



BCPR

MONTHLY SITUATIONAL
ANALYSIS REPORT

December 2025

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Editor's Note

The Beaconhouse National University (BNU) Center for Policy Research (BCPR) stands at the forefront of Pakistan's evolving policy landscape, where research, dialogue, and innovation converge to shape the country's development trajectory. Established as the BNU's flagship think tank, BCPR was founded with a vision to bridge the gap between academia, civil society, and the state through evidence-based policymaking and informed discourse.

In a relatively short span, the Centre has emerged as a trusted convening space for national and international thought leadership. From the *Pakistan Talks* dialogue series, to the *Unity in Diversity* teacher training initiative, BCPR has demonstrated how research can translate into practical, socially relevant solutions. Regionally, the *China Studies Chair*, supported by the Consulate General of China, anchors BCPR's work on diplomacy, connectivity, and the Belt and Road Initiative. Globally, collaborations such as the *Enriching American Studies (Track II Diplomacy) Project* with the Royal Norwegian Embassy highlight the Center's commitment to fostering constructive international engagement.

This publication, the **Monthly Situational Analysis Report**, reflects that very commitment, to foster informed dialogue and advance policy-relevant research on critical regional and international issues. Each edition offers concise, contextualized analyses of the month's major national and international developments, providing readers with timely insights to support informed discussion and effective decision-making.

Guided by its Strategic Direction 2025–2030, BCPR continues to expand its reach through innovative research, inclusive partnerships, and high-impact policy dialogues. Its diverse portfolio reflects a commitment to creating a sustainable bridge between research and real-world policymaking. As BCPR advances its mission to strengthen Pakistan's voice in regional and global policy debates, it reaffirms its role as a hub for knowledge diplomacy, institutional collaboration, and evidence-based reform.

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SITUATIONAL ANALYSIS

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Executive Summary

December 2025 was characterized by a profound bifurcation in global affairs, where high-level diplomatic frameworks increasingly diverged from the intensifying kinetic realities on the ground. The international order witnessed a decisive shift toward transactional realism, as major powers prioritized immediate economic and security interests over traditional alliances. Simultaneously, regional states executed significant internal pivots, hardening national security doctrines and accelerating structural economic reforms to navigate an era of deepening geopolitical fragmentation and unmanaged competition.

Key developments this month include:

- **Pakistan's Internal Strategic Realignment:** The state formally recategorized the TTP as "Khawarij," delegitimizing them religiously to unify the national counter-terrorism narrative. This coincided with a crackdown on Afghan nationals linked to attacks in Peshawar and Islamabad.
- **Historic Privatization:** Pakistan International Airlines (PIA) was privatized in a major reform move after years of losses and failed sale attempts. In December 2025, a private consortium led by the Arif Habib Group acquired a 75 percent stake for around PKR 135 billion, above the reserve price, while the state retained 25 percent. Part of Pakistan's IMF-backed agenda, the deal aims to inject fresh capital and improve operations, marking one of the country's largest privatizations in decades.
- **US-China "Chip Diplomacy":** A pragmatic trade truce emerged as President Trump authorized Nvidia AI chip exports to China in exchange for levies, prioritizing US revenue over strict technological containment, even as tensions over Taiwan's status spiked.
- **Ukraine Peace Deadlock:** High-stakes talks between the United States and Russia, held in Moscow and Florida, failed to yield a breakthrough. The Kremlin demanded territorial capitulation, while Kyiv's counterproposal for "demilitarized zones" struggled to gain traction against Russian advances in Pokrovsk.
- **Venezuela Crisis:** The US initiated a de facto naval blockade of Venezuela, seizing oil tankers to strangle the Maduro regime. This militarized pressure campaign drew Russia and China into a potential proxy standoff in the Caribbean.
- **ASEAN Border War:** A rare interstate conflict erupted between Thailand and Cambodia, escalating from border skirmishes to airstrikes. The collapse of US-brokered ceasefires highlighted the limits of American diplomatic leverage in Southeast Asia.
- **The Middle East Conflict:** Tensions between Saudi Arabia and the UAE erupted into an unprecedented standoff, fracturing the anti-Houthi coalition in Yemen. Accusations over UAE-backed separatist forces advances and arms shipments triggered Saudi airstrikes, resulting in Yemen's revocation of its defense pact with the UAE, and Abu Dhabi's subsequent withdrawal from Yemen on Saudi demands.

1. Pakistan's Evolving Landscape: The "*Khawarij*" Doctrine and Economic Surgery

In December 2025, Pakistan's strategic calculus underwent a fundamental restructuring. Domestically, the state moved from kinetic response to ideological warfare, institutionalizing the "*Khawarij*" narrative to delegitimizing militancy while enforcing strict border regimes. Economically, the government finally broke the paralysis of state-owned enterprises, executing the privatization of the national airline carrier while aggressively diversifying its foreign policy toward non-traditional partners like Russia and Iraq to insulate itself from Western pressure.

1.1 Internal Security: The "*Khawarij*" Decree and Border Tightening

The security establishment executed a synchronized shift in nomenclature and operations, aiming to dismantle the TTP's ideological and physical infrastructure.

- **Ideological Warfare:** President Zardari and Prime Minister Sharif formally endorsed the military's categorization of the TTP as "*Khawarij*" (outcasts), aiming to strip the insurgents of religious legitimacy. This narrative shift was designed to unify public consensus for the ongoing "*Azm-e-Istehkam*" campaign, positioning security forces as defenders of the state and faith `against foreign proxies.¹
- **The Afghan Connection and Punitive Enforcement:** Following investigations that identified Afghan nationals as the perpetrators of the suicide attack on the FC Headquarters in Peshawar and the court blast in Islamabad, Interior Minister Mohsin Naqvi declared a zero-tolerance policy. The state ruled out further deportation compromises, warning that illegal entrants would now face immediate arrest.²
- **Kinetic Intensification:** Intelligence-Based Operations (IBOs) intensified in Balochistan and Khyber Pakhtunkhwa. In Kalat and Dera Ismail Khan, security forces eliminated 19 terrorists linked to the so-called "*Fitna-al-Hindustan*" group. Simultaneously, the



Figure 1: 'Marka-e-Haq' released to expose Pahalgam false flag operation. Source: Radio Pakistan

1 "President, PM Laud Forces for Successful Counter-Terrorism Operation in DI Khan," *Radio Pakistan*, December 25, 2025, <https://www.radio.gov.pk/25-12-2025/president-pm-laud-forces-for-successful-counter-terrorism-operation-in-di-khan>.

2 "Mohsin Urges Afghan Regime to Halt Use of Its Soil Against Pakistan," *Radio Pakistan*, December 1, 2025, <https://www.radio.gov.pk/01-12-2025/mohsin-urges-afghan-regime-to-halt-use-of-its-soil-against-pakistan>.

Balochistan government sought Interpol Red Notices for BLA leaders operating abroad, signaling a new intent to target the insurgency's external command nodes.

- **Full-Spectrum Deterrence:** Air Chief Marshal Zaheer Ahmed Baber Sidhu declared the "*Marka-i-Haq*" battle a validation of Pakistan's new full-spectrum deterrence, claiming the PAF successfully countered Indian S-400 systems through indigenous aerospace advancements.

1.2 Economic Surgery: Privatization and Stabilization

December marked a watershed moment for Pakistan's economic structure, characterized by the privatization of "too-big-to-fail" assets and digital reform.

- **PIA's Privatization:** Pakistan International Airlines (PIA), the country's long-struggling national carrier, was privatized in a major economic reform milestone after years of losses, inefficiencies and postponed attempts at sale. In December 2025 the government conducted a transparent auction in which a private consortium led by the Arif Habib Group successfully acquired a 75 percent controlling stake in PIA for around Rs 135 billion (about USD 482 million), significantly above the government's reserve price, with the state retaining the remaining 25 percent. The deal, part of Islamabad's IMF-backed reform agenda to reduce fiscal drains from loss-making state enterprises, aims to bring fresh capital, expand the airline's fleet and improve operations, although the new owners have acknowledged it may take time to return to profitability. This privatization marks one of Pakistan's largest such transactions in decades and reflects a broader shift toward private sector management of public assets³.
- **IMF and Reserves:** The State Bank of Pakistan received a USD 1.2 billion IMF tranche, providing a critical buffer for foreign reserves. The Ministry of Finance successfully managed market jitters by clarifying that recent tough measures were part of the pre-agreed reform agenda, not new punitive conditions.⁴
- **Digital Welfare:** The government launched a massive digitization drive for the Benazir Income Support Programme (BISP), aiming to transition 10 million women to SIM-linked

³ Pakistani consortium acquires 75% stake in PIA in major privatization move; AP News; <https://apnews.com/article/pakistan-auction-pia-airline-359d56172b852a9f6f16f775423d8ac5>

⁴ "IMF, EFF Reforms Part of Agreed Medium-Term Agenda," Radio Pakistan, December 14, 2025, <https://www.radio.gov.pk/14-12-2025/imf-eff-reforms-part-of-agreed-medium-term-agenda>.

bank accounts by March. This move seeks to eliminate the "agent mafia" and enforce transparency in social safety nets.

- **GSP+ Warning:** While the EU acknowledged Pakistan's legislative progress, it issued a stark warning that the extension of the GSP+ status, crucial for textile exports, hinges on immediate improvements in media freedom and judicial independence before the next review.

1.3 Strategic Diversification: Beyond Traditional Alliances

Islamabad aggressively courted new partners to reduce dependency on Western financial cycles and Indian-dominated regional forums.

- **The Russia Pivot:** Finance Minister Muhammad Aurangzeb confirmed active negotiations for a broad oil and steel pact with Moscow. This moves beyond transactional crude imports to long-term industrial collaboration, leveraging Russia's sanction-driven pivot to Asia.
- **The Iraq Corridor:** President Asif Ali Zardari recently undertook an official four-day visit to Baghdad, Iraq from 20 to 24 December 2025, at the invitation of Iraqi President Dr. Abdul Latif Jamal Rashid, underscoring the longstanding brotherly ties between Pakistan and Iraq and reflecting Islamabad's intent to further strengthen bilateral cooperation across a broad range of strategic areas. Discussions focused on expanding cooperation in trade, investment, energy, reconstruction, manpower, technology, education, defense and regional security. Both sides reaffirmed commitments to deepen collaboration, improve business-to-business linkages, and address shared challenges such as extremism, terrorism and narcotics trafficking while enhancing coordination in multilateral forums including the UN and OIC⁵.
- **Water Aggression:** Diplomatic tensions flared as Islamabad protested sudden, unnotified variations in the Chenab River's flow that disrupted wheat and other crops in Punjab, terming it a threat to food security⁶ and a violation of the Indus Waters Treaty, whose unilateral suspension by India after the Pahalgam incident Pakistan calls "an act of war." Citing a pattern of what it describes as the "weaponisation of water," Pakistan also condemned India's approval of the Dulhasti Stage-II hydropower project on the Chenab in

⁵ Curtain Raiser: President of Pakistan to Undertake Official Visit to the Republic of Iraq; MoFA <https://mofa.gov.pk/press-releases/curtain-raiser-president-of-pakistan-to-undertake-official-visit-to-the-republic-of-iraq-20-24-december-2025?utm>

⁶ "FO Says Pakistan Has Sought Clarification from India over Abrupt Variation in Chenab Water Flows," Dawn, December 19, 2025, <https://www.dawn.com/news/1961827/fo-says-pakistan-has-sought-clarification-from-india-over-abrupt-variation-in-chenab-water-flows>.

India-held Jammu and Kashmir, despite environmental concerns over the fragile Himalayan ecology⁷.

Domain	Event / Metric	Status and Strategic Impact (Dec. 2025)
Internal Security	"Khawarij" Declaration	State formally labeled TTP as "Khawarij"; unified national narrative to delegitimize insurgency.
Cross-Border	FC HQ Attack	Suicide attack in Peshawar traced to Afghan nationals; triggered strict arrest policy for illegal entrants.
Privatization	PIA Sold	Habib Consortium bought 75% of PIA for 135bn PKR; historic break from state-asset paralysis.
Counter-Terror	Balochistan Ops	Security forces killed 19 terrorists in Kalat/DI Khan; govt sought Interpol notices for exiled BLA leaders.
Foreign Policy	Russia Oil/Steel	Negotiations opened for Russian oil/steel plant; signals deep industrial pivot to Moscow.
Economy	IMF Tranche	SBP received USD 1.2 billion; stabilized reserves while Finance Ministry denied "new" harsh conditions.
Water Security	Chenab River Developments	Pakistan-India tensions escalated over alleged manipulation of Chenab River flows and India's approval of the Dulhasti Stage-II hydropower project, which Islamabad terms a violation of the Indus Waters Treaty.

Table 1 Pakistan's Domestic Security and Economic Matrix (Dec. 2025)

2. South Asia: Regional Realignments and the fracturing of Traditional Alliances

December 2025 witnessed a restructuring of South Asia's diplomatic architecture. The historic strategic partnership between India and Bangladesh collapsed into hostility, driven by communal violence and a regime shift in Dhaka that favors anti-Indian political forces. Simultaneously, New Delhi attempted a high wire balancing act between Washington and Moscow, signing major defense deals with both powers to preserve its strategic autonomy. Afghanistan faced renewed isolation as humanitarian aid evaporated, and neighbors moved to fortify their borders against militant spillover.

2.1 The India-Bangladesh Rupture

Relations between New Delhi and Dhaka faced their "greatest strategic challenge" since 1971, devolving from diplomatic frostiness to open hostility.

⁷ India's Chenab dam plan riles eco-activists, Pakistan alike, DAWN News; <https://www.dawn.com/news/1964051>

- **Communal Flashpoint and Political Shift:** The lynching of Dipu Chandra Das, a 27-year-old Hindu factory worker in Mymensingh, Bangladesh, accused of blasphemy by a mob, triggered a sharp deterioration in India-Bangladesh relations. The incident unfolded amid wider unrest in Bangladesh, coming just hours before violent protests erupted in Dhaka over the killing of student leader Sharif Osman Hadi. In India, the killing sparked protests by Hindu nationalist groups, while retaliatory demonstrations and attacks on diplomatic premises on both sides led to the mutual suspension of visa services, effectively disrupting people-to-people ties and pushing bilateral relations into a deeper diplomatic crisis⁸. This chaos coincided with the return of *Tarique Rahman*, heir to the Bangladesh National Party-BNP dynasty, signaling a definitive end to the Awami League's era and the rise of a government likely to pivot away from New Delhi.



Figure 2: Protests erupted in India over the killing of a Hindu garment worker in Bangladesh. Source: BBC News

2.2 India's Strategic Balancing Act

Prime Minister Modi's government aggressively pursued "strategic autonomy," finalizing contradicting defense pacts to maintain leverage over both the US and Russia.

- **The American Pivot:** To counter China in the Indian Ocean, India signed an USD 894 million agreement with the US to support its fleet of *MH-60R anti-submarine helicopters*. This deal enhances maritime surveillance capabilities, directly addressing the widening naval gap with Pakistan and China.⁹
- **The Russian Re-engagement:** Simultaneously, India hosted Russian President Vladimir Putin, initiating high-stakes negotiations for *Su-57 stealth fighters* and the *S-500 missile defense system*. By prioritizing these purchases despite US sanctions threats, Nw Delhi signaled that its dependence on Russian military hardware remains non-negotiable.

⁸ BBC News, "Crisis in India-Bangladesh relations spirals amid violent protests," BBC, Date published, <https://www.bbc.com/news/articles/c4gekjqqn1ro>.

⁹ Shivam Patel and Shilpa Jamkhandikar, "India Signs Helicopter Support Agreements Worth USD 894 Million with U.S.," *Reuters*, November 28, 2025, <https://www.reuters.com/world/india/india-signs-helicopter-support-agreements-worth-894-million-with-us-2025-11-28/>.

- **Economic Defiance:** India continued to defy Western energy sanctions, with Russian crude imports projected to exceed 1.2 million bpd in December. State refiners utilized opaque "swap" mechanisms and deep discounts (USD 6/barrel) to bypass blocked entities.¹⁰

2.3 Afghanistan: Isolation and Security Spillover

The Taliban regime faced a deepening crisis as international patience wore thin and regional neighbors moved to contain security threats physically.

- **Northern Border Fortification:** Following attacks launched from Afghan soil that killed five Chinese nationals in Tajikistan, Dushanbe initiated urgent talks to deploy Russian troops for joint border patrols. This potential reversal of Tajikistan's 2005 move to independent border control highlights the severity of the threat perceived by Central Asian states.
- **Humanitarian Collapse:** The World Food Programme (WFP) suspended critical winter aid due to an 88% funding shortfall, leaving millions vulnerable to starvation.¹¹ This coincides with the US administration's indefinite freeze on all Afghan visa processing following a shooting in Washington D.C. by an Afghan asylum seeker, severing one of the last escape routes for at-risk nationals.

2.4 Trade and Environmental Stressors

- **WTO Clash:** China took India to the WTO, challenging New Delhi's protective tariffs on tech products and solar subsidies. Beijing labeled these "Make in India" barriers as illegal, signaling an aggressive turn in their economic rivalry.
- **Delhi's Air Emergency:** Dehli invoked Stage 4 emergency measures as the AQI surpassed 450. The crackdown halted construction and restricted diesel trucks, exposing the state's continued inability to manage the chronic winter pollution crisis that threatens public health and economic productivity.

Country / Actor	Event	Strategic Implication
Bangladesh	Diplomatic Rupture	Lynching of Hindu worker and Hadi assassination led to visa suspensions; relations with India hit historic low.
India (Defense)	Dual Deals	Signed USD 894M US helicopter pact, while negotiating Su-57/S-500 with Russia.

¹⁰ Nidhi Verma, "India's Russian Oil Imports Show Resilience Despite Sanctions, Sources Say," *Reuters*, December 17, 2025, <https://www.reuters.com/business/energy/indias-russian-oil-imports-show-resilience-despite-sanctions-sources-say-2025-12-17/>.

¹¹ "UN to Evaluate Refugee Strategy Next Week," *Dawn*, December 13, 2025, <https://www.dawn.com/news/1960884/un-to-evaluate-refugee-strategy-next-week>.

India (Energy)	Sanctions Defiance	Russian oil imports topped 1.2m bpd; used opaque swaps to bypass US sanctions.
Afghanistan	Border Militarization	Tajikistan sought Russian troops for border patrol after attacks on Chinese nationals.
Afghanistan	Aid Suspension	WFP halted winter aid due to 88% funding gap; US froze all visa processing.
China-India	WTO Dispute	Beijing filed WTO complaint against India's tech tariffs; targets "Make in India" policy.

Table 2 Key South Asian Developments (Dec. 2025)

3. The Shifting Global Order: Transactional Realism and Strategic Fragmentation

The month defined a new era of global power dynamics, shifting from ideological confrontation to transnationalism. The Trump administration's foreign policy oscillated between pragmatic deal-making, authorizing high-tech exports to China for revenue, and coercive unilateralism, exemplified by a naval blockade of Venezuela. Simultaneously, the Western alliance showed visible fractures as European leaders resisted US peace terms for Ukraine and fought to protect digital sovereignty, while Russia and China coordinated to challenge American hegemony at the UN Security Council.

3.1 US-China: The Chip Truce and the Nuclear Sprint

The relationship between Washington and Beijing bifurcated into two distinct tracks: economic accommodation and strategic escalation.

- The Nvidia Pivot:** In a major policy reversal, President Trump authorized Nvidia to export advanced H200 AI chips to China, levying a 25% tax on sales paid directly to the US Treasury.¹² This move prioritizes immediate economic gain and market share over the strict technological containment doctrine of the previous administration. However, Beijing signaled it might counter this by "bundling" imports with mandatory purchases of domestic chips to protect its nascent semiconductor industry.
- Nuclear Breakout:** Beneath the commercial truce, strategic tensions spiked as the Pentagon confirmed China operationalized over 100 DF-31 ICBM silos near Mongolia.

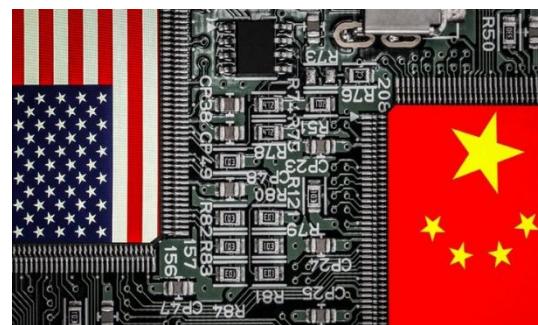


Figure 3: The great US-China tech decoupling. Source: Nikkei Asia

¹² Nivedita Balu, "Nvidia Aims to Begin H200 Chip Shipments to China by Mid-February, Sources Say," *Reuters*, December 22, 2025, <https://www.reuters.com/world/china/nvidia-aims-begin-h200-chip-shipments-china-by-mid-february-sources-say-2025-12-22/>.

Beijing dismissed US calls for transparency, asserting that the "largest nuclear power" must disarm first. This surge signals China's race to secure a survivable second-strike capability, aiming for 1,000 warheads by 2030, to neutralize US nuclear coercion over Taiwan.¹³

- **Tech Sovereignty:** Tensions flared over the *Oracle-TikTok* deal, with Beijing threatening an "algorithm veto." Chinese regulators signaled they would block the transfer of core recommendation algorithms to US control, preferring a ban over the surrender of digital sovereignty.

3.2 The New US National Security Strategy (NSS)

The month saw the release of the Trump administration's 2025 National Security Strategy (NSS), a document that formalizes "transactional realism" as the bedrock of US foreign policy.

- **Core Doctrine:** The NSS explicitly replaces "values-based leadership" with "conditional influence," signaling that US alliances will now be determined by direct economic and security returns rather than shared democratic ideals.
- **Regional Impact:** For South Asia, the strategy prioritizes counterterrorism and economic integration over human rights. This aligns with Washington's muted response to Pakistan's internal legal changes, but poses a direct threat to India, as the NSS weaponizes immigration tools (like H-1B visas) to punish trade imbalances.
- **"Peace Through Strength":** The document emphasizes "peace through strength," justifying the massive military buildup in the Indo-Pacific and the renewed "maximum pressure" campaign against Iran and Venezuela.¹⁴

3.3 US-Russia and Ukraine: The Coercive Peace Push

The diplomatic track for Ukraine shifted from support to coercion, as Washington sought to force a settlement before the new year.

- **The "Free Economic Zone" Ultimatum:** High stakes talk in Miami and Moscow revealed a US proposal for "demilitarized free economic zones" in the Donbas. US negotiators explicitly told Kyiv it must withdraw forces from the Donetsk region to secure a deal.

13 "China Urges US to Fulfill Nuclear Disarmament Responsibility After Pentagon Report," *Reuters*, December 23, 2025, <https://www.reuters.com/business/aerospace-defense/china-urges-us-fulfill-nuclear-disarmament-responsibility-after-pentagon-report-2025-12-23/>

14 **The White House**, 2025 National Security Strategy of the United States of America, December 2025, <https://www.whitehouse.gov/wp-content/uploads/2025/12/2025-National-Security-Strategy.pdf>.

President Zelenskyy attempted to counter with a 20-point plan demanding NATO-style security guarantees in exchange.¹⁵

- **Putin's Maximalist Gambit:** Sensing Western fatigue, President Putin rejected "frozen conflict" proposals, demanding total capitulation. He backed this ultimatum with a massive missile barrage and claims of capturing key logistics hubs like Pokrovska, aiming to present Russian victory as a fait accompli.
- **Oreshnik Escalation & Drone Allegations:** Tensions reached a breaking point after Moscow deployed hypersonic Oreshnik missiles to Belarus, drastically reducing NATO's nuclear warning window. The Kremlin justified this escalation by citing a disputed drone assassination attempt on President Putin's residence, a claim Western analyst view as a pretext to force territorial concessions through existential coercion.¹⁶
- **Transatlantic Fracture:** The US push for a "cold peace" fractured the Western alliance. The UK and France convened a "Coalition of the Willing" to continue military support independent of Washington, while the EU remained deadlocked on using frozen Russian assets due to Italian and Belgian fears of financial retaliation.



Figure 4: Frozen Russian assets: where are they immobilized?
Source: European Parliamentary Research Service (EPRS)

3.4 The Return of the Monroe Doctrine? The Venezuela Crisis

The Western Hemisphere became a primary theater of great power competition as the US aggressively reasserted its dominance. The US Coast Guard seized the Panamanian-flagged tanker *Centuries* in international waters, marking a dramatic escalation in the de facto blockade of Venezuela.

The Trump administration justified the move as a counter-narcoterrorism operation to choke the Maduro regime's finances. This militarized pressure triggered a geopolitical crisis at the UN Security Council. Venezuela, backed by Russia and China, accused the US of "continental ambitions" and illegal regime change. Beijing explicitly framed the blockade as "unilateral

¹⁵ "Ukraine Peace Talks Stretch into Second Day at Start of Pivotal Week for Europe," *Reuters*, December 15, 2025, <https://www.reuters.com/world/europe/ukraine-peace-talks-stretch-into-second-day-start-pivotal-week-europe-2025-12-15/>.

¹⁶ "Russia Says It Will Give U.S. Proof of Attempted Ukrainian Strike on Putin Residence," *Reuters*, January 1, 2026, <https://www.reuters.com/world/europe/russia-says-it-will-give-us-proof-attempted-ukrainian-strike-putin-residence-2026-01-01/>.

bullying," positioning itself as the defender of Venezuelan sovereignty to protect its energy investments.¹⁷

3.5 European Sovereignty Clash

Relations between the US and its traditional European allies faced new strains over regulatory autonomy.

- **Visa Wars:** President Macron sharply rebuked Washington for placing Thierry Breton, the architect of the Digital Services Act, on a visa blacklist. Macron termed this a direct attack on "European digital sovereignty," escalating a bureaucratic dispute into a high-stakes sovereignty clash.
- **Trade Deficits:** Macron also issued a "life or death" ultimatum to Beijing regarding the 306 billion Euro trade deficit, threatening protectionist tariffs if China did not shift from exports to direct investment.¹⁸

Theater	Key Development (Dec. 2025)	Strategic Implication
US-China (Tech)	Nvidia Export Deal	US authorized H200 chip sales with 25% levy; prioritizes revenue over strict containment.
US Strategy	NSS 2025	Formal shift to "Transactional Realism"; weaponizes immigration against trade partners.
Strategic Nuclear	China's Silo Surge	China operationalized 100+ ICBM silos; rejects US talks, racing for parity by 2030.
US-Russia	Donetsk Withdrawal Demand	US negotiators told Ukraine to exit Donetsk for peace deal; marks shift to coercive diplomacy.
Americas	Venezuela Blockade	US seized oil tankers; Russia/China backed Venezuela at UNSC against US "piracy."
Transatlantic	Macron-US Visa Row	US blacklisted EU official Breton; France condemned it as attack on digital sovereignty.
Europe	Asset Seizure Deadlock	EU failed to agree on using Russian assets; Italy/Belgium blocked move fearing financial blowback.

Table 3 Major Global Power Shifts

17 Nidhi Verma, "China Voices Support for Venezuela, Says It Opposes 'Unilateral Bullying,'" *Reuters*, December 17, 2025, <https://www.reuters.com/world/china/china-voices-support-venezuela-says-it-opposes-unilateral-bullying-2025-12-17/>.

18 *POLITICO Europe*, "Europe, China and the Future of Trade: Emmanuel Macron's Push on Foreign Investment and Economic Balance," *POLITICO Europe*, December 2025, <https://www.politico.eu/article/europe-china-emmanuel-macron-foreign-investment-trade/>.

4. Escalating Conflicts: The Collapse of Containment

December 2025 showcased the widening chasm between diplomatic ambition and on-ground reality. In the Middle East, the US-led "Board of Peace" initiative for Gaza was immediately undermined by a campaign of ongoing Israeli settlement expansion and hardline security operations, and key Palestinian groups like Hamas rejecting some aspects of the plan, contributing to persistent violence and weakening diplomatic momentum. In Southeast Asia, a rare interstate war shattered ASEAN's peace, exposing the limits of US mediation. Meanwhile, the conflict in Sudan crossed a red line with direct attacks on UN forces, signaling a total breakdown of the rules of engagement.

4.1 The Middle East: Assassination Politics and Settlement Expansion

Despite the UN Security Council's endorsement of the US-brokered peace plan via *Resolution 2803*, the region witnessed a sharp escalation in hostilities aimed at altering the status quo before any implementation could begin.

- **Leadership Decapitation:** Israel shifted its strategy from containment to decapitation. The assassination of Hezbollah's Chief of Staff, *Haytham Ali Tabatabai*, in a rare airstrike on Beirut, threatened to ignite a full-scale northern war. Simultaneously, the targeted killing of senior Hamas commander *Raed Saed* jeopardized the fragile Gaza truce, prompting Hamas to demand strict compliance to prevent a return to total war.¹⁹
- **The "Board of Peace" Standoff:** The operationalization of the US-proposed "Board of Peace" faced immediate deadlock. Hamas rejected the body as "foreign guardianship," while Israel refused to withdraw troops without total disarmament, a condition the US struggled to enforce as Arab allies hesitated to commit troops to the proposed International Stabilization Force.
- **West Bank Annexation:** While diplomats focused on Gaza, Israel aggressively expanded its footprint in the West Bank. Tel Aviv authorized 19 new outposts, bringing the total to 69, in open defiance of the International Court of Justice. This was accompanied by a sweeping military offensive in Tubas, where bulldozers and attack helicopters were used to encircle towns, a move European allies condemned as a strategic attempt to block any future Palestinian state.²⁰

19 Nidal al-Mughrabi and Maayan Lubell, "Hamas Chief Negotiator Says Israel's Killing of Senior Commander Threatens Ceasefire," *Reuters*, December 14, 2025, <https://www.reuters.com/world/middle-east/hamas-chief-negotiator-says-israels-killing-senior-commander-threatens-ceasefire-2025-12-14/>.

20 "Belgium Condemns New Israeli West Bank Settlements as Illegal," *Yeni Şafak*, December 22, 2025, <https://en.yenisafak.com/world/belgium-condemns-new-israeli-west-bank-settlements-as-illegal-3712206>.

4.2 The Gulf Rupture: Saudi-UAE Proxy War in Yemen

The simmering rivalry between two of the Gulf's powerhouses erupted into unprecedented stand-off on New Year's Eve, shattering the anti-Houthi coalition. Saudi Arabia had issued a strong ultimatum to UAE-backed separatist forces, especially the Southern Transitional Council (STC), to withdraw from recently seized oil-rich governorates of Hadramout and al-Mahra, warning that their unilateral advances fractures the anti-Houthi coalition, threatens broader regional coordination, and undermines the internationally recognized Yemeni government. Tensions escalated after Saudi Arabia accused the UAE and STC of unauthorized weapons shipments and military movements via Mukalla port, prompting Saudi-led airstrikes on them in southern Yemen. Yemen's internationally recognized government declared a state of emergency, revoked its defense pact with the UAE, and demanded the withdrawal of Emirati forces within 24 hours, a call backed by Riyadh. The UAE announced its withdrawal, ending what it termed "counterterrorism" operations. These developments signal a widening rift between two once close gulf allies, now backing rival factions, raising the risk of a "civil war within a civil war" and further deepening Yemen's already profound humanitarian and political crisis²¹.



Figure 5: A collage shows damaged military vehicles and smoke at Yemen's Mukalla port after Saudi-led coalition airstrikes targeting alleged UAE military support to STC separatists. — AFP / Reuters

4.3 Southeast Asia: The First ASEAN Interstate War

A dormant border dispute between *Thailand* and *Cambodia* erupted into the region's most severe interstate conflict in decades, exposing the fragility of the US regional security architecture.

- **Escalation to Airstrikes:** What began as border skirmishes rapidly escalated into a multi-front war involving heavy artillery and Thai airstrikes on Cambodian positions. The conflict displaced

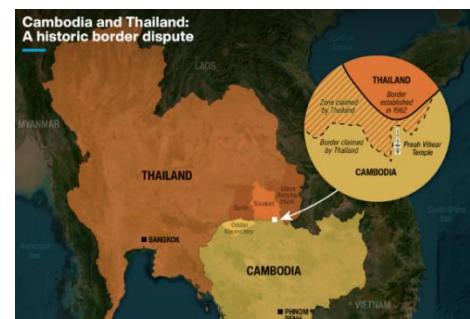


Figure 6: Cambodia and Thailand: A Historic Border Dispute. Source: Conflicts

²¹ Saudi Arabia reveals details of Yemen bombing, as UAE set to withdraw, Aljazeera, <https://www.aljazeera.com/news/2025/12/31/uae-to-pull-forces-out-of-yemen-as-tensions-rise-with-saudi-arabia>

hundreds of thousands of civilians and targeted critical infrastructure, including a border casino.

- **Diplomatic Failure:** The Trump administration's attempt to broker a ceasefire collapsed almost immediately, with Thai Prime Minister *Anutin Charnvirakul* dismissing the initial deal as a "rushed" photo-op that ignored ground realities. Bangkok even considered a maritime fuel blockade to cripple Cambodia's war effort.²²
- **Chinese Mediation:** Where Washington failed, Beijing stepped in. Using its economic leverage, China mediated a tentative humanitarian pause, conditioning the release of prisoners on a strict 72-hour "sincerity test." This underscored Beijing's growing role as the region's primary crisis manager.

4.4 Iran: The Dual Crisis of Water and Currency

While facing external pressure from the US and Israel, Tehran was rocked by a converging domestic crisis on New Year's Eve, driven by environmental collapse and economic mismanagement.

- **The "Thirst" Protests:** A severe water crisis triggered widespread protests across 12 provinces, including Tehran, Khuzestan, and Isfahan. Security forces deployed water cannons, an ironic and inflammatory tactic amidst a drought, against demonstrators in freezing temperatures.
- **Currency Collapse:** Simultaneously, the Iranian Rial crashed to a historic low of 1.45 million to the US dollar, sparking strikes by merchants in Tehran's Grand Bazaar. The devaluation, driven by new US sanctions and inflation hitting 42%, has merged with the water protests to create a potent anti-regime movement that slogans are now targeting the Supreme Leader directly.
- **Regime Response:** The regime responded with live fire in rural areas like Fars and Lorestan, arresting Kurdish activists and shutting down universities to prevent student mobilization.²³

22 Panu Wongcha-um, "Thailand Declares Curfew along Coast as Cambodia Border Fighting Spreads," *Reuters*, December 14, 2025, <https://www.reuters.com/world/asia-pacific/thailand-declares-curfew-along-coast-cambodia-border-fighting-spreads-2025-12-14/>.

23 Amir Taghati, "Iran's Currency Breaks Records as Water Crisis, Toxic Air and Parliamentary Infighting Signal a System under Strain," *National Council of Resistance of Iran (NCRI)*, December 7, 2025, <https://www.ncr-iran.org/en/news/economy/irans-currency-breaks-records-as-water-crisis-toxic-air-and-parliamentary-infighting-signal-a-system-under-strain/>.

4.5 Sudan: The War on Peacekeepers

The civil war in Sudan crossed a dangerous threshold, targeting the international community directly.

- **Attack on UNISFA:** A drone strike on a UN logistics base in Kadugli killed six Bangladeshi peacekeepers and injured eight others. UN Secretary-General António Guterres warned this could constitute a war crime, highlighting the extreme vulnerability of the UN Interim Security Force for Abyei (UNISFA).
- **Civilians in the Crosshairs:** The violence reached new lows with a drone attack on a kindergarten in Kalogi, killing 33 children. The Rapid Support Forces (RSF) and the Sudanese Army traded blame for the "double tap" strike, which also targeted responding medics.²⁴

Theater	Key Event	Strategic Impact (Dec. 2025)
Lebanon	Tabatabai Assassination	Israel killed Hezbollah Chief of Staff; signals shift to leadership decapitation strategy.
Gaza	Commander Saed Killed	Israel assassinated senior Hamas commander; imperiled US-brokered truce implementation.
West Bank	Settlement Surge	Israel authorized 19 new outposts; EU condemned it as blocking Palestinian statehood.
Iran	Regime Stability	Converging water/currency protests; Rial at 1.45m/USD; regime using live fire
Thailand-Cambodia	Interstate War	Border dispute escalated to airstrikes; US mediation failed, forcing Chinese intervention.
Sudan	UN Peacekeepers Killed	Drone strike killed 6 Bangladeshi peacekeepers; signals breakdown of international immunity.
Yemen	Saudi Ultimatum	Riyadh threatened force against UAE proxies in South Yemen; risks fracturing anti-Houthi coalition.

Table 4 Key Conflict Escalations and Status

5. Technological and Strategic Futures: The Great Decoupling and the AI Industrial Complex

December 2025 marked a pivotal transition in the global technological landscape. The "AI Gold Rush" faced its first systemic reality check as corporations grappled with deployment failures and new state regulations on "emotional AI." Washington traded technological containment for revenue by authorizing chip exports to China, while Beijing and Pyongyang

²⁴ BBC News, "Deadly Attack on Kindergarten Reported in Sudan," BBC, December 7, 2025, <https://www.bbc.com/news/articles/cpd61d0jl6no>.

unveiled strategic assets designed to neutralize American military overmatch by the end of the decade.

5.2 The New Arms Race: Strategic Breakout and Parity Sprints

The Indo-Pacific is witnessing a decisive shift from abstract deterrence to operational “breakout” capabilities, as regional powers move beyond signaling to field systems meant for real-world confrontation. The unveiling and accelerated deployment of advanced missiles, counter-space tools, autonomous platforms, and anti-access/area-denial (A2/AD) architectures signal an intent to erode long-standing U.S. technological and power-projection advantages.

- **China’s Silo Surge and "Launch-on-Warning":** The Pentagon confirmed the operational loading of over *100 DF-31 ICBM silos* in the arid plains near Mongolia. This development signals a fundamental doctrinal shift in Beijing from "minimum deterrence" to a "launch-on-warning" posture. By rejecting US calls for transparency and labeling them "hypocritical," China is aggressively racing to secure a survivable second-strike capability, aiming for a stockpile of 1,000 warheads by 2030. This acceleration is explicitly designed to narrow the strategic gap before the critical 2027 window for potential Taiwan unification, forcing Washington to confront the reality of nuclear multipolarity.²⁵
- **North Korea’s "Virginia-Class" Rival:** Pyongyang escalated the naval arms race by unveiling an 8,700-ton nuclear-powered submarine. Developed as a direct response to the Trump administration’s authorization of South Korea’s nuclear propulsion program, this vessel offers the Kim regime indefinite underwater endurance.²⁶ Analysts warn this moves the threat vector from easily trackable land-based launches to unpredictable maritime strikes, forcing the US and its allies to completely recalibrate their anti-submarine warfare strategies in the Pacific.



Figure 7 The submarine could be seaworthy within months.
Source: Reuters

²⁵ Nidhi Verma, “China Urges US to Fulfill Nuclear Disarmament Responsibility After Pentagon Report,” *Reuters*, December 23, 2025, <https://www.reuters.com/business/aerospace-defense/china-urges-us-fulfill-nuclear-disarmament-responsibility-after-pentagon-report-2025-12-23/>.

²⁶ CNN, “North Korea Released New Images of What It Claims Is Its First Nuclear-Powered Submarine,” *CNN*, December 24, 2025, <https://edition.cnn.com/2025/12/24/asia/north-korea-nuclear-powered-submarine-intl-hnk-ml/>.

- **European Strategic Autonomy:** France moved to "ring-fence" its future power projection by locking in a 10.25 billion euros budget for the new PANG aircraft carrier. This decision cements Paris as the sole provider of European nuclear naval deterrence in the post-2038 era, a hedge against uncertain long-term US support.²⁷ Meanwhile, the UK and Germany united to develop next-generation mobile artillery, investing USD 70 million in the RCH 155 system, which prioritizes "shoot-and-scoot" survivability over static firepower.

5.3 AI and Infrastructure: The "Jagged Frontier" and Sovereign Clouds

The commercial AI sector transitioned from unchecked hype to a phase of "operational reality," characterized by infrastructure wars and heavy-handed state regulation.

- **The AI "Reality Check":** The industry faced a systemic correction as major adopters like Klarna and Verizon walked back plans for full automation.²⁸ Corporations are discovering a "jagged frontier" where AI models fail at trivial tasks, necessitating costly human oversight. This has forced providers like OpenAI and Anthropic to pivot from generalist tools to high-touch, specialized enterprise partnerships to justify massive infrastructure spending.
- **Amazon's USD 35 Billion India Bet:** In a move to dominate the Global South's digital architecture, Amazon committed USD 35 billion to expand its cloud infrastructure in India. This investment aims to lock India in as a critical AI export hub (targeting USD 80 billion in exports) and talent base, directly challenging Google and Microsoft for supremacy in the world's most populous digital economy.²⁹
- **China's "Emotional AI" Crackdown:** Beijing introduced aggressive regulations on the burgeoning "anthropomorphic AI" sector. New rules mandate that providers actively police



²⁷ Florence Loeve and Tassilo Hummel, "France to Build New Aircraft Carrier, Macron Tells Troops Based in Gulf," *Reuters*, December 21, 2025, <https://www.reuters.com/world/europe/france-will-build-new-aircraft-carrier-macron-tells-troops-2025-12-21/>.

²⁸ Deepa Seetharaman, Supantha Mukherjee, and Krystal Hu, "Business Leaders Agree AI Is the Future. They Just Wish It Worked Right Now," *Reuters*, December 16, 2025, <https://www.reuters.com/business/business-leaders-agree-ai-is-future-they-just-wish-it-worked-right-now-2025-12-16/>.

²⁹ Reuters, "Amazon to Invest Over USD 35 Billion in India by 2030 to Expand Operations, Boost AI," *Reuters*, December 10, 2025, <https://www.reuters.com/business/retail-consumer/amazon-invest-over-35-billion-india-by-2030-expand-operations-boost-ai-2025-12-10/>.

user addiction to "AI companions," effectively classifying these digital agents as psychological hazards. This establishes a precedent where state-defined social stability supersedes algorithmic engagement metrics, capping the commercial potential of the "AI girlfriend" economy in China.

- **The Space Race Liquidity Injection:** To counter the dominance of SpaceX, Beijing facilitated the IPO of *LandSpace* on the STAR Market for 2026.³⁰ This state-directed liquidity injection allows public equity to fund the high cash-burn race for reusable rockets, signaling that financial depth is now viewed as a critical variable in closing the orbital gap with the US.

5.4 Regional Tech Diplomacy

- **Pakistan-Kyrgyzstan Crypto Corridor:** In a novel move to bypass traditional banking bottlenecks, Pakistan and Kyrgyzstan agreed to operationalize cooperation on cryptocurrency and blockchain frameworks. This partnership aims to modernize commercial infrastructure and facilitate a USD 100 million trade target, leveraging digital finance to future-proof bilateral economic ties.³¹

Domain	Key Event (Dec 2025)	Strategic Implication
Strategic Nuclear	China Silo Activation	Operationalized 100+ ICBM silos; racing for 1,000 warheads/parity by 2030.
Naval Deterrence	DPRK Nuclear Sub	Unveiled 8,700-ton nuclear sub; secures indefinite underwater endurance to rival South Korea.
AI Infrastructure	Amazon India Push	USD 35 billion investment to dominate India's cloud market; countering Google/Microsoft.
AI Regulation	China "Emotional AI" Ban	Regulated AI companions to curb addiction; prioritizes social stability over profit.
Space Industry	LandSpace IPO	Beijing backed IPO to fund reusable rockets; state intervention to counter SpaceX.
Defense Tech	France PANG Carrier	€10.25bn budget approved; secures French naval autonomy for post-2038 era.
Fintech	Pak-Kyrgyz Crypto	Agreed on blockchain co-op to bypass banking hurdles and boost trade to USD 100m.

Table 5 Technological and Strategic Futures (Dec. 2025)

30 Eduardo Baptista, "China's LandSpace Completes 'Tutoring' Process Ahead of Shanghai IPO," *Reuters*, December 23, 2025, <https://www.reuters.com/business/aerospace-defense/chinas-landspace-completes-tutoring-process-ahead-shanghai-ipo-2025-12-23/>.

31 "Kyrgyzstan President Arrives in Islamabad on 2-Day Maiden Visit," *Dawn*, December 3, 2025, <https://www.dawn.com/news/1958979/kyrgyzstan-president-arrives-in-islamabad-on-2-day-maiden-visit>.