

Geopolitical Radar

Middle East's eleventh moment, Ukraine's incursion into Russian territory

- **The risk of a regional war in Middle East is as high as it has been after the assassinations of top Hamas and Hezbollah leaders in Beirut and Teheran. The US is leading diplomatic efforts to avert an escalation. Simultaneously, it keeps sending new weaponry to the region in the anticipation of Iran's attack.**
- **Ukraine has reportedly advanced deeper into Russian territory in Kursk region. The operation is likely primarily driven by political rather than military goals, and for now, it does not change our assessment that the conflict will drag on.**
- **Trump sows doubt about willingness to defend Taiwan if he becomes President. US continues to strengthen military alliances in Asia. More China-Philippine skirmishes in the South China Sea.**

Middle East: on the brink of a regional war

Over the summer, the risk of a regional war in Middle East has again raised its head.

In late July, a Hezbollah rocket killed 12 children on a football field in the Israel-controlled Golan Heights. A few days later, Israel responded by killing a high-ranking Hezbollah official in Beirut. Only some hours later, another alleged Israeli attack killed a top Hamas official, Ismail Haniyeh, in Tehran, Iran. Haniyeh was visiting Tehran to attend the inauguration ceremony of the new Iranian president and was staying on a compound protected by Iran's Revolutionary Guard Corps (IRGC). While tensions between Israel and Hezbollah have been on the rise throughout summer, the killing of Haniyeh in Tehran marked an unexpected twist in the tensions between Israel and Iran. In April, the two exchanged rockets in first-ever attacks on each other's territory, but the attacks were well telegraphed to have minimum impact, and the whole thing was more of a show than a real escalation. Apparently, the brief détente after April attacks was only calm before the storm.

The killing of Haniyeh was a huge humiliation for the IRGC, and the country's Supreme leader Ali Khamenei, has vowed a severe response. There are probably two reasons why we have not seen the response yet. Firstly, it seems Iranian leaders have not yet reached a consensus on how to respond. The new president Mazoud Pezeshkian is a moderate (in Iranian context) and at least before the killing of Haniyeh, he was seeking to alleviate tensions with the West. *Apparently*, he has been concerned that Iran's attack on Israel would destroy the start of his presidency and has appealed to Khamenei not to escalate (even if an IRCG-affiliated news source *later denied* the whole thing).

Secondly, a huge amount of diplomatic effort has been put into avoiding a full-blown regional war in Middle East. Even if Iran's retaliation seems inevitable, one should not underestimate the power of diplomacy when it comes to calibrating the scale and timing of the attack. Indeed, *senior Iranian officials are saying* that a Gaza ceasefire deal would allow them to delay and recalibrate their attack. Chances for such may be slim, particularly now that Hamas' main negotiator, Haniyeh, has been assassinated. Nevertheless, talks are due to resume on Aug 15th and apparently Iran wants a role in the talks.

Key events in 2024

- **August:** Ukraine makes advance further into Russian territory
- **July:** High-ranking Hamas and Hezbollah officials assassinated in Beirut and Teheran
- **June:** EU raises tariffs on imports of Chinese EVs
- **May:** Israel moves into Rafah
- **April:** US finally approves a new USD 61bn package for Ukraine
- **April:** Israel strikes Iran consulate in Syria, Iran makes its first ever direct attack on Israeli soil and Israel responds with an attack on Isfahan
- **March:** Terrorist attack in Russia, Putin wins staged election
- **February:** Russian opposition leader Navalnyi dies in prison
- **January:** Red Sea trade route disrupted due to Houthi attacks
- **January:** DPP wins Taiwan election but with weaker mandate

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Hoping for the best, preparing for the worst, escalation is now the main scenario. On 12 August, US officials warned that Iran will likely conduct a large-scale, coordinated attack on Israel in the days ahead. The attack is *expected to be larger* than the attack in April, and this time around, the attack is expected to come in “two waves”. Hezbollah is expected to join Iran and it remains to be seen whether Iran uses other allies in its proxy network. Iran supports militant groups in Syria and Iraq, both within a shorter striking distance to Israel. Meanwhile, the US has deployed new weapons, including warships and a submarine, to the region, in a signal that its support for Israel remains unwavering.

As a war between Israel and Hezbollah is looking increasingly likely, several western governments have encouraged their citizens to leave Lebanon. We have argued before that an outright military conflict between Israel and Lebanon, as tragic as it would be, would probably not derail the global economy as Lebanon is not a major energy producer. A full-blown war between Israel and Iran would be another thing as it would raise the risk of a broader upheaval across the oil-producing region. Iran and its allies have significant military capabilities, and for example Hezbollah’s capabilities have clearly evolved since the previous conflict with Israel in 2006. Even if their *militaries cannot compete* with Israel and its allies in military strength, they have the capacity to overwhelm Israel’s Iron Dome system, and thereby inflict severe destruction. The broader and more severe the conflict would turn into; the more eyes would turn to see the reactions of the Arab world. Who would the Gulf states side with, how about Egypt and Turkey?

On that note, and while we await Iran’s response, we wrote a note where we discuss the bilateral relationship of the two Gulf states, the United Arab Emirates and the Kingdom of Saudi Arabia. Both the UAE and the KSA already have some power to influence the global economy and global politics for three reasons: 1) both are key players in the global oil market, 2) both are key players from the perspective of the regional security in the Middle East, and 3) both have huge sovereign wealth funds. Going forward, we expect the global influence of these rising middle powers to only grow as they seek to diversify their economies and to expand their regional footprint. The fact that the two are also competing against each other, may only intensify this impact. However, if the UAE and the KSA completely lose common ground and turn into enemies, it could have dramatic consequences for the global economy and the politics in Middle East. Read more on *Research Global: Make the Gulf great again – how the UAE-KSA rivalry is reshaping our neighbourhood*, 12 August 2024.

Russia/Ukraine: Ukraine moves further into Russian territory

Ukraine’s incursion into Russian territory in August marks the fastest advance by either of the warring sides in a long time. According to Ukraine’s top military commander, the country’s army now controls 1,000 square kilometres of territory in the Kursk region, in Russia’s southwest. Nearly 200,000 Russians have been evacuated. It is unclear who currently controls the Russian town of Sudzha, through which Russia pumps gas to Slovakia and other EU countries. Gazprom say they are still pumping gas to Ukraine, but nevertheless, natural gas prices have increased from EUR 35/MWh in late July to close to 40 EUR/MWh. While Ukraine’s advance is undoubtedly embarrassing for Russia, it is unlikely to constitute a game-changer in the near term. Hence, we still think the conflict will drag on as the prospects for any success in peace talks still look slim.

While the exact goals of Ukraine’s march into Kursk remain unclear, it seems likely that their motivations are more political than they are military strategic. The Kursk region is not strategically important, and the operation obviously ties Ukraine’s resources that it could use on the eastern frontline where it continues to struggle. Same time,

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Ukraine's surprisingly easy advance into Russian territory is an important show of strength to its western allies who are constantly pondering the level of effort they put into supporting Ukraine. It is also important that Ukraine's attack seems to be in line with international law – a key condition for allies whose weapons Ukraine may be using in the battlefield. Russia has claimed that at least American and German armoured infantry vehicles have been used but these claims have not been independently verified. While weapons provided by the US have already been used in previous attacks inside Russia, Ukraine's European allies still disagree on the ground rules for using their weapons.

The incursion into Russia also serves as a much-awaited boost of morale among the Ukrainian people. This is particularly important considering that the share of Ukrainian population showing readiness for peace negotiations has significantly increased in a year's time. *According to a survey* published in July 2024, 44% of Ukrainians think that it is time to kick off official peace talks with Russia. In May 2023, only 23% of the respondents in a similar survey supported starting talks. Support for peace talks is markedly lower among those living in the east of Ukraine (where the bulk of the fighting is ongoing) and in the west, compared to those living in the south of the country. Overall, the rising public support for peace talks seems to be more a reflection of war fatigue and pragmatism than a belief that a war would bring lasting peace. Indeed, respondents remain cynical, and a clear majority (76%) say they believe Putin would only allow a peace deal on his own terms. Same time, most poll takers (61%) were still not ready to give any concessions to Russia.

As embarrassing as Ukraine's advance into Russia is for Putin, Kremlin is doing its utmost to spin the latest developments in its favour. It continues to control that any contents shared in media (or social media) would not show the discontent of the people who are being forced to flee. Also, the fact that Ukraine is using weapons provided by its western allies in its incursion into Russia fits Putin's narrative that the West is simply using Ukraine to fight a proxy war against Russia. It is difficult to find unbiased popular surveys from Russia but the widely acknowledged indicator for Putin's approval rate, published by Levada Center, shows that his approval rate is at its highest since October 2015.

China alert to new Taiwanese president, skirmishes continue with Philippines in South China Sea

There has been little news on the Taiwan front over the summer. However, tensions increased following the inauguration speech by President Lai Ching-te in May which *angered China* and led to a new round of large-scale Chinese military exercises. Lai turned the notch a bit further on speaking about sovereignty and China is likely to continue military gray zone tactics to deter Taiwan and other countries to cross China's red line, Taiwanese independence. US Presidential candidate Donald Trump has *sowed some doubts* about US support to Taiwan if he wins the US election. In a recent interview he expressed grievances over Taiwan on microchips saying "*Taiwan took our chip business from us, I mean, how stupid are we?*" and said that "*Taiwan is 9,500 miles away. It's 68 miles away from China*", suggesting he may not be too keen on defending Taiwan in case of a Chinese invasion.

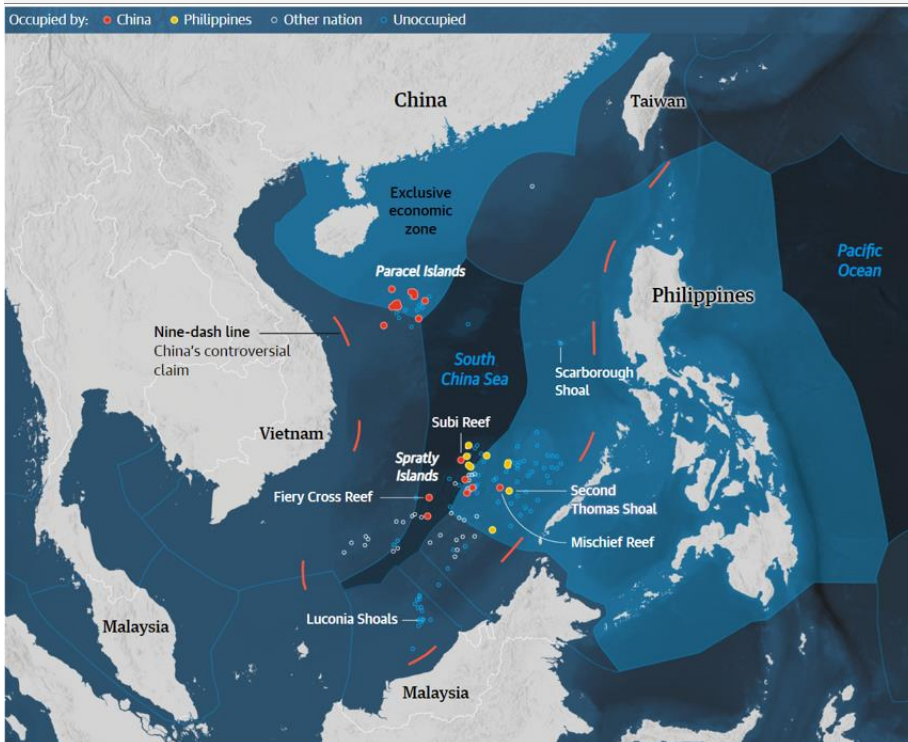
The US has continued to strengthen military alliances in Asia to counter China and deter any invasion of Taiwan. It has upgraded the military command in Japan and continuously work on strengthening the QUAD (US, Japan, India and Australia), AUKUS (US, UK and Australia), increasing bases in the Philippines and working closer with South Korea. The US has also *deployed special forces* on the Taiwanese island Kinmen, which is only a few kilometres off the Chinese coast. China sees the build-up of alliances as an encirclement strategy and it is galvanizing its' drive to build closer ties with Russia, Iran, the Middle East and other nations it sees as reliable suppliers of key materials (energy, food etc.) in

case of a military confrontation with Western allies. It is also set to continue a strong military build-up in order to deter any moves towards recognizing Taiwan as a sovereign nation by Western countries.

China and the Philippines reached a deal in July hoping to end – or at least reduce - confrontations in their territorial dispute in the South China Sea. The deal among other things opens a direct hotline between the two countries’ presidents and allowed for resupplies of living necessities for personnel on an old Philippine shipwreck on the Second Thomas Shoal (a submerged reef). **However, close encounters continue** with the latest being Philippines complaints of two Chinese aircrafts performing “dangerous and provocative actions” as they dropped flares in the path of a Philippine aircraft on a patrol over the Scarborough Shoal (see illustration below for overview of contested areas). The US has this year reminded China it has an *‘ironclad’ defence agreement* with Philippines as the temperature has increased since Philippine president Marcos came to power in 2022. He has chosen a much tougher path with China compared to his predecessor Duterte. While conflicts have so far been managed the concern is that they could at some point spiral out of control forcing the US to get involved.

US and China had a draw in the competition for most gold medals at the Olympics in Paris with 40 gold medals each (the US won on total amount of medals). The competition is of course symbolic but yet closely watched in both countries, more on the symbolic medal competition [here](#).

Contested areas in the South China Sea – recent skirmishes with the Philippines took place at Second Thomas Shoal and Scarborough Shoal



Guardian graphic. Source: Asia Maritime Transparency Initiative, General Bathymetric Chart of the Oceans. Note: the map shows economic exclusive zones as defined by the United Nations Convention on the Law of the Sea, not the overlapping claims of individual countries

Source: *The Guardian*

Our baseline scenarios on key geopolitical risks

War in Ukraine:	<p>Our main scenario remains a frozen conflict that could last for years. Russia with its increasingly demotivated army is not able to make significant advances, particularly as Western military support for Ukraine remains. Ukraine has managed to make some advance through its main offensive but pushing Russia back behind the 2014 defence lines seems like a massive challenge.</p> <p>Risks to our main scenario remain broadly balanced but downside risks are rising. The main downside risks are related to war fatigue among Ukraine's Western allies, leading to a significant reduction in particularly military support. The US 2024 presidential election poses a significant event risk if Trump is re-elected. Main upside risks are related to the scope and success of Ukraine's counteroffensives.</p>
Risk of war on Taiwan	<p>While tensions have increased and likely to remain high we see the risk of a war in the next couple of years as quite low (20%). The potential costs of a war for all sides (US, China, and Taiwan) will be substantial, hence we don't expect China to initiate a war unprovoked and we don't expect the US or Taiwan to cross the 'red line' of declaring sovereignty for Taiwan. In the medium to longer term the risk is high, though, see also Research China: The risk of a Taiwan war and what it implies - part 1, 11 August 2022.</p> <p>Risks to our scenario is that a war comes in the coming years if mishaps happen that trigger a tit-for-tat spiral or new governments in either the US or Taiwan crosses China's 'red line'. We see it as unlikely China would invade unprovoked in the coming years as they are still too vulnerable economically and not ready militarily.</p>

See Appendix next page for timeline of historical events.

Appendix 1. Historical timeline



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