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White Paper



As last November's White Paper explained, strategic deterrence is more challenging for the U.S. today than it has ever been in the past. The bi-polar world of the last century has undergone a tectonic shift. The U.S. now faces two peer great-power competitors, China and Russia. Both are competing for regional hegemonic aspirations and to change international order, along with a plethora of state-backed terror threats, three nuclear equipped antagonists (and another on the cusp of a nuclear weapons capability), wide ranging strategic threats in cyber and space, and ongoing wars involving our allies and partners that are shaking global strategic stability. Geopolitics has returned to center stage.

For Part 1 on Strategic Deterrence, please see: [Bancroft GEOIntelligence White Paper on Strategic Deterrence and the Economic Implications, Part 1](#). This report, Part 2, builds on the previous White Paper, detailing how the U.S. strategically deters along with its allies and partners.

Keys to Strengthening Strategic Deterrence Strategy Today:

In the face of the increasingly linked four authoritarian regimes (Russia, China, Iran, and North Korea), creating bonds between democratic states, as well as some states that are anocracies (states that mix democracy elements with dictatorship aspects, but short of authoritarian), is critical. The United States' recent National strategies highlight the need to bolster existing agreements and to forge new ones.

In Europe, NATO remains the cornerstone agreement to check Russian aggression. That said, some believe that Putin has not been deterred from attacks on non-NATO countries (such as Georgia, Crimea, Ukraine proper), but this is not really a deterrence problem. As Part 1 discusses, sometimes U.S. actions are over-labelled as in support of deterrence, where in many cases they are for competition. For example, in 2022, Russia was not deterred from attacking Ukraine by NATO and, within it, the United States. Rather, NATO deterred exactly what it intended to deter – NATO nations – and not nations outside of NATO. Too often, after incidents or crises, a deterrence failure is proclaimed when, in fact, deterrence did not exist in the first place. Similarly, deterrence cannot prevent all bad behavior. Using NATO once again as an example, it has a collective plan to deter Russia from attacking it. The plan is credible – Article V of the NATO agreement is clear that if Russia were to attack NATO, Russia would face the fury of all 32 NATO nations. This does not deter Russia from all bad behavior, such as actions below the level of armed conflict like elections meddling, cutting undersea cables, cyber events, assassinations, etc., but it deters major aggression.

The U.S. and NATO response following Putin's recent move into Ukraine has been strong. NATO's defense plans have been rewritten and bolstered, deployed forces have been expanded in the East, systems were upgraded and, importantly, it is expected that 23 member nations will meet or exceed their target of 2% of GDP investment in defense (up from only three allies in 2014).



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The new U.S. Administration may even nudge the percentage even higher. Efforts such as these may not deter Russian aggression against non-NATO countries. However, these steps, along with a careful expansion of NATO, the efforts of western nations to find alternative sources to Russian energy supplies, greater partnering with the European Union, and the West's unity behind economic sanctions following the latest aggression, collectively should bolster deterrence in eastern Europe and must continue.

In the Indo-Pacific region, the U.S. cannot point to a single unifying defense agreement like NATO to serve as a regional diplomatic/military anchor. A NATO-like arrangement simply is not politically or diplomatically possible in the Indo-Pacific. Instead, the U.S. relies on a series of mutual defense agreements/treaties (e.g., Japan, South Korea, Philippines, Australia, New Zealand, Thailand) and other partner agreements and organizations (e.g., ASEAN, Quad, AUKUS) to unify regional partners militarily and economically. While it is more complicated to work with multiple and simultaneous diplomatic frameworks than it is for something akin to NATO, the U.S. aims to continue to increase cooperation between Indo-Pacific states to improve deterrence in the region. This, interestingly, includes NATO to a degree, as leaders from Australia, New Zealand, Japan, and Republic of Korea attended NATO Summits and other high-level NATO partner meetings.

Aggressive, coercive action by China has now created an environment more open to U.S. military and economic partnership in the region. A recent RAND product highlights that this has manifested itself in greater access to U.S. basing, increased joint military exercises and freedom of navigation patrols in South China Sea and Taiwan Straits, and greater military cooperation. While China-induced tensions in the region have created opportunities in opening diplomatic doors in Vietnam, Singapore, Indonesia, and elsewhere, the same RAND report suggests there is much more to be done to bolster relations in South Asia, specifically India and perhaps Pakistan. Finally, a comprehensive economic strategy in the region could further open U.S. markets to regional states and solidify relations and blunt China's economic initiatives. Continued diplomatic efforts to enhance economic ties and strengthened mutual support agreements are key to a strong strategic deterrent posture targeting China and its little brother, North Korea.

As for Iran, from a diplomatic and economic perspective, deterring it today is a problem for two reasons. First, U.S. sanctions and other economic punishments are already so severe that there is little the U.S. can do alone to further affect the Iranian economy. According to the Congressional Research Service, Iran was already arguably the most heavily sanctioned country on the planet before its April 2024 attack on Israel (due to its nuclear program, human rights violations, and support for terrorist organizations). The new sanctions following the most recent attack further isolate and penalize Iran. Former National Security Council official Peter Harrell suggests further sanction efforts must be aimed at cutting off the flow of Iranian oil and further targeting Iran's front companies/financiers while engaging Western allies with the EU following suit. Beyond sanctions, other diplomatic avenues are limited. Iran is already nearly diplomatically isolated. The new Iranian President, Pezeshkian, has stated getting sanctions relief is a priority, but given the internal pressures from his right and heightened tensions with Israel, sanctions relief will not be in Iran's immediate future.

Second, the U.S. has clearly messaged that one of its greatest fears in the region is conflict escalation with Iran. In the recent past, these two conditions ironically gave Iran a degree of operational freedom, as long as it largely avoided attacks on U.S. or allied forces, did not demonstrate a nuclear “breakout,” or unilaterally take actions to dramatically escalate its engagements with U.S. and allies/partners beyond the proxy-based status quo. This tenuous balance has recently been tested with Iran directly engaging U.S. and Israeli forces and ramping up its enrichment of uranium – while not a nuclear breakout, this has the West’s attention. Re-establishing deterrence in this environment is extremely challenging. It bears repeating, strategically deterring Iran (or reestablishing deterrence) using diplomatic and economic pressures alone will be a challenge. Very recently, as Iran largely lost some of its proxies and partners like that of Hamas, Hezbollah, Syria writ large, etc., along with very successful attacks by Israel on its in-country air defenses, the situation is different than six months ago. Combine that with the new U.S. Administration, which is almost certain to be more aggressive in dealing with Iran’s misbehavior— this could make Iran less dangerous – or Iran could escalate and finish developing a nuclear weapons capability. Either way, deterrence of Iran is a markedly different problem than it was six months ago.

As for North Korea, with the return of Great Power Competition and opportunities for the North to enhance its relationship and standing with not only its long-term big brother, China, but with Putin’s Russia, as well, there are many possibilities for escalation. Closer ties between Pyongyang, Moscow, and Beijing could herald closer military cooperation in the region. The North’s military provocations are worrisome enough when they act alone. Kim’s forces acting in unison with Russia and/or China would be a considerable challenge for the West and its Pacific allies. North Korea could time its bad behavior to coincide with Russia’s and/or China’s disruptive actions. More concerning, however, is that Russia and/or China may begin to use, either by directing or at least incentivizing, North Korea to aid in competition with the U.S. to pose new challenges for the West. It is not hard to envision scenarios where the North’s provocations are synchronized during a time of crisis between the U.S. and China or Russia (or both) to further stretch the U.S. and its allies.

Time will tell which course (or courses) KJU will choose, but one thing is almost certain: North Korean provocations on the peninsula will not slow.

U.S. Strategic Deterrence Strengths and Challenges:

Use of the military Instrument of Power (or IOP) as a strategic deterrent against each of the actors addressed above is, of course, complicated. The military instrument does not stand alone when creating a deterrent strategy. That said, without credible military capabilities to hold at risk what potential adversaries value, deterring autocratic state leaders is impossible. If there is good news in this discussion of the military IOP, it is in the multi-use nature of military capabilities when it comes to deterrence. Restated, the four belligerents have a broad range of military capabilities that the U.S. must address or hold at risk, but the forces of the U.S. and its allies/partners available to deter A must also be used to deter B, C, and D across the spectrum of conflict. The job of our National Defense and National Military Strategies (and resultant acquisition and planning processes within the DoD) is to create the right mix of forces – from conventional to nuclear – that will have the right deterrent effect for each adversary across the spectrum of conflict. This ranges from the small, elite special forces unit to a right-sized strategic nuclear arsenal.

A capability-by-capability breakdown is well beyond the scope of this discussion, but a glimpse at general strengths and weaknesses might be instructive.

First is U.S. military strength at the macro level. While expenditures do not directly equate to power, military budgets are important. In this measure, the U.S. defense related budget for 2024 was \$883.7 billion. Assuming expenditures claimed by other countries are accurate, the U.S. expenditure represents almost 40% of military spending globally and is a sum greater than the next 9 or 10 countries' reported defense expenditures combined. Of note, while exact numbers are hard to come by, it is estimated China will spend around \$230 billion and Russia around \$100 billion this year. All that said, this reported spending disparity is no reason to relax. Analysts Robert Peters and Wilson Beaver recently cited several sources (including an internal U.S. government estimate) that suggest China's defense spending may be closer to \$700 billion when all R&D and hidden expenditures are included.

So, how does the U.S. measure up compared to its closest strategic competitors? To assess this outside the DoD, analyst assessments from study groups and think tanks are instructive. Most rate the U.S. as superior to any other nation in total military capability, but in some cases the U.S. does not score well based on the planning assumptions used by the analyst. For instance, the Heritage Foundation's comprehensive annual assessment rated the U.S. military as an overall "weak" in 2024 based in large measure on its inability to fight two conflicts simultaneously. While this sounds dire, and there is truth in its detailed assessment, it must be remembered that in a discussion of strategic deterrence, assessing the ability of the forces presented to affect the decision calculus of the adversary leader is critical. Are U.S. capabilities, including those of our allies and partners, deemed powerful enough? And, is there a will to use them? Does this give the adversary a cause to pause – is it deterred?

Considering the case of Russia, the U.S. and NATO allies have the conventional firepower to thwart a Russian attack and serve as a credible deterrent. Likewise, in the case of Iran and North Korea, the U.S. has the conventional mix of forces adequate to deter.

But with China, the assessment is not as rosy. Xi's drive to field a world class military before mid-century is well on track. The DoD's annual report on China's military strength cites numerical and qualitative advances in conventional forces across all fighting domains to include land, naval, air, space, cyber, electronic warfare, and defensive/offensive missile systems. Recent advances allow China to now claim the world's largest modern navy and the Indo-Pacific region's largest, most advanced air forces. And, its focus on precision munitions, conventional ballistic missile capabilities (to include hypersonics), and other area denial-type forces presents a warfighting and deterrent challenge for the U.S. in the region. These forces, along with their focus on improving joint warfighting capabilities, plus recent aggression in the South China Sea and towards Taiwan, suggest Xi's China will not be so easily deterred by the military IOP alone. For comprehensive assessments on the challenges in the South China Sea and with Taiwan, please see the following reports: [Bancroft GEOIntelligence Executive Summary on the South China Sea Implications and Economic Considerations](#) and [Bancroft GEOIntelligence Executive Summary on Taiwan Security Implications and Economic Considerations](#).

Finally, there is a special military capability subset within the umbrella of Strategic Deterrence – that of Nuclear Deterrence. A strong nuclear deterrent is foundational to overall strategic deterrence for several reasons. Of note, three of the states addressed previously are nuclear powers and establishing conditions to deter the operational employment of nuclear weapons is paramount to strategic stability – a key product or goal of strategic deterrent. Also, in the decades since WWII, it is apparent that nuclear equipped states treat each other differently. With the exception of lower-level conflict between India and Pakistan and China and India, large nuclear equipped states have engaged only indirectly through proxies and instead confronted each other using other IOPs, avoiding situations where direct military head-to-head conflict could occur. The reason for this is obvious: nuclear equipped states understand the existential danger of a large nuclear exchange.

A future GEOIntelligence report will deep dive into Nuclear Deterrence, to include nuclear forces.

Forecast and Implications:

- **Russia:** U.S. will continue its work within NATO to strengthen its role in deterring Putin. Recent NATO strengthening and a draining of Russian conventional capability in Ukraine bodes well for deterring further adventurism by the Russian leader, at least in the near term. Likewise, in the very near-term the U.S. will continue its support for Ukraine. The stakes in this conflict are extremely high for Putin (arguably his survival) and in the West support for Ukraine remains strong. Continued support with the new U.S. Administration is not guaranteed. Will the Western powers and the Alliance build a strategy to help Ukraine win? Or, will they stick with a strategy of doing just enough to keep Ukraine from losing while pursuing a negotiated outcome? Either way, 2025 is shaping up to be decisive for both sides. Finally, the U.S. must continue its efforts to modernize its strategic nuclear forces and increase its ability to deter non-strategic nuclear capabilities to offer a credible response option across the scale of nuclear use.
- **China:** Slowing the rise of Xi's China and cooling its provocations vis-à-vis Taiwan and South China Sea are deterrent job one for the United States. We can expect the U.S. to leverage all IOPs in this strategic deterrent effort. This will be manifested by: first, increasing U.S. military presence in the region (basing, deployments, freedom of navigation demonstrations, and exercises); second, adding diplomatic efforts to strengthen U.S. relations with Indo-Pacific nations; and third, continuing to bolster a Western-led alternative to China's Belt and Road Initiative, such as the Indo-Pacific Economic Framework for Prosperity. The U.S. has been ratcheting up efforts on all these fronts and sending signals that it is enhancing capabilities to militarily respond to Chinese aggression and suggesting through public statements it has the will to employ them. Despite U.S. efforts, we do not expect a great slowdown in China's efforts to realize its "dream of national rejuvenation" by 2049.
- **Iran:** Iran's leaders do not want an all-out war with Israel and its main partner, the United States. Iranian leaders understand that such a conflict will wreck an already weak economy, lead to destruction of its nuclear facilities, weaken or destroy its military, and likely threaten the regime. Evidence of this caution can be seen in Iran trying to deny any direct involvement with the Oct. 7, 2024 attack on Israel; the lack of its proxies robustly joining Hamas' war with Israel; and its carefully conducted and messaged limited missile response to Israel's Damascus strike in April. Iran will continue to try to walk this fine line of supporting proxies in their engagements with Israel and the West but not going too far. The U.S. likewise does not

want a full-scale war in the middle east and will continue its attempts to restrain its partner, that of Israel, while simultaneously demonstrating its resolve to defend Israel through military deployments and a tightening sanctions regime.

- North Korea: U.S. will continue to strengthen relationships with Republic of Korea and Japan and increased military exercises and deployments will continue. These efforts, along with the heavy sanction's regime will bolster deterrence on the peninsula. And, despite the continued China/North Korea relationship, Xi does not see an armed conflict on the Korean peninsula in China's best interest and will quietly work to ensure North Korean provocations do not rise to a level mandating an armed response from the U.S. and its Pacific allies.

Economic Considerations:

- The risk of strategic deterrence failure is low, but likely to increase for reasons described in this report.
 - The challenge is that most strategic deterrence failures not only happened with short notice, but in several cases, the attacks came out of left field. The examples are many. Pearl Harbor in 1941, the North Korean invasion of South Korea in 1950, the Tet Offensive in Vietnam in 1968, the Yom Kipper War of 1973, Iraq's invasion of Kuwait in 1991, 9/11, and the Oct. 7, 2023 Hamas attack on Israel.
 - Sometimes the U.S., an ally, or a partner had the appropriate intelligence of the impending attack, but other factors influenced leaders that the threat was overstated and an attack unlikely.
 - Thus, while the risk to the U.S., its allies, and partners may be low, the threat is increasing, and "black swan" or "wildcard" scenarios can and will occur.
- A strategic deterrence failure involving the U.S. and/or its allies can have tremendous impacts on global and domestic economies. This is especially the case in scenarios where the U.S. and its allies or partners could be in general conflict with either China or Russia – or both, either sequentially or simultaneously.
 - Companies that conduct substantial business with potential adversaries that turn into enemies after a strategic deterrence failure, will see most if not all those transactions cease. Enemies in a hot war stop all economic connections with each other, as each side attempts to damage its adversary's warfighting potential especially by striking at its economy, if not literally, then at least through cessation of trade, sanctions, blockades, etc.
 - Conversely, companies that either are in areas that the U.S. and/or its allies would need massive increases in production of critical materials and resources for a war footing would see major growth. This includes areas such as energy and other strategic resources, military weapons and weapon systems writ large to include munitions, and a strong industrial base along with agility to shift to new required materials to support the war effort.
- The U.S., along with its allies and partners, will need to consider incentives for Public – Private investments to enable a multi-dimensional and collective approach to enhancing our deterrent strategy through increasing capabilities by diversifying and scaling elements of the value chain in key sectors. Ecosystems for all investment sectors, especially in the technology, energy, industrials, utilities, and healthcare sectors, need to be evaluated for dependence on global trade with China and Russia and strategies developed for derisking and investing in alternatives.
 - The ecosystems include rare minerals, supply chains, power sources, manufacturing capacity, and innovation development.

- The U.S. has started this process through initiatives like the CHIPS and Science Act to maintain and increase our innovation and manufacturing capacity for dual use capabilities for both commercial and military objectives. A greater focus on these types of incentives across multiple sectors has both economic and national security benefits. A strong innovation cycle could deter as well as provide incentive to China to cooperate globally or risk falling behind. Today, the U.S. has a strategic advantage due to its financial assets and thought leadership. This advantage needs to be maintained to deter through increased capabilities in the future.
- Cultivating relationships with emerging nations, particularly in the Global South, will also be important to deterrent strategies to increase global stability through investment and economic support across the region to deter expansion of the scale of the current threats.
- Deterrence advocates acknowledge that deterring conflict in the 21st century is hard and expensive. But it is not as hard and expensive as the alternative to deterring – fighting a major war. Consider the costs of fighting our last world war. In that conflict we spent approximately \$4.4 trillion (adjusted dollars) to prosecute WWII – and that’s just the money. The cost in lives was almost unthinkable – with deaths estimated at between 60-80 million world-wide. Yes, strategic deterrence is hard and it is expensive, but considering the alternative, it is worth the effort and cost.
- For corporations in free market nations led by the U.S., it is critical to understand the potential deterrence strategies being implemented, especially economic tools like tariffs, investment restrictions, and import controls. Corporations will need to consider including these factors in developing enterprise risk models, planning business contingency, and analyzing forward foreign investment risks. Deterrence strategy impacts could include the need to change supply chains, alter go-to-market strategies, evaluate investors, and develop new markets to reduce risk concentration.
- While risk management is generally the primary focus related to strategic deterrence, there is also opportunity to support the effort through public-private cooperation in “dual use” product development for both defense and commercial purposes, which could advance deterrence capabilities and generate efficient return on investment. Dual use products in technology, construction, aerospace, and energy could see increasing demand.

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