

## Analysis

This is the fifth Decade Forecast published by Stratfor. Every five years since 1996 (1996, 2000, 2005, 2010 and now, 2015) Stratfor has produced a rolling forecast. Overall, we are proud of our efforts. We predicted the inability of Europe to survive economic crises, China's decline and the course of the U.S.-jihadist war. We also made some errors. We did not anticipate 9/11, and more important, we did not anticipate the scope of the American response. But in 2005 we did forecast the difficulty the United States would face and the need for the United States to withdraw from its military engagements in the Islamic world. We predicted China's weakness too early, but we saw that weakness when others were seeing the emergence of an economy larger than that of the United States. Above all, we have consistently forecast the enduring power of the United States. This is not a forecast rooted in patriotism or jingoism. It derives from our model that continues to view the United States as the pre-eminent power.

We do not forecast everything. We focus on the major trends and tendencies in the world. Thus, we see below some predictions from our [2010 Decade Forecast](#):

We see the U.S.-jihadist war subsiding. This does not mean that Islamist militancy will be eliminated. Attempts at attacks will continue, and some will succeed. However, the two major wars in the region will have dramatically subsided if not concluded by 2020. We also see the Iranian situation having been brought under control. Whether this will be by military action and isolation of Iran or by a political arrangement with the current or a successor regime is unclear but irrelevant to the broader geopolitical issue. Iran will be contained, as it simply does not have the underlying power to be a major player in the region beyond its immediate horizons.

The diversity of systems and demographics that is Europe will put the European Union's institutions under severe strain. We suspect the institutions will survive. We doubt that they will work very effectively. The main political tendency will be away from multinational solutions to a greater nationalism driven by divergent and diverging economic, social and cultural forces. The elites that have crafted the European Union will find themselves under increasing pressure from the broader population. The tension between economic interests and cultural stability will define Europe. Consequently, inter-European relations will be increasingly unpredictable and unstable.

Russia will spend the 2010s seeking to secure itself before the demographic decline really hits. It will do this by trying to move from raw commodity exports to process commodity exports, moving up the value chain to fortify its economy while its demographics still allow it. Russia will also seek to reintegrate the former Soviet republics into some coherent entity in order to delay its demographic problems, expand its market and above all reabsorb some territorial buffers. Russia sees itself as under the gun, and therefore is in a hurry. This will cause it to appear more aggressive and dangerous than it is in the long run. However, in the 2010s, Russia's

actions will cause substantial anxiety in its neighbors, both in terms of national security and its rapidly shifting economic policies.

The states most concerned — and affected — will be the former satellite states of Central Europe. Russia's primary concern remains the North European Plain, the traditional invasion route into Russia. This focus will magnify as Europe becomes more unpredictable politically. Russian pressure on Central Europe will not be overwhelming military pressure, but Central European psyches are finely tuned to threats. We believe this constant and growing pressure will stimulate Central European economic, social and military development.

China's economy, like the economies of Japan and other East Asian states before it, will reduce its rate of growth dramatically in order to calibrate growth with the rate of return on capital and to bring its financial system into balance. To do this, it will have to deal with the resulting social and political tensions.

From the American point of view, the 2010s will continue the long-term increase in economic and military power that began more than a century ago. The United States remains the overwhelming — but not omnipotent — military power in the world, and produces 25 percent of the world's wealth each year.

## **The Decade Ahead**

The world has been restructuring itself since 2008, when Russia invaded Georgia and the subprime financial crisis struck. Three patterns have emerged. First, the European Union entered a crisis that it could not solve and that has increased in intensity. We predict that the European Union will never return to its previous unity, and if it survives it will operate in a more limited and fragmented way in the next decade. We do not expect the free trade zone to continue to operate without increasing protectionism. We expect Germany to suffer severe economic reversals in the next decade and Poland to increase its regional power as a result.

The current confrontation with Russia over Ukraine will remain a centerpiece of the international system over the next few years, but we do not think the Russian Federation can exist in its current form for the entire decade. Its overwhelming dependence on energy exports and the unreliability of expectations on pricing make it impossible for Moscow to sustain its institutional relations across the wide swathe of the Russian Federation. We expect Moscow's authority to weaken substantially, leading to the formal and informal fragmentation of Russia. The security of Russia's nuclear arsenal will become a prime concern as this process accelerates later in the decade.

We have entered a period in which the decline of the nation-states created by Europe in North Africa and the Middle East is accelerating. Power is no longer held by the state in many countries, having devolved to armed factions that can neither defeat others nor be defeated. This has initiated a period of intense internal fighting. The United States is prepared to mitigate the situation with air power and limited forces on the ground but will not be able or willing to impose a settlement. Turkey, whose southern border is made vulnerable by this fighting, will be slowly drawn into the

fighting. By the end of this decade, Turkey will emerge as the major regional power, and Turkish-Iranian competition will increase as a result.

China has completed its cycle as a high-growth, low-wage country and has entered a new phase that is the new normal. This phase includes much slower growth and an increasingly powerful dictatorship to contain the divergent forces created by slow growth. China will continue to be a major economic force but will not be the dynamic engine of global growth it once was. That role will be taken by a new group of highly dispersed countries we call the Post-China 16, which includes much of Southeast Asia, East Africa and parts of Latin America. China will not be an aggressive military force either. Japan remains the most likely contender for the dominant position in East Asia, both because of its geography and because of its needs as a massive importer. The United States will continue to be the major economic, political and military power in the world but will be less engaged than in the past. Its low rate of exports, its increasing energy self-reliance and its experiences over the last decade will cause it to be increasingly cautious about economic and military involvement in the world. It has learned what happens to heavy exporters when customers cannot or will not buy their products. It has learned the limits of power in trying to pacify hostile countries. It has learned that North America is an arena in which it can prosper with selective engagements elsewhere. It will face major strategic threats with proportional power, but it will not serve the role of first responder as it has in recent years.

It will be a disorderly world, with a changing of the guard in many regions. The one constant will be the continued and maturing power of the United States — a power that will be much less visible and that will be utilized far less in the next decade.

## **Europe**

The European Union will be unable to solve its fundamental problem, which is not the eurozone, but the free trade zone. Germany is the center of gravity of the European Union; it exports more than 50 percent of its GDP, and half of that goes to other EU countries. Germany has created a productive capability that vastly outstrips its ability to consume, even if the domestic economy were stimulated. It depends on these exports to maintain economic growth, full employment and social stability. The European Union's structures — including the pricing of the euro and many European regulations — are designed to facilitate this export dependency.

This has already fragmented Europe into at least two parts. Mediterranean Europe and countries such as Germany and Austria have completely different behavioral patterns and needs. No single policy can suit all of Europe. This has been the core problem from the beginning, but it has now reached an extreme point. What benefits one part of Europe harms another.

[Nationalism](#) has already risen significantly. Compounding this is the Ukrainian crisis and Eastern European countries' focus on the perceived threat from Russia. Eastern Europe's concern about Russia creates yet another Europe — four, total, if we separate the United Kingdom and Scandinavia from the rest of Europe. Considered with the rise of Euroskeptic parties on the right and left, the growing delegitimation

of mainstream parties and the surging popularity of separatist parties within European countries, the fragmentation and nationalism that we forecast in 2005, and before, is clearly evident.

These trends will continue. The European Union might survive in some sense, but European economic, political and military relations will be governed primarily by bilateral or limited multilateral relationships that will be small in scope and not binding. Some states might maintain a residual membership in a highly modified European Union, but this will not define Europe.

What will define Europe in the next decade is the re-emergence of the nation-state as the primary political vehicle of the continent. Indeed the number of nation-states will likely increase as various movements favoring secession, or the dissolution of states into constituent parts, increase their power. This will be particularly noticeable during the next few years, as economic and political pressures intensify amid Europe's crisis. [Germany has emerged](#) from this mass of nation-states as the most economically and politically influential. Yet Germany is also extremely vulnerable. It is the world's fourth-largest economic power, but it has achieved that status by depending on exports. Export powers have a built-in vulnerability: They depend on their customers' desire and ability to buy their products. In other words, Germany's economy is hostage to the economic well-being and competitive environment in which it operates.

There are multiple forces working against Germany in this regard. First, Europe's increasing nationalism will lead to protectionist capital and labor markets. Weaker countries are likely to adopt various sorts of capital controls, while stronger countries will limit the movement of foreigners — including the citizens of other EU countries — across their borders. We forecast that existing protectionist policies inside the European Union, particularly on agriculture, will be supplemented in coming years by trade barriers created by the weaker Southern European economies that need to rebuild their economic base after the current depression. On a global basis, we can expect European exports to face increased competition and highly variable demand in the uncertain environment. Therefore, our forecast is that Germany will begin an extended economic decline that will lead to a domestic social and political crisis and that will reduce Germany's influence in Europe during the next 10 years.

At the center of economic growth and increasing political influence will be Poland. Poland has maintained one of the most impressive growth profiles outside of Germany and Austria. In addition, though its population is likely to contract, the contraction will most probably be far less than in other European countries. As Germany undergoes wrenching shifts in economy and population, Poland will diversify its own trade relationships to emerge as the dominant power on the strategic Northern European Plain. Moreover, we expect Poland to be the leader of an anti-Russia coalition that would, significantly, include Romania during the first half of this decade. In the second half of the decade, this alliance will play a major role in reshaping the Russian borderlands and retrieving lost territories through informal and formal means. Eventually as Moscow weakens, this alliance will become the dominant

influence not only in Belarus and [Ukraine](#), but also farther east. This will further enhance Poland's and its allies' economic and political position. Poland will benefit from having a strategic partnership with the United States. Whenever a leading global power enters into a relationship with a strategic partner, it is in the global power's interest to make the partner as economically vigorous as possible, both to stabilize its society and to make it capable of building a military force. Poland will be in that position with the United States, as will Romania. Washington has made its interest in the region obvious.

## **Russia**

It is unlikely that the Russian Federation will survive in its current form. Russia's failure to transform its energy revenue into a self-sustaining economy makes it vulnerable [to price fluctuations](#). It has no defense against these market forces. Given the organization of the federation, with revenue flowing to Moscow before being distributed directly or via regional governments, the flow of resources will also vary dramatically. This will lead to a repeat of the Soviet Union's experience in the 1980s and Russia's in the 1990s, in which Moscow's ability to support the national infrastructure declined. In this case, it will cause regions to fend for themselves by forming informal and formal autonomous entities. The economic ties binding the Russian periphery to Moscow will fray.

Historically, the Russians solved such problems via the secret police — the KGB and its successor, the Federal Security Services (FSB). But just as in the 1980s, the secret police will not be able to contain the centrifugal forces pulling regions away from Moscow this decade. In this case, the FSB's power is weakened by its leadership's involvement in the national economy. As the economy falters, so does the FSB's strength. Without the FSB inspiring genuine terror, the fragmentation of the Russian Federation will not be preventable.

To Russia's west, Poland, Hungary and Romania will seek to recover regions lost to the Russians at various points. They will work to bring Belarus and Ukraine into this fold. In the south, the Russians' ability to continue controlling the North Caucasus will evaporate, and Central Asia will destabilize. In the northwest, the Karelian region will seek to rejoin Finland. In the Far East, the maritime regions more closely linked to China, Japan and the United States than to Moscow will move independently. Other areas outside of Moscow will not necessarily seek autonomy but will have it thrust upon them. This is the point: There will not be an uprising against Moscow, but Moscow's withering ability to support and control the Russian Federation will leave a vacuum. What will exist in this vacuum will be the individual fragments of the Russian Federation.

This will create the greatest crisis of the next decade. Russia is the site of a massive nuclear strike force distributed throughout the hinterlands. The decline of Moscow's power will open the question of who controls those missiles and how their non-use can be guaranteed. This will be a major test for the United States. Washington is the only power able to address the issue, but it will not be able to seize control of the

vast numbers of sites militarily and guarantee that no missile is fired in the process. The United States will either have to invent a military solution that is difficult to conceive of now, accept the threat of rogue launches, or try to create a stable and economically viable government in the regions involved to neutralize the missiles over time. It is difficult to imagine how this problem will play out. However, given our forecast on the fragmentation of Russia, it follows that this issue will have to be addressed, likely in the next decade.

The issue in the first half of the decade will be how far [the alliance stretching between the Baltic and Black seas](#) will extend. Logically, it should reach Azerbaijan and the Caspian Sea. Whether it does depends on what we have forecast for the Middle East and Turkey.

## **The Middle East and North Africa**

The Middle East — particularly the area between the Levant and Iran, along with North Africa — is experiencing national breakdowns. By this we mean that the nation-states established by European powers in the 19th and 20th centuries are collapsing into their constituent factions defined by kinship, religion or shifting economic interests. In countries like Libya, Syria and Iraq, we have seen the devolution of the nation-state into factions that war on each other and that cross the increasingly obsolete borders of countries.

This process follows the model of Lebanon in the 1970s and 1980s, when the central government ceased to function and power devolved to warring factions. The key factions could not defeat the others, nor could they themselves be defeated. They were manipulated and supported from the outside, as well as self-supporting. The struggle among these factions erupted into a civil war — one that has quieted but not ended. As power vacuums persist throughout the region, jihadist groups will find space to operate but will be contained in the end by their internal divisions.

This situation cannot be suppressed by outside forces. The amount of force required and the length of deployment would outstrip the capacity of the United States, even if dramatically expanded. Given the situation in other parts of the world, particularly in Russia, the United States can no longer focus exclusively on this region.

At the same time, this evolution, particularly in the Arab states south of Turkey, represents a threat to regional stability. The United States will act to mitigate the threat of particular factions, which will change over time, through the use of limited force. But the United States will not deploy multidivisional forces to the region. At this point, most countries in the area still expect the United States to act as the decisive force even though they witnessed the United States fail in this role in the past decade. Nevertheless, expectations shift more slowly than reality.

As the reality sinks in, it will emerge that, because of its location, only one country has an overriding interest in stabilizing Syria and Iraq, is able to act broadly — again because of its location — and has the means to at least achieve limited success in the region. That country is [Turkey](#). At this point, Turkey is surrounded by conflicts in the

Arab world, in the Caucasus and in the Black Sea Basin. But Turkey has avoided taking risks so far.

Turkey will continue to need U.S. involvement for political and military reasons. The United States will oblige, but there will be a price: participation in the containment of Russia. The United States does not expect Turkey to assume a war-fighting role and does not intend one for itself. It does, however, want a degree of cooperation in managing the Black Sea. Turkey will not be ready for a completely independent policy in the Middle East and will pay the price for a U.S. relationship. That price will open the path to extending the containment line to Georgia and Azerbaijan.

We expect the instability in the Arab world to continue through the decade. We also expect Turkey to be drawn in to the south, inasmuch as its fears of fighting so close to its border — and the political outcomes of that fighting — will compel it to get involved. It will intervene as little as possible and as slowly as possible, but it will intervene, and its intervention will eventually increase in size and breadth. Whatever its reluctance, Turkey cannot withstand years of chaos across its border, and there will be no other country to carry the burden. Iran is not in a position geographically or militarily to perform this function, nor is Saudi Arabia. Turkey is likely to try to build shifting coalitions ultimately reaching into North Africa to stabilize the situation. Turkish-Iranian competition will grow with time, but Turkey will keep its options open to work with both Iran and Saudi Arabia as needed. Whatever the dynamic, Turkey will be at the center of it.

This will not be the only region drawing Turkey's attention. As Russia weakens, European influence will begin inching eastward into areas where Turkey has historical interests, such as the northern shore of the Black Sea. We can foresee Turkey projecting its power northward certainly commercially and politically but also potentially in some measured military way. Moreover, as the European Union fragments and individual economies weaken or some nations become oriented toward the East, Turkey will increase its presence in the Balkans as the only remaining power able to do so.

Before this can happen, Turkey must find a domestic political balance. It is both a secular and Muslim country. The current government has attempted to bridge the gap, but in many ways it has tilted away from the secularists, of whom there are many. A new government will certainly emerge over the coming years. This is a permanent fault line in contemporary Turkey. Like many countries, its power will expand in the midst of political uncertainty. Alongside this internal political conflict, the military, intelligence and diplomatic service will need to evolve in size and function during the coming decade. That said, we expect to see an acceleration of Turkey's emergence as a major regional power in the next 10 years.

## **East Asia**

China has ceased to be a high-growth, low-wage economy. As China's economy slows, the process of creating and organizing an economic infrastructure to employ low-wage workers will be incremental. What can be done quickly in a port city takes



much longer in the interior. Therefore, China has normalized its economy, as Japan did before it, and as Taiwan and South Korea did in 1997. All massive expansions climax, and the operations of the economies shift.

The problem for China in the next decade are the [political and social consequences of that shift](#). The coastal region has been built on high growth rates and close ties with European and American consumers. As these decline, political and social challenges emerge. At the same time, the expectation that the interior — beyond parts of the more urbanized Yangtze River Delta — will grow as rapidly as the coast is being dashed. The problem for the next decade will be containing these difficulties.

Beijing's growing dictatorial tendencies and an anti-corruption campaign, which is actually Beijing's assertion of its power over all of China, provide an outline of what China would like to see in the next decade. China is following a hybrid path that will centralize political and economic powers, assert Party primacy over the military, and consolidate previously fragmented industries like coal and steel amid the gradual and tepid implementation of market-oriented reforms in state-owned enterprises and in the banking sector. It is highly likely that a dictatorial state coupled with more modest economic expectations will result. However, there is a less likely but still conceivable outcome in which political interests along the coast rebel against Beijing's policy of transferring wealth to the interior to contain political unrest. This is not an unknown pattern in China, and, though we do not see this as the most likely course, it should be kept in mind. Our forecast is the imposition of a communist dictatorship, a high degree of economic and political centralization and increased nationalism.

China cannot easily turn nationalism into active aggression. China's geography makes such actions on land difficult, if not impossible. The only exception might be an attempt to take control of Russia's maritime interests if we are correct and Russia fragments. Here, Japan likely would challenge China. China is building a large number of ships but has little experience in naval warfare and lacks the experienced fleet commanders needed to challenge more experienced navies, including the U.S. Navy. Japan has the resources to build a significantly larger navy and a more substantial naval tradition. In addition, Japan is heavily dependent on imports of raw materials from Southeast Asia and the Persian Gulf. Right now it depends on the United States to guarantee access. But given that we are forecasting more cautious U.S. involvement in foreign ventures and that the United States is not dependent on imports, the reliability of the United States is in question. Therefore, the Japanese will increase their naval power in the coming years.

Fighting over the minor islands producing low-cost and unprofitable energy will not be the primary issue in the region. Rather, an old three-player game will emerge. Russia, the declining power, will increasingly lose the ability to protect its maritime interests. The Chinese and the Japanese will both be interested in acquiring these and in preventing each other from having them. We forecast this as the central, unsettled issue in the region as Russia declines and Sino-Japanese competition increases.



# Post-China Manufacturing Hubs

International capitalism requires a low-wage, high-growth region for high rewards on risk capital. In the 1880s it was the United States, for example. China was the most recent region, replacing Japan. No one country can replace China, but we have noted [16 countries](#) with a total population of about 1.15 billion people where entry-level manufacturing has gone after leaving China.

## POST-CHINA 16: EMERGING ECONOMIES



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