What to Watch in 2024

Outlooks for the year ahead from Teneo's Geopolitical Risk Team

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Foreword
The Global Year Ahead

The events of 2023 suggest that the global system has entered an intense period of structural transition that will reorder geopolitics and reshape the international business environment in fundamental ways. Russia's war in Ukraine continues, frozen conflicts have reignited in places like Israel/Gaza and Nagorno-Karabakh, coups once again became commonplace in Africa, and tensions rose between China/the Philippines, Serbia/Kosovo, and elsewhere. These events are reshaping the environment of geopolitical risks and opportunities faced by businesses and investors.

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The underlying causes of current shifts are hard to identify definitively in real time. The impacts, however, are more readily observable: a move away from U.S. unipolarity and towards multipolarity in global security; a messy battle for influence between Washington and its partners on one side and revisionist powers like China and Russia on the other; and various middle powers and non-state actors acting more boldly in-between to maximize their own interests. In this new age of uncertainty, high-impact events are set to become increasingly common, moving the world beyond an era of black swans and into one of steadily heightened risk.

In the pages that follow, our team of analysts highlight what they are tracking most closely as we head into 2024—from overarching global trends to the localized hotspots where tensions are most likely to escalate. Among the major players, the U.S.'s positioning is becoming increasingly differentiated, with treaty allies, "special relationship'" countries, and emergent "lever" states getting enhanced treatment.

China continues to be assertive, even if it is not actively seeking conflict or aiming to assume a superpower role; its foreign policy approach remains based on transactionalism (particularly to secure natural resources) rather than diplomatic grand strategy or military adventurism. Russia continues to be opportunistic in challenging U.S. influence and pursuing its own perceived interests.

Shifting geopolitical tectonics will have specific impacts for firms. The coalescing of emergent blocs around the U.S., China and/or Russia elevates the risk of sanctions and countermeasures between those groups. Multilateral institutions like the UN, WTO, and WHO are set to continue in their dysfunction despite periodic attempts to revivify them. More specialized agencies that help set technology and trade standards or monitor financial risks could be slower to act if information sharing becomes more politicized. The international trade and investment environments will continue to become more security-oriented, more fragmented and less legalized.

In the coming years, frictions are likely to remain higher than at any point since at least the end of the Cold War, trade and investment patterns will evolve and the map of risks and opportunities facing businesses and investors will be redrawn. Teneo's geopolitical risk advisory team will continue to analyze and provide timely insights for our clients, helping them make sense of global shifts and regional and local dynamics, sector by sector and day by day.

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Africa

South Africa's pivotal polls

In 2024, South Africa looks set for a major political shock comparable to the 2016 municipal elections, but at the national level. For the first time, the African National Congress (ANC) faces a real risk of losing its parliamentary majority in the 2024 elections. Recent surveys see the ANC polling at 41%-45%, and while the lowest figures may underestimate the ruling party's performance, its electoral decline is set to be precipitous and consequential.

For the first time, South Africa's National Congress (ANC) faces a real risk of losing its parliamentary majority in the 2024 elections.

The immediate post-election period may usher in unprecedented uncertainty as coalition negotiations ensue. The resulting coalition outcome will hinge on the ANC's margin of decline, which could mean the difference between wildly different scenarios: 1) status quo of sorts under an ANC-led coalition with small parties; 2) a nightmare populist scenario for markets in which the ANC teams up with the radical Economic Freedom Fighters (EFF); 3) a more reform-oriented ANC deal with the liberal Democratic Alliance (DA, less likely); 4) an opposition coalition (unlikely); or 5) an unstable minority government. With the president elected by parliament, there could even be speculation over President Cyril Ramaphosa's second term and longer term uncertainty over any coalition's durability.

The provincial picture will be equally important. For the first time, the ANC may lose control of two additional provincial legislatures in Gauteng and KwaZulu-Natal. Combined with the DA-controlled Western Cape, South Africa's three most economically important provinces could thus be governed by opposition coalitions by this time next year.

Sovereign debt crunch meets climate financing

As debt pressures in many sub-Saharan African markets intensify, policymakers are seizing on the need for climate financing and global financial reform in the hope of tackling growing debt burdens at home. Kenyan President William Ruto, African Union (AU) Chairman Moussa Faki Mahamat, and AfDB President Akinwumi Adesina have jointly argued that "in Africa, we can't fix the climate issue unless we fix the debt issue" and that Africa "urgently needs a pause in debt repayments so that it can prepare for a world of ever greater climate extremes."

Regional leaders attempted to adopt a unified position on this issue ahead of COP28 via the Nairobi Declaration – a policy document endorsed by 17 of 54 African heads of state in September 2023. The declaration aspires to a new financing architecture tailored to the continent's needs, including debt restructuring, a 10-year debt moratorium, and the establishment of a Global Climate Finance Charter by 2025.

While policymakers increasingly conflate the need for climate financing with broader debt relief, the immediate debt pressures are acute and debt-servicing costs are skyrocketing. The IMF deems 21 low-income African countries to be at high risk of debt distress (13) or in debt distress (8). As countries like Kenya and Ethiopia brace for a wall of Eurobond repayments in 2024, speculation about the next debt restructurings and defaults will only grow.

Long-deadlocked restructurings in Zambia and Ghana (under the auspices of the G20 Common Framework) finally saw progress in 2023. While these cases will provide some guideposts for future negotiations, they may only set weak precedents—particularly from the perspective of China, which has insisted that recent concessions should not be considered precedents for other debt talks.

Arc of instability bending towards conflict?

The risk of coup d'états in sub-Saharan Africa will remain elevated in 2024. That neither regional nor international policymakers have been able to negotiate a rapid return to civilian rule in Mali, Guinea, Burkina Faso, Niger and Gabon (all having seen military takeovers since 2020) signals an absence of effective sanctions to would-be putschists elsewhere, raising contagion risks.

The degree of vulnerability to coups will vary by country, driven by both internal and external factors. Sudden and acute economic shocks (particularly food crises) coupled with poor governance (government corruption and flawed electoral systems) and long-running security crises will continue to act as domestic drivers. Meanwhile, Russia's attempts at influence will continue, as it seeks to prop up certain regimes in Africa as part of its geopolitical competition with the West.

Key countries to watch include those with long-standing family dynasties or leaders, especially Togo, Cameroon, Chad, Congo-Brazzaville, Equatorial Guinea, Eritrea and Uganda. Countries like Ethiopia—where rebellions by Amhara and Oromo militia challenge the federal government—are also vulnerable. The consequence of coups or failed political transitions may not only be the decline of democracy but worsening civil wars and humanitarian crises, as in Sudan and, increasingly, Mali.

The danger is that, with global diplomatic attention focused on the Middle East and Ukraine, these overlooked conflicts will spiral downwards, unless mediation efforts led by middle powers like Saudi Arabia can make progress.

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In Focus: Global Energy

Geopolitical dynamics prop up prices

Volatility in oil markets will continue into 2024, and several ongoing disputes and other geopolitical variables could add upward price pressures. The Israel/Hamas conflict is the biggest wildcard for oil markets heading into 2024. While energy markets have been broadly unfazed by the conflict to date, there is no quick resolution, and Iran's support for proxy groups across the region raises the risk of miscalculation, malfunction or rogue action that could drive regional escalation and energy market disruption.

As the U.S. enters an election year, concerns about high oil prices have prompted more lax enforcement of Iranian sanctions, with larger volumes of Iranian crude – roughly 500,000 bpd extra – entering the market in 2023. While Iran is expected to avoid direct confrontation, any malfeasance (including via proxies) could provoke renewed actions by the international community to isolate Tehran and crack down on its oil exports.

Historically, such circumstances have inspired more aggressive Iranian behavior, including proxy strikes on regional oil infrastructure or disruptions to regional shipping.

Geopolitical conflict presents headwinds for oil and gas, while 2024 will mark a pivotal year to test voluntary carbon markets and the viability of collective climate action.

Elsewhere, the U.S.-led price cap on Russian oil sales is proving to be a questionable mechanism, with Russia selling nearly all its crude above the threshold. As G7 countries discuss methods to tighten enforcement, some tanker companies will exercise extra caution that could impact volumes, but Russia will continue to maintain a large shadow fleet and seek coordination with OPEC+ on output decisions in an effort to counter the impact of any additional measures.

Fluctuations in Iranian or Russian supply could be partly offset by increased output elsewhere, such as in Venezuela, where a recent deal with the government offered provisional oil sanctions relief in exchange for an electoral roadmap.

That deal could see an estimated 200,000 bpd of Venezuelan crude enter the market in 2024, but there are already early signs of backpedaling by Caracas, with Venezuela's Supreme Court suspending results of an oppositional presidential primary.

Meanwhile, in gas markets, the Israel/Hamas conflict poses uncertainties around possible upstream disruptions or shipping concerns, given more than 20% of global LNG flows through the Strait of Hormuz near Iran. As Europe heads into the winter with full storage tanks, concerns are contained, but a lingering risk of further disruption to remaining Russian gas deliveries to Europe, whether via shutoffs or infrastructure damage due to fighting in Ukraine, should not be overlooked and would have knock-on effects on global prices.

A test of collective climate action

The year ahead will be critical for weighing the viability of collective climate action against growing nationalist trends and interests, which have frequently elevated energy security and affordability concerns over energy transitions. The past year saw notable backtracking by Western governments on climate commitments, while firms have struggled to meet shareholder demands amid complicating factors—from geopolitical conflict to inflation, and supply chain disruptions to clean energy supply chain disruptions (offshore wind especially took a hit). These factors prompted calls to localize supply chains and concentrate trade around trusted partners and allies, particularly in terms of critical minerals provision and clean tech manufacturing.

Following the completion of a first ever global stock-take through a UN-led review of countries' progress toward Paris Agreement targets, countries will be under the microscope as they review their programs and set new Nationally Determined Contributions (NDCs). The review reaffirmed that the world is considerably off-track in limiting global warming to well below 2 degrees Celsius and closer to 1.5 degrees. Therefore, countries are expected to make far more ambitious commitments by 2025 as part of the process. With lingering inflationary pressures and various global elections in which nationalist candidates (often less supportive of climate policies) could triumph, this could weigh considerably on setting the climate tone for the years ahead.

2024 will be a critical test of the durability of the Paris Agreement. There is considerable risk that even revised NDCs could fall flat, giving way to increasingly nationalist and protectionist climate agendas and less faith and trust in collective action, particularly given shortcomings to date in addressing the global north-south divide.

The next 12 months will also be pivotal for global carbon markets. To date, disparities in developed versus developing market benefits have been the major hindrance to progress. As countries push for more transparent and consistent standards across the globe under Article 6 of the Paris Agreement, the year ahead will prove a critical test of the ability to scale voluntary carbon markets with terms that are palatable for the majority. There is potential to lay the groundwork for a more robust carbon market with higher trading volumes as soon as mid-to-late 2025, but political gridlock on these issues would be a significant setback for new NDC commitments and climate progress.

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Asia

Testing the "Peak China" hypothesis

China's rising global influence has relied substantially on perceptions of the country as an economic juggernaut destined for superpower status. But while GDP growth in 2023 likely reached the government's 5% target, the economy's overall recovery from the zero-Covid policy was underwhelming. A rival perception—that "Peak China" has already passed—now threatens to undermine Beijing's ability to project power, attract foreign investment and bolster the credibility of the Communist Party's governance model.

2024 will test Xi's tolerance for an extended period of slow growth.

2024 will test the Peak China hypothesis. Growth-enhancing policy options are still available, but it is unclear how much President Xi Jinping values economic growth compared to other objectives like national security and technological self-sufficiency. Xi aims to re-orient China's economy towards industries like semiconductors, clean energy, electric vehicles and biotech, but even if these sectors all grow strongly, they are likely too small to fill the hole left by traditional growth drivers like housing and infrastructure.

The housing market will be a key test case in 2024: reviving the market probably requires a bailout of housing developers, but top leaders worry that such action now would sacrifice three years of progress towards breaking the economy's addiction to housing.

In Taiwan, the presidential election in January will set the tone for the next four years of cross-strait relations. If incumbent Tsai Ing-wen's vice president, William Lai, wins the race to succeed Tsai, relations with Beijing will remain frozen, whereas a victory for Kuomintang (KMT) candidate Hou Yu-ih or Taiwan People's Party (TPP) member Ko Wen-je would trigger a reset. According to Taiwan's so-called "eight-year curse," the ruling Democratic Progressive Party (DPP) may struggle to retain the presidency.

Japan and the Koreas: Domestic votes, global engagement

In Japan, Prime Minister Fumio Kishida hopes to win a second three-year term in the ruling Liberal Democratic Party's leadership election in September. The prime minister could also opt to call an early general election by the summer to gain political momentum if his cabinet's chronically low public approval ratings pick up before then. The most notable economic policy event of the year should be the cautious, stepwise normalization of monetary policy by the Bank of Japan. On foreign policy, balancing China and resisting economic coercion will be the watchwords. Security relations with Washington, Seoul and Manila will top the agenda, and Japan will seek to bolster economic ties with various so-called "Global South" states. But steady relations with China remain vital to Japan's economy, and Kishida will make efforts to improve ties after a rocky 2023.

In South Korea, with economic headwinds hurting consumers and SMEs alike, April's National Assembly general election could shape the political calendar for 2024 and beyond. If the progressive Democratic Party maintains control of the legislative chamber, conservative President Yoon Suk-yeol's business-friendly domestic agenda could be slowed (though not stalled) for the remainder of his term through 2027.

However, Yoon's strongly pro-U.S. foreign policy tilt will continue in any case, and South Korea may further increase its materiel assistance to Ukraine. In North Korea—already an important supplier for Russia's war efforts—the Kim regime will continue taking advantage of diverted global attention to strengthen military and economic exchanges with Russia and conduct more missile tests, and possibly even a seventh nuclear test. Beijing could also increase its support for Pyongyang to counterbalance Moscow's rising influence.

South and Southeast Asia: From elections to armed rebels

India will hold the world's largest democratic elections in April/May. The main opponent of Prime Minister Narendra Modi's ruling Bhartiya Janta Party (BJP) will be the Indian National Congress (INC)-led alliance styled as "INDIA." Inflation has emerged as a significant campaign issue, eroding both purchasing power and BJP support, but Modi is still expected to prevail. Elsewhere in South Asia, Pakistan will also hold elections, with Nawaz Sharif the favorite to win.

In Southeast Asia, Indonesia could see its most consequential elections in decades in February, with Defense Minister Prabowo Subianto the early frontrunner to succeed President Joko Widodo.

A victory for the populist and nationalist Prabowo could portend important policy shifts in the investment environment. No elections are scheduled for Thailand, but the senate will lose its ability to select a prime minister next year, potentially opening the way for the further rise of Thaksin Shinawatra's youngest daughter Paetongtarn, should incumbent Prime Minister Srettha Thavisin falter. In Hanoi, political jostling to replace Communist Party of Vietnam General Secretary Nguyen Phu Trong will increase ahead of his expected retirement in 2026. Resulting factionalism could lead to anti-corruption purges that would make foreign investors more cautious.

The Philippines and Malaysia face less disruptive political environments. Frictions will continue in Manila between President Ferdinand Marcos Jr. and VP Sara Duterte, but Duterte still lacks the political levers to position herself as an alternative leader, and elections are still five years away. For Malaysian Prime Minister Anwar Ibrahim, political consolidation will be the main theme for 2024; eyes will be on the Malaysian Islamist Party, which is attempting to widen its appeal to the mainstream. Myanmar is set to remain the most unstable large state in Southeast Asia. The country's obdurate generals face continued isolation in the region, while armed rebel groups are gaining ground amid the political dysfunction.

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Europe

Russia/Ukraine: Tide shifting towards Moscow

With Russia's full-scale invasion of Ukraine approaching its third year, Kyiv has few reasons for optimism. Ukraine's much-anticipated counteroffensive has petered out without achieving the presumed military and political objectives. Instead, it has exposed the vast scale of military and human resources needed for Ukraine to liberate its occupied areas. Such needs are unlikely to be met amid growing uncertainty about continued U.S. military support ahead of the 2024 presidential election. The slow buildout of Europe's own defense industry and depleted military stocks constrain the EU's capabilities to backstop Ukraine.

Contrast this with rapidly expanding military output in Russia and additional supplies from countries like North Korea or Iran. Moscow is seeking to regain the initiative by ramping up its offensive across the vast eastern frontline, as the Kremlin looks for military victories ahead of the Russian presidential vote in March. Signs in the West of wavering political and public support for Ukraine will likely embolden the Kremlin to continue its invasion at least through the end of 2024, hoping to break Kyiv's resilience and its allies' willingness to provide support.

These trends point to an extremely challenging year ahead for Ukraine. Maintaining external military and financial support at current levels would be the best-case scenario, which might help Ukraine to keep the frontlines largely stable and sustain social and political cohesion. Any notable reduction in external assistance might pave the way for new Russian advances, which would reinforce the Kremlin's determination to seek maximalist objectives by military or diplomatic means—in Ukraine and, potentially, beyond.

Quo vadis, European center-right?

The Union will hold elections to elect the 720 members of the European Parliament between 6 and 9 June, which will also lead to the appointment of a new European Commission (EC). Far-right parties are expected to do better than in 2019. However, the center-right European People's Party (EPP), the center-left Socialist and Democrats (S&D), and the centrist-liberal Renew Europe will likely continue to dominate the chamber. The key question following the election is whether the EPP will stick to the de facto grand coalition with the other centrist parties or start cooperating more with the Eurosceptic and far-right groups as it recently did when it tried to stop the approval of a controversial Nature Restoration Law.

With the EPP set to remain the largest group in the chamber, the next president of the European Commission should again be a member of the center-right group. Until recently, Ursula von der Leyen's second term was largely seen as a fait accompli. However, her position on the Israel-Hamas conflict has ruffled feathers in some European capitals. Regardless, the new EC will have to deliver on the EU's green and digital goals while responding to demands by some member states and interest groups to slow down the approval of additional regulations.

A trend likely to continue under the next Commission is a push for measures to rebalance the economic relationship with China. A key issue to watch in this regard is the outcome of Brussels's anti-subsidy investigation into EV imports from China. The Commission is expected to deliver a provisional opinion in mid-2024, which could lead to the imposition of countervailing duties. Such a decision would increase tensions with Beijing, which would probably retaliate by imposing measures of its own. In any case, the debates about further harmonizing economic security measures such as export controls or investment screening will continue to gather pace. It might even accelerate substantially if Donald Trump were to return to power following the 2024 U.S. presidential election.

Beyond Tory permacrisis

The ruling Conservatives continue to stagger towards the general election widely expected for fall 2024. The opposition Labour party's stable lead in public opinion polls seems to be mitigating against an earlier date. Prime Minister Rishi Sunak's various—and at times contradictory—attempts to relaunch his party's brand have failed to create momentum. He has at least demonstrated a capacity for surprise, for instance by U-turning on the green agenda and resurrecting former PM David Cameron as foreign secretary.

Going into 2024, the most senior cabinet roles are in the hands of moderates again, but this does not ensure a dependably centrist political strategy. Now under a fifth prime minister following fourteen years in power, the Tories look politically exhausted, and tensions between the more moderate current leadership and the right-leaning rank-and-file remain substantial.

The next British government must square broad middle-class demands for improved public services with the reality of very limited fiscal space.

After the election, victory for a hard-right populist candidate in the ensuing Tory leadership election would offer the incoming Labour government a chance to solidify its grip on the political center. But the most important factor remains Sir Keir Starmer's commitment to balancing leftist demands against the preferences of more conservative "Middle England" constituencies his party will need to win over. Such an approach is hardly elegant, and voters certainly do not long for a Starmer premiership in the way they did for Tony Blair in 1997.

However, the Conservatives' roller-coaster ride has taken the country from Cameron-led austerity through Brexit, Boris Johnson and Trussonomics, before returning to Cameron. Tory permacrisis might render Starmer's unabashedly sober centrism an attractive proposition. If 2024 does see him moving into 10 Downing Street, balancing skills will be essential. The next government faces the tough task of squaring broad middle-class demands for improved public services with the reality of very limited fiscal space.

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In Focus: Global Tech

Towards AI regulation

2023 marked a pivotal moment for the development of artificial intelligence (AI) systems and generative AI applications like ChatGPT, and for the adoption of these systems into everyday life. Studies suggest that the AI market will grow in value by at least a third annually in the next decade, with AI tools being used in education, healthcare, business operations and beyond. Investment models forecast that over USD 200bn will be poured into AI globally by 2025. As AI application cases, capabilities and investments increase, so too will the need for regulatory frameworks that balance innovation and economic growth with security, ethical and privacy concerns.

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Key concerns include: How to balance the economic growth and competitive edge that come with AI development with concerns about the technology's impact on users, their data and ethical considerations? How will the adoption of AI across sectors impact job security and employment rates? And how will rapid AI growth affect disinformation, data security and privacy and content moderation?

New technology, old mistakes?

In 2024, governments must try to learn from past mistakes in regulating technology. More than 30 countries have passed some level of AI legislation and dozens more are debating regulations going into the new year. To date, few regulators have been able to create policies that balance innovation with protection, and regulatory efforts are hindered by slow implementation, decentralized enforcement mechanisms and overgeneralized definitions that cannot keep pace with technological advancements.

In the EU, the AI Act will go into effect by June 2024, after which the European Commission and member states will have 18 months to develop the systems necessary to effectively enforce policies. Member states will likely struggle to adopt the frameworks required by the Act, and the re-skilling of existing staff will take longer than expected. The AI Act will likely become the gold standard of AI regulation for other countries looking to develop policies in 2024, like the role that the EU's General Data Protection Regulation (GDPR) played for information privacy policies.

The U.S. has taken a decentralized approach to regulation, placing the onus on voluntary action by tech companies to rein in development and on federal agencies to regulate AI based on end use. In October 2023, the Biden administration issued an Executive Order outlining guiding principles that will direct federal agencies on how to develop and adopt AI, and agencies will report back on their individual policies in 2024, but comprehensive new AI regulation is unlikely to pass ahead of November's presidential elections. In the meantime, investments into AI R&D will continue, especially as the administration positions U.S. technological advancement in contraposition with Chinese technology.

While the EU and U.S. fall on differing ends of the regulatory spectrum, other countries will likely pick and choose the aspects of each framework that best align with domestic priorities. China was the first country to implement a regulatory framework for AI in 2022 when it released a series of measures to manage advanced algorithms including licensing and content moderation The UK, like the U.S., has prioritized innovation by laying out voluntary standards for developers and decentralizing regulatory processes. Countries like India, Brazil, Japan and South Korea will fall somewhere in the middle, building frameworks that reflect global principles while encouraging domestic innovation and AI development as a vehicle of economic growth.

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Implications for business

As governments grapple with regulating AI, companies and global stakeholders are working to ensure that they are prepared for the rapid growth of AI and the various regulatory regimes that may follow. Companies should continue to monitor changes to regulations and prepare for requirements that will likely be present across countries.

They should continue building robust risk mitigation frameworks if AI is being developed or deployed in-house; investing in training and reskilling to minimize job losses; and improving existing data systems to ensure that training data is properly collected, stored and used. In 2024, the growing prevalence of AI will push actors to move quickly and implement frameworks to ensure that AI's disruptive force is beneficial for both customers and society.

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Latin America

Setting a six-year course for Mexico

Mexico goes to the polls in June 2024 to elect a successor to President Andres Manuel Lopez Obrador (AMLO). AMLO protégé and former Mexico City mayor Claudia Sheinbaum is the favorite, even if she lacks the incumbent's charisma. However, the race may tighten following the emergence of Xochitl Galvez as the opposition Broad Front's figurehead. AMLO is likely to play a central role in the campaign since he also wants to secure legislative supermajorities to enable his National Regeneration Movement (Morena) party to amend the constitution, while extending Morena's territorial reach as states hold a series of local votes including nine gubernatorial elections. The opposition will frame 2024 as a critical juncture to preserve hard-won institutional and democratic advances and check AMLO's ambition to turn Morena into a new hegemon of Mexican politics.

Parallel elections in the U.S. are another challenge for Mexico in 2024; simultaneous campaigns in both countries are likely to see rhetoric about migration, border security and organized crime strain bilateral ties, even as nearshoring continues to underpin solid trade and investment flows.

Meanwhile, the horizon for the next government could change if the U.S. political pendulum swings to a more belligerent and/or transactional approach.

If Sheinbaum wins, the main question once she takes office in October 2024 will be how much she is willing or able to tack away from AMLO and his tutelage. Energy policy under a Sheinbaum presidency would face special scrutiny following AMLO's attempts to roll back energy liberalization and reconstitute state monopolies. Given Sheinbaum's need for AMLO's support to get elected, it may not be possible to discern any policy differences until she is in office.

Backsliding pressures

Indicators of the health of democratic rule in much of the rest of Latin America may flash red in 2024. In Venezuela, Nicolas Maduro should submit to an election in 2024. Maduro faces an opposition that, for all its faults and failings, appears to be in one of its periodic upswing moments. However, the electoral playing field will be highly uneven, and it remains improbable that Chavismo would willingly give up power, meaning that a new bout of political crisis may be unavoidable.

There is even less ambiguity around El Salvador's election, where Nayib Bukele will prevail in defiance of term limits. More insidiously, democratic hollowing will continue in Peru as Congress degrades institutions and corruption expands.

Across much of Latin America, a messy, divisive form of politics risks fueling fresh public dissatisfaction with the status quo in 2024.

2024 will bring new tests for Argentina and Ecuador, the region's two serial defaulters who proved relatively resilient in the face of crisis and stagnation in 2023. New governments must bed down in both countries. In Argentina, an economic reckoning cannot be put off, while Ecuador's new president Daniel Noboa faces an imminent risk of political gridlock. In Colombia, President Gustavo Petro's government is no longer new, but he will try–surely without much success–to relaunch his administration after hitting the buffers in 2023. Chile's municipal elections will set the stage for what is likely to be a divisive 2025 presidential election. Reforms in both Colombia and Chile will barely advance.

Across Latin America, a messy, divisive form of politics risks fueling fresh public dissatisfaction with the status quo in the coming year. In this context, the policy response to the region's structural challenges, from migration to inequality to security, will remain disjointed and inadequate.

Brazil, the outlier?

President Luiz Inacio Lula da Silva from the leftwing Workers' Party (PT) won the 2022 elections against incumbent Jair Bolsonaro from the far rightwing Liberal Party (PL) by a small margin amid the starkest political polarization Brazil has seen since its democratization in the 1980s. Lula has since been very successful in working with Congress, in the absence of a clear supporting base, to push forward a number of economic measures that restored fiscal sustainability and advanced the reform agenda. The country has grown 3.7% in the first half of the year and is expected to finish it at around 3%. Lula's approval rating remains above the neutral mark. To boot, Jair Bolsonaro has become ineligible for eight years.

Lula's challenge in 2024 will be the municipal elections in October. The country remains polarized, and the government cannot waver lest Bolsonarismo regains momentum and prevails in the mid-term municipals. Much will hinge on the economy. Lula will have to decide soon whether to honor the commitment made to zero the budget in 2024 or negotiate a change in the fiscal framework approved by Congress. He may need to do so to avoid excessive fiscal austerity in an election year. His choice and the consequent political commitments will thus determine the success of his political program moving forward.

It should be noted that the U.S. presidential campaign will also help matters for the Bolsonaro clan if the Trump candidacy does well. The Brazilian municipal and the U.S. presidential elections are one month apart, but the effect of a Trump surge will be felt in Brazil regardless. If Lula is not well by then, the Trump effect may add to a resurgence of the far right.

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Middle East & North Africa

Gaza raises questions

With billions of dollars in reconstruction needs, a murky governance picture and enduring security challenges, Gaza will remain a source of uncertainty for some time to come. Money and leadership will need to come from somewhere, but no country appears eager to bet substantially on the reform of Gaza.

Equally uncertain is whether Hamas will be able to advance its strategic goal, which was to increase Israel's global isolation. Early indicators are that none of the Arab states that normalized relations with Israel intend to reverse those ties, although it will be some time before Arab governments are willing to strengthen them. Israel's warming ties with countries such as Russia and China will be set back; Moscow and China both see strategic advantages in siding with Palestine, which they portray as both an underdog and anti-colonial.

With Israeli and Palestinian politics both at a crossroads, 2024 may yet see a political breakthrough, but the barriers to diplomatic success are much higher since the Hamas attacks of 7 October.

U.S.-Iran tensions

While Iran did not plan the Hamas attacks, they did fit with Iran's regional strategy to build proxy forces to undermine the Middle East's status quo. The U.S. is both architect and enforcer of that status quo and will find it increasingly difficult to ignore Iranian actions, which also complement Tehran's widely suspected nuclear weapons development program.

The U.S. is both architect and enforcer of the status quo and will find it increasingly difficult to ignore Iranian actions.

With U.S. troops arrayed around the Middle East and Iran determined to pursue armed actions that are both attributable and deniable, there is a persistent possibility of miscalculation. Yet both Iran and the U.S. have good reasons to avoid war. The U.S. remains preoccupied with China's assertiveness in East Asia and Russia's aggression in Ukraine, and it is still smarting from post-9/11 wars that fell far short of stated ambitions. With President Joe Biden already facing a difficult reelection battle, conflict with Iran would further complicate affairs.

For their own part, Tehran observes regional affairs gradually turning its way, as neighbors seek accommodation with the Islamic Republic. Geopolitically, the country is doing well despite an unpopular president, a fragile economy and increasing environmental stresses. Looming on the horizon is a potential leadership change as Supreme Leader Ali Khamenei pushes on into his 80s.

In 2024, there will be little appetite in Washington for a fresh accommodation with Iran, especially in an election year. Conversely, with so many tools already deployed against Tehran—captured by the Trump administration's "maximum pressure campaign" from 2018-2020—the options to further increase punishments are limited. More likely is that Gulf Arab states will publicly seek comity with Iran while quietly encouraging the U.S. to constrain its regional activities. Iran itself may test U.S. red lines without crossing them, meaning that periodic threats against infrastructure and shipping lanes will likely persist.

Saudi and Emirati bids for primacy

For the UAE, hosting COP28 is another sign of the government's growing role in global affairs. The International Renewable Energy Agency has been headquartered there for more than a decade, and the country is concluding a stint on the UN Security Council. Yet, Saudi Arabia increasingly sees itself as the Middle East's appropriate leader ahead of its smaller neighbor.

The competition is broad and deep. Saudi Arabia seeks to lure international companies into the kingdom, and the UAE sees those efforts as a threat to the expatriate community it has been nurturing for decades. The two countries also disagree on oil policy, with the Emiratis favoring increased production to boost market share and the Saudis pushing to cut production to preserve higher prices. There is also competition on the global energy transition, with each unveiling strategies to boost hydrogen production as well as carbon capture, utilization and storage (CCUS).

Both countries have dynamic leaders with a bias for action and almost endless resources. Each government has not only sought to develop a reputation for agility and boldness, but also for surprise.

The commercial sector will be an increasing area of focus for both governments. The Saudi declaration that the government would not do business after 1 January 2024 with any international company that did not host its regional headquarters in the kingdom will almost certainly be amended in some way, but it is an indication of the stakes. Emirati steps to legalize gambling are an effort to pre-empt Saudi Arabia's tourism push. Investors will be able to tap into incentives, but it will be hard to avoid choosing sides. Meanwhile, the rise of commercial firms that are intimately tied to the leadership in each country is a reminder that these economies are not a level playing field.

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In Focus: Global Sustainability

A fragmented regulatory landscape for plastics?

In recent years, policymakers have become more prescriptive in tackling single-use plastics (SUP) waste, often starting with plastic bags. Policies discouraging plastic bags at point of sale are now present in over 100 nations, including low-income countries. After curbing plastic bag use, many countries have progressed on to phasing out SUP cutlery and food containers, instituting polyethylene terephthalate (PET) bottle deposit return programs, improving existing recycling infrastructure and capabilities through extended producer responsibility (EPR) schemes and enacting other circular economy mechanisms.

However, in a challenging economic environment of high inflation and interest rates in the wake of Covid-19 and Russia's war on Ukraine, a number of these plans have been paused. This includes South Korea's SUP ban, France's planned national bottle return program, the UK's EPR scheme and potentially the UK's SUP tax increase. At the same time, countries and blocs with more advanced recycling policies and infrastructures (e.g., the UK, EU, Canada, Japan and China) continue to drive forward the policy debate on issues such as microplastics, toxic chemicals, biodegradable alternatives and virgin plastics production.

For business, this all adds up to highly fragmented regulatory landscapes that require constant policy monitoring and operational adaptability. Many countries and some industry players are seeking to resolve the patchwork of regulations through the establishment of a global plastics treaty. The UN-sponsored negotiations formally kicked off at the end of 2022 and are planned to conclude by the end of 2024, though this timeframe may be overly optimistic. The treaty could establish timelines and targets to ultimately eliminate plastic waste leakage into the environment and reduce plastics-related greenhouse gas emissions. This could be achieved through establishing and maintaining circular economies in which all SUP products are reused, recycled and responsibly managed during and after use.

Regulatory patchwork vs. global adjustment costs

As negotiators for the UN Global Plastics Treaty continue to hash out provisions on virgin plastics production limits to curb greenhouse emissions, bans on polymers and chemicals of concern and financing mechanisms for poorer countries to meet recycling targets, a fundamental wedge issue remains: should the treaty be designed as voluntary, national-level action plans (like the Paris Agreement), or implemented as universal, legally binding commitments?

Both scenarios have implications for business. In the former, the existing global patchwork of plastics regulations would essentially become codified, indefinitely requiring businesses to monitor and adapt to shifting plastics policies on a market-by-market basis. In the latter case, regulatory unpredictability would be lowered as signatory countries ratify and implement the agreement, but businesses would still face costs associated with adaption. In either scenario, questions would loom for the future of the petrochemical industry which is growing more reliant on rising demand for plastics in emerging economies as the world shifts towards green energy alternatives..

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North America

Rallying democracies against authoritarianism

With the White House increasingly focused on next year's reelection campaign, U.S. foreign policy in 2024 will aim to stabilize a world that seems to be spiraling out of control. Three issues will have outsized consequences for U.S. security, the global economy and American domestic politics.

First, strategic competition between the United States and China will remain the largest source of geopolitical risk. In 2024, President Joe Biden is committed to pursuing a predictable and pragmatic approach with China, where a slowing economy may motivate Xi to dial down tensions. Nonetheless, powerful structural headwinds–and election-year politics–will likely preclude any sustained détente. Both countries will remain intensely focused on establishing their own leadership in strategic technologies (e.g., AI) and whether they continue trying to block competitive advantage for the other.

Given the pending election cycle and stalled efforts in Congress, the administration is expected to move swiftly on executive orders and regulatory actions.

Second, the clash between Israel and Hamas will likely continue for weeks, or even months, and unsettle the broader Middle East for even longer. Washington will seek first to contain the crisis to Gaza, preventing any regional spillover that could threaten more global economic consequences, such as rising energy prices. Biden will continue balancing support for Israel, the U.S. relationships with key Arab states and the diverse views of his own political base. Broader Middle East normalization efforts will be difficult and may have to be delayed.

Finally, there is no resolution in sight to Russia's invasion of Ukraine. As the fighting settles into a costly war of attrition, the White House will need not only to sustain the wobbling international coalition backing Kyiv, but also rekindle U.S. domestic political support for Ukraine aid. With key GOP voices increasingly skeptical of such commitments abroad, Biden's push for the United States to rally global democracies against authoritarianism will face headwinds as he approaches November 2024.

High electoral stakes at home

The immediate priority for Congress at the start of 2024 will be the passage of 12 appropriations bills required to fully fund the government before the next continuing resolution deadlines.

Aside from prioritizing government funding, bicameral legislative pushes are expected to face increased hurdles as both the House of Representatives and Senate remain divided along party lines. Possible exceptions to this stalemate include a five-year extension for the Agriculture Improvement Act (colloquially referred to as the Farm Bill), a long-term Federal Aviation Administration (FAA) Reauthorization Act and additional assistance to Israel and Ukraine. Beyond that, Congress is likely to focus on policy areas such as AI regulation, federal permitting reform and limiting children's access to social media—albeit without a high likelihood of any significant legislative progress.

For its part, the White House is expected to focus most of its attention on highlighting recent accomplishments as President Joe Biden seeks another four-year term and prepares for a likely rematch against former president Donald Trump in the November general election. In anticipation of this, a significant rollout of federal funding, executive orders and regulatory actions over the first half of 2024 is highly likely. Focal points of the presidential campaign are likely to include inflation, immigration, abortion and crime, among others.

However, this election cycle will not be solely limited to the presidential race, as Congress will also feature several key races, with Democrats aiming to retain their slim majority in the Senate and Republicans seeking to do the same in the House. Given the high stakes, the congressional calendar is expected to be relatively light in 2024 as elected officials return to home districts to campaign. Of note, 11 governorships are also set to be contested in November, with races likely to focus on state-level issues such as gun control and education.

Trudeau's biggest test

A once seemingly unbeatable Prime Minister Justin Trudeau is approaching the toughest test of his political career, with his Liberal Party languishing in the polls amid a cost-of-living crisis. Young voters, once the prime minister's most stalwart supporters, are looking elsewhere as they struggle to navigate one of the world's least affordable housing markets. This also risks opening a serious debate about Canada's generous immigration system, which has until now largely enjoyed support across the political spectrum.

Another flashpoint is Ottawa's recent confrontation with New Delhi. Following the eye-for-an-eye diplomatic retaliations in 2023, attention will turn to how Narendra Modi wields his influence among Canada's large and politically influential Indian diaspora as the 2025 election approaches. The conflict comes as Foreign Affairs Minister Mélanie Joly proposes a pivot in the country's approach to international relations. Pragmatic diplomacy, dictating engagement with "countries of different perspectives" is the new order – an apparent shift from the values-based approach that has guided the government to date.

Meanwhile, the Russian invasion of Ukraine has triggered severe commodities volatility. The question faced by executives in Canada's natural resources sector remains: is it a bull or a bear market? Whipsawing prices in major Canadian exports including oil and gas, and fertilizer inputs like potash, have led companies to announce—and then scale back or entirely abandon—multibillion-dollar projects.

Finally, like many peers, Canada has grappled with competition policy that critics deem outdated. Increasing consumer prices and major M&A transactions have brought the issue to the political forefront. The country's major parties and its competition commissioner largely agree on the need for an update. To this end, recent amendments to the Competition Act introduced by the government would repeal the efficiencies defense while November's Fall Economic Statement promised further amendments to modernize and strengthen competition policy with respect to merger reviews and competition enforcement.

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