



GROUPE
ERIC STURDZA

GEOPOLITICAL REPORT
2025

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GEOPOLITICAL REPORT – YEAR 2025

1. Executive Summary

The geopolitical landscape will be shaped by shifting US priorities, with reduced US support for Ukraine potentially straining NATO and increasing global uncertainty. The Ukraine conflict is unlikely to see a definitive resolution, with temporary cease-fires and intensified strain on Russia. In the Middle East, Israel's decisive actions have reshaped regional power dynamics, exposing Iran's vulnerabilities and reducing the influence of external powers. In East Asia, China's assertive stance on Taiwan and economic decoupling with the US will heighten regional tensions, risking trade disruptions. Despite ongoing uncertainties, Western energy supplies and regional stability remain relatively secure.

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UNITED STATES

REDEFINING PRIORITIES, GLOBAL IMPACT

Trump's priorities in 2025 will emphasise political consolidation and focus on the domestic issues that formed key parts of his campaign, including reshaping the Justice Department, implementing sweeping tariffs, and dismantling the administrative state. Efforts to limit the independence of the military and deport illegal immigrants will likely face legal and logistical hurdles. In foreign policy, there will likely be significant shifts in the US's support to Ukraine, and ties with NATO and Europe may become strained, while a hawkish approach to China is set to continue. Strategic disengagement from Europe and the Middle East may redefine US global interests, with uncertain long-term implications.

What will be Trump's key priorities in 2025?

Trump's key priorities in 2025 are likely to be the issues which were a constant, emphatic feature of his campaign, and the measures he will need to take to protect his personal interests. **These priorities will be securing his future; tariffs; dismantling the administrative state; passing tax cuts; limiting the independence of the armed forces; and deporting illegal immigrants.**

- The form that securing Trump's future will take in 2025 is gutting the independence of the Justice Department and the FBI by removing career civil servants and replacing them with political appointees. It may take most of the year to push through the regulation needed to deliver this; a presidential directive alone will not be enough. Legal appeals will probably prevent it coming into force before the end of 2026.
- We know Trump is committed to sweeping tariffs, apparently from 'day one' of his second term; we do not know what form they will take, or which states will be targeted. (Though China, Mexico, Canada, and the EU are probable targets.) It is likely that these tariffs will immediately be subject to negotiation and deal-making.
- Efforts to dismantle the administrative state will focus on cabinet appointees being pressed to ignore or overturn the regulatory responsibilities of their departments, and passage of the regulation needed to replace career civil servants with political appointees.
- Tax cuts will be a key priority of the new Congress and will be the subject of long, complex negotiations (the Republicans have only a 4-seat majority in the House). Whether they take the form of new measures or the extension of cuts which expire this year, they are unlikely to be passed before the autumn of 2025 at the earliest.
- Limiting the independence of the armed forces – so that their leadership prioritises his wishes over their constitutional obligations – will be the focus of appointees to the Department of Defense, largely using the vehicle of campaigns against 'wokeness' and 'DEI' (Diversity, Equity, and Inclusion) to screen the senior ranks for likely pliability. This effort is unlikely to make much progress in 2025.
- Trump has yet to say how he would achieve his objective of deporting 11 million illegal immigrants. His administration will probably air many different proposals before settling on one that might deliver some expulsions. This would probably entail the detention of registered illegal immigrants who are on a path to citizenship (as they are the illegal immigrants that the administrative state can track). This effort will hit

major legal and administrative buffers before the end of 2025, and is unlikely to lead to significant numbers of deportations.

For all the focus on Trump's foreign policy agenda, he has no real interest in the subject other than as a platform for his self-promotion. There is certainly no evidence that he is ready to grapple with the complexities of fashioning a deal on the foreign policy issue that featured most frequently in his campaign, namely the war in Ukraine. For this reason, the assumption is that the focus of his first year in office will be domestic issues.

In what areas of US foreign policy are we likely to see a significant shift from the Biden administration and where will there be continuity in 2025?

First, the significant shifts:

- It is probable that the most significant foreign policy shift will be on Ukraine. Biden's administration has tried to support Ukraine (albeit often cack-handedly); if Trump had his way he would probably abandon it to Russia. It is unlikely that he will be able to go this far; a critical mass of both houses of Congress backs Kyiv, as does the security establishment, and he is unlikely to be willing to allocate the energy or political will needed to break down this support. Nevertheless, it is likely that US arms shipments to Ukraine will be cut dramatically during 2025. It is also likely that any negotiation process which Trump initiates will have a pro-Russian tilt, whereas Biden was opposed to initiating any talks without Kyiv's consent.
- It is likely that the Trump administration will have a much more critical relationship with NATO than the Biden team. The detail of the relationship will be determined by Trump's national security appointees; nevertheless, headline threats to abandon the alliance, and refuse

to abide by Article 5 commitments, are likely to feature.

- It is almost certain that the Trump administration will have a very different relationship with the EU than the Biden team. The driver of Trump policy will be the trade imbalance, not the perception of a threat from Russia which the EU must help to contain, and extensive sanctions are likely to be threatened, if not enacted. (The imbalance in manufactures is particularly galling to Trump.)

The assumption is that the focus of Donald Trump's first year in office will be domestic issues.

- It is also almost certain that Trump will pursue a much more supportive policy towards Israel than his predecessor. It is likely that Israel will be given carte blanche by Trump's administration, to do whatever it needs for its own security, and to ignore the rights or status of Palestinians as it wishes. The only corrective for this approach will be the vocal opposition of GCC states which have a direct line to the Trump family.
- Trump himself may establish negotiating positions that appear at first to be extreme, as is typical of his negotiating style. Threatening to send US troops to Greenland, for example, was likely aimed at securing agreement from Denmark for a US naval base on the island, or securing mining concessions for US companies. Likewise, his threat to seize the Panama canal was likely intended to ensure US companies are charged lower transit fees. Taken at face value, threats over sovereign territory appears to undermine the post-1945 rules-based global order. Should Russia or China take his words at face value, this approach may bolster their ambitions – through they should understand, based on Trump's first term, that his opening gambit is often very different from the action he eventually takes.
- Finally, the Trump administration is unlikely to try to police the post-1945 global order. In effect, regional players will be allowed to do what they

want, up until the point it becomes problematic for Trump personally. This inattention to the global order will extend to multilateral institutions such as the UN and WTO, which the administration will aim to undermine or dismantle. This abstention from global leadership is in direct contrast to the Biden administration's approach.

Second, the continuities:

- Trump's policy towards China is likely to be an intensification of that of the Biden administration, rather than a shift from it. Tariffs, protection of US industry, technology controls, targeting of Chinese firms operating in the US, and rhetorical commitment to preparedness for military confrontation in the Pacific, will all feature. The language used to define China in relation to the US will also strengthen.

Trump's policy towards China is likely to be an intensification of that of the Biden administration, rather than a shift from it.

- Policy towards Russia – at least in terms of practicalities – is unlikely to change significantly. Sanctions may be broadened and deepened, the Russian shadow oil trade policed more effectively, and Russian cash pursued. Trump clearly has a strong affinity for Putin; but the latter is likely to mishandle the relationship, meaning that the mechanics of bilateral relations will be left in the hands of officials more Kremlin-sceptic than the president.

How will Trump engage with his national security and defence apparatus?

The eventual line-up of Trump's security and defence team is as yet unknown; it is possible that some of his nominees will be rejected by the Sen-

ate. However, the type of engagement that Trump wants to have with his national security and defence apparatus is discernible in the candidates he has put forward so far. All are loyal to him personally. While his nominees for Secretary of State and National Security Adviser are qualified and likely to be competent in the roles, his candidates for Secretary of Defense, Director of National Intelligence, and Director of the FBI are deeply unqualified cranks whose nominations indicate contempt for the entities they are to lead. Trump appears to want the power ministries to be loyal to him, not the Constitution; he wants to hear what pleases him, not what he needs to know.

Trump also seems committed to limiting the independence of the armed forces and FBI. (He seems less worried about or interested in the intelligence community.) This will ideally be achieved by replacing civil servants in the relevant departments with political appointees, and screening senior officers for 'wokeness' or adherence to 'DEI'.

From this we can infer that Trump will expect personal loyalty from the national security and defence apparatus, and competence in advancing his wishes or agenda rather than that of the institutions themselves, or the country as a whole. This will have an obvious effect on everything from military readiness to the intelligence the president receives. For this reason, it is possible that his approach will face considerable pushback within Congress before the mid-term elections – though it is likely that he will get his way for much of the first 20 months of his second term.

The corollary of this approach is that it is likely that Trump's second term will see a crisis in civil-military relations. Commitment of US military personnel to (for instance) policing demonstrations, rounding up illegal immigrants, or detaining individuals or units deemed to have fallen foul of the DoD's political leadership, would probably put military officers in violation of their oath to serve and uphold

the constitution, or confront them with orders that are clearly illegal, and which they are therefore bound to disobey. It is also difficult to see attempts to screen senior officers not leading to major tensions between the military and political leadership.

What form is Trump's tariff policy likely to take?

Nobody knows. It is likely that Trump will treat tariffs as a negotiating tool, aimed at obtaining concessions that might not even be linked to trade. But it is impossible to know what form the measures might take; Trump himself may not know.

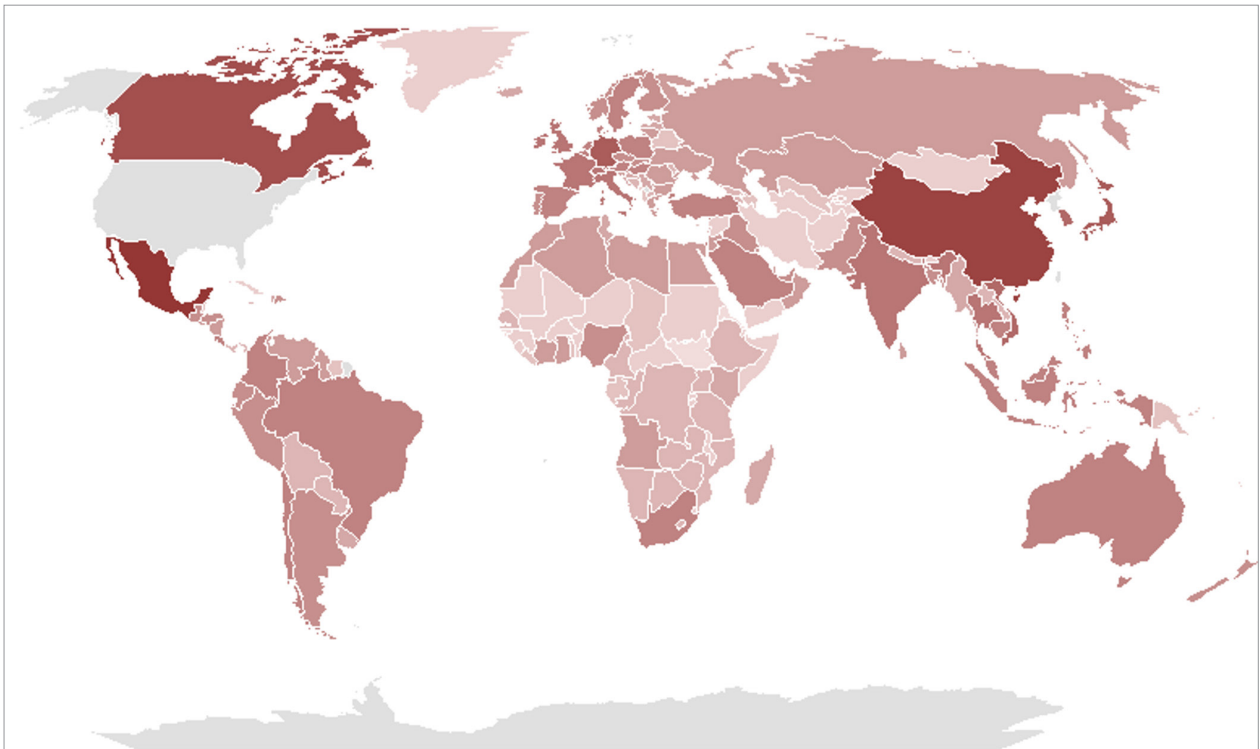
It may be possible to identify who the likely targets of his tariff policy will be. China will probably be the principal target, followed by Mexico, Canada, the EU, Japan, South Korea and – conceivably – Ukraine. Yet it is also possible that no tariffs are actually levied on imports from one or more of these states. As for the sectors likely to be targeted,

Trump has a strong emotional attachment to the industries that made America great; so while his trade negotiators may focus on achieving a better trade balance overall, he himself is likely to focus on automobiles, steel, consumer goods, and agricultural imports.

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The attitude of the Trump administration towards the new technologies dominated by China is also unclear. In theory these should be targets for tariffs, as they have been for the Biden administration's protectionist measures. But in practice it is not clear that these technologies register on the radar of Trump or his trade nominees, and the fact that they have been targeted by Biden, and are linked to the broader green agenda which Trump detests, might offer them some security against being targeted.

G1 : HEATMAP SHOWING US IMPORTS BY COUNTRY IN 2023



Source: United Nations Comtrade

How does the US perceive the threat posed by China?

As far as the critical mass of US political opinion is concerned, the threat posed by China might be characterised as systemic, over the long term; military, over the medium term; and economic – to include the US's dominant role in the global economy – in the short term. However, there is still a considerable gap between the scale of the threat perceived by US political opinion, and the non-legislative or non-regulatory resources allocated to defending against that threat. (The reluctance to build new warships – the USN's hulls are ageing out of service – is particularly noticeable.) But the US's legislative and regulatory toolkit to deal with the threat from China is extensive, growing and increasingly effective, and this is set, if anything to accelerate.

While this perception of the China threat is broadly accurate, it rests on scanty knowledge about China and the way it sees the world, as well as a belief that China might be executing a global, Machiavellian plan for dominance that deliberately preys on the US's good nature. There is an increasing tendency towards a zero-sum understanding of the People's Republic, in which all moves by Chinese entities diminish the USA, and reflect the interests of the CCP, not the entities themselves. It is likely that this tendency will accelerate during the Trump administration. That is not to say that the threat posed to the US by China, and by China's commercial entities as proxies for CCP policy aims, is not real; it is a genuine threat, and China's commercial entities do indeed act as the party's proxies, albeit not in absolutely all commercial activity.

The Biosecure Act, which requires US companies to sever contracts with some specific Chinese manufacturing and research companies passed the House of Representatives in September 2024. It is reflective of concerns within the US security apparatus that the CCP represents a security risk to the US, now and in the future.

To what extent is the US likely to seek better relations with China in 2025 and what would good relations look like? If it is not likely to seek stronger relations, how will the US approach the relationship in the short-term?

It is impossible to know whether the second Trump administration will seek better relations with China in 2025. Trump emphasises his supposedly close and friendly relationship with Xi Jinping, and he is highly unlikely ever to order US troops into battle against Beijing. It is also clear that Trump respects Xi and the CCP, for the former's power and the latter's obedience. However, he is in theory committed to a trade war with Beijing aimed at bringing it to heel (though what that would look like is unclear).

Trump's appointment of confirmed China hawks to the incoming administration is a good indicator of his preparedness to maintain a hostile approach to China, which would reflect the anti-China views of the wider Republican party. Trump's appointees, including Marco Rubio (in the important role of Secretary of State) and Michael Waltz (National Security Adviser), are confirmed China hawks who are committed to countering the threat they perceive from China. Other high-profile China hawks include Brendan Carr, Trump's nominee for Chairman of the Federal Communications Commission (FCC). Given this context, it is hard to envision a softening of the stance towards China from the US as a whole, even if Trump himself stands back from it in order to focus on domestic issues. If Trump's administration takes a hostile approach to China, it would likely include a combination of sanctions and trade measures and the highlighting of military capabilities in the Pacific. It is of course possible that this approach will actually be intended to persuade Beijing of the benefits of improved ties.

Sources of tension in the US-China relationship are not unilateral. For his part, Xi Jinping has drawn

a number of “red lines” in China’s engagement with the US: a series of topics set out in November 2024 which he refuses to engage with the US on, including the Taiwan issue, democracy and human rights, development path, and development rights. Any concerted attempt by the US to engage with China on any of these issues would set US-China relations on a confrontational path.

Should Trump seek to improve relations with China, his first step could be to seek a swift resolution of new trade threats via negotiation – with some measures never even being applied – and a Trump state visit to Beijing. Observing the “red lines” set out by Xi would make it impossible for Trump to have constructive dialogue on the matters that are seen as most important to members of his administration. Most measures put in place by the Biden administration would be unlikely to be lifted, at least in 2025, and given that the machinery of trade politics can move extremely slowly, it may well be that good relations in 2025 will look very much like relations in 2024, with the actual manifestation of improved ties only materialising in 2026 or later.

In which regions do the US’s future strategic interests lie?

Last year we argued that the US’s future strategic interests lay in Europe, the Middle East, and East and South Asia. But we also observed that it was not ‘clear that any of these will remain strategic interests should Trump win a second term.’ This assessment still holds true.

It is difficult to tell where a second Trump administration might see the US’s future strategic interests lying; neither he nor his team have offered much of a steer, in part because it is not clear he thinks in these terms. (Inasmuch as he does think of strategic interests, it seems to be along the lines of commercial opportunities rather than grand strategy.) But the probability of a shift away from Europe – to be manifested in a weakening of NATO ties, at-

tempted disengagement from the war in Ukraine, and trade war with the EU – suggests that this is not a region his administration will see as essential to US strategic interests. Similarly, Trump’s approach towards Israel – essentially *carte blanche* for whatever it wishes – is a recipe for not engaging in the Middle East, rather than one for focusing on it. This would suggest that the Middle East is also less likely to be seen as a future strategic interest by the Trump team. As for East Asia, it is clear that the US sees China as a rival; but that translates into the US having a strategic interest in containing Beijing, rather than exploiting or cooperating with it. Perhaps the only one of these regions that Trump himself sees as a future US strategic interest – or at least one which is currently under-exploited – is South Asia.

It is important to note that the second Trump administration’s views of the US’s future strategic interests will not be binding upon its successor/s. To a considerable extent the verdict we offered last year reflected that of the critical mass of US political opinion; it might therefore be seen as the centre of gravity, to which the US might return after Trump has left office.

To what extent is the US moving away from Europe and what implications does this have?

Whether the US is moving away from Europe is essentially a function of the policies that the second Trump administration intends to pursue. Of course, the US has been trying to refocus its attention on East Asia – particularly China – since the Obama administration; nevertheless, throughout that time Europe as a region has remained the US’s most important partner and enabler. This could still hold true after 20 January 2025; however, it seems unlikely.

The extent to which this movement becomes permanent will depend upon the detail of US policy

towards Europe over the next year. For instance, US efforts to strike a deal to end the war in Ukraine could have any number of outcomes, ranging from utter failure followed by an outraged abandonment of the continent; success, but resentment at European failure to deliver on its part of any bargain; and success followed by mutually agreed burden sharing. Each of these outcomes would leave different marks or scars on the US-Europe relationship. Similarly, trade tensions between the US and EU could produce outcomes ranging from permanent, significant trade barriers at one end of the spectrum, and a quick resolution followed by business-more-or-less-as-usual, at the other.

The relative permanence of any shift will also depend on US political-cultural factors. The MAGA movement is dismissive of Europe and its interests and in Vice-President-elect Vance has a likely successor to Trump whose contempt for Europe is visceral and vocal. **If the MAGA movement remains the dominant force on the American right, then it will shift the centre of gravity of US political-cultural affinity and interest away from Europe.** If it does not, or the Democrats return to the White House in 2029, then the region will likely return to its central position in US strategic and political thinking.

What will be the implications of any US movement away from Europe in 2025 and beyond? The principal implication for Europe is that the continent will have to be much more self-reliant in defence terms, and much more assertive in political ones. As for the US, the implications probably depend upon the trajectory of US politics. MAGA is at its heart a profoundly isolationist movement, while the rump of the Republican party it has taken over, and the Democratic Party as a whole, are internationalist. For the moment, it is too soon to tell which worldview will ultimately prevail.

CHINA AND ASIA

TAIWAN IN THE CROSSHAIRS OF STRATEGIC RIVALRY

Xi's government has established four uncompromising 'red lines' that will severely constrain dialogue with the US during Trump's administration, on Taiwan, democracy and human rights, the development path, and development rights. These policies prioritise CCP supremacy and reflect Xi's personal credibility, leaving little room for compromise. While direct conflict between the US and China is unlikely in 2025, the absence of crisis-management tools and escalating tariffs may exacerbate tensions. Regional dynamics in the South and East China Seas remain tense but stable, with Taiwan facing increased coercive pressure short of open conflict. Trade disruption across East Asia is a significant risk amid US-China economic decoupling.

How will China respond to a second Trump administration in 2025?

Xi Jinping set out his stall ahead of the inauguration of the second Trump administration when he held a summit with President Biden in November 2024. In it he set out the Chinese policy positions which will govern future bilateral ties. For the first time this included a package of four issues that the US is not permitted to engage with China on at all. According to the official Chinese read-out of the summit, the 'Taiwan issue, democracy and human rights, development path, and development rights are China's four red lines, which cannot be challenged. These are the most important guardrails and safety nets for China-US relations.' Previously

Beijing has described each of these issues as a 'red line', but more in terms of outcomes China will not permit; e.g., Taiwan independence. This read-out makes it clear that simply raising these issues is not acceptable.

Xi has set out four issues that the US is not permitted to engage with China on at all, ruling out all constructive dialogue with the US for the next four years.

The problem with the four red lines is that these are the issues driving US-China policy. Taiwan is the preoccupation of security hawks in Washington; democracy and human rights are a particular focus for Christian and Democrat interests; and 'development path and development rights' means the Chinese economy, its state aid, and its domination of future technologies – which are fundamental for everyone wanting to change the US-China trade balance, and worried about China's increasing power. In essence, **Xi has ruled out all substantive talks with everyone driving US-China policy.** The read-out stresses that the two states must cooperate on other issues, such as climate change and artificial intelligence. But no US administration, let alone Trump's, will accept these issues as a substitute for the real concerns driving US policy. In effect, then, Xi's policy positions rule out all constructive dialogue with the US for the next four years. However, while Trump may seek to engage with Xi for cosmetic reasons and leverage this engagement as a personal success, it is unlikely that such engagement will gain substantial traction within the Trump administration, and even less with the US congress.

There is no leeway. This is Xi's own, personal position; his own credibility is attached to it. This is extremely important, given that the principal audience for the official read-out is China itself. It has been universally disseminated by CCP organs, both to the media, and to the party's membership; it is now understood within the CCP as a whole to be the baseline for future discussions. **Xi cannot be flexible on his red lines, or be seen within the party to be ready to discuss their existence, without weakening his authority.**

Trump may be able to reestablish a personal connection with Xi that will lead to dialogue on issues outside of the red lines. However, his overall approach to China – which is so far impossible to predict – will have a bearing on the feasibility of such a relationship. Conversely, he may decide to ignore Xi's red lines in order to progress his hawkish policy on China.

This means that the US and China are set for a deeply confrontational four years. This confrontation is likely to start shortly after Trump's inauguration; Trump has proposed 60% tariffs on all imports from China 'on day one'. His key nominees (for offices ranging from Secretary of State to National Security Adviser and Trade Representative) are also China hawks in their own right, who seem likely to favour swingeing anti-Beijing measures ranging from controls on investment, access to dollars, and AI chips, to re-orienting the US's military towards the Pacific.

This confrontation is unlikely to lead to kinetic hostilities, at least in 2025, given that neither side seeks them. However, Xi's red lines will wreck all of the effective working-level tools for managing day-to-day bilateral tensions established by the Biden administration. There will be very few safety valves for this relationship between two nuclear-armed competitors. This is dangerous.

Of course, contact between the two states will not halt entirely; both Xi and Trump will be keen to re-establish a personal relationship, and Xi in particular will want to address his concerns to Trump directly. (This is a function of the first Trump administration, when China found that Trump was the only interlocutor worth engaging with; often its agreements with cabinet officials executing Trump's own policies were overturned fairly quickly by presidential tweet.) But the breadth and depth of US-China issues cannot be covered by Trump and Xi alone. Xi's red lines seem certain to make for a frustrating refusal to engage, and for such engagement as does occur to be intrinsically hostile. Given that the second Trump administration is likely to be less diplomatic and accommodating than Biden's, the potential for Beijing to give offence, and for the US to take it very badly indeed, seems considerable.

What are Xi Jinping's real, versus ostensible, primary domestic and international objectives?

Xi Jinping's primary domestic and international objective is the preservation of the supremacy of the CCP. In his eyes this translates into a strong mixed economy, reunification with Taiwan, dominance of key industries, participation in and preservation of global trade, and China to become the leading non-hegemonic power. These objectives are broadly understood within the CCP and the wider population; to a considerable extent, then, there is no substantive difference between what is ostensible and what is real. The gap materialises in relation to the execution of the policies intended to deliver these objectives. The CCP tends to be open (in its own, rather impenetrable terms) about its objectives and the plans for delivering them. It deliberately conceals what those plans might lead to, and only airs potential solutions to emerging issues as trial balloons to test whether they would bolster or weaken the party's legitimacy.

There is little prospect of these objectives changing over 2025; the policies to deliver them may change substantially. 2025 is likely to be a year of unusual volatility, in which all of Xi's primary domestic and international objectives are likely to be tested by the second Trump administration. (The mixed economy will be tested by US tariffs – 60% tariffs would cut exports by 6.5% over a year; reunification with Taiwan, by likely US rearmament and military reorientation; industrial dominance, by US protectionism; global trade, by tariffs; and Chinese leadership, by loud assertion of US dominance.) The CCP will therefore have to adjust policies throughout the year, even if the primary objectives remain unchanged.

How likely is China to launch an attack on Taiwan in 2025?

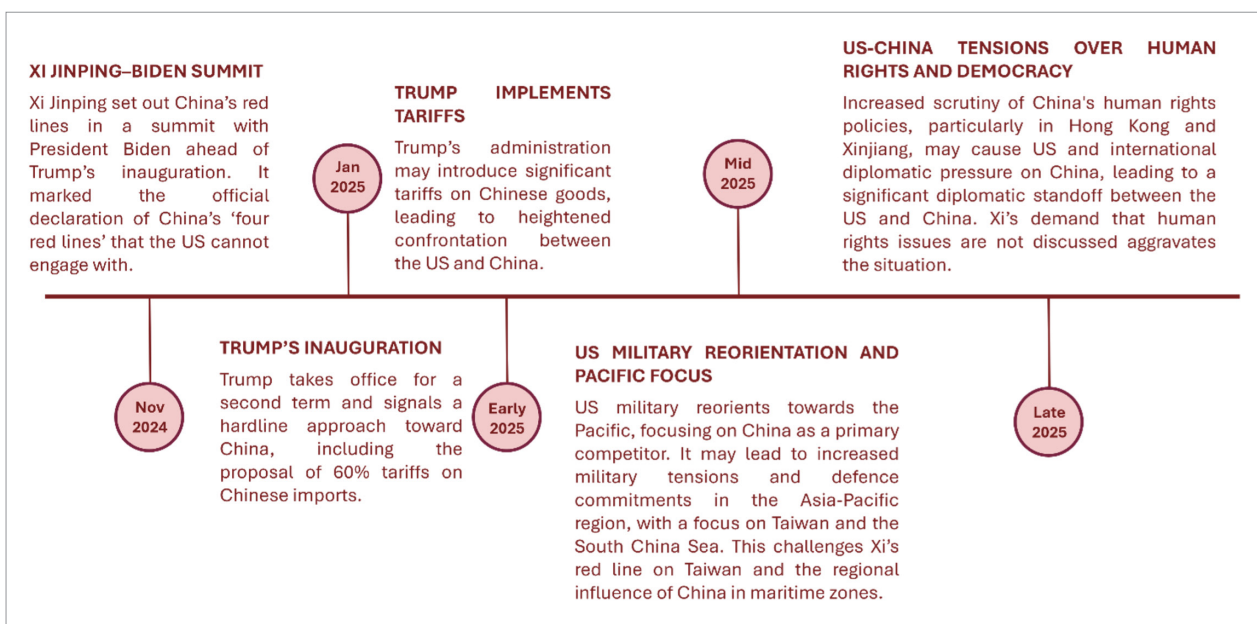
Unlikely. Last year we observed that 'China is unlikely to attack until it is ready to win, and it will probably not be ready to win – not least in its own estimation – for several years. This is because it is still in the early days of getting to grips with the complexity of amphibious and joint operations, and

the political nature of the PLA means it is an exceptionally slow and obtuse learning mechanism. While the PLA might well represent itself as being more ready to defeat Taiwan than is the case, the clear difficulties it is currently facing are unavoidable. War seems unlikely before 2027 at the very earliest, if at all.' Nothing in this assessment has changed.

At the same time, we also argued that 'If China were minded to attack Taiwan sooner than that, it would... prefer to do it when Trump is in office; it could then reckon on the US refusing to defend its ally, which it probably calculates would ensure success.' It is the fact that Trump is returning to office that accounts for our 'Unlikely' assessment in 2025, compared to last year's 'Highly unlikely'.

Why would China be more likely to attack Taiwan if Trump were in office? It will almost certainly believe that Trump will not fight for Taipei. He feels no obligation towards the US's allies, seeing relationships with these states in purely transactional terms; he also has no interest in democracy as a principle to be protected or asserted.

G2: TIMELINE SHOWING POSSIBLE KEY US-CHINA EVENTS AND RED LINES IN 2025



Source: *Herminius*

Trump appears to be unwilling to jeopardise relations with Beijing for the sake of Taiwan¹, and during his re-election campaign he emphasised that a Chinese attack on Taiwan would be met with tariffs, not military action. Trump has also consistently opposed US engagement in military action unless it is brief, is targeted at a non-peer entity, and lends itself to dramatic promotion. While Beijing undoubtedly believes that the Republican Party is more hawkish on China than the Democratic Party, it is also likely to believe Trump's own hawkishness does not extend to open war – if only because he clearly indicates as much.

Even if the probability of an attack on Taiwan increases slightly as a result of Trump's return to office, it still remains an unlikely occurrence in 2025.

Even if the probability of an attack on Taiwan increases slightly as a result of Trump's return to office, it still remains an unlikely occurrence in 2025. However, it is worth noting that 'attack' need not involve open invasion or even the use of lethal force. Beijing could institute a temporary blockade of Taiwan; sever communications between the Kinmen islands and Formosa; seize Taiwanese fishing vessels; or act against the perhaps 400,000 Taiwanese living under CCP rule. Any of these options could be represented as attacks and would not necessarily be likely to lead to open hostilities. This type of attack should be seen as possible in 2025 – i.e., much more probable than an open assault on Taiwan itself.

How likely is a seaborne invasion of Taiwan at the current juncture and what are the prospects of success of such an invasion in 2025?

Last year we argued that 'a seaborne invasion of Taiwan is highly unlikely in the immediate future, in sub-

stantial part because it would almost certainly fail.' Neither the likelihood of an invasion, nor its prospects, have changed. In theory the latter should not be the case.

The chances of success in any invasion are primarily a function of the extent to which the PLA can master the complexities of joint and amphibious operations; another year of drills and lessons learned should in theory get the PLA that much closer to mastery. China's naval capabilities also increase significantly year on year. However, two of the key branches in any invasion – the rocket forces, and the PLA-Navy – are currently beset by a purge of much of their senior leadership, supposedly for corruption, which is rippling down the ranks, and will almost certainly continue for most of 2025.

Even if the PLA were able to mount a seaborne invasion of Taiwan with real hopes of success, 2025 would be too soon. Xi needs to get the measure of the second Trump administration, and perhaps re-establish some kind of rapport with Trump himself, before committing his forces. That will take at least a year. If Xi does decide to mount an invasion, then the most likely year is 2027; this is after the deadline he gave the PLA to be ready for an invasion (namely the end of 2026), and before a US presidential election year.

Action of the PLA against Taiwan if it was to occur, would be initially, at least, conducted by extensive disinformation and influence operations, leveraging socio-political splits within the Taiwanese population, turning Taiwan into a soft target, diminishing the complexity of a joint military operations – however, despite demonstration of China's ability to conduct information operations in Africa, these are much softer targets than Taiwan, and it is unlikely that they have reached the full level of sophistication required to conduct these in the short term in Taiwan.

¹ His former National Security Adviser, John Bolton, states that on more than one occasion Trump would 'take out one of his Sharpie pens and he'd point to the tip and say, "See that? That's Taiwan." Then he'd point at the [Oval Office] desk and say, "That's China."

How tense are relations between countries in the South and East China Seas and what is the potential for conflict or trade disruption between China, Japan and Korea in 2025?

Beijing has no desire to engage in hostilities with Japan, South Korea, or other countries in the South and East China Seas, at least in 2025; nor do any of those countries want hostilities with China. There is thus no reasonable likelihood of conflict in these waters being deliberately initiated by any of the states in the region as a matter of policy.

That said, the past year has seen some increase in tension in this region, with China voicing concern over Japan's increasing integration into US-led defence cooperation efforts, and South Korea concerned at China's unwillingness to constrain North Korea (whose coffers and military capabilities have been enhanced by its extensive support for Russia's war in Ukraine). There have also been tensions in the South China Sea, where Beijing has been applying pressure on the Philippines over its occupation of the Scarborough Shoal, US support of Manila has been strengthening, and Western freedom of navigation exercises close to Chinese-occupied islets have continued. However, the South China Sea tensions fit within the normal pattern of activity since at least 2020; it is difficult to note any substantive change in the risk levels in these waters, or any worsening of regional ties.

It is important to understand that the overall level of tension in the region is nevertheless rising very gradually, year on year. This is a function of China's increasing assertiveness, increasing cooperation and defence commitments among the states worrying about that assertiveness, and then Beijing's interpretation of this cooperation as a hegemonic attempt to contain China – which in turn legitimises further assertiveness. This will continue for at least

the next decade, separately from whatever Beijing might decide to do about Taiwan. Xi is not going to retreat from his attempt to assert Chinese control over the waters out to Guam and the second island chain in the east, and to the Malacca Strait in the south. This in turn means states threatened by this push – which include much of SE Asia, but also, and most importantly, Taiwan, Japan, South Korea and Australia – will have to intensify their own cooperation and preparedness. This trend will continue whatever the US does under a second Trump administration. Regional concern about China is organic, whatever Beijing thinks or claims; it is not a function of US 'hegemony' or some intrinsic 'anti-China feeling'. Continued aggression by China in this area will further degrade its relations with Japan, Taiwan, South Korea, and Australia.

The shift in China's stance towards the US will almost certainly lead to the wrecking of the working-level crisis management tools created by the Biden administration.

One concern about 2025 should be borne in mind. The shift in China's stance towards the US, noted above, will almost certainly lead to the wrecking of the working-level crisis management tools created by the Biden administration. This will reduce each side's ability to reassure the other, and increase the likelihood of an inadvertent clash escalating. Given that neither side wants overt hostilities, the probability is that any such clash would be contained very quickly. Nevertheless, the politics of the China-US rivalry are messy and the CCP is particularly bad at understanding how democracies work. It is easy to see a situation where attempts to isolate and contain a clash are misunderstood and lead to further, deliberate escalation. This risk will gradually intensify during the second Trump administration.

There is a real risk of trade disruption in the region during 2025. This will be a function of the tariffs that the second Trump administration are expected to impose. It is possible that China will limit its responses to US imports. But it is also possible that it will seek to apply counter-pressure on Washington by enacting measures against its allies, such as Japan and South Korea. Whichever is the case, the ripple effects of a major US shift towards tariffs will be felt across the world and major trade blocs. East and South East Asia will not be immune.

What is the rationale behind North Korea's increasingly bellicose stance towards South Korea and the US?

The dominant rationale for all North Korean regime behaviour is regime survival; broadly speaking, the more belligerent it is at any given time, the more potentially unacceptable is the policy it is pursuing to ensure survival, and therefore the more it feels it needs to bully other states to ensure their tolerance or compliance.

North Korea's current bellicosity is a function of two unacceptable policies. The first is its ballistic missile programme; it needs to both test its new weapons and frighten Japan and the US into believing that the programme is a fait accompli. Test firing missiles into the waters east of Japan ticks both boxes. The second unacceptable policy is its support for Russia in its war on Ukraine. This policy has almost certainly given Pyongyang a financial lifeline (through the sale of weapons), experience of modern war (through committing troops to the Kursk region), and a strategic counterweight to China (whose support the Kim regime resents, but cannot do without). For the first time in decades North Korea has broken the confines of the Korean peninsula and the regime is particularly bump-tious as a result.

North Korea's current bellicosity is a function of two unacceptable policies: its ballistic missile programme and its support for Russia in its war on Ukraine.

However, this bellicosity tends to be quite specific. The principal audience for North Korea's missile tests is Japan and the US, not South Korea – almost certainly because the potential implications of provoking the latter would be much greater. At present Pyongyang seems to be trying hard not to provoke Seoul. It is striking that a key element of the martial law plan put into action by President Yoon Suk Yeol on 3 December 2024 was supposed to be hostile North Korean action against South Korea, which would be provoked by South Korea sending drones over Pyongyang. However, Pyongyang refused to rise to the bait. A state that was at a high degree of readiness, and certain that it faced significant everyday threats, would not have ignored the South Korean provocation. The Kim regime's bellicosity is not necessarily what it seems.

What will be the key challenges for Japan in 2025?

Japan lives in a dangerous neighbourhood, with China, Russia, and North Korea as uncomfortable neighbours. Nonetheless, as noted above, military conflict between Japan and China, Russia, or North Korea is an extremely remote possibility. Instead, Japan's key challenges in 2025 are likely to be economic and to come from the actions (and inactions) of its key ally, the United States, and the impact of US President-elect Donald Trump.

Japan will hope that current Prime Minister Shigeru Ishiba can replicate Abe's success in forging a close relationship with Trump.

Trump's threats to up-end normal trading relations with friend and foe alike could have an out-sized impact on Japan. It is worth bearing in mind that Japan is increasingly dependent on open trade and investment for its economic prosperity. Japan's demographic crisis means that, for most companies, there are few areas of domestic growth and so they must look to overseas markets for growth. However, international trade is also a matter of national survival; some 60% of Japan's food supplies are imported, and 97% of its oil and LNG. And so Japan will be anxious about Trump's impact on three key aspects of its trading relations:

1. The bilateral US-Japan relationship. This came under strain in the first Trump administration but was deftly handled by former Prime Minister Shinzo Abe. Japan will hope that current Prime Minister Shigeru Ishiba can replicate Abe's success in forging a close relationship with Trump. However, following his Liberal Democratic Party's (LDP) electoral failure in 2024, Ishiba and his minority government's domestic position is weak. Even if Ishiba can avoid the collapse of his government by passing a 2025 budget, the LDP may jettison him as an electoral liability. Given that weakness, it is unlikely that Trump will be interested in investing in a close relationship with Ishiba;
2. The US-China relationship. Japan is heavily exposed to both countries through finance, trade, and investment. US-China trade spats have already inflicted collateral damage on Japan, and the next Trump administration has threatened escalatory action that will almost certainly provoke some kind of Chinese retaliation. So far, Chinese strategy appears to have been to go soft on Japan, hoping that Trump's bellicosity will push Japan closer to China. However, there is little sign of Japan seeking compromise with China, and the Japanese public's highly negative view of China makes compromise politically unfeasible. And so, a US-China trade war may

suck in allies such as Japan. In that scenario, it is probable that China would use trade sanctions to inflict Japanese political pain, in the hope the pain leads to Japanese concessions, rather than to de-couple the countries' economies; and

3. Trump's impact on the global trading system. Japanese industry has spent the last 40 years globalising its production and supply chains. It is therefore highly exposed to disruptions in supply chains and access to markets. These disruptions could come from third country trade disputes with the US, such as the EU, Canada or Mexico. They could be the result of the weakening of multilateral institutions, especially the World Trade Organisation, which creates barriers to trade and investment. Or supply chain disruptions could be the result of heightened security tensions, especially between the US and China over Taiwan, and between the US and Iran over regional issues.

Uncomfortably for Japan, it has limited influence over developments on any of these issues. Japan also has limited policy options to mitigate the impact of geopolitical disruptions that damage economic growth. Its fiscal and monetary room for manoeuvre is limited. And microeconomic reforms to try to enhance resilience and reduce vulnerability are likely to have only a marginal effect. Japan will be hoping that Trump's bark is worse than his bite on trade, and that it will benefit from robust US domestic economic growth so offsetting the impact of any global trade disruptions.

EASTERN EUROPE AND RUSSIA

STALEMATES AND SHIFTING BATTLEFIELDS

A definitive resolution to the Ukraine conflict in 2025 is unlikely, with any potential settlement likely to be temporary due to irreconcilable demands between Russia and Ukraine. The Kremlin's veto on western security guarantees for Ukraine leave little room for compromise. A temporary ceasefire may freeze frontlines, but negotiations for lasting peace would require significant battlefield shifts or political upheaval in either country. Western support for Ukraine remains politically constrained, while Russia's economic and military strain intensifies. US disengagement under Trump could further destabilise NATO, increasing global uncertainty.

Is there likely to be a definitive resolution to the Ukraine conflict in 2025? What would a potential resolution to the Ukraine conflict look like?

No. There may be a resolution; but at best it will be temporary. This is because there is no middle ground between the two sides' demands for any settlement. Ukraine's absolute bottom line – Western security guarantees – is utterly unacceptable to the Kremlin; Russia's absolute bottom line – a Russian veto on Ukraine's future path – is utterly unacceptable to Kyiv. These bottom lines mean that any resolution that might be achieved in 2025 would be temporary at best; Russia would use any ceasefire to rearm so that it could compel Ukrainian compliance with its demands on the battlefield over the short to medium term. **The only thing that would make a permanent resolution possible in 2025 is the abandonment of bottom lines by one or both sides.** This only seems likely if:

- a) Ukraine faced catastrophe on the battlefield (i.e., through its complete abandonment by the West);
- b) Russia faced catastrophe on the battlefield (due to the commitment of major NATO capabilities, and/or the collapse of its military); and/or
- c) Putin's regime was threatened with collapse, political and/or economic.

In our previous report, we noted a resolution to the conflict was unlikely in 2024. Amongst the factors we had highlighted which could play a role in a potential resolution was the re-election of President Trump. Trump's narrative at the time of writing the reports still seems to be that of a negotiated "deal" and his attitude of disengagement towards NATO and the EU's security posture creates a long-term uncertainty – this will play a role in fuelling a temporary resolution.

If there were a temporary resolution in 2025, this would most likely take the form of a ceasefire, with the front lines in Ukraine being frozen, accompanied by negotiations about a land-for-security-guarantees swap. It is difficult to see the negotiations leading to anything substantive enough to form the basis for a permanent resolution in the absence of a), b) or c). It is possible that a temporary resolution would be accompanied by the deployment of Western forces as 'peacekeepers', though given that Russia has long been seeking to avoid the deployment of Western troops to Ukraine, it would be surprising if it acceded as part of a negotiation process. Russia wants to be free to act against Ukraine. Western forces would be an obstacle.

Whether anything at all can be achieved in 2025 is likely to be affected by the amount of time available for negotiations. It is difficult to believe that Russia will engage in negotiations that might lead

to a ceasefire – let alone a resolution – if Ukraine still holds any of its territory. However, it is probable that Ukraine will be able to hold onto at least some of its gains in the Kursk region for several months. A negotiation process that begins in April is much less likely to bear fruit by December than one that begins in January.

As for the shape a permanent resolution might take, this is difficult to determine, as it would be shaped by too many current unknowns. (For instance, would negotiations begin with Russia facing defeat, or Ukraine, or neither?) Kyiv probably believes its territory-for-security-guarantees proposal is the likely end point, but Russia will have to be coerced, or face internal threats that have yet to eventuate, to agree.

What factors could change the direction, or outcome, of the Ukraine conflict in 2025?

The direction or outcome of the war in Ukraine in 2025 could range along a spectrum from Ukrainian victory to Russian ‘victory’ – ‘victory’ because Russia has already suffered irremediable strategic defeat² – depending on the balance of a variety of factors.

- **Ukraine needs foreign-provided military equipment to be sure of holding off Russian forces.** If the tap is turned off by both the US and EU or NATO member states, then Kyiv runs the risk of military defeat. If the US tap alone is turned off, then Ukraine would probably be able to keep Russia at bay in an optimistic scenario, albeit with acute shortages and/or vulnerabilities which would raise the human (and thus also political) cost of continued resistance.

- **A surge in foreign-provided military equipment** (particularly in areas such as long-range weaponry and air defence missiles) would give Ukraine a substantial battlefield advantage three to four months after deployment. This would threaten Russia with military defeat. Russia’s battlefield chances would only be enhanced by increased foreign military assistance if Ukraine’s ability to resist had been degraded by other factors.

The shape of a permanent resolution is difficult to determine, as it would be shaped by too many current unknowns.

- **Both combatants are suffering acute manpower shortages.** If Ukraine substantially widens conscription in the first half of 2025 it would by the end of the year be able to deploy a manoeuvre force capable of inflicting a significant battlefield defeat on Russia. If Russia were to deploy its conscripts against Ukraine it would, after several months, be able to heighten the attrition of Ukrainian forces to the point where Kyiv might modify what it defines as ‘security guarantees’ sufficiently to be acceptable to the Kremlin. (Whether the Kremlin would accept it, of course, is another matter; it is more likely that it would pocket the concession and keep pushing militarily, hoping for more.) If Russia were to increase its regular draft, and deploy all its conscripts against Ukraine, then it would accelerate Ukrainian attrition, and thus pressure on Kyiv to make concessions, yet further.

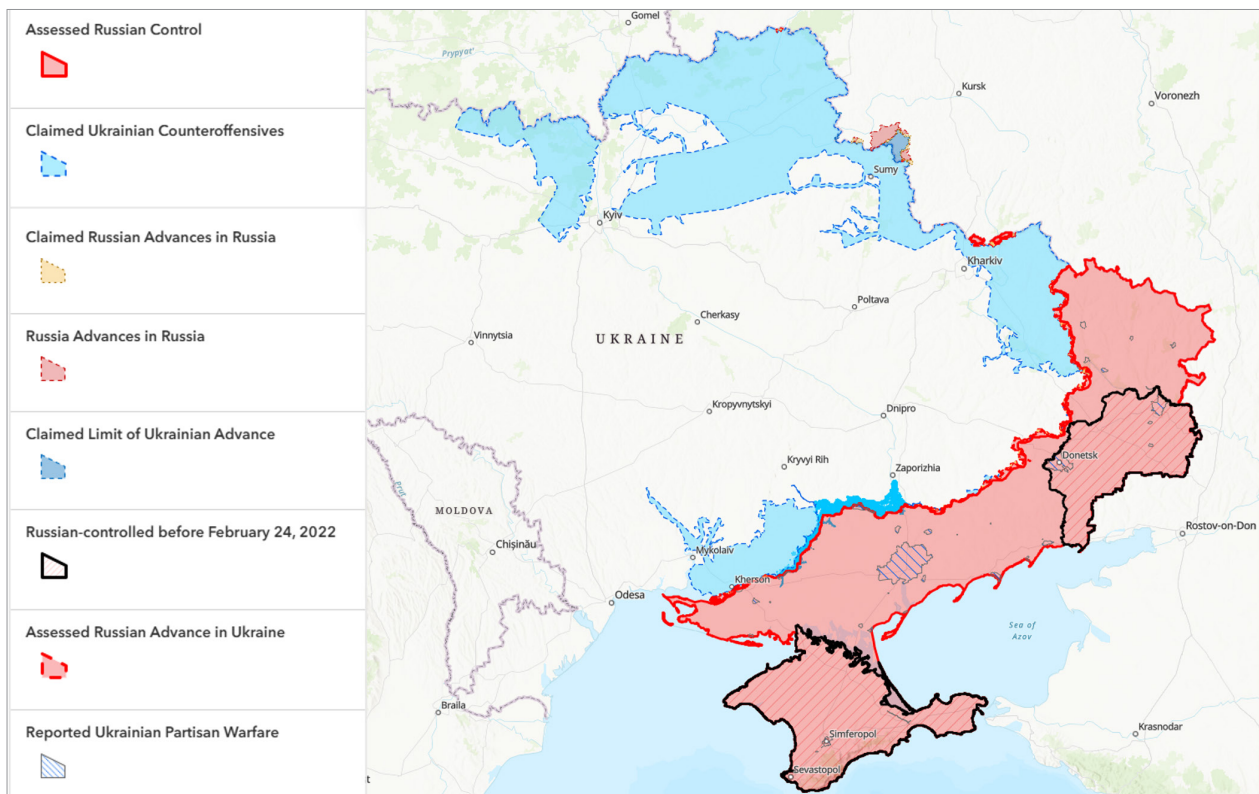
² This assessment is based on a comparison between Russia’s geopolitical position in January 2022 and that after any plausible end to hostilities. NATO is stronger militarily and politically (with the accession of Sweden and Finland); the military gulf between NATO and Russia has widened (with the erosion of Russia’s armed forces); the Baltic Sea is effectively a NATO lake and Russia has lost control of the Black Sea; Russia is weaker in its desired sphere of influence (the former USSR); it is more exposed geographically (with its border with NATO having doubled, and its dependence on China increased); Russia’s stable economy and over \$300 billion in foreign reserves have both been sacrificed, with severe inflationary pressures likely to remain after hostilities; and it has acutely weakened its demographic position (a significant concern in domestic Russian discourse) with the loss of more than 700,000 men; and there is no prospect of Ukraine ever willingly coming under Russian influence – the supposed object of the war.

- Russia’s economy is under considerable pressure; inflation is high, the labour market is extremely tight, the rouble is sinking, foreign currency backing is now essentially nil, and much of its oil and gas exports is being sold at cost price or below. Our previous report stated that Russian stability was partially dependent on sustained oil revenues; weakened revenues have contributed to cracks emerging in the Russian economy in the course of 2024. A significant widening and wider endorsement of US sanctions, to include oil exports and associated business, and the sale of dual-use technology to bordering states; and/ or a Ukrainian campaign against Russia’s oil export capability in the Black Sea; would tip it into crisis and might cause the Kremlin to look for a (temporary) diplomatic exit from the war.

A significant widening of US sanctions would tip the Russian economy into crisis and might cause the Kremlin to look for a (temporary) diplomatic exit from the war.

- Ukraine’s war economy is sustained by external financial help. If this is cut off in 2025, then its ability to fund its fight will be much reduced, to the likely extent of its seeking terms, but probably not until 2026 or later. Conversely, if external financial assistance is significantly increased then Kyiv’s ability to tap new sources of materiel will also be significantly enhanced. (Access to frozen Russian financial reserves, rather than the interest on the principal which Kyiv currently receives, would make a huge difference; these reserves are equivalent to nearly two years’ GDP.)

G3: MAP SHOWING CURRENT FRONTLINES, CONTESTED TERRITORIES, AND AREAS UNDER UKRAINIAN OR RUSSIAN CONTROL



Source: Institute for the Study of War, updated 8 January

- **The security of Russia’s ruling regime now rests on the balance it strikes to sustain the war.** If it widens conscription or commits conscripts to the fight, it risks disorder in its major cities – a risk which, as mentioned in our previous report, the Kremlin has so far been unwilling to take. Another ‘mobilisation’ – of supposed reservists – would be less dangerous. If it weakens front line air defences to strengthen protection for critical infrastructure it risks military defeat; if it does not, it risks the throttling of its war economy. If it increases its dependence on North Korea, it undermines its relationship with China, minimising chances of (for instance) yuan-rouble swaps, and threatening access to dual-use technology. If any one of these elements goes wrong for the Kremlin, it might well look for a (temporary) diplomatic exit from the war.
- In theory Ukraine’s political stability is also dependent on the balance it strikes to sustain the war, with widening of conscription being a particularly sensitive issue. However, Ukraine is under martial law, and cannot have elections until at least 90 days after martial law is lifted; all political parties agreed in November 2023 to increase that period to six months. It is possible that significant battlefield defeat might cause either this position to be jettisoned, or the resignation of President Zelensky; however, this seems very unlikely, given that the concerns that might be created by this defeat (such as the need and nature of concessions to Moscow) are ones on which a majority of Ukrainian voters still hold robust views.³

Would an acceptance of a peace settlement with territorial concessions by Ukraine give a renewed sense of momentum to Russia’s foreign policy ambitions?

Yes. However, Russia would be unlikely to automatically benefit directly. This is because it would have been so profoundly weakened by the war that it would be unable to exploit opportunities that might arise. (For instance, it is likely to be still hampered by economic sanctions.) Its own narrative that it would have defeated NATO would also face an unreceptive audience; **Moscow has been revealed to be much weaker than it claims.** However, the nature of the settlement would be a factor; a deal that saw Russia get land and Ukraine effectively surrender its sovereign independence would undoubtedly help its foreign policy messaging. Russia would certainly benefit indirectly from any settlement involving territorial concessions, in as much as the post-1945 global order would have taken a hit, through the changing of national borders as a result of military aggression; this would likely lead to some opportunism by other states with territorial ambitions of their own, and thus further pressure on that US-led order.

Russia would certainly benefit indirectly from any settlement involving territorial concessions, and it would likely lead to some opportunism by other states with territorial ambitions of their own.

³ See for instance the December 2024 poll commissioned by the New Europe Center; <https://neweurope.org.ua/en/analytiks/zovnishnya-polityka-i-bezpeka-nastroyi-ukrayinskogo-suspilstva/>

What are the likely signals that would suggest that Russia and Ukraine have begun negotiating?

Russia and Ukraine are unlikely to negotiate directly. Any negotiation will probably be conducted through mediators (such as Turkey, for Ukraine, and China, for Russia). Concentrated diplomatic engagement with these mediators will signify that Ukraine at least is entering a negotiation process with comparative seriousness. Russia, on the other hand, will not enter negotiations with sincerity; this means that signals that it is negotiating should not be seen as indicating a likelihood of talks bearing fruit.

For all the attention given to President-elect Trump's pronouncements about delivering a deal to end the war, **it is highly unlikely that Russia will agree to sit down in any US-chaired process**; Putin wants to be seen as the US's equal, not as its vassal. Trump administration engagement with both sides might identify the key elements of any deal, but the heavy lifting would have to be done by other states.

To what extent will the brokering of a peace deal in Ukraine be a priority for the Trump administration in 2025?

It will be a rhetorical priority at the beginning of the Trump administration. However, this enthusiasm will be short-lived, largely because Trump does not actually care about the issue, and does not appreciate its complexities. It exists as a totem of his negotiating skill, not as a policy priority, and can be abandoned at any time.

It is probable that any Trump initiative will follow this approximate course: immediate energetic efforts to push both sides into a deal, involving a

mixture of sticks and carrots (such as weapons shipments and further sanctions); excessive and unrealistic demands from Russia, which Putin will expect Trump to bully Ukraine into delivering; Ukrainian obstinacy; and Trump then facing a choice: a) surge military capabilities to Ukraine, to force Russia to back down; b) withdraw US military support for Ukraine, to force Kyiv into a deal; or c) walk away from any involvement whatsoever. The choice Trump makes will to a considerable extent be determined by how Putin (and to a lesser extent Zelensky) treats him in any negotiation. It is also worth noting that while Trump has never mentioned the possibility of increasing US military assistance to Ukraine, there is a majority in Congress, and even within his national security appointees, for doing so.

Has the West lost the political will to support Ukraine?

No. However, much of the West has lost the political will to support Ukraine to victory, in the absence of substantial US military support to Kyiv. Instead, the shift in thinking seems to be towards ensuring Ukraine is in the best position possible when negotiations to end hostilities begin.

In our previous report, we noted that the re-election of Trump could see a reduction in US support to Ukraine and greater likelihood of negotiations. It is still unclear what position the Trump administration will take on supporting Ukraine; options range along a spectrum from withdrawing all military assistance to surging assistance to force the Kremlin to buckle. (Given Trump's own stated opposition to the continuation of the war, the policy is more likely to sit at the no-support end of the spectrum than the maximise-support one.) The US accounts for roughly 38% of all support to Ukraine and 48% of all military support⁴. Faced by the prospect of reduced support from Trump's administration, other liberal democ-

⁴ Based on data published by the Kiel Institute "The Ukraine Support Tracker", for the period January 24, 2022 to October 31, 2024. See <https://www.ifw-kiel.de/topics/war-against-ukraine/ukraine-support-tracker/>

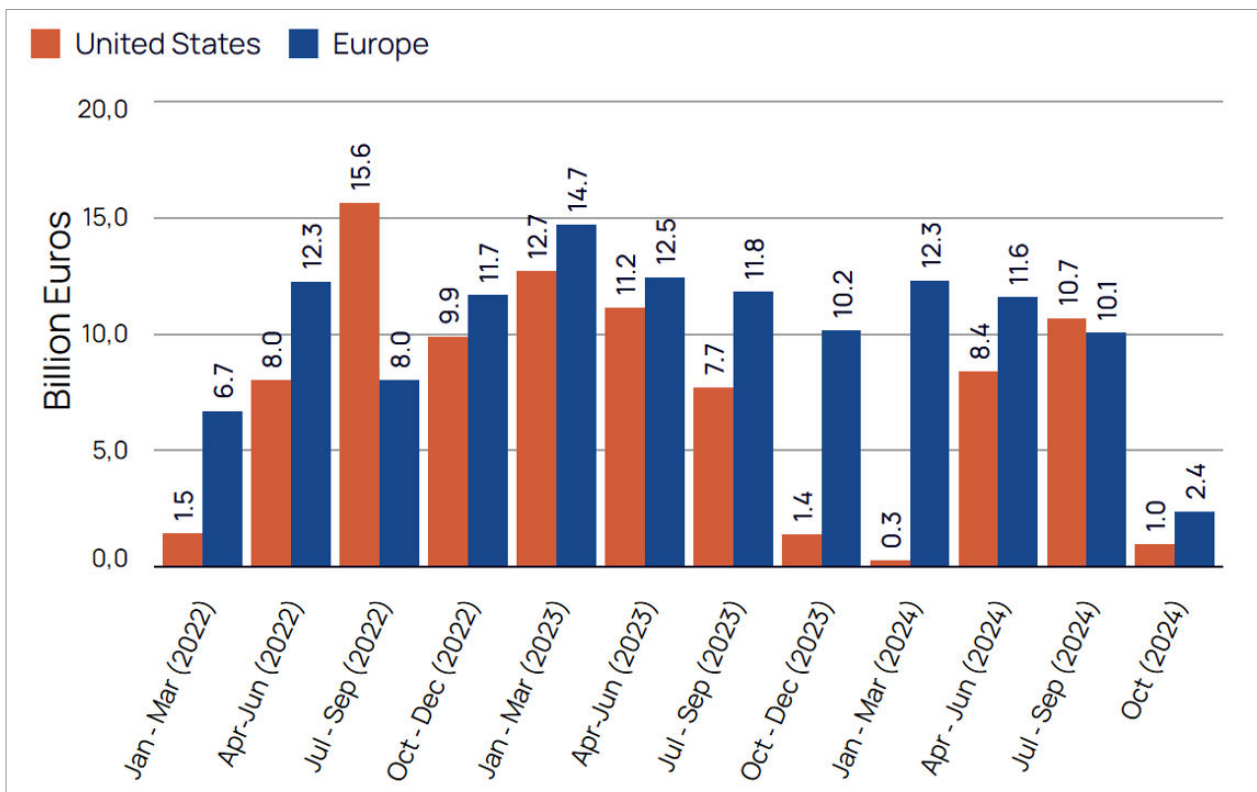
racies are likely to intensify their support in 2025. The EU has a new, hawkish foreign policy directorate, assisted by a critical mass of Baltic- and North Sea-littoral states; Germany, a key mover within the EU, will almost certainly have a more hawkish government in February 2025; and there is a real likelihood of South Korea becoming a significant arms provider to Kyiv during the year. It is still unclear how far this increased support will go, and whether it will be sufficient to keep Russia at bay.

Political and economic uncertainty in some of Europe’s traditional power centres, including France, Germany, and Austria, will push European influence towards states with governments that sit on the edges of the political spectrum: Italy, Hungary, the Netherlands, Finland and Sweden. This may undermine European resolve to form a pillar around which the rules-based international order can re-coalesce. Two of Europe’s key power centres, France and Germany, concluded 2024 with suffering econ-

omies and chaotic politics, undermining their ability to lead European thought on Ukraine and NATO.

In France, government debt is high and rising, with a current level of 111% of GDP, expected to rise to 118.5% in 2028, according to Fitch Ratings. Compared to other European countries, France is now seen as more risky; yields on government debt are now higher in France than they are in Spain. The dissolution of parliament in June, shortly followed by parliamentary elections led to a dangerously long period of political uncertainty, and made space for the far-right National Rally to advance in the polls. France cycled through four Prime Ministers last year, eventually landing with the centrist François Bayrou. His administration will need to show that France can pass a budget, and more importantly prove to markets that France can continue to collect taxes from taxpayers when the economy needs it, while managing a growing public appetite for the far right and appeasing the left.

G4: GOVERNMENT SUPPORT TO UKRAINE BY MONTH, € BILLION



Source: Trebesch et al. (2023) “The Ukraine Support Tracker” Kiel WP

Germany will also continue to face political and economic uncertainty in 2025. Chancellor Scholz sought to stem a descent into political chaos by calling an early national election for February 2025. The coalition has many internal disagreements and has struggled to tackle critical issues, namely infrastructure problems, the housing crisis, an overburdened health system, migration control, the trend of de-industrialisation, over-paternalism towards society, increasing crime numbers, frustrated voters and the rise of the right-wing party Alternative for Germany, AfD. This dysfunction has left Scholz looking weak and has undermined the popularity of the coalition parties – particularly in the East, where far right parties are gaining popularity. This said, parties in the centre will continue to work together to try and block the AfD from gaining a majority in the election. As for possible results, the Christian Democratic Union (CDU) has steadily led the polls at around 30% popularity, and the nomination of Friedrich Merz as the party's chancellor candidate will help put the conservative party in a strong position to win the next election. However, economic instability will take longer to resolve. The German economy contracted in 2024, and will be in recession in 2025. High electricity and labour costs, the fear of de-industrialisation, and political uncertainty will drive investment away from Germany in 2025.

The prospect of the rise of far-right parties has been most keenly felt in Austria, where elections in September saw the far-right Freedom Party (FPÖ) claim an unprecedented victory. Other parties in Austria initially refused to form a coalition with FPÖ, though after months of stuttering talks the President has invited its leader to form a coalition. This would put Eurosceptic politicians sympathetic to the Kremlin into the parliament, demonstrating how an increased vote-share by far-right parties in Europe could shape its engagement with Ukraine and NATO.

The shape of the transatlantic security relationship under Trump is also unclear. Possibilities range from US disengagement from NATO, and punishment of the EU, on one end of the spectrum, to a formal sharing out of defence priorities (the US to focus on China, and the rest of NATO on Russia) at the other. This relationship will be dynamic during 2025 and will affect the scope and nature of Western support for Ukraine.

To what extent do the recent elections in Eastern Europe of Pro-Russian candidates represent a rejection of a wider pro-western narrative in those countries? Or are they the result of Russian interference?

During 2024 parliamentary and/or presidential elections in Eastern Europe, pro-Russian candidates won in Slovakia, Georgia and Romania (first round presidential). They were defeated in Lithuania, Croatia, Czechia, Moldova, Bulgaria, North Macedonia and Bosnia. The victory of the ally of pro-Russian premier Robert Fico in Slovakia's presidential election seems to have been legitimate; Georgia's parliamentary elections were clearly rigged in favour of the pro-Russian Georgian Dream⁵; and Romania's electoral commission has announced a re-run of the first round of Romania's presidential election after its victor was deemed to have been unduly assisted by suspiciously-funded social media material (TikTok). There was also clear Russian interference in Moldova's presidential election, as well as likely Russian interference in polls in Bulgaria, Croatia and Lithuania.

⁵ *The officially reported vote significantly defied the polls, the exit polls, and previous analogous vote distributions. See <https://x.com/jageorge/status/1866008472262778973>*

It is difficult to generalise across this range of polls. The fact that Russian efforts may have been rewarded in only two of the 10 Eastern European elections suggests that Moscow's message has restricted appeal. (Russia undoubtedly promoted Fico's agenda in Slovakia, but his candidate's victory reflected polling throughout the campaign.) In fact, in several of those elections Eurosceptic or nationalist parties – often deemed fertile ground for pro-Russian messaging – prevailed on anti-Moscow platforms. In all cases the presence of openly pro-Russian candidates or parties also seems to have caused other parties or candidates to strengthen their differentiation from pro-Moscow messaging, particularly on the war in Ukraine. Perhaps the only solid conclusion one can draw is that while Russian interference does seem to be escalating, each election in 2024 was sui generis, with Russian interference muddying the waters, but in most cases not defining the outcome.

Regardless of whether the outcome is favourable to Russia, the continued attempt to interfere in the domestic politics of former Soviet Bloc states will unsettle potential investors in those countries.

Russia's foreign policy ambitions, regardless of the outcome of the war in Ukraine, will continue to be focused on states that are facing political instability and are perceived to be vulnerable to influence or coercion strategies designed to pull them into closer political alignment with Russia. In 2025, we can anticipate that Russia will continue to seek to create such divide whenever it sees the opportunity. Interference is likely, in particular, in the internal politics of former Soviet Bloc states.

How will Russia's domestic political and economic stability be impacted if the war continues to the end of 2025?

The political and economic impact of the war's continuation to the end of 2025 depends on the form the war takes over the year.

- If nothing changes, then Russia will likely face an economic inflection point by the end of the year, with the bankruptcy of key strategic enterprises and shortage of certain materials leading to defence production dropping by perhaps 25% – a drop that would gradually accelerate over 2026. However, this crisis would be unlikely to result in widespread political instability; Russians' expectations are low, whilst wages are currently high, and even accelerating inflation is unlikely to provoke citizens from their political passivity.
- If conditions ease for Russia – perhaps through sanctions relief or China finally conceding a yuan-rouble swap – and worsen for Ukraine (through its having to overcompensate for the loss of US support), then Moscow will be able to limit further inflationary pressures and postpone a crisis until 2026, if not later. Whatever political pressure might derive from the state of the economy would thus be likely to ease.
- If conditions worsen for Russia – perhaps through the widening of sanctions, attacks on oil export infrastructure, or restrictions on Chinese assistance – then the economic inflection point would be reached before the end of 2025. Given that these circumstances would almost certainly only arise in parallel with other significant damage to the cause of the Special Military Operation – such as the erosion of external support, military reverses, and/or the collapse of peace negotiations – the inflection point would have the ability to create a complex crisis of legitimacy for the regime.

Accelerating inflation is unlikely to provoke citizens from their political passivity.

This said, it is difficult at this point to see the regime being threatened by any combination of circumstances that does not include an obvious and significant military or political reverse. Examples of these reverses would include acute misjudgement of negotiations such that Russia's position suddenly worsened significantly, loss of further Russian territory, and the collapse of significant military formations.

Is there a possibility of the conflict extending beyond Ukraine into Eastern Europe/NATO member states?

In line with our previous report, this did not happen in 2024, and the only circumstances in which this would seem likely in 2025 are: 1) if Ukraine were forced into a peace settlement which removes its sovereign independence of action, enforces demilitarization, and severs all Western support – a result that Putin would see as a complete victory, and thus a platform for his agenda of wrecking NATO; and/or 2) US disengagement from NATO, and the Trump administration's stated refusal to provide Article 5 protection to any of its members. However, even if 1) were to transpire, it would be unlikely to occur in 2025; Ukraine's political centre of gravity is currently too far from acceptance of this type of deal. On the other hand, 2) must be seen as a real risk in 2025 now that Trump has been re-elected; it is easy to see President Trump's failure to negotiate an end to the war leading to a desire to wash his hands of Europe's security altogether.

Yet it should also be noted that NATO's European members are well aware of this threat; have clearly signalled their intention to stand by Article 5; and have a very significant conventional military deterrent capability (not least through their latest members, Finland and Sweden). Russia is also thoroughly overstretched in Ukraine; it is highly unlikely to attempt a new, escalatory military commitment in Europe without having first been able to withdraw, regroup and retrain significant formations – a circumstance that is likely only to arise if some kind of ceasefire were in place first. Finally, even if Russia were to withdraw, regroup and retrain, it is difficult to see its military being in a position to open a new front in 2025; they are in too dire a state.

However, if the conflict were to extend beyond Ukraine, then Moldova (outside NATO) and one or more of the three Baltic states (within NATO) are the most likely candidates for Russian adventurism.

MIDDLE EAST

REGIONAL POWER DYNAMICS REDEFINED

The Middle East has undergone a dramatic transformation in late 2024. Israel has decisively neutralised threats from Hizbollah, Hamas, and Syria's Assad regime, securing its territory and exposing Iran's strategic vulnerabilities. Iran faces internal instability and difficult decisions, including whether to attempt a nuclear breakout amid growing regional isolation. While the Israel-Lebanon ceasefire agreement appears stable, broader regional dynamics have diminished the influence of external powers like the US, Russia, and China. GCC countries are focused on managing regional power shifts, and G20 intervention in regional conflicts remains unlikely. Western energy supplies are expected to remain secure despite ongoing geopolitical tensions.

What are the flashpoints that threaten to spill over into regional conflict in 2025? Is the Israel-Lebanon ceasefire likely to hold?

The security picture in the Middle East has been completely transformed in the last three months of 2024. Iran has suffered a huge defeat – directly, at the hands of Israel, and indirectly through the defeat of Hizbollah, the crushing of Hamas, and the end of the Assad regime in Syria. This defeat wrecks its security strategy and neuters its ability to threaten Israel. Israel, conversely, has transformed its own security. It has effectively destroyed the two most significant direct threats to its own territory (Hizbollah and Hamas); has minimised any conventional threat Syria might pose in the near term by destroying its air force and navy and securing the dominating heights of Mount Hermon; and has displayed the powerlessness of the Iranian regime

– and thus its inability to guarantee the security of its nuclear programme – by an October raid which saw its air force neutralise Iranian air defences and then attack specific targets at will, over a 20 hour period without interference.

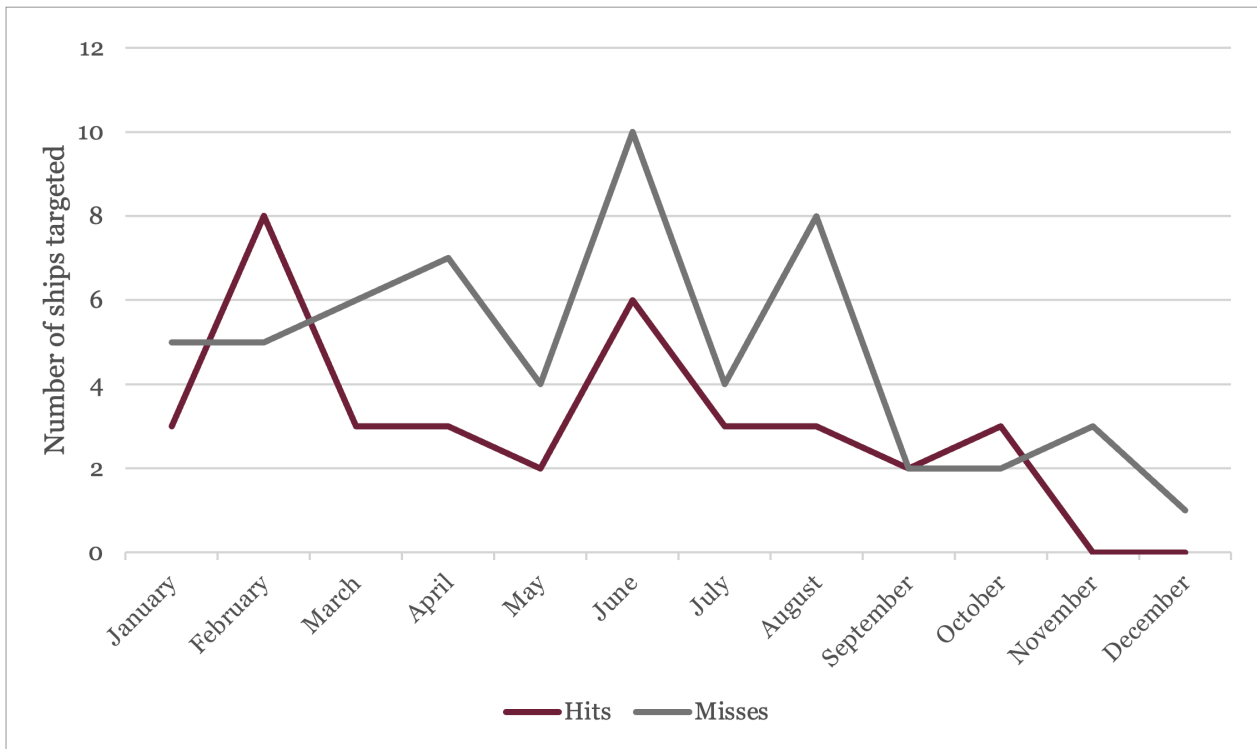
The conflict between Israel and Hizbollah in southern Lebanon played out differently from how we envisaged it previously. In the last report, we stated that an escalation by Hizbollah would cross a red line for Biden and would likely prompt US intervention. As it happened, Israel was the first to take serious action against Hizbollah in September when it coordinated a surprise attack on pagers and walkie talkies used by the group. The intensity and efficacy of Israel's actions left Hizbollah without the ability to strike back in such a way that would prompt US intervention. This means that the main spillover concerns of a year ago – Gaza and southern Lebanon – have now largely been dispelled. Israel is triumphant. Those who might conceivably go to war for Gaza or southern Lebanon have either tried and been humbled, or have recognised there is no longer any point. The collapse of the Assad regime in Syria might in theory lead to a continuation of the civil war and even some regional spillover; after all, each of the rebel groups has external support, and all of them, and by implication their sponsors, might fight over the spoils of victory. 2025 will see the factions in Syria trying to establish themselves within the new government. Syria is exhausted and unlikely to reignite as long as the victorious group, Hay'at Tahrir al-Sham (HTS), does not wreak revenge on the communities previously deemed its enemies; the mass return of Syria's refugees will also make it difficult for HTS to organise the kind of Islamist state that its enemies fear – a state that, for the moment at least, the group shows no sign of wanting to create. We are

cautiously optimistic that HTS does not represent a renewed appeal for global Islamism but rather an expression of national Islamism. HTS has effectively cut ties with Al Qaeda and the remains of ISIS. This said, it is unclear to what extent Syria's new government will tolerate jihadist groups such as Al Qaeda and ISIS maintaining bases in the country. HTS will now likely focus on the reconstruction of Syria, with the help of Turkey (a key ally for HTS). Turkey will also continue to pursue its own agenda for developing economic and political influence in post-Assad Syria.

In Syria, both Hizbollah and Russia are no longer actors, and while the US will likely remain present in the Eastern region, they are unlikely to play a significant role. The Kurds, while being allowed a degree of autonomy, are unlikely to get any form of substantial independence from Damascus, which would be an absolute no-go for Turkey.

As for the possibility of spillover, the implicit defeat of Iran, Hizbollah and Russia significantly reduces the incentive for other states to meddle further, with even Turkey's proxy war against Kurdish groups offering little opportunity for contagion. The only potentially escalatory factor is Israel's seizure of the previously demilitarized zone along the border. But Syria is in no state to take on a triumphant Israel, and in any case the latter's move is advertised as prophylactic rather than permanent – a function of its inability to know what will succeed Assad; it is therefore likely to be negotiable in the near term. The Houthis in Yemen are unlikely to be drawn into any conflict with Israel beyond what we have seen in 2024 (which has seen them occasionally launch drones or missiles towards Israel, and dwindling strikes on merchant vessels in the Red Sea).

G5: CHART SHOWING THE RATE OF SUCCESSFUL AND UNSUCCESSFUL HOUTHII STRIKES ON MERCHANT VESSELS IN THE SOUTHERN RED SEA AND GULF OF ADEN IN 2024



Source: Various data collected by Herminius throughout 2024

The implicit defeat of Iran, Hizbollah and Russia significantly reduces the implicit need for other states to meddle further.

Therefore, the only fundamental concern for 2025 is Iran itself, whose humiliation and strategic defeat confronts it with a fundamental choice. Does it regroup and try to build something from the ashes of three decades of forward policy? Or does it seize the opportunity to obtain what it might see as the only security guarantee available to it now its proxies have been crushed and attempt a nuclear breakout?

It is important to distinguish between Iran's ability to produce enough enriched uranium for one or more nuclear weapons – a point it might be able to reach in 1-2 weeks from the moment it gave the order – and its ability to turn that material into viable nuclear warheads – which would be likely to take 1-2 years. Throughout the latter period it would be exposed to international, and above all Israeli, action to block its efforts. (Iran would be unable to fully conceal a breakout effort, so Israel and other states would have sufficient time to act.) And a significant disincentive is the October raid. Put simply, the Iranian regime will know that Israel will not permit it to acquire nuclear weapons; and after October, Tehran cannot guarantee the security of any breakout effort.

Much will depend on the situation Iran faces when the Trump administration takes office. The first Trump administration applied 'maximum pressure' on Iran, which took the form of walking away from the JCPOA* nuclear deal and applying a range of economic sanctions on Tehran. This combination severely damaged the Iranian economy but also permitted Iran's breakout time to be cut from 14 weeks to 1-2. If the second Trump administration applies a similar policy, the Iranian regime could well deem

it faces such economic damage that its survival is in doubt. (It is much more vulnerable than in 2020, because of country-wide protests and the profound weakening of the regime – even in the eyes of its security apparatus – by Israel's hammer blows against it.) However, one aspect of the regional context has changed in its favour since 2020. Its rapprochement with GCC countries is genuine – if a function of coercion on Tehran's part – and has been assisted by Israel's war on Hamas. (Saudi Arabia's position has undergone a particularly significant shift as MBS showed willing to improve diplomatic relations with Tehran. This is likely intended to prevent Saudi Arabia and other Gulf countries from becoming collateral, should a further escalation between Israel and Iran occur.) This means that the regime feels it has neutralised the threat from its Gulf neighbours. In essence it has regional political and economic buffers it did not possess in 2020.

At the moment, Tehran is making the right noises, offering improved access to its centrifuges to the international nuclear inspectors of the IAEA**. However, this may well change. The reality is that the Iranian regime is convulsed by its defeats of the autumn. It is not clear at present how its internal ructions will play out. Logically, Tehran should choose to regroup, rather than dash for the bomb. But the Islamic Revolution regime has its own logic; and it is at least possible that the policy that emerges in the coming months is hawkish, and predicated upon a perception of existential threat. At a minimum, this policy might include the kind of worrying of international commerce practised by the Houthis in the Red Sea. At most, it might include a self-defeating attempt at a nuclear breakout.

What of the Israel-Lebanon ceasefire? This is almost certain to hold. Hizbollah is in no position to continue the fight; it has lost almost all of its most potent weapons, almost all of its leadership, and

* JCPOA: *Joint Comprehensive Plan of Action*

** IAEA: *International Atomic Energy Agency*

much of its presence in southern Lebanon. It is also profoundly unpopular, for causing havoc to be visited on Lebanon once more. The Lebanese state, meanwhile, has wanted to reassert control over its southern border for 40 years; now Hizbollah is weak enough to offer no real resistance to the Lebanese military finally fulfilling the terms of the 2006 ceasefire deal. And Israel knows it has broken the back of Hizbollah, at least for now; restarting hostilities would offer rapidly diminishing returns. It is in everyone's interest to stick to the deal, even if its early weeks will doubtless see flurries of violence – as is usually the case with ceasefires.

Are the US, Russia and China increasing or losing their influence on the region?

All three are losing influence in the region, almost entirely as a function of the shifts set in train by Israel's war against Hamas, and the Netanyahu government's refusal to establish a desired political end-state for the conflict. Israel has made it politically impossible for any Arab state in the region to do other than weaken ties. The US, as Israel's principal backer, is deemed guilty by association, making it politically difficult for any Arab state in the region to engage overtly with it, even if some leaders privately welcome his presidency; President-elect Trump's strong support of Israel, and rejection of any Palestinian rights, will make association with Washington even more perilous in 2025. Russia is seen to have been comprehensively defeated in Syria, and even if it retains its bases there, it will be perceived across the region as powerless and humiliated, through 2025 and beyond. China's loss of influence, meanwhile, is more a function of a broader regional shift away from major powers than its own actions. In essence the region is coalescing around itself in ways that do not reflect external powers' concerns or agenda, and which provide limited opportunities for exploitation by those powers.

The Middle East of the Abraham Accords is dead for now. Regional attempts to mediate between Israel and Hamas, to provide a stable self-governing future for Gaza, have soured. Israel's allies, including the UAE, have been put off engaging with it, and popular opinion in the region has made friendship with Israel impossible for many Middle Eastern states. A trajectory which in 2020 saw the region drawing closer around Israel has now been reversed, typified by Saudi Arabia's Crown Prince Mohammed bin Salman – who earlier aimed to bring Riyadh into the Abraham Accords – labelling Israeli operations in Gaza a 'genocide'. Yet Israel is obviously completely dominant militarily and cannot be confronted. The result is a kind of shunning. The region now consists of Israel and everyone else. Ties between Arab states (particularly from the GCC) and Iran have strengthened even as those with Israel have been abandoned. This has created an intra-regional diplomatic intensity which effectively shuts out major external powers. Israel may manage to regain some ground in 2025 – if, for instance, Binyamin Netanyahu leaves office and a workable post-war status arrived at for Gaza. But, in the meantime, the US, Russia and China have all lost influence; the region may need to stabilise before they can regain it.

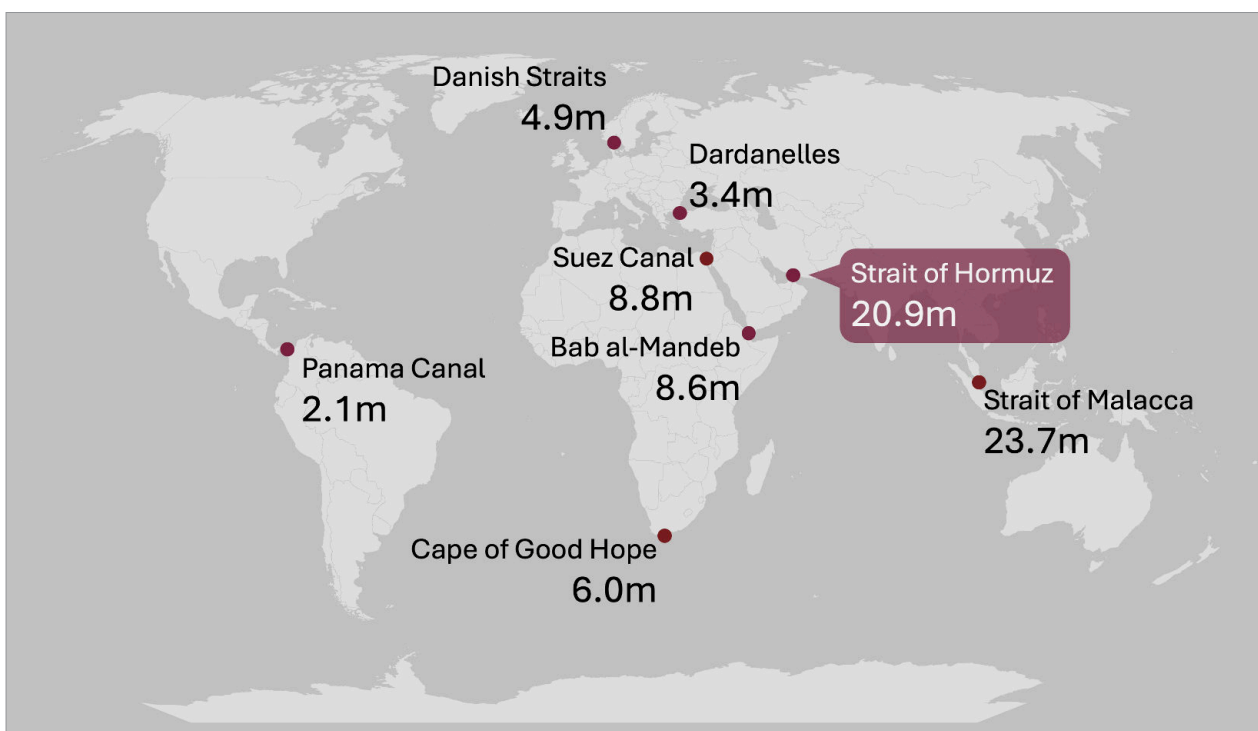
Is the GCC concerned about having to make a choice between East and West?

Yes. However, this is a medium- to long-term concern. The principal short-term concern, that will dominate in 2025, is managing the regional shifts in power that have seen Israel completely dominant but untouchable, Iran profoundly weakened, its proxies in Lebanon and Gaza broken, and the plight of Palestinians become the key external issue for citizens across the Middle East. The inauguration of a second Trump administration will not change this dynamic.

What is the likelihood that G20 countries will intervene in a regional conflict to ensure access to oil and gas and fortify trade routes in 2025?

Very small. The only real candidate for G20 intervention is a conflict involving Iran, should it be threatening traffic through the Strait of Hormuz – an eventuality whose probability is at present impossible to determine. Even then it is likely that the intervention would focus on ensuring freedom of navigation, rather than involve direct participation in wider hostilities. (The former might consist of destroying Iranian naval vessels and anti-ship-missile sites, while the latter might include ground intervention to secure regime change or neutralise Iran’s nuclear programme.) If the freedom of navigation did necessitate external intervention, G20 members such as India, South Korea and Turkey – not just usual G7 suspects such as the US, UK and France – might be involved.

G6: VOLUME OF CRUDE OIL AND PETROLEUM LIQUIDS TRANSPORTED THROUGH GLOBAL CHOKEPOINTS IN 2023



Source: US Energy Information Administration (EIA), Short-Term Energy Outlook, May 2024

At present, Western energy supplies seem likely to be fairly well insulated against regional geopolitical tensions in 2025.

How exposed do Western energy supplies remain to geopolitical tensions in the region?

Not very. It is probable that the second Trump administration will see an increase in US oil and gas production, ensuring a greater availability of secure, non-Middle Eastern, supply. Furthermore, there is currently no indication that Iran might be minded to close the Strait of Hormuz, despite its significant defeat – perhaps because this would prevent most Iranian oil exports reaching their markets too. In theory the Houthis might attempt to close off the Red Sea, but their 14-month campaign against shipping there has not significantly disrupted oil supplies and seems, in any case, to be now winding down. (Attacks in Q4 2024 were two-thirds down on those in Q3.) It is unclear how regional and wider developments will affect oil and gas prices (which can obviously affect regional tensions; it is conceivable that action against Russian oil exports could cause prices to spike, probably to the benefit of regional oil and gas producers, while the lifting of US sanctions on Russia might well drive prices down, forcing regional producers to tussle (albeit almost certainly only politically) for production quotas. However, at present, Western energy supplies seem likely to be fairly well insulated against regional geopolitical tensions in 2025.

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Contact

Groupe Eric Strudza
invest@banque-es.ch
info@coges.com
info@ericsturdza.com

www.banque-es.ch
www.corraterie-gestion.com
www.ericsturdza.com