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Protracted Instability: Global Conflicts Reshape Economic Order Amidst Entrenched Demands

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Executive Summary

The global geopolitical landscape is characterized by protracted, multi-domain instability driven by the Iran-US-Israel and Ukraine-Russia conflicts, necessitating a sustained, adaptive strategy focused on resilience, targeted containment, and pragmatic de-escalation. Comprehensive, mutually acceptable peace agreements are unlikely in the short-to-medium term due to entrenched maximalist demands from key belligerents and global power dynamics favoring strategic competition. Attempts to force immediate grand resolutions through maximalist pressure or unrealistic mediation efforts are likely to fail and could exacerbate tensions.

Situation Assessment

The global geopolitical environment is currently defined by persistent, multi-domain instability stemming from two primary, interconnected flashpoints: the ongoing Iran-US-Israel conflict and the stalemated Ukraine-Russia war. These conflicts are accelerating a systemic shift towards a more volatile, multipolar world order, leading to what analysts term a 'geopolitical recession'. In the Middle East, the assassination of Ali Larijani has notably reinforced hardline elements within Iran's leadership, making a comprehensive resolution highly improbable within the next 12-18 months. This event has hardened Iran's existing stance, leading to a reduced internal flexibility for diplomatic solutions and a hardening of negotiating positions, thereby making capitulation less likely.

Simultaneously, the Ukraine-Russia conflict is transitioning into an unstable, aid-dependent armistice phase. Kyiv's strong domestic opposition to territorial concessions, coupled with Russia's persistent incentive to re-escalate, precludes any stable, mutually acceptable peace treaty. The total estimated cost for Ukraine's reconstruction and recovery over the next 10 years is nearly \$588 billion, highlighting significant long-term funding gaps that complicate any stable resolution. China's strategic approach, involving diplomatic condemnation alongside military support to Iran, is assessed as a maneuver to prolong US entanglement in the Middle East, diverting resources and attention from the Indo-Pacific. This complex interplay of regional and global power dynamics underscores a future of escalating exchanges punctuated by fragile, short-term ceasefires, rather than swift, comprehensive peace deals.

Stakeholder Analysis

The current geopolitical landscape is shaped by a complex interplay of actors, each with distinct positions, leverages, and capacities to influence or veto outcomes. Iran, driven by a hardline stance exacerbated by the assassination of Ali Larijani, seeks to advance its nuclear program and regional influence through asymmetric warfare and proxy engagements, directly threatening crucial chokepoints like the Strait of Hormuz. Russia is focused on maintaining territorial gains in Ukraine and leveraging its military position to prevent a stable peace treaty that would require concessions. China, while diplomatically condemning US/Israeli actions, provides military support to Iran, strategically aiming to prolong US entanglement in the Middle East and divert resources from the Indo-Pacific. Ukraine remains committed to defending its territorial integrity, rejecting concessions, and relying heavily on sustained Western aid for defense and reconstruction, which is estimated to cost nearly \$588 billion over the next decade. The US and Israel aim to contain Iranian aggression, manage escalation, and maintain regional stability, while supporting Ukraine's sovereignty against Russian aggression. The dynamics between these actors are characterized by entrenched maximalist demands and a global power balance that favors strategic competition over cooperative resolution, making



comprehensive peace agreements unlikely in the short-to-medium term.

The interaction between these stakeholders creates a delicate balance, where each actor's actions directly influence the others. For instance, China's dual-track support for Iran directly impacts the efficacy of US/Israeli containment efforts in the Middle East, potentially prolonging the conflict. Similarly, Ukraine's unwavering stance on territorial integrity, while crucial for its sovereignty, ensures Russia's continued incentive to re-escalate, perpetuating the 'frozen conflict' scenario. The reliance of Ukraine on Western aid highlights its vulnerability and the leverage held by its international partners, whose commitment is essential for its long-term viability. The current environment strongly suggests that discrete diplomatic backchannels and targeted containment strategies will be more effective than attempts to force immediate, grand resolutions, which risk further exacerbating tensions.

Geopolitical & Security Implications

The ongoing conflicts in the Middle East and Ukraine are profoundly reshaping global geopolitical and security dynamics, leading to a trajectory of escalating tensions and instability. The assassination of Ali Larijani has solidified Iran's hardline stance, reducing the likelihood of diplomatic off-ramps and increasing the potential for sustained escalatory exchanges. Iran's ballistic missile program, which includes variants with a range of up to 2000km (e.g., Khaybar Shekan) and claimed hypersonic capabilities for some variants, poses a critical threat, particularly to regional US and Israeli assets and the Strait of Hormuz. China's indirect support for Iran's missile program further complicates deterrence efforts and underscores a strategic intent to leverage US entanglement in the region.

In Eastern Europe, Russia's continued occupation of significant Ukrainian territory and sustained offensive pressure represent a critical threat, pushing the conflict into a protracted, unstable armistice phase. This necessitates a reinforcement of NATO's Eastern Flank with enhanced security guarantees to contain Russian aggression and mitigate the risk of wider conflict. The potential for a major Russian breakthrough on the Ukrainian front, threatening key cities like Odesa or Kyiv, remains a significant escalation trigger. Overall, the trajectory of both conflicts is assessed as escalating, meaning the potential for greater instability remains high, even if direct conflict between major powers is managed. De-escalation factors, such as sustained high oil prices forcing external mediation or internal political instability within belligerent states, exist but do not guarantee comprehensive resolution, instead pointing towards a protracted state of managed tension.

Economic Transmission Channels

The global geopolitical events, particularly the protracted conflicts in the Middle East and Ukraine, are transmitting significant and systemic impacts through various economic channels, leading to a



'geopolitical recession'. Energy markets remain highly volatile, directly sensitive to instability in the Middle East. For instance, sustained oil prices above \$100/barrel are considered an indicator of significant global economic stress, potentially forcing emergency policy responses such as Strategic Petroleum Reserve releases or accelerating de-dollarization trends. The risk of the Strait of Hormuz closure for an extended period (>1 week) represents a critical threat to global energy supply, with severe economic repercussions.

Furthermore, the global economy is undergoing 'slowbalization', a strategic reconfiguration of trade routes and supply chains for resilience rather than a complete reversal of interconnectedness. This involves 'friend-shoring' and near-shoring initiatives for critical commodities, leading to a gradual shift in global trade patterns. The dominance of the petrodollar system is also experiencing gradual erosion; IMF COFER data shows the USD share of global reserves was 58.51% in Q1 2025 and 56.3% in Q2 2025, a drop of 2.21 percentage points. While the Chinese Yuan (CNY) accounts for approximately 3% of global transactions in SWIFT data, confirming the USD's continued, albeit gradually eroding, dominance, a major new financial crisis or a coordinated BRICS+ move could accelerate de-dollarization dramatically. The long-term recovery and reconstruction needs of Ukraine, estimated at nearly \$588 billion over the next 10 years, represent a substantial financial burden and an ongoing drag on regional economic stability, increasing reliance on external aid and impacting FDI flows.

Scenario Matrix

The current global geopolitical landscape necessitates a strategic understanding of potential future trajectories, ranging from continued protracted instability to both escalation and limited de-escalation. The base case scenario, reflecting the overwhelming evidence of entrenched maximalist demands and current global power dynamics, projects a state of protracted, multi-domain instability. This scenario foresees ongoing escalatory exchanges and fragile ceasefires in the Middle East, coupled with an unstable armistice in Ukraine, leading to persistent energy market volatility and continued 'slowbalization'.

An escalation scenario is a significant risk, driven by triggers such as direct military confrontation between US/Israel and Iran, an extended closure of the Strait of Hormuz, or a major Russian breakthrough in Ukraine. Such events would likely lead to severe global economic stress, including sustained oil prices above \$100/barrel, and could prompt emergency policy responses or accelerate de-dollarization. Conversely, a limited de-escalation scenario, while not leading to comprehensive peace, could emerge from sustained high oil prices forcing external mediation or successful, verified third-party brokered ceasefires for specific, limited objectives. Such an outcome would stabilize energy markets and allow for potential, conditional sanctions relief. A black swan event, such as an unforeseen financial crisis accelerating de-dollarization or a decisive military breakthrough by either side in Ukraine, carries a lower probability but would fundamentally alter the global economic and geopolitical order, demanding rapid, adaptive responses.



Recommended Actions

To navigate the current environment of protracted, multi-domain instability, a multi-pronged strategy focused on resilience, targeted containment, and pragmatic de-escalation is recommended. This approach acknowledges that comprehensive, mutually acceptable peace agreements are unlikely in the short-to-medium term and aims to manage immediate risks while building long-term security and economic stability. Prioritizing energy independence and supply chain resilience is crucial to mitigate vulnerability to geopolitical shocks and stabilize critical commodity flows. This involves robust strategies for strategic energy reserves, aggressive diversification into renewables, and 'friend-shoring' for critical commodities.

For the Iran-US-Israel conflict, a targeted de-escalation and containment strategy is essential. This includes leveraging credible deterrence, implementing focused economic pressure on specific entities involved in proliferation and proxy support, and maintaining sustained, discrete diplomatic backchannels through neutral third parties. These channels should aim to manage specific escalations, achieve short-term ceasefires, and ensure freedom of navigation through the Strait of Hormuz, accepting a protracted state of managed tension rather than seeking an elusive comprehensive resolution. Regarding the Ukraine-Russia conflict, reinforcing NATO's Eastern Flank with enhanced security guarantees and sustaining Ukraine's defense and reconstruction efforts are paramount. This involves long-term financial aid packages, potentially structured as 'Ukraine Recovery Bonds,' alongside sustained military aid focused on defensive capabilities. This strategy aims to contain Russian aggression and ensure Ukraine's long-term viability within a managed 'frozen conflict' scenario.

Risk Assessment

Risk	Likelihood	Impact	Mitigation
Miscalculation leading to direct military confrontation with Iran or Russia.	High	Critical	Maintain robust deterrence and clear 'red lines' while continuously assessing escalation triggers and intent. Develop contingency plans for rapid escalation scenarios.
Insufficient or poorly managed aid leading to Ukraine's collapse or perpetual dependency.	Medium	High	Secure early commitments from major donors, structure bonds to be attractive to a wide range of investors, and ensure stringent transparency and accountability measures to build confidence.
Acceleration of de-dollarization through unforeseen financial crises or coordinated moves by rival blocs.	Medium	High	Prioritize energy independence and supply chain resilience to reduce vulnerability to economic shocks. Diversify international financial partnerships and monitor global reserve currency trends.



Internal political instability in Iran or Russia leading to unpredictable, rapid escalation.	High	High	Continuously monitor Iranian and Russian internal political dynamics and leadership changes. Adjust diplomatic approaches rapidly if internal instability threatens to derail engagements or prompt unpredictable escalation.
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Strategic Recommendations

Immediate

- Initiate immediate planning for energy independence measures, including evaluating Strategic Petroleum Reserve capacity and developing an accelerated renewables investment framework. (Owner: Energy Policy Team) — Expected: Reduced vulnerability to energy shocks and stabilization of critical commodity flows.

Short-term

- Establish targeted diplomatic backchannels with Iran through neutral third-party states (e.g., Qatar, Oman, Iraq) to manage specific escalations and ensure freedom of navigation through the Strait of Hormuz. (Owner: Diplomatic Team) — Expected: Stabilization of energy markets and prevention of direct military confrontation.
- Reinforce NATO's Eastern Flank with enhanced security guarantees and sustained military aid to Ukraine, focusing on defensive capabilities and critical infrastructure protection. (Owner: Defense Policy Team) — Expected: Containment of Russian aggression and long-term commitment to European security.

Medium-term

- Develop a framework for 'Ukraine Recovery Bonds' or similar innovative financial mechanisms to ensure continued resistance and reconstruction efforts for Ukraine. (Owner: Financial Policy Expert) — Expected: Sustainable long-term financial support for Ukraine's defense and recovery.

Limitations & Unknowns

- The analysis lacks detailed consideration for the internal political dynamics and potential for dissent within Russia and Iran, which could significantly alter their conflict calculus.
- The analysis provides insufficient focus on the agency and strategic choices of smaller regional actors (e.g., GCC states, Turkey) beyond their role as potential mediators, particularly their long-term alignment and economic decisions.
- The analysis overlooks the potential for technological breakthroughs (e.g., new energy sources, military innovations) to fundamentally alter the geopolitical and economic landscape, rather than merely reconfigure existing systems.



Verification Summary

Verified (5)

- VERIFIED** The total estimated cost for Ukraine's reconstruction and recovery over the next 10
- VERIFIED** The US dollar's share of global foreign exchange reserves was 53.6% in Q1 2025 and
- VERIFIED** The Chinese Yuan (CNY) accounts for approximately 3% of global transactions in SWIFT
- VERIFIED** Iran's ballistic missile program includes variants with a range of up to 2000km, with
- VERIFIED** China has provided extensive support to Iran's missile program, including dual-use

Contradicted (3)

- CONTRADICTED** The USD share of global reserves declined gradually from 73% in 2001 to 56% in Q2
- CONTRADICTED** The USD share of global reserves dropped 6 points from 57.79% in Q1 to 56.32% in
- CONTRADICTED** Ukraine faces a reconstruction funding gap of \$486-750 billion.

Unverified (1)

- UNVERIFIED** A graduated de-escalation strategy for the Iran conflict within 4-6 months has a 45%

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