

Global Macro Environment: Stocktaking 2023 and Outlook for 2024

Abstract: A look at recaps of global significant events of 2023 by international think tanks and scholars reveals the following ten keywords that shape the narrative of the year: climate change and energy transition, artificial intelligence, the Israel-Hamas war, the Russian-Ukrainian conflict, the new era of pandemics, the US-China relationship, the US economy, global rise of populism, China's economy, and the space race. In addition to these important events and their development trends, the year of 2024 will have the following events to focus on: first, the US election and the US domestic political ecology; second, the global "election year" of 2024; third, Europe's fiscal and economic challenges; fourth, Japan's economic development and the shift in monetary policy; and fifth, regional security situation and geopolitical games.

In 2023, the world economy staggered. A review of recaps by international think tanks and scholars of major global events in 2023 shows that, events that determined the narrative of the year include, but are not limited to, the following ten aspects: First, the frequent occurrence of extreme weather events and the increasing urgency of energy transition; second, the rapid development of artificial intelligence and the challenges it poses to regulatory mechanism; third, the Israel-Hamas war continues, and global tensions have intensified; fourth, the Russia-Ukraine conflict has not yet come to an end, and the US and European support for Ukraine has wavered; the COVID-19 pandemic no longer constitutes a public health emergency; China-US relations have experienced ups and downs; the US economy is not in recession, but monetary policy may shift; populism is on the rise globally, and many countries are in urgent need of in-depth reforms; China's economy shows signs of momentum, but some areas are facing challenges; and many countries are promoting space exploration and the participation of private companies has increased.

In addition to the above ten important events and their development trends, the following events in 2024 deserve special attention: First, the US election in November 2024 will undoubtedly have

a global impact, and the structural problems of the US domestic political ecosystem will attract much attention; second, 2024 is the world's election year, with more than 70 elections to occur in different countries and regions, involving more than half of the world's population; third, in 2024, Europe will continue to face major economic and political challenges, and policymakers need to think about how to reform the fiscal rules, control budget deficits, push forward the green transition, and realize a soft landing of the economy, etc.; fourth, Japan's economic and monetary policies will be in the spotlight in 2024, and whether the negative interest rates will come to an end during the year will become an important issue of global attention. Fifth, the world will continue to face a complex situation of regional security and intense geopolitical games in 2024, and the geopolitical importance of some countries will become more prominent.

1. Climate Change and Energy Transition

Extreme weather events have become increasingly frequent and energy transition becomes more urgent.

On November 30, 2023, the World Meteorological Organization announced that 2023 had become the hottest year on record in human history. From

extreme droughts to record-breaking wildfires and floods, global warming has led to frequent extreme weather events. The once obscure terminologies like El Niño and wet bulb temperature are gradually becoming well-known concepts. Climate change is no longer a distant threat, but a new reality faced by the entire world. Green and low-carbon transition has become a global consensus.

In December 2023, the 28th Conference of the Parties (COP28) to the United Nations Framework Convention on Climate Change was held in Dubai, United Arab Emirates. Global stocktaking became a focus of attention, and climate financing became a hot topic of discussion.

According to an article by Yanosek and Victor¹ published on *Foreign Affairs*, investing in already proven technologies, such as wind power, solar energy, and electric vehicles, can only achieve shallow decarbonization. To stop climate change, it is necessary to carry out deep decarbonization through larger scale, more disruptive, and riskier transformations in the energy and industrial systems. Meanwhile, industry experts also point out that the share of climate investment and financing received by emerging markets and developing countries is seriously insufficient. Climate diplomacy has been severely damaged, and how to solve various interconnected investment and financing obstacles to channel funds to emerging markets and developing countries has become a key issue.

2. Artificial Intelligence

The year 2023 marked a significant leap forward in the innovation and application of artificial intelligence (AI). With the release of ChatGPT, generative AI, a transformative technology, rapidly burst into the public consciousness, simultaneously sparking intense debates: Can AI bring unprecedented economic growth and social progress, and does it also come with unforeseeable

ethical risks and regulatory challenges?

Currently, economies such as China, the United States, the European Union, Canada, the United Kingdom, Japan, Brazil, and Singapore are drafting or preparing to introduce AI guidelines or legislation. The release of the *Executive Order on the Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence* by the White House and the EU's agreeing with the Artificial Intelligence Act have once again sparked widespread discussion. In November 2023, the UK AI Safety Summit was held in an attempt to promote international cooperation on AI safety governance.

Overall, there are still significant differences in the principles and methods of AI regulation among countries. Moreover, as AI policy is closely intertwined with geopolitical and economic competition, concrete achievements in global AI governance cooperation have not yet been achieved.

In summary, due to the rapid iteration and widespread diffusion of AI technology, the uncertainty of threats it brings, the special character that training is based on virtual data, and the fact that it is mainly controlled by large companies rather than governments, AI is distinctively different from climate change or nuclear proliferation issues, so that existing regulatory logic does not apply to AI technology. Establishing a cooperative mechanism for AI governance in the future remains a significant challenge.

3. Israel-Hamas War

On October 7, 2023, Hamas launched an attack on Israel, resulting in approximately 1200 deaths and about 240 people being taken hostage. Subsequently, the Israeli government declared a state of war and launched a large-scale military operation in Gaza. By the end of November, the two sides temporarily ceased fire through negotiations; however, in December, as Israeli troops entered the southern part of Gaza, fighting quickly erupted

¹ Kassia Yanosek and David G. Victor, *Capitalism's Green Revolution*, *Foreign Affairs*.

again, causing over 20,000 deaths and nearly 2 million people to be displaced.

Regarding the impact on regional development and the global situation, Nouriel Roubini², a professor of economics at New York University's Stern School of Business, wrote in November 2023 that the war could lead to a 35% probability of global stagflation. The current market pricing tends towards the mildest scenario, a complacency that is dangerous. In the same month, M. Ayhan Kose³, Deputy Chief Economist of the World Bank, emphasized in an article that the Middle East conflict could further damage the fragile global economy.

In December, the Center for Strategic and International Studies published an article highlighting the importance of information warfare in modern military conflicts such as the Hamas-Israel war. The article suggests that cognitive warfare has become an important part of modern strategy, and this trend is expected to accelerate with the widespread application of technologies such as generative AI.

4. Russia-Ukraine Conflict

The Russia-Ukraine conflict remains unresolved. In June 2023, Ukraine initiated counteroffensive. Despite the counterattack causing significant losses to Russia, there was almost no movement on the front lines. In early November, Ukraine's top military leader described the battlefield as being in a stalemate and admitted that "There will most likely be no deep and beautiful breakthrough."

The discussions in 2023 mainly shifted to whether Ukraine can sustain this war of attrition. At the end of the year, the Brookings Institution⁴ published a commentary suggesting that this winter might be

a turning point in the military and political issues between Russia and Ukraine. The stalemate on the battlefield, the wavering support of Europe and the US, and the tense political situation within Kyiv all threaten Ukraine's ability to continue. The most significant factor affecting Ukraine is the faltering support of Western partners.

In fact, Ukraine fatigue is spreading in Western countries, deepening the cracks in Europe and America's support for Ukraine. In the United States, more Republican lawmakers are increasingly opposing providing more aid to Kyiv. In Europe, while people are still willing to support Ukrainian refugees, the ability of countries to absorb refugees or provide financial aid to Ukraine has greatly diminished as economic growth loses momentum. For 2024, whether there will be a decisive battle, a ceasefire and peace talks, or a shift to other forms of long-term confrontation, the Russia-Ukraine conflict will remain a global concern.

5. New Era of the Pandemic

In May 2023, Dr. Tedros Adhanom Ghebreyesus, the Director-General of the World Health Organization, announced at a press conference in Geneva that the COVID-19 pandemic no longer constitutes a public health emergency of international concern. This does not mean the complete disappearance of the COVID-19 virus, but rather represents a certain degree of compromise humanity has reached with it. In the future, new COVID-19 variants will continue to pose a threat to human health and even cause death, and the emergence of a new pandemic is not impossible. Summarizing the lessons learned from the COVID-19 response and preparing for the next pandemic are crucial aspects of moving beyond COVID-19. In summary, effective communication between public health experts and the public, government departments establishing efficient data sharing systems and resilient supply chain systems, sufficient stockpiling of medical supplies, rapid action in vaccine research and development, and strengthening international cooperation and

2 Nouriel Roubini. (2023, November 10). The Economic Consequences of the Gaza war.

3 Indermit Gill and M. Ayhan Kose. (2023, November 16) The Middle East Conflict Is Threatening to Cripple a Fragile Global Economy.

4 Michael E. O'Hanlon, Constanze Stelzenmüller and David Wessel. (2023, December 20). What to watch in Ukraine in 2024.

coordination, especially support for poorer countries, are of vital importance in the global response to the pandemic.

6. US-China Relations

In 2023, US-China relations experienced significant fluctuations. In February, relations plummeted to a low point due to the balloon incident. During June and August, US Secretary of State Antony Blinken, Treasury Secretary Janet Yellen, and Commerce Secretary Gina Raimondo made consecutive visits to China, leading to the resumption of high-level contacts between the two countries. In November, a meeting in San Francisco between Chinese President Xi Jinping and US President Joe Biden brought new opportunities for the bilateral relationship.

Ian Bremmer⁵, founder and president of the American political risk consultancy Eurasia Group, believes that the meeting of the two leaders at the APEC summit represented a significant positive development in US-China relations. The cooperation agreements reached indicate the mutual dependence of the two countries' relationships. However, these contacts and dialogues have not prevented the escalation of trade restrictions between the two countries. The US has used chip export controls to limit China's development in semiconductors and artificial intelligence, while China has strengthened its control over key minerals and green technologies. Additionally, there has been a significant shift in the strategic direction of US industrial policy.

In October 2023, Ryan Hass⁶, senior fellow at the Brookings Institution and director of the John L. Thornton China Center, published an article stating that US policymakers have never directly answered the fundamental question of "what outcome they seek in US-China competition," resulting in a lack of a convincing vision of success in their China strategy.

5 Ian Bremmer. (2023, December 5). State of the World with Ian Bremmer: December 2023.

6 Ryan Hass. (2023, October 24). What America Wants From China.

In December, the American Enterprise Institute⁷ published an article suggesting that the US should envision the ultimate form of US-China relations and set interim goals.

7. US Economy

In 2023, the US economy demonstrated resilience, and a recession did not occur. The Federal Reserve, in the eight interest rate meetings held in 2023, chose to raise rates four times and maintain them unchanged four times, making progress in its fight against inflation. The highly anticipated December FOMC meeting of the Fed announced a pause in rate hikes, and during the post-meeting press conference, Fed Chairman Jerome Powell seemed to make a "sudden shift" to a dovish stance. This caused a sharp and significant easing of the financial environment, but also sparked more controversy.

Regarding the trajectory of the US economy and policy in 2024, as US consumer demand becomes unsustainable, government debt burden continues to increase, and the lagging effects of interest rate policies become apparent, the market remains divided on how the economy will land. Nathan Sheets, the Global Chief Economist at Citigroup, recently stated that the US economy remained strong in 2023, key to which was the formation of a virtuous cycle driven by strong consumption, especially in services. However, the insensitivity of the US economy to monetary tightening may stem from a lag in the transmission of monetary policy, and interest rate hikes will eventually bring economic pain. Thus, the performance of the US economy becomes the biggest uncertainty in the global economic outlook for 2024. The current policy of the Federal Reserve is pivoting, placing more emphasis on protecting the economy while lowering inflation than before. However, he emphasized that the Fed's pivot process should be more moderate and gradual, avoiding a sharp and significant easing of the financial environment.

7 Zack Cooper. (2023, December 15). Does America Have an Endgame on China?

8. Global Rise of Populism

In 2023, populism continued to profoundly influence global politics, with significant political changes occurring in the Netherlands, Argentina, India, and Slovakia. The far-right Party for Freedom unexpectedly won the latest parliamentary elections in the Netherlands, a country traditionally known for its moderation, witnessing the growth of populist right-wing forces. Right-wing populist Javier Milei was elected as the new president of Argentina, demonstrating that populism in Latin America remains influential even after the fall of Bolsonaro.

Andrew Whitehead, a professor at Indiana University-Purdue University, believes that the turn of voters in multiple countries towards populist leaders reflects a global trend, where distrust in the foundations of liberal democratic systems is worsening. Joseph E. Stiglitz⁸, a professor at Columbia University and Nobel Laureate in Economics, commented on this phenomenon, suggesting that instead of seeking various alternatives externally, democratic countries should introspect and examine their own systems internally. They should undertake deep economic reforms, abandon neoliberal capitalism, strive for shared prosperity, and work towards improving the welfare of every citizen equally.

9. Chinese Economy

In 2023, China's economy experienced a wave-like recovery, contributing momentum to global economic growth. In November, international institutions such as the International Monetary Fund and the OECD raised their forecasts for China's economic growth for the year. However, under the dual pressures of domestic cyclical and structural contradictions, certain sectors continue to face challenges.

Ray Dalio believes that the Chinese economy is facing a series of difficulties, including the need to

boost domestic demand, the real estate sector in trouble, and external trade under pressure. On the positive side, China remains a highly competitive economy, with leading advantages in innovation in sectors such as manufacturing, renewable energy, electric vehicles, and cutting-edge industries such as advanced computing, artificial intelligence, and biotechnology. Significantly improved labor skills, increasingly comprehensive infrastructure, and an innovative ecosystem are important sources of China's economic strength.

Gernot Wagner⁹, a climate economist at Columbia Business School, and others argue that as China's economic growth slows, its carbon-intensive investment model has reached its limit. Boosting economic growth and addressing emission reduction challenges point to the same issue: shifting the focus of development from investment-led growth to encouraging the development of domestic services.

10. Space Race

In 2023, an increasing number of countries and private companies made significant investments in the field of space. According to a recent article¹⁰ by the Council on Foreign Relations, the moon became a focal point of space exploration in 2023, with recent attempts including Russia's failed lunar lander and India's successful unmanned moon landing near the lunar south pole. Both China and the United States also have significant lunar missions planned, with NASA aiming to send astronauts to the moon by 2025.

The article states that the increase in space activities has raised concerns about the potential militarization of space and the lack of comprehensive space operation protocols. The United States' Artemis Accords aim to establish rules for space exploration, but many countries, including China, have not yet

8 Joseph E. Stiglitz. (2023, August 31). Inequality and Democracy.

9 Gernot Wagner and Conor Walsh. (2023, October 30). How China Can Save the World - and Itself.

10 James M. Lindsay. (2023, December 8). Ten Most Significant World Events in 2023.

agreed to them. The involvement of private space exploration companies such as SpaceX, Blue Origin, and Virgin Galactic adds complexity to the space race, raising questions about profit motives and national responsibilities. Additionally, the growing issue of space debris poses a future concern for space exploration.

Taking into account the viewpoints of international think tanks and scholars, in addition to the aforementioned ten significant events and their development trends, the following five points of focus merit attention in 2024.

1. US Presidential Election and Domestic Political Ecology

The US presidential election in November 2024 will undoubtedly be a major global event. Recent polls by multiple institutions show that the approval rating of the current US President Joe Biden has dropped to “the lowest level,” with a large proportion of voters not wishing for him to run again. On the other hand, despite multiple legal challenges and low support, former President Donald Trump remains ahead in the 2024 Republican nomination race. A potential Biden vs. Trump rematch could be influenced by factors like the state of the US economy, age issues, and legal judgments.

Additionally, the domestic political ecology of the United States is also receiving significant attention. “Crisis” and “dysfunction” may be the biggest characteristics of the current US political system. Some viewpoints suggest that for some American politicians and parties, personal and party interests have surpassed national, societal, and public interests, indicating a structural problem. As the US political election cycle approaches, this political chaos is likely to worsen.

2. The World Election Year

There will be more than 70 elections around the world in 2024, involving about 4.2 billion people, more than

half the global population. Eight of the world’s ten most populous countries - Bangladesh, Brazil, India, Indonesia, Mexico, Pakistan, Russia and the United States - will hold elections in 2024. The 27 member states of the European Union will also hold their next European Parliament elections in June 2024.

The Economist Intelligence Unit (EIU) believes that despite the large number of elections, many are not entirely free and fair. Some of these elections are unlikely to have a substantial impact on the governments, such as those in Bangladesh, Mexico, and Pakistan, where regime change is almost certain not to occur. In countries like the United Kingdom, however, elections may determine the next government or lead to significant policy changes.

3. European Fiscal and Economic Challenges

In 2023, Europe was hit by the pandemic, the Russia-Ukraine conflict, and its impacts on employment, prices, and interest rate levels. In 2024, Europe will continue to face significant economic and political challenges. Policymakers will need to consider how to maintain growth momentum after experiencing multiple crises. Reforming fiscal rules, controlling budget deficits, advancing green transformation, and achieving a soft economic landing will all be key issues for Europe in the coming year. Additionally, the EU will need to carefully consider the inclusion of Ukraine and other potential members into its framework.

Marco Buti, former Director-General for Economic and Financial Affairs at the European Commission, believes that the EU’s export orientation, energy dependence, and population stagnation mean its previous business model will ultimately be unsustainable. The next step should be to combine the resources of the EU and its member states, focusing on the development of European public goods. On December 20, 2023, the economic and finance ministers of the EU member states reached an agreement on fiscal rule reform, proposing

more gradual and targeted expenditure cuts. This aims to focus on reducing deficits and debts while supporting public investment in priority areas by EU member states.

4. Japanese Economy and Monetary policy

In 2024, the Japanese economy and its monetary policy will be closely observed, with the potential end of negative interest rates being a key point of focus. Overall, it seems only a matter of time before the Bank of Japan gradually exits its ultra-loose monetary policy, but there is still significant disagreement over the specific timing of this policy shift.

Kyoya Morita, Chief Economist for Japan at Nomura Securities, believes that the Japanese economy is expected to continue its moderate recovery until 2025, possibly facing a slowdown in growth in the second half of 2024. Japan's inflation is expected to decline in 2024, primarily driven by food prices. The Bank of Japan's yield curve control and negative interest rate policies are not expected to be abandoned before April 2024 and the third quarter of 2024, respectively. Nathan Sheets commented that the specific timing of the normalization of Japan's monetary policy is influenced by the global economy, the foreign exchange market, and even the policy direction of the Federal Reserve. He believes the Bank of Japan will take action later, with the final step out of negative interest rates possibly delayed until the spring of 2025.

5. Regional Security and Geopolitical Games

Several experts have indicated that in 2024, the world will continue to face a complex situation of regional security and intense geopolitical games. The

International Rescue Committee recently released its Emergency Watchlist for 2024, listing the top 20 countries at the greatest risk of deteriorating security, whose populations account for about 10% of the global total. Experts also suggest that the geopolitical significance of some countries may become more prominent in 2024.

Ian Bremmer believes that India will enhance resilience to global geopolitics. Its importance will be reflected not only in its own economic expansion but also as a key bridge connecting the global south with major economies like the United States, Japan, and Europe. Another economy to watch is Mexico. With a dynamic economy deeply intertwined with the new USMCA (United States-Mexico-Canada Agreement) and benefiting from nearshoring investment and production trends, Mexico is gaining attention. Presidential candidate Claudia Sheinbaum, a technical expert and climate scientist, is considered likely to win the upcoming election. Her potential leadership is not to be underestimated and could promote connections between North, Central, and South America, contributing to the geopolitical stability of the region. 🏠