The Global Business Leader Agenda in 2025

December 16, 2024

Eight geostrategic toplines for 2025

1. Fast-paced and consequential events will **make a shorter time horizon and a wider range of scenarios more useful** for business planning this year. Timing business and investment decisions right will be important given the potential for big market shifts.
2. **TINA: There is No Alternative to America**. The US will dominate the global business narrative—given the certainties and uncertainties of the Trump policy agenda.
3. **Europe will face a very challenging and pivotal year.** Four forces are at play: Political gridlock, looming tensions with the US, security risks from the east, and a competitiveness crisis.
4. **The Middle East will look a lot different**. Geopolitical realignments could create new business opportunities and risks down the road.
5. **The China risk narrative will not change.** De-risking, decoupling, and divesting will intensify in 2025.
6. **We highlight four other important markets:** India will remain a bright spot, while Mexico, Japan, and Canada will face pressures from the US while experiencing fragilities at home.
7. Like other big innovations, **AI may experience a market bust** before it spurs a productivity and business boom.
8. **Sustainability is getting knocked down** the US and European policy agendas, leaving business leaders to restate their commitment to the go

Framing the year ahead: Headlines versus trend lines.

- When thinking about the future, **Longview typically focuses on trend lines instead of headlines.** Trend lines—covering topics such as societal and political forces, innovation, sustainability, and talent—provide a longer-term view and align with corporate strategy timelines. Chasing headlines doesn't.
- **This year will be different: Navigating the headlines will be critical.** The year will be punctuated by fast-paced, consequential geostrategic events. President-elect Donald Trump has outlined an ambitious agenda, and what he does on Day One and over the ▶

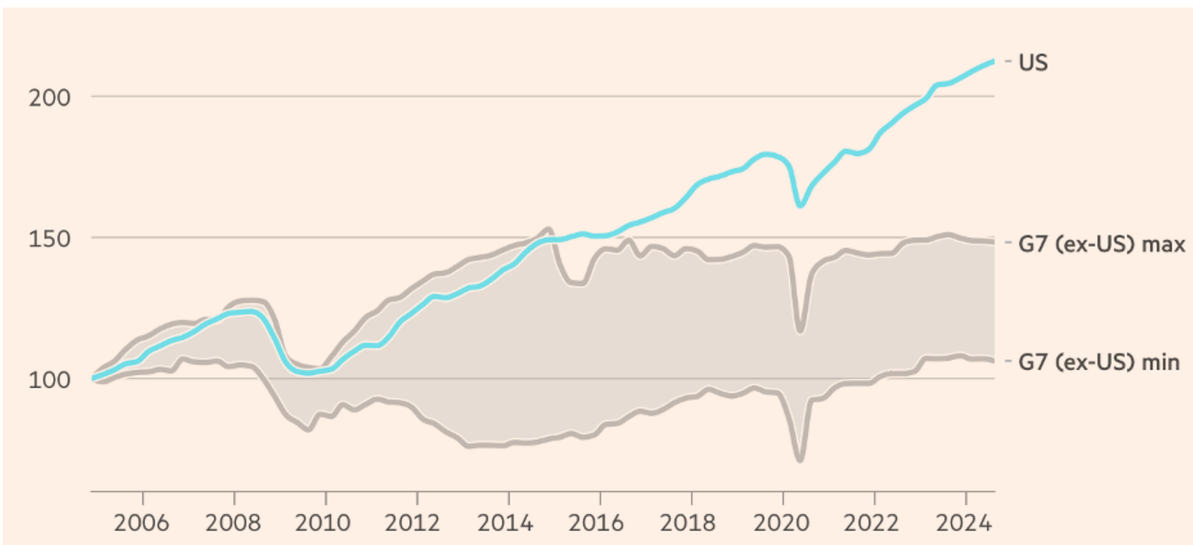
following months will shape expectations for the markets and his supporters. Elections in France, Germany, Canada, and potentially Japan and South Korea could prove pivotal for business and investor sentiment in those markets. The early days of the new regime in Syria will shape regional geopolitics. And, there will be surprises we don't envision here.

- **Thus, a shorter time horizon will be useful for business thinking and planning in 2025.** To that point, this outlook focuses on the first half of the year, and it concentrates on geographies instead of global trends. The second half of 2025 (let alone 2026) will look much different and is impossible to predict at this time.

- Given the potential for large political and policy swings, **planning should include a wide range of scenarios, including disruptive ones.** This applies to Europe, the Middle East, and Asia, as well as North America. The broad and conflicting range of expectations about 2025 is already showing up in the boom in US equities and volatility in debt and currency markets.

TINA-world: There Is No Alternative to America.

Business investment trends among the G7 (100 = 4Q04)



World Bank, May 2024. LSEG and Oxford Economics via Financial Times, December 2, 2024.

More than ever, the United States will dominate the global business narrative.

- Donald Trump is a master of the craft of headlines, and his policy agenda is ambitious and headline-worthy. In addition, the narrative in many markets will be shaped by **US-driven opportunities and risks.**

- **The US is very attractive.** It is the undisputed leader among advanced economies in economic growth, productivity growth, capital markets development, business investment, R&D, entrepreneurship, and innovation—not to mention AI and quantum computing. As seen in the chart above, its lead has grown in many areas in recent years.

- On top of this, the tariffs, tax cuts, and deregulation promised by President-elect Trump are intended to **pull even more capital, manufacturing, and business activity into the US.** ▶

Unlike the Biden administration's friendshoring meme, which highlighted the win-wins of cooperation, America First geostrategy is essentially zero-sum: The US aims to be the winner, and others will lose.

- Finally, as we highlight below, Europe, Canada, Mexico, and Japan face **significant structural barriers to growth**, domestic political fragilities, and geopolitical risks. China has shifted from an opportunity to a risk.

A matter of interpretation: How much should Trump's words be discounted?

- **The GOP electoral trifecta has boosted sentiment.** New animal spirits have emerged: In November, the National Federation of Independent Businesses optimism index broke a three-year streak of uncertainty and jumped into positive territory. 'The election results signal a major shift in economic policy, leading to a surge in optimism among small business owners,' said the group's chief economist. New animal spirits are beginning to animate M&A and commercial real estate. Digital assets are soaring.
- **Risk perceptions are contained by a sense of déjà vu.** Trump 2.0 is viewed as an extension of Trump 1.0—with a few more plusses and minuses that can be managed based on experience. Political, bureaucratic, and market forces are expected to again constrain the Trump policy agenda. As a precaution, importers are stockpiling tariff-exposed goods in the US and rethinking supply chains.
- **But, but, but: Trump 2.0 will be different in many ways.** Compared to 2016, Trump has forged a more broad-based mandate for shaking up establishment ideas, values, institutions, and practices. He has tighter control over Republicans in Congress and a more favorable balance in the Supreme Court. Moreover, Trump is highly attuned to his supporters: 'They want 'radical change,' and they are expecting fast action in the first three months of the administration on tariffs, tax cuts, and mass deportation,' says Diane Hessan, founder and chairman of C Space, an expert on the American voter and consumers, and a Longview Global advisor.
- To this end, Trump's team is dominated by loyalists and outside-the-box thinkers and doers who have **learned lessons from Trump 1.0** about how to beat back opposition and break through barriers to change. Appointees, such as Susie Wiles, Scott Bessent, and Elon Musk, underline the administration's focus on bold action.
- In contrast, the Democrats need a new formula, leadership, and point of opposition. Many of their partisans and Never Trumpers have **thrown up their hands and retreated into internal exile.**

A business planning challenge: Forecasting the effects of the Trump policy agenda.

- The US economy outperformed expectations again in 2024, despite the dramatic headlines at home and abroad. It heads into the new year with solid fundamentals, and **many 2025 forecasts envision more of the same**, with smallish moves in inflation, interest rates, and employment. In this vein, Vanguard, the US asset manager, says: 'The US economy in 2025 could bear some of the hallmarks of 2024.'
- **The Trump policy agenda, even if only partially pursued, is ambitious in scope and scale, and this makes forecasting difficult.** Taking just one example: The average US tariff on imports is about 3%, so an increase to 10% or 25% would be impactful in terms of prices and supply chains. What's impossible to predict are the impacts of retaliatory ▶

measures promised by China and the EU. Trump promised a 'golden age' in his victory speech, while economic shops warn that policy risks could lead to a recession.

- **To illustrate the wide range and tentative nature of outcomes being forecasted,** we created a 2x2 matrix with notional scenarios of how a second Trump administration could unfold with leading indicators of their arrival.

Possible scenarios and leading indicators for the Trump policy agenda

	Limited Scope	Ambitious Change
Disruptive	**MAGA Curtailed** • Trump pulls back after the stock market swoons on inflation, interest rate, and supply chain worries; a popping tech bubble intensifies the decline • Broad tariffs and deportations are abandoned under pressure from courts, public opinion, and business leaders • Missteps frustrate GOP voters; Democrats regain momentum and win the 2026 midterms	**Risk World** • Inflation and interest rates surge, causing a recession, deficit growth, and dollar volatility • 100,000s deported hitting agriculture, hospitality, and construction industries • Chinese retaliation disrupts critical goods exports; US companies in China are sanctioned • EU disunity on trade and defense fuels economic uncertainty there; Chinese goods flood in
Systematic	**Trump 1.0 +** • TCJA renewed, deregulation in energy and banking, cuts to IRA and green initiatives • Deportations are symbolic but effective • Inflation and interest rates steady; GDP grows 2–3% • Mexico, Canada, and EU appease Trump on border issues and defense spending; USMCA is renewed • China trade deal haggling with tit-for-tat tariffs	**Global Realignment** • Federal spending and headcount are cut; deficit declines to 3% of GDP • Sustained GDP growth ~3%; the dollar dominates • Businesses adjust to a tight labor and high tariff environment; AI boosts productivity • Growth in Europe and China stalls as capital and manufacturing move to the US and elsewhere

Europe faces a challenging and pivotal year.

Germany’s engine is broken.

- In Longview's annual outlook a year ago, we wrote: **'Germany will be searching for a new economic model in 2024.'** The market has muddled through a second year of zero growth, and political gridlock has preempted a turnaround plan.
- In November, Chancellor Olaf Scholz’s **fractious coalition collapsed** due to disagreements over spending, and he will likely lose elections expected in February. A leadership vacuum could persist until summer as a new coalition is forged. Given the scale of the country's economic problems and the rise of the far right, it's not clear if a new government will be more effective.
- **Business sentiment heading into the new year is bleak.** A bellwether to watch: Volkswagen. Management has announced plant closures in Germany in 2025—a first in the company’s history. Politicians have decried the move, and VW workers have started warning strikes.

France is stuck in political limbo.

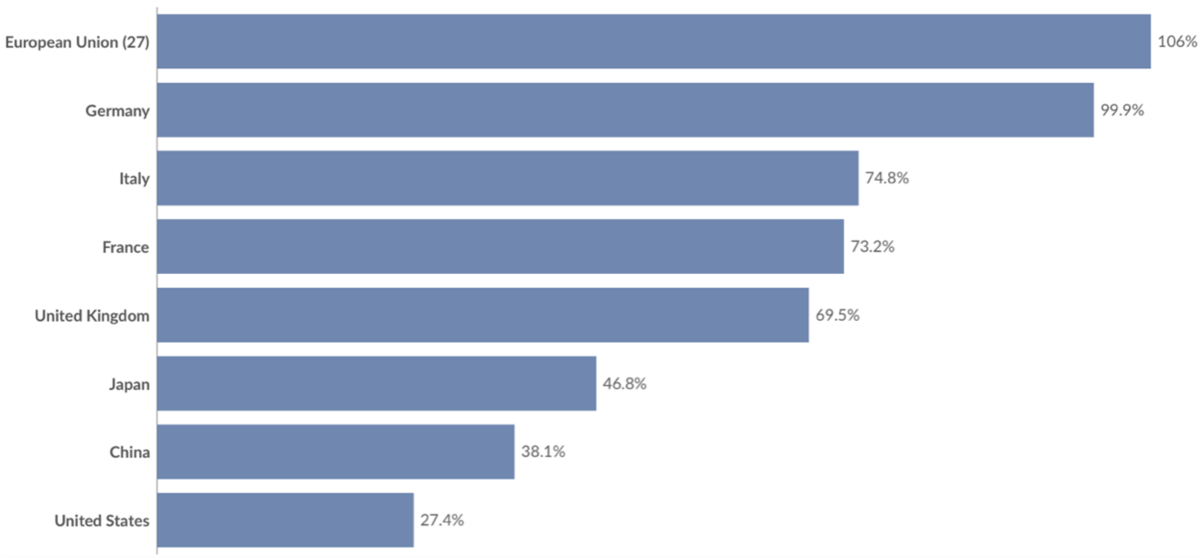
- France is under pressure to close a **yawning fiscal deficit,** made worse by a sputtering economy. Like in Germany, a budget dispute brought down the minority government of centrists and conservatives just two months into office. ▶

- Unlike Germany, **there is no political resolution in sight:** The parliament is evenly divided among far-left, far-right, and centrist coalitions implacably opposed to compromise. France will start the year with a caretaker government, with another round of hotly contested elections to be held in the summer at the earliest.

Europe would lose a trade war.

- By threatening 25% tariffs across the board on goods from Canada and Mexico, the president-elect has **telegraphed a willingness to target** America's most important business partners to achieve his political objectives.
- European Commission President Ursula von der Leyen has tasked her team with preparing **swift retaliatory measures** should Washington target the bloc. However, as seen in the chart above, European businesses are much more dependent on trade with the US, so Brussels has much less leverage.
- Moreover, **unity on a response among the 27 member states** is not certain. Adding to the anxiety, European producers are also worried that a potential wave of Chinese goods diverted from the US will swamp their markets at home and around the world.

Trade as a share of GDP in 2022



World Bank, May 2024.

There is no end to the war in Ukraine.

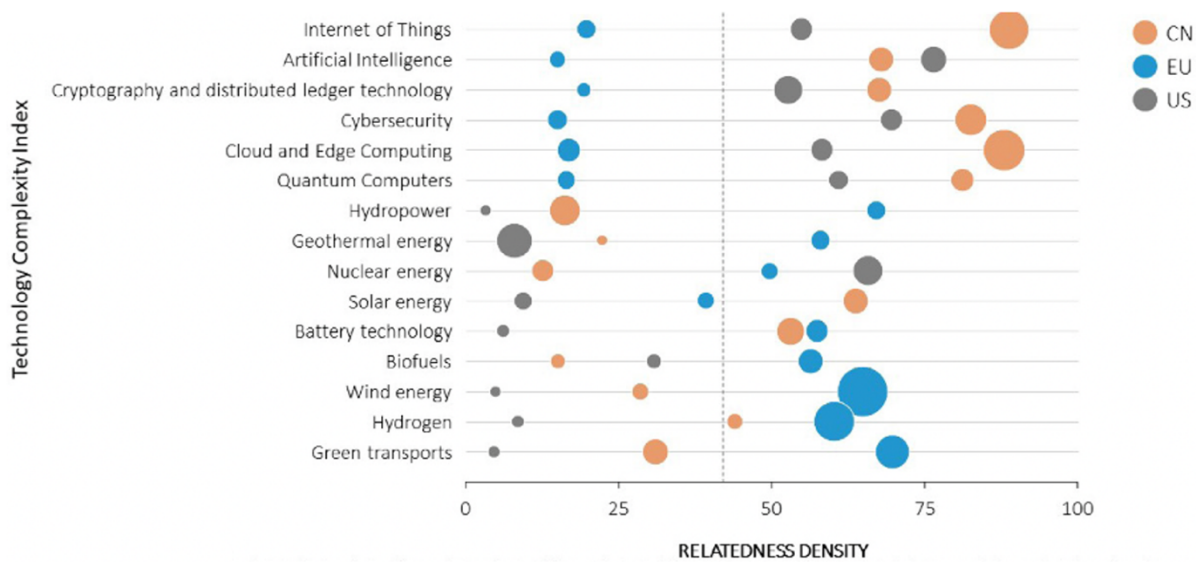
- **Russian forces are gaining ground,** and Moscow has mustered new troops, including from North Korea. On the Ukrainian side, morale and recruitment are down, and desertions are up. The former foreign minister of Ukraine, Dmytro Kuleba, said of the situation in November: 'If it continues like this, we will lose the war.'
- To boot, Russia's offensive also includes **hybrid warfare attacks** on critical infrastructure and election interference—most notably in Romania and Moldova—highlighting the broader threat to the continent. And Donald Trump's election has heaped new pressure on Europe to assume a more assertive role in its collective defense. ▶

- President Putin has **demanded a high price for peace**—including recognition of Russian annexations, Ukraine's permanent exclusion from NATO, and the power to shape domestic affairs in Ukraine. This is a non-starter for President Volodymyr Zelensky and most European leaders, who believe this would only increase geopolitical risks on the continent.

The top business challenge is competitiveness.

- A major assessment commissioned by the European Commission and produced by former ECB President Mario Draghi caused a big stir this fall. It calls for a radical shakeup of EU thinking and institutions to **close a growing innovation gap and boost productivity.** The goal: To better compete economically and geopolitically with the US and China and meet the climate imperative.
- In past years, Brussels has sought to impose a European stamp on global business through a slew of regulations governing digital services, AI, data privacy, labor, supply chains, forestry, climate, and sustainability. But, as the US deregulates in 2025, **the business competitiveness and attractiveness gaps will grow.**
- All of this comes on top of **higher energy prices** as a result of the strategic failure of Europe's decades-long 'peace through trade' partnership strategy with Russia.
- The new European Commission, which started work on December 1, has turned its attention **to boosting growth and competitiveness,** but, in a political fudge, it's also keeping its regulatory strategy in place.

The EU's technology position compared to the US and China (2019–2022)



European Commission, The Future of European Competitiveness, September 2024.

The Middle East will look a lot different.

The geopolitics of the region have shifted.

- **Hamas and Hezbollah** have been decimated by Israel, and a regime change in Syria has deprived them of a critical conduit of arms, intelligence, and economic support. ▶

- **Iran's** regional influence strategy is in tatters with the devastation of its proxies, and its economy is flailing under sanctions. Russia is preoccupied with Ukraine, and its geostrategic standing has fallen with the loss of its Syrian ally and the diminution of Iran.
- **Israel,** with Washington's backing, has proven itself the preeminent regional power.
- More change is likely in 2025, for example, in **Lebanon**.
- The president-elect has said a Day One objective is to reinstate **a 'maximum pressure' strategy toward Iran.** But a heavy-handed campaign by Washington may not fit the moment. With China's assistance, Saudi Arabia and Iran have been de-risking their relationship, and heading into 2025, the two countries have more motivation to cooperate—to balance against Israel's newfound regional dominance.
- Trump's team has expressed a strong desire to expand on his first-term Abraham Accords and **restore diplomatic relations between Saudi Arabia and Israel,** but Riyadh's demands for normalization have grown significantly amid the region's fast-changing geopolitics. Moreover, Trump's ambitions for American energy dominance could push down oil prices and pressure the Kingdom's finances.

Brent crude oil price ($/barrel)

Trading Economics, December 12, 2024.

TBD: How the new regional dynamics shape business risks and opportunities.

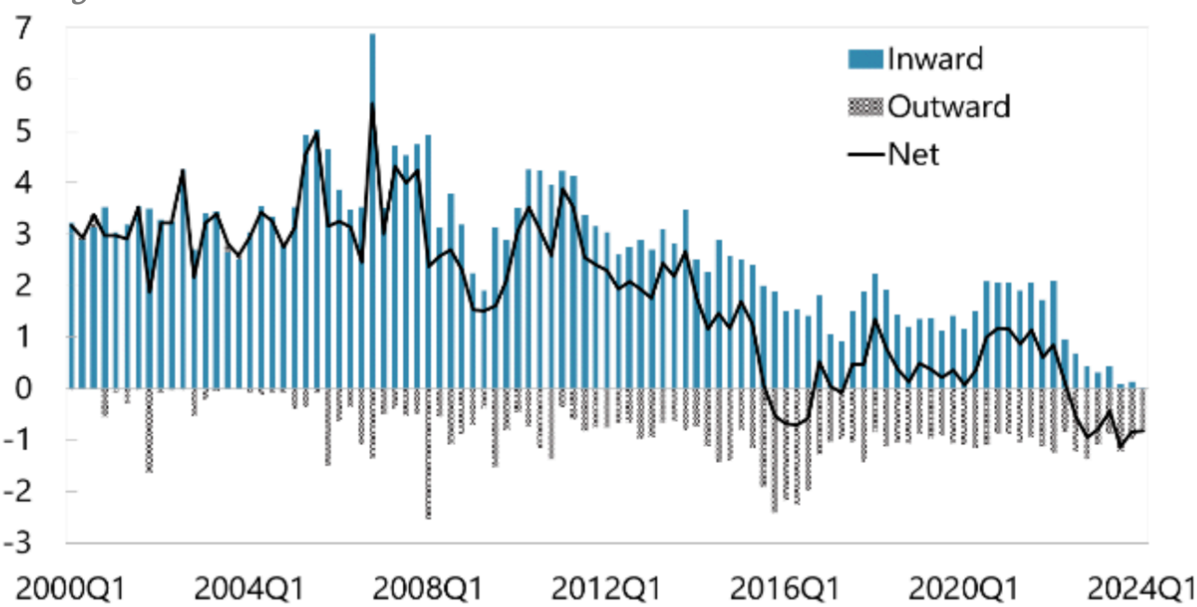
- Despite the violence in the region, geopolitical risks for global businesses—as measured by the price of oil—**have remained low.** The downward price drift is expected to continue in 2025. Lebanon's bonds have surged in value amid hopes for greater political stability.
- **A signpost: Tehran's next steps.** Its nuclear program sustains the regime's geopolitical influence, but it's not clear what a breakout scenario would garner in today's world, says Georgia Tech Professor Dr. Adam Stulberg, a Longview Global Advisor.
- **A silver lining scenario:** A more pragmatic government in Damascus would ease migration pressures—a source of right-wing populist anger in Europe. ▶

China: More of the same in 2025.

The business drivers have not changed much over the past year.

- The ongoing **real estate crisis** has destroyed household savings and hurt consumer confidence. Falling local government revenues have led to cutbacks in social spending, and demographic shifts have pushed up both labor costs and unemployment.
- Tightening **Communist Party control** over key sectors—such as tech, finance, and consulting—has dampened entrepreneurship and investment. Restrictions on data access and market research have increased uncertainty.
- **Every stimulus package announced over the past year disappointed,** and observers expect 2024 GDP growth to fall short of the Communist Party's 5.0% target. President Xi Jinping says this won't happen, suggesting the numbers will be fudged.
- Forecasters say growth will continue to slow, but the leadership appears **confident and locked in** to its long-term vision—what the leadership calls 'maintaining strategic focus.' A course correction in 2025 is unlikely.

Foreign direct investment as a share of GDP in China



SAFE, National Bureau of Statistics of China, Haver Analytics via IMF, August 2024.

What has changed: Sentiment.

- Stock market declines, capital outflows, and a weaker currency signal **doubts about China's long-term economic trajectory.** Venture capital and private equity funding have dried up.
- Global firms in sectors such as consumer and luxury goods, automotive, and tech have become **much more vocal** about soft demand, domestic competition, and policy barriers.
- In 2024, Nintendo, LG Electronics, GM, Volkswagen, IBM, JPMorgan, and Steve Madden announced they were **scaling back in China while** quiet quitting is occurring in finance, law, and consulting. Foreign firms pulled $8.1 billion out of the market in the third quarter. ▶

De-risking, decoupling, and divesting will intensify in 2025.

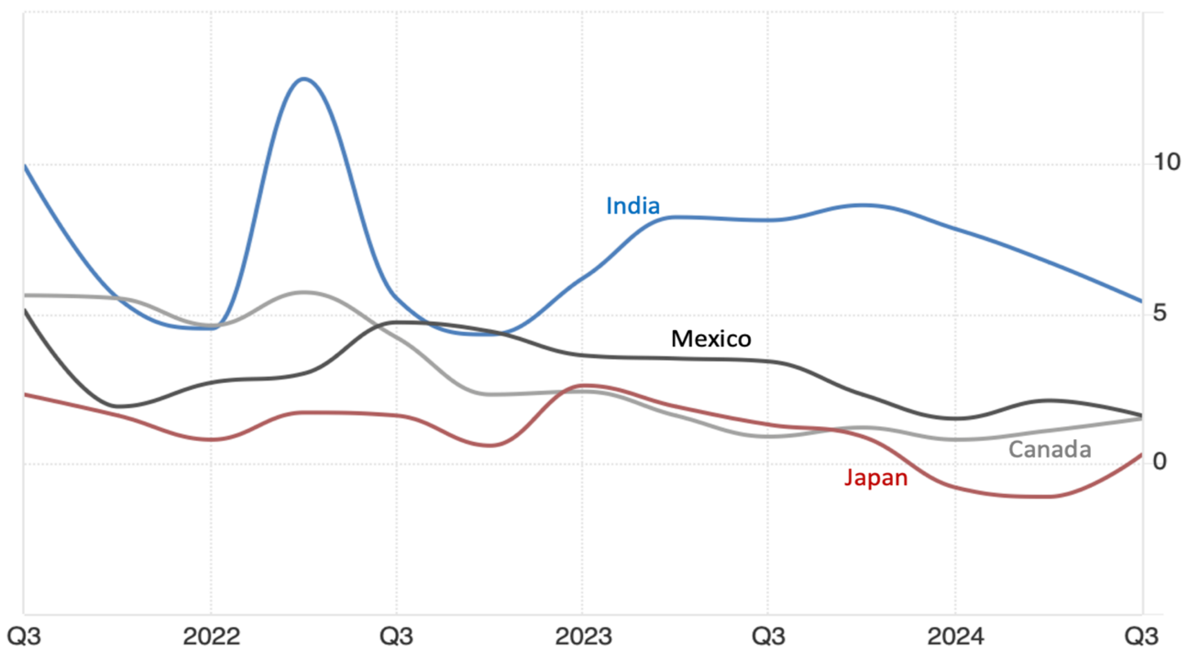
- This trend will be reinforced by the **zero-sum approaches** of America First and China Dream thinking in Washington and Beijing.
- **Tariffs and technology controls would hit the strong leg of Beijing's growth strategy: Exports.** This paves the way for a trade war with the US, more trade tensions with the EU and Japan, and cold-war divisions in future-critical sectors such as computing, telecoms, cleantech, biotech, and materials.
- **Expect more naval brinkmanship** in the South and East China Seas. President Xi's commitment to Taiwan reunification is particularly unnerving to Japanese multinationals.
- **An early signpost of the state of US-China business relations:** The legally mandated closure or sale of TikTok's US subsidiary by January 19.

Four other geographies to watch:

India is a stability story.

- The subcontinent will continue as the **fastest-growing major economy** in 2025—driven by robust public and private investment, steady consumer demand, tech innovation, and supply chain diversification away from China.
- Inbound FDI was up by a third in the April–August interval this year, and India's momentum positions it to surpass Japan and Germany to become **the world's third-largest economy** within this decade.
- **India's growing ties** with Gulf markets, its place in the Quad security partnership (with Australia, Japan, and the US), and Prime Minister Modi's proven relationship with Donald Trump will reinforce the country's role as a geostrategic power in 2025. ▶

Comparison of annual GDP growth (% change)



Trading Economics, December 2024.

Mexico could be a big loser.

- Donald Trump has threatened to impose a 25% across-the-board tariff on Day One of his administration—his way of **making Mexico pay for a rhetorical wall** against migration and narco-trafficking.
- **This would be highly disruptive.** NAFTA/USMCA 'has been the anchor for Mexico's progress over the last three decades,' observes a Longview Global advisor there. Mexico became the US's largest trading partner in 2023 thanks to manufacturers' shifts out of China.
- **Mexico's corporate community is cautious:** President Claudia Sheinbaum is viewed as more pragmatic than her predecessor on business issues, but it is skeptical about her ability to navigate the country's growing fiscal, security, environmental, energy, and geopolitical challenges. Her first call with President-elect Trump was awkward.
- Some Mexican manufacturers are looking to invest in the US, notes another Longview Global advisor. Others will **put plans on hold** pending clarity on tariffs in 2025 and the review of USMCA in 2026.

Japan's government is not fit for purpose.

- Over the past few years, Japan has **attracted significant inbound investment** thanks to corporate governance reforms, ultra-low borrowing costs, a historically cheap yen, and the redirection of funds away from China. A big cloud is the US relationship. Prime Minister Shinzo Abe was deft in building a relationship with President Trump during his first term, yet Japanese businesses still got hit with targeted tariffs.
- Japan's ruling party suffered a humbling loss in a snap election that the new prime minister, Shigeru Ishiba, called in October: Key grievances were cost-of-living frustrations and a party slush fund scandal. **'Ishiba is weak, and nobody in Japan expects Trump and Ishiba to get along,'** says Yuko Watanabe, a Longview Global advisor. 'Japan is particularly nervous about pressure from Trump on defense spending, and it looks like the US Steel-Nippon Steel deal has no future.'
- To win over Trump, Japan Inc. will emphasize **its alignment with America** on China and its status as the top source of FDI in the US.

Political change is afoot in Canada.

- After a decade in office, Prime Minister Justin Trudeau faces waning approval as middle-class voters drift away due to frustrations with high living costs, the government's liberal immigration stance, and the energy transition. **A national election may be called by mid-year,** awkwardly coinciding with the G7 Summit in Alberta.
- **Pierre Poilievre's Conservative Party is positioned for a majority**, and his government would likely downgrade climate and humanitarian priorities while maintaining support for economic openness and security cooperation. Canada's China strategy is likely to harden, in line with Washington's, but as a much smaller partner, Beijing has not hesitated to punish Ottawa when it's unhappy. ▶

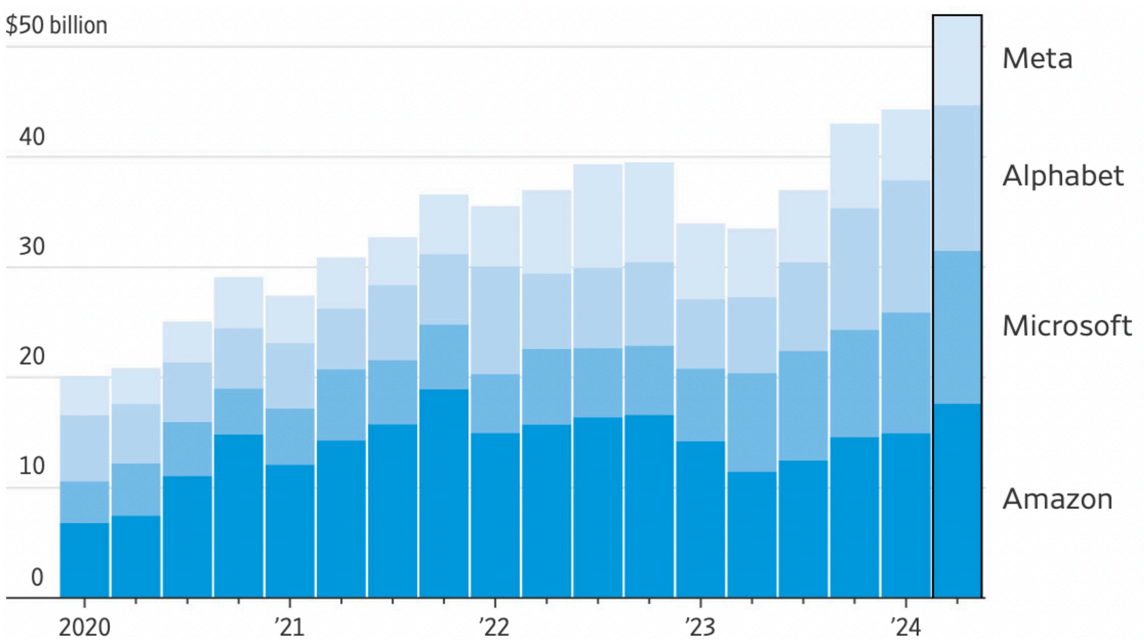
Two global themes:

AI: A bust-boom scenario.

- **Big AI has dominated the headlines**. Investment by Big Tech players in the US, China, and elsewhere has been booming, but experts are saying it will take several more years for the productivity and profit payoffs to merit the current scale of investment. Apple's iPhone 16 rollout trumpeted AI's potential, but the immediate offering underwhelmed. Dave Baiocchi, founder of tech consultancy Spark & Compass and a Longview Global advisor, sees corporate pushback on costs: Microsoft's $30 per month per-user Copilot license, for example, makes large-scale adoption prohibitive. Take-up is also constrained by user enthusiasm and know-how. A July survey by EY found that only 37% of organizations are investing in AI-targeted worker upskilling.

- **A party like it's 1999.** Goldman Sachs' Jim Covello likened AI's trajectory to the 2000 dotcom bust, warning against overbuilding for unready markets. 'For AI's promise to be fully realized, low rates of AI adoption must rise, and companies must learn how they can harness the technology,' writes Vanguard's chief economist. 'We do not expect AI's peak effects on productivity and economic growth until the 2030s.' Given the dominance of tech stocks in the S&P 500, a tech correction would have a big headline impact on perceptions of the broader market, including the Trump administration's policy agenda.

Tech giants' quarterly capital spending



The Wall Street Journal, September 11, 2024.

- **Trendline to watch: Little AI.** Baiocchi observes a continuous flow of rollouts of incremental AI features—such as Google's AI-generated summaries in its search results—is happening, often without any announcement. This discovery-based model suggests that companies that capitalize on feature discovery by innovative power users may outpace those relying on mass rollouts and adoption. And, he says, relative platform capabilities are evolving fast: Some functions that Google's Gemini excelled at in early 2024 were being delivered better by ChatGPT six months later. Expect new AI darlings in 2025. ▶

- **The geopolitics of AI will intensify.** The Biden administration's privacy, safety, and ethical guardrails could be rolled back in favor of a full-steam-ahead strategy to assure American dominance. China is emphasizing low-cost solutions at scale and finding workarounds to US tech export controls. Beijing is also countering with export controls of its own—on critical materials that go into computing hardware. For Europe, AI represents another competitiveness hurdle, and the bloc is moving away from regulation as a pathway to leadership (e.g., the AI Act and data protection rules) to investing in 'AI factories' to surge the computing power available for European AI start-ups, industry, and researchers. The UAE's National AI Strategy seeks to make the nation a key tech supplier to the Global South in competition with China's Digital Silk Road.

Sustainability: A green-brown divergence.

- Businesses and investors spent the past year **recalibrating their sustainability strategies** due to rising cost pressures, lower consumer demand, operational complexities, and the weaponization of ESG. The failure of global agreements to curtail fossil fuel consumption and plastics production highlighted the limits to sustainability cooperation. The GOP victory in the US took the energy transition and sustainability off the policy agenda in 2025 in favor of a go-go growth agenda. The new European Commission, too, has turned its attention to boosting growth and competitiveness.
- **Business leaders will have to navigate a green-brown divergence**—in the US, Europe, and China, as well as between Red States and Blue States. As the US government steps back, Beijing is forging ahead with its strategy to be the dominant global cleantech supplier. China already accounts for over 80% of global solar panel production and a similar share of the world's lithium-ion batteries. Chinese firms are crushing the competition: In 2022, BYD overtook Tesla, the EV pioneer, in sales. Meanwhile, South Korean and Japanese firms are in hot pursuit.
- **A signpost to watch:** American automakers want the Trump administration to keep Biden-era efficiency mandates in place to maintain a level field for the transition to EVs. While it's fashionable right now to pooh-pooh EVs, reverting to internal combustion engines doesn't make business sense, given the global EV innovation wave.
- **The upshot: A moment for leadership clarity.** American politics weaponized and killed ESG, a catchy marketing meme—like Triple Bottom Line and CSR—that didn't stand the test of time. For sustainability to stay topical, business leaders and investors will have to forcefully restate its value proposition (along with its corollary: long-term value) when attention has refocused on old-school notions of growth and profitability. ■