



Top Geopolitical Trends 2025

February 2025

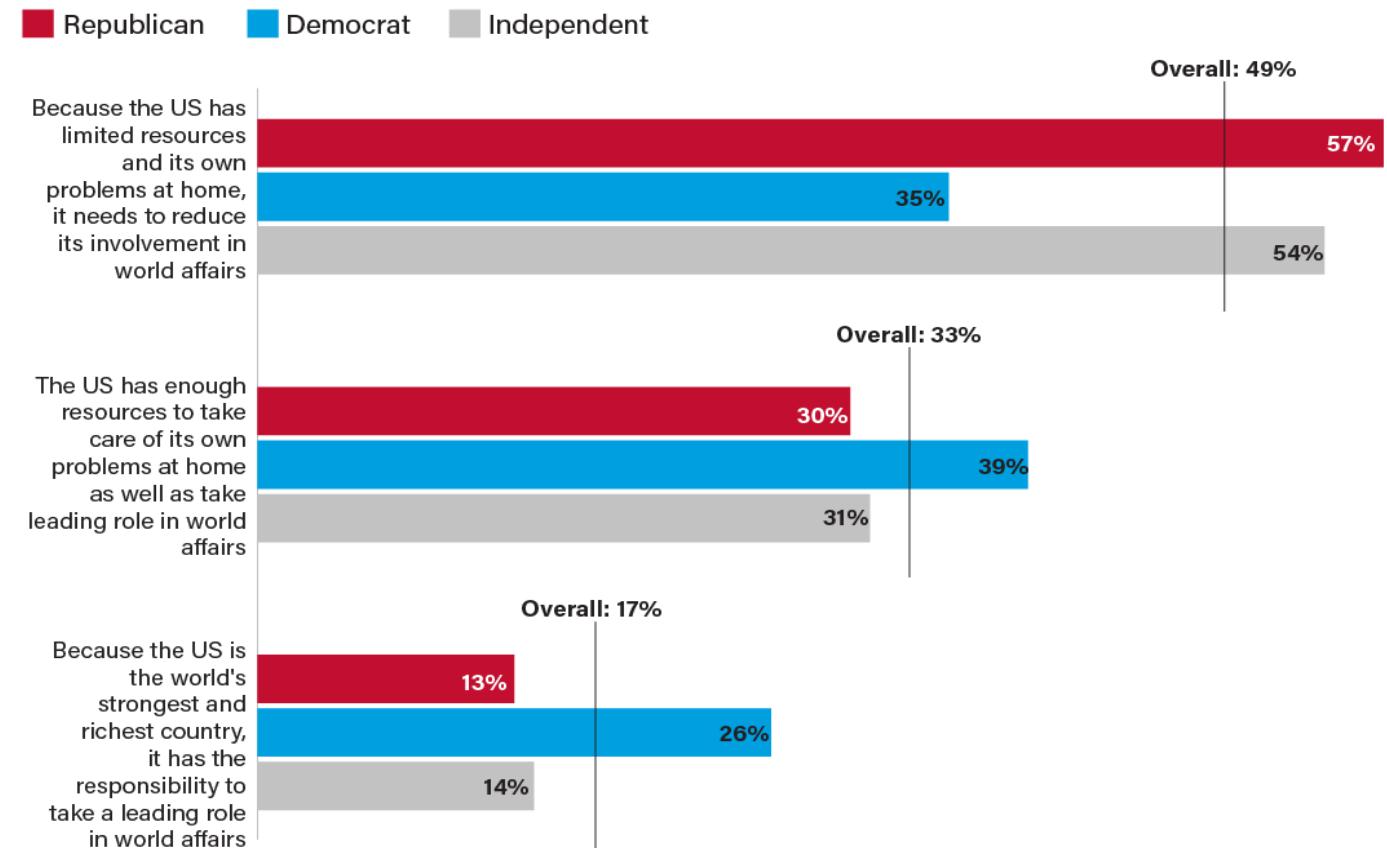


Geopolitical recession

- The global leadership deficit is growing critically dangerous, with no one willing and able to drive a global agenda and maintain international order.
- This is amid a deepening geopolitical recession, when core international institutions no longer reflect the underlying balance of global power.
- With no prospect for peaceful reform or renewal of the global order, the world faces endemic geopolitical instability, more and bigger power vacuums, emboldened rogue actors, and a higher risk of accidents, miscalculations, and conflict.
- We're entering a uniquely dangerous period of world history on par with the 1930s and the early Cold War.

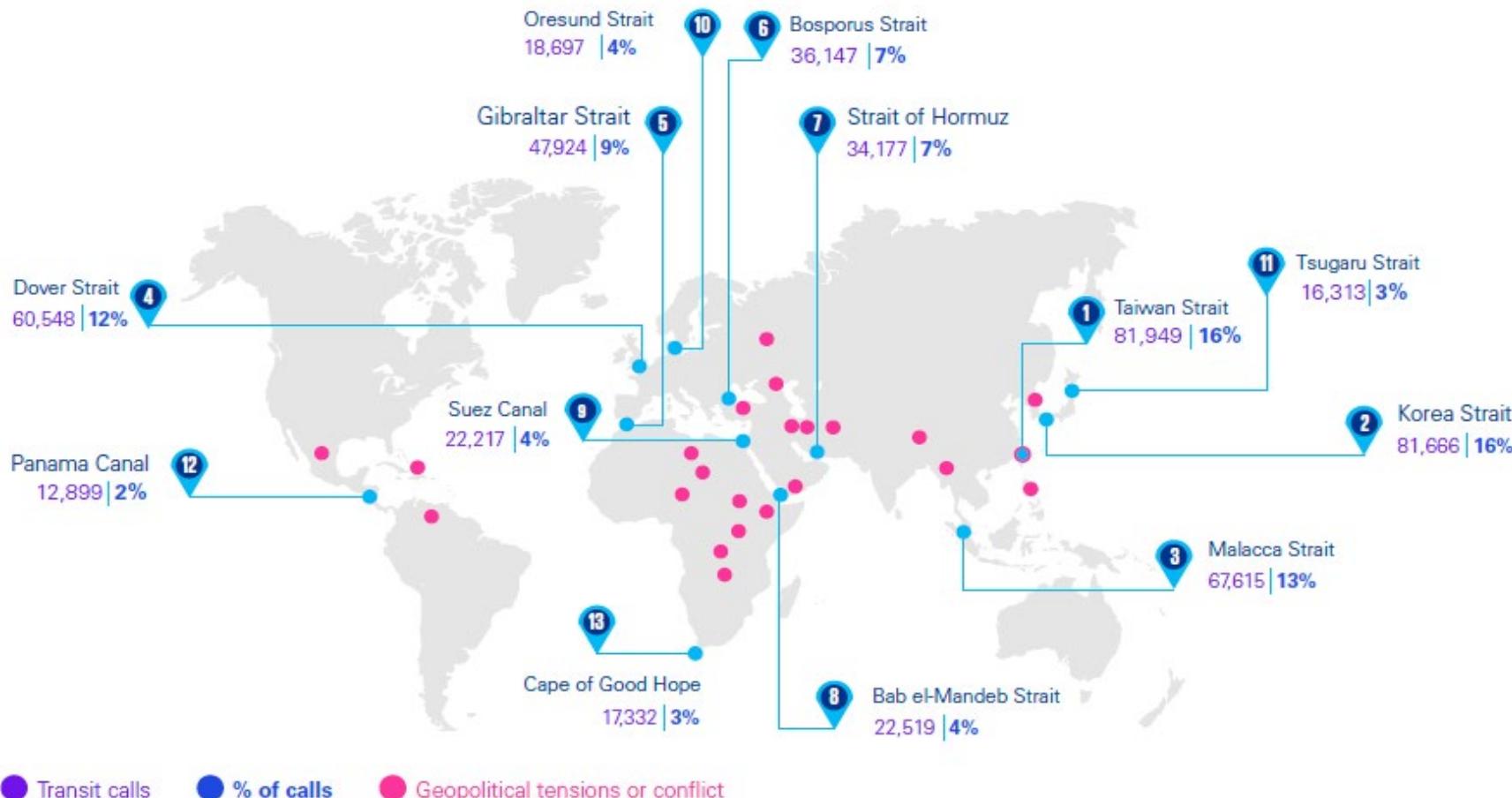
US responsibility in world affairs

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



Rise in global conflict increasing business volatility

Issues for business: operations and people safety; cybersecurity; critical infrastructure security; resilience and continuity plans



In 2023,
92 countries
were involved in some
form of conflict, compared
to 58 in 2008.

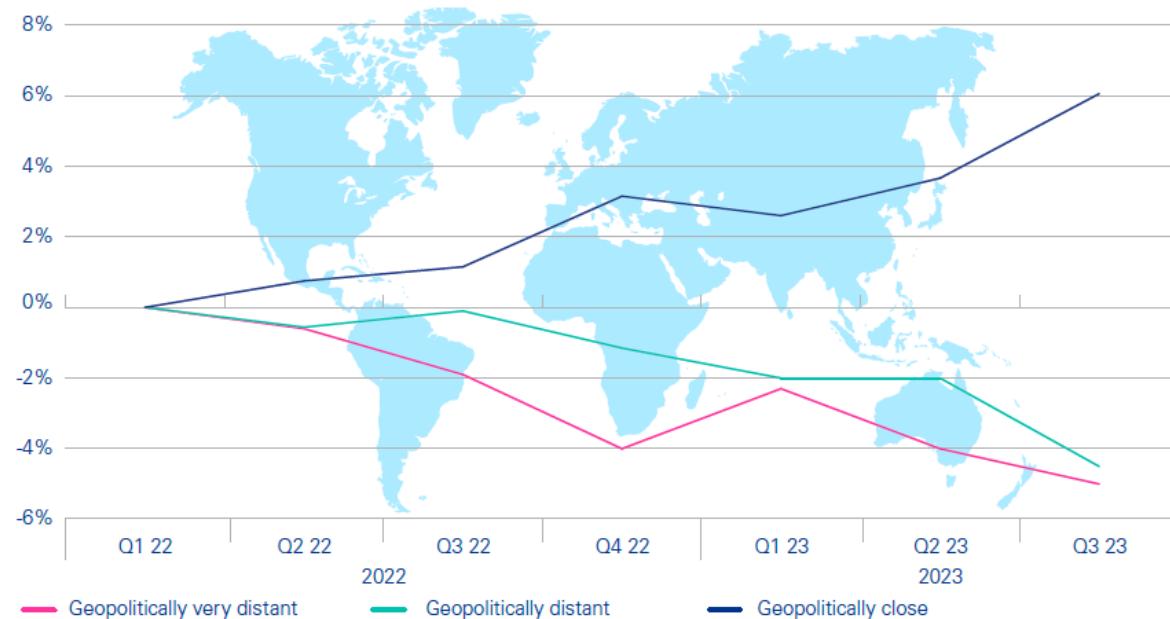
Global conflict cost an
estimated
13.5 percent
of global GDP in 2023.

Worldwide military
expenditure increased
by 6.8 percent in real
terms in 2023, to reach
a new high of
\$2.44 trillion.

Geopolitics keeps driving global trade shifts

In 2024, more than 3000 trade restrictions were imposed around the world, a slight decline since the peak of 2023 but still an all-time high level.

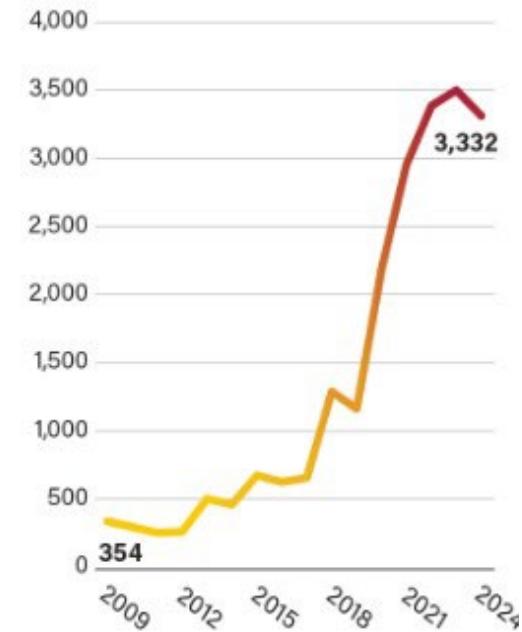
Global trade patterns take a geopolitical turn (Average change in bilateral trade with each group since Q1 2022)



Source: UNCTAD calculations based on national statistics.

Note: Bilateral trade is categorized into 3 groups according to the geopolitical closeness index utilizing UN voting records as a metric. The figure then plots the change in the trade share of each of these groups taking Q1 2022 as basis. Data is weighed averaged and excludes intra European Union. Data excludes services.

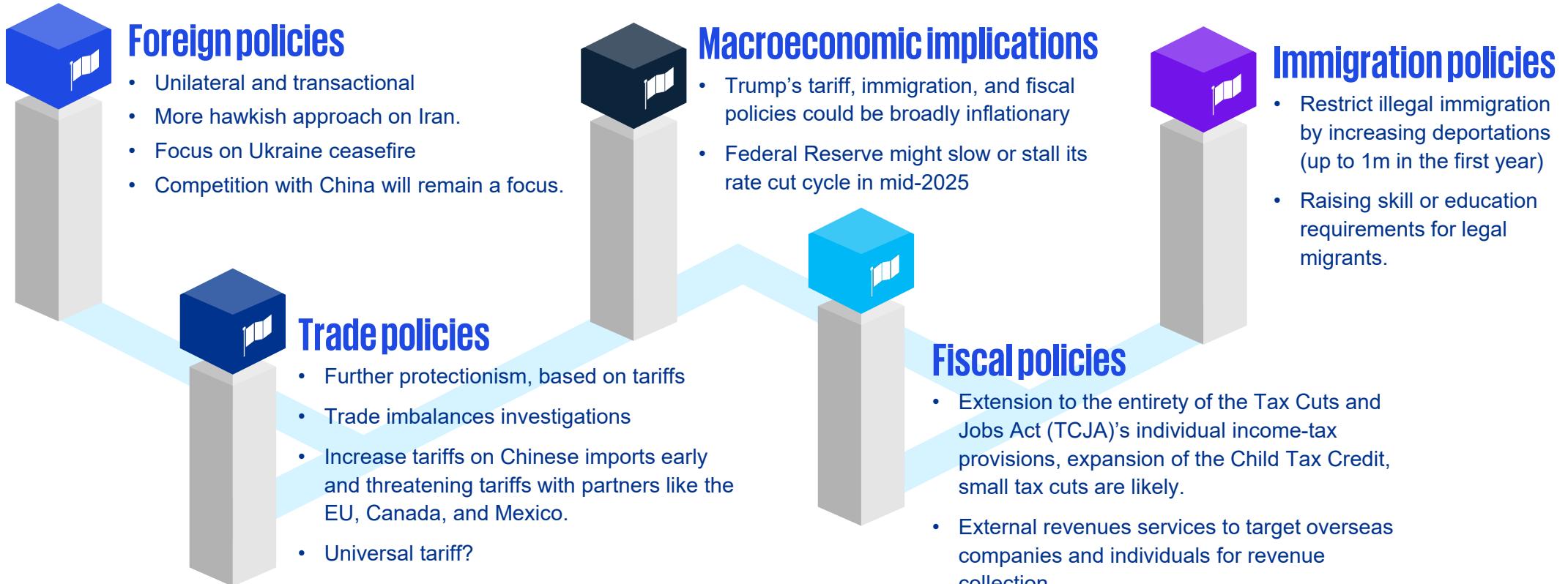
Global trade restrictions imposed (Number of measures)



Note: Trade interventions classified as harmful by Global Trade Alert
Source: Global Trade Alert

Trump 2.0 takes off

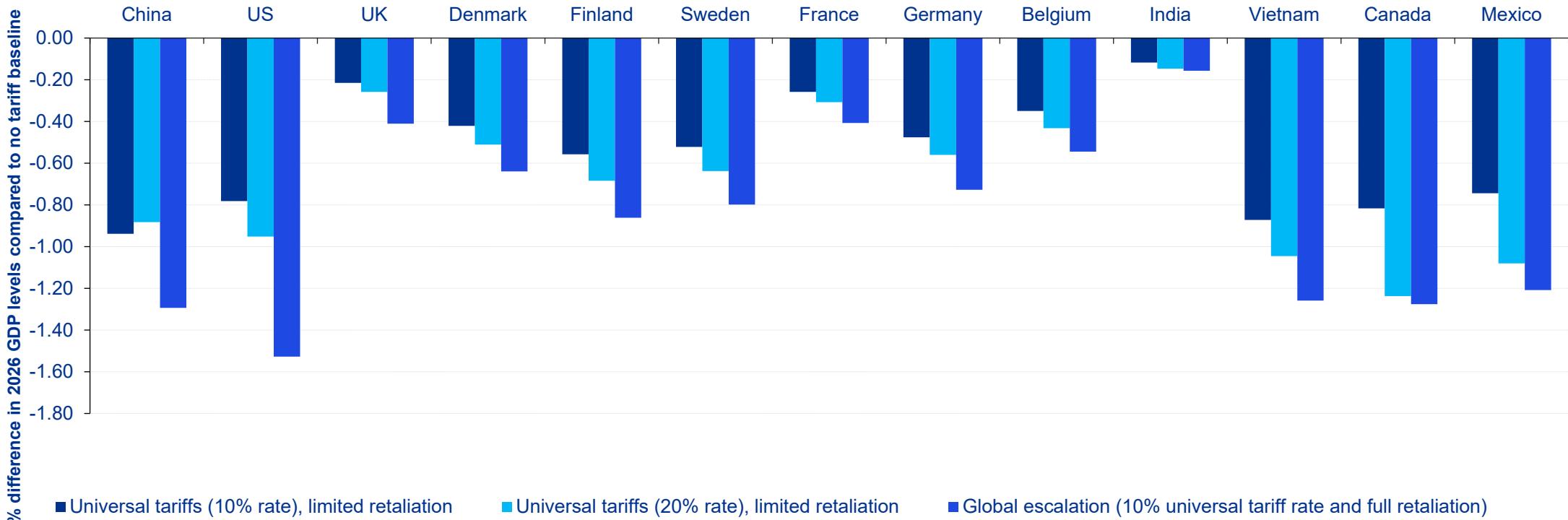
Mr. Trump has received a powerful mandate, making it more likely that he will be able to implement his policy agenda of tighter immigration, trade tariffs and transactional international arrangements



Sources: Eurasia Group database, accessed on 11 November 2024

Impact of potential tariff-war scenarios

GDP impact of tariff scenarios on selected economies



Source: KPMG analysis and assumptions modelled using the Oxford Economics Global Economic Model



US-China relations

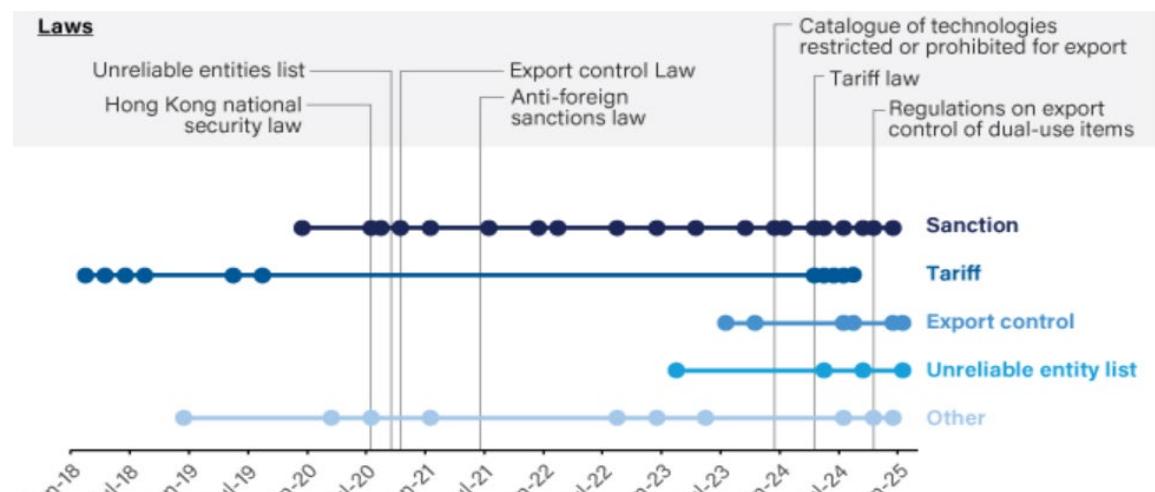
- In 2025 we could see a return of the unmanaged decoupling in the world's most important geopolitical relationship.
- Early tariffs and other hawkish moves from the Trump administration could overwhelm the relationship's weak stabilizers and force China to respond.
- Neither President Trump nor President Xi seeks a crisis and both prefer a deal, but conditions for compromise are not there, especially given limited management and communication channels.
- Breakdown in relations could hurt both economies, further fragment the global economy, and increase risks of unintended escalation.

Scenarios in US-China relations for the next four years: Eurasia Group

	2025	2026	2027	2028
Bargain: Dovish backchannels, Trump's desire to deal, and Chinese concessions lead to a bargain that avoids large-scale tariff escalation	10%	10%	10%	5%
Managed decoupling: Less hawkish voices lead on trade, increasing the probability that both sides can reach a deal mid-term after tariff escalation	30%	40%	50%	40%
Unmanaged decoupling: Trade hawks push maximal trade decoupling and security hawks quickly cross Beijing's red lines, leading to a freeze in bilateral relations	45%	35%	25%	35%
Crisis: Washington or Taipei change the status quo on Taiwan policy, provoking Chinese military escalation such as island seizure or blockade	15%	15%	15%	20%

Source: Eurasia Group

China's trade retaliatory actions by tool



Source: Eurasia Group, government and media reports. *Export controls include adjustments that are not explicitly targeted at the US.

Russia

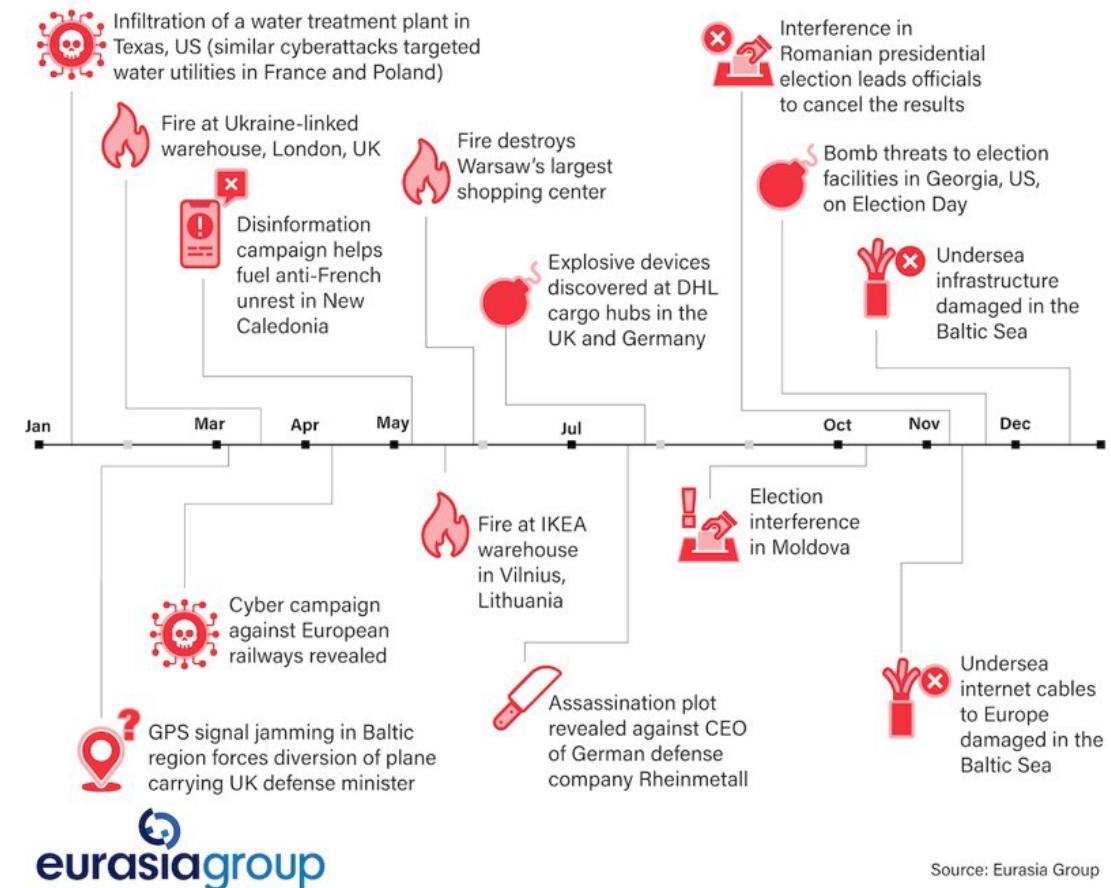
- President Trump could achieve a fragile ceasefire in Ukraine, with Russia in de facto control of conquered territory. It will probably last through the year but not much longer.
- Both Russia and Ukraine will escalate early this year to gain leverage in ceasefire talks.
- The ceasefire risks undermining Europe's security architecture, leaving it exposed to asymmetric Russian attacks.
- US transactional approach could weaken NATO and embolden Putin.
- Russia continues to deepen ties with Iran and North Korea, potentially supporting their nuclear programs.



KPMG

Russia's hybrid campaign in 2024

Incidents formally attributed to Russian actors or with suspected Russian involvement



TOP RISKS 2025

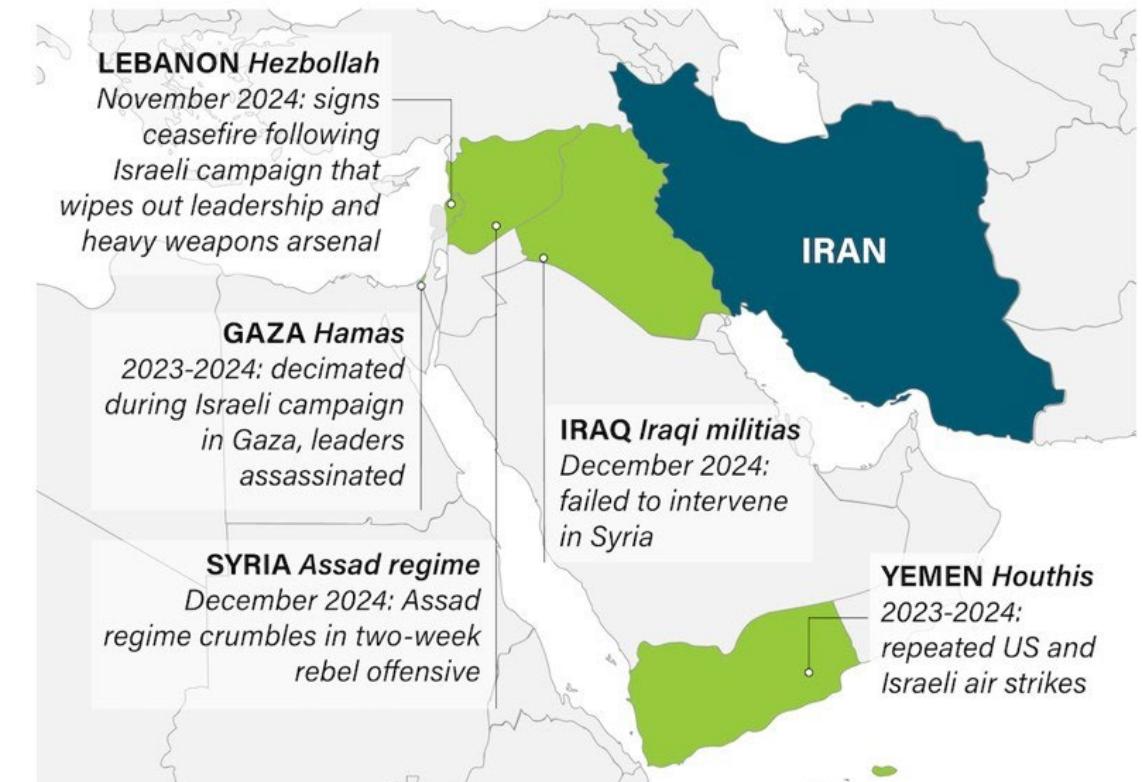
Source: Eurasia Group



- After the downfall of its Axis of Resistance, Iran is vulnerable and exposed.
- Israel sees Iran's weakness as a window to target the regime in Tehran, while Trump will return to "maximum pressure."
- The Israeli government could be eager to strike Iran's nuclear program, but they need US support. And unless Iran dashes for a bomb, President Trump would be reluctant to start a major war.
- Still, accidents or miscalculations – combined with Iran's domestic weakness – could trigger uncontrolled escalation.
- Khamenei may face a crucial choice in 2025: negotiate with Trump and potentially giving up the nuclear program; or dash for a bomb and turn Iran into a garrison state, exposing the regime to mounting internal and international pressure.

Weakened Iran's 'Axis of resistance'

TOP
RISKS
2025

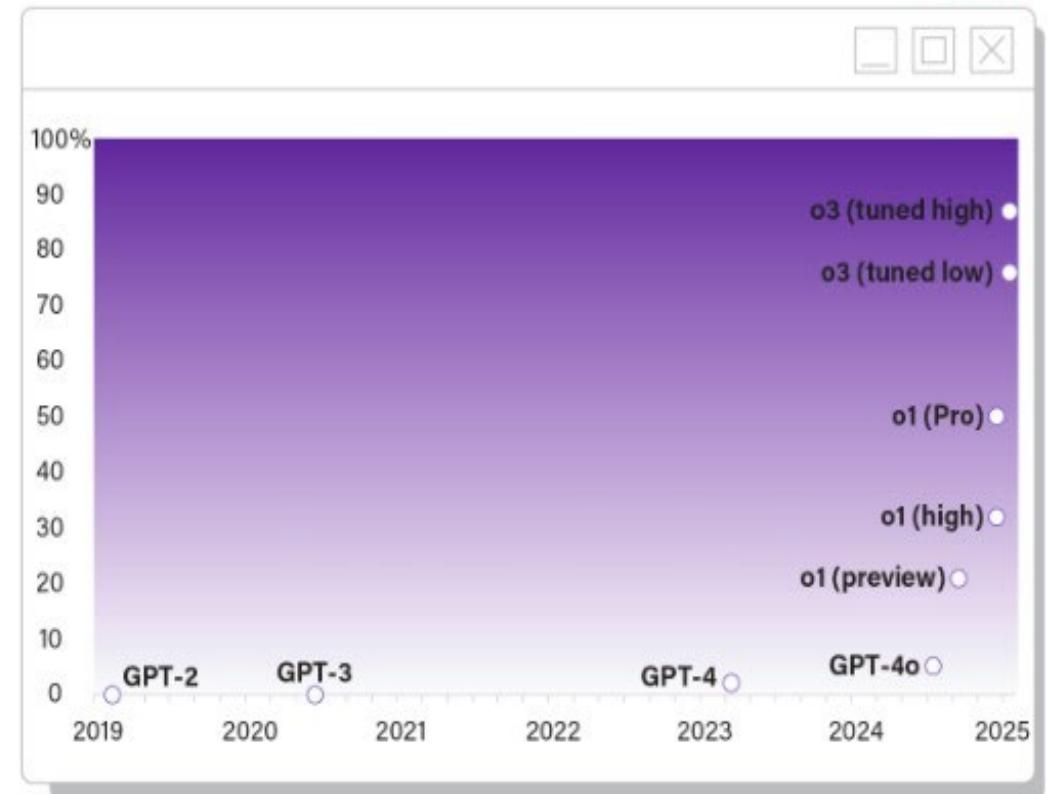


AI unbound

- AI capabilities and risks will continue to grow unchecked as most governments opt for lighter-touch regulation and international cooperation falters.
- 2025 will see even existing safeguards eroded as countries and firms compete for geopolitical and commercial advantages.
- Lack of global leadership and US-China competition will make cooperation and regulation even harder to achieve.
- The risks of disruption, catastrophic accident, and uncontrollable “breakout” will grow.
- AI advancement won’t be held back by regulation, but it will run into a constraint: energy availability.
- Inadequate power grids, data localization rules, environmental requirements, complex permitting processes, and local community resistance will all factor into tech companies’ ability to get the energy they need when and where they need it.
- These dynamics will create new winners and losers. Net-zero commitments could take a back seat to rising power needs.

OpenAI's latest models are approaching human-level performance against benchmarks

TOP RISKS 2025



But...Geopolitical bright spots

- **AI:** The global AI boom is driving economic growth but also intensifying US-China competition, necessitating robust international governance
- **India:** Rapid economic growth, effective geopolitical balancing, and reform progress support India's outlook
- **ASEAN:** Southeast Asia's major economies are benefiting from declining US rates, relatively low political risk, reshoring trends, and geopolitical shifts, notably Vietnam's manufacturing boom
- **Latin America:** Rise in FDI and abundance of critical minerals to add to economic growth
- **MENA:** Grand Bargain in 2025?
- **UK:** Improving EU relations could bolster economic confidence and investment

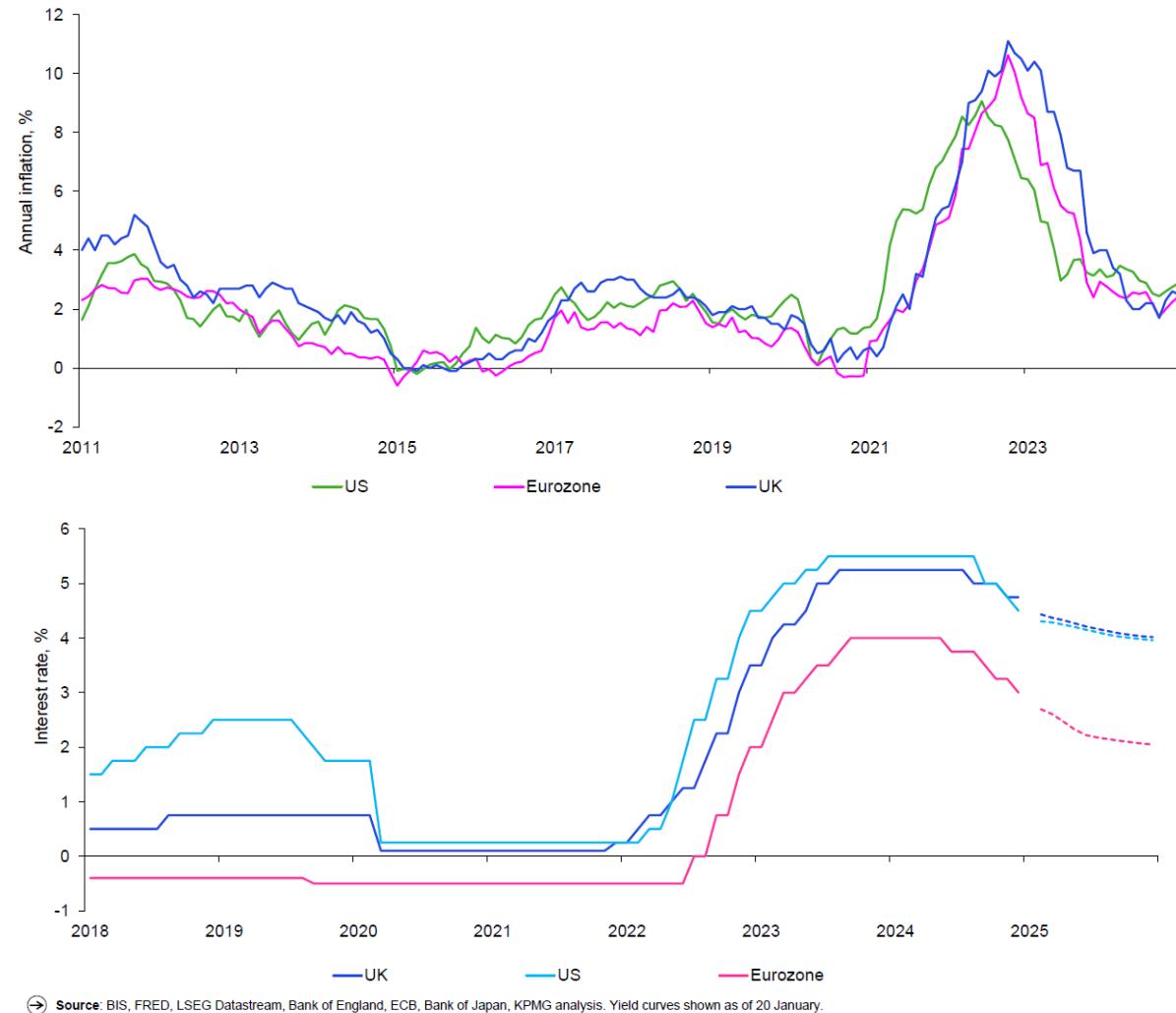


Geopolitical bright spots – focus on Europe

European resilience

This year will test the maxim that when faced with a crisis, the EU always pulls together. But rather than break, Europe should once again overcome—or at least muddle through—the considerable geopolitical and economic challenges it faces in 2025.

- The EU could benefit from stronger leadership and lower inflation.
- It is expected to remain united in support of Ukraine.
- Populists are unlikely to undermine EU cohesion meaningfully.
- The EU should be able to mount a cohesive response to the new US administration's trade demands.



Source: BIS, FRED, LSEG Datastream, Bank of England, ECB, Bank of Japan, KPMG analysis. Yield curves shown as of 20 January.

Geopolitical bright spots – focus on energy transition

The global energy transition continues albeit at different speeds

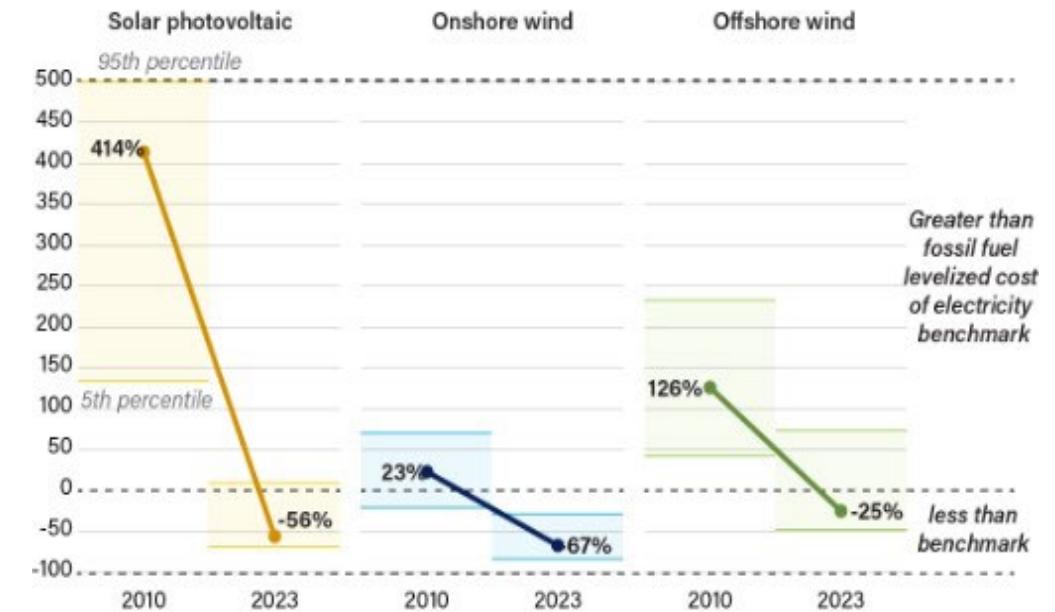
There is increased anxiety that the global energy transition will stall this year. But the transition has already reached momentum; despite bumps in the road, it should continue to power forward.

- Driven largely by economic self-interest and falling renewables prices.
- China, Europe, and emerging markets should continue to see the transition as being in their economic and strategic interest.

TOP
RISKS
2025

Change in cost benchmarks of solar and wind electricity generation compared to fossil fuels, 2010-2013

Global weighted average compared to fossil fuel benchmark



eurasia group

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

EG Top Risks 2025

Eurasia Group - Top Risks 2025

Every year, our global alliance partners at Eurasia Group identify the top 10 geopolitical risks with the highest potential impact on global business:

1. GZERO wins
2. Rule of Don
3. Trumponomics
4. US-China breakdown
5. Russia still rogue
6. Iran on the ropes
7. Beggar thy world
8. AI unbound
9. Ungoverned spaces
10. Mexican standoff

Red herrings

- Trump fails
- Europe breaks
- Energy transition stalls



**Thank
you for
listening!**

**Top Geopolitical
Trends 2025**

Stefano Moritsch

