Edelman Global Advisory 2024 Global Risk Report

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In our 2023 Global Risks Report, Edelman Global Advisory (EGA) predicted that the greatest challenges to business were going to come from:

- a continued global economic slowdown
- global supply chain challenges
- the Ukraine/Russia conflict
- the ramp up to the US political season
- challenges of migration and their impact on domestic politics, and
- climate-related issues.

While the issues we anticipated at the beginning of 2023 bore out, we could not have and did not anticipate these issues being compounded by the Israel-Hamas conflict or its effect on global supply chains and commodity markets.

As we come into 2024, EGA explores the impacts of a slow to flat global economic outlook, and examines what we anticipate will be the primary issues facing multinational corporations in the year ahead:

- **Global growth outlook and major national growth outlooks**
- **Greater shifts towards multipolarity**
  - Increased assertion in global affairs by BRICS (particularly China) and OPEC+ nations
  - Global election year for over half the world's population
- **Spread of conflict and instability**
  - Russia-Ukraine
  - Israel-Hamas
  - North Korea
- **Shifting international trade patterns**
  - Economic nationalism
  - Increasing de-dollarization
- **Climate risks**
  - Adverse impacts of the above risks on global decarbonization goals
  - Impacts on the workforce—extreme heat and cold, climate events, and their effects on well-being and productivity
- **AI risks**
  - Increased disinformation campaigns, particularly in global elections
  - Increased focus on military applications of AI

To review the context for these risks, we first explore the global economic and financial situation and major country-level projections for the rest of 2024.

Global growth outlook and major national growth outlooks

The IMF and other economic analysts upgraded their forecasts for global growth at the end of January 2024, anticipating increased growth above 3% for 2024 and 2025. Although the US Federal Reserve is expected to cut rates throughout 2024, the ongoing wars in Ukraine and in Israel, extreme weather-related shocks, domestic market challenges in China, and green industrial policies of the world's largest economies will continue to keep commodity prices high and fragment supply chains, limiting central banks' ability to return to lower interest rates.

Although softening, still high interest rates and geopolitical volatility will weigh down market growth in developed economies in 2024. All of the top 20 markets for growth in 2024 are in emerging or frontier markets.

United States

Given the strong economic headwinds the world has experienced since 2020, including the current high interest rate environment, we could see a dampening of consumer sentiment in 2024 that may factor into higher recession expectations for this year. Inflation is likely to continue downward given weaker labor markets and higher interest rates, however, geopolitical shocks from ongoing conflicts affecting oil and gas markets would undermine any revised inflation trajectories. The US' January jobs report brought heightened optimism among most analysts revising US growth projections for the year to around 2%. Without an easy monetary policy approach by the Federal Reserve and given the current anemic loan growth, banks that were disproportionately focused on commercial loans could likely experience challenges going forward.

United Kingdom and Europe

As in the US, growth is expected to be modest in the UK. The IMF and Goldman Sachs forecasted that the UK is likely to grow slower than the US since the UK faces a more adverse growth-inflation trade-off along with increased housing and living costs. In Europe, energy prices are still much higher than they've been in 15 years and Germany, Europe's industrial powerhouse, is still facing the fallout of Russia's invasion on energy supplies as well as from competitive green industrial incentives from the US and China. With high energy prices and a weak global demand, the creeping de-industrialization in Germany and the EU is expected to continue into 2024.

China

2024 will be a waiting game for those watching the Chinese economy. Low consumption caused by stagnating income growth, a depressed housing market, and high unemployment rates—up to 400 million by some estimates—will continue to put a damper on economic growth this year. However, Beijing was able to achieve its growth target of "around 5%" last year, and government officials have indicated they will pursue higher quality—but slower—economic growth. While no large-scale stimulus is expected this year, last month officials did announce a cut to reserve requirements for banks to promote lending. Foreign direct investment trends in China will also be interesting to watch this year as companies recalculate their risk-adjusted return on investment—companies are keeping investments in China but are wary of making significant new ones. And while Chinese leaders are talking up support for foreign investment, to date, there has been little policy action to back it up.

Greater Shift towards Multipolarity and Shifting Leadership in Geopolitics

The business imperative: Alliances and partnerships are continuing to shift as nations pursue their own economic and national interests—with policy implications for business. 2024 will see over half of the world's population go to the polls for major national leadership or legislative elections, adding new dimensions to already changing dynamics in the world order.

China's global rise

China's growing influence is a key driver of the global shift toward multipolarity. Under President Xi Jinping's leadership, China has made a concerted effort to increase its influence in multilateral institutions, lead in global fora and initiatives (BRICS+, Forum on Africa-China Cooperation, Community of Latin American and Caribbean States), cut its teeth as peace broker (Russia-Ukraine, Iran-Saudi Arabia), and run a diplomatic charm offensive to reshape the global order and counterbalance the influence of Western powers.

China's efforts to create an alternative development path resonate with the Global South, but most countries in the Global South do not want to have to choose sides between the US or China. This presents opportunities for firms operating between the US, China, and the Global South as competition leads to government support. But it also poses challenges for firms attempting to navigate trade restrictions and the contentious regulatory environment between the US and China. Furthermore, China will be watching the outcomes of global elections this year—especially in the UK (TBD, as early as May), EU (June), and US (November)—and will respond in-kind with regulation and policy—with impact on companies from those markets. Companies will want to keep a close watch on how these trends develop this year.

BRICS/OPEC+

Emerging economies are assembling to assert a growing voice in international diplomacy—and we expect this trend to persist in 2024. Influence is diffusing away from Washington toward other power centers and, with it, competing geopolitical and economic interests are driving global volatility and reshaping a globally integrated market. To bolster their leverage, many countries in the Global South are continuing to coalesce into more effective counterweights, such as OPEC+ and an expanded BRICS, offering an alternative vision for growth and development to the Global North's political and economic influence.

In August 2023, BRICS, the emerging market bloc that originally represented Brazil, Russia, India, China, and South Africa, admitted five additional members into its ranks—Saudi Arabia, Iran, Ethiopia, Egypt, and the UAE. While long-standing differences between BRICS+ members could undermine the group's political cohesiveness and ability to unanimously support an agenda, it does reinforce this shift toward multipolarity. Egypt, for example, has taken a leadership position in brokering the Israel-Hamas conflict.

Similarly, an expanded OPEC+ welcomed Brazil to join in 2023 and continues to garner influence. While Angola's exit last December over production levels reveals some fault lines in the group, it still controls over 50% of global oil supply—with growing heft amid disruptions in Russia's oil exports. Expanding membership of these types of platforms opens up more avenues of cooperation for emerging markets to pursue their economic and national interests.

Emerging economies are also coalescing around climate narratives, arguing that they are bearing the brunt of climate change caused by decades of pollution from the West and are owed compensation, while Western economies are citing current, high emissions from Global South countries and pointing to them as key emitters.

Global 2024 Elections

2024 will be a pivotal year for national elections with over 50 countries, including the European Union, or about 50% of the world's combined population, heading to the polls. Among many concerns, like stalled economic development, migration will factor heavily into many elections, most notably in the US, UK, and European elections. Migration into the US persists at record levels, and, as in the UK and in the EU, it is leading to a domestic backlash. Hence, we expect voter frustration to translate into larger gains for right-wing populist parties. In recent national elections, surges of populism and a desire for significant change has been seen in Argentina, Hungary, Italy, the Netherlands, Slovakia, Sweden. Wins for political parties with economic nationalist agendas could heighten protectionist measures, leading to greater market frictions and complicating the prospects of future multilateral trade negotiations. 2024 has already seen democratic regression in El Salvador and Senegal, which was projected to be one of the top-growing economies in the world and had enjoyed stability and growth under term-limited President Macky Sall, who has postponed a presidential election until the fall and sought constitutional change to stay in power.

Half the World's Population Is Eligible to Cast Their Vote This Year

Over 60 countries around the world will hold elections in 2024.

COUNTRY	TIMING	SCOPE
Bangladesh	7 January	National parliament
Taiwan	13 January	President, national parliament
Finland	28 January	President
El Salvador	4 February	President, national legislature
Pakistan	8 February	National parliament
Indonesia	14 February	President, national legislature
Belarus	25 February	National parliament
Iran	1 March	National parliament
Portugal	10 March	National parliament
Russia	17 March	President
Turkey	31 March	Local/regional
India	April–May	National parliament
South Korea	10 April	National parliament
Panama	5 May	President, national legislature
United Kingdom	May?	National parliament
Mexico	2 June	President, national legislature
EU	6–9 June	Parliament
Belgium	9 June	National parliament
Mongolia	28 June	National parliament
South Africa	July?	National parliament, which selects President
Sri Lanka	By September	President, national parliament
Brazil	October	Local/regional
Georgia	26 October	President, national parliament

COUNTRY	TIMING	SCOPE
Uruguay	27 October	President, national legislature
United States	5 November	President, Congress, and various states
Ghana	7 December	President, national parliament
Venezuela	December	President

Key global elections:

January 2024

- **Taiwan:** In January, voters gave the Democratic Progressive Party (DPP) an unprecedented third term in the presidency. While this was not the outcome China desired—Beijing views the DPP's President-elect Lai Ching-te as a "diehard secessionist"—the DPP's loss of control in the legislature means that voters struck a balance and did not hand the DPP a mandate. China's response has so far been peaceful, but Lai doesn't take office until May. Businesses should be on alert for heightened rhetoric, displays of military strength, and tariffs or export controls.

February 2024

- **Pakistan:** After both major party leaders declared victory in Pakistan's parliamentary election—as well as an AI-generated victory speech from jailed former President Imran Khan—the Pakistan Muslim League-Nawaz (PMLN) and the Pakistan People's Party (PPP) announced a coalition government that excludes former President Khan, with former Premier Shehbaz Sharif as prime minister and Asif Ali Zardari as president. The lead up to the election was contentious, with two candidates' offices bombed, killing 28. Public response to Tuesday's announcement of a coalition remains to be seen.
- **Indonesia:** In the world's largest election, 204 million voters went to the polls on February 14 to determine their next president, legislature, and local officials. Prabowo Subianto, a controversial military man, has swept the initial polling results for president, riding on the popularity of his campaign and the endorsement of outgoing President Joko Widodo, popularly known as "Jokowi." Touted as a Jokowi 3.0 cabinet, a Prabowo presidency will likely see continuity on trade openness and foreign policy, but also growing democratic backsliding and greater legislative challenges in pushing ahead a coherent social and economic agenda.

April/May 2024

- **India**: The opposition Indian National Congress (INC) is coming to the polls with a broad coalition of regional parties—the Indian National Developmental Inclusive Alliance (INDIA) to take on the Bharatiya Janata Party (BJP)-led National Democratic Alliance. However, Prime Minister Modi's personal popularity with the masses, the success of welfare schemes, and a fragmented opposition indicate a BJP win.
- **UK (TBD):** There is an increasing likelihood of a general election, as early as May, given stark divergences over immigration policy along with a potential vote of no confidence against Prime Minister Rishi Sunak. A general election would likely bring Labour's Keir Starmer to Number 10 after 13 years of Tory rule.

June 6–9, 2024

- **European Parliament:** With EU Parliamentary elections this summer, populist parties like Marine Le Pen's National Rally in France, Matteo Salvini's League in Italy, and Alice Elisabeth Weidel's AfD in Germany are expected to make significant gains. A win for them would likely challenge current climate policies and potential decreases to military support to Ukraine.

November 5, 2024

- **US:** There is a growing likelihood of a Biden-Trump rematch this November. A Trump presidency would likely reconsider military support to Ukraine, give greater diplomatic and military support to Israel, persist in a tough stance on China, and roll back climate regulation.

Spread of Conflict and Instability

The business imperative: Ongoing conflicts from 2023 and potential instability from some contested global elections will continue to embroil corporations with operations or investments in impacted regions, affecting their supply chains and future cost-risk analyses.

- **Russia-Ukraine:** Heading into the second year of the Russia-Ukraine conflict, Russia's strategic objective into 2024 is to maintain a prolonged defense of captured territory—around 18%—and to marshal 1.5 million soldiers to facilitate a new offensive. With Ukraine's failed counteroffensive last year, the material and personnel advantage are now on Moscow's side, and with Western "war fatigue" setting in, Russia is poised to make more gains in 2024.
- **Israel-Hamas:** Prime Minister Benjamin Netanyahu will likely continue to advance the Israeliu offensive until the Hamas military is destroyed. To that end, we can expect Gaza to be re-occupied indefinitely. This is likely to increase criticism of the US and Israel across the MENA region with continued calls to boycott US, Israeli, and Western companies. In addition to increased calls for a peaceful resolution, we could likely see a setback in further normalization efforts between Gulf States and Israel, even if MENA leaders wish to improve ties with Jerusalem.
- **North Korea:** With Kim Jong Un calling the country to be on war footing as he increases missile tests, Pyongyang presents heightened security challenges to the Asia-Pacific region, reminding businesses that threats to their regional operations stem from more than just tensions over Taiwan.

Impacts on the global economy: These conflicts present great challenges to an integrated global economy in 2024. The strain from the evolving US-Iran proxy war is forcing shipping companies to reroute their merchant traffic away from the Bab-el-Mandeb Strait and, instead, around Africa's Cape of Good Hope, adding nearly two weeks of travel, further impeding global supply chains and increasing consumer costs. A long-term disruption of traffic through the Red Sea would severely impact energy prices—as oil accounts for one-fifth of the traffic through the Suez Canal—upsetting any chance of central banks lowering interest rates. With Operation Prosperity Guardian's forward posture and US-UK strikes against Houthi targets, Iran and its proxies will continue to up the ante. In 2024, the US and Iran are likely to continue to climb the escalatory ladder, increasing the risk of miscalculation and potentially pitting the two countries, and their respective allies, in direct conflict. This outcome would present the greatest systematic market risk, exacerbating commodity prices and inflationary trends, undermining any optimistic economic projections for G8 economies while increasing migration to Europe, and further inflaming a significant right-wing populist sentiment.

Global shipping routes and geostrategic waterways

Shifting International Trade Patterns

The business imperative: We can expect more protectionist economic policies to continue, whether stemming from national security or domestic economic concerns, with the following consequences—bottlenecked supply chains leading to increased commodity prices, an increase in consumer prices for products that depend on critical minerals, and a delay of a linear green transition to renewable energy sources.

Economic nationalism

The leveraging of trade tools to either bolster one's own economic and national security or undermine a geopolitical adversary will continue and increase in 2024. With more countries pursuing populist policies, governments could find themselves in a race to protect their national industries and enact legislation that will support domestic growth, especially given the lackluster 2024 economic projections. Thus, more market distortions are likely to emerge. For example, the investigation by the EU of subsidies that are believed to have benefitted Chinese EV producers could lead to further protectionist measures and unleash a trade war between China and the EU (China has already imposed additional tariffs on French brandy in a potential retaliation). The green subsidies race between the US, UK, EU, and China will lead to overcapacity, poor returns on taxpayers' resources, more frictions in supply chains, and increased levels of inflation, thereby complicating plans by some central banks to ease the monetary levers this year. Export restrictions on certain resources, such as critical minerals, related to national security as well as tech competitiveness, could continue to trend toward increased protectionism. And with critical minerals concentrated in specific geographies—gallium and germanium in China, nickel in Indonesia, lithium in the Andes triangle, and cobalt in the DRC—the weaponization of these resource monopolies poses a real risk to global supply chains. On the supply side, producers of iron, steel, aluminum, and cement around the world will brace themselves for the EU Carbon Border Adjustment Mechanism (mirrored by a similar approach in the UK), which is likely to add to inflationary pressures on imports affected by the tax.

Increasing de-dollarization

Given China's increasing importance in global trade and its ambition to further internationalize the use of the yuan, many countries such as Bolivia, Brazil, El Salvador, Iran, and Russia are taking steps to pivot away from the US dollar, even as Argentina's newly elected president campaigned on dollarizing its economy. We expect Washington to continue to leverage the dollar and SWIFT system to further its foreign policy goals and, as a result, countries will continue to seek diversification both to increase liquidity and safeguard their respective regime security. While the dollar's dominance still looms large compared to any feasible alternative—China's yuan, for example, accounted for just 2.3% of global SWIFT payments in March compared to 42% in the US dollar—a gradual de-dollarization is likely to continue, especially as leaders of the expanded BRICS call for a greater role of their respective currencies in trade. The long run effects of de-dollarization include reduced institutional, investor, and corporate demand for the greenback, increased volatility in financial markets and uncertainty for businesses, increases in inflationary pressures in the US, lower US stock market values, and reduced investment in the US.

Climate Risks

The business imperative: We are likely to see extreme weather events, especially in the first half of 2024, that increase food and water insecurity, upend global supply chains further, exacerbate socio-political instability and migration, reinforce inflationary pressures, and increase business costs. As a result, there will be an impetus for companies to connect climate with employer safety and productivity, and to ensure supply chains are fit for the future.

Across the US, UK, and Europe, voters are increasingly aware that the green transition can disrupt their way of living. For too long, green growth has been presented by politicians as being good for the economy without addressing transition costs and who will bear them. These are widely perceived as being disproportionately borne by less well-to-do segments of populations in OECD countries which are also more likely to find themselves in industries that operate in sectors affected by the transition. Coupled with high levels of inflation, a consumer backlash could likely delay further climate-related legislation, such as the EU's green deal. A growing populist sentiment will focus on national economic advancement and will likely come at the expense of robust climate goals. Given the increasing accusations against companies and multilateral fora of "greenwashing," trust in multilateral solutions to attain emissions reductions could decline and make it harder for nations to cooperate on such issues.

With diverging interests between the Global North and South, countries will be left to face what the EU's Copernicus Climate Change Service says will be another year of extreme weather events. While the Global North is expected to be affected, emerging market economies in APAC, Latin America, and Africa will bear the brunt of the effects of the predicted El Nino season that is set to occur during the first half of 2024.

Unpredictable climate events impact global supply chains and economic corridors. For example, with an uptick in traffic in the Panama Canal post-Covid, the predicted El Nino season will only exacerbate the canal's ongoing drought. As a result, the canal has had to limit the number of vessels that can pass through the waterway. Lower water levels have increased traffic congestion and will likely lead to more impediments in supply chains and increased consumer costs.

AI Risks

The business imperative: AI applications will continue to increase business productivity and efficiency in 2024. At the same time, companies will have to grapple with additional government regulation, especially in the EU and China, and focus on implementing people-centered governance mechanisms to overcome the trust barrier in scaling up AI's positive potential for business operations.

Globally, the European Union, United States and China are the main drivers in AI policy development. Each of these regions have passed legislation, issued executive action, or pushed forward regulations designed to address the societal, ethical, and legal challenges presented by artificial intelligence. Often, in the wake of these regulatory changes, we've seen global companies push back, believing many measures are slowing innovation by increasing compliance costs—sifting through the legalese often requires costly counsel—thereby raising the barrier to entry. Finally, there is a belief that too much regulation can stunt investment by new and current players in the space.

One of the biggest concerns around the disruptive nature of AI will be opportunities for increased disinformation campaigns by malign private and governmental actors that may further erode institutional credibility and trust in electoral systems. In the over 60 countries headed to the polls in this year's media and digital environment, it will be increasingly difficult with AI simulations to determine what information is credible. Combine this with data that shows a 26-point drop in trust in the technology sector, year over year, and it becomes clear that it will be difficult keeping up with AI challenges in 2024.

AI developments are currently outpacing federal regulation in all countries where it's being developed and deployed, and we can expect even more pressure on legislative bodies to take some form of action to protect consumers, vulnerable populations, and other stakeholders. Globally, regulation is attempting to mitigate the impact of this technology, much of which is being developed in the US. Tech companies are working closely with regulators around the world to balance the need for innovation *and* safety—to grow the applications and protect investments while protecting consumers at the same time. While AI's regulatory environment is disjointed and this year will only grow more so, limited semiconductor capacity globally both hinders the full potential of the "AI revolution" and presents an opportunity for semiconductor companies that can fulfill global demand and also navigate the fragmented regulatory environment.

Finally, elevated geopolitical competition in 2024 and a lack of trust between the main global powers will likely inhibit multilateral AI cooperation going forward. First, in the many global elections of 2024, we are likely to see malicious and new, not yet regulated ways that AI is utilized, such as the AI-generated speech of Pakistan's jailed former President Imran Khan claiming victory. As we see AI integrated into civilian tools, it is without a doubt that we'll see further development in military applications. As a result, a race to the bottom is likely to occur with AI being increasingly integrated into military applications, such as autonomous weapons and cyber warfare.

Conclusion

Multi-continental conflicts and an increasing lack of confidence in US presidential leadership—and in both major party presidential candidates—are reinforcing the notion that the unipolar world order is rapidly eroding. Parallel to these tectonic changes is the rise in the importance of Global South leaders in global diplomacy, international economics, and multilateral climate negotiations. Due to these trends, we can expect a more volatile geopolitical picture in 2024.

With more countries prioritizing national and economic security over tenets of economic liberalism and globalization, global risks are mounting and should be accounted for in business, supply chain, and investment strategies. Government relations functions within organizations are playing an increasingly critical role in long-term corporate planning, shifting from being a cost center to a risk mitigator. Corporate strategy *is* geopolitical. To successfully navigate the complexity of today's geopolitics, businesses must strive to understand, prepare for, and navigate the nexus between regional conflicts, elections, regulation, economic and climate policy, and their respective consequences.