt Trump and the Iran hawks in his team—and the president-elect may well take it this year. At some point over the next four years, barring an unlikely diplomatic breakthrough, he most likely will.

But it probably won't happen in 2025. Bombing Iran would effectively mean declaring war on the Islamic Republic. And while Trump carries a "big stick," he has repeatedly expressed his opposition to getting the US involved in new wars. Trump will be reluctant to run the risk of a major war involving many days of strikes against Iranian air defenses, communications facilities, and hardened nuclear sites during his first year back in office—especially when it could jeopardize his economic agenda. That's because one of Iran's main avenues to retaliate would be to go after the energy infrastructure of the Persian Gulf—well within range of its missiles and drones and a much more vulnerable target than Israel. Strikes on Saudi and Emirati oil installations could push crude prices up, while an effort to halt traffic through the Strait of Hormuz—Iran's most extreme option—would send prices north of \$100 a barrel. Neither Trump nor his friends in the Gulf want to see that.

Unless Iran dashes for a bomb first—unlikely given reformist President Masoud Pezeshkian and Supreme Leader Ali Khamenei's desire to seek a deal with the US that brings sanctions relief to their ailing economy—Trump won't want to start a war with Iran immediately. Instead, his administration will initially settle for a return to "maximum pressure" with the aim of extracting concessions from Tehran. It will have plenty of room to toughen sanctions, tighten enforcement, and ratchet up diplomatic pressure short of direct military action. Even if Trump avoids going after the Chinese refiners that buy 90% of Iran's crude, which would be an unprecedented escalation against Beijing, he can still cut Iran's exports by one-third—from 1.5 million barrels per day (bpd) to

End to Iran's "Axis of Resistance"



Source: Eurasia Group

less than 1 million bpd—just by sanctioning the “dark fleet” of oil tankers that move the crude through illicit channels. Iran will try to engage, but given its extreme vulnerability, the regime is unlikely to agree to the deep cuts and restrictions to its nuclear program that Trump will demand.

For its part, Israel will choose to wait until Trump is on board with a joint strike on Iran’s nuclear program rather than go it alone. After all, Trump is in office for four years, which gives Netanyahu a runway to convince him once it becomes clear that a diplomatic breakthrough is not forthcoming. Plus, Israel is strong but not invincible, and the Islamic Republic still has an arsenal of ballistic missiles and drones (in addition to the Houthis and Iraqi militias) that could threaten its security. And with Netanyahu still set on normalization with Saudi Arabia, he needs to be confident he has the US and the Arab world on his side—especially Riyadh, which is currently on the fence—before he commits to a campaign to bring down Iran’s nuclear program.

Still, there’s wide scope for uncontrolled escalation this year. Netanyahu could push his luck too far, while Trump is unlikely to restrain him much, given his extremely strong support for Israel. Any aggressive move could overstep Tehran’s vaguely defined red lines and trigger an Iranian

response; Israel will take many such moves this year as the shadow war steps further out into the light. Tehran is a wounded lion, but still has claws—its massive missile and drone arsenal—and may be provoked into another direct exchange of missiles with Israel. As with last year’s episodes, diplomacy would probably keep the escalation in check. But any accident or miscalculation that results in a significant number of Israeli or American casualties could trigger a dangerous escalatory spiral with material implications for the supply and price of oil.

If the Iranian regime is threatened from within (please see Box 2: The Islamic Republic’s 1989 moment?), its leaders, including those of the IRGC, will be tempted to broaden the conflict to distract attention. With less to lose and limited capacity to rebuild their proxies, they may also decide it’s finally time to build a bomb as their only means to restore deterrence if diplomacy with the US and the West ultimately fails. Finally, even if Tehran genuinely wants to strike an expansive deal, there’s a strong chance that Trump will judge its talk to be cheap—or be convinced of it by his hawkish advisers and Netanyahu—and proceed to bomb Iran’s nuclear program before it can dash for a weapon.

With so much at stake and no one behind the wheel, conflict with the Islamic Republic has become the most significant risk in the Middle East.

Box 2: The Islamic Republic's 1989 moment?

2025 is looking more and more like Iran's 1989. Much like Mikhail Gorbachev during the Soviet Union's twilight days, moderate reformist Masoud Pezeshkian is faced with the challenge of having to prop up a system ailed by a moribund economy, decrepit leadership, foreign policy failures, and crumbling internal legitimacy. Popular pressure against the regime is growing, especially in provinces such as Sistan/Baluchistan, where the Iranian military is fighting a low-level insurgency. The Soviets lost their eastern bloc before the nationalities explosion within the former Soviet republics threatened the union itself. Following the collapse of its Axis of Resistance, Iran is now ripe for a massive internal struggle.

Even without the threat of Israeli or US attack, Iran faces a crisis. Western sanctions, compounded by Iran's economic mismanagement and corruption, have left its economy struggling with persistent high inflation, slow growth, and unemployment. Though Iran has the world's second-largest natural gas reserves, runaway fuel consumption and years of under-investment in new supply have led to increasingly severe gas shortages and power outages. Burning oil to compensate for the shortfall has resulted in Iran having some of the most polluted cities in the world. All of this, combined with the ongoing repressive policies pushed by the Islamic Republic's hardliners, has made for a deeply discontented population that has given up on the regime's politics.

Iran's clerical and military leadership still holds on to power thanks to a hardliner base of support and an array

of repressive tools, on display during the 2022-2023 "Women, Life, Freedom" protests and the brutal crackdown that followed.

Khamenei, 85 and in poor health, holds sway over the various bickering factions, including reformists led by Pezeshkian and hawks in the IRGC. Committed to maintaining regime security and more than willing to use force against its own population, the Islamic Republic is unlikely to collapse as quickly as Assad in Syria. This is not (yet) Iran's 1991.

But 2025 is a crucial year. The regime is historically weak both regionally and internally and will face growing pressure to course correct to save itself. Khamenei's death, incapacitation, or resignation could happen at any moment and would trigger a succession crisis as his would-be replacements vie for the throne. A US return to "maximum pressure" and ongoing difficulties in meeting domestic energy needs could cause Iran's economy to implode. Khamenei, in his waning years, will face a crucial choice: negotiate with Trump, swallowing his pride and giving up the nuclear program to obtain sanctions relief; or reverse his *fatwa* banning nuclear weapons as a way of restoring deterrence lost by the collapse of the Axis of Resistance, inviting certain US and Israeli strikes, turning Iran into a garrison state, and exposing the regime to internal collapse.

Both paths could bring the end of the Islamic Republic. As ever, the regime's top priority will be its own survival. But the walls are closing in.



7 Beggar thy world

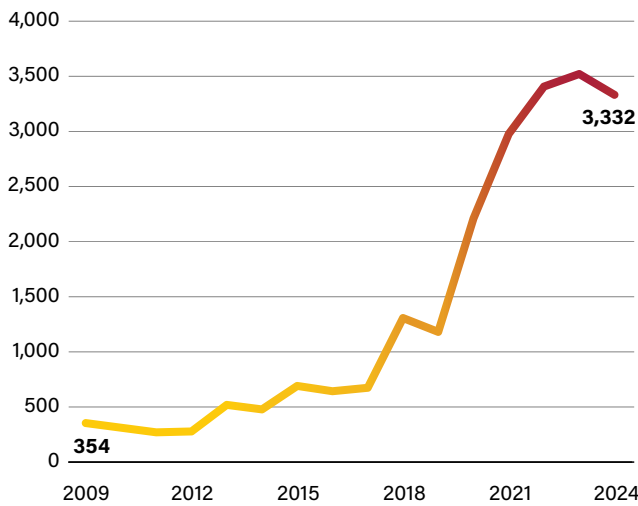
Global markets are riding high on hopes of a strengthening global economic expansion in 2025. They're in for a rude awakening. The world's two largest economies are set to export disruption to everyone else this year, short-circuiting the global recovery and accelerating geoeconomic fragmentation.

China's economy is experiencing its weakest performance in decades (please see last year's Top Risk #6: No China recovery). A deepening property crisis, mounting debt, and collapsing confidence have exposed the limits of Beijing's growth model. Rather than make painful reforms to boost household consumption, Xi Jinping is doubling down on what China knows best: exports. Chinese factories are churning out far more cars, solar panels, and electronics than the domestic market can absorb. The result is an overcapacity problem that China is trying to dump abroad, with its trade surplus reaching almost \$1 trillion in 2024 and growing.

Enter Donald Trump. The president-elect's plan to use tariffs to fix "unfair" practices against America will pour fuel on an already combustible situation (please see Top Risk #4: Trumponomics). Though they will often succeed at extracting concessions (please see Red herring: Trump fails), his tariff threats will sometimes trigger retaliation, as in the case of China (please see Top Risk #3: US-China breakdown). Trump's policy mix will also strengthen the dollar and keep US interest rates higher, increasing pressure on the rest of the world when it's least equipped to handle it.

This combination spells trouble for developed and developing countries facing a surge of subsidized Chinese goods just as Trump's tariffs threaten their exports to America. China's overcapacity is concentrated in strategic sectors where many

Number of new harmful trade interventions implemented each year



Source: Global Trade Alert

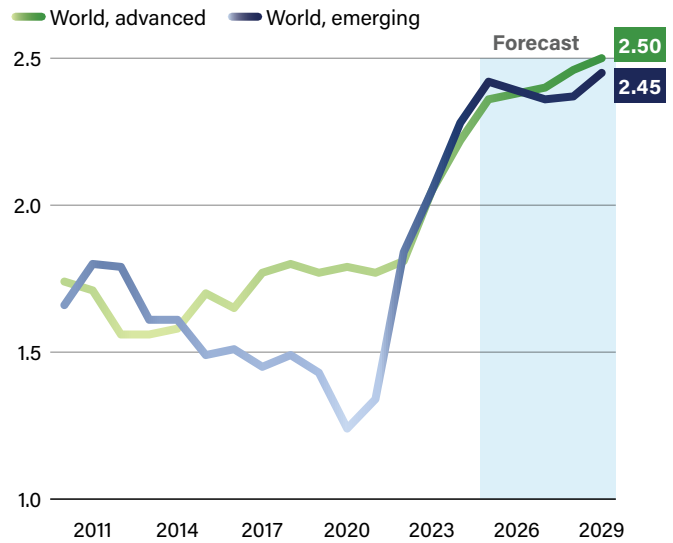
Note: Trade interventions classified as harmful by Global Trade Alert

nations are trying to build their own industries. Chinese EV makers, awash with state subsidies, are pricing their cars 20-30% below European manufacturers—a gap that already prompted an EU investigation and subsequent tariffs. Similar dynamics are playing out with cheap Chinese solar panels, batteries, semiconductors, steel, and aluminum flooding places like Canada, Brazil, and Indonesia. These countries will be forced to choose between letting Chinese imports crush their domestic producers or erecting trade barriers that will raise consumer prices, slow growth, and provoke retaliation from Beijing.

Those with extensive ties to both China and the US, such as Mexico, Vietnam, and the EU, face the biggest risks. When Mexico agrees to help block Chinese circumvention of US tariffs in response to Trump's tariff threats (please see Top Risk #10: Mexican standoff), China could respond by targeting Mexican manufactured exports. Each tariff hike and round of retaliation will raise consumer prices, weigh on growth, and disrupt supply chains built over decades. Even the threat of disruption will force companies to build redundancies and maintain higher inventories, adding to costs. The simultaneous turn to beggar-thy-neighbor policies by the US and China will accelerate economic and financial fragmentation, deepen policy uncertainty, and undermine global investment, trade, and growth.

Making matters worse, a stronger dollar and higher US rates will limit countries' ability to cushion these blows through monetary and fiscal policy. As imports become more expensive and capital flows out of emerging markets, many central banks will face an unwelcome choice: hike

Government debt servicing costs, current and forecast (% of GDP)



Source: IMF

rates to defend their currencies at the expense of growth or cut them to support growth but fuel inflation. Those that have borrowed in dollars will face increased servicing costs and higher debt burdens, forcing their central banks to keep rates higher than domestic conditions warrant. This will worsen tensions between governments and central banks, as we're already seeing in Brazil, South Africa, and Indonesia. Commodity exporters from the Middle East to Brazil and Indonesia will face additional challenges as weak Chinese demand pushes prices lower this year (please see Box 3: Middle East squeezed by low oil). Many of these countries increased spending during the commodity boom years. Now they face a double squeeze: falling revenue as borrowing costs rise.

The timing is particularly poor. Global growth is tepid, inflation remains sticky, and debt levels are at historic highs. Most emerging markets never fully recovered from Covid-era spending sprees. Even developed economies like Japan and Italy are struggling with alarming debt burdens.

Against this backdrop, governments that won recent elections promising better times ahead will face a harsh reality check. Their honeymoons will be brief as global economic pressures turn political. Many emerging and frontier economies will have to decide between raising taxes, slashing spending, or accepting even weaker growth. But this is not just a developing country problem. Even in the G7, a French government has fallen over budget battles, and Canada's finance minister resigned over fiscal disputes in the face of rising trade tensions with the United States. Though few countries look to be at imminent risk of sovereign default, cracks in government

stability will undermine investor confidence. The biggest financial dangers may be hiding in plain sight.

Brazil offers an early warning. Recent market turmoil there—triggered by disappointment with the government’s fiscal package—shows how quickly domestic challenges can spiral when combined with external pressure from higher rates, a stronger dollar, and a weaker global demand outlook. Even countries with stronger fundamentals will find their policy options constrained in 2025.

To be sure, there will be winners, too. Some leaders will manage to strike deals with Trump granting them market access or securing protection from disruptive tariffs. India and South/Southeast Asian manufacturing hubs should see increased investment as supply chains shift from China (though Bangladesh, led by a vociferously anti-Trump leader, might be hit with punitive tariffs large enough to offset these gains). Vietnam might gain market share in electronics despite Trump’s threats. Mexico stands to benefit from nearshoring trends if it cooperates with

US demands. Lower oil prices will help large importers like India. But the overall impact will be negative as rising barriers fragment the global economy, reversing decades of integration that helped lower costs, boost productivity, and lift billions out of poverty.

The risk in 2025 isn’t a sharp, sudden crisis—though that could happen if aggressive US tariffs trigger broader trade wars or an unexpected financial accident spreads through fragile markets. Rather, it’s that the interplay between US and Chinese policies creates a more pervasive threat to global growth and stability. By forcing countries to choose between absorbing external shocks or erecting costly barriers against them, it will accelerate economic fragmentation—with consequences that will outlast both Trump and Xi.

The global economy is about to learn a painful lesson: When the world’s two largest economies turn inward, everyone else pays the price.

**When the world’s two largest economies turn inward,
everyone else pays the price.**

Box 3: Middle East squeezed by low oil



This year has all the ingredients for a slump in oil prices that will strain the Middle East's oil-producing states and threaten OPEC's power.

Global oil demand growth has stalled. Not only is consumption declining in most developed countries, but—most importantly—slower economic growth and a rapidly accelerating energy transition have cut China's oil demand growth from 1.5 million barrels per day (bpd) in 2022 to less than 200,000 bpd in 2024. As the global economy comes under pressure this year, global oil demand growth is likely to fall below the already modest 1% increase seen last year.

At the same time, supply continues to rise. Guyana and Brazil are adding barrels at an accelerating rate, and the US keeps breaking records, with production this year likely to reach or exceed 14 million bpd. The International Energy Agency predicts a 1 million bpd glut in the first half of 2025. This is where you'd normally expect OPEC to step in, taking barrels off the market and creating a deficit that lifts prices. But after cutting for years, OPEC is fed up with losing market share to its non-OPEC competitors. So, in 2025, it will pump more.

Barring an unlikely hot conflict between the US and Iran that jeopardizes oil transit through the Persian Gulf this year (please see Top Risk #6: Iran on the ropes), lower demand growth and high supply growth should push prices down to or below \$60 a barrel from around \$70 at the end of 2024 and \$90 earlier in the year. Cheap crude will be a boon for consumers and large importers like India and China. But it will be bad news for resource-dependent oil producers in the Middle East, which account for 30% of global oil production.

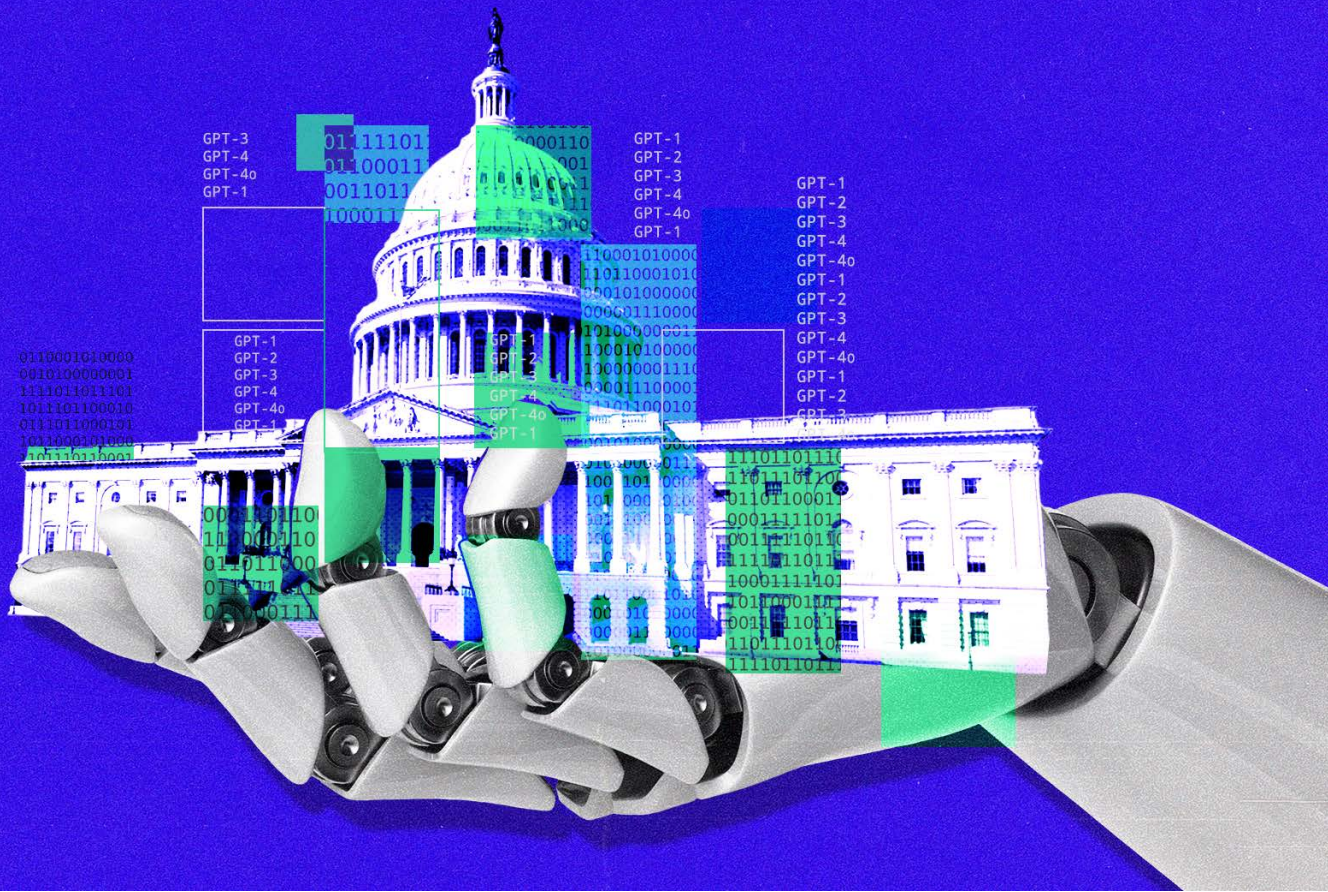
Iraq and Iran face the greatest challenges. Still recovering from decades of war, Baghdad depends on oil for 90% of its export revenue. Even a small price drop will put significant strain on its budget, increasing unrest and infighting among the country's powerful militias. Lower oil will also tighten the noose on Iran's struggling regime, which depends on its oil trade with China for revenue and will already be under "maximum pressure" this year. This will make it harder for Tehran to rebuild its shattered Axis of

Resistance and complicate the regime's already challenging security and stability outlook (please see Top Risk #6: Iran on the ropes).

Falling prices will reduce cash flows from the rich Gulf Cooperation Council monarchies to indebted nations like Egypt, Tunisia, and Jordan. These countries will also face mounting pressure from higher food prices and rising debt service costs due to a stronger dollar, outweighing any savings they might get from cheaper oil imports. Lebanon, shattered by a years-long economic crisis and the recent war with Israel, will receive only limited aid, while Gaza's monumental reconstruction challenge will go unmet when many potential donors in the region are short of funds (please see Top Risk #9: Ungoverned spaces).

Saudi Arabia, the Gulf's economic and geopolitical heavyweight, will face a dilemma. On the one hand, Riyadh needs high prices to fund Vision 2030, its expansive \$1.3 trillion development plan. A "break-even" of at least \$85 would cover the expense if the Saudis produced near capacity, but that looks out of reach this year. On the other hand, with huge reserves and the ability to rapidly increase production, Riyadh could emerge from a year of cheap crude with a larger market share. That's the calculus Crown Prince Mohammed bin Salman is likely to make: endure pain now to make gains later. The hit to the kingdom's 2025 budget will be significant; major projects will be curtailed, and spending will have to be focused more inward. But Riyadh knows it can tap bond markets to finance its ambitions amid declining prices over the coming years.

Not everyone in OPEC has that option. Saudi's move will strain the cartel's unity as market management devolves into a fight for market share, threatening a breakdown in OPEC's ability to manage markets in the future. But as the global energy transition continues apace (please see Red herring: Global energy transition stalls), the oil cartel's power is living on borrowed time anyway.



8 AI unbound

AI's power and capabilities will continue to grow in 2025, with new models able to act autonomously, create self-replicas, and further blur human-machine boundaries. But as most governments opt for lighter-touch regulation and international cooperation falters, the risks and collateral damage from unbound AI will multiply.

In last year's Top Risk #4: Ungoverned AI, we cautioned that global efforts to establish AI guardrails would prove insufficient owing to politics, inertia, defection, and the pace of technological change. Some notable AI governance initiatives did come to fruition in 2024—including from the European Union, the Council of Europe, and the United Nations. But without strong, sustained buy-in from governments and tech companies, these will not be enough to keep pace with technological advances.

Less than two years ago, leading AI researchers called for a six-month pause in AI development, and world leaders gathered in the UK to tackle AI safety risks collectively. Fast forward to today, and most governments are hesitant to regulate AI for fear of losing out on its economic benefits, while prominent tech CEOs who previously sounded the alarm about AI risks now publicly downplay them. Far from constraining AI's growth, governments and companies are pouring ever more billions into training new models.

Rather than strengthening existing safeguards, 2025 will see the erosion of what few governance frameworks exist. In Washington, President-elect Donald Trump's promised repeal of the Biden administration's AI executive order—written in close collaboration with Big Tech—threatens to dismantle safety testing procedures for high-risk AI systems, alongside accountability and transparency measures. Trump's administration is set to empower Silicon Valley veterans like David Sacks, Peter Thiel, and Marc Andreessen, who view AI guardrails as “woke,” cumbersome, and impediments to the US in its geopolitical competition with China. Even Elon Musk, despite his concerns about existential AI risk, will focus more on using AI to curb regulation than regulating AI itself—while his company xAI operates one of the world's most powerful compute clusters.

As AI capabilities are pushed further, faster, and with fewer checks in place, the risks of a catastrophic accident or an uncontrollable AI “breakout” will grow.

Legislative initiatives face similar headwinds. The most significant, California’s SB-1047 bill—which would have required safety measures like pre-release risk assessments for AI models costing more than \$100 million to train—was defeated by the state’s Democratic governor (though it may make a comeback this year). While other states are implementing a confusing patchwork of AI regulations, none has the clout or ability to match the California bill’s potential to address extreme or existential risks. Despite bipartisan interest in Congress, comprehensive federal AI legislation remains unlikely.

While US regulators are gridlocked, open-source AI models have been creating new facts on the ground. Anyone with basic technical skills can now download and run sophisticated large language models (LLMs) on their personal devices. Many of these open-source models have minimal safety guardrails and can be used for illicit purposes. They can also be distributed peer-to-peer and run entirely privately, making them nearly impossible to control or contain. In any case, there seems to be little appetite to try.

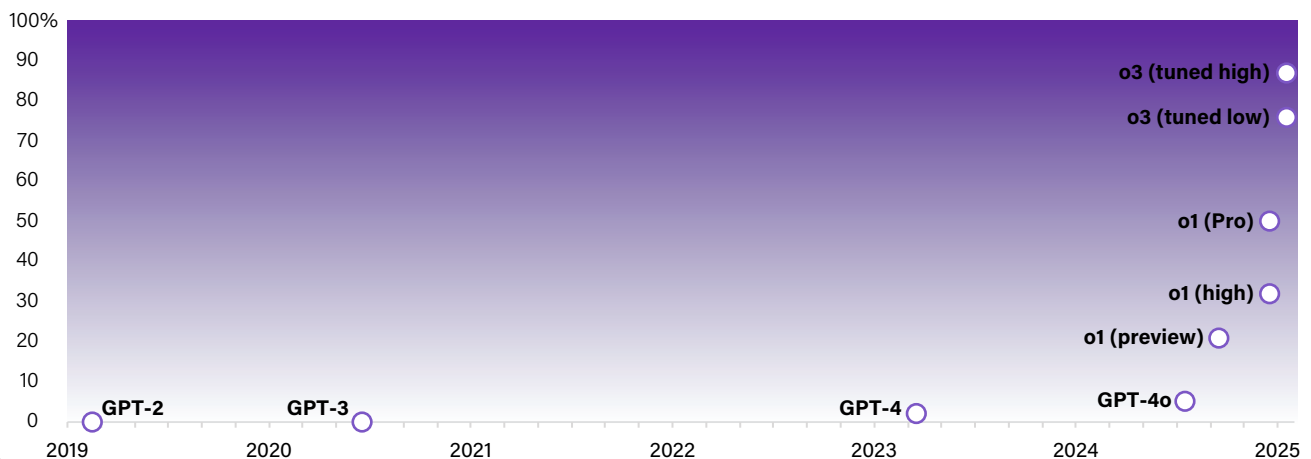
Even the European Union—home of the AI Act, the world’s most comprehensive AI law—shows increasing signs of buyer’s remorse and regulatory fatigue. European policymakers, newly focused on securing AI sovereignty, now downplay existential risk narratives as a distraction from nearer-term concerns like sustainability, labor-market disruption, and intellectual property protection. The latest iteration of the UK-launched “AI Safety Summit,” to be hosted in Paris in February, has been rechristened the “AI Action Summit,” with an extended and more growth-oriented mandate.

The deteriorating state of global cooperation that results from the deepening G-Zero vacuum of leadership (please see Top Risk #1: The G-Zero wins) compounds these risks. Trump’s administration will dismantle key channels for AI policy coordination with allies, such as the EU-US Trade and Technology Council, and step back from joint AI work in the G7—though technical collaboration among global AI safety institutes will probably continue. Meanwhile, most developing nations prioritize gaining access to AI over risk mitigation.

The biggest danger lies in the fast-deteriorating US-China relationship (please see Top Risk #3: US-China breakdown). As Washington and Beijing slide deeper into unmanaged decoupling, the nascent AI safety dialogues initiated under the Biden administration face an uncertain future. While both nations share an interest in preventing catastrophic outcomes and the proliferation of dangerous capabilities, progress has still been painfully slow—it took more than a year just to agree on keeping AI out of nuclear weapons decision-making. Their deepening mutual distrust—especially regarding advanced technologies—will make meaningful agreements on AI safety unlikely.

The race to develop frontier models and achieve artificial general intelligence will accordingly accelerate in 2025, driving unprecedented demands on power, water, and land resources. Beyond its impact on energy use and carbon emissions (please see Box 4: The AI-energy reckoning), AI’s disruptive potential will increase dramatically. New models will be capable of pursuing objectives autonomously with minimal human oversight. These “agents” can take independent actions, interface with real-

OpenAI’s latest models are approaching human-level performance against benchmarks □ □ ×



Note: The Abstract and Reasoning Corpus benchmark is used to assess progress toward artificial general intelligence (human-like capabilities)
Source: Arc Prize

world systems, and adapt to unforeseen circumstances on the fly. Their growing sophistication brings extraordinary opportunity but also unprecedented risks for 2025: They will allow users to manipulate markets and spread disinformation with increasing efficiency. At the frontier, the most advanced models will show increasing signs of resistance to human control.

As AI capabilities are pushed further, faster, and with fewer checks in place, the risks of a catastrophic accident or an uncontrollable AI “breakout” will grow. These are amplified by the integration of AI systems into critical infrastructure—managing everything from life-or-death healthcare decisions to trillion-dollar financial systems—where the consequences of an accident are greatest. An

AI optimizing supply chains could inadvertently disrupt global logistics, causing shortages of essential goods. Multiple AI trading agents could interact in ways that cascade into market failures. Advanced models could learn to manipulate human operators to serve rogue actors, while AI’s increasing integration into weapons systems will bring the world closer to autonomous warfare.

2025 will mark another year of relentless technological development unbound by adequate safeguards and governance frameworks. Given the incentives to build ever more powerful AI, meaningful constraints will likely emerge only when developers hit hard limits on data, compute, energy, or funding. Until then, the technology’s capabilities and risks will continue to grow unchecked.

Box 4: The AI–energy reckoning

Though the pace of AI advancement will not be held back by regulation or governance frameworks this year, it will run into a very real constraint: energy availability.

OpenAI’s GPT-4, the LLM behind ChatGPT, reportedly took over 40 times more energy to train than its predecessor, GPT-3—enough to power 1,000 average US households for 5-6 years. Meanwhile, a typical chatbot query requires roughly ten times the energy of a conventional Google search. And this is just the beginning. The AI industry’s energy appetite will continue to grow as each new model demands ever more computational power. Tech optimists highlight efficiency gains to be had from improved AI chips, algorithms, and edge deployments, but these innovations will not offset AI’s mounting energy footprint anytime soon. With the climate-skeptic Trump advised by accelerationist tech CEOs and China hawks, the prospects of restrictions on AI’s domestic energy use, a moratorium on large AI training runs, or successful global efforts to level off AI’s skyrocketing energy consumption are negligible. Global data center power demand is projected to surge 160% by 2030, with carbon dioxide emissions more than doubling.

Major US tech companies have already taken notable steps to secure their future energy needs, signing large-scale, long-term power purchase agreements and even investing in experimental energy innovations like fusion and small modular reactors. But from nuclear power stations being (re)commissioned specifically to fuel data centers, to coal and gas-fired power plants delaying retirement or expanding to ensure grid adequacy, rising power demand will cause widespread disruption across the aging and fragile American electrical grid. The strain will be felt most acutely in places where data center expansion is outpacing investments in transmission infrastructure and clean production capacity (like Texas and the Washington,

DC, metro area), heightening the risk of electricity price surges and power outages. Global power grids will require over \$20 trillion in investment by 2050 to keep pace with the world’s growing energy use, according to some estimates.

Access to energy is now a fundamental requirement for global AI leadership. But inadequate transmission grids, data localization rules, environmental requirements, complex permitting processes, and local community resistance will all factor into AI investment decisions, too, as they hinder tech companies’ ability to get the power they need when and where they need it. Even places with cheap, abundant, and reliable energy—clean or otherwise—will have to contend with “not in my backyard” opposition to data center construction, while areas with expensive or unreliable power risk being left behind by the AI revolution. Capital and energy-rich countries in the Middle East could attract data center investments or even develop sovereign AI capabilities of their own, but they will be constrained by scarce water resources—needed for cooling data centers—and great power competition. Rising tensions between the US and China will increasingly pressure geopolitical swing states like Saudi Arabia and the United Arab Emirates to choose a side in the brewing technological Cold War (please see Top Risk #3: US-China breakdown).

These dynamics will also fracture previous alliances, particularly between the tech sector and environmental advocates, as companies’ net-zero commitments take a back seat to the imperative to meet their rising power needs with dirty and clean sources alike. The AI race will thus risk slowing, but not halting (please see Red herring: Global energy transition stalls), the pace of the global energy transition.





9 Ungoverned spaces

This risk stems from a deepening G-Zero (please see Top Risk #1: The G-Zero wins) where the world's most powerful actors—especially a politically divided and dysfunctional America—are abdicating global leadership. This vacuum causes greater geopolitical conflict, disruption, and instability; reduces global governance and multilateral cooperation on global public goods; and emboldens rogue-state and non-state actors. It also leaves many people, places, and spaces around the world—and beyond (please see Box 5: Tragedy of the shrinking commons)—thinly governed and forgotten. Critical global commons like outer space, the seabed, and even airspace are shrinking as conflict zones expand—highlighted by Russia's downing of an Azerbaijani plane in December 2024. Missile strikes are now the leading cause of air fatalities, forcing commercial airlines to reroute around growing swaths of contested territory.

There are no international powers both willing and able to bring stability to these places or help the victims of the G-Zero. Donald Trump's instinct toward unilateralism and retrenchment in US foreign policy will worsen their plight, and the efforts of civil society or other actors won't fill the void. No one will be held accountable for what happens inside these spaces, including to the people living within them. The human toll is particularly devastating for the most vulnerable—UNICEF reports that more than one in six children globally now live in areas affected by conflict, a percentage that has doubled since the 1990s.

Conflict in the Middle East has left five ungoverned spaces—Gaza, the West Bank, Lebanon, Syria, and Yemen. In Gaza, criminal gangs, family clans, surviving Hamas members, and the Israeli military will rule over the decimated Palestinian population for the foreseeable future. Gulf countries, led by Saudi Arabia, are unwilling to engage on governance, security,

Thin governance and impunity have long tails, and their consequences will eventually be felt far beyond the countries directly affected.

or reconstruction until Israeli forces withdraw and a clear “day-after” plan is on the horizon. While the United Arab Emirates has expressed greater interest in a near-term role in Gaza, it would likely be limited to deploying private contractors, whose performance in post-conflict environments is uneven at best. The Palestinian Authority does not yet have the capacity or the legitimacy to govern Gaza, let alone a credible plan for returning to the territory after 17 years. The Trump administration, meanwhile, will avoid direct US involvement in this dangerous security environment. The Israeli military will de facto occupy the region, and the misery that pervades daily life on the Strip will continue to get worse.

Eclipsed by the media coverage of Gaza’s troubles, the security environment in the West Bank will deteriorate further. Armed militants supported by, but independent of, established terrorist groups like Hamas and Palestinian Islamic Jihad have entrenched themselves in the northern West Bank cities of Jenin, Tulkarm, Nablus, and Tubas. This has transformed them into hotspots for raids by the Israeli army, whose tactics since 7 October at times resemble those used in Gaza—including airstrikes on buildings and an increasing reliance on drones. The increasing frequency and scale of Israeli army operations exacerbate already repressive conditions for Palestinians in the West Bank. Also, extremist settler violence against Palestinians persists. Israel will continue to authorize new settlements, and some officials in the government of Prime Minister Benjamin Netanyahu are seeking formal annexation of the West Bank, hoping that the Trump administration will recognize Israeli sovereignty in the occupied territories.

Lebanon will get a break from war this year as the ceasefire reached between Israel and Hezbollah last November will likely hold, especially now that Iran’s supply routes through Syria have been cut. Under the terms of the US-mediated agreement, the Lebanese group will withdraw behind the Litani River, and the Israeli army will depart southern Lebanon. Meanwhile, the Lebanese army will deploy in greater numbers to support the UN Interim Force in Lebanon (UNIFIL), a multinational force that has been responsible for monitoring the Lebanon-Israel border for several decades. But Lebanon will remain a failing state because of ongoing gridlock among factions, a weak economy, and the government’s inability to consistently provide social services. It will remain unable to prevent Israeli attacks on its territory or to rein in Hezbollah and other militants operating outside the authority of the state.

In Syria, the sudden overthrow of President Bashar al Assad will create potent risks of a power vacuum emerging in

his wake. Various rebel groups, some of them aligned with hardline Islamist jihadist ideology, were instrumental in Assad’s fall and will compete for power in the ruins of the old regime. Hayat Tahrir Al-Sham (HTS), a Sunni militant group, controls Damascus and is attempting to establish an inclusive government and consolidate its hold over the rest of the country. If it succeeds in keeping the other factions in line and obtaining international recognition and aid, the country could stabilize, and millions of refugees could return home. If HTS fails and the rival factions don’t find a way to work together, Syria will devolve into anarchy once again, spurring new refugee flows. And if the Trump administration withdraws support for its Kurdish allies, the resulting vacuum could prompt the resurgence of the Islamic State in the country’s interior.

Yemen faces the possibility of permanent division, as Iran-backed Houthi rebels hold on to their enclave in the country’s populous north despite a year of US and Israeli bombing and increased economic pressure. A worsening humanitarian crisis will leave millions of Yemenis at the mercy of disease and starvation.

Libya also remains largely ungoverned over a decade after Muammar Qaddafi’s downfall. The country is deeply divided among rival factions, hindering national dialogue. Oil revenue offers some hope of relief, but production is unstable and control over it is a source of recurrent conflict. Against this backdrop, it will be very difficult to organize elections or reach a political settlement.

Turning to Eurasia, Russia now rules over conquered Ukrainian territory in Donetsk, Luhansk, Zaporizhzhia, and Kherson oblasts. Approximately 3.5 million Ukrainians live in these areas. A ceasefire is likely this year, but its terms will de facto cede these lands to Russia (please see Top Risk #5: Russia still rogue). Civilians there, including children, will continue to be the target of forced “Russification” efforts under Moscow’s brutal occupation. Outside large cities, governance will likely be thinner. The well-being of the population in these occupied territories will quickly fall off the agenda of Western powers.

In the Sahel, Russia has leveraged dissatisfaction with weak governments—especially those perceived to be aligned with the West—to expand its influence. In response to public discontent, countries like Burkina Faso and Niger have pivoted from partnerships with Paris or Washington to deeper ties with Moscow, which offers mostly symbolic military and economic support—and a blank slate in terms of governance. Subject to a spate of coups in recent years, the Sahel has also become a global

In ungoverned spaces, political freedoms are lacking and humanitarian conditions are dire

	Political rights		Armed conflict	Hunger		Displacement
	2024 Freedom in the World score (out of 100)	Country status (Free, Partly Free, Not Free)	Number of battles in 2024	Prevalence of undernourishment (%; 3-year average, 2021-23)	People facing food crisis or worse (million, IPC/CH phase 3 - 5)	Forcibly displaced people (million)
DRC	19	Not Free	862	26.8	25.6	8.2
Haiti	30	Not Free	518	50.4	5.4	1.0
Libya	9	Not Free	93	11.4		0.1
Myanmar	8	Not Free	4,825	5.3		4.6
Palestine			2,319			5.9
<i>Gaza Strip</i>	8	Not Free			1.9	1.9
<i>West Bank</i>	22	Not Free				
Sudan	6	Not Free	1,745	11.4		12.8
Syria	1	Not Free	2,801	34		13.8
Yemen	10	Not Free	578	39.5	4.6	4.6

Source: Freedom House, Freedom in the World 2024; Armed Conflict Location and Event Dataset; extracted 24 Dec, 2024; Food and Agriculture Organization; Integrated Food Security Phase Classification/ Cadre Harmonise; latest estimate as of Dec 2024; UN Refugee Agency estimates as of Oct 2024; UNRWA estimates used for Palestine

focal point for terrorist activity. In 2025, the US and France will continue to retreat from the region, risking greater instability as the region's juntas face continued pressure from Islamist groups and opposition militants.

Elsewhere on the African continent, the aftermath of the Tigray war in Ethiopia and the ongoing civil war in Sudan have worsened humanitarian conditions. Two years after the Pretoria Agreement aimed at ending the conflict in Tigray, hardships remain acute, owing in part to inadequate enforcement. The war has resulted in approximately 600,000 deaths and displaced about 1.7 million people. With 89% of Tigray's health facilities damaged and stripped of resources, many civilians lack basic services and are hesitant to return to their homes.

In many ways, Sudan's civil war is a forgotten conflict, receiving much less attention than other crises. Yet the scale of Sudanese suffering since fighting broke out between the Sudanese Armed Forces and Rapid Support Forces in April 2023 is serious. About 8 million people are estimated to be internally displaced and an additional 3 million have fled to neighboring countries. Perhaps 150,000 Sudanese have been killed, and another 25 million are in dire need of assistance. In August 2024, famine was declared in parts of Darfur, and severe public health threats—including cholera outbreaks—stalk the country's refugee camps.

In the Democratic Republic of Congo, ongoing insurgencies driven by more than 100 armed groups and competition for mineral wealth will cause mass

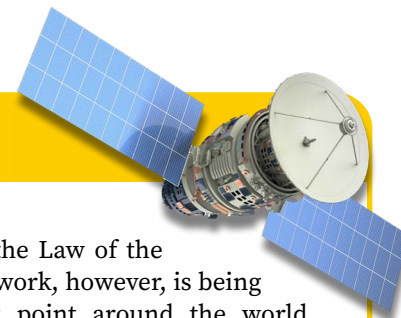
displacement despite international interventions. The country has been wracked by conflict for decades, with about 6 million Congolese estimated to have died as a result since 1998. The seriousness and frequency of human rights abuses is grave, with NGOs documenting large-scale killings, forced disappearances, and instances of mass rape.

In Myanmar, more than three million civilians have been displaced since the military coup in 2021. In particular, the Rohingya minority faces systemic persecution, with many fleeing to overcrowded refugee camps in Bangladesh. The military junta continues to perpetrate abuses and exacerbate ethnic tensions, with resistance fighters unable to break its grip on parts of the country.

And in Haiti, instability persists following President Jovenel Moïse's assassination, with political turmoil, civil unrest, gang violence, and natural disasters compounding the crisis.

While these neglected spaces and peoples are unlikely to pose broader geopolitical and market risks in 2025, thin governance and impunity have long tails, and their consequences will eventually be felt far beyond the countries directly affected. Ungoverned lands are on a path to becoming fertile terrain for entrenched transnational threats, such as terrorism, organized crime, hacking, and narcotics networks—all of which will eventually visit harm on other states around the world.

Box 5: Tragedy of the shrinking commons



The sea and outer space have traditionally been arenas of international cooperation or at least relative neutrality. But as the geopolitical recession deepens and the vacuum of global leadership grows (please see Top Risk #1: The G-Zero wins), competition and conflict will engulf some of the last uncontested and most under-governed places on Earth—and beyond.

In outer space, the proliferation of satellites, the rise of space commerce, and tensions among spacefaring powers have sparked a new space race. Five countries have now landed on the moon, and both the US and China are working toward crewed landings—and potential bases—at the lunar south pole. While Washington and its allies have signed the Artemis Accords to govern lunar activity, Beijing and Moscow have not, raising the prospect of strategic rivalry and parallel governance systems in space. Meanwhile, satellites' critical role in everything from GPS to missile targeting—demonstrated most clearly during Russia's invasion of Ukraine—is driving a weaponization of space as states advance their sovereign offensive and defensive satellite capabilities. Last year, US intelligence claimed that Russia was developing new anti-satellite nuclear capabilities, and cheaper anti-satellite tools are already available and in use.

Just as important, the role of the private sector in space is growing fast, challenging the prerogatives of states and increasing public-private jostling. As the global economy becomes increasingly dependent on space-based assets, the thin band of space where satellites operate is growing more crowded, stretching existing governance mechanisms. Governments and companies plan to launch new constellations—all positioned as Starlink competitors—in earnest this year, including Amazon's Project Kuiper, the EU's Iris2, and two Chinese mega-constellations. Given the dangers of operating in space and the lack of political or institutional guardrails amid the proliferation of both actors and objects, the risk of fallout on Earth from a celestial incident—such as a satellite collision or a launch misinterpreted as a threat—will grow in 2025.

In contrast to space, the sea is comparatively well-charted waters: International maritime law is codified

in the UN Convention of the Law of the Sea (UNCLOS). That framework, however, is being stretched to its breaking point around the world. Asymmetric threats at sea are mounting with impunity, enabled by technological innovations like sea drones—autonomous vessels that can travel thousands of miles without human intervention. But low-tech threats are causing disruption and damage, too, including physical sabotage of subsea data cables. In the Red Sea, attacks by the Yemen-based Houthis have disrupted merchant shipping and damaged infrastructure. China's pursuit of contested territorial claims in the South China Sea has led to confrontations with local coast guards, raised tensions with countries like the Philippines, and increased risks to subsea cable operators in the region. And in Europe, several suspicious attacks on undersea infrastructure in the Baltic Sea have been attributed to Russia's ongoing hybrid war against NATO (please see Top Risk #5: Russia still rogue).

The backbone of the world's digital connectivity, subsea cables are one of the last pieces of the global economy's infrastructure that is still shared as part of the global commons. Yet fragmentation and politicization look inevitable as growing security concerns have led the US to formalize the exclusion of rivals such as China from new cables—and prompted China to begin building and laying cables of its own. As the US-China relationship descends into unmanaged decoupling this year, both sides will seek to secure data flows and communication links at the furthest reaches of the oceans (please see Top Risk #3: US-China breakdown).

This year will see record activity at the Earth's frontiers as state and non-state actors compete to dominate today's critical infrastructure and the domains that will determine tomorrow's balance of power. From the bottom of the sea to the top of the sky, the risks of a shrinking, increasingly contested, and thinly governed commons are spreading fast. (But hey, we still have Antarctica.)





10 Mexican standoff

Mexican President Claudia Sheinbaum and her Morena party won last year's elections in a landslide. She now has a mandate and few checks on her executive power. But Sheinbaum will face formidable challenges this year in relations with the United States at a time of ongoing constitutional overhauls and fiscal stresses at home. Her diplomatic and governance skills will be quickly tested.

US-Mexico relations will become much more contentious in 2025. President-elect Donald Trump has already threatened to levy 25% tariffs on all Mexican imports if the country doesn't stem the flow of migrants and fentanyl into the United States. Trump has also threatened a 100% tariff on all cars imported from Mexico because of the high content of Chinese parts in them.

Sheinbaum is taking a pragmatic and proactive approach to the upcoming risks (though to be fair, it's not like she has alternatives given that the US is by far Mexico's top trading and investment partner). She has stepped up efforts to show Mexico will be tougher in the battle against drug cartels and migration flows, highlighting recent successes and promising more to come. On the China front, officials are prepared to make major concessions. Ultimately, Sheinbaum will likely do whatever it takes to avoid Trump's tariffs.

But though acquiescence is the prevailing approach to the US, Mexican officials and investors are underestimating the challenge they face. While relations during the first Trump presidency were prickly and the NAFTA renegotiation was difficult, tensions were contained. This time around, officials in Washington will be more hawkish and united in their approach. In contrast to 2017, Trump's hardline instincts will not be as constrained by moderating forces within

Claudia Sheinbaum’s diplomatic and governance skills will be quickly tested.

his cabinet this year. Also, the irritants—from fentanyl and immigration to the bilateral goods trade deficit and Chinese circumvention—have grown significantly in the past four years, making a deal harder to reach than during the first showdown with Trump. The scale of Trump’s demands, and what Sheinbaum will need to concede to appease him, will be more extensive than the Mexican government anticipates. And given Morena’s consolidation of power, she will be unable to use domestic political constraints as an excuse to push back.

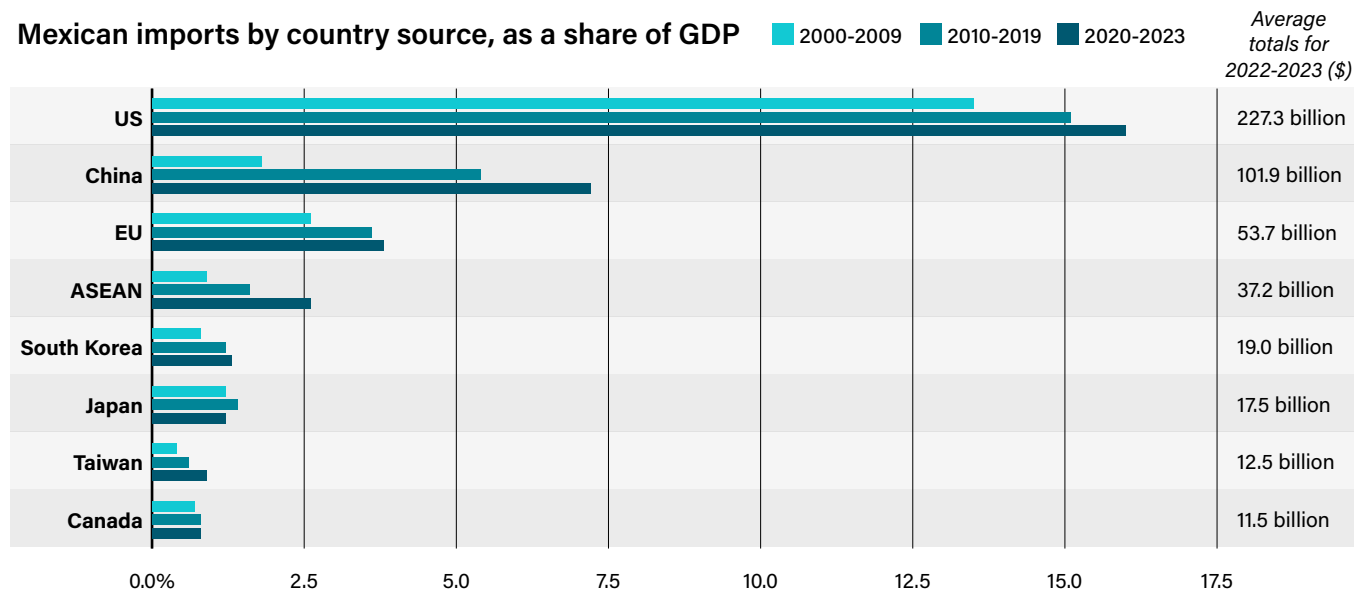
On China, Trump will initially demand that Mexico clamp down on “pass-through” investments—Chinese companies that invest in Mexico to access the US market while circumventing US tariffs on China. Sheinbaum will address the issue proactively to give Trump an early win. But the US will also demand more stringent terms on rules of origin in the auto sector and beyond. Chinese investment in Mexico is relatively low, but imports of Chinese products, which for the most part are not used in exports to the US, are large and growing. Trump will hike tariffs on Chinese imports (please see Top Risk #3: US-China breakdown), and he could very well push Mexico to do the same—which would adversely affect Mexican growth and inflation.

On the border, tensions will be high as Trump begins cracking down on illegal immigration as soon as he

takes office (please see Top Risk #4: Trumponomics). The president-elect will push Mexican officials to do more to curb drug and migrant flows into the US and potentially demand that they accept third-country nationals. Sheinbaum will insist that the US send them back directly to their countries of origin; while she will eventually accommodate US demands to avoid 25% tariffs, talks will be tough. Trump’s plan to tax remittances—which currently stand at \$60 billion, equivalent to almost 4% of Mexico’s GDP—to exert further pressure on Sheinbaum will hurt Mexico’s economy if implemented. Trump’s suggestion to bring US military assets to bear against cartels by labeling them terrorist organizations will ratchet tensions still higher; Mexico would see the effort as an affront to its sovereignty, and Trump may find the specter of unilateral US action most useful as a threat to leverage tighter Mexican border security.

A major flashpoint will be the United States-Mexico-Canada (USMCA) review, which will probably begin next year. Not only will the negotiation process be long and complex, but Mexico must also deal with a more opaque US trade bureaucracy than during Trump’s first term. Longtime hawk Peter Navarro will assume a senior position in an arrangement where responsibility for policy will be less defined than in Trump’s previous term. Also, Canada appears ready to negotiate bilaterally with Trump and may be willing to cut out Mexico to get a better

Mexican imports by country source, as a share of GDP



Source: Eurasia Group, Macrobond, INEGI, IMF

deal—especially if Conservative leader Pierre Poilievre replaces Justin Trudeau as prime minister early in 2025 as expected. That’s unlikely to work, but the threat will slow talks and complicate Mexico’s bargaining position. Though the USMCA will likely survive, the process will be more combative than many expect.

Lastly, the personal relationship between Trump and Sheinbaum will likely be functional but not close. Her predecessor, Andres Manuel Lopez Obrador (AMLO), and Trump had a reasonably strong rapport as two men who saw themselves as populists and “of the people.” A more modern progressive and a technocrat, Sheinbaum won’t “click” as well with the US president-elect.

These issues and the uncertainty they create will hang over US-Mexico relations, putting many investment decisions on hold and dampening Mexican growth—at least until the two sides complete USMCA talks next year.

All this will play out in a context where a series of sweeping constitutional changes pushed by AMLO and continued by Sheinbaum have already undermined investor confidence in Mexico. In particular, a judicial overhaul approved last year will make all federal judges stand for direct election beginning in 2025, with ruling Morena party candidates expected to fill most of the posts. This change will weaken the political independence of the Mexican judiciary and erode one of the last remaining checks on the ruling party, reducing recourse mechanisms for investors and causing lasting harm to the country’s business operating environment. Sheinbaum will implement other potentially destabilizing changes too, including mandating direct elections for the leadership of formerly autonomous institutions.

A mitigating factor is that, unlike AMLO’s top-down governance approach, Sheinbaum has appointed a professional and technocratic cabinet and is delegating authority to its members in their areas of expertise. But while the professionalism and competence of Sheinbaum’s administration will reduce policy risks during her term, excesses are still possible. Morena is a new and overconfident party, and policy mistakes are less likely to be corrected by a system that now has structurally weaker checks and balances.

This situation will weigh on Mexico’s economy, which faces low near-term growth, a challenging macroeconomic environment, and an expanded fiscal deficit equal to 6% of GDP. Sheinbaum will need to carry out a politically challenging fiscal consolidation to put Mexico’s public finances back on track, even as she sees expanding social spending programs as a key personal priority. With consolidated power over the three branches of government, Sheinbaum will have no one to blame if she fails to thread the needle. Mexico especially needs foreign investment in the infrastructure and energy sectors, but that will be difficult to obtain in the near term because of the uncertainty hanging over the investment climate.

In the longer term, Mexico is well-placed for success. The country has advantageous demographics and inexpensive labor. It will benefit from the nearshoring of supply chains and is integrated into the world’s largest economy. But Sheinbaum will have to overcome strong headwinds during her first full year in office to unlock this potential.



RED HERRINGS

Trump fails

Conventional wisdom holds that Donald Trump's second presidency will cause unmitigated foreign policy chaos—a doubling down of the constant clashes and unpredictability of his first term that will strain US alliances, weaken America's standing in the world, undermine international institutions that have promoted peace, and increase the chances of global conflict. In the long run, especially given the broader implications of a G-Zero world, that is likely to be true.

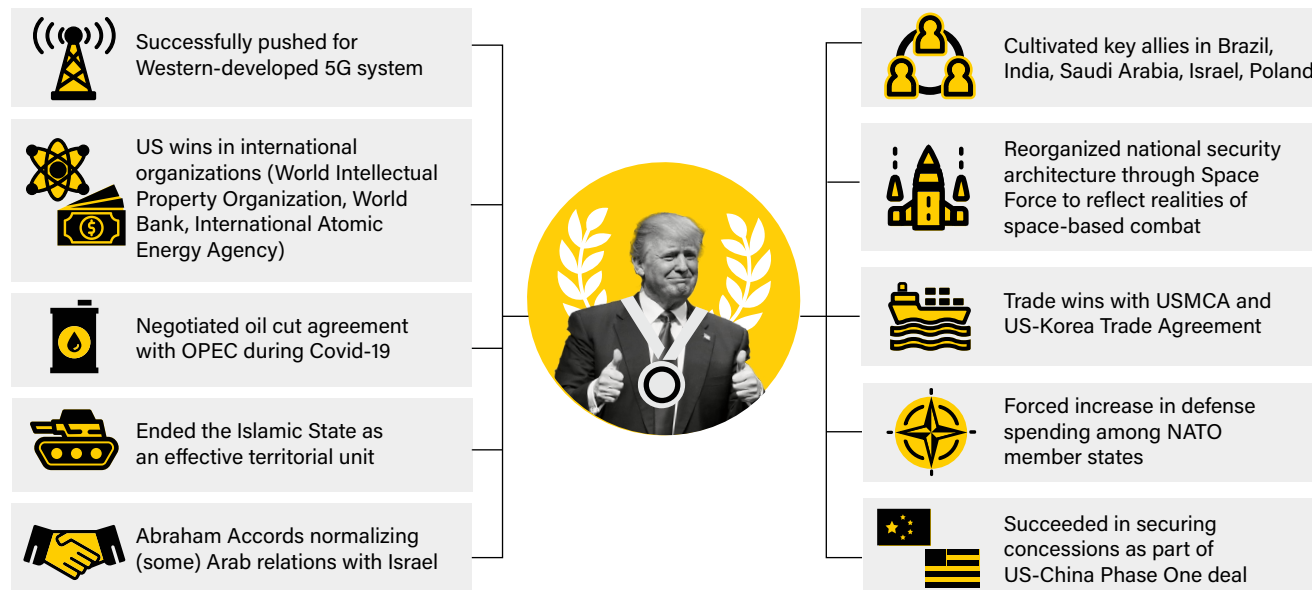
But not this year. Many people forget that Trump scored a number of notable foreign-policy successes in his first term, including a revitalized North American Free Trade Agreement (USMCA), the historic Abraham Accords, fairer cost-sharing among NATO members, and new and more robust security alliances in Asia. There were also no major wars under his watch other than the winding down of America's longest in Afghanistan.

There are four reasons why Trump will rack up more foreign policy wins than is appreciated.

First, Trump will be running the world's largest economy and most powerful military, with unparalleled leverage over every country and less aversion to wielding it than any US president before him. The United States is also comparatively stronger today relative to 2017 vis-à-vis its adversaries—with China experiencing its worst economic crisis in decades, Russia in serious decline, and Iran facing existential threats—as well as its allies, most of which have extraordinarily weak and unpopular leadership. This will make Trump's transactional bargaining approach all the more effective.

Second, Trump's domestic political power will be more consolidated this time around. Not only will he have unified control of Congress and the Republican Party, but he is also surrounding himself with more ideologically aligned loyalists. For world leaders, this means backchannels to get around the president-elect's foreign-policy preferences won't be as available or effective as before. Whether or not they like it, Trump will be the only game in town.

Trump foreign-policy wins



Source: Eurasia Group

Third, Trump will have more ideological friends on the global stage than he did during his first term. While he remains mistrustful of alliances and indifferent to other countries' values, whenever he attends gatherings of the G7, G20, and NATO, the president-elect will encounter like-minded world leaders—such as Italy's Giorgia Meloni, Slovakia's Robert Fico, Argentina's Javier Milei, and soon Canada's Pierre Poilievre and Germany's Friedrich Merz—who will be more receptive to his “America First” agenda and inclined to play by his rules.

Finally, the world is more dangerous than it was during Trump's first term. Major wars raging in Europe and the Middle East, heightened US-China tensions, and a fragile global economic backdrop make the risks and costs of being on the wrong side of the US president-elect much higher than last time.

The upshot is that while most world leaders dislike and mistrust Trump, they all know that they get crosswise with him at their own peril. Trump's ability to extract concessions from other countries and put points on the board early on will be greater than during his first term. Some likely wins include higher defense spending from European and Asian allies, reduced bilateral trade deficits, a Russia-Ukraine ceasefire, and a Gaza hostage release agreement. They might even include a Saudi-Israeli normalization, a breakthrough nuclear deal with Iran, or a “grand bargain” with China.

This doesn't mean that Trump's mere presence in the White House will end every war, de-escalate every conflict, or resolve every disagreement. In fact, several of the above wins are unlikely to materialize. In the long

run, Trump's transactional approach is likely to weaken many US alliances, further erode America's influence on the global stage, heighten geopolitical volatility, deepen the G-Zero (please see Top Risk #1: The G-Zero wins), and make the world a more dangerous place.

But in these early innings, watch for Trump to run up the score.

Europe breaks

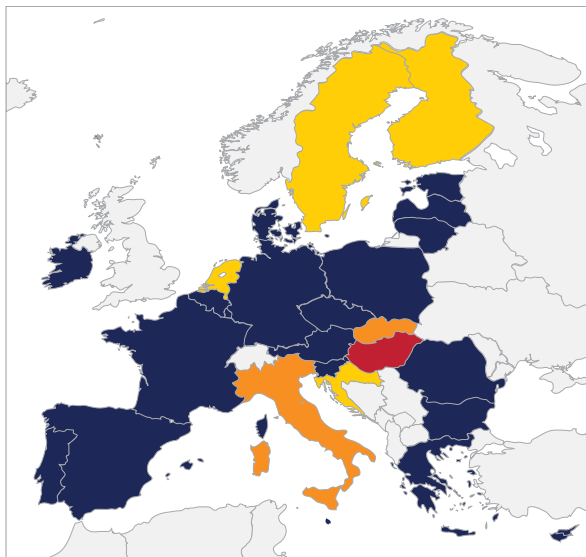
Economic malaise, security threats, and defense shortcomings meant Europe was always going to face a daunting 2025. Donald Trump's return to power will exacerbate these geopolitical and economic pressures, threatening the continent with an existential crisis that could break European unity.

This year will test the maxim that when faced with a crisis, the EU always pulls together. But just like during the Eurozone crisis, Brexit, the pandemic, and Russia's 2022 invasion of Ukraine, the EU will likely overcome—or, at a minimum, muddle through—these challenges, too.

First and foremost, the EU will benefit from stronger leadership this year. The bloc's new leaders in Brussels, Germany's next chancellor, France's Emmanuel Macron, Poland's Donald Tusk, and NATO's Mark Rutte will give the EU a better shot than most expect at effectively managing the upcoming threats. European Commission President Ursula von der Leyen starts her second term from a position of strength, with a focus on security, defense, and economic competitiveness. Aided by the new European

Pro-EU parties hold the reins despite populists' gains

- Pro-EU centrist government
- Far right-led/backed coalition overwhelmingly aligned with EU policies
- Anti-EU populist government
- Euroskeptical government mostly aligned with EU policies



Source: Eurasia Group

Council President Antonio Costa and Kaja Kallas, the EU's new foreign policy chief, these leaders will strive to keep the EU's 27 member states together, balancing competing views within the bloc. In addition, Germany's expected new government under conservative leader Friedrich Merz (the far-right Alternative for Germany, AfD, has no path to power) will provide more leadership and help revive the broken Franco-German engine. Merz's hawkish views on Russia/Ukraine align much more with Macron's, whose serious domestic troubles will not affect his continued leadership of France's EU, foreign, and defense affairs until closer to the 2027 election.

Second, the EU will maintain a comparatively united front in support of Kyiv after whatever ceasefire agreement Trump brokers. For Europeans, the war is not just about Ukraine but about the continent's broader security. This realization underpins a seriousness on defense not seen in Europe for decades. The EU will accordingly agree to raise billions in additional financing for Ukraine and to ramp up European defense spending this year. Critically, this is likely to happen via new intergovernmental institutions that sit outside the EU framework to get around the vetoes of populist leaders like Hungary's Viktor Orban, showing that even a more fragmented EU does not have to mean a weaker or less secure one. Rutte has already kickstarted discussions with European allies to boost NATO's defense spending target to 3% of GDP from 2%, bringing it to roughly US spending levels.

Third, despite recent gains across Europe, populists are unlikely to meaningfully undermine EU cohesion in 2025. Outside of select issues such as immigration (where European centrists have aligned with them), European populists lack unity of purpose and are unlikely to overcome competing interests, even if they will get a boost from having an ally in Washington. Italy's Giorgia Meloni will remain firmly anchored within the European mainstream on both economic and foreign policy, while Viktor Orban, the most outspoken EU critic and Trump advocate in the bloc, will be grappling with economic headwinds and his most significant domestic political challenge since 2010. He will be unable to broker any deals for Trump at the EU level, while his economically driven pro-China stance will be at loggerheads with Washington as US-China ties deteriorate this year (please see Top Risk #3: US-China breakdown).

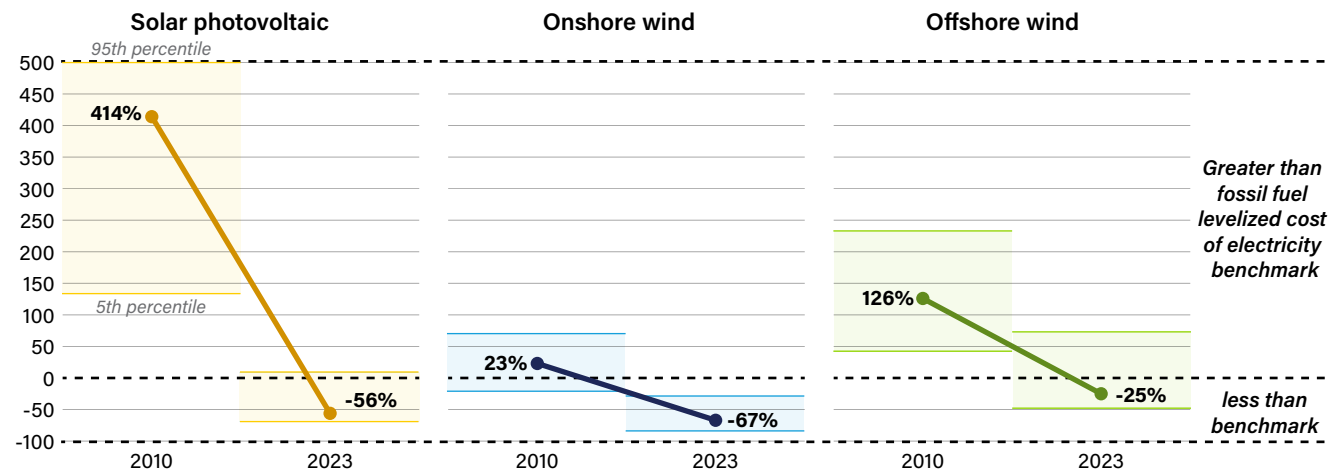
The EU will also be well-equipped to mount a cohesive response to Trump's trade demands. Brussels will seek to buy goodwill with offers of more European energy purchases from the US and mini-deals that help reduce the US trade deficit with the EU. Should trade restrictions nevertheless materialize, von der Leyen will be in a stronger position than most to go tit-for-tat against Trump. Some member states may disagree with the EU's joint responses on national economic and/or political grounds, but they will not have the majority needed to derail an otherwise united front. Meanwhile, Trump's moves against China and their fallout will likely force the EU to toughen its stance on Beijing faster and further than most European leaders would like. This could be a silver lining that offers some protection to European businesses—particularly in critically important green and digital industries. A hardening EU response to Chinese policies on Ukraine and industrial overcapacity could also help Europe improve transatlantic cooperation against Beijing.

Europe will face serious centrifugal pressures in 2025. But for now, at least, these forces remain more likely to push the EU closer together than to pull it apart.

Global energy transition stalls

The return of Donald Trump has raised anxieties in sustainability circles that the global energy transition will be thrown into reverse this year, fed by campaign promises to “drill, baby, drill” and end the “green new scam.” Other climate-skeptic candidates outside the US—for example, in Germany, Canada, and Australia—are also likely to win elections in 2025, as global decarbonization metrics still lag scientific net-zero pathways.

Change in cost benchmarks of solar and wind electricity generation compared to fossil fuels, 2010-2023 (Global weighted average compared to fossil fuel benchmark)



Note: All benchmarks are expressed in terms of levelized cost of electricity
Source: IRENA

But the global energy transition survived the first Trump administration, and it will survive the second, too. The difference is that while in 2017 the global energy transition was just leaving the station, heading into 2025 it has reached escape velocity.

This momentum is driven by economic self-interest. Technological innovation, steep learning curves, and rapid cost declines in renewable technologies have dramatically reduced the price tag of the energy transition. This has made renewables cost-effective in most markets regardless of politics.

Politics will still have an impact on the energy transition, particularly in the United States. Trump will improve sentiment toward US oil and gas output, support the outlook for gas-fired power plants, and decrease EV adoption rates, slowing decarbonization efforts. But nothing he does will be enough to halt the forward movement of the US energy transition.


US electric utilities will still pursue aggressive renewable buildouts to meet rising grid demand, even as new gas plants expand. US automakers will not abandon their EV plans, even if the Trump administration revokes federal EV purchase credits. US oil and gas output is already at record levels and will struggle to go much higher in 2025. And next-generation clean energy technologies such as geothermal, direct air capture, and advanced nuclear are supported by parts of Trump's base, which has benefitted disproportionately from the investments and job creation sparked by the Biden administration's Inflation Reduction Act. All of these realities will bolster the long-term political resilience of the US energy transition. That deep-red Texas is the leading US state for renewable deployment is

a case in point: Partisan politics will no longer hold back the American energy transition.

Trump will also have less impact than expected on the pace of the energy transition abroad, even as he intends to withdraw from the Paris Agreement and cede international climate leadership. China, the world's largest emitter, is already nearing an emissions peak five years ahead of its previously stated 2030 target (with China's economic challenges offering a significant assist here). Europe views the energy transition as a way to reduce its import reliance and improve its energy security. India sees it as an economic opportunity and a necessary step to reduce some of the world's worst air pollution. Other emerging markets from Pakistan to Indonesia are eager to accelerate their renewables deployments for purely self-interested reasons.

Chinese manufacturers in technologies like solar panels, EVs, and batteries—which already dominate global supply chains—will also not abandon their expansion ambitions because of changes in demand or access to the US market. If anything, they will see this as an opportunity to increase their market share in the rest of the world, speeding the global adoption of these technologies and leading to further price declines. The US will fall further behind China in clean energy tech, but as the cost of these power sources continues to fall in 2025 and beyond, a wider range of emerging markets will embrace cheaper domestic renewables over high-volatility imported fuels.

Though it will be slowed by the occasional bump along the way (please see Box 4: The AI-energy reckoning), the global energy transition will power forward.



Whew. That wasn't as much good news as we'd like.

You might not know it from the report, but we're optimists at heart. We've never been so excited by the opportunities afforded by new technologies, especially the human capital and industrial breakthroughs that AI is about to unleash. And while that means even more concentration of wealth in the hands of an extremely privileged and unaccountable group, it also means the expansion of opportunities to millions (and soon billions) that otherwise would have no such experience.

Despite everything we've written in our Top Risks report, we'd rather be alive now than at any other time. And not only because we—like most of our readers—are incredibly fortunate in our geopolitical lottery draw. Technology gains are happening despite, not because of, the politics. The question is how much damage the politics will do. And the answer increasingly appears to be “a great deal.”

All we can do is try to bring more understanding to our political divisions and do more to work against them. Both at home, in our own United States, and around the world. It's hard to imagine a person could somehow have greater moral worth because of where they happened to be born, any more than because of their race or gender. The latter finds agreement around most of the world today. The former: not a chance.

This is no time for complacency. 2025 is a year to demand more from ourselves, to take accountability for how we feel about our environment, and to make public what we intend to do about it. Consider this our first effort.

Yours truly,

Ian and Cliff

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

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