GLOBAL RISKS FOR EURASIA 2019

GLOBAL CHALLENGES REQUIRE GLOBAL ACTIONS
# INTERNATIONAL RATING
"GLOBAL RISKS FOR EURASIA IN 2019"

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Foreword

Current meeting of the Astana Club takes place in a very challenging time when the global system is undergoing fundamental changes. In geopolitics, a storm of uncertainties is brewing. Globalization is no longer considered a universal good, as developed countries weaken their commitment to globalization, and the world enters an era of new protectionism.

The trends described convey a whole range of new challenges and threats: armed conflicts and growth of political and military tensions, trade wars and crises of the world economy, destabilization of international relations and changes in the political landscape of individual countries and entire regions.

The “hot spots” in the Middle East are a constant source of threat of provoking a full-scale war involving the great powers. The US withdrawal from the nuclear deal with Iran adds fuel to the fire. Territorial disputes in the South China Sea and the smoldering conflict in Donbas are examples of new violent destabilization triggers in Eurasia that can manifest themselves at any time.

In this complex geopolitical matrix, global challenges and risks are rapidly increasing and sporadically transitioning into an active phase. The use of military power as an instrument for promoting one’s own geopolitical interests has become a strategy not only of global, but also major regional powers.

Changing relations between major world and regional players affect the small states, which are perceived as pawns on a grand chessboard and whose interests could be easily neglected.

In general, we are witnessing a profound transformation of the global liberal order, which used to be based on common rules and institutions and has dominated over recent decades. While one faction of countries is moving towards protectionist policies and economic nationalism, the other is committed to continuing with globalization and open trade, in which China plays an increasingly important role.

The clash of the two approaches we observe is causing outbreaks of trade wars that are holding back global economic growth. International institutions and arbitration mechanisms do not possess the required weight and tools to resolve trade and political disputes. Returning to gunboat diplomacy in trade relations is a predictable result of the development of such a system.

Meanwhile, global economic growth is still not inclusive. The accumulation of capital in developed countries is accompanied by increased inequality, and the growth of world trade comes with the consolidation of developing countries as raw material suppliers and capital importers in the international division of labor. Increasing income
stratification leads to even greater polarization of society and to deep social instability.

The fourth industrial revolution, with digitalization as its major trend, is further increasing the technological gap between countries. Automation of traditional industrial processes leads to the elimination of old jobs, and the emerging new ones require a fundamentally different approach to the development of education systems. The ones who lose in this technological race may significantly outnumber the winners. All of this will critically increase the world’s inequalities.

Against this background, the world cannot agree on a single model for confronting the main challenge of the future – climate change. Narrowly understood economic nationalism makes it impossible to create an adequate response to the global challenge, which requires a universal approach and concerted collective action.

Under these conditions, it is very important for politicians, business leaders and experts to maintain a clear and long-term vision in order to be able to ask the right questions. What risks will the world face in 2019? Which of the old, chronic problems will worsen in the short term? What sort of “black swans” are to be expected in the next 12 months? The accuracy of the responses to these questions largely determines the quality of strategic risk management at the national, regional and global levels.

The Institute of World Economics and Politics under the Foundation of the First President of the Republic of Kazakhstan – Elbasy with the assistance of ISPG | International Strategy Partners Group, prepared the Global risks for Eurasia in 2019, based on a survey of over 1,000 professional respondents from 60 countries and detailed opinions of 30 prominent international experts.

We thank all the respondents for their active participation in the survey. We would also like to express our gratitude and high appreciation to the 30 international experts who shared their important views on the Global Risks for Eurasia in 2019.
Introduction

Astana Club experts have identified the TOP 10 most probable and impactful risks for Eurasia in 2019 (ranging from most likely to least likely).

**TOP 10 RISKS**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Risk Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Escalation of the US-China military and political confrontation</td>
</tr>
<tr>
<td>2</td>
<td>Full-scale trade wars</td>
</tr>
<tr>
<td>3</td>
<td>The Great War in the Middle East</td>
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<tr>
<td>4</td>
<td>Further deterioration of relations between Russia and the West</td>
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<td>5</td>
<td>Defrosting of “hot spots” in Eurasia</td>
</tr>
<tr>
<td>6</td>
<td>Growth of separatism and ethno-religious conflicts</td>
</tr>
<tr>
<td>7</td>
<td>Aggravation of ecological and water challenges</td>
</tr>
<tr>
<td>8</td>
<td>Growth and evolution of cyber threats</td>
</tr>
<tr>
<td>9</td>
<td>Beginning of a new arms race</td>
</tr>
<tr>
<td>10</td>
<td>Large nuclear and man-made disasters</td>
</tr>
</tbody>
</table>

The participating experts are representatives of commercial and governmental structures, NGOs, research institutes and international organizations.

![Pie chart showing risk distribution](chart)

<table>
<thead>
<tr>
<th>Field</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>31%</td>
</tr>
<tr>
<td>Research institute</td>
<td>19%</td>
</tr>
<tr>
<td>Government</td>
<td>11%</td>
</tr>
<tr>
<td>International organization</td>
<td>11%</td>
</tr>
<tr>
<td>NGO</td>
<td>28%</td>
</tr>
</tbody>
</table>

According to the experts interviewed, the most likely risk is the strengthening of the US-China confrontation, which needs to be considered not only in the context of economic confrontation, but much more broadly, since it is concerned with geopolitical dominance in the twenty-first century. Trade wars, which have already transitioned into an active phase, may scale up and have a profound impact on the entire global economy, according to survey participants; emerging markets are of particular concern, because their economies will be heavily influenced by trade wars between major countries.

Respondents also believe that in 2019, due to the extremely unstable and tense situation, there is a high risk of the Great War in the Middle East and of further degradation of relations between Russia and the West.

Survey participants believe that the conflict over Iran is the most worrying, followed by the Syrian crisis and the conflict between Israel and Palestine.
Rating of conflicts and crises in Eurasia in 2019
(by likeliness of exacerbation from the most likely to the least likely)
1. Conflict around Iran
2. Syrian crisis
3. Conflict between Israel and Palestine
4. Kurdish crisis
5. Crisis on the Korean Peninsula
6. Nagorno-Karabakh conflict
7. Conflict over disputed territories in the South China Sea
8. Territorial disputes between India and China

Experts note high concern about the current geopolitical instability in the world, as an overwhelming 77% believe that the number of global risks in the world will increase in 2019.

Will the world become more vulnerable to global risks in 2019?

When asked whether the process of globalization will continue or the trend towards protectionism will increase in 2019, most experts (56%) believe that the number of countries adhering to protectionism will increase.
The main geoeconomic challenges are nearly lined up, which indicates an entire chain of probable risks to which the global economic system is exposed.

Among social and technological challenges in 2019, the number of cyber attacks is likely to increase, and information security will reduce. The experts interviewed also predict the emergence of new migration crises and the growth of political influence of radical populists.

2019 may turn into an arena for the accumulated geopolitical challenges that have been warming up for years through economic claims and friction in international relations.

All risks are interrelated and have a direct impact on each other. Understanding these processes and their influence is of paramount importance today.

Assessment of major risks for Eurasia is on the agenda of the Astana Club this year. We are pleased to bring to your attention the Global Risks for Eurasia in 2019.
RISK #1

ESCALATION OF THE US-CHINA MILITARY AND POLITICAL CONFRONTATION

Source: shutterstock
Author: danielo
#1 Escalation of the US-China military and political confrontation

According to the expert survey of the Astana Club, the escalation of the US-China military and political confrontation ranks first among Top 10 risks for Eurasia in 2019.

The rivalry between Washington and Beijing for regional dominance in Asia inevitably draws the entire region into the funnel of confrontation. If the world’s two leading economies are not able to overcome the crisis, a new cold war is inescapable. Currently, based on the rhetoric of the parties, the point of no return in the Sino-American confrontation seems to have been passed, and neither Washington, nor Beijing are willing to compromise.

New “hot spots”?

Considering the permanent tension between China and the United States, the risk of an unintended military incident is quite high. The likelihood of a potential collision between the two countries is the highest in the Asia-Pacific. This is accelerated by the antagonism towards China’s activities regarding the disputed islands, as well as attempts by Japan, Vietnam, the Philippines and several other countries in the region to challenge China’s maritime claims.

Japan, assessing the situation around itself as the most critical in the post-war history, is actively involved in the American strategy of containment of the PRC. Given that a five-year defense development program ends this year, Tokyo intends to significantly increase its military budget for the next 5 years (until 2023). The ruling Liberal Democratic Party of Japan is seeking to lift the restriction on defense spending from the current 1% to 2% of GDP (from $48 billion to $97 billion).

Beijing is reacting extremely painfully to the militarization of Japan, as evidenced by the voices of the Chinese diplomats and military demanding more drastic measures.

The situation around the territorial dispute between China and the Philippines remains explosive. The reserved stance of the Philippines’ leader R. Duterte has further inflamed the anti-Chinese sentiments. The public demands an assertive response to China’s deployment of missile systems on the disputed islands.

Aware of Beijing’s sensitive reaction, the United States periodically enters the maritime boundaries, contested by China, justifying its actions as the right to “ensure freedom of navigation”. The last incident occurred in September 2018, when the American USS Decatur guided-missile destroyer entered the waters adjacent to the Nansha (Spratly) Islands without the Chinese government’s permission.

At the same time, the situation around Taiwan is heating up again. Beijing openly declared its readiness to crush any attempts by Taipei to gain independence; Xi Jinping had announced this at the 19th Congress of the Communist Party of China in the autumn of 2017.

Although the PRC currently has the capacity for a military resolution of the issue, the war in the Taiwan Strait, according to experts, promises a risky adventure rather than an inevitable victory to China.

Philippe Le Corre, senior fellow at the Mossavar-Rahmani Center for Business and Management and Belfer Center for Science and International Affairs, Harvard Kennedy School

“It would obviously be a disaster for China, with global condemnations, especially if the conflict ends in terrible casualties. But from a Chinese perspective, reunifying with Taiwan is a strong objective that would help rallying support within China”.

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Defense spending of China, USA and Japan (% of GDP)

<table>
<thead>
<tr>
<th>2018</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>USA</td>
<td>Japan</td>
</tr>
<tr>
<td>1.3%</td>
<td>3.4%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: expert.ru
Meanwhile, in August 2018, Washington approved the decision to sell a new shipment of weapons worth $330 million to Taiwan, despite Beijing’s protests. As a result, there is a heightened likelihood that the Beijing-Taipei confrontation will transition into a hot stage.

In general, new fault lines may form between any of the APR countries that have territorial disputes with China. This growing tension will contribute to the formation of new coalitions of regional security.

**Asian NATO**

The four-sided mechanism created at the end of 2017, consisting of the USA, Japan, Australia and India, is now becoming a key instrument for containing the PRC.

The half-ring made of military bases around China’s maritime borders, created by Washington and its allies, poses a real threat to both uninterrupted energy supplies to the Middle Kingdom and its military security.

New Delhi has openly torpedoed China’s Belt and Road Strategy, challenging a section of a transport route through disputed territories. Given this background, a military armed clash between the border guards of China and India is becoming quite real.

Australia has also taken a tighter anti-Chinese stance. Thereby, the four powers of the APR (the USA started using the new term - "India-Pacific" instead of "Asia-Pacific") are trying to exert maximum pressure on China, which further provokes the transition of the region’s territorial disputes into the hot phase.

**Matthew Burrows**, director of Foresight, Strategy and Risks Initiative of the Atlantic Council, USA

“A naval or air incident—such as an accidental collision between US and Chinese vessels or aircraft in the South China Sea or elsewhere—could ratchet up tensions quickly. An overreaction by the Trump Administration or Beijing could make finding a resolution difficult.”
In parallel with this, the United States certainly intends to oppose the expansion of the Chinese network of military bases around the world. In the latest Pentagon Report "Military and Security Developments Involving the People’s Republic of China 2018", Washington expresses concerns about the growing number of military and civilian bases that are already being built in Djibouti, Pakistan and, possibly, in Afghanistan.

Washington has already imposed sanctions on China in the military sphere. This year, restrictions were announced against the PRC due to China receiving a party of Su-35C fighter jets from Russia at the end of 2017. Although Washington has not yet put sanctions on India, which had also acquired the S-400 air defense systems from Russia earlier in 2018.

In general, the United States is clearly focused on pursuing a large-scale strategy to contain China. In 2019, it is obvious that Beijing will not take an observer’s seat and will make reciprocal efforts to neutralize the measures that were taken against it.

In sum, future USA-China relations will develop according to one of the three scenarios below.

### 3 SCENARIOS:

#### 1 Baseline

Washington will continue to introduce new sanctions that will go beyond trade policy. Beijing’s response will be point-like, but not large-scale. Such a confrontation will continue for several years and will have a significant impact on both the USA and China, as well as on international relations and the world economy.

If the current rhetoric is maintained on both sides, the tendency towards a deterioration in bilateral relations will continue until 2020 and is unlikely to change significantly even if a new president comes to power in the United States.

#### 2 Pessimistic

A large-scale military and political confrontation between the United States and China will develop in an upward direction. An increasing number of regional powers will be included in this process. This will entail the fragmentation of the Asia-Pacific region.

The voices of the "hawks" who are striving to deliver preventive strikes against the enemy will be amplified on both sides. In this case, the implications for the region, as well as for the entire global security architecture, will be enormous, given the accumulated military potential on both sides.

### Military manpower (mln people)

<table>
<thead>
<tr>
<th></th>
<th>Reserve personnel</th>
<th>Active personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>0.8</td>
<td>1.2</td>
</tr>
<tr>
<td>China</td>
<td>0.5</td>
<td>2.2</td>
</tr>
</tbody>
</table>

*Source: Global Firepower 2018*
3 Optimistic

Under the influence of internal and external factors, the United States will be forced to gradually reduce the pressure on China. In particular, this may be due to the weakening of Trump’s position after the November congressional elections.

In this case, Beijing will probably also follow practical steps to overcome the current Chinese-American crisis. Negotiations will be resumed on the gradual removal of trade barriers, as well as the abolition of other hostile measures.

However, in any case, the process will be protracted, given the mutual mistrust and objective competition for leadership between the United States and China.

Evan Feigenbaum, vice chairman of the Paulson Institute, former deputy assistant secretary of state, USA

“Even the most sanguine American voices now view the US-China relationship as competitive and urge Washington to respond decisively, if carefully, to Beijing’s security behavior in Asia. Among US foreign policy elites and a growing number of companies, China is viewed as a strategic competitor, a military threat in Asia and, ultimately, a possible adversary.”
RISK #2

FULL-SCALE TRADE WARS

Source: abc.net.au
Author: iwishart
#2 Full-scale trade wars

The risk of full-scale trade wars ranks second among Top 10 risks for Eurasia in 2019.

The three-decade-long cycle of hyper-globalization is coming to an end, as its key player, the United States, moves toward a policy of protectionism and isolationism.

The escalation of the US-China trade war paired with the aggravation of the US-EU relations can potentially lead to a global economic conflict that will affect 50% of the world trade in 2019. The launch of the “each against all” trade war will result in the desertion of the previous model of trade and investment and call for a fundamental revision of the global rules.

How the tariffs battle between the USA and China has escalated this year

**USA**
- 23 March: $3 bln
- 3 April: $46 bln
- 5 April: $100 bln
- 15 June: $50 bln
- 18 June: $200 bln
- 6 July: $34 bln
- End of July: $50 bln
- 1 August: $200 bln
- 23 August: $16 bln
- 18 September: $267 bln
- 24 September: $200 bln

**China**
- 2 April: $3 bln
- 4 April: $50 bln
- 16 June: $50 bln
- 6 July: $34 bln
- 3 August: $60 bln
- 23 August: $16 bln
- 24 September: $60 bln

*Source: BBC*
In 2019, we are likely to be the witnesses of a sharp decline of the WTO’s effectiveness, as well as of whole world system of trade-investment institutions. If the WTO does not duly transform and adapt to the demands of its core members (the EU, China and the US), the question of its abolition may arise.

Turalay Kenc, professor, member of the board of directors at the Cambridge Foundation for World Finance Research, chief researcher at the Center for International Innovation Management, deputy chairman of the Bank of Turkey (2011-2016)

“The WTO may become an ineffective organization. Then, obvious candidates to replace the WTO include the UN, G20 and G7. There may be a new grouping of countries: G3 with the US, China and the EU.”

About 70% of respondents of the Global Risks for Eurasia in 2019 believe that the full-scale trade war between the United States and China will intensify next year.

The trade war erupted between the US and China in 2018 has now encompassed over 50% of mutual trade between the two countries ($360 billion out of $635 billion total trade in goods, and $711 billion trade in services). This will lead to series of important consequences for both Eurasia and the world.

The deceleration of global trade and investment, as well as overall slowdown in global economic growth, are among initial aftermaths of the trade war. Bloomberg forecasts that the Chinese economy will lose 0.7% of its GDP in 2019 as a result of import duties imposed by the US. China’s retaliation measures will result in a loss of 0.66% of GDP by the US in 2019. The overall damage to the world economy is estimated to be no less than 0.5% of the global GDP in 2020, as calculated by the IMF.

The WTO evaluates that a potential global trade war, in which all countries increase import duties, would cause a 17% general reduction in world trade and a 7.5% cut in global GDP growth.

Will trade disputes and barriers between the US and China intensify?

- Will not intensify and will remain at the same level
- Relations will be normalized
- Will increase gradually
- Will increase rapidly, a full-scale trade war between the US and China is possible, as well as the involvement of new parties into the conflict
- Not sure

Source: IWEP
**Johannes Linn**, nonresident senior fellow in the Global Economy and Development Program at the Brookings Institution, former vice president of the World Bank for Europe and Central Asia

“A related risk is the potential for a global economic crisis and recession, triggered possibly by financial crises in emerging market economies (already visible now in Argentina, Turkey, etc.), but reinforced by an intensifying trade war and beggar-thy-neighbor policies among the G20”.

Over 80% of the global survey participants believe that trade wars can trigger a financial crisis in developing countries in 2019.

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**Is a new financial crisis possible in developing countries in 2019?**

- Yes, financial instability will intensify and the financial crisis in developing countries will occur: 39%
- No, emerging markets will be relatively stable: 16%
- Perhaps there will be a financial crisis in developing countries: 7%
- Not sure: 38%

*Source: IWEF*

Trade wars are testimonies to the accelerating crisis of the WTO, the focal international trade development institution. The WTO in its current form is unable to effectively withstand the protectionist trend, which is continuing to gain momentum. Appeals to abstain from unilateralist tariff policies, based on the “law of the jungle”, are drowning in the conflict rhetoric of the world leaders and the actions of the superpowers that largely disregard the established WTO rules.

The US sanctions and trade restrictions will stimulate the affected countries to form economic trade blocs and generate an organized response. One of such blocs can potentially form in the central part of Eurasia, where Russia, Iran and Turkey, afflicted by the US sanctions, are likely to collaborate on creating a common set of resistance measures against sanction mechanisms.

After the spread of tariff restrictions to third countries, both tariff and non-tariff protective measures will “overflow” to other markets. As a result, the world will see a rise in neo-protectionism, which is characterized by the extensive use of non-tariff mechanisms (administrative, financial and technological) for regulating imports by national governments.

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**Marc Uzan**, founder and executive director at the Reinventing Bretton Woods Committee

“The world economy is not synchronized anymore. The trade war, rising currencies and policy normalization risks are the mothers of a potential crisis that will affect the emerging markets and Eurasia”.

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In the context of ongoing trade wars between major players, emerging markets should refrain from engaging in trade conflicts and build a more neutral policy in order to level the impact of trade wars on their economies.

In general, the development of the situation in 2019 will follow a pattern as described in one of the three scenarios below. Scenario models differ depending on the extent and intensity of the US-China trade war, as well as the durability of internal mechanisms for stimulating economic growth in these countries.
3 SCENARIOS:

1 Baseline

The confrontation between China and the United States in 2019 will continue without the involvement of other parties. The Trump administration will expand tariff measures of protecting domestic market over the entire volume of imported Chinese goods and services, as well as impose restrictions on investments and transfer of American technology.

The experience of the US-China confrontation will make Washington’s other counterparties be more compliant when dealing with controversial issues. Following the reboot of NAFTA, US-EU trade and investment interactions will also experience a transformation.

In the short term, the implementation of this scenario will lead to insignificant consequences for the global trade and economy. However, in the medium term, the continuing US-China trade war will hinder investment in creation of new value-added chains involving Chinese technology and capital.

The process of WTO’s fundamental transformation will commence, and one of the central issues of this reform will be the abolition of WTO’s Appellate Body.

2 Pessimistic

The conflict between Beijing and Washington will escalate, the EU-US relations will strain, and new sanctions will be imposed on Russia, Iran and other countries. Within two years, China will experience significant negative effects from the deterioration of trade with the United States and the reduction of American investment.

The United States will put more pressure on the EU and resort to imposing tariffs on a wide range of European goods and services. The European Union’s symmetrical response will prompt the creation of the “second front” of the global trade war, in which about half of the global economy will be directly involved.

Under the blows of the global trade war, China will limit investment in the Belt and Road Initiative. This will result in slowdown of investment flows to the economies of South, Southeast, and Central Asia, which in recent years have received a consistently high inflow of Chinese funding.

The WTO will see limitations to its capacity, as its role of an international trade arbitrator will significantly decline. Contradictions between the WTO’s core members will prevent the resolution of disputes within the organization, and its members will prefer to work in a bilateral format.

3 Optimistic

In 2019, contradictions at the level of national governments will be resolved, after which China and the United States commit to obligations on progressive mutual reduction of tariff and non-tariff restrictions.

Growing predictability will give an additional impetus to trade between the two nations and other countries involved in American and Chinese value chains. This will cause a surge in world trade and an acceleration in growth of the global economy.

WTO members will reach a consensus and reform organizational and legal mechanisms to increase its effectiveness in resolving trade disputes.
RISK #3

THE GREAT WAR IN THE MIDDLE EAST
#3 The Great War in the Middle East

According to the participants of the survey, the likelihood of a large regional war in the Middle East in 2019 will remain a pressing matter among the global community.

In 2019, the Middle East will remain one of the most volatile regions of Eurasia. Ongoing civil wars in Syria, Libya and Yemen, persistence of domestic political tensions in Iraq, as well as challenges of internal development in the countries of the region cause a preservation of huge potential for instability.

At the same time, in 2019, the Middle East comes closer to the threat of a large-scale military conflict than ever before. This is facilitated by a number of events and trends, such as the US withdrawal from the nuclear deal with Iran, the approaching end of the Syrian conflict and the strengthening of Tehran’s geopolitical position on its outcome.

"Toxic" collapse of the JCPOA

In 2019, a problem of redistribution of spheres of influence gains prominence. The events of the Arab Spring and the unfolding struggle against ISIS (Daesh) led to a visible change in the strategic balance of power in the Middle East in favor of Iran.

Tehran has achieved a serious strengthening of its position in Iraq and Syria by effectively intervening in the fight against ISIS in these countries. Another state where Iranian influence has grown was Yemen. As a result, today Tehran is one of the most influential players in the Middle East and is determined to consolidate its strategic success.

However, a prospect of further strengthening of Iran’s regional positions is in contradiction with the interests of the United States, Israel and the Arab monarchies of the Persian Gulf, which clearly intend to act in an offensive manner.

In this context, the US withdrawal from the “Iranian deal” creates an entirely new situation in the Middle East. The Trump administration has already resumed a range of sanctions and is moving to a policy of maximum pressure on Tehran.

### US sanctions against Iran

#### First round. 7 August 2018
- Ban on the purchase or acquisition of US dollar banknotes by the government of Iran
- Ban on Iran’s trade in gold and precious metals
- Ban on the direct or indirect sale, supply, or transfer to or from Iran of certain materials, such as graphite, metals (aluminum, steel), coal, and software for integrating industrial processes
- Ban on certain transactions related to the purchase or sale of Iranian rial, and transactions related to the issuance of Iranian sovereign debt and automobile sector
- Ban on the import of Iranian carpets and food products, as well as on Iran’s purchase of passenger aircrafts

#### Second round. 5 November 2018
- Ban on the export of Iranian oil
- Imposition of restrictions in relation to Iran’s energy sector, and financial institutions making transaction with Iranian Central Bank
- Imposition of sanctions related to Iran’s port operators, and shipping and shipbuilding sectors
- Imposition of restrictions on insurance and provision of financial messaging services

*Fiscal year 2017 (March 2017 – March 2018)  
Source: OPEC, Financial Tribune, Forbes, Bloomberg*
### Iran’s possible losses due to sanctions

<table>
<thead>
<tr>
<th>$39.5 bln</th>
<th>230 aeroplanes</th>
</tr>
</thead>
</table>
| $20 bln contract to sell 110 Boeing planes to Iran Air and Aseman Airlines cancelled.  
$19 bln contract to sell 100 Airbus planes to Iran cancelled; only 3 planes delivered to Iran Air.  
$536 million contract to sell 20 ATR planes to Iran Air cancelled; 13 planes delivered as of August 5. |

<table>
<thead>
<tr>
<th>$424 mln</th>
<th>5 400 tons of carpets exported</th>
</tr>
</thead>
</table>
| Iran’s hand-woven carpet industry controls 30% of the global market and employs an estimated 2 mln Iranians.  
The US is the biggest market for Iranian carpets. |

<table>
<thead>
<tr>
<th>$1.37 mln</th>
<th>557 kg caviar</th>
</tr>
</thead>
<tbody>
<tr>
<td>First shipment of caviar to the US in 25 years, weighing 10 kg and worth $13,000, took place after sanctions were lifted in 2016-2017.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$852 mln</th>
<th>96,000 tons of pistachio export</th>
</tr>
</thead>
</table>
| US and Iran are the main competitors in pistachio production with 85% of the annual world market.  
China is the biggest buyer of Iranian pistachios in 2016. |

<table>
<thead>
<tr>
<th>64.5 tons</th>
<th>gold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading of gold and other precious metals with Iran is prohibited. In the past, gold was used as payment to buy Iranian oil to circumvent banking sanctions.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1.6 mln</th>
<th>cars sold in Iran</th>
</tr>
</thead>
</table>
| Iran was the 12th biggest car market in 2017 and had 18% growth in sales.  
French company, PSA, maker of Peugeot, said it will stop its operations in Iran. PSA controls an estimated 34% of Iran’s automotive market. |
At the same time, Washington’s position on Iran can be expected to be even tougher in 2019. The growing domestic political pressure on President Trump because of the “Russian dossier” and the Democrats’ revenge in the November congressional elections will push the White House to increasingly decisive and demonstrative steps toward Tehran.

Against the background of continuing US warnings opposing investments in Iran, Western companies are already leaving the IRI market, while the largest oil partners (India, South Korea, Japan and EU countries) are reconsidering plans for further purchases of Iranian raw materials. As a result, the outflow of investors looks inevitable, which deprives Tehran of incentives to comply with obligations.

Iran remains in the nuclear agreement for now, however, as President Rouhani noted in his speech at the General Assembly in September 2018, Iran has high expectations regarding the participation of others. In particular, Tehran’s expectations are related to the fact that European and foreign investors will continue working in IRI.

Therefore, in the face of increasing sanctions and pressure, Iran can potentially withdraw from the agreement and announce the resumption of its nuclear program, which will be a trigger for its opponents to switch over to offensive actions.

Matthew Burrows, director of Foresight, Strategy and Risks Initiative of the Atlantic Council, USA

“If US or Israel discovered that Iran had restarted its nuclear program, the Israelis with US help would likely attack the facilities, trying to stop Iran’s development of nuclear arms”.

**Syrian endspiel**

Another factor that brings closer the risk of a large-scale military conflict is associated with the confrontation of Iran and Israel in Syria.

The question of a direct clash between them arises as Assad’s troops regain full control over the southern regions of Syria, which until now have acted as an important territorial buffer preventing Israel and Iran from a collision.
### Comparison of Iran and Israel’s military strength

<table>
<thead>
<tr>
<th>Category</th>
<th>Iran</th>
<th>Israel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population</td>
<td>82 mln</td>
<td>8.3 mln</td>
</tr>
<tr>
<td>Fit-for-service</td>
<td>39.5 mln</td>
<td>3 mln</td>
</tr>
<tr>
<td>Active Personnel</td>
<td>534K</td>
<td>170K</td>
</tr>
<tr>
<td>Reserve Personnel</td>
<td>400K</td>
<td>445K</td>
</tr>
<tr>
<td>Total Military Personnel</td>
<td>934K</td>
<td>615K</td>
</tr>
<tr>
<td>Aircraft: Fighters</td>
<td>150</td>
<td>255</td>
</tr>
<tr>
<td>Aircraft: Attack</td>
<td>158</td>
<td>252</td>
</tr>
<tr>
<td>Total Helicopter Strength</td>
<td>145</td>
<td>147</td>
</tr>
<tr>
<td>Attack Helicopters</td>
<td>12</td>
<td>48</td>
</tr>
<tr>
<td>Combat tanks</td>
<td>1650</td>
<td>2760</td>
</tr>
<tr>
<td>Armored fighting vehicles</td>
<td>2215</td>
<td>10575</td>
</tr>
<tr>
<td>Rocket projectors</td>
<td>1533</td>
<td>148</td>
</tr>
<tr>
<td>Total naval assets</td>
<td>398</td>
<td>65</td>
</tr>
</tbody>
</table>

*Source: Global Firepower 2018*

An indirect confrontation between Iran and Israel can already be observed today in the South-West of Syria. For Tel Aviv, the strategic task is to prevent Syria from becoming a foothold for pro-Iranian forces. For its part, Iran cannot simply leave Syria given the economic and military costs incurred, as well as the strategic importance of Syria in the context of its regional security.

The current situation is fueled by low effectiveness of attempts to resolve contradictions through diplomacy. Despite negotiations between Russia and Iran regarding the withdrawal of controlled forces from the border with Israel, Moscow has very little leverage over Tehran.

Moreover, the situation has become even more complicated after the incident with Russian IL-20. In particular, as a response to the incident, Russia supplied Damascus with S-300 anti-aircraft missile systems, which can potentially restrict the freedom of action of Israeli air forces in the future. Accordingly, this provides Tehran with opportunities for further expanding its military presence.

The key risk is that the confrontation of parties in Syria can go beyond a proxy war and lead to an open conflict between Israel and Iran, which will have serious and poorly predictable consequences.

In general, several scenarios can be considered to indicate further prospects for the development of the situation.
2 SCENARIOS:

1 Baseline

The baseline scenario assumes that in 2019 the United States and its allies will pursue to impose maximum economic and diplomatic pressure on Iran. International companies will not take risks and cancel contracts with Tehran under the threat of US sanctions. European governments, for their part, will not be able to offer tangible resistance to Washington.

As a result, Iran will remain within the framework of the agreement, largely due to the lack of other alternatives, and will try to establish a system of payments with exporters of its oil bypassing US sanctions. At the same time, Tehran will strengthen its support for pro-Iranian formations throughout the Middle East as a response to hostile actions.

The indirect military confrontation between Iran and Israel will intensify and the parties will continue the struggle in Syria. Consequently, tensions in the Middle East will reach a more dangerous level. However, it will not result in large-scale military actions in the region.

In general, as noted by participants of the survey, the increase of new sanctions and of other methods of pressure on Tehran will be the most probable scenario.

Given important geostrategic interests of global and regional powers, the key constraint here is that a military conflict with Iran can become a war of all against all and lead to disastrous consequences for the world economy: for example, in the case of the Strait of Hormuz blockade, through which about 40% of global oil exports by sea passes.

The survey respondents believe that the situation in the Middle East will deteriorate due to the US’s withdrawal from the nuclear deal with Iran. In addition, 49% of experts think that the United States will increase the number of new sanctions and other measures against Iran.

How will the situation around Iran develop in 2019 due to the US withdrawal from the nuclear deal?

- A number of new sanctions and other means of pressure from the US will increase
- The conflict will be frozen
- A withdrawal of European countries from the nuclear deal and imposition of sanctions by them against Iran
- The conflict with Iran escalates into a full-scale military action in the Middle East
- Military actions against Iran by the US and its allies
- Not sure

Source: IWEP

Jon Alterman, Zbigniew Brzezinski chair in global security and geostrategy, director of Middle East Program at CSIS

“I have little doubt that a compromise can be found that will avert war. It will require serious discipline from the Iranian side to ensure an absence of military provocations (which we actually saw to some extent in the first year of the Trump administration), adjusted rhetoric, and a willingness to engage in discussions with the United States even if they fall short of being “negotiations.” While Iran is in a difficult economic position, its military and security position throughout the region gives it a lot to trade away.”
2 Pessimistic

Tehran will withdraw from the agreement under the pressure of circumstances. This will be a reason for military strikes on Iranian nuclear facilities by Israel with support from the US. A military operation will inevitably provoke a response from Tehran and the conflict can easily spin out of control. In this case, the Arab countries of the Persian Gulf may also be involved in military actions.

A major military conflict will dramatically worsen the situation in the region and provoke another major humanitarian catastrophe in Syria, Iraq and Yemen. Internal contradictions in Saudi Arabia, Bahrain, Kuwait and other countries with large Shiite communities will be stirred up with renewed vigor.

In many ways, the real scale of geopolitical and other consequences will depend on whether external participants mobilize in order to stop the conflict. Only an active intervention of leading global powers will allow to keep the conflict limited.

Dan Smith director of the Stockholm International Peace Research Institute (SIPRI)

“It can be safely forecast China, the EU, India and Pakistan will be united by a desire to bring confrontation, clashes and war to an end as quickly as possible. The US, Turkey and Russia may have other, local advantages in view as well but are also more likely than not to seek compromise solutions”.


“In such violent confrontation (between Iran and Israel – author’s note) with dire global and regional repercussions, both internationally and domestically, a very fluid situation will emerge and a Pandora’s Box will open, bringing to the surface various simmering interlinked conflicts that have been swept under the carpet for years”.
FURTHER DETERIORATION OF RELATIONS BETWEEN RUSSIA AND THE WEST
Further deterioration of relations between Russia and the West

The survey respondents believe that the Russia-West relationship will further deteriorate in 2019. 53% of experts predict that the sanctions against Russia will intensify. At the same time 29% suggest that sanctions will remain at the same level and only 13% that sanctions could be weaken.

This year’s events illustrate that Russia and the Western powers are unable to overcome fundamental differences over the future of the world order. Moscow seeks geopolitical recognition of its status as a world power, while the United States and EU leaders do not intend to revise the foundations of so-called liberal world order that emerged after 1991.

At the same time, a certain stabilization of confrontation is observed in relations between Russia and the West. This is not about detente, but the possibility of unexpected turns and crises is certainly decreasing. The situation around Syria has clearly demonstrated that no one is interested in a direct military confrontation.

As a result, instead of active offensive actions, the parties enter into a long-term positional struggle, when no one is able to breach the line of defense of an opponent, but all forces are thrown at exhaustion of each other’s forces.

Will Western sanctions on Russia intensify?

- Sanctions will not intensify and will remain at the present level
- Sanctions will gradually intensify
- Tightening of sanctions; imposition of new mutual sanctions; the relationship will continue to deteriorate
- The sanctions will be eased
- Not sure

Source: IWEP

Source: Reuters
Author: Stephanie Keith
Sanctions

In this paradigm, sanctions will continue to act as the main instrument of pressure on Russia. In 2019, we are likely to become spectators of further expansion of the scale and intensity of restrictive measures against the Russian Federation.

Obviously, the tightening of sanctions by the West will be aimed at the most vulnerable aspects of Russia’s economy. In practice, the next targets of sanctions may become the largest Russian banks whose dollar assets could be frozen. Another perspective, which seemed unlikely until recently, is the introduction of a ban on operations with the Russian national debt.

The US and the EU sanctions on Russia since 2014

<table>
<thead>
<tr>
<th></th>
<th>Individuals</th>
<th>Legal Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>272</td>
<td>444</td>
</tr>
<tr>
<td>EU</td>
<td>155</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: currenttime.tv

American and European sanctions against Russia
Number of sanctions levied by the US and EU against Russia (2014-2018)

As a result, it may lead to the situation when financial players, which are closely integrated into global financial chains, will shun dealing with Russian state institutions and assets with Russian capital.

The existing sanctions have already damaged the competitiveness, as well as the investment attractiveness of the country. According to estimates of Russian authors, the amount of losses from 2014-2017 sanctions equals to $170 billion. The losses of gross capital inflows to Russia – more than $280 billion – also needs to be added to this.

Russia’s counter measures can hardly affect the economy of the United States or leading countries of Europe due to a relatively smaller size of its economy and a low share in global GDP. The disagreement among Western countries is likely to
become the main lever that Moscow may try to use in order to minimize the damage from sanctions.

In particular, Moscow is betting on Europe, which increasingly becomes aware of its international subjectivity in the context of growing misunderstanding with the United States and President Trump. Moreover, trade contradictions between the EU and the US have accumulated over the past few years: the parties have been balancing between the creation of Transatlantic trade and investment partnership (TTIP) and a trade war.

At the same time, the Iranian case demonstrates that the United States, relying on its dominant role in the global financial system, can impose a policy of financial sanctions against Russia even on those countries that do not formally support sanctions.

Therefore, the unabated cycle of sanctions against Russia, on the one hand, and Moscow’s increased attempts to split the West, on the other, will deprive the parties of opportunity for negotiations and bargaining, leaving a very narrow space for manoeuvre.

**Military sphere**

Obviously, the exchange of sanctions between the parties will go hand in hand with competition in the military sphere. The key risk here is to undermine the existing nuclear deterrent mechanisms and strategic stability.

In 2019, Russia and the United States will come very close to a collapse of the INF Treaty – a key element of Euro-Atlantic and Asian security. On 20 October 2018, President Trump declared that he was considering withdrawing from the treaty. In this regard, it is noteworthy that the final draft of the US military budget for 2019, approved by the Senate, includes a provision stating that Washington will consider the INF Treaty as no longer binding on the United States, if the Trump administration does not provide by 15 January 2019 with the evidence of Russia’s full compliance with the treaty.

The issue of prolongation of the bilateral Treaty on the Reduction of Strategic Offensive Arms (START-3), which limits strategic arsenals of the two countries, is still on the agenda and remains unresolved. The START-3 expires in 2021.

The collapse of the INF and START-3 will destroy the system of arms control and create a vacuum in Russian-American relations regarding the rules of the game in the military sphere. This may result in a new stage of arms race between nuclear powers.

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**Evgeny Buzhinsky**, chairman of the board at PIR Center, vice president of the Russian International Affairs Council (RIAC), Lieutenant-General (retired)

“A further escalation of relations between Russia and the West can lead to armed confrontation not only with the use of conventional means of destruction, but also to a nuclear conflict. Of particular concern is the continuing degradation of bilateral Russian-American relations (relations between the two leading nuclear powers), which have been at an unacceptably low level since the end of the Cold war”.

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**Domestic policy**

Finally, the internal political discourse in both sides is one of the important factors that will stimulate further degradation of Russia’s relations with the West.

In 2019, Russia will remain an effective mobilizing tool in American domestic politics. Neither the Democrats nor many of the Republicans are interested in improving US-Russian relations. Suspicions regarding an interference into domestic affairs will fuel the image of Russia as a malicious violator in European countries, too.

In the context of growing social and economic challenges, the internal political
The EU’s involvement in new US sanctions will be a critical moment for the Russian Federation. If the Europeans accept the same restrictions as the USA, this will sharply reduce Moscow’s possibilities for refinancing its foreign debt. China will appear to be the only major capital market available for Russia.

3 SCENARIOS:

1. Baseline

The confrontation along the perimeter of conflicts freezes at the current negative level. The decrease of Russia’s and the US’s activity does not lead to the resolution of contradictions. The regime of sanctions systematically tightens, restrictions on operations with the public debt are imposed, and the number of Russian entrepreneurs and companies on the sanctions list expands. The government and state-owned companies of the Russian Federation withdraw from dollar assets. At the same time, the leading EU countries do not participate in sanctions, but also do not restore trade and economic cooperation to the pre-crisis level.

2. Pessimistic

The pessimistic scenario presupposes the emergence of new “hot spots” and increase of tensions along the perimeter of existing conflicts. An increase in intensity of military actions in Donbas will lead to a new level of confrontation: sanctions and restrictions can reach trade areas (titanium, rocket engines) sensitive even for American consumers. Armed units of the US and NATO will be rapidly consolidated near the Russian borders.

3. Optimistic

It is based on the scenario when Moscow and Washington, with the mediation of key European countries, will come to a common vision of solving one of the pressing problems (for example, Ukraine). This will give a generally positive impetus and will lead to the attenuation of mutual tensions.

Matthew Rojansky, director of the Wilson Center’s Kennan Institute

“At the very least, European countries like Germany and Italy could help vent some of the steam from this explosive situation by facilitating direct or indirect communication between U.S. and Russian leaders”.

As a result, the process of gradual lifting of sanctions will begin, which will improve the position of Russian companies and the investment attractiveness of Russia. Moscow will again be invited to Western collective global formats, such as the G7, which may again become the G8.

However, this scenario seems the least likely in 2019 given the existing obstacles, primarily, the impasse around the implementation of the Minsk Agreements and the issue of Crimea, as well as the possible revenge of the Democrats in November congressional elections in the US.
RISK #5

DEFROSTING OF "HOT SPOTS" IN EURASIA

Source: shutterstock
Author: Vladimir Shuvaev
#5 Defrosting of “hot spots” in Eurasia

“Hot spots” of tension, tentatively balancing between war and peace, remain in various regions of Eurasia. In 2019, the course of these non-healing conflicts can grow more complicated.

**Afghanistan**

The instability in Afghanistan has been lasting for the last 40 years, but political tensions in this country could spin out of control next year.

The government in Kabul suffers from a multitude of internal divisions. There is no unity within the Afghan establishment on key issues of public administration, including conditions for reconciliation with the Taliban, which is active in 70% of Afghan districts.

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**Taliban presence in Afghanistan by district**

Source: BBC research, 23 August - 21 November 2017

- **High** – attacked at least twice a week, 15% of districts
- **Medium** – attacked at least three times a month, 20%
- **Low** – attacked once in three months, 31%
- **Helmand province**
- **Full government control**, 30%
- **Full Taliban control**, 4%
The situation in security sphere is gradually deteriorating. There is a tendency that the instability spreads from the south to the north of the country, where the accumulation of Taliban forces and the growth of Daesh’s activity is recorded. According to the statistics of the SCO, there were about 3000 Daesh militants in the north of Afghanistan as of March 2018. 80% of them are foreigners, including from Russia, China, and the countries of Central Asia.

Another destabilizing factor that undermines the existence of current state of affairs is the growing tension between external forces involved in the Afghan process. In particular, a sharp aggravation of US relations simultaneously with Russia, Iran and Pakistan casts doubt upon the preservation of compromise, which once made possible the present vulnerable peace.


“The current relations among the external players, including but not only US, Russia and Pakistan provide little if any platform for a meaningful engagement for durable peace which adds to the prospect of continuation of the current conflict”.

As a result, a delicate equilibrium can be destroyed by increasing instability in domestic policy and imbalance of interests of external forces. The presidential elections scheduled for April 2019 may well be the trigger for the escalation of domestic political crisis. In this context, the main task of the year is to prepare for repelling possible threats.

Ukraine

The risk of a large-scale destabilization of the conflict in Eastern Ukraine, which has already become the most mined territory in the world, will increase next year. Ukraine enters the electoral period in 2019 – it is planned to hold presidential and parliamentary elections in March and November, respectively. The upcoming election cycle creates a number of strong negative prerequisites for defrosting the conflict and the resumption of large-scale military actions.

Situation in Eastern Ukraine (August 2018)

President Petro Poroshenko intends to be re-elect in 2019. But his rating noticeably lags behind his key rivals on the eve of elections. In order to ensure the support of a nationalist-minded part of voters, the team of the current president can go for a partial aggravation of the situation by intensifying military operations in Donbas.

For Ukrainian authorities, the temptation to raise stakes in the conflict is also intensified in the light of the supply of American lethal weapons, including the Javelin anti-tank missile systems.

In addition, relations with Russia will be a subject of tough discussions between political groups of Ukraine during the elections. This will severely limit the space for dialogue between Moscow and Kiev in 2019.
As a result, there will be no room on the bilateral agenda for any peacekeeping initiatives, including the idea of deploying a UN contingent in Donbas.

Nikolas Gvozdev, professor at the US Naval College, editor of “The National Interest”

“The likelihood that President Poroshenko might want to demonstrate at least a symbolic victory against pro-Russian separatists increases the possibility of a flare-up in fighting. The Russian response would be grounded not only in how seriously the separatists might lose in such a conflict, but also whether overt Russian intervention threatens a fragile rapprochement with key European states such as France and Germany”.

Under these circumstances, the presidential and parliamentary elections in Ukraine could stir up an already precarious situation, and the year 2019 may be marked by the final default of the Minsk agreements.

Nagorno-Karabakh

After the biggest escalation of the crisis in April 2016, a fragile peace was restored in Nagorno-Karabakh. However, the situation has not moved towards a positive change since then.

Despite the cease-fire agreement, incidents between the conflicting parties have not practically ceased. Moreover, both parties periodically hold large-scale armed manoeuvres along the contact line.

Negotiations between the parties reached an impasse, which is caused by the lack of an effective international legal solution to the conflict, which would suit both Azerbaijan and Armenia.

At the same time, it is obvious that Baku has more and more reasons to count on its growing military superiority in the case of a potential conflict.

According to the Stockholm International Peace Research Institute (SIPRI), over the past two years, Armenia imported weapons worth $124 million, whereas Azerbaijan’s weaponry purchase exceeded it by almost five times - $551 million.

One way or another, the growing imbalance of military-technical potentials in favour of Baku will inevitably push Azerbaijan to resolve the conflict by force.

Situation around the Nagorno-Karabakh conflict

Brief chronology of the Karabakh War

1987-1990 – first armed clashes in Nagorno-Karabakh; state of emergency declared
1992 – Independence of the Nagorno-Karabakh Republic declared; the parties use heavy weaponry and aviation
1993-1994 – full-scale military actions followed by an agreement on ceasefire
2016 – short-term renewal of military actions in Nagorno-Karabakh (the “Four-day War”)

Source: The Economist, data retrieved from open sources
The destruction of the deterrent mechanism between Baku and Yerevan is also facilitated by the unabated political contradictions in Armenia. The new leadership of Nikol Pashinyan, despite having a large electoral support, does not possess sufficient political and financial resources to form a stable government.

A new stage of political tension in Armenia can be expected in December 2018, when the country will hold early parliamentary elections. The elections will be vital for the oppositional Republican Party and other political forces; therefore, they will prepare for a fierce struggle. It is not unlikely that the struggle between political elites will continue with renewed vigor following the results of the elections.

It is noteworthy that one of the main reasons of Azerbaijan’s territorial losses in the Karabakh war of 1991-1994 was precisely the political instability of the country, which Baku hardly forgot about. In this context, further preservation of the state of turbulence in internal politics of Armenia can be viewed by the Azerbaijani side as a historical window of opportunity to take revenge.

All factors described above create serious prerequisites for a significant escalation of the Nagorno-Karabakh conflict in 2019.

Given the strategic location of Karabakh in the South Caucasus and the interests of major regional and global powers in this region of Eurasia, a large-scale military conflict will have consequences extending far beyond relations between Baku and Yerevan.

The most dangerous factor is the presence of Russian military bases in the region. Any involvement of Moscow in the conflict would have very serious consequences for regional security, especially given the proximity of Azerbaijan and Turkey. In addition, one should take into account a number of large transit transport and energy communications passing through the region, including within the framework of China’s Belt and Road Initiative.

In general, the containment of confrontation from slipping into an uncontrolled armed conflict, which would threaten the stability of the whole of Eurasia, depends on positions of major powers in the region, first of all, of Russia and Turkey.
RISK #6

GROWTH OF SEPARATISM AND ETHNO-RELIGIOUS CONFLICTS


#6 Growth of separatism and ethno-religious conflicts

In 2019, conflicts on the grounds of ethnic and religious identity may attain new extremity. Specifically, the following problem areas in Eurasia can be identified next year.

**Europe: Scotland and the domino effect**

In March 2019, the UK is expected to withdraw from the European Union. For London, in addition to the economic costs, Brexit can have significant political consequences. In particular, there is an increasing risk of Scotland separating from the UK, which in turn can trigger the emergence of new states on the map of modern Europe.

The format of further cooperation with Europe could become an apple of discord within the United Kingdom. If the British are inclined to leave the EU, the Scots prefer to stay in the “European family”. The results of the 2016 referendum are evidence of Scotland’s apparent reluctance to sever relations with the European Union: 51.9% of UK residents voted for leaving the EU, whereas in Scotland 62% voted against.

Attitudes toward Brexit could become one of the triggers for separatism in Scotland. Although the September 2014 referendum on Scottish independence demonstrated that over 55% of Scotland’s population oppose secession, it is probable that by the time the UK leaves the EU, the mood may change.

In March 2018, the Scottish Parliament has formally backed the call for a second referendum on independence, which is scheduled to be held in the spring of 2019. Against this background, London has very limited levers to somehow influence the outcome of the referendum. A ban on its conduct may only aggravate the situation.

The success of Scottish separatists threatens to cause a domino effect in Europe and become a powerful precedent for ethnic separatists around the world.
Henceforward, we can expect activation of similar movements in Catalonia, in the north of Italy, in Flanders and in a number of other regions that claim greater autonomy.

**Ethno-religious fragmentation of the Middle East**

If in Europe the decisive trend is the growth of separatist sentiments based on ethnic identity, then in the Middle East it is the confessional factor.

First, it is necessary to single out the Sunni-Shiite confrontation, which will undoubtedly continue in 2019. The geopolitical confrontation between Iran and Saudi Arabia, fueled by external intervention, will remain the principal driver of this process.

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**Ratio of Sunni and Shiite Muslims in the Middle East**

![Map of Sunni and Shiite Muslims in the Middle East](image)

*Source: CIA World Factbook, World Directory of Minorities and Indigenous Peoples*
The most striking manifestations of these processes are conflicts in Syria and Yemen.

In 2018, the situation in Syria has been stabilized, and the situation around Idlib has been frozen. However, it should be borne in mind that Bashar Asad does not always coordinate his actions with Iran and Russia. Thus, a small fighting skirmish on the border with Idlib can result in a serious military conflict, which could initiate another powerful wave of refugees.

In Yemen, the military phase of the conflict is far from over. The Arab coalition fighting against the Hussites (Shiites), led by Saudi Arabia, has not been able to achieve an ultimate victory. In 2019, it is expected that the active armed confrontation will continue. Given the increasing pressure on Iran from the United States, the conflict in Yemen is becoming a dangerous trigger point that could ignite a fire of regional war.

**Number of Kurds in the region**

The “Kurdish question” remains another serious challenge in 2019. With each passing year, Kurdish communities in Syria, Iran, Turkey and Iraq have been playing an increasingly important role in the Middle East. This poses serious challenges and risks to regional stability. It is not by chance that even though during the September 2017 referendum 92.7% of Kurds voted for the independence of Iraqi Kurdistan, not a single country recognized the results of this plebiscite.

In general, Kurdish separatism could become a serious political issue for the countries of the region in 2019. However, in modern conditions, the likelihood of formation of a new state called Kurdistan is relatively low. The emergence of an independent Kurdistan would contradict not only the interests of the regional powers, where the Kurds reside, but also affect the world’s leading players, who are not interested in the uncontrollable destabilization of the region.

At the same time, the Kurds will remain an important tool for manipulating and solving geopolitical tasks on the part of all the forces involved in the Middle Eastern conflicts.

Finally, the situation around the Arab-Israeli conflict could potentially trigger escalation in 2019. The passing of the “Basic Law: Israel as the Nation State of the Jewish People” in July 2018 has already instigated mass protests by Palestinians. Further development of the situation may cause a new round of violence in 2019, with consequences not only for the region, but for the entire world.

**The Rohingya tragedy**

The Rakhine crisis, which peaked in August 2017, is still far from being resolved. In 2019, the Rohingya Muslims will remain at risk of facing another phase of a humanitarian catastrophe.

According to the UN, due to military prosecution by the Myanmar police and armed forces, over 700,000 Rohingyas had to flee from Rakhine. More than half a million of these refugees reside in the border areas of Myanmar and Bangladesh.

However, refugee camps are unable to withstand such an influx of people. To resolve the situation, the authorities of Bangladesh are planning to move about 100,000 refugees to Tegar-Char in the Bay of Bengal by November 2019.

What constitutes the main challenge is
that this island is not equipped with the necessary infrastructure and is essentially uninhabited. Moreover, it floods in the summer and autumn. As a result, the Rohingya may find themselves facing yet another humanitarian crisis.

**Satellite images show destroyed Rohingya village**

The situation can escalate due to the Myanmar Government’s repressive policy towards the Rohingya. According to the former UN High Commissioner for Human Rights Zeid Raad Al Hussein, despite statements of willingness to accept refugees back, not a single Rohingya refugee returned as part of the measures announced by the state, and those who returned independently were arrested and convicted.

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**Vladimir Yakunin**, chairman of the Supervisory Board of the Research Institute “Dialogue of Civilizations”

“An analysis of migration flows and measures taken in this regard may reveal the most disadvantaged regions prone to the development of inter-ethnic and inter-religious conflicts”.

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**Yves Leterme**, secretary-general at the International Institute for Democracy and Electoral Assistance, Prime Minister of Belgium (2009–2011)

“The Muslim-Buddhist tension in the Rakhine state could in the months to come escalate the friction between Bangladesh and Myanmar. International diplomatic efforts should be exerted on the Myanmar Government and sufficient aid should be delivered to render the presence of the Muslim Rohingya-refugees in (the border zone of) Bangladesh and Myanmar more sustainable.”

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**Key conclusions**

In general, the risks of ethnic separatism will continue to increase throughout the world in 2019. Meanwhile, these trends will take multidirectional development vectors in different parts of Eurasia, depending on a variety of local factors. For example, the challenges of separatism will be stronger in Europe. Specifically, we are talking about cases in Scotland and Catalonia.

For the countries of the Middle East and Southeast Asia, inter-ethnic clashes may grow more violent and trigger mass exoduses of refugees. In turn, the rising migration wave will inevitably serve as a prerequisite for socio-economic and political changes in developed countries.
RISK #7

AGGRAVATION OF ECOLOGICAL AND WATER CHALLENGES

Source: shutterstock
Author: Laurn Rinder
Aggravation of ecological and water challenges

The risk of the aggravation of ecological and water challenges ranks seventh among the Top 10 risks for Eurasia in 2019; 67% of respondents believe that climate change will be tangible, and a new level of climate risks is possible next year.

Will climate risks increase in 2019?

- Yes, clearly, climate change will be tangible and a new level of climate risks is possible in 2019
- No, climate risks are likely to remain at the same level
- Not sure

Source: IWEP

Environmental risks continue to dominate the global agenda from year to year. Eurasia will remain affected by increasing CO2 emissions and growing water scarcity in 2019.

The collapse of the Paris Climate Agreement

The global greenhouse effect is primarily caused by the increase in carbon dioxide emissions; according to the World Bank, CO2 emissions have quadrupled over the last half of the century, which is directly linked to the unprecedented industrial growth in developing countries.

China and the United States are the two economies accountable for almost half of all emissions, and whether the efforts to combat global warming are effective depends on their joint actions. However, in 2019, these countries are likely to follow separate, uncoordinated policies.

Growth in carbon dioxide emissions due to industrial growth in China

Carbon dioxide emissions by country and group of countries, bln tons

Source: World Bank
China, USA and Europe - players that account for over 2/3 of global carbon dioxide emissions

Global carbon dioxide emissions by country and group of countries, %

With the recent withdrawal from the Agreement of the United States, the world’s second-largest carbon polluter responsible for 16% of global carbon dioxide emissions, the agreement’s implementation is likely to run behind schedule and create dangerous impacts of climate change in different parts of the world. In addition, US energy companies are no longer subject to environmental regulations and will experience reduction in corresponding production costs and gain relative competitive advantage. Internally, coal power plants, metals and mining, chemical industry and cement production are on the list of industries that can be potentially moved to countries with less stringent environmental governance regulations.

The launching of new solar and wind power plants will tactically improve the situation, however strategically, this creates another problem related to the recycling of solar panels, as the initial batches of Chinese-made panels expire.

Ban Ki-Moon, 8th United Nations secretary-general

“Now with the United States pulling from this Paris agreement, I’m concerned how to mobilize the necessary financial support for many developing countries who do not have the capacity to address these climate change issues”.


“China’s efforts to make its economy more environmentally friendly would in fact create new opportunities for Eurasia. This would require a carefully planned transition from hydrocarbons to low carbon sources of energy”.

Challenges of water scarcity

In 2019, Eurasia will face a worsened problem of water distribution within several alarming zones of its territory, namely the Middle East, Central Asia and China.

The Middle East should prepare for a new water crisis in the basin of the Tigris and Euphrates rivers, as a severe drought is forecast to happen next year.
Risk 7. Aggravation of ecological and water challenges

Rajendra Kumar Pachauri

“The impacts of climate change are likely to get much worse in Eurasia in 2019. This will include an increase in heat waves, an increase in extreme precipitation events, and possible droughts in some parts of the region. It is important for Eurasia to set up systems and institutions to adapt to the impacts of climate change, particularly in respect of extreme events, prolonged droughts, negative impacts on agriculture and water scarcity”.

The implementation of national projects designed to meet countries’ individual needs may exacerbate water scarcity issues. Turkey’s construction of the water reservoir and the Ilisu Dam in the upper part of the Tigris River has already led to a noticeable decrease in the water level of the lower reaches of the river in Iraq. The lack of water resources could become one of the catalysts of military confrontation, similar to the case of the civil war in Syria.

In 2019, the risk of uneven distribution of water resources in the Central Asian region between key water suppliers (Tajikistan and Kyrgyzstan) and its main consumers (Uzbekistan, Kazakhstan and Turkmenistan) also persists. An especially tense situation can develop in the Amudarya river basin, due to an increase in water consumption by Afghanistan.

Experts predict that by 2040 the water availability in the region may decrease to 1.5-1.7 thousand cubic meters per year per person compared to the current 2.1 thousand cubic meters per year. The burden on

Over the past 50 years, the pressure on water resources of the largest water arteries in the Middle East has more than tripled

The population of countries consuming water of the Tigris and Euphrates basins (Turkey, Iraq), mln people

Two water donors in the region - Kyrgyzstan and Tajikistan
External renewable water resources of Central Asia, bin cubic meters per year
«+» recipient country
«-» donor country

Source: World Bank

Source: FAO Aquastat 1998-2002
the water resources of the Aral Sea basin increases due to demographic and economic growth of the Central Asian countries, as well as the impact of climate.

In the medium term, water problems may affect China: Beijing is embarking on a project to divert the flow of rivers from the Tibetan highlands towards the PRC plains, on which it will spend $25-35 billion by 2050.

In 2019, China is expected to increase the volume of water intake from the Irtysh River, which may not only cause water imbalance and worsen the environmental situation, but also slow down the economic development of neighboring countries.

Eurasia’s environmental and water challenges are of predominantly long-term nature; nevertheless, uncoordinated attempts towards their solution could provoke difficulties in socio-economic development and trigger political and military conflicts in 2019.

The central concern for the upcoming decade is to balance the opposing objectives of preserving the ecosystems and ensuring economic growth. Major Eurasian economies, which are undergoing rapid economic growth and account for 65% of the world’s total GDP, will need to search for the solution to this dilemma.
RISK #8

GROWTH AND EVOLUTION OF CYBER THREATS
# 8 Growth and evolution of cyber threats

The risk of the growth and evolution of cyber threats ranks eighth among the Global risks for Eurasia in 2019. Among social and technological challenges in 2019, the global survey respondents placed the growth in the number of cyber attacks and the reduction of information security first, which indicates the increasing influence of this international threat.

In 2019, the world should expect global growth of protectionism in the digital environment, a new round of cybercrime development and expansion of cybersecurity measures both at the government and the corporate levels. The cyber weapons used by hackers are already capable of incapacitating objects of the physical world. Total losses from hacker attacks are estimated at 1% of global GDP.

Governments respond to growing cyber threats by increasing levels of cyber defense and creating cyber armies. However, unlike the traditional armed forces, this sector still has not defined the rules of the game. Given the background of intensifying geopolitical confrontation among the world’s greatest powers, the disparate actions of players in the digital environment can lead to cyber wars.

The scale of cyber attacks is amplifying. The antivirus software manufacturer McAfee estimates the global economy’s loss from cybercrime at $600 billion (2017). IDC analysts gave comparable data: global losses from corporate and personal data leaks in 2016 amounted to $650 billion, and by 2020 this number will amount to more than $1 trillion. Gartner predicts the damage to reach $6 trillion by 2021.

The rising costs for digital infrastructure do not allow for a decisive victory over cybercrime. According to RAND, in 2017, global cybersecurity expenditures approached $70 billion, and annual growth was estimated at 10-15%. At the same time, many CDOs of global companies noted that the cybercriminals’ forces and means are technologically ahead of the defense mechanisms by 2-5 years.

The internetization level grew 7 times since the beginning of the 21st century

The proportion of the population with internet access, %

<table>
<thead>
<tr>
<th>Year</th>
<th>North America</th>
<th>Europe and Central Asia</th>
<th>Latin America and countries of the Carribean</th>
<th>East Asia and Pacific countries</th>
<th>Middle East and North Africa</th>
<th>South Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>50</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
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<tr>
<td>2008</td>
<td>50</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
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<tr>
<td>2012</td>
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<td>20</td>
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</tr>
<tr>
<td>2016</td>
<td>50</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: World Bank

The digitalization of the state apparatus makes electronic systems and government services one of the main targets for cyber attacks. In 2017, the Cybercrime Report, prepared by the Herjavec Group, emphasized that governments, along with industry, the health care system, and transportation, are among the top targets for cyber criminals.

Christian Vezina, CISO at VASCO Data Security

“If we look at the trend from recent attacks, we went from Wanna Cry to NotPetya, we saw motivation shifting from getting money to destroying systems. Malware will also be more mischievous as it looks to see what it can destroy and break the ability to restore by looking up an organization or consumers’ backup capabilities and erasing data.”

Source: medium.com
According to the American think tank, Center for Strategic and International Studies, which captures all significant cyber attacks starting from 2006, about 40 out of 121 attacks targeted government agencies, political parties, security services and the military in the period from January 2017 until September 2018.

In response, governments are increasing spending on cybersecurity systems and increasing the power of national defense systems for digital space.

In addition to government agencies and financial structures, cyber attacks are increasingly directed against large industrial facilities, where production operations are automated and controlled via the internet; usually, these are energy companies.

Another vulnerable object is the new telecom infrastructure. To build the infrastructure, governments do not trust companies, which originate from countries that can become potential cyber opponents. For instance, in August 2017, for reasons of national security, Australian authorities excluded Chinese companies Huawei and ZTE from participating in the development of Australian mobile 5G networks.

The Internet of Things (IoT) is becoming one of the main channels for cybercriminals. Large-scale DDoS attacks are organized with the help of IoT. The most notable attempt to use IoT devices occurred in July 2018 during the summit meeting between United States President Donald Trump and Russian President Vladimir Putin in Helsinki. The attackers’ goal was to access devices equipped with video cameras and microphones.

According to Gartner, the number of devices connected to IoT in 2017 exceeded 8.4 billion (an increase of 24% for the year) and will reach 20 billion in 2019; China, North America and Western Europe will account for two-thirds of that increase.

The confrontation between the world’s leading powers has extended to the cyber environment. The growth in geopolitical tensions and the transformation of the Internet into the mainstream environment for most production processes (Industry 4.0) heighten the risks of cyber wars.
Samir Saran, president of the Observer Research Foundation.

“If 2017 was the year of ransomware attacks, then 2019 is likely to be the year of psychological operations in cyberspace. Manipulation of social media information continue to be on the rise and newer, more sophisticated attacks are likely to continue in 2019 as social media companies contend with this threat.”

Russia, China, the DPRK, India and Vietnam are among the most frequently mentioned countries from which hackers operate. These same countries are more vulnerable to cybercrime, than others. According to EY, 43% of transnational companies based in China were hacked. The Russian Analytical Center NAFI estimates the total losses of Russian companies from cybercrime at 116 billion rubles (0.1% of Russia’s GDP - 2017).

Some states have created special services for cyber attacks and protecting national interests in the Internet environment. According to the World Economic Forum, cyber armies have already been established by the USA, Israel, Russia, China, the DPRK and Iran. However, unlike the regular troops (state information security services), hacker teams that act in the interests of individual national states attack the resources of state bodies, industrial and other important facilities, without denoting their affiliation.

Information about cyber terrorism acts is becoming increasingly public, which may indicate that the intensity of confrontation in the digital dimension between state powers is rising. In October 2018, the Netherlands authorities reported on the prevention of cyber attacks at the Organization for the Prohibition of Chemical Weapons (OPCW), which has headquarters in the Hague. During the operation, four Russians with diplomatic passports were sent out of the country; they were allegedly intelligence officers who tried to intercept data on OPCW employees.

In response to more active measures by the Russian Federation (such as aggression against the Eastern European countries), the British Defense Ministry stated that it might initiate a cyber attack against Russia by disabling Moscow’s electric power supply system.

In general, the development of scenarios in 2019 depends on the degree of geopolitical tension between the main cyber players: the West on the one hand and Russia, China and Iran on the other.

All major economies are on the list of those vulnerable

Top 50 most vulnerable countries to cyber attacks according to the 2018 National Exposure Index

<table>
<thead>
<tr>
<th>TOP 1-10</th>
<th>TOP 11-20</th>
<th>TOP 21-30</th>
<th>TOP 31-40</th>
<th>TOP 41-50</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>Australia</td>
<td>Spain</td>
<td>Sweden</td>
<td>Malaysia</td>
</tr>
<tr>
<td>China</td>
<td>Brazil</td>
<td>Finland</td>
<td>Czech Republic</td>
<td>Portugal</td>
</tr>
<tr>
<td>Canada</td>
<td>Hong Kong</td>
<td>Romania</td>
<td>Belgium</td>
<td>Venezuela</td>
</tr>
<tr>
<td>South Korea</td>
<td>Russian Federation</td>
<td>Thailand</td>
<td>Denmark</td>
<td>El Salvador</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Poland</td>
<td>Singapore</td>
<td>Colombia</td>
<td>New Zealand</td>
</tr>
<tr>
<td>France</td>
<td>South Africa</td>
<td>Indonesia</td>
<td>Egypt</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>Netherlands</td>
<td>India</td>
<td>Ireland</td>
<td>UAE</td>
<td>Kazakhstan</td>
</tr>
<tr>
<td>Japan</td>
<td>Turkey</td>
<td>Vietnam</td>
<td>Norway</td>
<td>Brunei Darussalam</td>
</tr>
<tr>
<td>Germany</td>
<td>Israel</td>
<td>Ukraine</td>
<td>Pakistan</td>
<td>Bangladesh</td>
</tr>
<tr>
<td>Mexico</td>
<td>Iran</td>
<td>Chile</td>
<td>Austria</td>
<td>Peru</td>
</tr>
</tbody>
</table>

Source: Rapid7
3 SCENARIOS:

1 Baseline

Moderate increase in the Russia-West opposition is expected. The cyber services of Western governments can launch attacks against critical military, intelligence, and civilian infrastructure in response to interference in domestic politics. The amount of bot attacks on various government services and commercial companies using IoT devices will increase.

In 2019, it is expected that active attacks on the governments and infrastructure of the USA, China, Iran, Russia, and the EU countries will take place.

2 Optimistic

Geopolitical conflicts will decline, but against the backdrop of a decreased activity of cyber armies acting in the interests of governments, the number of attacks for mercantile purposes will rise. The greatest losses will be borne by developing countries (including the Russian Federation, Iran, China, Turkey), which, unlike the United States, are not highly resistant to the actions of cybercriminals.

The further intensification of geopolitical conflicts will undoubtedly surge the demand for cyber-armies, whose activities in 2019 will become increasingly more organized.

The conflicts will transition from cold to hot phase. Amount of attacks on critical infrastructure will dramatically increase, and their goal will no longer be information gathering, but disabling of chemical, water treatment and power plants, as well as defense plants. The response to a cyber attack can spread beyond cyberspace and escalate into a military conflict. If this scenario is realized, the first full-scale cyber war could happen as soon as in 2019.

3 Pessimistic

Eurasia lags behind North America in server protection

Number of secure servers in the world per 1 mn people by region

<table>
<thead>
<tr>
<th>Region</th>
<th>2010</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>2.363</td>
<td>2.950</td>
</tr>
<tr>
<td>EU and Central Asia</td>
<td>0.59</td>
<td>0.69</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>0.09</td>
<td>0.08</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>0.93</td>
<td>1.28</td>
</tr>
<tr>
<td>South Asia</td>
<td>1.21</td>
<td>1.22</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>1.18</td>
<td>1.18</td>
</tr>
</tbody>
</table>

Source: World Bank

Samir Saran

“Many countries now recognize – as a matter of military doctrine – that response to a cyber attack need not be restricted to the cyber domain alone. The United States, for example, situates cyber as the ‘fourth domain’ of warfare, and reserves the right to retaliate conventionally through the other domains to a cyber attack of sufficient severity.”
BEGINNING OF A NEW ARMS RACE
#9 Beginning of a new arms race

The survey participants ranked the risk of the beginning of a new arms race 9th among the Global risks for Eurasia in 2019.

The continuation of the military and political confrontation between Russia and the United States increases the risk of the collapse of the strategic arms control system. The situation instigates a return to a full-scale nuclear and missile race, in which China may be involved, along with Russia and the United States.

The nuclear and missile arms race will inevitably affect the sphere of strategic non-nuclear weapons and lead to the militarization of outer space and the growth of cyber attack weapons. All the key regional powers of Eurasia, including India, Japan, Turkey, Iran and Pakistan, may be involved in the arms race.

The collapse of the INF Treaty and its consequences

The year 2019 may become a decisive point of no return in the growing arms race, given the US-announced unilateral withdrawal from the 1987 Intermediate-Range Nuclear Forces (INF) Treaty. In the absence of mutually acceptable compromises between Washington and Moscow, the renunciation of the INF Treaty may lead to a complete dismantling of the entire legal framework that ensures the strategic nuclear and missile parity.

In the short term, the renunciation of the INF Treaty will legitimize ongoing research, development, and testing in this area. The next stage could be a large-scale deployment of the respective weapons systems by the United States and Russia, including the deployment of US missiles in the countries of Eastern Europe, which would trigger Moscow’s symmetrical countermeasures.

Evgeny Buzhinsky, chairman of the board at PIR Center, vice president of the Russian International Affairs Council (RIAC), Lieutenant-General (retired)

“The countries of Western and Central Europe are unlikely to allow missiles to be deployed on their territory, but Poland, Romania and the Baltic countries can do so easily. If Americans start deploying medium-range missiles in these countries, they will take another step towards deepening confrontation.”

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Sources: Wikipedia; South China Morning Post
If the INF Treaty is denounced, the New Strategic Arms Reduction Treaty (New START), which will expire in 2021, will remain the only treaty in force between Russia and the United States. In the absence of mutual trust between the nuclear superpowers, there will most likely be no negotiations on a new treaty. For them to start, tradeoffs are required on the issues of the US global missile defense system, new types of high-precision and long-range hypersonic weapons, etc., which seems highly unlikely. The maximum possible outcome under these conditions is an agreement of the parties to extend New START.

**Strategic nuclear weapons of Russia and the United States after the fulfillment of obligations under New START (as of February 5, 2018, units)**

- **USA**
  - Total number of delivery vehicles (deployed and non-deployed launchers of ICBMs, launchers of SLBMs, and heavy bombers)
  - Deployed nuclear warheads
  - Deployed delivery vehicles (intercontinental ballistic missiles (ICBMs), submarine-launched ballistic missiles (SLBMs) and heavy bombers)

**Source:** state.gov

**Strategic weapons constitute not more than 25% of nuclear arsenals of both countries**

**Nuclear weapons of Russia and the United States: warhead status based structure, units**

**Source:** Ploughshares Fund
At the same time, it is not unlikely that the renunciation of the INF Treaty will not lead to the beginning of a full-scale nuclear arms race between the United States and Russia. Moscow is clearly aware of the existing disparity in financial and economic opportunities and will hardly venture to be dragged into such a costly competition.

Evgeny Buzhinsky, Chairman of the PIR Center’s Board, Vice President of the Russian International Affairs Council, Lieutenant-General (retired)

“I am convinced that a repetition of the arms race, which in many ways has undermined the economic power of the USSR and ultimately led to its disintegration, will not happen. The Russian leadership has learned from the experience of the USSR and currently adheres to the principle of reasonable sufficiency.”

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Implications for other players

The most likely consequence of the renunciation of the INF Treaty will be the deployment of medium-range missiles by Washington in Northeast Asia as part of expanding its arsenal of means to deter China. As a result, the key political and economic centers of the PRC and the most important elements of its military infrastructure will be in the direct impact area of American missiles. This will immediately give Washington a serious strategic advantage over Beijing in the realm of escalation dominance.

Eventually, the denunciation of the INF Treaty and the qualitative build-up of strategic military potentials by the United States and Russia will spur a multilateral arms race and the proliferation of missile technologies with the involvement of China, NATO countries, India, Pakistan and other states possessing appropriate technological and military capabilities.

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The parity between Russia and the United States persists

Total number of nuclear warheads in the world’s nuclear powers, units

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Warheads</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>6850</td>
</tr>
<tr>
<td>USA</td>
<td>6550</td>
</tr>
<tr>
<td>France</td>
<td>300</td>
</tr>
<tr>
<td>China</td>
<td>280</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>215</td>
</tr>
<tr>
<td>Pakistan</td>
<td>150</td>
</tr>
<tr>
<td>India</td>
<td>130</td>
</tr>
<tr>
<td>Israel</td>
<td>80</td>
</tr>
<tr>
<td>North Korea</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Ploughshares Fund
In 2019, the DPRK’s existing nuclear program can be reactivated. Despite the political arrangements between Trump and Kim Jong-un, the prospects for solving the problem of the DPRK’s nuclear and missile program remain uncertain, while the intensification of the US-China confrontation may lead to the suspension of the negotiation process on the denuclearization of the Korean Peninsula.

It is also entirely possible that a number of states in East Asia and the Middle East will declare their intention to develop their own nuclear arsenal in response to the escalation of security threats.

Asle Toje, member of the Norwegian Nobel Peace Prize Committee

“China may well increase its nuclear arsenal but will do so secretly and without fanfare. [...] Iran could try to go nuclear but would then face crippling sanctions and isolation on a scale not yet seen. This makes such a move unlikely, given that it could cost Teheran what is a rather advantageous position in the Middle East. North Korea may well return to bluster and threats, but they do not have the money of the alliances to dominate anything more than the news cycle”.

All these challenges will become the main issues on the global discussion agenda in the spring of 2019 at the session of the Preparatory Committee for the 2020 Review Conference of the Parties to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT). Aggravating disagreements between the state parties to the NPT could lead to a complete failure of the conference in 2020, forcing certain states to announce their intent to initiate a withdrawal from the NPT.

**New risks and possible scenarios**

In 2019, a massive introduction of automated unmanned systems into the armed forces and the expansion of the scale of cyber operations are expected. Moreover, as a result of the intensification of the arms race between the nuclear powers, the threat of using cyber attacks against early warning and nuclear command-and-control systems of potential adversaries is growing, thus increasing the risk of accidental or unauthorized use of nuclear weapons.

The reality is that outer space becomes an important component of national defense doctrines. Work is underway to create special satellites capable of disrupting control and communications systems. For the major powers, outer space turns into yet another arena of the arms race, with Russia and China considering antisatellite weapons as one of the possibilities to offset the US superiority in conventional weapons.
Generally, the future situation around the arms race, triggered by the renunciation of the INF Treaty, will most likely develop in accordance with one of the three scenarios:

1. **Baseline**

   Mutual accusations of non-compliance with the INF Treaty obligations will lead to the suspension of participation in the treaty first by Washington and then by Moscow. Trump and the Congress will take different positions with regard to Russia: the US president will hold consultations on the extension of the New START treaty, while the Congress will take new measures against the “growing military might” of Russia, which will cause a backlash from Moscow.

   The Preparatory Committee for the 2020 NPT Review Conference will not achieve any meaningful agreements; therefore, no breakthroughs on the non-proliferation regime related issues are expected.

   In view of the US position, no serious progress is expected on the launch of negotiations to develop a legally binding document on preventing the weaponization of outer space, while the negotiations between the United States and the DPRK will be frozen because of Washington’s unwillingness to meet Pyongyang’s demands for compensation for halting its nuclear program.

2. **Pessimistic**

   The pessimistic scenario is possible if the Democrats win the midterm elections in the United States. The Trump administration will be forced to cease any contacts with Russia due to the escalation of Russiagate. Prospects for the extension of New START are reduced to zero. The Congress introduces new anti-Russian sanctions.

   Moscow will respond by activating its medium-range and short-range missile development programs. The likelihood of an unintentional military conflict between Russia and NATO in Europe increases.

   In Northeast Asia, the negotiations between the United States and the DPRK reach an impasse, resulting in a restart of ballistic missile tests by Pyongyang. In the Middle East, the tightening of sanctions against Iran leads to the latter’s withdrawal from the Joint Comprehensive Plan of Action (JCPOA), which will provoke a new arms race in the region.

   The US-Russian contradictions lead to the failure of any initiatives in the field of disarmament and arms control. The Preparatory Committee for the 2020 NPT Review Conference turns into a battleground between rival groups of countries,
putting the very existence of the nuclear non-proliferation regime at risk. The prospects for the coming into force of the Comprehensive Nuclear-Test-Ban Treaty becomes elusive.

### Optimistic

The optimistic scenario is most likely if the Republicans manage to retain the majority in the aftermath of the Congressional midterm elections in November 2018. Having consolidated its position, the Trump administration begins the process of improving relations with Russia. Washington and Moscow discuss the feasibility of adapting the treaties to current conditions, but it is unlikely that a consensus on a new document in the field of control over strategic nuclear weapons can be reached. The most significant achievable outcome will be the extension of the New START treaty until 2026 and the launch of negotiations on missile defense and outer space militarization issues.

As a result of the US diplomatic efforts, North Korea agrees to allow IAEA inspectors access to its nuclear facilities. Washington and Pyongyang agree on the conditions for the latter’s renouncement of nuclear weapons, thereby, in effect, meeting the DPRK’s demand to keep its limited nuclear potential until the sanctions are completely lifted and the issue of security guarantees is resolved.

In the Middle East, in response to US sanctions, Iran expands cooperation with China, the EU and Russia, which leads to a stabilization of the economic situation and an increase in investment, as well as creating strong incentives for Tehran to adhere to its obligations under the JCPOA.

It should be recognized, however, that under current geopolitical conditions the likelihood of the situation in the world evolving in accordance with this last scenario is the lowest, weighing it up with the basic and negative options.
RISK #10

LARGE NUCLEAR AND MAN-MADE DISASTERS
Large nuclear and man-made disasters

According to the survey, the risk of major nuclear and man-made disasters ranks 10th among the Top 10 risks for Eurasia in 2019. Man-made disasters remain on the list of risks for Eurasia in 2019, although trends in the development of industrial safety systems and wide introduction of elements of Industry 4.0 significantly minimize threats of major industrial accidents.

The fastest-growing economies of South and East Asia, which in 2019 are forecast to experience GDP growth of 7.2% and 5.7%, respectively, are particularly prone to anthropogenic hazards. As the countries in the region extensively build their industrial potential, they often neglect environmental regulations and safety requirements. Hence, the nations, where industrialization is actively taking place, namely China, India, Indonesia, Myanmar, Bangladesh and Pakistan, are most vulnerable to man-made disasters.

Eurasian countries have the largest nuclear capacity
Top 10 countries in terms of installed NPP capacity (2018), GW

<table>
<thead>
<tr>
<th>Country</th>
<th>Installed Capacity (GW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>99.33</td>
</tr>
<tr>
<td>France</td>
<td>63.13</td>
</tr>
<tr>
<td>China</td>
<td>40.67</td>
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<tr>
<td>Japan</td>
<td>39.75</td>
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<tr>
<td>Russia</td>
<td>28.24</td>
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<td>South Korea</td>
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<tr>
<td>Canada</td>
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<td>Germany</td>
<td>9.52</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>8.92</td>
</tr>
</tbody>
</table>

Source: World Nuclear Association

China leads installation of new NPPs
Top 10 countries in terms of installed capacity at NPPs under construction (2018), GW

<table>
<thead>
<tr>
<th>Country</th>
<th>Installed Capacity (GW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>13.02</td>
</tr>
<tr>
<td>UAE</td>
<td>5.38</td>
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<tr>
<td>South Korea</td>
<td>5.36</td>
</tr>
<tr>
<td>India</td>
<td>4.82</td>
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<tr>
<td>Russia</td>
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<tr>
<td>Japan</td>
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<tr>
<td>Taiwan</td>
<td>2.60</td>
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<tr>
<td>USA</td>
<td>2.23</td>
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<tr>
<td>Belarus</td>
<td>2.22</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>2.16</td>
</tr>
</tbody>
</table>

Source: World Nuclear Association
Last 10 NPPs were launched in three Eurasian countries
Capacity of the last 10 NPP power units by country (2018), GW

Chris Bronk, professor of computer and information systems at the University of Houston
“Coal plants, train deliveries and transmission systems are just as susceptible to hackers as gas pipelines, while nuclear facilities are tough targets, the stakes involved in a successful nuclear cyberattack are enormous – potentially involving an accident that leaks radioactivity and hits surrounding communities”.

Source: ieefa.org

In this regard, a nuclear catastrophe caused by military action, sabotage, cyber attack or natural disaster, can be the most trying crisis of 2019.

Nuclear reactors have become preferred targets during a military conflict and, over the past three decades, have been repeatedly attacked during military air strikes, occupations, invasions and campaigns.


In the event of uncontrolled conflict escalation in the Middle East, 3 operating NPPs (namely 2 Turkish and 1 Iranian), as well as 2 NPPs under construction (namely 1 UAE and 1 Turkish) may be targeted. A potential Indo-Pakistani conflict could jeopardize the functioning of 7 Indian and 2 Pakistani nuclear power plants.

In 2019, the probability of anthropogenic hazards associated with nuclear power plant operations is highest in Ukraine, where nuclear incidents have become
Attacks on nuclear facilities during the conflicts in the Middle East

Risk 10. Large nuclear and man-made disasters

Attacks on nuclear facilities during the conflicts in the Middle East

- **Attack on Al-Kibar NPP under construction**
  - 2007
  - Sides: Israel–Syria

- **Attack on Dimona NPP**
  - 1991
  - Sides: Iraq–Israel

- **Attacks on NPP in Bushehr**
  - 1984–1987
  - Sides: Iraq–Iran

Source: World Nuclear Association

Recurrent in recent years. In part, this may be caused by lack of funding, obsolescence of equipment and increased load on available capacities. Also, such incidents can be attributed to the transfer of a number of Ukrainian Soviet-built reactors, designed to work with Russian nuclear fuel, to American-made fuel cells. At the same time, the likelihood of acts of sabotage against the Ukrainian nuclear facilities, even in the case of active military operations in the east of Ukraine, remains low, since the consequences of such incidents may affect the European part of Russia.

In the context of climate change and escalation of conflict situations, there is a risk of emergencies at critical infrastructure facilities caused by a combination of multiple extreme events (natural disasters, man-made accidents and/or terrorist attacks). An example of such an event is the Fukushima No. 1 nuclear power plant disaster, initiated primarily by the tsunami following the earthquake, for which the plant’s security systems were not designed. The majority of the 40 nuclear power plants in East Asia (namely China, Japan and South Korea), both in active operation and under construction, are located on the coasts in areas of high seismic activity.
Kojiro Irikura, honorary professor of seismology at Kyoto University

“The Fukushima No. 1 plant crisis was not caused by tsunami, but by lack of multiple safeguards. The guidelines stipulate nuclear plant operators must minimize risk even from unexpected events”.

Source: www.japantimes.co.jp

Many countries are ill equipped to handle nuclear and radiological incidents due to lack of resources and trained manpower at NPPs and the unpreparedness of state bodies and local authorities. In case of a nuclear explosion or meltdown, grave transboundary consequences may occur as countries fail to take effective measures to protect local communities, social infrastructure and natural environment.

Currently, 3 out 7 India’s nuclear power plants are at tsunami risk. The Armenian NPP operates in a seismically active zone and can also suffer collateral damage in case if the Armenian-Azerbaijani conflict escalates. Despite the pressure from the US and the EU, the leadership of Armenia, announced plans to extend the life of the nuclear power plant until 2040 (although the current upgrade of the plant by Rosatom will extend the operation of the NPP to 2026).

In the oil and gas sector, the highest risks are associated with the development of offshore fields. Recently, Eurasia has not experienced large-scale disasters similar in scale to the explosion at the Deepwater Horizon in 2010; however, extraction of oil and gas in the South China Sea, including in disputed areas, poses a risk of an emergency caused by disruptions in the production process or by military operations.

In 2019, the likelihood of man-made disasters is particularly high for developing countries, where industry is only starting a transition from Industry 2.0, cyber physical systems are not widely integrated, and protective mechanisms against natural disasters and other external influences are not in place. Risks of major nuclear and man-made disasters can be minimized by increasing the security of nuclear facilities in areas of possible armed conflict.
Conclusion: “Challenges Ahead”

The global system constructed after the Cold War is rapidly changing. Increasing economic conflicts, as well as military and political tensions and the politics of sanctions between key actors of international relations are clear symptoms of ongoing changes.

This process did not begin today. The first signs of instability of the system of global governance were manifested in the period of the 2007-2008 global financial crisis. They have gained momentum since then. Therefore, today, when the world is torn apart by trade and sanction wars, and when some regions are in full-scale hot conflicts, the situation is perceived merely as a “new normality”.

How did the world reach such a state, and is this an inevitable consequence of the global processes observed today?

Previously we confidently believed that multilateral institutions would be able to sustain a changing global system. We were prone to ignore the fundamental contradictions and fragility of the global system. However, when the guarantors of the new liberal order themselves began to turn away from the process of globalization and cast doubt on its benefits, it became obvious that the whole structure was standing on “feet of clay”.

Ideally, the multipolarity of the world, embodied in the G-20, was supposed to maintain a balance of interests between “great” powers, as well as new global players, including rapidly growing regional leaders. However, globalization not only brought our markets together into unified trading networks, but also made the world hyper-connected and interdependent, including in a negative sense.

Under these conditions, the inevitable costs of globalization began to lead to an increase in aggressive populism and nationalism. Issues of multilateralism began to give way to economic protectionism and narrowly understood national interests.

In this regard, 2017-2018 was the beginning of fundamental changes, which will be even more evident in the future.

We are confronted not with a recession in the global economy, but possibly with the first symptoms of a crisis of global institutions. Trade wars clearly demonstrate the inability of the World Trade Organization to resolve conflicts between its largest members.

At the same time, there is an active strengthening of regionalization processes. It becomes easier and faster for countries to find a compromise at the regional level, where more favorable conditions are formed, and interests of not only leading powers, but also of other participants are taken into account.

As a result, a transformation of the global system is gradually moving towards the fragmented model of regional blocs. Today, regional blocs are not just economic and trade associations, but also growing political alliances.

The situation to a certain extent begins to resemble the one that existed on the eve of the First World War. During these days we are celebrating the centenary of the anniversary of its end. Then the world was also experiencing a period of unprecedented economic and trade globalization. However, globalization in the past could not save the world from sliding into one of the most severe global conflicts. As is well known, the result was a total restructuring of the world’s geopolitical map and, ultimately, the emergence of two powerful totalitarian ideologies.

The fundamental changes we observe today also bring many new challenges. In the context of the increased instability of the current world order, the responses to these challenges are far from obvious.

However, there are grounds for positive expectations too: the accumulated experience of dialogue, as well as the growing global interconnectedness, which serves as a basis for further cooperation.

In this regard, the key goal of the rating of risks compiled by experts of the Astana Club is not to give a comprehensive forecast for 2019, but to identify the most complex problems that may threaten the security of Eurasia, and to attract the attention of the world community.

At the same time, it is obvious that the identified 10 risks are not the only possible ones and the number may be greater,
especially given the high dynamics of changes. We hope that the presented material will help to understand the most current trends in Eurasia and set the agenda for further discussions about its future.

In general, thoughts about the future can simultaneously frighten and attract, as each of the risks described above has a chance of realization. One point is clear, the neutralization of future challenges and risks will require political will on the part of most international actors, a common interest in sustainable development, and joint efforts of intellectuals around the world.

The Astana Club offers an objective and independent platform for discussing scenarios for the future, which, we are certain, has yet to play its role in solving common problems facing Eurasia and the whole world.
List of international experts who contributed to the Global Risks for Eurasia in 2019

Masahiro Akiyama, president of Akiyama Associates, president of the Tokyo Foundation (2012-2016)

Jon Alterman, Zbigniew Brzezinski chair in global security and geostrategy, director of Middle East Program at CSIS

Matthew Burrows, director of Foresight, Strategy and Risks Initiative of the Atlantic Council, USA

Evgeny Buzhinsky, chairman of the board at PIR Center, vice president of the Russian International Affairs Council (RIAC), Lieutenant-General (retired)


Iftekhar Ahmed Chowdhury, foreign minister of Bangladesh (2007-2009), principal research fellow at the Institute of South Asian Studies (ISAS) in the National University of Singapore


Evan Feigenbaum, vice chairman of the Paulson Institute, former deputy assistant secretary of state, USA

Peter Frankopan, professor of global history at Oxford University, director of the Oxford Center for Byzantine Research, author of “The Silk Roads: A New History of The World”

Franco Frattini, foreign minister of Italy (2002-2004, 2008-2011)

Sergey Guriev, chief economist at the European Bank for Reconstruction and Development

Nikolas Gvosdev, professor at the US Naval College, editor of “The National Interest”

Robert Kaplan, senior advisor, geopolitical expert at Eurasia Group

Bilahari Kausikan, ambassador-at-large at Ministry of Foreign Affairs of Singapore

Turalay Kenc, professor, member of the board of directors at the Cambridge Foundation for World Finance Research, chief researcher at the Center for International Innovation Management, deputy chairman of the Bank of Turkey (2011-2016)

Philippe Le Corre, senior fellow at the Mossavar-Rahmani Center for Business and Management and Belfer Center for Science and International Affairs, Harvard Kennedy School

Yves Leterme, secretary-general at the International Institute for Democracy and Electoral Assistance, Prime Minister of Belgium (2009-2011)

Johannes Linn, nonresident senior fellow in the Global Economy and Development Program at the Brookings Institution, former vice president of the World Bank for Europe and Central Asia


Farkhad Mamedov, director of the Center for Strategic Studies under the President of the Republic of Azerbaijan


Margarita Popova, vice president of the Republic of Bulgaria (2012-2017)

Matthew Rojansky, director of the Wilson Center’s Kennan Institute
Samir Saran, president of the Observer Research Foundation
Dan Smith, director of the Stockholm International Peace Research Institute (SIPRI)
Asle Toje, member of the Norwegian Nobel Peace Prize Committee
Danilo Türk, president of Slovenia (2007-2012), UN assistant secretary general for political affairs (2000-2005)
Marc Uzan, founder and executive director at the Reinventing Bretton Woods Committee
Evgeny Vinokurov, director of the Center for Integration Studies of the Eurasian Development Bank
Vladimir Yakunin, chairman of the Supervisory Board of the Research Institute “Dialogue of Civilizations”

In compiling the material, opinions and quotes from the following experts, retrieved from open sources, were used: Ban Ki-Moon, 8th United Nations secretary-general, Christian Vezina, CISO at VASCO Data Security, Chris Bronk, professor of computer and information systems at the University of Houston, and Kojiro Irikura, honorary professor of seismology at Kyoto University.

We would like to express our highest gratitude and appreciation to the individuals, who contributed significantly to the preparation of the Global Risks for Eurasia in 2019.

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Zhumbek Sarabekov, chief expert of the Eurasian Research Program
Zhaksylyk Sabitov, senior expert of the Internal Political and Humanitarian Research Program
Zhanibek Arynov, senior expert of the Eurasian Research Program
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Methodology for ranking the Global Risks for Eurasia in 2019

- The Global Risks for Eurasia in 2019 was compiled by the Institute of World Economics and Politics under the Foundation of the First President of the Republic of Kazakhstan – Elbasy with the assistance of ISPG | International Strategy Partners Group based on:
  - data from more than 30 reports on global risks over the last 5 years, including Global Risk Reports by WEF, Geopolitical Shocks and Risks by the Atlantic Council, AON risk maps and data from the Frederick S. Pardee Center for International Futures.
  - a survey of more than 1,000 respondents from 60 countries around the world on Global Risks for Eurasia in 2019.
  - opinions of 30 reputable international experts in politics, economics and international relations (see the list above).
- The Global Risks for Eurasia in 2019 is not tied to individual countries, and according to the authors reflects future geopolitical trends for Eurasia as a whole.
- Expert research is based on a comprehensive analysis of current processes in the areas of geopolitics and geoeconomics of Eurasia.

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The work of the foundation is aimed to support talented young people, the development of social projects and civil initiatives, and the development of a competitive expert-analytical center.

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THE INSTITUTE OF WORLD ECONOMICS AND POLITICS (IWEP) created in 2003 under the Foundation of the First President of the Republic of Kazakhstan – Elbasy conducts independent research on a wide range of issues related to Kazakhstan, including global economy, geopolitics, security, intercultural relations, religion and regional integration. The Institute provides this information and analysis to the country’s leadership and participates in the public policy development, both domestically and internationally. It also serves as a platform for public policy discussions and a conduit for communicating Kazakhstan’s positions internationally.

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