

Key issues

- European leaders at the MSC made lots of statements on what needs to be done, but showed no clear path towards stepping up support for Ukraine or boosting European defense.
- The US continued to push for a regional deal in which Israel and Saudi Arabia establish official relations; whilst Saudi Arabia remains strongly supportive, there are so far no signs of Israel and Hamas coming closer to even a cease-fire.
- Sino-US tensions have recently stabilized on the back of deliberate diplomatic efforts, but continue to be prone to escalation.
- At the onset of a global “super-election year,” governments and the private sector are working to increase resilience against (AI-powered) disinformation campaigns, ranked by the World Economic Forum as the number one threat for 2024.

Lose-Lose – that is the title of this year’s Munich Security Report, the annual flagship publication of the Munich Security Conference. It was also an apt description of the gloomy mood among government officials and security experts gathered on February 16 – 18 at the *Bayerischer Hof* in Munich.

Once again, the Munich Security Conference provided an opportunity to feel the pulse of the global state of geopolitics. This year, the unsuccessful counter offensive in Ukraine, the Gaza war launched by Hamas’ October 7 assault on Israel, Trump’s campaign-trail statements questioning his commitment to the NATO alliance and doubts about the Europeans being able to step up all contributed to a deep sense of anxiety and frustration. Most of all, however, the Friday shock announcement of Russian opposition leader Alexei Navalny’s death contributed to the Russian aggression against Ukraine dominating the public part of a conference that had started out with a focus on the global south.

Below please find our report on the Munich Security Conference and outlook for geopolitics in 2024.

Bracing for impact – Trump 2.0

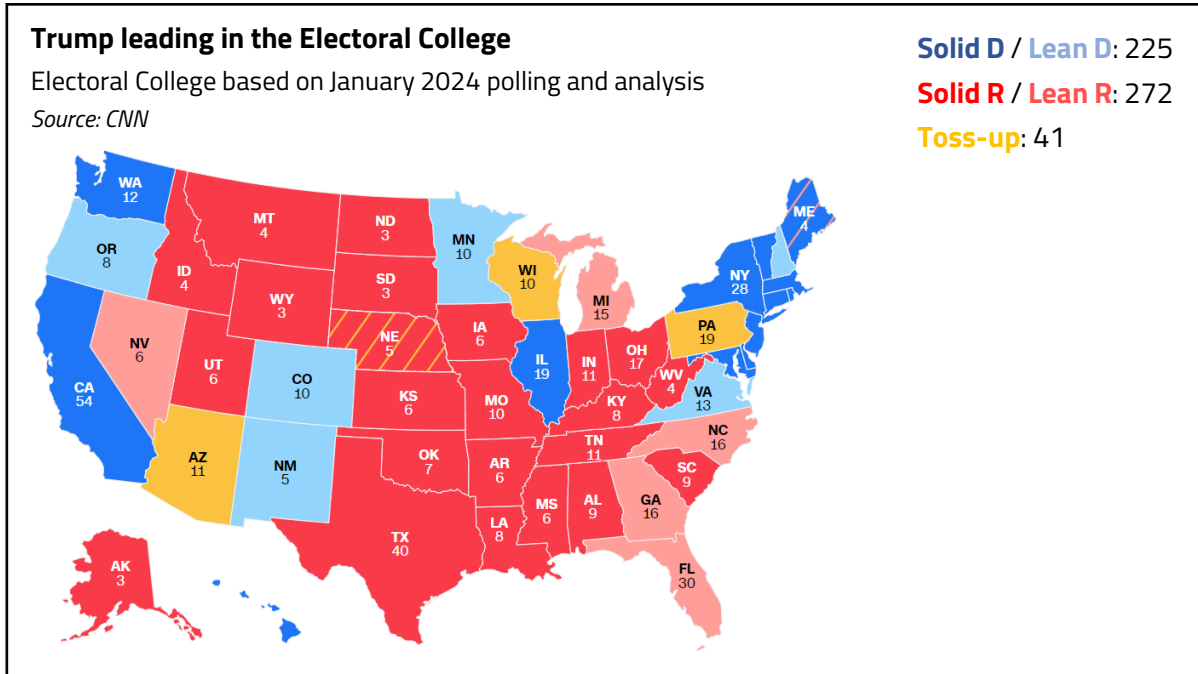
Roaming around the Munich Security Conference, you could be forgiven for thinking that Donald Trump had already won the election. European leaders in particular were rattled by Mr. Trump’s latest disparaging of NATO earlier this month.

Rather than Trump’s strength it is the Democratic incumbent’s historic weakness that is putting Trump in the pole position to win the November election should current polling hold (see CNN assessment below). President Biden is polling poorly with Hispanics, Blacks and young white voters, who specifically disapprove of his handling of the Israeli war in Gaza, complicating the president’s electoral map particularly across the Sunbelt.

At the same time, getting anything done in Congress will be increasingly difficult ahead of the presidential election in November. None of the US officials from the administration or Congress present at the conference could give credible assurances that the GOP-led House would soon put the Senate’s bill on military aid

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for Ukraine, Israel and Taiwan to a vote – only deepening the sense of a geopolitical void opened up by the US’s domestic divisions. Already now, Congress’s dithering on supporting its allies is denting trust in US commitments.



Even more so, a re-election of Donald Trump would once again usher in a more transactional US administration. His first significant geopolitical step may be to push both Putin and Zelensky hard on a cease fire along the current front line – threatening Putin with a massive step up and Zelensky with a complete withdrawal of US military aid. At the same time, he would push Europeans to carry a greater defense burden while re-focusing America’s international economic policy on generating trade surpluses. Simultaneously having to finance increases in defense spending, a rebalancing of their economic footprint away from exports to the US while at the same time continuing to pursue the climate transformation could further imperil the already fragile state of European politics.

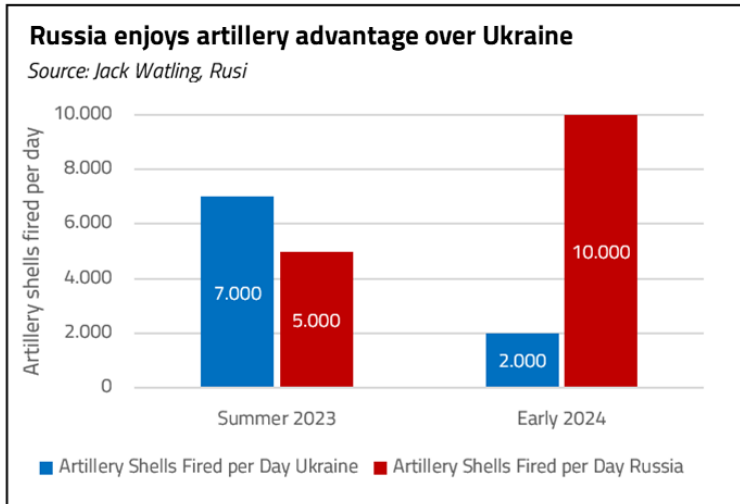
“If necessary, alone?”

The West now finds itself on a severe backfoot in an arms race with Russia and its suppliers of military kit, Iran and North Korea. However, Congressional Republicans seem unwilling to play ball. At an estimated €10.2bn, Russia’s monthly spend on its war in Ukraine is roughly double that of the combined Ukraine Defense Contact Group’s monthly spending of €5.3bn. Particularly in the field of the all-important 155mm artillery shells, sluggish Western support has now provided Russia a battlefield advantage.

The Estonian Defense Ministry calculates that in order to provide Ukraine with the necessary equipment to beat back Russia by 2026, Western allies would have to provide 0.25% of GDP, or €120 billion annually, far exceeding what is currently being provided, while the director of the Kiel Institute’s Ukraine research tracker

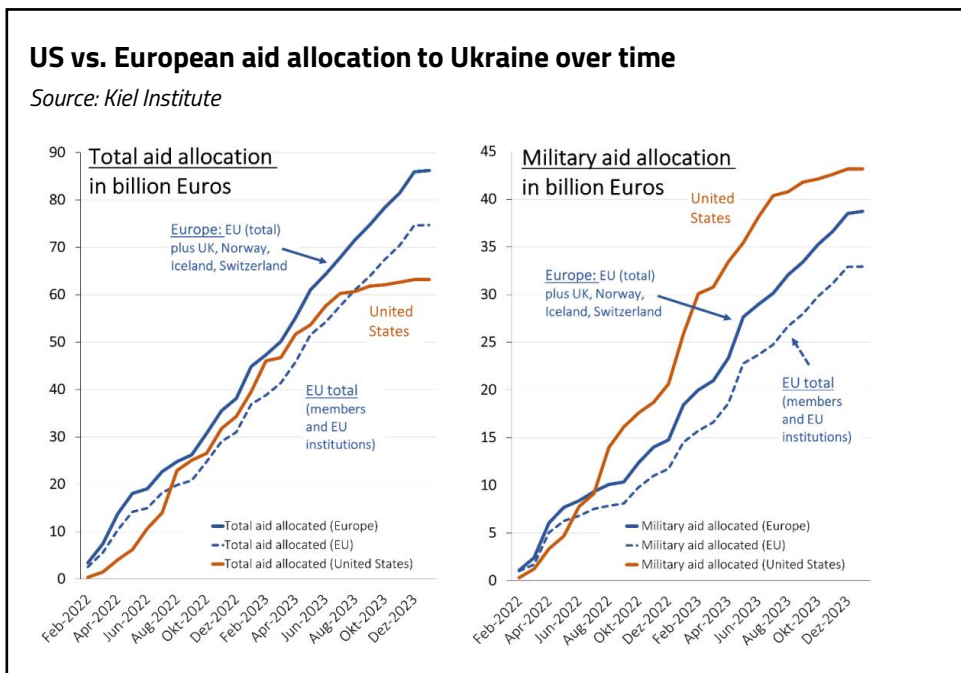
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believes that European states would have to at least double their military support of ca. €40bn to offset the loss of US aid.



There was no shortage of strong words at the conference from European leaders like Rutte or von der Leyen, but how Europe would effectively deal with an end of US military support remained completely in the air. Also, the noteworthy absence of Tusk and Macron (Meloni not attending was less of a surprise) was particularly highlighted by the fact that the signings of bilateral support agreements for Ukraine prior to Munich could have been turned into a strong statement had they taken place jointly at the conference.

Beyond the obvious resources and capabilities gap, a bigger question has to be raised: so far, chancellor Scholz’s strategy has been to tie his government’s policies closely to the US’s, delivering the same kind of kit America does – but nothing more. With US aid to Ukraine increasingly uncertain, the basic premise of



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Scholz's strategy is now in question. Hence the challenge for Europeans is not only how to step up support for Ukraine but also to devise an own strategy in confronting the Russian threat.

Promise and Peril in the Middle East

Taking much less of a center stage, not for a long time have the risks of a wider regional escalation and the chances for a transformed Middle East been simultaneously this high.

With the Israeli Defense Forces girding for an assault on the southern Gazan city of Rafah and Iranian proxies targeting Israel, the US and international shipping in the Red Sea, another escalation in the region seems just one miscalculation away. In turn, the Biden administration and its regional partners led by Saudi Arabia are working intensely to turn the dire situation around by combining a cease-fire, a hostage release and withdrawal of Hezbollah forces from Israel's northern border with a long-term agreement in which Saudi Arabia would recognize Israel in return for a clear path toward a Palestinian state and a deepened US security commitment to the Arab kingdom. Ahead of the November presidential election, the Biden administration in particular is pushing hard for such deal, and continued Saudi Arabian engagement gives some hope for progress which if successful would be transformative for the Middle East.

However, neither Israel nor Hamas seem to be eager to reach a deal swiftly. At the conference, the Qatari prime minister al Thani warned that the past days' negotiations had not been promising, amid the Israeli government rejecting any "international diktats" regarding the establishment of a Palestinian state. Therefore, a drawn-out war in Gaza and a significant risk of an escalation along the northern Israeli border remain our base case for the coming months.

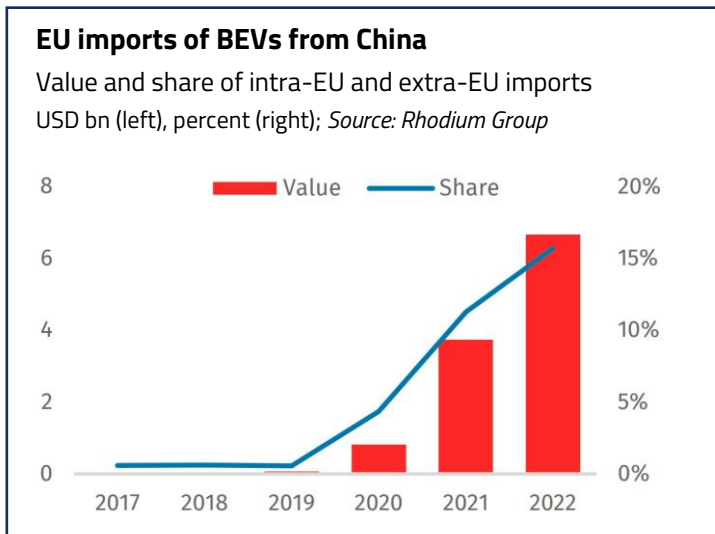
Better before Worse: Sino-Western relations

On and off the Munich Security Conference's main stage, the competition between the US and China continued to serve as the main strategic backdrop to much of the geopolitical shifts going on around the world. However, amid all the doom at the conference, the improved leader-to-leader level communication is providing a sense of stability around the US-China relationship – at least until after the US elections.

Around the same time last year, US-China tensions peaked with the US military's downing of a Chinese spy balloon and increasing concerns that the PRC would provide lethal aid to Russia. However, on the back of intense diplomatic exchanges, such as Xi Jinping's meeting with President Biden in November last year, not to mention the numerous meetings of National Security Advisor Jake Sullivan and China's top diplomat Wang Yi, diplomatic relations have stabilized. Whilst this is helping the two countries to at least manage persisting disagreements, the US's naval presence in the South and East China Seas, China's assertive maneuvers, its stance on Taiwan, and Xi Jinping's partnership with Russia and Iran, continue to nurture risks of escalation. In his interventions in Munich, Mr. Wang stuck to the PRC's usual talking points, while improved Western alignment to deter Chinese ambitions in the Indo-Pacific was on full display, not least via deepened Japanese-South Korean cooperation.

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At the same time, Sino-European relations will face a serious test later this year, when the European Commission’s investigation into Chinese subsidies for its EV industry concludes. The steep rise in Chinese BEV exports to the EU last October pushed the European Commission to launch an investigation into unfair Chinese government subsidies for its BEV producers. Regardless of how the investigation, which is being opposed by the German government, concludes, China’s weak domestic consumer demand and chronic over-production in industrial goods – much of it exported to Europe – is boding ill for Sino-European trade relations in the coming years.



Manufacturing overcapacities in China have proliferated in recent years in line with President Xi’s desire to expand China’s status as a global manufacturing juggernaut. Exported to global markets, these overcapacities are very likely to cause significant disruptions to manufacturing sectors elsewhere. Particularly with many Western governments currently focused on revitalizing their domestic manufacturing base, we see more trade fights ahead.

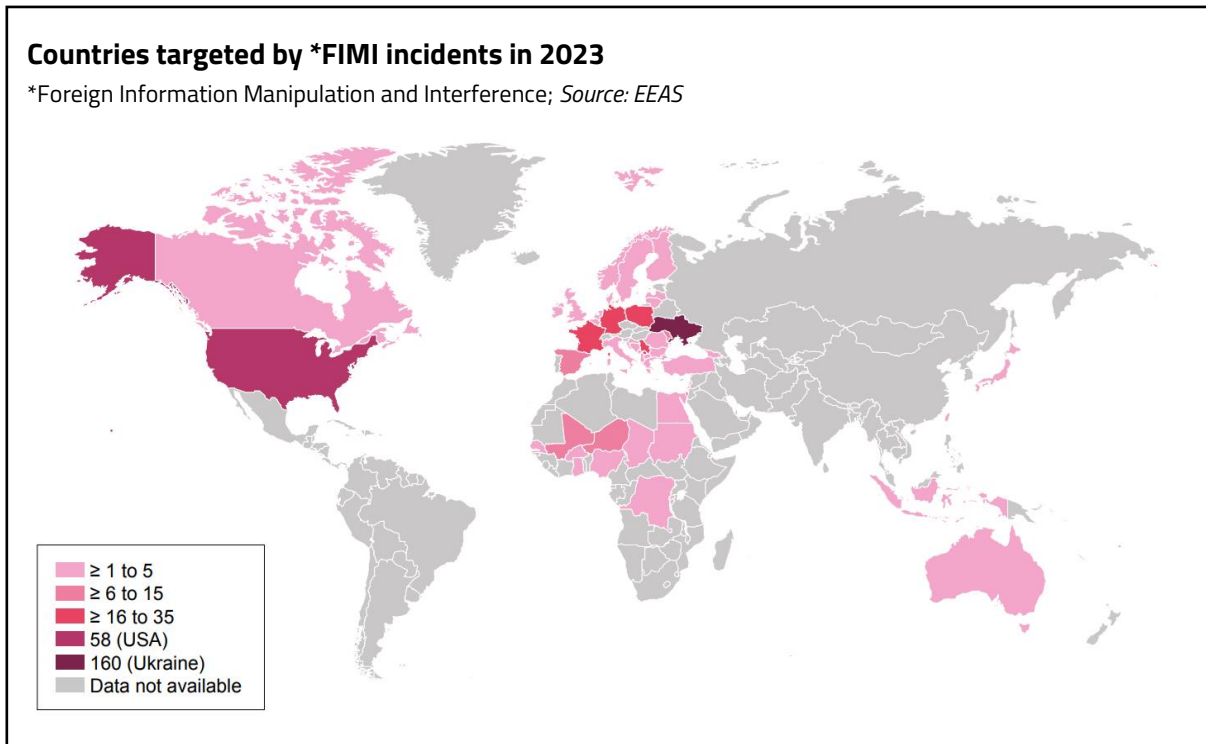
2024 Wild Card: Active measures - democracy in times of hybrid threats

With 2024 being the year with the largest expression of democratic voting (measured by voting population) in human history, hybrid threats to elections in the West will be our wild card for our 2024 geopolitical outlook. From disinformation campaigns to cyber-attacks on election infrastructure, measures to destabilize democratic societies have in recent years grown exponentially. The World Economic Forum is ranking disinformation campaigns as the number one threat for 2024 and the mass application of artificial intelligence poses the risk of turbo-charging this wave of disinformation.

Through November of last year, the European External Action Service logged 750 cases of disinformation campaigns. The main targets were government representatives of the USA, Ukraine, Poland, France and Germany, with the aim of sowing division and distrust in their democratic systems. With the European parliament elections coming up, the war in Ukraine continuing to rage and the Olympic games in Paris set to

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take place this summer, the French government expects that Europe is staring down the barrel of a large-scale disinformation campaign conducted chiefly by Russia.



How European states will be able to weather Russian efforts to exploit societal divisions will tell us a lot about the strength of global democracies in 2024. For now, the private sector has come up with an own initiative: At the conference, 20 leading technology companies, including Google, Meta and X signed a pledge to combat AI generated content aimed at deceiving voters and interfering with this year's elections. The companies will work together to detect and address AI generated fakes and raise public awareness for its risks.

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