



## **State of the World speech**

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At last year's summit, I warned that our G-zero world, the lack of leadership in today's international order and the geopolitical conflict that grows as a consequence, was gathering speed. That acceleration is only increasing today while international cooperation – multinational institutions, the alliances, the global supply chains that we all rely on – are losing their ability to absorb shock.

Today, when we speak of war, I have to specify which war we're talking about. Is it the war that is remaking the security architecture of Europe? Or is it the war that is destabilizing the Middle East, and threatening global religious conflict? Or is it the war that the Americans are fighting among themselves? I have to be clear. We don't want that.

Also, serious doubts have emerged about the economic well-being of China, the nation that along with the United States has done most in recent decades to power our global economy. Just how problematic is China's post-pandemic recovery, and how are the anxieties in China from that weakness changing their already assertive foreign policy?

Serious doubts have emerged about the political well-being of the United States. People no longer look surprised when I warn that the world's most powerful country has become the most politically divided and dysfunctional democracy of all the G7, though the United Kingdom is still competitive. For the US, 2024 is like Voldemort, it's the year that we really don't want to talk about. But it's coming.

I'll open this morning with these urgent challenges for the coming year and the unprecedented—in my lifetime at least—dangerous state of global politics.

All that said... there's more good news than you'd expect. We just have to look for it. Opportunities created by new international players and by new technologies. They all deserve our attention. And I'll get there.

But first, let's start with crisis. And let's start with the Middle East.

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## **Israel vs. Hamas**

When we talk about Israelis and Palestinians, we have to decide how deep in the earth we want to dig to expose the conflict's roots.

Since we're talking about 2024, I'll resist going back decades and centuries.

I will start with the terrorist attacks of October 7 and the now two-month war that has followed and is expanding, without guardrails. They come from two central realities. You will rarely hear people talking about both of them, they usually mention one...

One, Prime Minister Benjamin Netanyahu knows he can't remain Israel's prime minister without active support from political parties who believe God intends for Israel's Jews to live on land still settled by and legally claimed by Palestinians. He has governed his country accordingly.

Two, a total failure of leadership on the Palestinian side, aided by the Arab world more broadly and most every international actor engaged in the Middle East conflict, has allowed Hamas – a terrorist organization – to act on behalf of the Palestinian men, women, and children that they use as human shields.

Hamas is responsible for the murder of 1,200 Israeli citizens, more than 90 percent of them civilians. In response, Netanyahu's government feels entitled to eradicate Hamas... with little regard for the more than 2.3 million Palestinians who can't escape the line of fire.

Israeli Defense Forces are today fighting across the entirety of Gaza, and the killing continues.

The United States government has at least little leverage over Israel – they are the most important ally of the US in the Middle East – though, given political challenges at home, less than many would think, to influence the conduct of the war and the scale of its carnage. The Biden administration, working with Qatar and the United Nations, has helped finally bring humanitarian aid to the Palestinians as well as securing the release of some, though not many, Israeli hostages and the Palestinians in Israeli custody have also been released.

The US has also pressed Israel to minimize civilian deaths as it works to destroy Hamas. But for most of the world, these moves are too little too late, and the United States government today finds itself nearly alone in supporting the continued war. It's shocking to say, the US today is as isolated on this issue globally as Russia was when Putin invaded Ukraine two years ago.

President Biden has had more success, at least so far, in avoiding a massive expansion of the war beyond the borders of Israel and Gaza. That work will become more difficult as the next phase of the war in Gaza advances and as we have just seen, the Houthis in Yemen are expanding their attacks on American military vessels and commercials transit.

The US officials know that Iran has leverage too... in its material and moral support for Houthi fighters in Yemen, for Hamas, for Hezbollah in Lebanon, for militant groups in Iraq and Syria. Iran is funding, training, and arming these forces. It isn't directly ordering these attacks but it certainly appears happy to see them. And when it comes to Israel, there are no differences of opinion between Iran and these terrorist groups—none of them recognize the right of Israel to exist.

Under no circumstances will President Biden renounce the US alliance with Israel—but Israel has permanently lost some of its traditional support inside the United States. American public opinion has shifted with the nation's demographics. Younger voters increasingly supporting Palestinian position. More Americans are publicly questioning its continuing occupation of the West Bank and even Israel's basic commitment to democracy. These concerns will grow.

This morning, we are not close to any resolution of this war or of the broader Israeli-Palestinian conflict. Indeed, for now the war is set to further escalate.

## Russia vs Ukraine

Then there's the Russia-Ukraine war that no one asks me about anymore. Have to say I'm a little annoyed about that—I wrote my dissertation on Russians in Ukraine back in 1994. So, you'll all have to humor me.

At last year's summit, I noted that Russia controlled about 20 percent of Ukraine's territory, and that Ukrainian forces were unlikely ever to evict Russian fighters fully. Today, twelve months later, very little has changed—that which has, has been negative. Again, a conflict that, for now, does not have guardrails.

In the past year, Vladimir Putin followed through on threats to exit a deal, agreed with the United Nations, that allowed Ukraine to export grain through the Black Sea. He also formally annexed some of this occupied land into the Russian Federation, though almost nobody in the world actually recognizes it.

Ukraine's counteroffensive has moved the front line less than 25 kilometers since the operation began this past summer—and with Ukraine's installation of defensive fortifications, it's safe to say the counteroffensive is over.

While in Russia, a sudden failed mutiny aside—I'll say the name Prigozhin, only because we'll never have to mention it again—Putin's strategic position has improved over the past year—and especially over the last two months.

New questions have emerged about the staying power of Ukraine's main backers in America and Europe. In the US, in particular, the Kremlin is encouraged that Republicans increasingly do not want to spend money on Ukraine, and that's particularly true when Trump gets the nomination, and when the Republican party gets behind him. Zelensky, not Putin, now faces increased pressure to move toward a negotiated settlement.

Putin's international standing is now less isolated. The Gaza war has helped Moscow argue that Americans are hypocritical neocolonialists who care more about power than about the lives of innocent people. This message plays very well across the Global South. It also threatens to create divisions in the transatlantic alliance, which rallied so effectively in the early stages of the war.

In recent weeks, Russia has expanded missile strikes across Ukraine to the highest levels we've seen this year. Higher oil prices have helped boost Russia's domestic production of missiles to greater levels than before the war started. North Korea is helping supply more of both, which China is not happy about, and Iran continues to provide drone aircraft on the ground in Russia. An additional troop mobilization in 2024 (that Ukraine will struggle to match) might even help Russia take more territory.

In Europe, support for Ukrainian refugees remains high, but countries now have much less capacity to absorb refugees or pay for financial help for the war effort. That means that Europe is becoming less certain for its economic support for Ukraine just as the United States is becoming less certain in its military support for Ukraine. And if Donald Trump is again elected president of the United States next November, right now a coin flip, Putin's hopes for success in Ukraine will grow greater.

We know what the outcome is. Partition. Ukraine can't get their land back. Nobody is going to formally announce that, of course. It's unacceptable to the United States, Europe, and most of all the Ukrainians. But we live with lots of things that are unacceptable—a North Korean nuclear arsenal, Assad in power in Syria, the end of democracy in Venezuela. The critical question in the coming months is can the US and Europe provide enough security and economic guarantees that they can continue to plausibly be aligned with each other, with Zelensky and the Ukrainian government, creating a European and a NATO future for the majority of Ukraine that they still have control over.

I want to be clear, none of this will resolve the war. Ukraine risks losing, but Russia doesn't "win."

Whatever longer-term gains Russia's forces can make on the ground in Ukraine, NATO is expanding. This month, the EU will open a process for Union membership for Ukraine, Georgia, and Moldova, also an option that wasn't on the table before Putin ordered his invasion.

Russia has faced 11 rounds of sanctions from the European with more coming. Half of its sovereign assets have been frozen. Europe will not buy Russia's commodity exports, which must still be sold to China, India, and others at discounted prices. Moscow will be left much more deeply dependent on China. All this damage for pieces of eastern and southern Ukraine that will take years to consolidate.

It leaves us with a bigger problem. Russia remains on the road to permanent rogue state status. Seriously in decline and seriously angry at the West. The first time that's ever been true of a G20 economy...never mind one with 6,000 nuclear weapons. We won't be talking as much about Ukraine in another year, I'll have to get over it. But I fear we're going to be talking a lot more about Russia.

## China's challenges

Now we turn to China. The economic situation in China is very serious and it's very easy to explain: The "China Growth Engine" no longer works the way it used to. The 40 years of economic expansion are over.

Youth unemployment stands at record highs. Manufacturing activity is contracting. The property sector, making up a fifth of the economy (not to mention 2/3 of China's household wealth and about 40% of the collateral held by its banks), is in serious trouble. Exports have declined on the back of inflation and historically high interest rates in the US and Europe. Foreign investment has turned negative for the first time since we've recorded the data.

Property prices are declining, household wealth is contracting, and borrowers are no longer willing to underwrite property construction. That triggers a wave of defaults from developers and lenders. Revenues for local governments are drying up even as their debt servicing costs rise. Domestic demand is stagnant, slowing growth further. China's government has responded with limited stimulus, but large-scale bailouts are off the table for now.

Headline growth may well come in at 5 percent this year, but the economy faces deflation created by persistently weak consumer spending, slowing private investment, overcapacity and mounting financial stress. Next year's growth target might be high, but the leadership is right to focus more on the quality of the growth than its absolute level. The IMF now expects the Chinese economy to grow under 4% a year for the coming years; absent reform it could go lower. Unfavorable demographics, chronically high debt, and intensifying geopolitical competition with the United States and its allies have made a bad situation worse.

The Chinese people are worrying if the next generation will be better off than the present one for the first time since the 1980s. The increasingly centralized, opaque, and capricious nature of Chinese policymaking – and a series of disruptive domestic policies – tech crackdowns, the zero-COVID lockdowns and abrupt exit from them, and raids on foreign firms – has undermined confidence.

The positive story is that China remains a highly competitive economy, with advantages in manufacturing, renewable energy, and electric vehicles as well as leading-edge innovation in frontier industries like advanced computing, AI, and biotechnology. It has an educated workforce, increasingly world class infrastructure, and an innovation ecosystem that is a major source of strength.

China is also politically stable. Which allows President Xi to avoid the temptation to revert to debt-fueled growth if he chooses. Only a systemic financial contagion or mass protests, neither of which looks likely in 2024, could force his hand. Instead, he will simply add stimulus at the margins and call on China's people to persevere.

The risk is that the wrong policy choices could leave China's economy in a scenario of prolonged deflation, stagnant growth, and high indebtedness Japan faced in the 1990s, but at a much lower level of development.

A silver lining: All of this has fostered the charm offensive we've witnessed in past months is likely to remain strong...even if it's only a "tactical" retreat, because China's economic problems aren't going to be resolved anytime soon. The question is how much the Smile Diplomacy can accomplish, and where a "thaw" opens up short term opportunity for both governments and businesses.

The fentanyl deal is one of the biggest positive stories that we've seen between the US and China in decades. We had a very productive meeting between Xi and Biden at the APEC Summit, and the Chinese officials are hopeful that this momentum will continue. So, unlike the conflicts that I just talked about in the Middle East and between Russia and Ukraine, the US-China relationship has interdependence and does have guardrails. In the environment of great instability, that is meaningful for the world.

The two countries are still continuing down the path toward a technology cold war, with Americans using export controls to limit China's development of world-class semiconductors and artificial intelligence, while the Chinese use critical minerals and green tech for much the same purpose.

But the Biden-Xi meeting, and the months of careful diplomacy that led up to it, reminds that the governments of both countries are geopolitical adults. Both prefer stability to chaos. Each has tried to contain the damage from international emergencies.

So, while the United States and China have very different views of the war in Ukraine and Israel's war with Hamas, both Washington and Beijing have carefully avoided action that might expand the fighting's fallout. Especially with the economic challenges I've described, Beijing remains geopolitically risk averse. China's approach to the rest of the world is still driven mainly by economic, not political, or ideological, incentives.

The exception is in areas Beijing considers to be within China's sphere of influence, most critically in Taiwan. Voters on the island will elect a new president in January. If they choose William Lai, the candidate Beijing warns will harm cross-Strait relations—and that looks more likely than not—tensions will rise between China, Taiwan, their neighbors, and the United States. But no matter the outcome, China is in no position to start a destructive and unpredictable war in a time of economic anxiety. Overall, 2024 looks comparatively benign for the US-China relationship (yes, in part, because lots of other things look worse).

## **America's political dysfunction**

Even though the economy is doing well in the US, the system is in crisis.

How dysfunctional is it?

Earlier this year, personal rivalries among Republican lawmakers left the US House of Representatives without a leader – and, therefore unable to pass legislation – for the longest period in 160 years. The last time divisions within the House stopped business in this way, the main issue dividing them was the legal status of slavery.

Now we face the 2024 presidential election. I can't avoid it, much as I'd like to. We're on track for a rematch: President Joe Biden vs former president Donald Trump.

Polls paint a bleak picture: just 37% of Americans approve of Biden's performance as president. About 65% of voters don't want him to be president again. More than 70% of likely voters say the 81-year-old Biden is too old for the job.

On the other side, there is the twice-impeached, twice-acquitted Trump. Let's review the record.

After he was defeated for re-election in 2020, Trump refused to concede his loss, created a plan to remain in power that has now landed him in court, and incited a violent insurrection to stop the formal certification of Biden's victory.

He has been indicted in four separate criminal cases and, unless he's elected next year, faces prison. In a civil case, a jury found charges that Trump had raped a woman in the mid 1990s to be "substantially true."

Just 38% of Americans approve of his four years as president, 60% don't want him back in the White House. And he now leads all other Republican 2024 presidential candidates by more than 30 points.

Can Trump be president again? Absolutely. If the election were held today, Trump would win. The outcome now looks like a coin toss.

Biden does have one important advantage: There has never in American history been an election in which the challenger's reputation matters at least as much as the incumbent president's. And that will make this race unusually – perhaps uniquely – difficult to forecast.

For now, we can say that an economic slowdown in 2024, further age-related decline for Biden, deeper fractures over Israel among Democrats, or early court victories for Trump would further reduce Biden's chances.

But a US economy that avoids recession, clearer signs of age-related decline for Trump, policy overreach (especially on abortion) from congressional Republicans, or an early criminal conviction in one of Trump's several trials would tip the scales further in Biden's favor.

In the meantime, other governments – allies and rivals of the United States – are already calculating the opportunities, costs, and risks that US elections might create for them. In Beijing, in Tel Aviv, in Brussels, and here in Tokyo, policymakers must reckon with an unprecedentedly uncertain US election outcome that will impact the global role of the world's most powerful country.

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As we turn to 2024, there are also positive emerging stories that deserve much more attention than they receive, trends that promise both more stability in geopolitics.

## India

I'll start with India.

For all its many shortcomings, India is a politically stable democracy, and the stall of China's growth has made India's historic economic expansion that much more important for the global economy. But this isn't India's most important contribution to the world in 2024.

Instead, I'm highlighting India today because of its emerging role as crucial bridge between the Global South on one side and the United States, Japan, and Europe on the other. It's hard to overstate the geopolitical importance of this leadership role for Delhi.

Today, much of the developing world feels ever more alienated by the role the United States and advanced industrial economies more broadly play in international politics and the global economy.

The pandemic, climate change, Russia-Ukraine, the Middle East. They endured all the challenges, they see that the industrialized countries do not pay attention to them; they see how much the Western powers care about Ukrainian refugees and how little they care about people in other parts of the world.

But when India, the biggest, strongest economy in the developing world, a country whose independence of thought and action is not in question, works to strengthen its relations with the United States and its G7 allies, that's a strong recommendation for pragmatic relations with the West.

India's role as bridge makes existing global architecture both more stable and more inclusive. It helps prevent a China-led and still-expanding BRICS partnership from becoming a geopolitical counterweight to the G7.

Further, India is one of the very few countries in the world—certainly the largest—where the implications of the 2024 US election don't particularly matter. Modi has proven he can get along with both Biden and Trump.

Will India's current foreign-policy direction outlive Modi and the growing pains it will surely face? We can't yet say. But for 2024 and the foreseeable future, the world has picked up surprising geopolitical resilience from India's new role.

## Europe

Next up, the European Union.

No question, Europe faces strong economic challenges in 2024, not to mention the rise of populism in countries across the continent, low economic growth.

But a series of crises over the past decade—the pandemic, climate change, the Russian invasion and Brexit—has solidified the multinational political commitment to the world's most ambitious experiment in supranational governance—the European Union is strengthening as an institution.

The EU now has a more centralized authority over fiscal and economic challenges, climate and energy policy, data policy, health policy, and other critical aspects of state governance.

A stronger EU leaves euro-skeptics in France, Italy, and other EU states groping for new political arguments. Italy's prime minister Georgia Meloni has moderated her country's budget-busting economic populism. Voters in Poland have pushed out their country's Brussels-defying illiberal government. Fist-shakers like Hungary's Viktor Orban are left without leverage to extort concessions from EU institutions.

And though populists have scored recent gains in the Netherlands, Slovakia, and Germany, none of this has undermined the strength of the European Union—and they won't matter to EU elections next year.

There is still plenty of anger directed at Brussels bureaucrats and much resistance to more centralized EU decision-making. But as we enter 2024, the European Union's social contract has never been stronger, more resilient, and more necessary.

## **Mexico**

There's Mexico. Like India and the EU, Mexico will hold elections in 2024, but here a term-limited leader must step aside.

Mexico is an increasingly dynamic economy that is strongly integrated into the new US-Mexico-Canada agreement and a lead beneficiary of a growing trend of nearshoring of investment and production. It helps, of course, to be lead trade partner of the world's largest economy, but the country's political predictability is helping it capture more benefits from that relationship.

Likely incoming president Claudia Sheinbaum has the backing of enormously popular outgoing leader Andres Manuel Lopez Obrador, but she's also a committed technocrat and former climate scientist with strong relations with the business community built through her work as mayor of Mexico City. In a country with one of the largest and most talented bureaucratic classes in the developing world, it's hard to overstate the value of those connections.

Just as India can bridge Global South and the G7, Sheinbaum can create better opportunities for new links between North, Central, and South America—the most geopolitically stable region of the world (something that increasingly matters when you've got wars raging and defense spending skyrocketing most everywhere else).

This push for greater hemispheric integration in the world's most stable region will be important for years to come. The domestic and regional politics won't favor a new multilateral trade deal for the foreseeable future, but we're liable to see something stronger and more durable here than the Indo-Pacific Economic Framework for Prosperity, because the public-private partnerships can help create something increasingly close to a regional US-led Belt and Road-style project for the Americas. It will be bolstered by new tech and energy investments and alignment, with support from the World Bank.



## The Divided States of America

And while we're in the Western hemisphere, I'm glad to have some good news to report on political culture in the United States.

Not about Washington, to be sure.

But... though Americans hold their national political institutions in historically low regard, that's not true at the local level. In fact, the decentralization of US politics has allowed for a free market of political strategies driving some of the most remarkable growth and human capital attraction in the developed world.

Among so-called blue states, those that favor Democrats, the Bay Area in Northern California, home to Silicon Valley, leads the way in global artificial intelligence development. That, in turn, has led a startling economic turnaround in San Francisco, a city long home to one of the country's worst examples of wealth inequality and urban blight.

The greater New York City area is arguably the world's most global metroplex for its availability of capital and its power to attract diverse top-level talent. It also remains the epicenter of global finance.

Among red states, those that support Republicans, Texas has not only rebounded to hit record levels of fossil fuel production, but has also seen genuinely explosive growth in post-carbon energy production and supply chains. This state now leads the country in both.

And south Florida's ability to attract and drive finance, banking, and tech has powered one of the most remarkable surges in inbound investment growth in the country.

It's important to remember the economic scale here. Florida's economy is larger than Turkey's. New York's economy is larger than South Korea's. Texas' economy is the same size as Italy's. California's economy is larger than Britain's.

Blue and red states represent radically different growth models, but the decentralization of political and economic power nationally allows the United States to become a laboratory of competing geopolitical and socioeconomic experiments on the scale of major industrialized countries.

Add record levels of federal infrastructure investment, the impact of industrial policy from the Biden administration, and US job creation through the pandemic, and there's good reason to believe the United States will have plenty of growth despite the increasingly alarming dysfunction in the nation's capital.

## Japan

You'll note Japan isn't on this list.

I've honestly been surprised at how low Prime Minister Kishida's popularity is here right now, given how well he's respected in government and among the business community in the United States. We need more of Japan – in my speech and in the world.

A lot of people in the United States criticize the United Nations. I think it's because we're a little ashamed that when we look at the UN, we see that the US doesn't reflect a lot of the values that we built in 1945.

Japan reflects those values. It reflects those values today as the largest, most powerful country in the world that reflect the values that the Americans stood for so proudly at the end of WWII: rule of law, transparency, multilateralism, the desire to consider wellbeing of 8 billion on the planet, not just a small number of citizens that we connect with every day on social media.

I can't say how important that is. It makes me very proud to have started our GZERO Summits here in Tokyo. We've worked here for a long time with so many of you, as partners and friends, and we're not going anywhere, we're here to stay.

On that note, I want to thank you all for listening, for joining us, and I think we will have a very exciting day.

Thank you very much!