

## ***The Global Business Leader Agenda in 2024: Sit Tight or Move Ahead?***

January 1, 2024

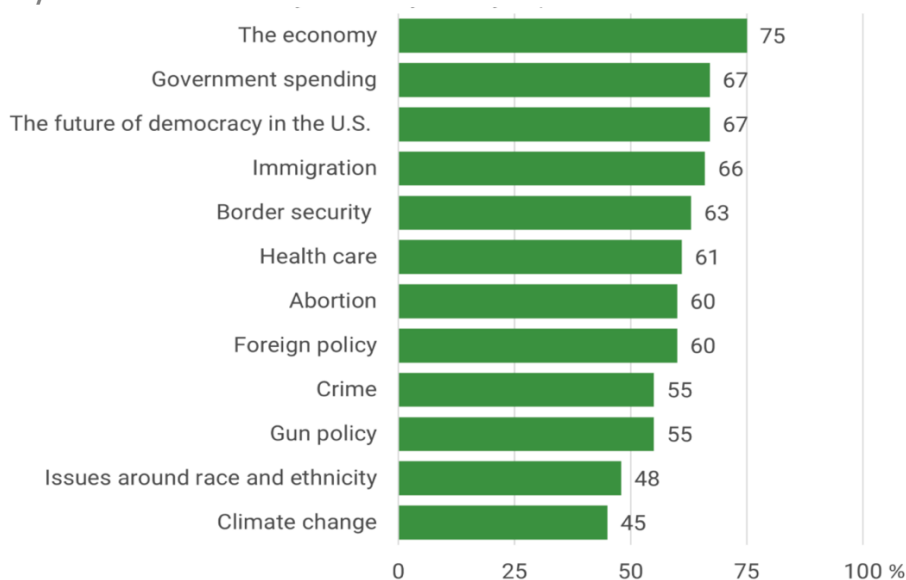
### **Key takeaways**

- As with recent years, geopolitics will dominate the headlines in 2024.
- Despite persistently slow growth in much of the world, falling inflation and interest rates will lower financial and economic risks and lessen geopolitical impacts.
- Moreover, the effects of many geopolitical drivers—the US election, policymaking in China, and the war in Ukraine—won't become clear until 2025.
- Business leaders will have to reconsider near-term economic opportunities and geopolitical threats against the conservative, de-risking strategies that paid off for global businesses in 2023.

### **The US**

**Topline:** The US election is the most significant known geostrategic swing event of 2024, but the impact on business won't unfold until 2025. Meanwhile, the rest of the world will be waiting, watching, and hedging. ►

*Percent of adults who say the 2024 presidential election will be extremely or very important for...*



AP-NORC, December 15, 2023.



### *The state of play*

- **President Joe Biden and former President Donald Trump** will be the main-party candidates on the ballot.
- **Trump's pitch**, like his previous campaigning, is built on sweeping gestures and shaking things up. He says he will immediately stop the invasion of the southern border, obliterate the deep state, and "take back our streets from the homeless, the drug addicted, and the mentally ill." His plans to benefit businesses include imposing reciprocal tariffs on countries that tax US goods and rolling back renewable energy, EV, and climate programs.
- **Biden approach** emphasizes steady hands and no surprises. This includes ensuring the implementation of the IRA, the infrastructure package, and the CHIPS Act. In announcing his 2024 campaign, Biden said, "We've just got to keep going. Finish the job."

### *Factors that will shape the election and make it less predictable*

- **Economic sentiment will contrast with reality.** The US economy performed rather well in 2023 and is expected to be one of the world's top performers in 2024. But optimism is not fashionable among Americans. About 3 in 4 swing state voters in October 2023 said the economy was on the wrong track—a function of their mistrust of government, official data, and the media.
- **The election will be driven by atmospherics and social issues** such as abortion, immigration, and identity. Foundational issues that don't usually get airplay in US elections—especially democracy, rule of law, and trust in government—will also shape the narrative, but voter behavior around these issues is hard to predict.
- **Circumstances will change.** Current hot topics such as inflation and the war in Gaza are likely to be superseded by this fall. (And foreign policy has historically not had a strong effect on voter behavior.)
- Americans are very sour about the state of the nation and don't trust government, but they are **very engaged politically**—campaign contributions and voter turnout have been at historic highs. Meanwhile, the media and the pundits have a business interest in playing up the nation's political drama. Also, for the first time, AI-generated imagery and messages could shape voter behavior.
- **The battleground states will play an outsized role**, so local dynamics in Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania, and Wisconsin will have national significance.
- It is possible Biden's or Trump's **candidacy may be impaired** by health, legal, or other circumstances, and viable third-party candidates could add to the uncertainty.

### *The bottom line for the business leader agenda*

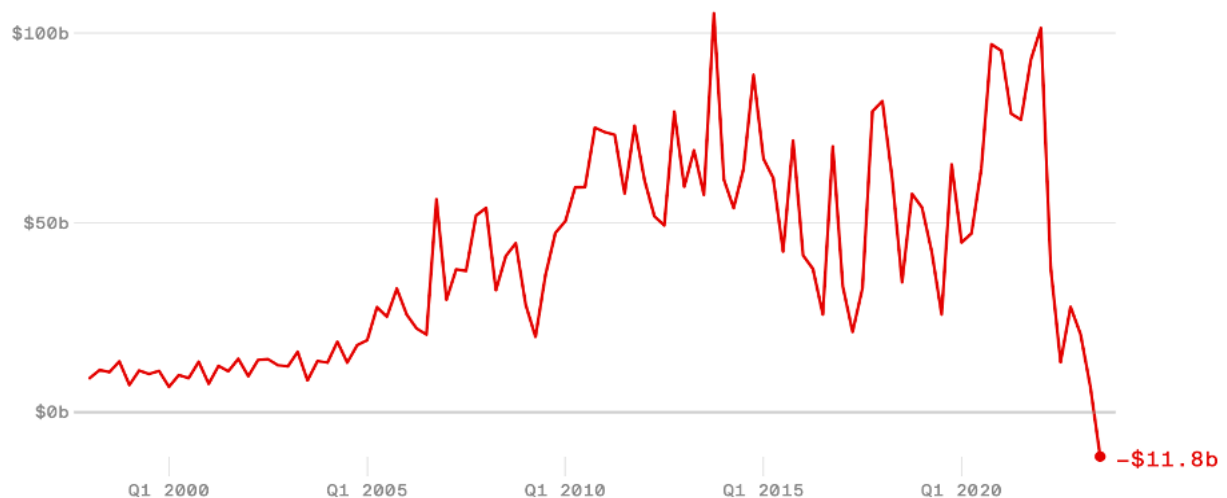
- A key challenge will be **capitalizing on favorable economic trend lines** while navigating noisy political headlines.
- Policy issues of interest **won't get much attention** or shape voter behavior. ►

- If there is a change of administration, **the economic and policy impacts will unfold in 2025.**
- With this election widely perceived as shaping the fate of the nation, **business leaders will be under pressure to take a stand.** But many of the issues at hand (such as democracy) are not directly business relevant, and the risk of a backlash makes speaking out unappealing.

## China

**Topline:** Until Beijing acts to reverse the negative sentiment loop that has set in, foreign businesses and investors in China will be waiting, watching, and hedging their market exposure.

*One measure of FDI flows reported by the Chinese government*



State Administration of Foreign Exchange via Axios, November 7, 2023.

### The state of play

- China's tepid post-Covid recovery in 2023 sparked concerns about **a long-term economic downshift** driven by weak domestic and external demand, unfavorable demographics, excessive debt, technology access restrictions, and policies that tighten Communist Party control over economic activity and deter risk-taking.
- Beijing announced targeted measures to boost growth and investment and revive the troubled real estate sector in 2023, but the general reaction has been disappointment, leading to a **policy credibility gap that must be closed in 2024.** In August 2023, the president of the European Chamber of Commerce in China said, "There is this doubt about where China is going, so I think it is a matter of urgency to go out and address these uncertainties."
- **Growing China skepticism was reflected in capital flows in 2023.** Net FDI turned negative for the first time since Beijing began reporting flows in 1998, and foreign companies became large net sellers of legacy investments in China and then repatriated the proceeds. Foreign-capital raising for China-focused VC and PE funds also dried up. *Signpost to watch:* A continuation of these bellwether trend lines in 2024 would indicate an enduring structural slowdown. ►

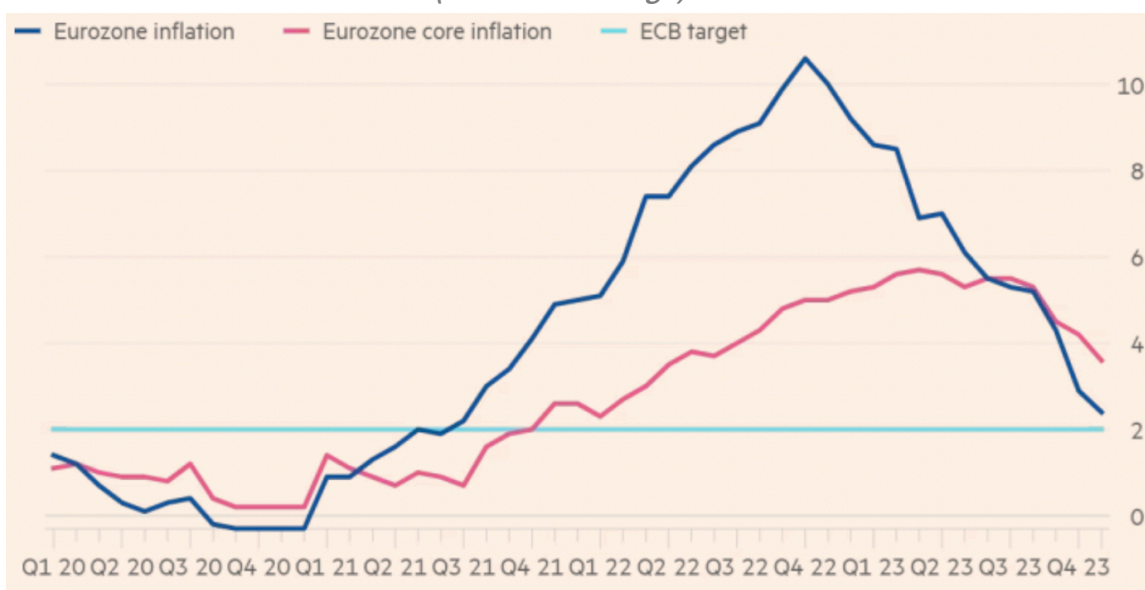
### *Geostrategic issues on the business leader agenda*

- **Taiwan risk management.** During the November 2023 summit between Biden and President Xi Jinping, Xi reportedly reiterated that China remains intent on unification, though he didn't specify the timing. The island will hold a general election in January, and the third China-skeptic candidate in a row is expected to win the presidency. Given his past practice, Xi will be inclined to punish Taiwan for its wayward behavior.
- **Hong Kong's attractiveness as a global business hub.** The number of international firms with regional headquarters in Hong Kong is falling, and those that have remained are cutting headcounts. The city's chief executive, John Lee, said the municipal government would adopt a new security law and "roll out patriotic education to enhance national identity" in 2024.
- **Supply chain realignment to other markets in Asia.** Global companies such as Walmart, Apple, and Siemens began diversifying away from China in 2022 and 2023, and outbound investment by Chinese firms accelerated. These trends are likely to continue in 2024, with Vietnam, India, and Indonesia being the big winners.
- **Superpower tensions.** In November, Xi got good atmospherics at his San Francisco summit with Biden, but no progress on economic disputes was announced. Shortly after, the House Select Committee on the Chinese Communist Party released an assessment declaring that China's economic system "undermines US economic security" and Washington should prepare to retaliate for "market disruptions" created by unfair trade. The US election will boost pressures to remain tough on China in 2024

## Europe

**Topline:** European nations and the EU will be preoccupied with several major geostrategic issues in 2024: Assuring European security and the future of Ukraine, boosting economic competitiveness and strategic autonomy, and elections for the European Parliament. ►

### *Inflation trends in the eurozone (annual % change)*



Eurostat via *Financial Times*, November 30, 2023.

### *Ukraine will reshape the future of Europe and warfare*

- Ukraine will continue its counteroffensive in 2024. The Kremlin will keep up its attacks as it banks on a change of administration in the US and exhaustion and division in Ukraine and among its European allies. **Greater clarity on Ukraine's future and European security is not likely until 2025.**
- **European and US leaders will express unwavering support while scrambling to deliver it.** The EU has provided over \$43 billion to Ukraine, including nearly \$30 billion in security and defense aid, and individual nations have provided billions more. *Signposts to watch:* The major EU and US aid packages being held up by political infighting are crucial for covering Kyiv's budget gap, keeping its economy stable, and resupplying its troops in 2024.
- Ukrainian forces have been remarkably skilled in taking up Western intelligence and military support, and the battlefield has become **an innovation proving ground** for drones, electronic jamming, and autonomous systems. The war has also created an urgent need for Western defense firms to scale up production and speed innovation.
- EU accession talks approved in December 2023 could commence in 2024. But the bureaucratic process will likely require decades of effort given Ukraine's size, underdeveloped and damaged economy, and weak institutions. (Croatia—the newest EU member—needed 10 years to get in.) To this point, **European enlargement will also reshape political, economic, and security dynamics in Brussels.**

### *Geostrategic relations will be in flux*

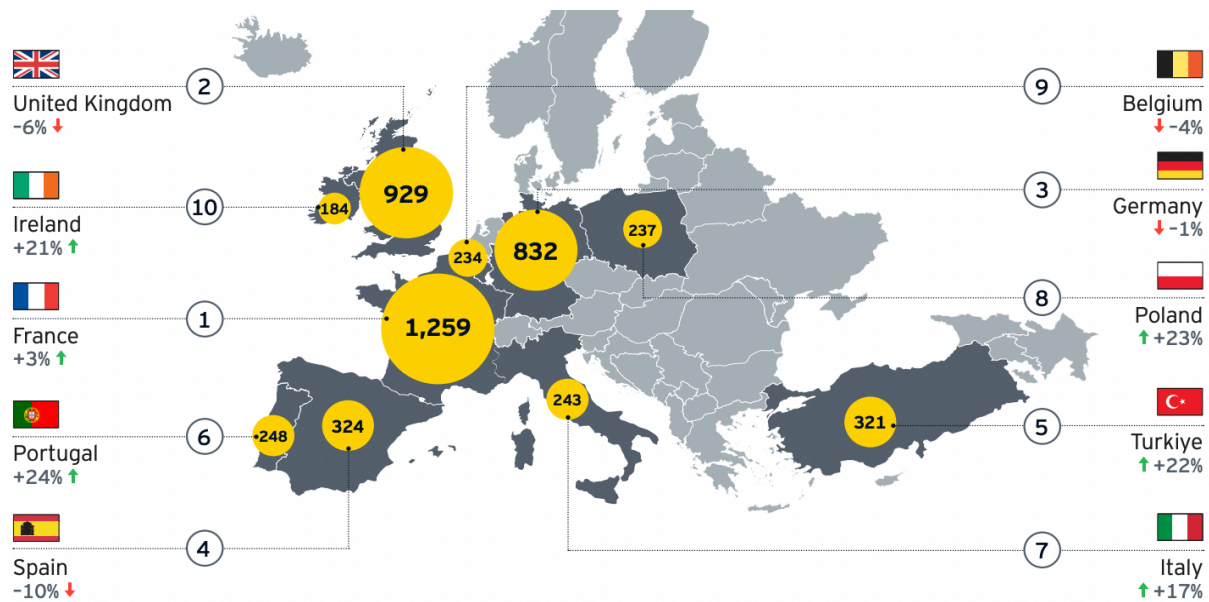
- **Relations with China will get frostier.** European leaders will maintain a cordial tone toward China, but they are increasingly aware that more assertive EU- and country-level action is needed. Policymakers are pressing Beijing on subsidies to industry (especially EVs) and deepening efforts to limit dependencies on China—particularly in terms of production autonomy and supply-chain friendshoring in markets such as chips, renewables, and critical minerals.
- **The US election will be on everyone's minds,** but its impact on transatlantic relations will be a 2025 issue. In 2024, Brussels will make nice and defer confrontation with Washington over the IRA and trade issues while bracing for the election's aftermath by boosting strategic autonomy in the defense, security, and economic spheres.
- European Parliament elections will take place in June, leading to **a slowdown in activity in Brussels this year.** European Commission President Ursula von der Leyen has taken a strong hand in forging European policy, and while she will likely be reelected, the incoming parliament could be more fractious and less supportive.

### *Three markets to watch*

- **Germany will be searching for a new economic model in 2024.** The economy shrank in 2023, and industry is struggling with heightened trade competition, high energy costs, lackluster innovation, an aging population and skills shortages, capital flight, and government bureaucracy. And the rapid rise of the extreme right could affect business, investor, and consumer sentiment in the lead-up to the federal elections in 2025. ►

- **In contrast, France's role as Europe's economic motor is rising.** Unemployment is at its lowest level in 20 years, and France has become Europe's FDI champion thanks to contested reforms pushed by President Emmanuel Macron—including a corporate tax cut, a liberalized labor market, and unemployment insurance and pension reforms. AI will also create an opportunity for France to further boost its innovation credentials.
- **Poland's geostrategic stature will grow.** A decisive election in December 2023 returned EU-friendly Donald Tusk to the prime minister's office, setting the stage for Poland to capitalize on the eastward shift of Europe's economic and political center of gravity. In the near term, easing inflation, rising exports and investment, and solid corporate profits are expected to fuel growth in 2024 and 2025. Finally, a new law allows the government to spend 3% of GDP on defense, and Warsaw wants to have the strongest land army in Europe by 2026.

*Number of FDI projects announced in Europe's top 10 host countries in 2022*



## Other hot topics

### Middle East

- Hamas' spectacular and savage **attack on Israel was the biggest geopolitical surprise of 2023**, but the global business implications have been limited. This split-screen scenario will likely continue in 2024 regardless of changes in the war.
- Israel will likely **dial back its operations in Gaza early in the new year**. As a result, the conflict is likely to recede from the global headlines while policymaker attention turns to restoring humanitarian conditions and governance in Gaza.
- The conflict's **long-term economic, social, and political implications for Israel** will come into focus. *Signpost to watch:* Investigations of Prime Minister Benjamin Netanyahu's handling of Hamas relations, intelligence, and the October 7 attacks. ►

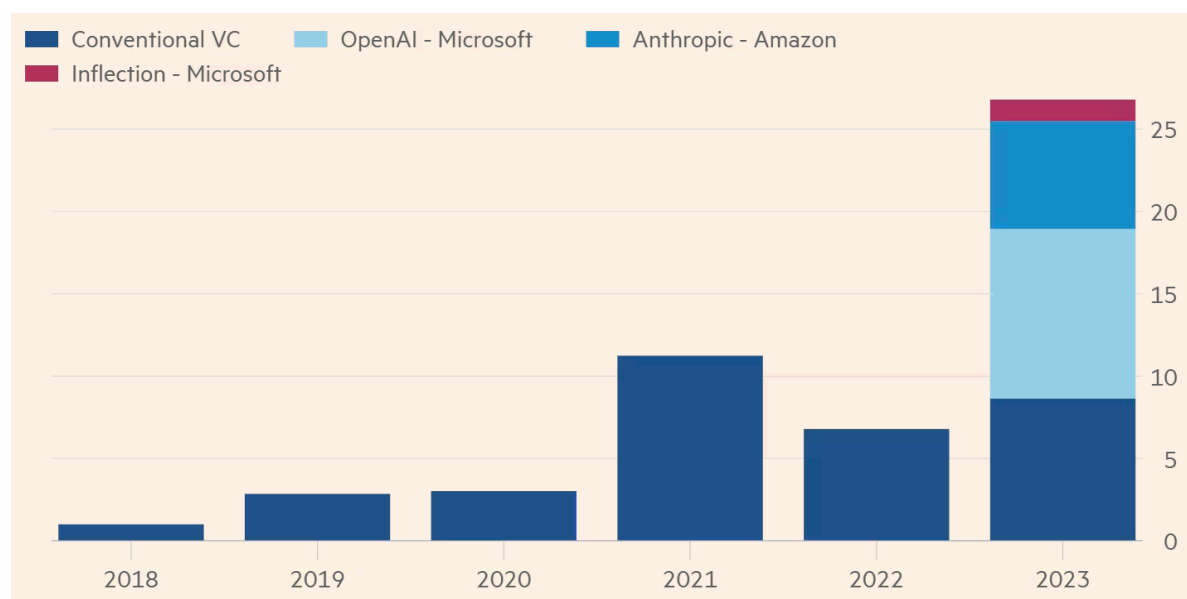


- The resumption of **efforts to improve regional cooperation**—most importantly, with Saudi Arabia—will require clarity in the medium term on Israeli leadership and the fate of the two-state agenda.

## AI

- Waiting and watching will not apply to AI. The meteoric takeoff of ChatGPT sparked an investment, development, and commercialization rush in 2023. **In 2024, take-up, productivity, and monetization will be the AI watchwords**, and every major firm will seek to demonstrate they are an AI innovator. Back-office functions, customer engagement, software development, and R&D are poised for transformation.
- **The fastest AI development and deployment will be in China and North America.** Beijing has raced ahead with AI regulation (including political curbs on content scope and generation), while regulation in the US will be patchy and hamstrung by gridlock in Washington. Europe's AI industry is lagging, and implementation of the EU's AI Act won't begin until 2025.
- In the absence of government regulation and industry standards, **business leaders will have to strike the right balance between speed and caution.** Keywords will be alignment, guardrails, and "AI for good."
- **The factors that will shape AI strategy in 2024** are the merits of open source versus proprietary systems, the competitive positioning of incumbent tech giants versus VC-backed AI upstarts, and the differing dynamics of B2B and B2C applications.

### *Investment into generative AI (\$ billions)*



*Financial Times*, December 29, 2023.

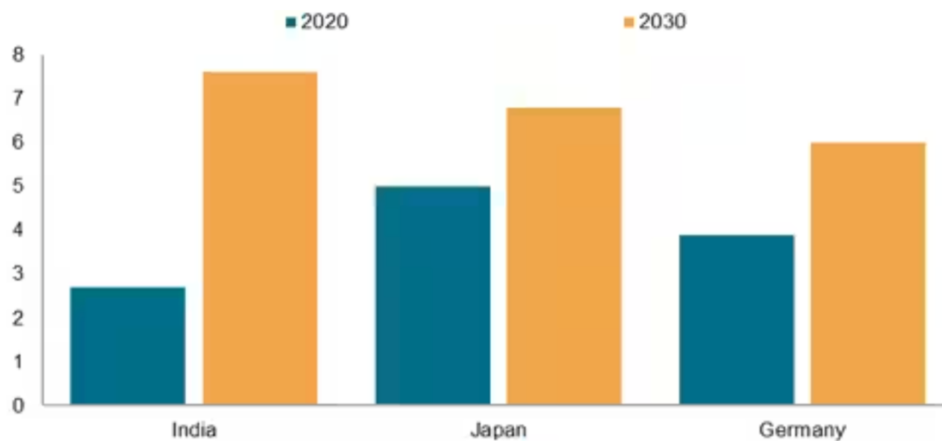
## India

- **Waiting and watching will not apply to India.** A positive sentiment loop over the past couple of years has solidified India's position as a global economic bright spot. Infrastructure spending in the government's 2023 budget increased by more than 30% YoY, and India ►

has the world's third-largest start-up ecosystem, adding to the country's market dynamism and attractiveness. As a result, the size of India's economy is expected to exceed Japan's and Germany's in this decade.

- While Prime Minister Narendra Modi has sought to position India as geostrategically independent and a leader of the Global South, he has **decisively shifted India's economic orientation to the West** in terms of manufacturing, technology, and energy.
- Modi's political alliance is expected to again **dominate the elections held in April and May**, and he will be reelected to serve a third term as prime minister. India's political consistency and transparency will brightly contrast with uncertainty and opacity in China.

*GDP comparisons for 2020-2030 (\$ trillions)*



S&P Global, September 8, 2023.

## ESG

- **ESG as a brand-building buzzword met its demise in 2023.** Like its predecessor, CSR, the concept suffered from definitional and measurement problems and fell between the cracks of corporate strategy. Shareholder pressure for social activism decreased, and conservative political and legal attacks in the US ultimately broke it.
- What will remain standing in 2024 are the **corporate pledges to address climate change**—although COP28 revealed feelings of commitment fatigue, too. Over 80 nations, including the US and EU, voiced their support at COP28 for an eventual end to fossil fuel use, but they didn't impose a hard deadline or mandate actions.
- Thus, the business leader challenge for 2024 is **assuring the sustainability of sustainability efforts** through more diligent definition, execution, and reporting. Last year, a survey of 24 major multinationals that have positioned themselves as climate leaders found that 15 of them had climate programs with "low or very low integrity" and none of them would not meet their stated commitments.

## DEI

- Following the murder of George Floyd in 2020, the CEO Action Network — comprising over 2,500 executives—pledged to have "difficult conversations" about DEI. The US Supreme Court's banning of affirmative action in university admissions, plus fallout from the Israel-Hamas war, **made those conversations even more difficult.** ►



- **DEI fatigue** also crept into the business narrative, with reports of reduced spending and support for DEI initiatives, frustrations with programs and metrics, high turnover in DEI leadership and staff positions, and fewer executive communications on DEI.
- The business case for diversity has been clear, but to move forward, the equity and inclusion agendas **will require leadership commitment and creativity in 2024**. After California voters banned affirmative action at state universities in 1996, education leaders were motivated to look deeper into the drivers of inequality and work harder to find alternative pathways to promote equity and inclusion.

## Mexico

- Two women are running in the June election to be the next president. The victor will likely be **Claudia Sheinbaum**, the chosen candidate of the outgoing president, Andres Manuel Lopez Obrador.
- Populist AMLO has alternated between **ambivalence and hostility toward the business community and foreign investment**, and violent and organized crime have surged on his watch even as he gained greater control over policing and the levers of government.
- The election of the first woman as president will be notable, but Sheinbaum's campaign rhetoric suggests that **the business climate and governance will not improve** on her watch. ■