



WORLDWIDE THREAT ASSESSMENT

JULY 2018



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INTRODUCTION

BI-ANNUAL WORLDWIDE THREAT ASSESSMENT

The goal of this report is to provide an overview of global security developments that have taken place over the first half of the year. It assesses their impacts, examines trends, and focuses on how these events will shape future safety and security concerns for global businesses and international travelers.

Global Guardian offers an integrated suite of best-in-class security services that help clients identify and mitigate the risks of traveling and doing business both overseas and domestically. These services include: personnel tracking, emergency response, security and transportation support, intelligence and due diligence, medical support and transportation, emergency and custom aviation, cyber security, and video surveillance monitoring.

Global Guardian seamlessly integrates and delivers these capabilities 24-hours-a-day under the close guidance of its Operations Center.



Global Terrorism – Islamic State Endures

The self-proclaimed Islamic State (ISIS) will continue to pose a global threat in the short to medium term. With the Syrian Civil War winding down, over 1500 European jihadists are believed to have returned to Europe with their technical expertise and experience, posing a major threat to capital cities in Europe.

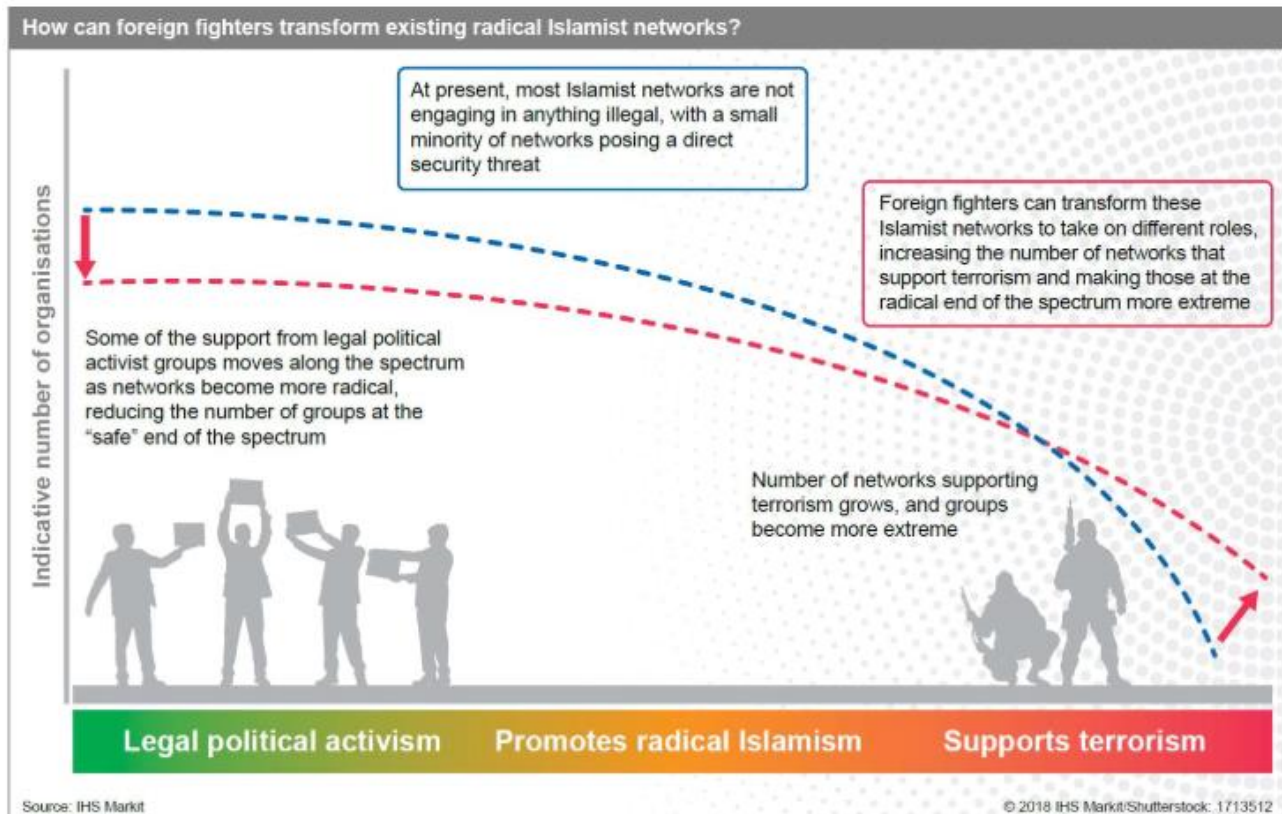
Nine months after President Trump announced the defeat of ISIS, the threat from radical Islamic terror still looms globally. ISIS and its affiliates remain highly active in Afghanistan, the Sinai Peninsula (Egypt), Libya, Yemen, Somalia, Mali, Niger, Nigeria and the Philippines. More importantly, the once dubbed “world’s richest terrorist organization” is still in business. ISIS continues to capitalize on Iraq’s large informal economy, having invested over \$250 million in local business and is estimated to have funneled over \$400 million out of Iraq and Syria into its global financial apparatus.

Terrorist organizations flourish in regions suffering from political instability, weak and corrupt institutions, and socio-political grievances. The contested election of Shia leader Muqtada al-Sadr as Prime Minister of Iraq all but ensures an ISIS or other Salafist-jihadist resurgence in Iraq. But even stable countries with a strong rule of law and sophisticated intelligence services are not immune to the threat emanating from ISIS and other extremist groups.

SPOTLIGHT: Europe

The absence of mass-casualty terrorist attacks so far in 2018 does not signal a decrease in the terror threat, but rather a temporary lull. In the United Kingdom (UK), the number of terror-related search warrants and convicted terrorists rose by 59 and 24 percent respectively. Over the past year, MI5, Britain’s domestic security service, has disrupted an average of one terrorist plot per month. Across the continent, many of those currently imprisoned for providing support to groups like ISIS and al-Qaeda over the past four years will likely be released between 2019 and 2023. More often than not, prison serves to radicalize — not deradicalize — offenders, creating dangerous prison networks that can materialize into future terror cells.

What is more, European countries will face an elevated terrorism risk from the over 1500 foreign terrorist fighters (FTFs) returning from the Middle East. The FTFs will bring their training and expertise back to the continent, leveraging ISIS' proficiency in carrying out car bombings and possibly even drone-based attacks. As seen below, the return of FTFs has the potential to transformation radical Islamist support networks into operational terror cells.



As ISIS loses its few remaining pockets of territory in Syria and Iraq, international operations will become even more important for the group to remain relevant to its supporters. European security services will soon be overwhelmed by the confluence of returning militants, increasingly radicalized Islamist networks and a rising population of Islamist inmates.

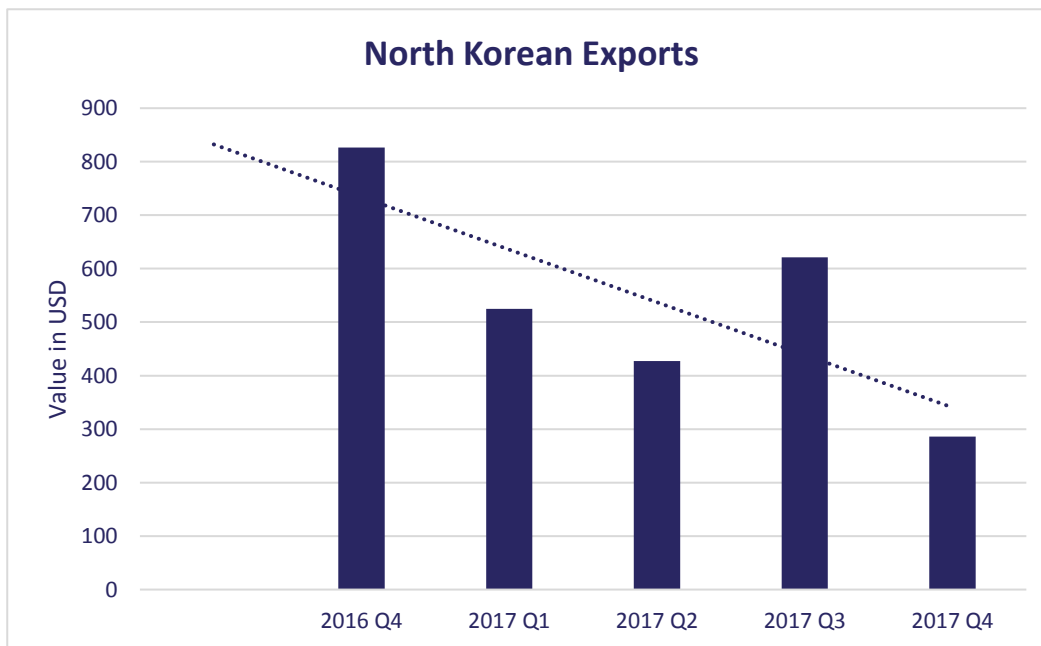
KEY TAKEAWAYS

The **current threat level for international terrorism in the UK is severe** and the European Police Agency believes the **terror threat remains high in Europe** despite the decline of the so-called Islamic State in Iraq and Syria. The return of the over 1500 FTFs from the Middle East, combined with the future release of many convicted terrorists from prison in the medium term will soon overwhelm European security agencies and lead to a rise in terrorist attacks across the continent.

Diplomatic Update Part I – North Korea

Two critical developments in Q2 have shifted the sources of the main geopolitical threats from Pyongyang to Tehran: The United States' (US) withdrawal from the Joint Comprehensive Plan of Action (JCPOA) and the Trump-Un Summit. The Singapore Summit between President Trump and North Korean President Kim has eased tensions between the two nations, but is unlikely to lead to a complete, verifiable, and irreversible denuclearization (CVID).

A crippling international sanctions regime has impeded President Kim's objective to slowly liberalize the "Hermit Kingdom."



Source: International Monetary Fund

Armed with the security of an effective nuclear deterrent, in his 2018 New Year's address, North Korean President Kim Jong-un set out on a charm offensive, offering to enter talks with Seoul and send a delegation to the PyeongChang Winter Olympics.

North Korea's diplomatic encounters

With SOUTH KOREA



FEBRUARY

N. Korean leader Kim Jong Un sends his sister **Kim Yo Jong** to Winter Olympics in Pyeongchang

MARCH

APRIL

Kim (*photo L*) meets **S. Korean President Moon Jae-in** (*photo R*) in Panmunjom

MAY

Meets **Moon Jae-in** in Panmunjom (Demilitarised Zone)

With CHINA



Kim meets **Chinese President Xi Jinping** (*photo R*) in Beijing, on his 1st trip abroad as leader

Meets **Xi Jinping** in Dalian

With the US



Meets **CIA director Mike Pompeo** in Pyongyang

Meets **Pompeo**, now **US Secretary of State**, in Pyongyang

Sources: KCNA via KNS/
KoreaSummitPressPool/US govt

Photos AFP

Graphic Credit: AFP

On 08 March, US President Donald Trump agreed to meet with Kim after South Korean officials delivered an invitation from Kim in the wake of their 06 March visit to Pyongyang. Soon after, Kim announced suspension of nuclear and missile testing. The two heads of state met in Singapore on 12 June and signed the Singapore Communique — a vague declaration of intentions. President Trump agreed to provide security guarantees to North Korea, including a freeze on joint US-South Korean war games and Chairman Kim committed to the “denuclearization of the Korean Peninsula” and to return the remains of the US service members killed during the Korean War.

Developments Since Singapore

- Secretary Pompeo's July visit to Pyongyang did not lead to diplomatic breakthroughs: no joint working groups were established, no formal statements on denuclearization have been made and Kim refused to meet Pompeo.
- North Korea has allegedly upgraded nuclear enrichment sites and expanded production of solid fuel engines for its missiles.
- North Korea has returned the possible remains of 55 American servicemen.
- North Korea has begun to dismantle its main satellite launch site
- China and Russia have circumvented international sanctions, loosening the economic pressure on North Korea.

North Korea begins to dismantle Sohae launch site 22 July 2018



Graphic Credit: Airbus Defense & Space/38 North

Diplomatic Challenges Ahead

Now that the overarching framework for advancing the diplomatic process has been set, the challenge of implementation remains. Both the US and North Korea are still sending mixed messages as to how they will approach denuclearization. But it appears the US is backing down from its previous position — North Korea's complete, verifiable, and irreversible denuclearization (CVID) must happen at the beginning of the negotiations — to Pyongyang's preference of a phased approach, whereby each step is tied to an American concession. On 23 July, North Korea indicated that a US-North Korean peace treaty would be the first step. North Korea has a great deal invested in its nuclear program, scaling it back will be a long and painstaking process. Any efforts to hasten the process will backfire, risking the collapse of talks and return to the brink.

KEY TAKEAWAYS

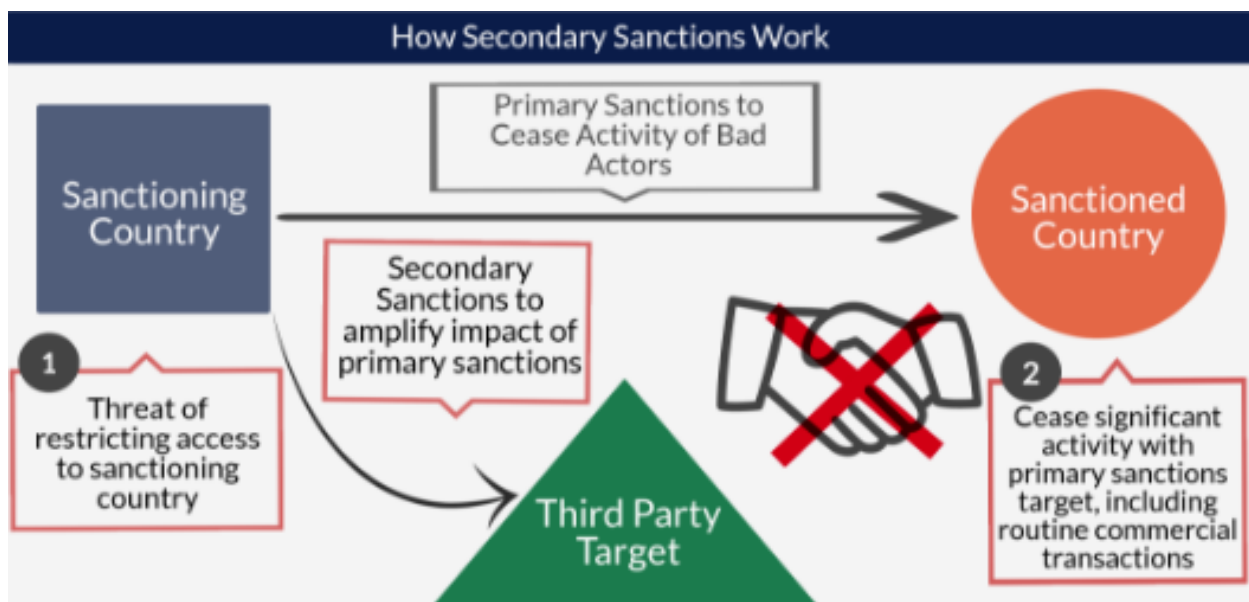
The Singapore Summit has rapidly **reduced the geopolitical threat emanating from North Korea**. While Pyongyang and Washington may differ in their approaches toward denuclearization, the upcoming midterm elections and the prestige that President Trump has personally invested in this issue **imply a low risk of a major conflagration in the short-term**. Yet, in the long-term, an **absence of economic relief in North Korea or diplomatic progress may engender a return to belligerence from North Korea**.

Diplomatic Update Part 2 – Iran

America’s full-court press on the Iranian economy all but guarantees Iran’s financial ruin, which will encourage Iranian attacks on American interests in the Middle East.

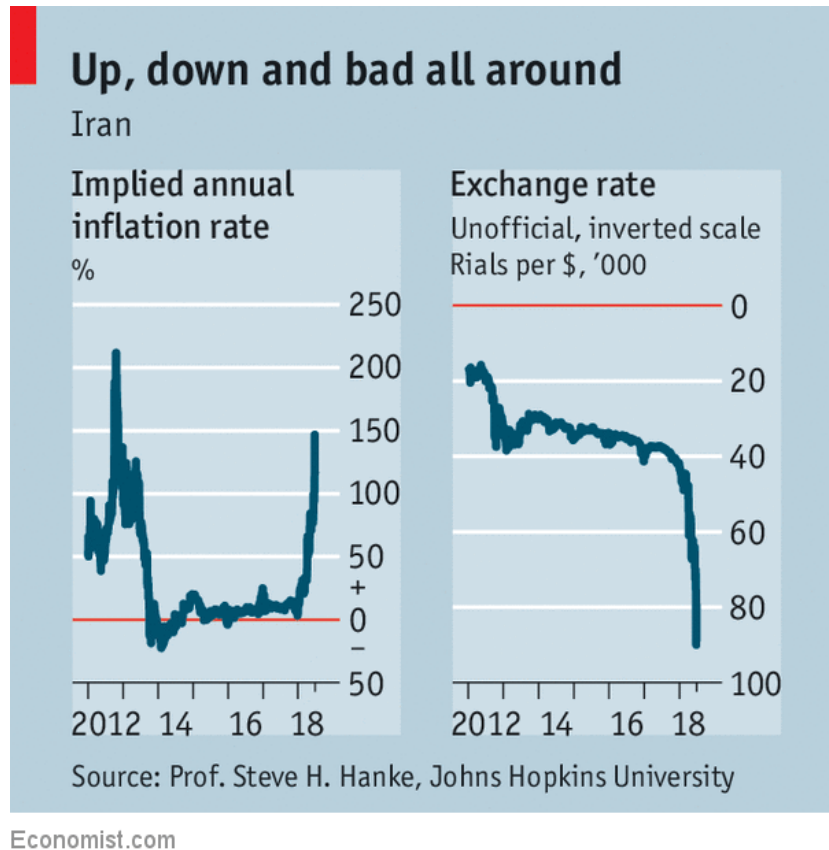
President Trump’s confrontational posture towards Tehran has been a hallmark of his presidency — it is the focal point of his administration’s efforts to redefine its engagement with the Middle East. Citing the agreement’s purported failure to protect American national security interests, Iranian “bad faith,” Iran’s ongoing ballistic missile program, and its concomitant destabilizing regional influence, President Trump announced that the US would unilaterally reimpose sanctions on the Islamic Republic of Iran on 08 May. In doing so, the US will reimpose curbs on Iranian purchases of dollars and use of the American financial system. The sanctions will be implemented in two phases:

1. **06 August:** Iran’s trade in gold and precious metals, transactions in the rial currency and the Iranian automotive sector will be sanctioned.
2. **04 November:** Iranian shipping, oil exports and, foreign corporations and financial institutions dealing with Iran will be sanctioned (**secondary sanctions**).



Graphic Credit: The Atlantic Council

Even before taking effect, the looming sanctions are crippling Iran's economy by spooking investors. Iran's economic situation has triggered mass grassroots demonstrations, putting severe strain on the regime.



Potential Iranian Pushback

- Nuclear brinkmanship: Iran may accelerate its centrifuge and nuclear fuel production, restart testing ballistic missiles, and stockpile low-enriched uranium.
- Regional Aggression: Iran may direct its forces and regional proxies to attack American, Israeli or Gulf Cooperation Council (Saudi Arabia and United Arab Emirates) forces in the region and disrupt oil production in the Gulf via cyberattacks or military action.

KEY TAKEAWAYS

America's reinstatement of sanctions on Iran has **drastically increased the geopolitical threat from Iran**. The economic pressure placed on Iran has increased the likelihood of Iranian-backed disruptions in the Middle East. **Although Iran will not restart its nuclear weapons program, Iran and its proxies may target American, Israeli, Saudi and Emirati interests both in the Middle East and abroad.**

Mexico – Record Violence Continues

Mexico's homicide count has spiked over the last 18 months, with 2017 proving to be its deadliest year on record. According to the Mexican government, at least 25,000 citizens were murdered last year, well above the previous peak of 2011. The toll for 2018 is on track to pass 30,000 homicides. Rivalries between and within drug cartels are the main drivers of this violence, with tourist areas seeing some of the largest increases in homicides compared to previous years.

The increased violence has prompted massive demonstrations in cities across Mexico and led multinational businesses such as Coca-Cola to shut down operations in violent states like Guerrero. Several of the most violent cities in the world in 2017 were in Mexico. The same upward trends continue in 2018.

The world's 10 most violent cities in 2017

	Ciudad	País	Homicidios	Habitantes	Tasa
1	Los Cabos	México	365	328,245	111.33
2	Caracas	Venezuela	3,387	3,046,104	111.19
3	Acapulco	México	910	853,646	106.63
4	Natal	Brasil	1,378	1,343,573	102.56
5	Tijuana	México	1,897	1,882,492	100.77
6	La Paz	México	259	305,455	84.79
7	Fortaleza	Brasil	3,270	3,917,279	83.48
8	Victoria	México	301	361,078	83.32
9	Guayana	Venezuela	728	906,879	80.28
10	Belém	Brasil	1,743	2,441,761	71.38

Source: [Mexico Daily News](#)

There are three main drivers of the violence:

- Fracturing of drug cartels due to arrests or deaths of kingpins, leaving the groups fragmented and prone to infighting for control, especially of new areas as they seek to expand operations.
- Short supply of police officers; over 115,000 police positions remain unfilled across the country due to low pay and endemic corruption. There is a culture of impunity in Mexico.
- Widespread corruption at the local, state, and federal level. Dozens of mayors of small towns have either been arrested or killed due to their involvement in organized crime. In June, the entire police force of the town of Ocampo was disarmed and arrested on suspicion of murdering a mayoral candidate.

SPOTLIGHT: Cancun

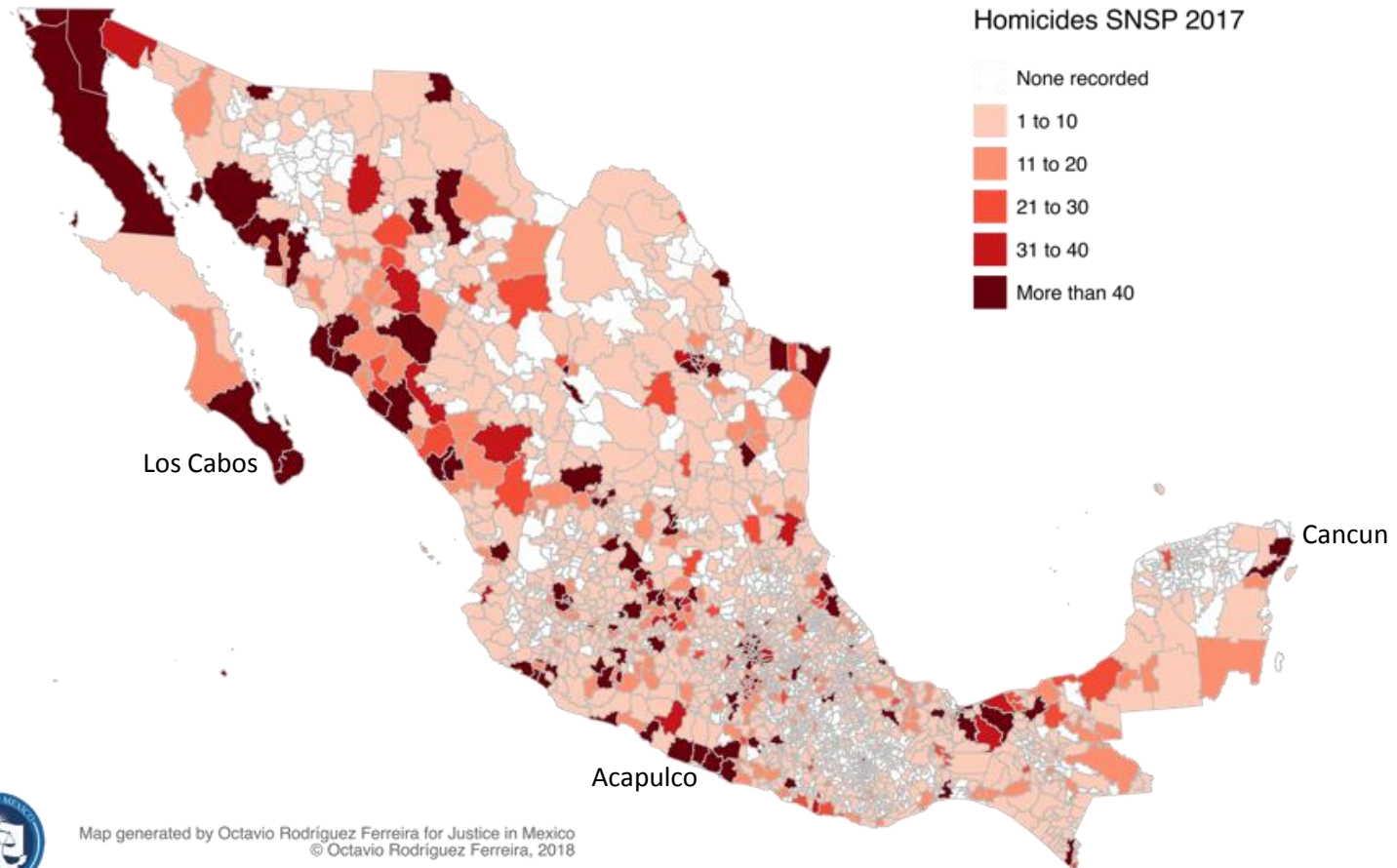
Cancun is among those areas, including Playa del Carmen and Cozumel, that have seen an increase in cartel-related violence in the last year. Cancun's murder rate has doubled so far in 2018 compared to the same time in 2017, which itself had doubled from 2016. Recent incidents include:

- 1 May 2018, five bodies were found in a car near the office of the General State Prosecutor in Cancun. They were tortured to death, and two of the bodies had been decapitated, along with having their hearts removed. Carved into their skin was a large letter Z, indicating they were victims of Los Zetas, the most brutal cartel in Mexico.
- Over 4-5 April 2018, fourteen people were killed and five injured in a 36-hour span, as organized criminal elements attacked each other in six separate incidents throughout Cancun.
- 11 January 2018, three people were killed and seven injured in a shooting at a popular restaurant-bar in the Cancun neighborhood known as "The Mexican Caribbean."

The uptick in violence began three years ago and is the result of conflict for plaza control between cartels. It is primarily Los Zetas, the Gulf Cartel (CDG), and Jalisco New Generation (CJNG) fighting between and amongst each other. While there has not been significant impact on tourism in these areas, it is only a matter of time before a foreign tourist is caught in the crossfire or kidnapped and killed by elements of organized crime.

Homicide Concentration in 2017

250 0 250 500 750 1000 km



Source: [Justice Mexico](#)

KEY TAKEAWAYS

Homicide trends indicate 2018 is on course to become Mexico's deadliest year in the last two decades, surpassing 2017, which itself was the deadliest year on record. Given the increase in violence and the potential for crossfire incidents, it will be important to monitor the areas of Mexico generating heightened concern in 2018: Baja California, Baja California Sur, and Quintana Roo. Associated crimes such as kidnapping, extortion, and armed robbery are also on the rise, posing an increased risk to foreign travelers.

Trouble in Central America – Unrest in Haiti and Nicaragua

Once considered the safest nation in Latin America, Nicaragua continues to be swept by grassroots protests that are being met with increasing levels of state-sanctioned violence. Meanwhile, in Haiti, tensions are high after four days of rioting following the government's decision to hike fuel prices on 6 July.

The collapse of Venezuela is beginning to destabilize Central American nations dependent on Venezuelan political support, financial aid, and cheap fuel.

Venezuela's oil diplomacy

Petrocaribe is an agreement under which Venezuela provides oil to partner nations. Seventeen countries in Latin America and the Caribbean receive shipments under preferential repayment terms through the deal. Last year, Venezuela sent those countries more than 240,000 barrels a day of crude and refined petroleum products.



Facing strong economic headwinds, both Nicaraguan President Daniel Ortega and Haitian President Jovenel Moïse have rolled out unpopular economic policies, triggering serious political unrest in 2018. While the impetus of these two protests are different, Nicaragua and Haiti both possess very young populations and suffer from rampant corruption.

SPOTLIGHT: Nicaragua

On 18 April, citizens took to the streets in protest of President Ortega's controversial pension system reform. However, this was merely an excuse for many elements in society to voice their outrage over the corruption that has driven Ortega's creeping consolidation of power.

Despite having rescinded the reform only four days later, protests continue to engulf the nation. Ortega has tried to prevent and repress protests with police brutality, mass incarceration, and plainclothes shock troops to confront and intimidate protesters. To date, over 350 protesters have been killed in a bloody crackdown. The violence has been brutal and indiscriminate: on 16 June an entire family was burned alive; and reports of kidnappings and torture are now common.

There are currently no signs of abatement, as Ortega has refused to step down until the end of the end of the electoral period in 2021.

Corruption Perceptions Index 2017: The Americas

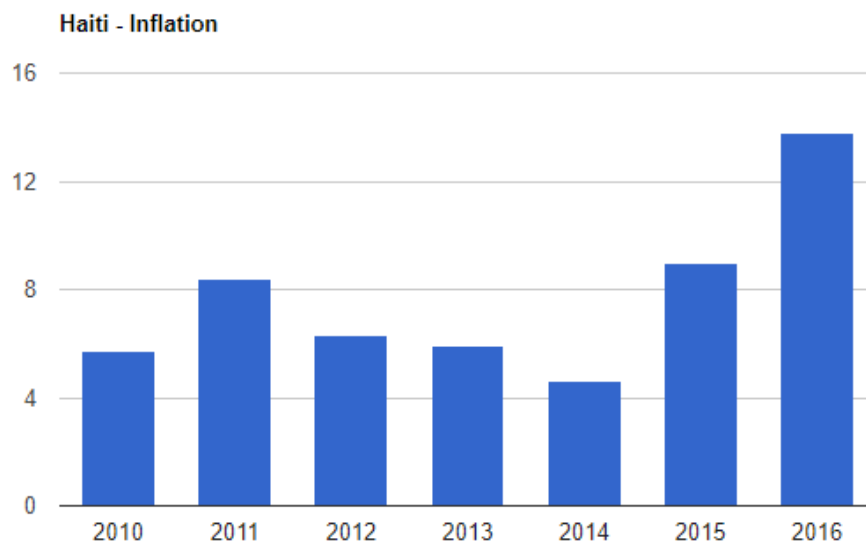
Country	CPI Score 2017	Rank 2017
Canada	82	8
United States of America	75	16
Uruguay	70	23
Barbados	68	25
Chile	67	26
Bahamas	65	28
Costa Rica	59	38
Saint Vincent and the Grenadines	58	40
Dominica	57	42
Saint Lucia	55	48
Grenada	52	52
Cuba	47	62
Jamaica	44	68
Suriname	41	77
Trinidad and Tobago	41	77
Argentina	39	85
Guyana	38	91
Brazil	37	96
Colombia	37	96
Panama	37	96
Peru	37	96
Bolivia	33	112
El Salvador	33	112
Ecuador	32	117
Dominican Republic	29	135
Honduras	29	135
Mexico	29	135
Paraguay	29	135
Guatemala	28	143
Nicaragua	26	151
Haiti	22	157
Venezuela	18	169
REGIONAL AVERAGE		44.19

Source: Transparency International

SPOTLIGHT: Haiti

On 6 July, as the country was gathered to watch the World Cup, President Moïse announced double-digit price increases on gasoline, diesel, and kerosene. It triggered widespread anger in Port-au-Prince and in some areas, such as Delmas, protesters erected flaming barricades and clashed with police. At least seven people were killed, and dozens of businesses and cars were looted, burned, and destroyed.

Mass unrest has paralyzed the country in the past. Still yet to recover from the 2010 earthquake, the outlook for Haiti is dim. With 80 percent of the population living on less than \$2 per day, an ongoing cholera epidemic, rampant corruption, high inflation, and an angry and unemployed youth (60 percent) base, Haiti will inevitably experience further violent protests in the near future. One possible trigger could be a poor government response to, or fuel price hike resulting from, a major hurricane — which the National Oceanic and Atmospheric Administration (NOAA) predicts will occur up to four times in the coming six months.



Source: The World Bank

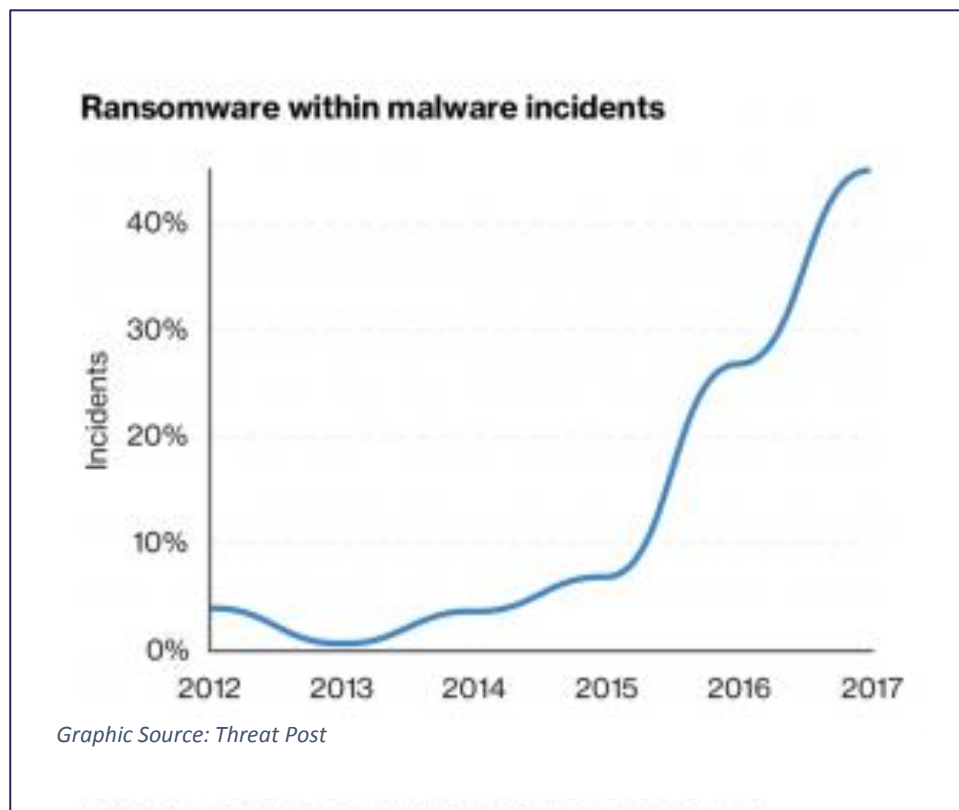
KEY TAKEAWAYS

Since April, **Central America has been beset by a serious bout of violence and civil unrest.** While the riots were only temporary in Haiti, after allientating both the business community and the church, **violence will continue in Nicaragua.** But with high oil prices and rising interest rates, the question remains: which highly corrupt and hurricane-prone Central American nation dependant on Venezuelan oil will experience unrest next?

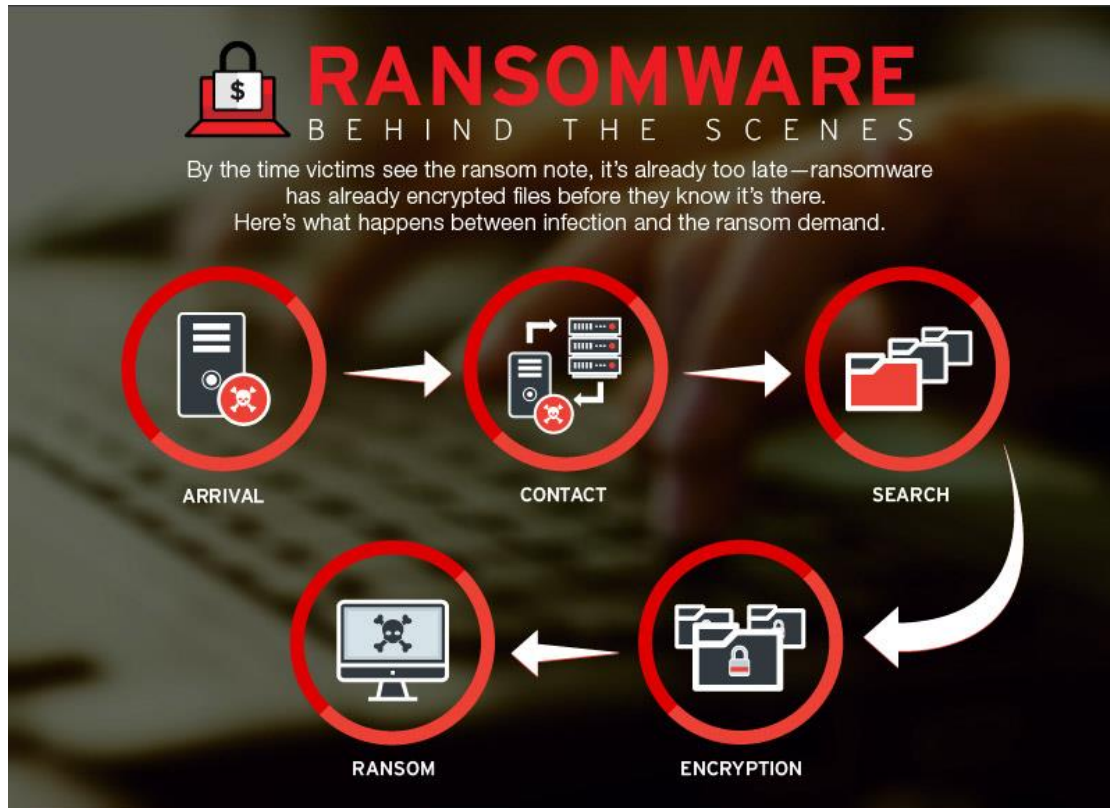
Cyber Security – The Rise of Ransomware

Ransomware is now the most prevalent type of malicious software used in cyber-attacks. Ransomware is a crypto virus — a type of malware that extorts its victims by threatening to block access to specific files or an entire system or drive, potentially crippling the day-to-day operations of an organization. Unlike older and less advanced malware, ransomware can target critical business systems, which can do more damage to an organization, making it possible to extort higher ransoms and devastate operations.

Ransomware attacks have been increasing in frequency over the last five years, and the last six months have witnessed a 229 percent year-to-date increase. This type of attack is appealing to hackers because they are low cost and high reward: they are difficult and costly to attribute; and the use of cryptocurrencies allows the attackers to receive untraceable payment. Ransomware takes one of two forms: lockers and cryptos.



How Crypto Ransomware Operates



Graphic Credit: Trend Micro

Crypto ransomware attacks occur in the following stages:

Arrival: Ransomware is activated upon a user clicking a link in an email or a website. It downloads itself into the system and starts running in the background.

Contact: It contacts its command and control (C&C) server to exchange configuration information. This may include cryptographic keys for later use.

Search: It searches the system for important files by their file types.

Encryption: It then generates encryption keys that might involve keys exchanged earlier with C&C. These keys are used to encrypt files identified by its search. Symptoms of an encryption algorithm running in the user's background include a slowdown of the system, and a flickering of the hard drive light.

Ransom: User is displayed the ransom messages once all identified files have been encrypted.

Notable Attacks Q1 and Q2 2018

In 2017, companies and governments across the globe were ravaged by NotPetya and WannaCry ransomware. Listed below are the most notable attacks of Q1 and Q2 2018:

- 18 January, Chicago-based Allscripts' electronic health record and controlled substances prescription systems were disabled.
- 22 March, the systems of multiple departments of the City of Atlanta were disabled.
- 23 March, systems in a Boeing's Charleston, SC production plant were disabled.
- 28 March, the City of Baltimore's emergency dispatch system was disabled.

What to look for in Q3 and Q4 2018

Just as ransomware prevention, detection, and recovery tools and techniques have improved, so too have ransomware developers. Here are five trends that Global Guardian is tracking:

1. **Slower encryption:** Instead of encrypting all targeted files at once, more advanced ransomware will evade detection by increasing the encryption timeframe. The slower rate of infection will also allow the malware to encrypt back-up files.
2. **Non-linear & Polymorphic encryption:** More advanced ransomware will evade detection by encrypting files in a random order. Polymorphic ransomware thwarts detection by continually adapting its code.
3. **Point of Entry Shift:** More adept hackers will move from delivering ransomware via email link to entering through a document attachment that contains a script to launch the ransomware.
4. **Hard Drive Encryption:** More advanced ransomware may bypass single files and attack the hard drive directly, holding the entire system hostage.
5. **Ransomware as decoy:** Sophisticated, state-backed hackers are beginning to employ ransomware as a foil to infect different types of malware into systems for the purpose of espionage or sabotage. This year is likely to see the use of ransomware as a foreign policy tool directed against a major target. The likely threat actors to launch future ransomware attacks as a decoy are Iran, North Korea, Russia, and China. These actors may target industries that they deem as vital to American or Western interests, namely financial institutions, oil and gas and defense and aerospace companies.

Mobile Phones — The Next Ransomware Threat

Experts estimate that by 2020, there will be 6 billion mobile devices in circulation globally. Israeli hacker Amihai Neiderman uncovered 40 zero-day vulnerabilities in Samsung's open-source operating system, Tizen. These vulnerabilities would allow attackers to remotely control Samsung devices already on the market. It is already possible to reset the lock screen security PIN. The next step in mobile ransomware will be to encrypt an entire device to hold it for ransom.

Prevention and Mitigation

The stronger and more resilient your system is, the more difficult it is to penetrate. One way to do this is to upgrade your network to the most recent Microsoft Windows 10 and Apple MacOS. Ransomware training should be the first line of defense. Increased employee awareness can prevent infection as users must either download contaminated files or access a malicious website to receive the crypto virus. After prevention, the only reliable defense against ransomware is the maintenance of a robust backup and recovery processes. But if the backups are connected to the infected PC, then they too are also vulnerable to the ransomware.

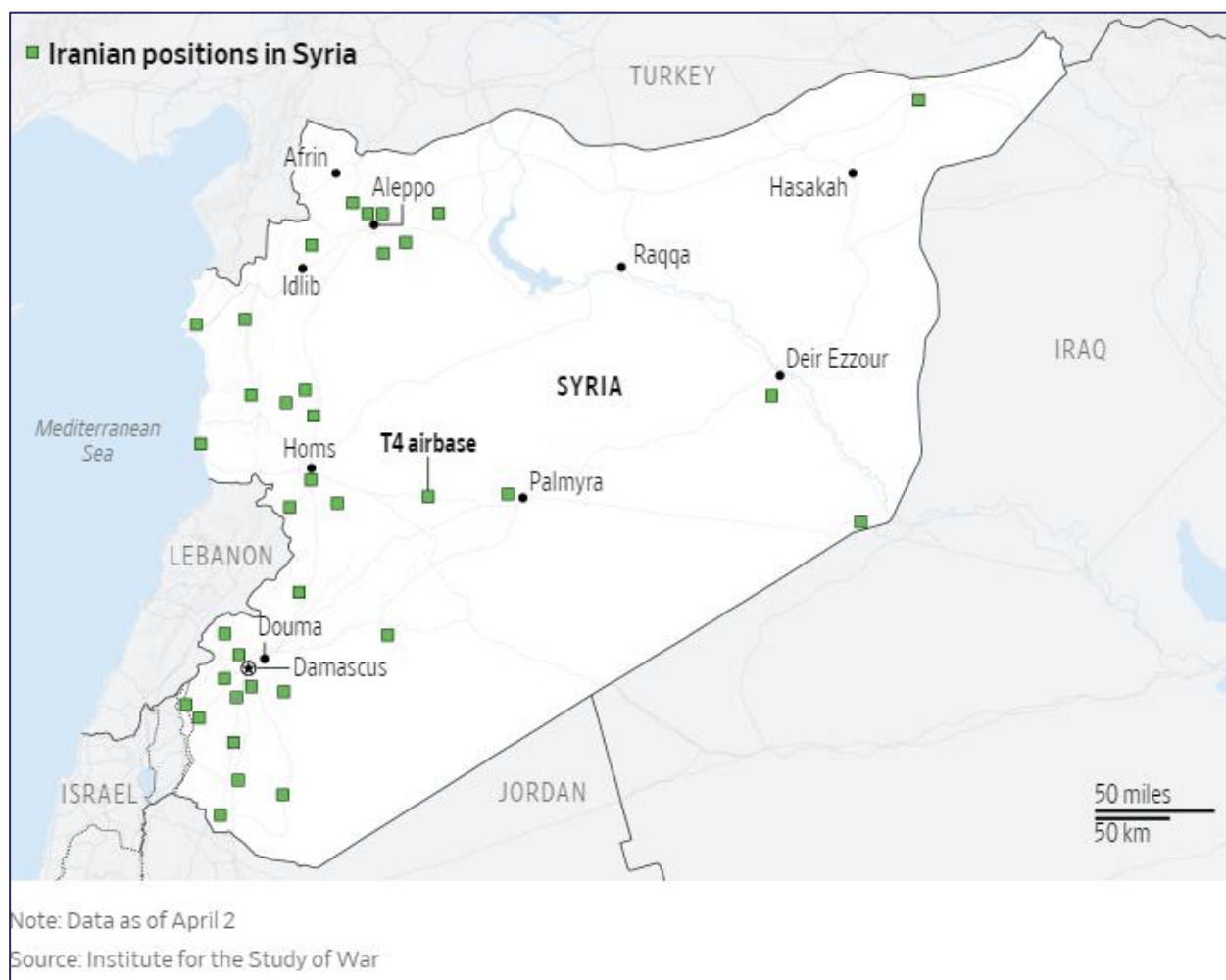
KEY TAKEAWAYS

Ransomware has become the most common type of malware. After many prominent attacks in 2017, Global Guardian expects advances in the sophistication of new ransomware threats. Future attacks will feature: **slower encryption, non-linear and polymorphic encryption, documents as point of entry, hard drive encryption, and ransomware as a decoy.** Upgrading to current opporating systems and staff training are the best defense against this growing cyber-threat.

Syria – Wind-down or Simmer?

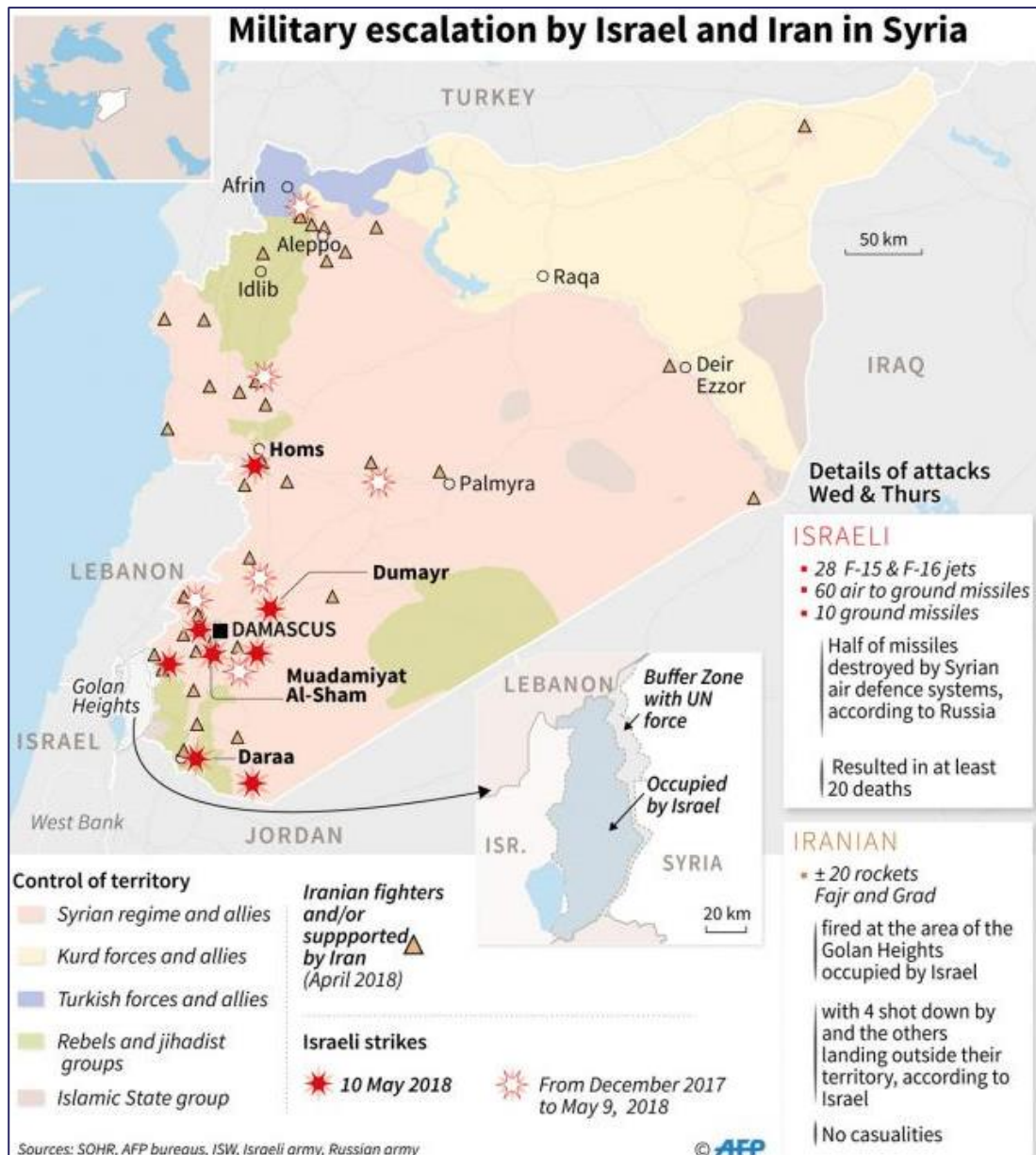
“We will not allow the Iranians to base themselves in Syria and there will be a price for that... To agree to an Iranian presence in Syria, it’s agreeing to the fact that the Iranians will put a noose around your neck.” — Israeli Defense Minister Avigdor Lieberman

Beneath the shadows of the Syrian Civil War, Iran has been expanding its regional military posture by establishing a foothold in Syria. Fearing a scenario in which Syria becomes a second Lebanon — a country where a hostile non-state actor commands an arsenal of over 130,000 rockets aimed at its population centers — Israel has been engaged in a campaign to disrupt the production, transfer and storage of Iranian weapons and its command and control capability.



Major Escalation

Over the last seven years, Israel has launched over 100 separate strikes on Iran-linked targets across Syria. But in February 2018, Israel intensified its campaign after downing an armed Iranian unmanned aerial vehicle violating Israeli airspace. On 9 May, Iran's Quds Force, their expeditionary branch, launched a salvo of 20 rockets at Israeli military positions, prompting the largest military operation undertaken by Israeli forces in Syria since the 1973 Yom Kippur war.

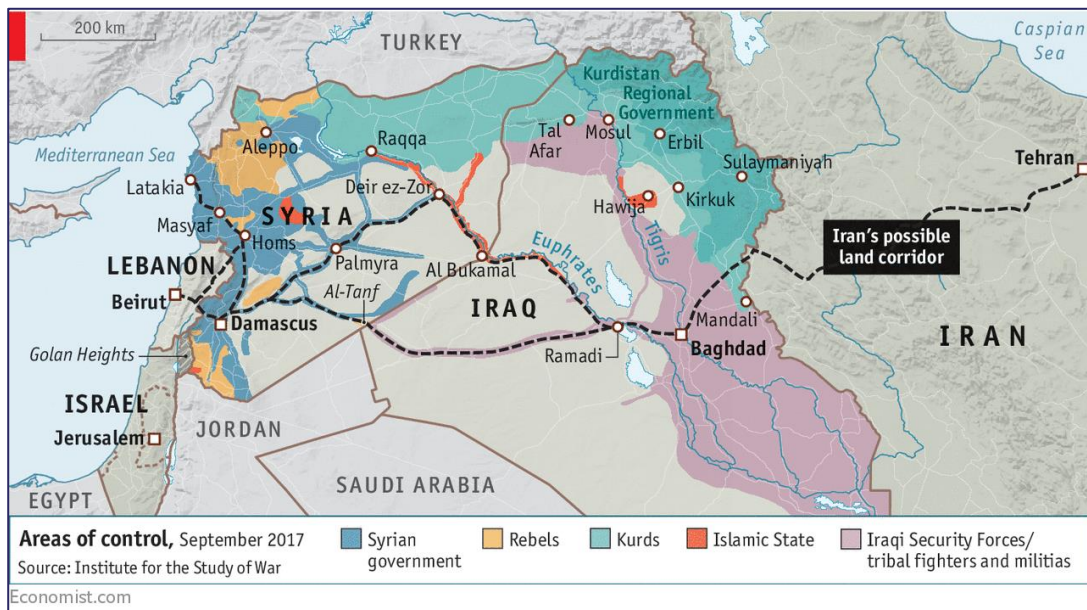


Backed into a Corner

Since President Trump's inaugural trip to Riyadh and Jerusalem in May 2017, America and its allies have redoubled their efforts to curb Iran's regional presence. The Saudis and Emiratis have intensified their campaign against the Iran-backed Houthis in Yemen, the Israelis have destroyed key Iranian infrastructure in Syria; and by withdrawing from the Iran Nuclear Deal, the US has put the Iranian economy in a vice grip, leading to mounting discontent on the home front. Iran views its presence in Syria as a core state interest — having invested over \$30 billion dollars — and it is unlikely to leave without undergoing serious external pressure.

Russia as Referee

Russia is the only actor with the ability to arbitrate and enforce the rules governing the conflict between Israel and Iran and its proxies in Syria and Lebanon. On 23 July, Israel rejected an offer by Russia to keep Iranian forces 100 kilometers (60 miles) from the Israeli border, countering that Iranian long-range weapons, missile factories, and air defense systems must be removed. Adding that Syrian borders must be sealed from Iranian arms smuggling as well. However, the question remains if, and to what extent, it is possible for Russia to satisfy Israel's security concerns. A failure to do so threatens an escalation between Israel and Iran and its proxies.



KEY TAKEAWAYS

Israel and Iran are engaged in a **shadow war that has become increasingly violent**. If Russia can assuage Israel's security imperatives, wider conflict can be averted. But if Russia does not compel Iran to dial back its presence in Syria, **one small miscalculation can lead to an escalatory cycle, as occurred before the 2006 Lebanon War**.

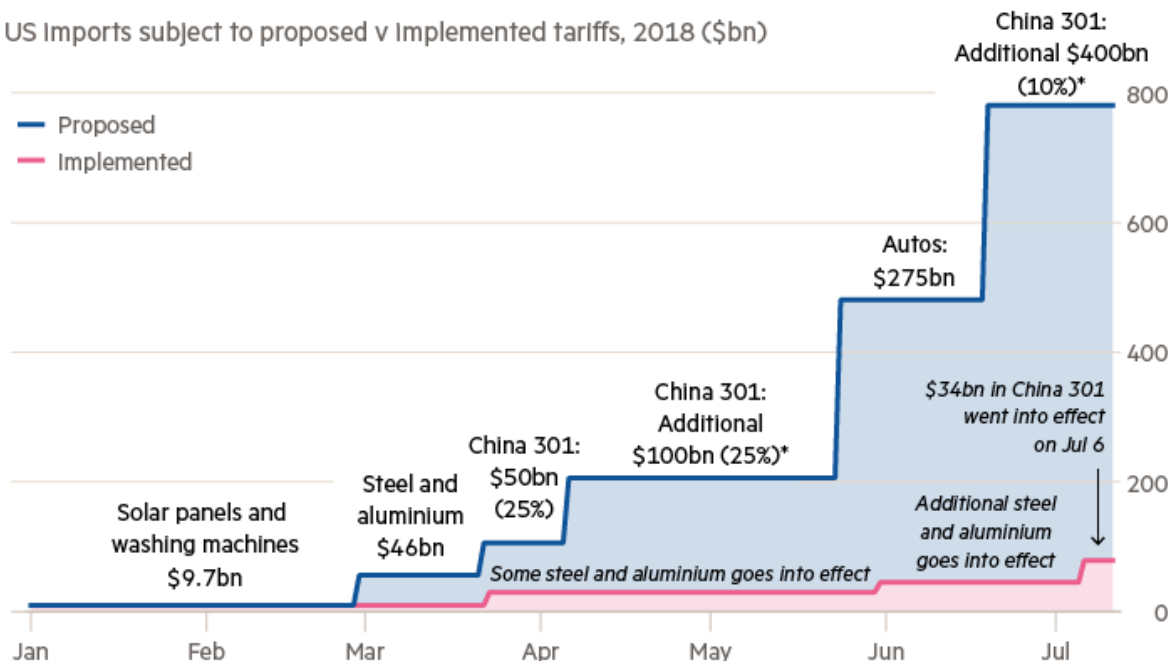
Macro Risk – A Global Trade War?

The United States is involved in a trade conflict on multiple fronts exchanging tariffs with China — the second largest economy — and other nations. Subsequent retaliation and the prospect of further escalation risk significantly hampering trade and investment, American jobs, and the global economy.

To date, the US has imposed import tariffs on solar panels, washing machines, steel and aluminum, as well as a myriad of machinery and electronics from China under Section 301 of the US Trade Act of 1974. At the core of this economic conflict is: the protection of strategic industry, including aluminum and steel, appliances and solar panels and; and the protection of advanced technology and intellectual property. The Trump administration is also leveraging the threat of tariffs to strong-arm America's trade partners into conceding better terms of trade. On 25 July, President Trump and European Commission President Jean-Claude Juncker struck a deal averting a trade conflict with the EU. However, as the administration continues to impose tariffs and other nations respond in-kind, a global trade war is looming.

Steps to a global trade war

US Imports subject to proposed v Implemented tariffs, 2018 (\$bn)



*Proposed retaliation increased to additional \$400bn at 10% in place of \$100bn at 25% on Jun 18

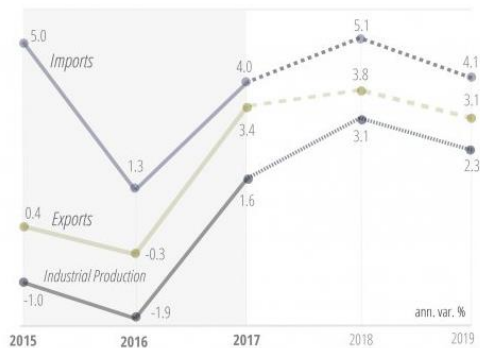
Source: Goldman Sachs

© FT

IMPLICATIONS OF A U.S. - CHINA TRADE WAR

United States

- Further escalation in trade tensions could dampen otherwise upbeat economic sentiment in the U.S. and disrupt business investment plans
- U.S. firms could lose out given their significant revenue exposure to China as well as their deep integration into global supply chains—which often pass through China



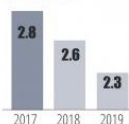
Economic Growth

GDP, ann. var. %



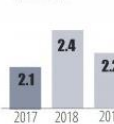
Private Consumption

Annual Variation in %



Inflation

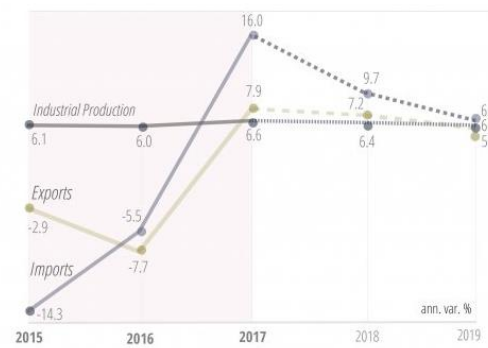
CPI, ann. var. %



*All numbers for 2018 and 2019 are forecasts

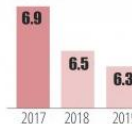
China

- A full-blown trade war with the United States could severely harm China's external sector and have a knock-on effect in manufacturing activity
- Economic instability would prompt the government to use old recipes—cheap credit and investment—to shore up growth, threatening the ongoing economic rebalancing



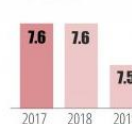
Economic Growth

GDP, ann. var. %



Private Consumption

Annual Variation in %



Inflation

CPI, ann. var. %



FOCUS ECONOMICS

FocusEconomics Consensus Forecast, May 2018

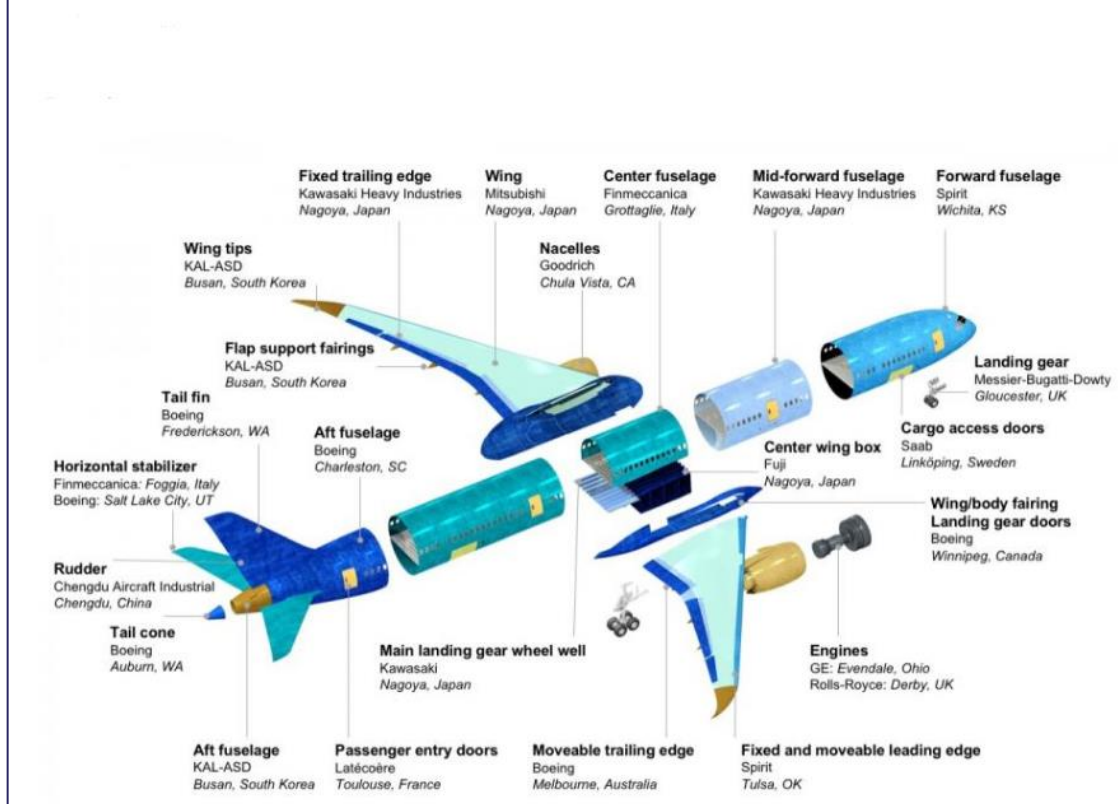
Current and Future Impacts of a Trade Conflict

- Decreased Demand:** If higher costs are absorbed, the tighter margins hamper business investment, and result in job-cuts. If prices are raised, consumer spending falls. Ultimately, demand is hurt, slowing economic growth.
- Decreased Competitiveness:** In the long-run, protected industries are not compelled to innovate to stay competitive. This means that local products will decline in quality compared with foreign-made goods.
- Shipping & Logistics:** The increased import costs decreases overall trade volume. This in turn, raises the unit costs of shipping goods globally. As a result, the logistics sector, especially transportation and warehousing, will be negatively impacted.
- Supply Chains:** For producers, trade — especially with Asia — is relationship-based. Imposing tariffs forces both buyers and sellers to find new counterparties. But once the tariffs are removed, the newly formed trade relationships are likely to stay. This means

that American exporters will not easily nor quickly regain their buyers. For manufacturers, supply chains will change to evade tariffs at great cost in time and money. Companies in the US will be incentivized to move production away from the US and into countries within various Free Trade Agreement (FTA) zones to obtain preferential access to export markets.

- **Vicious Cycle:** A serious decrease in global demand could pressure more countries to erect trade barriers, creating a cycle of protectionism and slowing growth.

Global Supply Chains Explained ... in One Graphic



Graphic Credit: Boeing

KEY TAKEAWAYS

A global trade war is **the largest tail risk** facing investors today. As the US continues to levy tariffs on China and other nations, the world moves closer to a global trade war. In this scenario, we **expect global trade to shrink, inflation to rise, consumer purchasing power to fall, investment to stagnate, and global economic growth to slow**. Even though tariffs are temporary by nature, they will have **irrevocable impacts on global supply chains**.

Outlook and Takeaways

- **TERRORISM:** The overall threat outlook remains high, especially in Europe. ISIS and its affiliates may have lost ground in Iraq and Syria, but they remain active in Africa and elsewhere in Asia. ISIS, facing territorial defeat in Iraq and Syria, will focus on international mass-casualty attacks to preserve the group's prestige. Security services estimate that over 1500 European jihadists have returned to their former communities bringing technical expertise and the potential to further radicalize many at-risk youths. The combination of the influx of hardened jihadis with the future prison release of many convicted terrorists may soon overwhelm European security agencies.
- **GLOBAL CONFLICT:** In 2018, the main geopolitical threat shifted from North Korea to Iran — President Trump has begun a diplomatic process with Pyongyang, while tightening the economic noose around Tehran. Concurrently, Iran has increased its activities in Lebanon, to the alarm of the Israelis. If Russia cannot convince Iran to leave Syria, Israeli strikes will continue, possibly escalating into a full-blown conflict. If economic pressure placed on Iran continues, its hardliners will likely push back against the US and its allies.
- **CYBER SECURITY:** Ransomware is now the most predominant type of malicious software used in cyber-attacks, affecting governments and businesses alike. The threat from ransomware stems from its ability to grind business operations to a halt. Soon, state-level threat actors will begin to employ ransomware as a decoy for even more destructive malware. It will not be long before cyber-criminals begin to target the phones of high-net worth individuals with mobile ransomware.
- **VIOLENCE AND CIVIL UNREST:** Central America is becoming increasingly violent and unstable. Nicaragua, a formerly safe and stable nation, has descended into a state of chaos and Mexico's homicide rate continues to break records — even Cancun's murder rate has doubled in 2018. A common frustration with endemic corruption, drug-related violence, and poverty, combined with extreme weather events and young populations, means that violence and unrest in Central America is here to stay.



CONTACT US

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