

Geopolitical radar

The world prepares for Trump 2.0

- **Trump's re-election and red sweep in congress election implies that significant changes are expected in US foreign policy next year. Signs are emerging that warring parties in Europe and Middle East are already preparing for Trump 2.0.**
- **In Middle East, Israel and Hezbollah have agreed on a ceasefire deal. In response to North Korean troops joining Russian ranks in the Kursk battle, the US has given Ukraine green light to use long-range missiles on Russian territory.**
- **US-China relations are heading for stormy waters under Trump with fierce China hawks in key foreign policy positions. Trump has fired the first shot in the coming trade war but not the last. On Taiwan, tensions will remain high, but the US strategy is to deter a war, not trigger one.**

Middle East: Uncertainty remains despite truce in Lebanon

Israel and Hezbollah have agreed on a ceasefire that entered into force today (27 Nov).

In the best case, the deal ends a conflict that has lasted for more than a year and could pave the way for a truce in Gaza as well. In practice, the road to sustainable peace in the region is still a rocky one, as Gaza truce talks remain deadlocked. Also, the question for Lebanon is whether the truce will hold. Hezbollah is technically not a party to the agreement, but the Lebanese government negotiated on its behalf. Furthermore, Israel retains the right to respond to any new attacks by Hezbollah.

The deal should be seen against the background of Netanyahu preparing for a regime change in the US. President-elect Trump has publicly stated he wants Israel's wars in Lebanon and Gaza to end quickly. Privately, *it seems* Trump had communicated a clear timeline – the war should end before he enters office in January. Hence, Netanyahu may have signed the deal with Hezbollah as a “*gift*” to Trump. Allegedly, Trump has said he could still support Israel's “*residual*” operations in Gaza, whatever that means. Netanyahu may have calculated that if concessions have to be made, Lebanon is the place, as Hezbollah leadership is largely eliminated by now.

Regardless of the good news from Lebanon, conflict in the region remains and Israel's war operations continue in Gaza. In November, the International Criminal Court (ICC) *issued an arrest warrant* for Israeli Prime Minister Netanyahu and former Defence Minister Yoav Gallant, as well as for Hamas Commander Mohammed Deif (who Israel claims to have eliminated in July). The ICC says there are reasonable grounds that the three men bore criminal responsibility for alleged war crimes and crimes against humanity.

The ICC's ruling on Netanyahu is unprecedented in the sense that it is the first time the court issues an arrest warrant for a political leader broadly supported by Western leaders. The ruling means all *ICC member countries* are obliged to arrest Netanyahu if or when he would enter their state territory. The US is not a member, and Biden has publicly criticised the ICC ruling, but several European heads of state have said they respect the court's decision.

Key events in 2024

- **November:** Ceasefire in Lebanon, ICC arrest warrant on Netanyahu
- **October:** North Korea sends soldiers to Russia's war in Ukraine, Iran-Israeli missile exchange
- **September:** Fighting between Israel and Lebanon escalates
- **August:** Ukraine makes advance further into Russian territory
- **July:** High-ranking Hamas and Hezbollah officials assassinated in Beirut and Teheran
- **June:** EU raises tariffs on imports of Chinese EVs
- **May:** Israel moves into Rafah
- **April:** US approves a new USD 61bn package for Ukraine
- **April:** Iran and Israel exchange missiles for the first time
- **March:** Terrorist attack in Russia, Putin wins staged election
- **February:** Russian opposition leader Navalnyi dies in prison
- **January:** Red Sea trade route disrupted due to Houthi attacks
- **January:** DPP wins Taiwan election but with weaker mandate

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Trump's Cabinet occupied by Iran hawks

Trump has announced a complete list of people to lead the nation's 15 executive agencies under his upcoming presidency. The key nominations from the perspective of the current geopolitical tensions, are Trump's picks for Secretary of State, Marco Rubio, and Defence Secretary, Pete Hegseth, an army veteran and a TV host. Rubio is a known hawk on China and Iran, while *Hegseth has tied* US foreign policy almost entirely to the priority of Israel. In 2020, he suggested in his book that US should ignore Geneva conventions and international laws.

It remains difficult to anticipate how Trump's return to the White House might shift US policies in Middle East. On the one hand, Trump has insisted Israel should end their current war operations in the region. On the other hand, his Cabinet picks point towards a very hawkish stance on Iran, disrespect of international laws, and possibly a more tolerant attitude towards using brutal force. It is possible that Israel and the US share the ultimate objective – destroying the arch enemy, the Islamic regime of Iran. If that is the case, any ceasefire deals in Lebanon (or Gaza for that matter) might only be a prelude to a more severe conflict where Israel targets the Islamic Republic of Iran and its leaders directly.

Russia-Ukraine: Ukraine's toolbox expands, emerging signs of hybrid warfare in Europe

Since our previous update, the most important development in Russia's war in Ukraine is the Biden administration granting permission to Ukraine to use long-range missiles on Russian territory. The decision came as a response to North Korean soldiers joining Russian ranks in the Kursk battle, and it is unclear if Ukraine would have a mandate to deploy such weapons outside the Kursk region. While this decision does not alter our assessment of the conflict in near term, it does help Ukraine in retaining a better negotiating position if Trump administration pushes the warring parties into immediate peace talks.

North Korean troops are not the only foreign fighters that Russia has recruited lately to the front lines. This month, *media reported* that Russia has also recruited hundreds of Yemeni men (Houthi) to fight in Ukraine. Mercenaries have also joined from Nepal and India. These actions signal that Russia is also seeking to improve its negotiating position by gaining on the battlefield and aims to do that without deploying more domestic troops. Russian rapprochement with the Houthi may have broader implications, also for the conflict in Middle East, as reportedly Russia has discussed weapons transfers with Houthis. The rebel group has been wreaking havoc and disrupting traffic in the Red Sea since January.

On another note, shortly after US announcement on the permission for Ukraine to deploy long-range missiles, two undersea cables in Northern Europe were found damaged, raising suspicions of sabotage. Authorities are currently investigating a Chinese vessel that travelled through the Baltic Sea at the time. A week later, a DHL cargo plane crashed in Lithuania, and immediately after, German foreign minister raised the possibility of sabotage. While speculations of sabotage may prove false, they are a sharp reminder of what hybrid warfare could look like. Along those lines, *Lithuanian foreign minister said* NATO needs to agree on red lines for hybrid attacks – more specifically, what triggers article 5.

US-China relations heading for stormy waters next four years

The re-election of Donald Trump as US President puts US-China relations on track for a rocky outlook. **As expected, Trump has appointed or nominated some pretty fierce China hawks** in key foreign policy positions such as Secretary of State (Marco Rubio), National Security Adviser (Mike Waltz), Secretary of Defence (Pete Hegseth) and John

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Ratcliffe (CIA Director). Waltz has openly stated that the US is in a cold war with China (something Biden said they did not want). We expect to see a further US military presence in the Indo-Pacific, a scale-up of arms sales to Taiwan, a stronger focus on de-coupling from Chinese supply chains and more tech sanctions to weaken China's tech development – especially within microchips, AI and quantum computing.

On the trade front, Trump has already fired the first tariff shot with 10% additional tariffs on all products from China. It implies that tariff rates will now be 35% on Chinese goods worth around USD250 bn. Trump says on Truth Social that the tariffs on China are due to China's lack of follow-through on stopping Fentanyl coming into the US via Mexico. We are likely to see further tariff hikes at a later stage motivated by a broader protectionist move to compensate for Chinese subsidies and to divert American supply chains away from China and back to the US. Trump also launched 25% extra tariffs on Mexico and Canada. The tariffs on Mexico could actually benefit China as it makes it less attractive to move production from China to Mexico as some companies have already done. In general Trump has caused more uncertainty for businesses of where to move production. Countries such as Vietnam could suddenly face high tariffs as well due to a ballooning trade surplus with the US in recent years.

On a positive note, Trump's picks for key trade positions have been slightly less hawkish than feared providing hopes for a little less aggressive approach than could otherwise have been imagined. Key figures will be Treasury Secretary Scott Bessent, a 62-year old hedge fund manager, and Commerce Secretary Howard Lutnick, an investment banker with *business ties* to China. *Bessent* said in an FT interview in October that Trump's tariff proposals were "*maximalist*" positions that would probably be watered down in talks with trade partners. Lutnick has also argued tariffs were a negotiating tool saying in a podcast that "*Of course, it's a bargaining chip*" although he also stated "*You've got to tariff the rest of the world. Keep them the heck out. Bring manufacturing back here*". One of the most hawkish trade figures, Robert Lighthizer, had been mentioned for a top position but has not been appointed. Another balancing figure could be Elon Musk, who has significant knowledge on China and key business interests with around 1/3 of Tesla revenues coming from China. Yet, at the end of the day, we are likely to see a decent tariff hike on China as part of a strategy to get concessions and to force further decoupling from China.

We believe a hike to 40% on the majority of goods from China is likely during 2025. China is likely to retaliate and we could be in for a tit-for-tat escalation as we saw in the first trade war that could last for a year or more. It will increase uncertainty over how far escalation can go. Similarly on the tech front, China can be expected to respond to new sanctions with export controls on more rare earth minerals. Hence, we may be in for a rocky ride over the next 1-2 years. Whether the two sides can again make a trade deal or not is hard to say. We doubt, though, that China will change its' industrial policies significantly and a large part of the tariff increases should be expected to stay. The tariffs will add a new headwind to Chinese growth during 2025. However, it is worth noting that exports to the US from China have fallen to 13% of total Chinese exports and that a depreciation of the yuan will absorb some of the tariff increase. Importers will likely also bear some of the extra cost. Nevertheless, our guesstimate is that tariff increases in 2025 will cut off around 0.5%-points of Chinese GDP growth next year due loss of export market share and an overall rise in uncertainty hitting investments. We will soon publish new global forecasts to reflect this.

Taiwan tensions to remain high – but we don't see a war coming

On Taiwan, Trump has created uncertainty with statements like “*Taiwan took our chip business from us, I mean, how stupid are we?*” and “*I don't think we're any different from an insurance policy. Why? Why are we doing this?*”. He also stated that “*Taiwan is 9,500 miles away. It's 68 miles from China*”. The comments have left doubts over whether the Trump would defend Taiwan directly in case of a war. The US official policy has for many years been ‘strategic ambiguity’ where they have not stated directly whether they will defend Taiwan or not. However, they have committed to support Taiwan’s defence leaving it unclear if it is through supplying weapons or with direct involvement. Joe Biden deviated several times from ‘strategic ambiguity’ when he said the US *would* defend Taiwan but it was always backtracked by White House officials. Many Republicans, *including Vivek Ramaswamy*, have argued for a *move to ‘strategic clarity’* with the US declaring openly that they *would* defend Taiwan directly. Such a move would increase tensions with China. The US may also invite Taiwan to participate in the so-called *RIMPAC* in 2026, the world’s largest maritime military exercise taking place bi-annually. This would likely add significantly to frictions with China.

The most pressing issue, though, is that the Trump administration does not leave the One China policy and declare Taiwan as independent. That would be crossing China’s red line and a trigger for military action. There are no signs that Trump would take this step but instead the US strategy will continue to be one of deterrence – *or ‘peace through strength’* as Trump’s security mantra states parroting former *President Ronald Reagan’s foreign policy* statement. While we don’t see a military conflict around Taiwan as likely in the next four years, we do expect to see a continued high level of tension and US actions to trigger further Chinese responses with extensive military drills around the island.

When it comes to communication lines between the two major powers, it is unclear if Trump will continue the improved dialogue that Biden increasingly prioritised during the last year of his Presidency. It *came under fire* from some Republicans as a sign of weakness. Open lines of communication is key to make sure that the tense US-China relationship does not veer into conflict, and to handle the risks from any mishaps if they should happen, such as the *US bombing* of China’s embassy in Belgrad in 1999 or the mid-air collision in 2001 of a US surveillance plane and a Chinese fighter jet.

China continues to strengthen relations with the Global South

Xi Jinping’s trip to the G20 meeting in Brazil provided yet another move to *strengthen relations with the Global South*. At the meeting Xi announced a range of measures designed to support Global South countries and among other things along with Brazil, South Africa and the African Union launched an “Open Science International Cooperation Initiative” designed to funnel scientific and technological innovations to the Global South. Xi stated that “*China does not seek to be a single player, but rather hopes that 100 flowers will blossom and that it will work hand in hand with the vast number of developing countries to achieve modernization.*” During his trip to South America he also visited Peru, where he joined the *opening of a China funded massive deep water port*, a part of China’s Belt and Road Initiative. On his way back from South America, Xi *stopped in Morocco*, another Global South country, for a first-time visit.

We are in the process of reviewing our baseline scenarios to reflect the changes in US foreign policies under Trump 2.0. We will publish the updated baseline scenarios early next year.

Appendix 1. Historical timeline



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