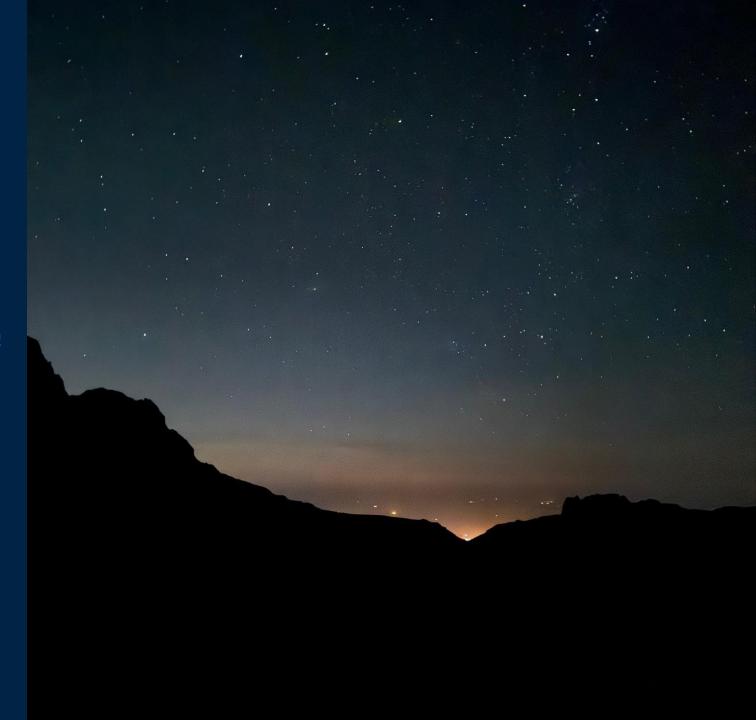
## Geopolitical Radar: Another Military Conflict Erupts

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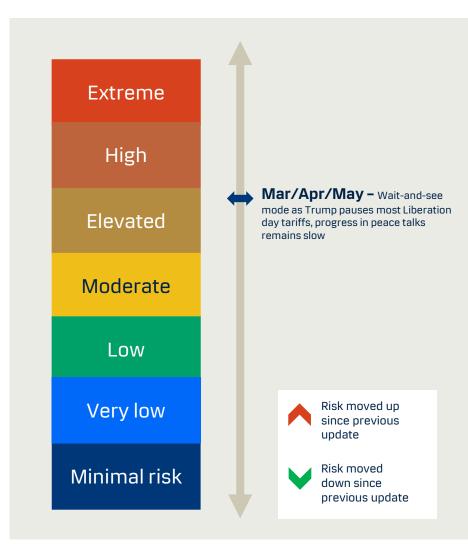
Geopolitical Radar | May 2025

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#### Global Risk Barometer\*: Risk Assessment Unchanged at Elevated/High



#### Overall risk assessment: ELEVATED/HIGH

We maintain our overall risk assessment at ELEVATED/HIGH. With slow progress in peace talks in Ukraine, and no resolution in sight for the Gaza war, the world is not any safer than it was a month ago. In fact, a new military conflict has erupted between arch enemies India and Pakistan. Meanwhile, the Trump administration has paused most Liberation Day tariffs, and trade talks with China are set to begin, which is positive. We have not made any changes to our scenarios. (see p. 14).

#### What has surprised us lately?

China's charm offensive towards Europe seems to be working as the EU is also showing willingness to negotiate. The two countries exchanged letters on the 50th anniversary of diplomatic relations, and their leaders will meet in a summit in Beijing in July. We were caught a bit off guard in terms of India's response to Pakistan. While it was expected that India would revenge the terrorist attack on its territory in April, the fact that their counterattack targeted the Punjab region, marks a dangerous escalation.

#### What to watch in May

- Can India and Pakistan two nuclear powers deescalate soon, as they historically have been able to?
- Will the US announce trade deals with China, or with other countries?

#### The Unexpected Defenders of the Multilateral World Order

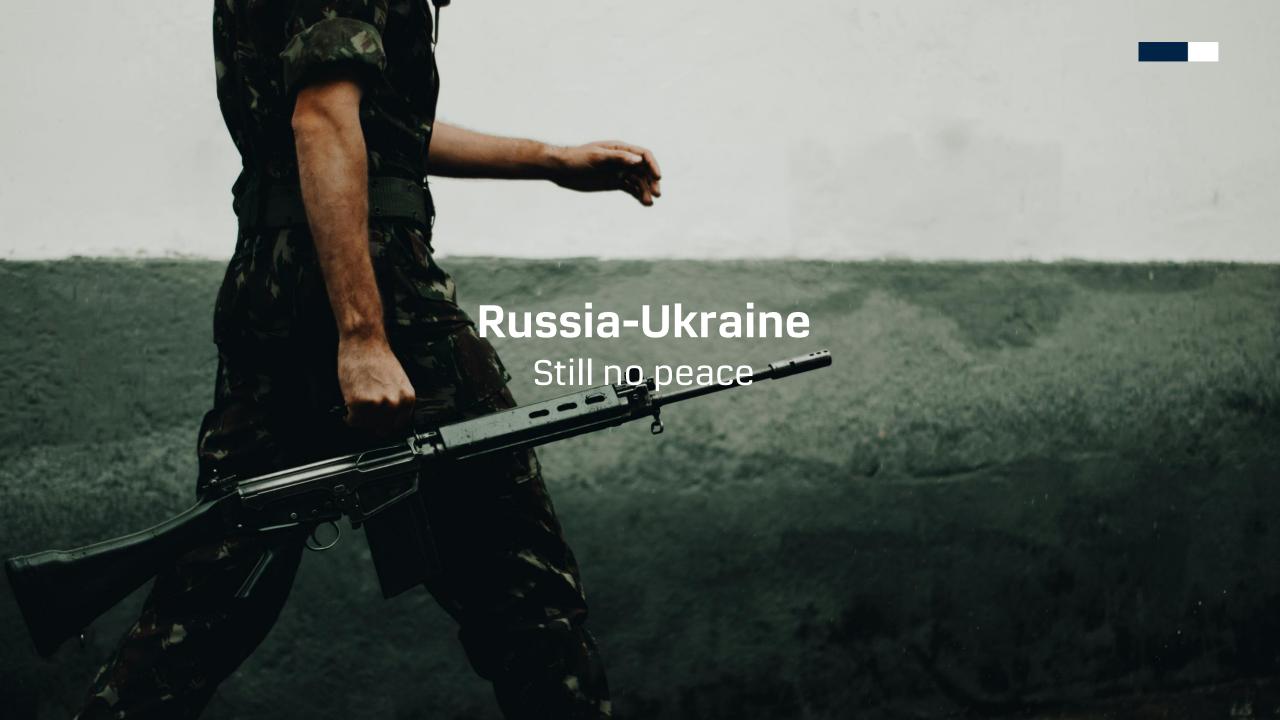
#### Shares of world GDP, % 50 45 40 35 30 25 2005 2010 2015 2020 2025 2030 BRICS+ = G7

#### The world needs multilateralism, says BRICS

In April, the top foreign policy advisor to the President of Brazil, Celso Amorim told the FT that "China and developing nations are today the main defenders of the multilateral system." This may sound surprising. For long, China has been a vocal critic of the multilateral system. Their core demand has been about democratising the multilateral institutions like the World Bank or the IMF.

The expanded BRICS+ soon makes up 40% of global GDP and depending a bit whether you include the official members only, or also the partner countries, it represents *almost* or *more than* half of the world population. So, it is understandable these countries want a bigger say on global matters. A key objective for China, and hence now for BRICS+, has been to challenge the dominance of the US dollar in the financial system. That challenge remains: almost 90% of daily FX transactions globally involve US dollars, app. 50% of payments are made in USD, and close to 60% of central bank reserves are held in dollars. Renminbi's shares in each are 7%, 4% and 2% respectively.

So, why the change in tone now? As the Trump administration makes no distinction in how it punishes enemies and allies, the message of BRICS+ to the Global South is as appealling as it gets. But what really has changed is that attitudes in the West may have shifted. A good example is that China is really making an effort to ease tensions with the EU, and the EU seems responsive. BRICS+ has a long way to go and it may never become a credible challenger to the US-dominated financial system, but if there was ever a point in time such a momentum could start to build, this might be it.



Middle East Russia-Ukraine China Under the Radar Scenarios A

Russia-Ukraine

#### Mineral Deal is a Positive Signal But Peace is Still a Long Way

#### What has changed since our previous update?

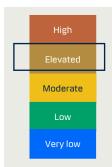


- ➤ The **US-Ukraine mineral deal** finally saw light in early May. The agreement will establish a 50:50 partnership between the US and Ukraine to develop Ukraine's mineral resources. The economic value of the contract is uncertain. We think the key takeaway here is the positive signalling effect, that the US is still committed to collaborating with Ukraine, Also, the deal should make it politically easier for the US to continue arming Ukraine.
- ➤ The **US administration** is clearly frustrated with the slow progress in peace talks, saying they might withdraw from mediation soon if there is no deal. The US stance towards **Russia** seems to have toughened a bit, as they seem annoyed by the fact that Russia is the one delaying the deal. That said, they have not done anything tangible to add pressure, such as enacting secondary tariffs on countries that engage in energy trade with Russia.
- ➢ In Europe, ideas are flowing on how to enable the massive defence investments. Some have suggested a rearmament bank resembling the EBRD, while e.g. Bristish officials have floated the idea of a supranational institution to for joint procurements. <u>Bruegel</u> went a step further and launched the idea of a European Defence Mechanism, resembling the ESM.

#### Key things to watch in Russia-Ukraine



- ➤ Will the US withdraw from Ukraine peace talks, and if so, will the administration again decide to cut off military aid for Ukraine?
- > The idea of the two presidents, Putin and Trump, meeting seems to have faded into the backgound. But one should always be ready for surprises.
- ➤ According to UK Defence Intelligence update, 2025 is <u>set to</u> potentially become the deadliest year yet for Russian troops. Same time, their territorial gains have been small. For how long can they sustain such intensity in fighting?



#### **Risk assessment: ELEVATED**

We maintain our risk assessment at ELEVATED due to the high level of uncertainty regarding the peace talks, and potential implications if the US decides to withdraw. In the battlefield, fighting remains intense.



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China and the West

#### US-China Talks Aim to Remove De Facto Trade Embargo

#### What has changed since our previous update?



- ➤ Trade war: US and China finally agreed to start trade talks in Switzerland on Saturday. The aim for the talks will be to de-escalate and reduce current high tariffs, which corresponds to a de facto trade embargo. We expect tariffs to come down soon to around 60% as the economic pain is growing on both sides. But negotiations for a real deal after that are set to be long and difficult.
- ➤ **Taiwan:** US top indo-pacific commander says US ability to defeat China in war over Taiwan is <u>threatened</u>. Chinese exercises <u>foreshadow</u> a blockade. Good <u>Time</u> column by Ian Bremmer: 'Why China-Taiwan relations are getting so tense'. A <u>poll</u> shows 82% of Americans see Taiwan as an independent country.
- ➤ **Espionage:** CIA <u>posted videos</u> on Chinese social media to recruit Chinese spies. Beijing called it "a serious violation of China's national interests". Spying happens on both sides but recruitment through open media is unusual.
- ➤ **EU-China:** China <u>removed sanctions</u> on 5 members of the European Parliament. Chinese and EU leaders exchanged letters on the 50<sup>th</sup> anniversary of diplomatic relations. Leaders will meet for a summit in Beijing in July.
- ➤ **Panama canal:** The US will <u>deploy troops</u> along the Panama Canal. China's market regulator is still carrying out an <u>antitrust review</u> of the sale of the operations of two ports by Hong Kong based CK Hutchison.

#### Key things to watch in China relations with West



- > US-China trade talks
- > Development in the Panama Canal
- > Tensions in Taiwan Strait
- > EU-China Summit in Beijing in July



#### Risk assessment: Moderate

The score relates mostly to risk of military action around Taiwan. However, the South China Sea is another hot spot to watch. We keep the risk score at moderate but recent higher tensions warrants monitoring.

# Middle East Trump Blocks Israeli Attack on Iranian Nuclear Facilities

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Middle East

#### Israeli Offensive Expands Again, But Trump Blocks Israeli Plan to Attack Iran

#### What has changed since our previous update?

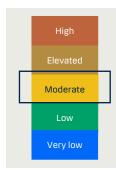


- ▶ Israel's security cabinet <u>has approved</u> a plan to expand its military offensive against Hamas which includes the "capture" of Gaza and the holding of its territory. According to PM Netanyahu, the cabined has decided on a "forceful operation" which also implies that Gaza's 2.1 million population "will be moved, to protect it". In February, President Trump said that the US would take over Gaza and in May, exits <u>have accelerated</u> when Israel allowed Palestinians to leave.
- ➤ Gaza's **humanitarian situation** is catastrophic. According to <u>UN OCHA</u>, nine weeks into the full aid blockade, children in Gaza are facing a growing risk of starvation, illness and death. Over 75% of households report a decline in water access while the medical system is at a breaking point.
- ➤ Israel has also expanded its air strikes in **Syria**. Meanwhile, on May 6, President Trump said that the US would stop its bombing campaign against **Houthi rebels in Yemen** in response to assurances from the group that they would stop disrupting traffic in the Red Sea by attacking vessels. Just before the announcement, Israel had bombed the airport in Sana'a.

#### Key things to watch in Middle East



- ➤ Israel seems emboldened by the strong backing from the White House on its efforts to destroy what is left of Iran's axis of resistance. On April 16<sup>th</sup>, the NYT reported that Trump had waved off Israeli plan for attacking Iranian nuclear facilities in May that would have required US support. It's a good sign Trump chose diplomacy instead, but if nuclear talks with Iran do not proceed in line with expectations, will he change tacks?
- ➤ Also, as **Saudi Arabia's** recent decision to raise oil production by more than expected most likely has pleased Trump, we think it's possible the US-Saudi defence deal might be in the making behind the scenes.



#### **Risk assessment: Moderate**

The risk of a regional war remains moderate despite continued Israeli aggression. Iran's axis of resistance is significantly weakened, and hence, likely reluctant to provoke a wider conflict.

# **Under the Radar** India and Pakistan enter into a military conflict

Middle East Russia-Ukraine China <u>Under the Radar</u> Scenarios Anne

Under the Radar

#### India and Pakistan Move Into Open Military Conflict

#### Under the Radar: India strikes Pakistani heartland



- ➤ On 7 May, **India** launched air strikes at several targets in **Pakistan**. The attack was a response to an April 22 terrorist attack in the contested region of Indian-administered Kashmir, where the Indian officials claim Pakistani government was involved.
- ➤ The April terrorist attack marked the most severe attack against Indian civilians in decades, and despite the Indian government being unable to provide solid evidence of Pakistani government's involvement, a response was expected. Yet, the May attack was larger than expected and crossed two important red lines: 1) India struck several targets in Pakistan, 2) it also targeted a site in Pakistani heartland, outside the contested region.
- ➤ Pakistan claims they have shot down five Indian military jets in response. We are carefully monitoring how the situation evolves, also keeping in mind that Pakistan is China's ally and that fact has long been a strain for India-China relations.

#### Off the Radar: Civil war in Sudan is in a fluid state



- ➤ India <u>struck</u> a trade deal with the UK after three years of talks. The deal is said to favour India.
- ➤ Sudan's civil war is in a very dynamic state. In recent months, the country's army has been recapturing large areas of territory in the west of the country, including the capital Khartoum. The rebel group Rapid Support Forces (RSF) has been forced to retreat into the western Darfur provinces. But on May 7, Sudan's wartime capital, the Red Sea city of Port Sudan and the home base for the Sudanese armed forces, was struck by a series of drone attacks conducted by the RSF. The UAE is known to have been supplying the RSF, and recently, long-range Chinese-made drones have been identified in RSF-controlled Darfur. Meanwhile, the Sudanese army is being supported by e.g. Egypt and Saudi Arabia. Russia, has been changing sides from supporting the RSF to supporting the country's army as they seek access to the Red Sea.
- ➤ 17 world leaders with the notable exception of US attended a virtual climate summit in April in preparation for the COP30 in Brazil in November. With the US missing, China and the EU have come together to drive the global climate agenda. In November last year they launched an <u>EU-China think tank</u> initiative.

### Conflict Scenarios & Annexes

Middle East Russia-Ukraine China <u>Under the Radar</u> <u>Scenarios</u>

Scenarios

#### Conflict Scenarios for the Next 12 Months

#### Russia vs. Ukraine

Deal dictated by Russia (50%): The US pushes a deal between Russia and Ukraine where Ukraine is left with insufficient security guarantees. Sanctions against Russia are eased rapidly. The risk of a new attack by Russia over coming years remains.

**Sustainable peace (30%):** Ukraine gets sufficient security guarantees and any sanctions relief for Russia is gradual.

War continues (15%): The war continues into next year, and Russia gains more ground as US support for Ukraine falters.

**Ukraine wins (5%):** The new US administration plays hardball with Russia and a ceasefire favourable for Ukraine is achieved. Ukraine gets security guarantees it prefers.

#### Middle East

Baseline (70%): Ceasefire in Gaza. Arab states, supported by the US, take a role in securing peace in Gaza. Forced resettlement of Palestinians does not happen, but Trump administration uses it as a leverage to pressure Saudi Arabia into normalisation of diplomatic ties with Israel. As a result, the US-Saudi defence deal may well see life. Overall, the US prioritises the stability of global energy trade and promotion of domestic business interests. Trump negotiates new nuclear deal with Iran.

**Downside risk (25%):** Both Gaza ceasefire and Iran nuclear deal talks fail. Fighting escalates, triggering turbulence in energy markets.

**Upside risk (5%):** Talks of a two-state solution are revived and take concrete steps forward.

#### China-US-Taiwan war

Baseline (60%): Tensions remain high but no Chinese blockade or military action next couple of years. War is extremely costly for all sides. Both US and China choose deterrence as preferred policy. US aims to deter Chinese invasion by making perceived cost as high as possible. China uses military drills and grey zone warfare to deter US support for formal Taiwan independence and subdue Taiwan. In the long term, a real risk of war remains. China will not give up reunification and it becomes stronger militarily and more self-sufficient.

**Downside risk (30%):** Mishaps trigger tit-fortat escalation into war and/or US changes policy and supports Taiwan independence.

**Upside risk (10%):** Trump dials back support for Taiwan and China reduces military drills.

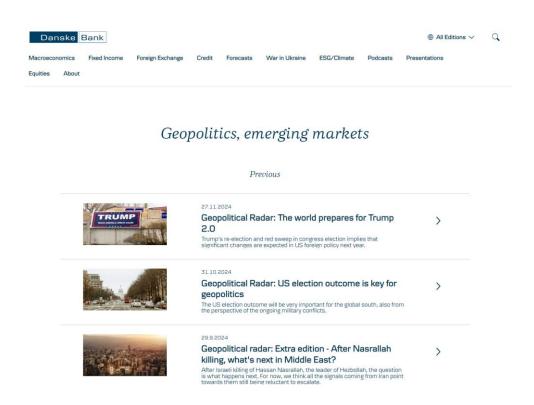
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Annex 1. Related Reading

#### Want to Read More?

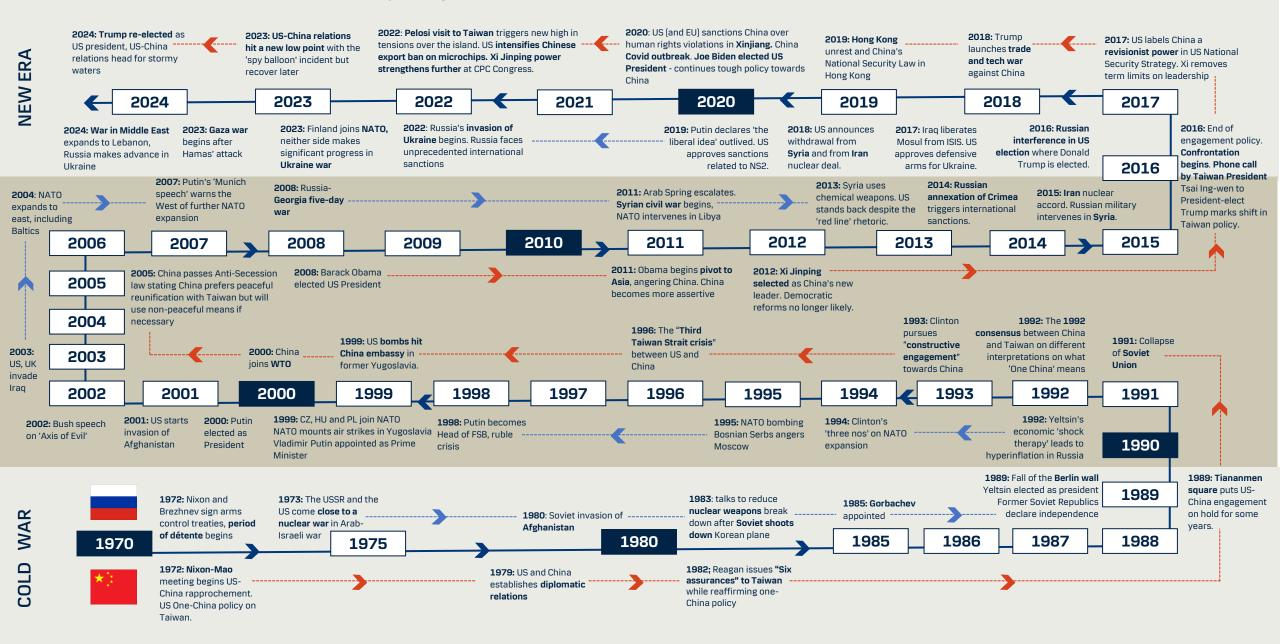
#### Thematic Publications on Geopolitics

- Research Global: Arming Ukraine is the cheap option for Europe, 3 March
- Research Global: What would a dirty deal in Ukraine mean for markets, 16
   February 2025
- Research Global Trump fires first salvo in multifront trade war, 3 February 2025
- Geopolitical Radar Extra: Heat is on in the Arctic How real are the threats and opportunities? 3 February 2025
- Research Global: Harris vs. Trump what it means for US-China relations, 22
   October 2024
- Research Global: Make the Gulf great again how the UAE-KSA rivalry is reshaping our neighbourhood, 12 August 2024
- Research Global: The US-Saudi deal a strategic win or a deal with the devil? 6
   May 2024
- Research Global: Buckle up for EU-China trade tensions, 8 February 2024



Link to all Geopolitical Radar publications.

#### **Annex 2. Historical Timeline of Key Geopolitical Events - China & Russia**





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Report completed: 8 May 2025 at 16:45 CET Report disseminated: 9 May 2025 at 06:00 CET