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2017 Annual Forecast

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Whether moderates or extremists claim victory in 2017, Europe will still be hurtling toward a breakup into regional blocs.

The convulsions to come in 2017 are the political manifestations of much deeper forces in play. In much of the developed world, the trend of aging demographics and declining productivity is layered with technological innovation and the labor displacement that comes with it. China's economic slowdown and its ongoing evolution compound this dynamic. At the same time the world is trying to cope with reduced Chinese demand after decades of record growth, China is also slowly but surely moving its own economy up the value chain to produce and assemble many of the inputs it once imported, with the intent of increasingly selling to itself. All these forces combined will have a dramatic and enduring impact on the global economy and ultimately on the shape of the international system for decades to come.

These long-arching trends tend to quietly build over decades and then noisily surface as the politics catch up. The longer economic pain persists, the stronger the political response. That loud banging at the door is the force of nationalism greeting the world's powers, particularly Europe and the United States, still the only superpower.

Only, the global superpower is not feeling all that super. In fact, it's tired. It was roused in 2001 by a devastating attack on its soil, it overextended itself in wars in the Islamic world, and it now wants to get back to repairing things at home. Indeed, the main theme of U.S. President-elect Donald Trump's campaign was retrenchment, the idea that the United States will pull back from overseas obligations, get others to carry more of the weight of their own defense, and let the United States focus on boosting economic competitiveness.

Barack Obama already set this trend in motion, of course. Under his presidency, the United States exercised extreme restraint in the Middle East while trying to focus on longer-term challenges — a strategy that, at times, worked to Obama's detriment, as evidenced by the rise of the Islamic State. The main difference between the Obama doctrine and the beginnings of the Trump doctrine is that Obama still believed in collective security and trade as mechanisms to maintain global order; Trump believes the institutions that govern international relations are at best flawed and at worst constrictive of U.S. interests.

No matter the approach, retrenchment is easier said than done for a global superpower. As Woodrow Wilson said, "Americans are participants, like it or not, in the life of the world." The words of America's icon of idealism ring true even as realism is tightening its embrace on the world.

Revising trade relationships the way Washington intends to, for example, may have been feasible a couple decades ago. But that is no longer tenable in the current and evolving global order where technological advancements in manufacturing are proceeding apace and where economies, large and small, have been tightly interlocked in global supply chains. This means that the United States is not going to be able to make sweeping and sudden changes to the North American Free Trade Agreement. In fact, even if the trade deal is renegotiated, North America will still have tighter trade relations in the long term.

The United States will, however, have more space to selectively impose trade barriers with China, particularly in the metals sector. And the risk of a rising trade spat with Beijing will reverberate far and wide. Washington's willingness to question the "One China" policy – something it did to extract trade concessions from China – will come at a cost: Beijing will pull its own trade and security levers that will inevitably draw the United States into the Pacific theater.

But the timing isn't right for a trade dispute. Trump would rather focus on matters at home, and Chinese President Xi Jinping would rather focus on consolidating political power ahead of the 19th Party Congress. And so economic stability will take priority over reform and restructuring. This means Beijing will expand credit and state-led investment, even if those tools are growing duller and raising China's corporate debt levels to dangerous heights.

This will be a critical year for Europe. Elections in the pillars of the European Union — France and Germany — as well as potential elections in the third largest eurozone economy — Italy — will affect one another and threaten the very existence of the eurozone. As we have been writing for years, the European Union will eventually dissolve. The question for 2017 is to what degree these elections expedite its dissolution. Whether moderates or extremists claim victory in 2017, Europe will still be hurtling toward a breakup into regional blocs.

European divisions will present a golden opportunity for the Russians. Russia will be able to crack European unity on sanctions in 2017 and will have more room to consolidate influence in its borderlands. The Trump administration may also be more amenable to easing sanctions and to some cooperation in Syria as it tries to de-escalate the conflict with Moscow. But there will be limits to the reconciliation. Russia will continue to bolster its defenses and create leverage in multiple theaters, from cyberspace to the Middle East. The United States, for its part, will continue to try to contain Russian expansion.

As part of that strategy, Russia will continue to play spoiler and peacemaker in the Middle East to bargain with the West. While a Syrian peace settlement will remain elusive, Russia will keep close to Tehran as U.S.-Iran relations deteriorate. The Iran nuclear deal will be challenged on a number of fronts as Iran enters an election year and as the incoming U.S. government takes a much more hard-line approach on Iran. Still, mutual interests will keep the framework of the deal in place and will discourage either side from clashing in places such as the Strait of Hormuz.

The competition between Iran and Turkey will meanwhile escalate in northern Syria and in northern Iraq. Turkey will focus on establishing its sphere of influence and containing Kurdish separatism while Iran tries to defend its own sphere of influence. As military operations degrade the Islamic State in 2017, the ensuing scramble for territory, resources and influence will intensify among the local and regional stakeholders. But as the Islamic State weakens militarily, it will employ insurgent and terrorist tactics and encourage resourceful grassroots attacks abroad.

The Islamic State is not the only jihadist group to be concerned about. With the spotlight on Islamic State, al Qaeda has also been quietly rebuilding itself in places such as North Africa and the Arabian Peninsula, and the group is likely to be more active in 2017.

Crude oil prices will recover modestly in 2017, thanks in part to the deal struck by most of the world's oil producers. (Notably, no country will fully abide by the reduction requirements.) The pace of recovery for North American shale production will be the primary factor influencing Saudi Arabia's policy on extending and increasing production cuts next year. And though it will take time for North American producers to respond to the price recovery and to raise production, Saudi Arabia knows that a substantial rise in oil prices is unlikely. This means Saudi Arabia will actively intervene in the markets in 2017 to keep the economy on course for a rebalance in supply, especially in light of its plan to sell 5 percent of Saudi Aramco shares in 2018.

Higher oil prices will be a welcome relief to the world's producers, but it may be too little, too late for a country as troubled as Venezuela. The threat of default looms, and severe cuts to imports of basic goods to make debt payments will drive social unrest and expose already deep fault lines among the ruling party and armed forces.

Developed markets will also see a marked shift in 2017, a year in which inflation returns. This will cause central banks to abandon unconventional policies and employ measures of monetary tightening. The days of central banks flooding the markets with cash are coming to an end. The burden will now fall to officials who craft fiscal policy, and government spending will replace printing money as the primary engine of economic growth.

Tightening monetary policy in the United States and a strong U.S. dollar will shake the global economy in the early part of 2017. The countries most affected will be those in the emerging markets with high dollar-denominated debt exposure. That list includes Venezuela, Turkey, South Africa, Nigeria, Egypt, Chile, Brazil, Colombia and Indonesia. Downward pressure on the yuan and steadily declining foreign exchange reserves will meanwhile compel China to increase controls over capital outflows.

Calm as markets have been recently, steadied as they were by ample liquidity and by muted responses to political upheaval, they will be much more volatile in 2017. With all the tumult in 2017, from the threats to the eurozone to escalating trade disputes, investors could react dramatically. Asset prices swung noticeably, albeit quickly, in the first two months of 2016. 2017 could easily see multiple such episodes.

The United States is pulling away from its global trade initiatives while the United Kingdom, a major free trade advocate, is losing influence in an increasingly protectionist Europe. Global trade growth will likely remain strained overall, but export-dependent countries such as China and Mexico will also be more motivated to protect their relationships with suppliers and seek out additional markets. Larger trade deals will continue to be replaced by smaller, less ambitious deals negotiated between countries and blocs. After all, the Transatlantic Trade and Investment Partnership and the Trans-Pacific Partnership were themselves fragments spun from the breakdown of the Doha Round of the World Trade Organization.

Economic frustration can manifest in many ways, not all of which are foreboding. In Japan, the government will be in a strong position in 2017 to try to implement critical reforms and adapt its aging population to shifting global conditions. In Brazil and India, efforts to expose and combat corruption will maintain their momentum. India has even taken the ambitious step of setting its economy down a path of demonetization. The path will be bumpy in 2017, but India will be a critical case study for other countries, developed and developing alike, enticed by the efficiencies and decriminalized benefits of a cashless economy and who increasingly have the technology at their disposal to entertain the possibility.

Latin America

Trade Stays Intact

The North American Free Trade Agreement will remain largely intact in 2017 despite U.S. campaign promises made to the contrary in 2016. The fact of the matter is that the trade ties and supply chains of North America are so tightly bound that a sudden and dramatic reversal to an agreement such as NAFTA would contravene the interests of all its members. The United States will nonetheless renegotiate the deal, albeit gradually, to honor the campaign promises made by president-elect Donald Trump. Those talks will likely extend beyond 2017.

That is not to say the United States is without options for improving the terms of the contract. The Trump administration could increase regional content requirements for products to qualify for tariff-free export to the United States and use non-tariff barriers more selectively. Mexico will have much more at stake in the negotiations, but its imperative is far simpler. It means to leverage its low labor costs and its high number of free trade agreements to maintain as much of the status quo as possible on trade and to maintain foreign direct investment flows into domestic manufacturing. And so Mexico will have a few tools to use against the United States. Mexico could influence the Trump administration by allying with businesses and states that would be hurt by more expensive labor and goods. (As a matter of fact, it has already begun to do so.) It could, moreover, leverage intelligence cooperation on counternarcotics operations to try and shape the dialogue.

Lower investment flows that could result from the uncertainty surrounding the NAFTA negotiations could hurt Mexico in the meantime. But even this will be tempered by Mexico's proximity to the United States and its multitude of free trade agreements. Canada, with its advanced economy and high labor costs, will receive much less scrutiny. The Canadian government has indicated its willingness to take part in the NAFTA talks and will be seeking measures to protect its own manufacturing sector.

Canada could also renegotiate NAFTA's investor-state dispute settlement, which allows an investor to sue a foreign government in international arbitration without going through domestic courts. Having been challenged under the ISDS procedure, Canada will certainly want to revisit its terms, even if a business-friendly Trump Cabinet were to resist measures that undermine foreign corporate protection abroad.

The negotiations will be slow going, no matter how they play out. Many of the points up for discussion would still center on concentrating economic production in North America, where supply chain interdependencies are developing organically.

A Tighter Energy Bloc

The Trump administration will loosen regulations on domestic energy, enabling North America to more easily integrate as an energy bloc. It plans to streamline the process for federal permits on energy projects and to pull back from climate change initiatives, measures that could also provide a relative boost to the coal and nuclear power industries. They could also enable the beleaguered U.S. energy sector to rebound after a prolonged depression in the price of oil. A gradual recovery in North American production will, in turn, allow for a modest increase in global oil prices since it will take time for increased North American oil output to offset coordinated production cuts by the world's oil producers.

Canada and Mexico will meanwhile continue to make measured progress in energy integration with the United States. In Canada's case, this will include increased cross-border pipeline construction and supply integration. In Mexico's case, it will entail implementing broader energy reforms, including further liberalizing domestic energy prices and loosening Pemex's dominance in refining and distribution.

The Pinch of Low Prices

Latin American commodities exporters will continue to feel the pinch of low commodities prices in 2017. The economies of Brazil, Argentina, Chile and Colombia will begin to recover somewhat, but slow demand growth from China, low oil prices and an oversupply of agricultural commodities such as soybeans will otherwise keep exports largely depressed.

Further stunting economic growth and fiscal health is the strength of the U.S. dollar. Colombia, Brazil, and Chile have substantial dollar-denominated debt, which will become harder to repay or rollover. For Venezuela, which is already on the edge of default, heavier debt payments will increase the risk of default. For Brazil, Chile, Mexico and Argentina, more expensive debt payments amid the general commodity downturn will limit the amount governments can spend on domestic priorities.

A modest increase in global oil prices could meanwhile bring temporary relief for oil producing nations in Latin America. Even a temporary hike would be a welcome reprieve for central governments, which would then have a little more leeway in managing public finances. For Venezuela, a country already in an extreme state of economic deterioration, even a slight rise in oil prices could lower the odds that it will default on its foreign debt.

And so, faced as they are with relatively low export growth, certain Latin American countries will seek increased access to markets abroad by advancing trade agreements with nations outside the region. In light of the demise of the Trans-Pacific Partnership and the rise of new if limited NAFTA negotiations, Mexico will tentatively try to enter discussions on trade deals with Asian states, particularly with China. The countries that comprise Mercosur, or the Common Market of the South, will also continue to negotiate with the European Union on a future trade agreement, though political constraints on both sides of that dialogue could drag things out.

A Make or Break Year for Venezuela

The price of oil will make or break Venezuela in 2017. Venezuelan state oil and natural gas company Petroleos de Venezuela faces a much higher risk of default on its foreign debt this year, but even a slight rise in the price of crude could buy the government valuable time. Still, this does not put Caracas in the clear. A debt default would reduce the lending and foreign capital Venezuela's energy sector depends on and would lower the country's oil output. The subsequent loss of oil revenue would hasten the decline of already reduced food imports, compelling more Venezuelans to either flee the country or to rise up in protest.

To avert this crisis and preserve its power, the government will probably choose to cut imports rather than miss its debt payments. But this will only incite unrest. Venezuela's attempts to deal with runaway inflation will create additional triggers for unrest. The Venezuelan government will try to introduce higher denomination bills in the new year to keep up with rising prices. But if such measures are implemented haphazardly, they will inflict further economic pain on the population and raise the likelihood of further unrest.

Some political unrest is all but unavoidable. As the threat of default looms, Venezuela's currency will likely further weaken, driving inflation even higher than it is now. (Inflation is high because the government cut exports to keep making its debt payments.) The ruling party will try to contain unrest through security crackdowns and through increased control of the nation's food distribution networks.

But the fate of the government rests in the hands of the armed forces. So far, the various factions of the government, including the armed forces, have presented a mostly united front against the political opposition. But there is dissension in the ranks; some factions are inclined to hold on to power as long as possible. If Caracas defaults on its debt, the government would initially band together to tighten internal security, but its cohesion would be tested by the intensity and duration of the ensuing unrest. If factions of the armed forces believe siding with the government threatens their power, they may have to reconsider where their loyalty lies.

Colombia: Processing a Peace Deal Quickly

The Colombian government's main priority in 2017 will be to implement the revised peace deal it struck with the Revolutionary Armed Forces of Colombia (FARC) in late 2016. Bogota knows it must act quickly, while it still has the momentum and political authority to do so. The government received fast-track legislative powers in December, so it will be able to pass legislation underpinning the FARC deal more quickly throughout the year. The administration of Jose Manuel Santos will begin the process of demobilizing the rebels with the intent of having as much of the peace deal implemented as possible by the time it leaves office in 2018.

Brazil: Questioning Political Stability Again

Brazil will begin its climb out of economic recession this year, though growth will be hampered by relatively weak global demand for export commodities such as soybeans and iron ore and sluggish trade growth with its trading partners.

Brazil's political stability will meanwhile be called into question – again. The corruption investigation into state oil firm Petroleo Brasileiro could ensnare much of Brazil's lower house and senate. If lower-level politicians are mainly implicated, the government could withstand such a blow. It would be harder to overcome, however, if the investigation implicated higher-ranking officials in the administration of President Michel Temer — himself an interim figure who replaced Dilma Rouseff after her August impeachment.

Riskier still is a separate investigation concerning possible illegal donations to Temer's re-election campaign as vice president in 2014. If additional evidence leads to a conviction, Temer would be ordered to step down from his post. Such a scenario, of course, probably would not hurt Brazil's long-term economic prospects or affect the economic reform bills the president has already begun to move through the legislature. But it would throw Brazilian politics into utter disarray and would discourage foreign investment that Brazil certainly needs in the short term.

In Argentina, the Opposition's Consent

In Argentina, economic growth will pick up again in 2017, but moderately high inflation and reduced trade with Brazil, not to mention with the rest of Mercosur, will keep that growth in check. The state of the economy will come into play in the lead up to legislative elections in October, during which the government will try to cater to as many constituents as possible. The administration of Mauricio Macri will therefore refrain from implementing major austerity measures to curb the budget deficit.

And it will be unable to cut back on costly fund transfers to Argentine provincial governments – and on compensation to labor unions. Macri will continue to face domestic challenges from an increasingly united political opposition and from the backlash over utility price hikes, which are meant to raise state revenue and make natural gas projects more attractive in the long run. A more united opposition will limit what the ruling party can pass through parliament and prevent it from enacting economic reform without the opposition's consent.

Eurasia

2017 will be a year of opportunity for Russia. And if it capitalizes on those opportunities, some sanctions against it could be eased by year's end.

Crowding Out the West

Europe, and its policy toward Russia, is as divided as ever, so at least partial sanctions relief is within Moscow's grasp. Understanding the import of this year's European elections – elections that could bring about the eurozone's demise – Russia will support anti-establishment and Euroskeptic forces and exploit divisions on the continent through cyber attacks and propaganda campaigns.

France, Italy, Austria and Greece will end up seeking a more balanced relationship with Russia, while countries that tend to be more vulnerable to its vagaries – Poland, Romania, the Baltics and Sweden – will band together to fend off what they see as potential Russian aggression. Germany will try to play both sides, something that will be increasingly difficult to do as it also fights to keep the eurozone intact. Germany's distraction will, in turn, enable Poland to emerge as a stronger leader in Eastern Europe, extending political, economic and military support to those endangered by the West's weakened resolve.

That is not to say that Russia will be entirely unconstrained. Though Washington appears somewhat more willing to negotiate with Moscow on some issues, the United States still has every reason to contain Russian expansion, so it will maintain, through NATO, a heavy military presence on Russia's European frontier. This is bound to impede any negotiation. Still, Russia will use every means at its disposal – military buildups on its western borders, the perception of its realignment with the United States, the exploitation of European divisions – to poke, prod and ultimately bargain with the West. And in doing so, it will intimidate its neighbors and attempt to crowd out Western influence in its near abroad.

Even a hint of reconciliation between Moscow and Washington will echo throughout Russia's borderlands. Russia will almost certainly maintain its military presence in eastern Ukraine, but the United States and some European countries will adopt a more flexible interpretation of the Minsk protocols to justify the easing of sanctions. And because this will leave the government in Kiev more vulnerable to Russian coercion, Ukraine can be expected to intensify military, political and economic ties with Poland and the Baltic states.

In fact, the prospect of a U.S.-Russia reconciliation will all but halt the efforts of otherwise pro-West countries — Ukraine, Moldova and Georgia – to integrate into Western institutions, as will the growing divisions in Europe. These countries will not fully ally with Russia, but they will be forced to work with Russia tactically on economic issues and to soften their stances on pro-Russia breakaway territories.

Just as Ukraine will strengthen security efforts with Poland and the Baltics for security, Georgia will strengthen security efforts with Azerbaijan and Turkey. Turkey will maintain its foothold in the Caucasus and in the Black Sea, but it will also make sure to maintain energy and trade ties with Moscow, lest it jeopardize its mission in Syria.

Russia will remain the primary arbiter in the Nagorno-Karabakh dispute between Armenia and Azerbaijan, playing the two against each other to its advantage. And with the European Union's Eastern Partnership and other EU-led programs likely to suffer from the bloc's divisions and distractions, Russia will have the opportunity to deepen its influence in the region by advancing its own integration initiatives such as the Eurasian Economic Union and the Collective Security Treaty Organization.

All Active on the Eastern Front

With the prospect of things quieting on Russia's western front, Moscow will try to improve its strategic position on its eastern front. Moscow and Tokyo will slowly try to end a decades-old territorial dispute, and as they do they will enhance relations through major investment and energy deals. (They are even exploring the idea of connecting their countries with an oil pipeline.) Tokyo may also follow the West's lead in easing sanctions on Russia.

China, too, will pursue similar deals with Russia, albeit for different reasons: It is motivated in part by Russia's newfound friendship with Japan and in part by the United States' newfound friction with China. Beijing can be expected to increase cooperation with Moscow this year on energy projects, military coordination (particularly in the Arctic) and cyber-technology.

Russia will play China and Japan off of each other, strengthening its own position in the region while not fully aligning with either. Russia will also continue to build up trade linkages with South Korea while maintaining ties to North Korea as the nuclear threat it poses grows.

Trouble at Home

For all the opportunity Russia has abroad in 2017, it will have perhaps even more challenges at home. Even if it pulls itself out of recession, it still faces a prolonged period of stagnation, and the government will have to adhere to a conservative budget until oil prices rise meaningfully again. The Kremlin will continue to tap into its reserve funds and will rely more on international borrowing to maintain federal spending priorities.

Russia's regional governments are even more financially vulnerable; they will have to depend on the Kremlin or on international lenders for relief. This reliance will only add to existing tensions between the central and regional governments, tensions that will compel the Kremlin to tighten and centralize its control.

What economic relief does come the federal government's way will not trickle down to the Russian people, who will continue to bear the brunt of the recession. Protests will take place sporadically throughout the year, and the Kremlin will respond by clamping down on unrest through its security apparatus and through more stringent legislation. The Kremlin will, however, increase spending on some social programs later in the year ahead of the 2018 presidential election.

As the government becomes more authoritarian, power struggles among the security forces, liberal circles, energy firms and regional governments are bound to ensue. President Vladimir Putin will try to curb the power of his potential challengers, particularly Rosneft chief Igor Sechin and his loyalists in the Federal Security Service, through various institutional reorganizations. Restructuring, of course, will entail occasional purges and appointments of loyalists, the ultimate purpose of which is to consolidate power under Putin. His grabs for power, however, will isolate him, and in his isolation he will have fewer and fewer allies.

The Hallmark of Central Asia

Instability, as is so often the case, will plague Central Asia in 2017. Such is the hallmark of a region marked by weak economies, the near constant threat of militant attacks and uncertain political transitions, which include the replacement of long-serving Uzbek leader Islam Karimov, who died in September, a looming succession in Kazakhstan, and presidential elections in Kyrgyzstan. Central Asian governments will manage instability by centralizing power and cracking down on security threats to a greater degree than they have before. This will invite more security involvement from Russia and China, which will compete and cooperate with each other as the situation warrants.

In Kazakhstan, succession concerns and economic stagnation compel the elite to make some critical power plays in 2017, particularly in the energy and financial sectors. These kinds of moves, however, will test the government's plan for a cohesive succession.

In Uzbekistan, despite its best efforts to stay strategically neutral, the government will find itself cooperating with Russia on energy, military and political issues. Kyrgyzstan and Tajikistan are likely to see intensified security cooperation with China.

Europe

For Europe, political and economic risk is nothing new. For years, nationalism, populism, conflicting strategic interests, low economic growth and high unemployment have driven EU members apart. The eurozone has seen a variety of threats to its existence over the past decade, connected to issues such as high levels of debt, fragile banking sectors and growing Euroskepticism. But so far it has managed to survive them. In 2017, however, the eurozone crisis could enter a new, more dangerous stage as risk reaches its largest political and economic players. As it does, it will threaten the future of the bloc in more profound ways than before.

The coming risk will be most pronounced in Italy, France and Germany. Nationalist forces have been building steam for years and will show their strength in general elections in Germany and France – and potentially Italy, if its government resigns before the legislature's term ends in mid-2018. And even if they fail to win some or all of these elections, the nationalists' popularity will nonetheless influence the decisions of their countries' leaders, furthering the political fragmentation of the European Union, increasing the demands for a return of sovereignty to national governments, and leading to more unilateral actions by member states. Uncertainty about political events in these core countries will also increase financial risk, especially in the banking sector.

And as it deals with these issues from within, the European Union will also have to deal with new issues from without – namely, the new global order that began the minute Donald Trump was elected. Questions over the reliability of NATO's security umbrella, not to mention recent terrorist attacks, will create opportunities for EU members to work together on security and defense. But growing Euroskepticism and domestic political considerations will prevent them from implementing economic and financial reform. Countries in Eastern Europe, meanwhile, will focus on regional and bilateral cooperation to try to show a united front against Russia.

Questions About the Future

What happens in France, Germany and Italy – the eurozone's three biggest economies – in 2017 will influence one another and indeed the entire currency union. The elections in France and Germany will test the Franco-German alliance, upon which the European Union was founded, and the economic duress in Italy will test the stability of the eurozone. Political tension will again develop between Northern and Southern Europe, which hold different views on the future of the eurozone.

France will be preoccupied with its elections for the first few months of 2017. During this time, the outgoing government will not introduce any significant reforms. The same cannot be said for the new government, regardless of who wins. Though most of the presidential candidates have similar stances on security issues – most, for example, support tough measures to fight terrorism and limit immigration – they differ markedly on economic issues. Voters will have to decide whether they want programs that will deregulate and liberalize the French economy or if they want added protectionism.

The presidential election, held in two rounds and scheduled for April and May, will show that a significant number of voters support anti-globalization and nationalist positions, as will the legislative elections. This will affect France's moves even if the moderates win. The next government is likely, therefore, to be skeptical about free trade and focus on security and defense – and support plans to enhance both at the EU level. The president can be expected to introduce measures to limit immigration. The president will also push Brussels to redesign the Schengen agreement and to improve the European Union's border controls. Paris will criticize the European Commission, even going so far as to demand that it scale back its responsibilities.

If moderates win, they will petition the eurozone to repatriate some powers to its constituent members (something that will clash with Germany's demands for a more apolitical administration of the common currency). The new government will probably also push for better relations with Russia. If the far-right National Front wins, the French government will probably introduce measures to limit the free movement of goods, people, services and capital throughout France. It can also be expected to announce plans for a referendum on France's EU membership.

And therein lies the problem for the European Union: The bloc has been breaking apart for several years, but without France – a founding member whose alliance with Germany was the basis for its very formation – its dissolution is likely irreversible. In the ensuing crisis, the union would fragment into smaller regional groups. Questions about the future of the eurozone would trigger a run on Southern Europe's banks and precipitate the collapse of the currency area.

Ahead of its own general election in September or October, Germany will try to keep the European Union united. But it will be difficult for Berlin to do so. The members of the ruling coalition, composed of center-right and center-left parties, will try to distinguish themselves from one another before the vote, during which the government in Berlin will avoid making any significant decisions on EU issues. Conflicting national interests among EU members will also make consensus on EU reform difficult to find. (One of the few areas where Germany and its EU peers can find some degree of understanding, however, is defense and security.)

Significant EU reforms on financial or economic areas should not be expected. Germany and its northern neighbors will be even more at odds than usual with the south over the management of the eurozone, given the political pressures endemic to election seasons. The government in Berlin will remain skeptical about issues such as granting debt relief to Greece or allowing eurozone members to miss the European Union's deficit targets. Germany is also likely to conflict with the European Central Bank (ECB), especially if the economic case for quantitative easing continues to weaken. Germany and its northern neighbors will advocate the program's termination, though the ECB, in light of continued economic weakness in the periphery, may resist any effort to that end.

Security and immigration will feature prominently in the German electoral campaign. The right-wing opposition, and even some members of Chancellor Angela Merkel's coalition, will push for tougher immigration legislation and for granting more resources to security forces. The general election will show that German voters are willing to support smaller parties on the left and on the right. This will probably lead to a more divided parliament and to difficult coalition talks. While the nationalists may perform well enough to get some members into the legislature, they will be excluded from coalition negotiations.

What could force Germany to take a more decisive role in the European Union, however, would be a victory by the Euroskeptic forces in France or Italy. If that happens, Berlin would try to preserve the bloc and reach an understanding with the rebel governments to introduce internal reform. But the government in Berlin would also hedge its bets by making plans with its regional allies in the event the European Union and eurozone do, in fact, disintegrate.

As for Italy, political uncertainty, fragile banks, low economic growth and high debt levels will once again raise questions about the future of the eurozone's third-largest country – and about the currency union as a whole. Italy's caretaker government will be weak, and early elections are possible. No matter who is in charge, the Italian government will push for flexibility on EU fiscal targets and demand solidarity from its EU partners to deal with the immigration crisis. The government in Rome will also be ready to act unilaterally and criticize the European Union to achieve its goals.

If Italy holds early elections, the fear of a victory by anti-establishment forces would hurt Italian banks, raise borrowing costs and generate pressure on the euro. A victory of the Euroskeptics would put Italy on a collision course with the European Union. The first reaction by Germany and EU institutions would be to accommodate the new government in Rome and try to prevent it from putting membership in the eurozone to a vote. In the long run, however, that kind of referendum will be difficult to avoid. In 2017, therefore, Italy will be one of the greatest risks to the currency area.

The Netherlands, one of the eurozone's wealthiest countries and an important player in Northern Europe, will hold a general election in March. As in other eurozone countries, Euroskeptic and anti-immigration forces there will have a prominent role, showing that discontent with the status quo is strong. Even in the likely case the Euroskeptics fail to access power, their influence will force the Dutch government to become more and more critical of the European Union, resisting plans to deepen Continental integration and siding with other Northern European countries in their criticism of events in the south. If events in France and Italy bring about the collapse of the eurozone, the Netherlands would react by continuing to work with Germany and other Northern European countries.

Elsewhere, in the European periphery, the minority government of Spain will be forced to negotiate with the opposition on legislation, leading to a complex decision-making process and to pressures to reverse some of the reforms that were introduced during the height of the economic crisis. Catalonia will continue to push for its independence as its government challenges Madrid in some instances, ignores it entirely in others, and negotiates with it when necessary. Even if negotiations to ease frictions between Madrid and Catalonia take place, the central government will not authorize a legal referendum on independence, and Catalonia will not abandon its plans of holding it. Tensions will remain high in 2017, but Catalonia will not unilaterally declare independence this year.

In Greece, the government will continue pushing its creditors for additional measures of debt relief, but because of the German elections there will be little progress on the issue. With debt relief temporarily off the table, Athens will demand lower fiscal surplus targets and will reject additional spending cuts. Relations between Athens and its creditors will be tense, but there should be room for compromise. The resignation of the Greek government is possible, albeit improbable, considering that the emergence of opposition forces in the country makes the outcome of early elections highly uncertain – and the government has no guarantee of retaining power.

An Eventual Understanding on the Brexit

In 2017, the debate in the United Kingdom will not be whether the Brexit should happen but how it should happen. The British government will be divided on how to approach the negotiations with the European Union, and the Parliament will demand a greater say in the process. The issue will create a constant threat of early elections, but even if such elections do come to pass, they would only delay the Brexit, not derail it. The government and the Parliament will eventually reach an understanding, however, and the United Kingdom will formally announce its intentions to leave the European Union.

Once the negotiations begin, the United Kingdom will push for a comprehensive trade agreement to include as many goods and services as possible – one that would also give the country more autonomy on immigration. This would involve either signing a free trade agreement with the European Union or agreeing on Britain's membership in Europe's customs union, an area where member states share a common external tariff. A transitional agreement to buy London more time to negotiate a permanent settlement will probably also be part of the discussion. London and the European Union will also negotiate the terms of the United Kingdom's withdrawal, including its EU budget commitments and the status of British citizens in the European Union and the status of EU citizens in the United Kingdom. Given the magnitude of these issues, not to mention the magnitude of the elections in France and Germany, several of the most important decisions will be delayed until at least 2018.

Many Divisions, Some Exploited

Countries of Central and Eastern Europe will circle the wagons to protect themselves from what they see as potential Russian aggression – and from the uncertainty surrounding U.S. foreign policy. Leading the charge will be Poland, which will try to enhance political, economic and military cooperation with its neighbors. It will also support the government in Ukraine politically and financially and will lobby Western EU members to keep a hard stance on Moscow by advocating the continuation of sanctions, increasing military spending, supporting Ukraine, etc. – a position the Baltic states and Sweden are likely to support. Unsure though Warsaw may be about the Trump administration, the government will still try to maintain good ties with the White House as it continues to defend a permanent NATO presence in the region. Countries in the region may even pledge to spend more on defense.

Not all countries will react the same way to this new geopolitical environment, of course. Hungary or Slovakia, for example, do not have the same sense of urgency as Poland when it comes to Russia, so their participation in pre-emptive measures could be more restrained.

Moscow's attempts to exploit divisions within the European Union will strain German-Russian relations. Germany will try to keep sanctions against Russia in place but will face resistance from some EU members, which would rather lift sanctions to improve their relations with Moscow. Germany will also defend cooperation on defense and security as a way to deal with uncertainty about NATO and Russia. The German government will continue to support Ukraine politically and financially, but not militarily.

In the meantime, Russia will exploit divisions within the European Union by supporting Euroskeptic political parties across the Continent and by seeking to cooperate with the friendlier governments in the bloc. Some countries, including Italy, France and Austria, will advocate improved relations with Russia, giving Moscow a better chance to break the sanctions bloc in the union. Some level of sanctions easing from the European Union is likely by the end of the year.

Stopping Migration at Its Source

There is only so much EU member states can do to stem the flow of migrants in 2017. In the Central Mediterranean route, Brussels will try to halt migrants from leaving Africa by cooperating with their countries of origin and by working with the primary transit states. But the difficulty in actually severing African migration routes and the absence of any viable government in Libya will limit the European Union's ability to halt the flow of peoples through the Central Mediterranean.

In the Eastern Mediterranean route, the European Union will keep its line of communication with Turkey open, its political differences with Ankara notwithstanding. European elections and internal divisions, however, will prevent the bloc from giving in to many of Turkey's demands, particularly the one that grants visa liberalization for Turkish citizens. A short window of opportunity on the issue will open in the first months of the year, but if no progress is made before Europe's electoral cycle begins in March in the Netherlands, the issue will be postponed for the rest of the year. Progress on less controversial issues such as trade and funds will be somewhat easier to make.

Aware of how unreliable their outside partners are, EU members will try to shield themselves as much as possible. They will continue to toughen their national migration laws, and to increase deportations, to discourage migrants from coming in the first place. The option of introducing border controls within the EU will also be on the table as a way to sever migration routes. This will continue to be a source of debate – one waged between the countries of arrival (such as Italy and Greece) and the countries of destination (Northern Europe) – over Brussels' failure to develop a coherent migration policy.

East Asia

China remains the center of gravity in the Asia-Pacific, and the economy remains the center of gravity in China. After three decades of rapid economic growth fueled by low-cost exports and state-led infrastructure investment, China is in the early stages of a protracted shift toward an economic growth model grounded in private consumption and high value-added manufacturing. Increased consumption will certainly help to ease the economic pain expected in 2017 – namely, stagnant exports and weak growth in the construction sector. But it will be many years before consumption becomes China's engine for growth. In the meantime, China's leaders will have little option but to use state-led infrastructure investment, however inefficient it may be, to maintain the country's economic health and thus ensure social and political stability.

The Definition of Chinese Policy

China's economic well-being will therefore depend on Chinese policy. And what will define Chinese policy more than anything is President Xi Jinping's efforts to consolidate power over the Communist Party and over the state's institutions ahead of the 19th Party Congress, which will take place around October. Xi's administration will do all it can to contain any social or economic instability that might threaten his political objectives and status within the Party, an imperative that will include sidelining potential rivals and moving allies into key government posts. (As many as five of the Politburo Standing Committee's seven members may retire this year, so Xi's cause is as urgent as ever.) Until then, he will also continue to employ his anti-corruption drive to displace rivals and threats to his power.

That is not to say that amid all this political maneuvering Chinese leaders will ignore economic reform entirely. Where appropriate, authorities will take measured steps forward on initiatives such as a nationwide property tax and property registration system, and they will continue to encourage consolidation in heavy industries. But where such reforms create the risk of instability by, say, undermining employment or corporate solvency, they will be diluted or deferred. Instead, the government will use a tried-and-true method to maintain growth — credit creation and robust state-led spending on infrastructure and other construction-related industries — as Xi focuses on tightening his grip on the political system.

This economic strategy is not without serious risks. Corporate debt in China has reached perilous heights and is disproportionately concentrated in resources, construction and other heavy industries that suffer from overcapacity and inefficiency and that likely hold the lion's share of nationwide nonperforming loans. Even more concerning, corporate debt is maturing more quickly than ever across all industries, especially heavy industries and the construction sector, forcing companies to take on even more debt to invest and to cover old debt.

Corporate debt will be no less concerning in 2017. Despite unprecedented credit creation and robust government spending in 2016, the real estate sector – on which many of the above industries depend – saw continued declines in completed investment and construction starts last year. Taken together, these factors point to the steady degradation of credit and investment as tools of macroeconomic management and suggest that Beijing will have to expend even greater resources than in 2016 to maintain the economic status quo. The government has the resources to do so, of course, but maintaining the status quo in 2017 will only exacerbate corporate debt concerns in 2018 and beyond.

Breaking Diplomatic Norms

Daunting though China's internal challenges to economic stability may be, Beijing also faces pressing external challenges: a potential eurozone crisis and new trade policies under the Trump administration. During his presidential campaign, Trump pledged to label China a currency manipulator and to impose across-the-board tariffs on U.S. imports of Chinese goods. Though the former promise is unlikely to materialize, the administration could, if it wanted to, impose tariffs and anti-dumping restrictions on imports of goods such as steel from China. But even that would be fairly inconsequential; targeted protectionist measures would have a marginal impact on China's economic trajectory and would only encourage corporate supply chains to diversify in other parts of Asia with cheaper labor and large consumer markets. This dynamic will stir tensions between the two economic superpowers – tensions that could spill over into other spheres of U.S.-China relations, such as the status of and Washington's relationship with Taiwan.

Trump has made clear his willingness to break with diplomatic norms governing U.S.-China relations, particularly his intent to use the question of Taiwan's status as a bargaining chip in negotiations with China on other fronts, including cybersecurity, North Korea's nuclear program and trade. Beijing is unlikely to make any concessions on Taiwan, and Washington knows this. Instead of fundamentally re-evaluating Taiwan's status, the Trump administration will try to use the Taiwan issue to get concessions from Beijing. China can retaliate with trade barriers on selected goods and can threaten to limit cyber and military cooperation with the United States, as well as more openly confrontational actions in the South China Sea or elsewhere. In the near term, Washington's willingness will give Taipei some breathing room from China. But the island will carefully manage cross-strait ties to avoid a direct confrontation with Beijing. China can be expected to use diplomatic isolation, military intimidation and targeted economic coercion to increase pressure on Taiwan, a critical node in the global tech supply chain that is deeply integrated with the mainland.

Beijing will also work, overtly or otherwise, to ensure that a favorable candidate prevails in Hong Kong's chief executive election, which is set to take place in March. The election will surely incite protests, but it is nonetheless an opportunity for Beijing and Hong Kong to improve their relationship — even though Beijing has designs to integrate Hong Kong further into the mainland.

But Hong Kong and Taiwan are just two of many features in China's evolving strategic environment. Throughout 2017, eager to boost the economy's slow but steady shift up the industrial value chain, China's government will continue to promote overseas investment into sectors such as high-tech manufacturing, culture and entertainment, and information and communications technologies. Beijing will meanwhile capitalize on the opportunity created by the Trans-Pacific Partnership's demise to promote alternatives of its own divising: the Regional Comprehensive Economic Partnership and the Free Trade Area of the Asia-Pacific.

Continued economic weakness at home, combined with the government's efforts to curb illicit capital outflows, may slow the momentum of Chinese outbound investment somewhat in 2017. But it will not halt China's efforts to enhance infrastructural, economic and security ties to Central and Southeast Asia. The biggest obstacles confronting initiatives such as One Belt, One Road — the massive development and infrastructure strategy to better connect China to the rest of Asia, Europe and East Africa — in 2017 are local opposition and security risks in places such as Central Asia, Pakistan and Indonesia.

A New Strategy in the South China Sea

Things are changing in the South China Sea. In its waters, China's influence has steadily grown in recent years, thanks to a campaign meant to expand and modernize the Chinese military and to develop the sea's islands. In 2016, however, the pace of expansion appeared to slow somewhat. In part, the slowdown was due to an international court of arbitration's ruling against China's maritime territorial claims. But it was also due to the fact that China, having achieved many of its goals in the South China Sea, is now replacing a strategy of aggressive expansion with a strategy that, in addition to coercion, leaves some room for cooperation. In fact, Beijing has increasingly sought to cooperate with potentially amenable claimants, such as Malaysia and the Philippines, by making conciliatory gestures on economic and maritime issues. At the same time, Beijing has continued to press more outspoken critics of its regional claims through limited punitive economic measures and other confrontational actions.

China will try to maintain this strategy in 2017. To that end, it will prefer to handle disputes on a strictly bilateral basis, and it will likely extend concessions to areas such as energy development and potentially sign a code of conduct that limits its actions.

And though this strategy eased maritime tensions somewhat in 2016, it may have more mixed results in 2017. Challenging its success will be a strained relationship with the United States, Vietnam's continued ventures into maritime construction activities, and the entry of countries such as Indonesia, Singapore, Australia and Japan – none of them claimants to the South China Sea's most hotly contested waters – into regional maritime security affairs.

Beijing will be particularly concerned about Japan, which will expand economic and maritime security cooperation with key South China Sea claimants. (Tokyo may also work more closely with the United States in the South China Sea and the East China Sea.) Beijing may try to counter U.S.-Japanese cooperation by imposing an air defense identification zone, which would in theory extend Chinese control over civilian aircraft in the South China Sea, though doing so would threaten China's Southeast Asian relationships. And though China would probably prefer to be as conciliatory as it can as the situation warrants, heightened great power competition in the

Asia-Pacific may compel it otherwise. The more Japan is involved, the more China will have to balance, with different degrees of success, its relationships and its interests with members of the Association of Southeast Asian Nations (ASEAN).

Japan's Pride of Place

Greater involvement in the South China Sea, however, is just one piece of the Japanese puzzle. In the two decades following the end of the Cold War, Japan found itself strategically adrift. Today, buffeted by demographic decline, China's rise and a growing recognition across the Japanese political spectrum that change is necessary, Tokyo is in the early stages of reviving Japan's economic vitality and military power — and reclaiming its pride of place in the region.

In 2017, the administration of Prime Minister Shinzo Abe will make notable progress in that regard. In addition to expanded involvement in the South and East China seas, the Abe administration is likely to ramp up Japan's diplomatic and economic outreach in Southeast Asia. Meanwhile, Abe will pursue a peace treaty with Russia over longstanding territorial disputes. (Even without a formal treaty, the two countries will deepen bilateral trade and investment.) Above all, Japan will expand bilateral diplomatic and security cooperation with the United States, seeking to ensure Washington's commitment and involvement in the region. At the same time, Japan will take advantage of opportunities opened by potential changes to the United States' regional strategy – namely, a shift from multilateral partnerships like the failed Trans-Pacific Partnership to bilateral relationships – to play a more active leadership role to constrain China.

Abe will use his strong political position – the ruling coalition has supermajorities in both houses of the Japanese parliament – to press his agenda at home. In 2017, Abe will do what he can to maintain the first two 'arrows' of his economic plan — monetary easing and fiscal stimulus — while pushing forward with structural reforms (the third arrow) in areas such as labor, women's workforce participation and immigration. His administration may also seek to capitalize on heightened regional security competition and uncertainty over Washington's regional position to press for constitutional reforms meant to normalize Japan's military forces.

Northeast Asia Bound

Caught between a rising China and a resurgent Japan, both North and South Korea find themselves entering new and precarious strategic waters, albeit in different ways. Naturally, the prospect of a nuclear North Korea has put China, South Korea and Japan on edge – so much so that it has disproportionately contributed to Seoul's and Tokyo's military expansions in recent years. In 2017, North Korea may carry out additional nuclear missile tests for technical purposes and to remind the world, and especially Washington, of the country's strategic importance. This will pressure Seoul to build up its defenses and procure more arms, though its current political crisis may hinder its progress. While Washington can be expected to expand its sanctions regime against North Korea, it will also petition Beijing to pressure Pyongyang as well. But such efforts may be made in vain: Barring signs of a collapse of the North Korean government, Beijing will avoid putting significant pressure on Pyongyang.

A Welcome Change for the Economy

The prospect of a modest recovery in global commodities demand will be a welcome change to exporters such as Australia and Indonesia, but a decline in prices triggered by a slowdown in China's housing sector remains a real risk. In the year ahead, Asia's emerging economies may fall victim to potential trade protectionism in the United States, to U.S.-Chinese trade disputes, to a likely increase in the pace of U.S. Federal Reserve interest rate hikes, and to China's continued efforts to consolidate heavy and resource-related industries. The countries most at risk to economic shock are those with greater exposure to foreign lending (Malaysia and Indonesia), those with undiversified economic and trade profiles (Cambodia), and those faced with domestic political uncertainty and instability (Thailand and South Korea). Still, Asia's smaller economies will continue to pursue regional economic, trade and investment integration, untouched as they are, so far, by the rising wave of trade skepticism in other parts of the world.

Southeast Asia

Thailand will focus on domestic affairs in 2017 as it mourns the death of King Bhumibol Adulyadej and as its military government tries to maintain domestic social and political stability. Its first major test will come during national elections, which are scheduled to take place sometime in the second half of the year.

Meanwhile, the Philippines will continue to strike a balance between its partnership with the United States and its warming ties with China. (An unexpected confrontation over the Scarborough Shoal could change that dynamic.) This strategy will give Manila more space to focus on domestic issues, such as political reform and ongoing peace negotiations in the south. As long as President Rodrigo Duterte's popularity is high, no serious threats will emerge to his power in 2017. His domestic initiatives and foreign policy agenda, however, will require a lot of political capital to maintain, even as they threaten to aggravate internal power struggles between members of the government and political elite.

With Malaysian elections possibly in the offing in 2017, political fragmentation and economic uncertainty will test the delicate ethnic and social cohesion that has been in place since the country's independence.

Likewise, concerns over domestic social, political and economic stability in Indonesia will both drive and constrain ongoing fiscal and economic reforms. These concerns come at a precarious time for Indonesia, a time when Jakarta is shifting its focus from ASEAN-wide mechanisms to bilateral negotiations to secure its maritime interests.

For Vietnam, 2017 will be a year of the status quo. It will continue to try to ease its economic dependence on China, and its unstable fiscal conditions and rising debt load will constrain ongoing political reforms.

Australia will seek to play a more prominent role in promoting regional trade and investment integration in the Asia-Pacific region. It will also try to ensure maritime security along vital trade routes. Domestically, however, the country will struggle to overcome growing political divisions and legislative gridlock.

Middle East and North Africa

The United States will be no less engaged with the Middle East in 2017 than it was in 2016. It will, however, be more judicious in its engagement, giving other countries an opening to compete for influence. The competition will play out primarily in and around the Syria-Iraq battlefield, which will continue to implicate its neighbors and countries much farther afield. Developments in the fights inside Syria and Iraq will aggravate sectarian tensions and intensify the ongoing rivalry between Turkey and Iran.

Resisting the Temptation About Syria

It is tempting to think the Syrian civil war will end in 2017, now that the forces loyal to Bashar al Assad have retaken the critical city of Aleppo. Indeed, they now control a few major cities and have the luxury of consolidating the gains they have made. But the conflict will not end, at least not in 2017. The loyalists are simply pulled in too many directions to achieve a decisive victory. In addition to holding their territory in the north, they must now try to clear the rebels located between Aleppo and Damascus and around Damascus itself. They will also be drawn to areas held by the Islamic State in the eastern city of Deir el-Zour, where their comrades are currently besieged. Retaking territory in the energy belt around Palmyra will be a priority too. Put differently, there is still a lot work left for them to do, and any number of things can shift the balance of power in such a conflict-ridden country.

The constraints on the loyalists, however, are but one factor preventing the conflict's resolution. In 2017, the presence of foreign powers will also complicate the Syrian battlefield, much as it has in years past. The United States will adapt its strategy in Syria, favoring one that more selectively aids specific groups in the fight against the Islamic State rather than those fighting the al Assad government. Washington will, for example, continue to back Kurdish forces but will curb support for rebels in Idlib. The consequences of which will be threefold. First, Turkey, Qatar and Saudi Arabia will have to increase their support for the rebels, including the more radical ones, the United States has forsaken. Second, their support will give radical elements room to thrive, as will the reduced oversight associated with Washington's disengagement. Third, Russia will be able to cooperate more tactically with the United States and its allies as it tries to exact concessions, including the easing of sanctions, in a broader negotiation with Washington.

Notably, Russia will cooperate only insofar as it helps Moscow achieves those goals, but given Moscow's limited influence on the ground in Syria, there is only so much it can actually do. Still, that will not stop Russia from trying to replace Washington as the primary arbiter of Syrian negotiation.

While other powers are preoccupied with the fight against the Islamic State, Turkey will expand its sphere of influence in northern Syria and Iraq, driven as it is by its imperative to block Kurdish expansion. In Syria, the presence of Russian troops will probably prevent Turkey from venturing any farther south than al Bab in northern Aleppo. From al Bab, Turkey will try to drive eastward toward the town of Manbij to divide and thus weaken areas held by the Kurds. Turkey will also lobby for a bigger role in anti-Islamic State operations in Raqqa. Turkey will deploy more of its own forces in the Syrian fight, both to obstruct the expansion of Syrian Kurdish forces and degrade the Islamic State.

There are, of course, some drawbacks to Turkey's strategy. Namely, it runs the risk of clashes with Russian and Syrian Kurdish forces. Ankara will thus have to concentrate on maintaining closer ties with Moscow to avoid complications on the battlefield, even as it manages tensions with the United States over Washington's continued support for the Kurds.

In Iraq, too, Turkey will extend its influence in the north – notably, to where the Ottoman Empire's border was once drawn through Sinjar, Mosul, Arbil and Kirkuk. And as it does, it will compete with Iran for influence in the power vacuum left by the Islamic State's defeat in Mosul. Baghdad, for its part, will struggle to control Nineveh province once the Islamic State loses Mosul. Meanwhile, Turkey will bolster its proxies to position itself as the patron state of the region's Sunnis.

Turkey's resurgence threatens Iran's arc of influence across northern Syria and Iraq, and Tehran has plenty of ways it can respond. The government will encourage Shiites in Baghdad to resist what they will characterize as a Turkish occupation. It will also rely on Shiite militias to block Ankara by contesting territory and exploiting divisions among Iraqi Kurds. Saudi Arabia and the rest of the Gulf Cooperation Council, who have comparatively less influence Iraq, will rely on Turkey to uphold Sunni interests.

The fall of Mosul will further divide Iraq's Kurds. The inevitable scramble for territory and influence will pit the Turkey-backed Kurdistan Democratic Party against the Patriotic Union of Kurdistan, which is more closely aligned with Iran. Kirkuk, a city and province awash in oil, will be particularly contentious. The KDP will try to keep what it has gained there, while Baghdad, backed by Iran, will try to take it back. This will impede sustainable cooperation in energy production and revenue-sharing operations between Baghdad and Iraqi Kurdistan.

Turkey: No Shortage of Challenges

For all of Turkey's challenges abroad, it has no shortage of them at home. Kurdish militant attacks are a perennial problem, of course, and Ankara's role in strangling Islamic State escape routes in Syria will meanwhile make it a prime target for attacks in 2017. But perhaps more important, the ruling Justice and Development Party (AKP) will hold a referendum in 2017 on constitutional amendments meant to strengthen the presidency under Recep Tayyip Erdogan. The AKP has still has substantial support despite a highly polarized electorate, but the economy it helms is shaky. Turkey's dollar-denominated debt will grow as the dollar strengthens, and the lira's instability will spook investors, who are already alarmed about the country's political crackdowns. Those crackdowns will also complicate Turkey's EU accession talks. Not that Turkey expected to make much progress in that regard; it simply needs to keep the dialogue going over migrant controls to keep a foothold in the West and to maintain market access to the European Union.

A Test for U.S.-Iran Relations

2017 will test the durability of U.S.-Iranian relations. The new U.S. government is expected to be less tolerant of what it sees as Iranian aggression — naval harassment and ballistic missile testing, for example — even if it does not directly infringe on the nuclear deal. Strong U.S. responses to such aggression would, from Iran's point of view, be a violation of the agreement, but Iran can be expected to challenge the agreement only if the United States does first. (Russia stands to benefit from U.S.-Iranian tensions. In its search for additional leverage against the United States, it will tighten its relationship with Iran through economic and military deals, knowing that Tehran will use Russia to balance against Washington as the questions emerge about the nuclear deal's viability.)

Still, the Iran deal will survive the year, despite U.S. threats to the contrary. For all the heated rhetoric surrounding U.S.-Iranian relations, Washington has little interest in becoming mired in further Middle East conflicts, least of which with Iran. Likewise, Iran needs to boost its economy, something it will not be able to do without the foreign trade, investment and interaction the nuclear deal allows.

The Iranian economy, in fact, will be perhaps the determining factor in the presidential election, scheduled to take place in May. President Hassan Rouhani, a moderate by Iran's standards, will try to argue that the partial removal of sanctions and the stabilization of the inflation rate will benefit ordinary Iranians. His hard-line opponents in the Islamic Revolutionary Guard Corps accuse him of being soft on the United States, however, and conceding too much control of the economy to international parties.

Regardless of the election's outcome, Iran will remain under the influence of conservative politicians. And these politicians are beholden to the supreme leader, who distrusts the United States but also understands the need to re-enter the global economy. The gradual increase of oil production will help in that regard, but questions surrounding the sustainability of the Iran nuclear deal, not to mention the direction of U.S. policy, could prevent Iran from achieving its economic goals.

The Path to Gulf Reform

Saudi Arabia will relish the deterioration of U.S.-Iran relations. And, like Turkey, it will be driven to bolster its regional proxy battles with Iran. However, Riyadh will have to weigh expensive foreign campaigns against mounting pressures at home. After slashing capital expenditures and trimming its public sector bill in 2016, Saudi Arabia will be able to reduce its budget deficit in 2017. Still, the path to reform has been slow and bumpy, and it will be difficult for Saudi Arabia to translate its ambitious Vision 2030 and Vision 2020 plans into tangible directives its struggling private sector can follow. With more than four times more money set aside this year than last for implementing Vision 2020 directives, Saudi leaders will pressure the public and private sector to begin shifting operations accordingly and create more jobs.

Meanwhile, Riyadh will prepare for Saudi Aramco's initial public offering, which will take place in 2018, and will broaden the scope of its Public Investment Fund to adopt riskier investments abroad in a bid to turn its wealth repository into a true sovereign wealth fund. Mimicking countries like Kuwait and the United Arab Emirates, Saudi Arabia will continue to diversify its overseas investments into various tech sectors — a tried and true way to generate revenue in the long term. The United Arab Emirates will lead a Gulf-wide initiative and put technical preparations in place to set up a standard value-added tax levied at 5 percent. The initiative is slated to kick off in early 2018.

Saudi citizens will clamor for change as the drive toward reform presses on, but the government will prioritize the economy over social reform. Even a modest social reform risks alienating the Saudi religious establishment, whose support for the House of Saud will need to manage homegrown jihadist threats.

The rest of the Gulf Cooperation Council will act in concert to curb Iranian influence and defend against common economic and security threats. But there are cracks in the façade of unity. Saudi Arabia will struggle to steer Yemen toward a negotiated settlement while the United Arab Emirates firms up its position in southern Yemen. Oman, known for its relative neutrality, will not participate in the GCC's antagonizing of Iran.

North Africa

These same dynamics will appear in the GCC's foreign policy in North Africa. Saudi Arabia will continue to give its allies economic and security support in exchange for their support of its foreign policy in places like Yemen and Syria. The United Arab Emirates will be a more moderate voice, however, and in its moderation it will undermine the credibility of Saudi Arabia.

Egypt will be economically stable enough in 2017 to formulate a foreign policy independent of Saudi interests. To that end, it will try to attract funding from as many external partners as possible. Now that Cairo has devalued its currency, agreed to a deal with the International Monetary Fund and enacted more fuel subsidy reforms, it must implement more fundamental, structural reform, such as reducing public sector wages and raising tax revenue. The government of President Abdel Fattah al-Sisi will be only modestly successful in that regard, hamstrung as it is by the legislature and the people, who bear the brunt of the country's economic malaise.

Egypt will meanwhile remain involved in Libya, where Egyptian and Emirati support for nationalist Gen. Khalifa Hifter, who commands the Libyan National Army, is beginning to pay off. Hifter will be able to strengthen his military and political control in eastern Libya and will expand his control into Western Libya, but he will be unable to do so entirely. The Libyan National Army will try to rally militias to its cause, but not all of them will want to fight for Hifter. Regardless, Hifter's divisiveness is bound to impede U.N.-led negotiations to form and approve a unity government. And so Libya will continue to be a battlespace among rival militias that will limit the potential for a lasting peace deal in 2017. Whoever wins this competition will win Libya's oil wealth.

The Islamic State, meanwhile, will lose a lot of its power but will find refuge and allies in the far reaches of Libya. At the same time, al Qaeda-linked militias will continue to quietly expand their influence.

The State of the Islamic State

The Islamic State will lose power elsewhere too. Military campaigns in Iraq and Syria will degrade the group as a conventional military force but will do little to degrade it as terrorist or insurgent force. Dispersed throughout the areas they once controlled, remnants of the Islamic State will remain relevant by exploiting ethnic and sectarian divisions throughout Iraq and Syria. Terrorist attacks will therefore return to Iraq in spectacular form. (Despite the military setbacks in Iraq, the Islamic State will have a little more latitude to operate in Syria, where the coalition effort to fight Islamic State is far more convoluted.)

Islamic State attacks abroad, however, will be a much more limited threat. Militants returning home from Iraq and Syria are certainly a risk for Western countries, but they are a risk that will be mitigated by heightened awareness and intelligence oversight and increased risk of interdiction. More resourceful grassroots terrorists that do not have to rely on extensive networks and capabilities will be the bigger threat from Islamic State in 2017, especially for the West.

While the Islamic State has commanded the attention of the international community, al Qaeda has been quietly rebuilding itself, honing its capabilities in multiple theaters to stage its comeback. Al Qaeda nodes that have restyled themselves under various names in Libya, Algeria, Mali, Tunisia, Egypt and Yemen are likely to become more active and influential. Al Qaeda in the Arabian Peninsula is particularly concerning. The tacit agreement it had with Saudi Arabia in Yemen has broken down, making the kingdom a viable target for the jihadist group.

Jihadists will remain active elsewhere, too, though their attacks will be relatively unsophisticated. If attacks become more complex in places like Indonesia and Bangladesh, it means more experienced fighters in the Middle East successfully found their way back home.

In Nigeria, Wilayat al Sudan al Gharbi, better known by its former name, Boko Haram, will continue to adopt al Qaeda's targeting strategy, which focuses on military and Western targets while refraining from attacking civilians and Muslims. The faction of the group under the leadership of Abubaker Shekau, however, will continue to attack mosques, Muslims, markets, civilians and other soft targets.

Israel Emboldened

2017 will present Israel with a variety of opportunities, the biggest of which will come from its security guarantor, the United States. With Republicans firmly in control of the executive and legislative branches of government in the U.S., Israel will have freer rein to pursue its interests without rebuke. The country will benefit from a more assertive U.S. policy on Iran, and through Washington may try to place even more restrictions on Iranian uranium enrichment — after all, the new U.S. administration is liable to be more receptive to intelligence collected on Iran, especially if it points to infractions of the nuclear deal. An emboldened Israel will also probably accelerate settlement development in the West Bank, even if doing so incites attacks from Palestinian militants. An escalation in Israeli-Palestinian frictions will stress Israel's relationships with Jordan and Egypt, both facing internal stresses of their own. (The Palestinian issue will also notably be a source of competition between Turkey and Egypt. Ankara will try to develop better relations with Palestinian groups while managing a normalized but still tense relationship with Israel.)

But 2017 will also present Israel with a variety of challenges. To its north, it will have to contend with Hezbollah, arguably more powerful and experienced than it has been in years thanks to its heavy participation in the Syrian civil war. But Hezbollah has its hands full. It will consolidate territory in Syria for regime loyalists, it will fend off political challenges in Lebanon and it will meanwhile keep its eye on Israel. Worried about Hezbollah's military strength, cognizant that it will have a window of opportunity, and unencumbered by Washington's reproach, Israel is likely to intensify its operations in Syria and Lebanon in an attempt to weaken Hezbollah and limit their access to advanced weaponry.

South Asia

As in so many other regions, nationalism is on the rise in South Asia, and leaders there will use it to advance their political agendas. This will be particularly pronounced as India and Pakistan prepare for elections. And because this is India and Pakistan, nationalist rhetoric in one country will often demonize the other.

But they have very different domestic agendas. India will try to add to the modest progress it has made toward reform, particularly tax reform. And it will do so as its economic growth slows, thanks in part to recent demonetization schemes.

For its part, Pakistan's military will use the threat of India as an excuse to maintain the status quo in its civil-military balance of power. It will also ensure that Pakistan's ties with Afghanistan remain weak as instability in that country undermines progress on transnational energy projects, including the Turkmenistan-Afghanistan- Pakistan-India (TAPI) pipeline.

Honing an Image in India

2017 will be a crucible for Prime Minister Narendra Modi's Bharatiya Janata Party (BJP). In 2014, the BJP became the first party in 30 years to win a majority in the lower house of parliament, at once dispelling, if only temporarily, the tradition of coalition government that has long defined Indian politics. But even with such a mandate, honoring promises of reform in a legislature as fractured and convoluted as India's is difficult, prone to slow, uneven progress.

Now, the great challenge facing the BJP is to continue making progress on its promises and to streamline the country's onerous land, labor and tax regulations, all in support of unleashing the labor-intensive economic growth India needs in order to absorb the 12 million people who enter the job market every year. This is no easy task. The sheer scale of reform in a stratified, billion-citizen democracy such as India is so immense that its implementation is measured not in years but in generations. And so Modi has taken the long view, having used his first five-year term to lay the groundwork for a second term in 2019.

To that end, Modi means to win state-level elections to bolster his party's numbers in the upper house of parliament; doing so, of course, would make it easier to pass legislation. The elections in Uttar Pradesh, India's most populous and electorally most important state, are particularly important. A victory there would substantially bolster the BJP's numbers in the upper house and go a long way toward securing a presidential re-election in 2019.

The outcome of the election is less important than the strategy the BJP employed to win it. This is because the three remaining bills of the Goods and Services Tax (GST) failed to pass during the winter session of parliament. The opposition capitalized on the ill will generated by Modi's demonetization campaign against black money (the measure entailed the withdrawal of 500 and 1,000 rupee notes from circulation). Modi expected this, of course, but he went through with the measure anyway as part of a bigger political calculation: He wanted to hone his image as a pro-poor, anti-corruption candidate ahead of the Uttar Pradesh elections.

Failing to pass all of the bills in 2016 means that the BJP will have to push back its April 1 deadline for implementing them and focus on passing the remaining ones in 2017. Other reforms will therefore have to be put on hold. Moreover, given that demonetization is a necessarily disruptive process for a cash-based, consumption-driven economy such as India's, growth will slow in 2017. In turn, this will lower inflation rates and compel the Reserve Bank of India to loosen monetary policy.

The rise of the BJP also gave rise to nationalism, a trend that will continue throughout 2017. Its renaissance will force the BJP to take a hard line against Pakistan, but this, too, is at least partly a political calculation: Opposition to Pakistan cuts across party lines, so admonishing Islamabad will make it easier for the BJP to keep an otherwise fractious voting base intact.

India and Pakistan: A Smaller Risk of Escalation

August 2017 will mark the 70th anniversary of India and Pakistan's independence, so nationalism in each country will be running high. This uptick in nationalism, not to mention the perennial cross-border militant attacks into Kashmir, will have governments on both sides of the border on high alert. And even though the newest evolution of India's military doctrine, which is more tactical and precise than its forebear, will deter attacks and minimize the risk of escalation, it will not remove the possibility entirely.

It is in this context that the India-Pakistan rivalry will take shape in 2017. The election season in India will promote anti-Pakistan rhetoric, which will only encourage Pakistan to continue to respond to intensifying cross-border shelling by Indian troops. (Incidentally, tensions have escalated since 2014, the year Modi came to power and the year NATO withdrew most of its troops from Afghanistan, enabling Pakistan to turn its attention from its border with Afghanistan to its border with India.)

But Pakistan has elections too, slated for 2018, and this year Prime Minister Nawaz Sharif will begin his own campaign for an unprecedented fourth term. Criticism from the opposition that he is too weak on India will compel him to take a much tougher stance.

Militancy as a Means to an End

In 2017, South Asian militancy will be used as a means to political ends. India will continue to work with Afghanistan to construct the Chabahar Port in Iran, much to the chagrin of Pakistan, which believes New Delhi is also providing aid to secessionists in Balochistan. The aid, Pakistan suspects, is itself a way to sabotage the China-Pakistan-Economic- Corridor, a central tenet of Sharif's campaign promise to reduce the country's natural gas shortages. Accordingly, Islamabad will resist calls to arrest members of the Taliban who live in Balochistan, using them as levers to force Washington and Kabul to include Pakistan again in negotiations with the Taliban.

Pakistan's Government Remains Steadfast

Underlying the dynamics of the region is how much power Pakistan's military, and particularly the army, has in the country's politics. It has ruled for nearly half of the country's 69-year history.

It is too early to say how Gen. Qamar Bajwa, the country's recently appointed army chief, will alter the civil-military balance of power. But it is clear that the threat from India — real or perceived — will push the army to maintain the status quo, even in light of two milestones recently passed on the way to civilian rule: the completion of a democratically elected president's five-year term in 2013, and the abdication of power by an army chief after one three-year term in 2015.

Either way, the Pakistani government will remain steadfast in its role in the Afghan conflict — which is to say, Islamabad will obstruct talks, if it allows them to emerge at all, if it feels as though it is being sidelined by Afghanistan or by the United States. But what also stands in the way of resolution are the divisions within the Taliban — manifested most notably this year by its Doha faction, which began vocalizing calls for the Taliban to transition from an insurgency into a viable political movement – divisions that will become all the more apparent in 2017. Instability will hamper progress on transnational energy projects such as the Turkmenistan-Afghanistan- Pakistan-India pipeline, which highlight the country's role as an energy bridge linking energy abundant Central Asia with energy deficient South Asia.

Sub-Saharan Africa

"Low commodities prices make for another challenging year for most Sub-Saharan African countries. Social unrest is not uncommon in these countries, nor is it uncommon for a strong central government to withstand them. But cracks are emerging in countries like Nigeria and South Africa, where political problems are likely to worsen in 2017."

South Africa: Dissent in the Ruling Party

For South Africa, the difficulties of 2016 will inform the decisions of 2017. Weak economic recovery and political losses from municipal elections in August have eroded public support for the ruling African National Congress. The party will try to maintain its traditional support base among the rural and poor black working class even as the economy stagnates. To that end, the ANC will try to promote social welfare and appease pro-labor groups, even through state intervention, so that the left-wing elements of its support base do not defect to another party or challenge him within his own.

The stage is thus set for a competition over who will lead the ANC, the vote for which will be held during the party's leadership congress in December 2017. President Jacob Zuma is supposed to abdicate his party chairmanship, and he wants his successor to come from the same ethnic Zulu and pro-labor circles as he did. But his rivals have other plans. In fact, a right-leaning, pro-business faction of the ANC is gaining steam, and if a challenger from that faction assumes control of the party, Zuma may be recalled as president in 2018.

Preserving Power

African rulers cling to power in a variety of inventive ways. Over the past few years alone, three long-serving rulers – the Republic of Congo's Denis Sassou-Nguesso, Equatorial Guinea's Teodoro Obiang, and Uganda's Yoweri Museveni – did so through constitutional reform. In 2017, the leaders of Angola, Zimbabwe and the Democratic Republic of Congo will have to execute their own plans to retain power, if not for them than for those that are close to them.

Angola's transition will be the smoothest. President Jose Eduardo dos Santos, who has run the country since 1979, has announced that he will not stand for re-election in August. Though the 74-year-old is stepping down without a fight, he has a carefully crafted plan in place to keep power in the hands of the ruling MPLA. Dos Santos will spend most of the year mentoring his designated successor, Defense Minister Joao Lourenco, and instructing him how to navigate the complex patronage network he spent several decades building. Dos Santos will also make sure his family's interests, which extend into the state-run oil company and the country's sovereign wealth fund, survive the transition.

Zimbabwe's presidential transition will be considerably more ugly as the power struggle over the presidency intensifies in the lead-up to 2018 election. President Robert Mugabe, 92, will not voluntarily step down, but if he leaves office involuntarily, whether by force or by natural death, he will be replaced by Vice President Emmerson Mnangagwa, who has the support of the country's security forces. (If Mugabe is still around, he can be expected to run for re-election.) Under Mnangagwa, Zimbabwe would be more likely to open itself up to Western institutions for financial relief, if only to shore up his own legitimacy.

Joseph Kabila, the president of the Democratic Republic of the Congo since 2001, has employed more creative tactics to stay in power. Kabila has already delayed the presidential election from 2016 to 2018, citing issues in voter registration and funding. There is no guarantee, of course, that the election will actually take place as planned, the possibility for 2017 elections notwithstanding. But even if it does take place, Kabila has plenty of time to find a successor or find another way to hold onto power. But the president may be overplaying his hand. He oversees an inherently weak patronage system in a country predisposed to rebellion and mired economic turmoil. By intensifying crackdowns in 2017 he risks losing critical international aid and military assistance from MONUSCO, the U.N. peacekeeping mission in the country. Such a loss would put him in an even tighter corner as he clings to power.

A Tough Year for Nigeria

Nigerian President Muhammadu Buhari has another tough year ahead of him. Oil prices remain low and challenges to his ruling are rising. One such threat comes from within his own All Progressives Congress party. Facing more resistance within the congress, Buhari will try to rely more on executive action to pursue his reform agenda and sustain an anti-corruption probe. But that will only galvanize the opposition – so much so that the main opposition party, the People's Democratic Party, could seek an alliance with dissenting factions in the All Progressives Congress ahead of the 2019 presidential election. (As a matter of fact, the People's Democratic Party has already announced that it would select a presidential candidate in the north, an attempt to divide Buhari's northern support base.) And with less oil revenue at his disposal, Buhari will have limited means to win over new allies and prevent his base from fracturing.

The federal government will also be constrained in its ability to offer improved terms to the stakeholders of and militants in the Niger Delta region. Consequently, oil and natural infrastructure in the Niger Delta will continue to be the target of politically motivated violence in 2017.

Instability in Somalia

2016 was a trying year for Somalia’s security forces. Militant group al Shabaab came back with a vengeance, putting African Union peacekeepers and Somalia’s nascent army on their back feet. In 2017, the security environment will be even more fragile as AMISOM struggles to maintain its current troop levels, let alone increase them. And its fragility will give al Shabaab even more room to acquire territory and to pressure the international mission. Budget cuts, not to mention the conflict’s intractability, have already some AMISOM contributors reconsider their participation. Uganda has even said it would begin to withdraw its troops by December 2017. If AMISOM falls apart, then al Shabaab will flourish.

Ethiopian Unrest

Ethiopia will also de-prioritize its commitment to the African Union Mission in Som