

Global Defence Overview

As we enter the second quarter of 2010, the main domestic political risks stem from the aftermath of the 2008-2009 recession, and the need for governments to cut spending in order to bring budget deficits under control. On the international front, the main risks to watch are Iran's nuclear programme and rising protectionist rhetoric in the US and China.

It is increasingly evident that the global economy is recovering, and this should theoretically be conducive to improved domestic stability worldwide. However, with unemployment high (especially in the West) after the global recession of 2008-2009, and with the recovery vulnerable to a second dip in the latter half of 2010, public dissatisfaction with incumbent governments will remain a significant factor, and any new governments that take power will not have the luxury of a honeymoon period. Internationally, we see rising risks (albeit still limited) of a US or Israeli attack on Iran's nuclear facilities, and of cooler relations between the US and China over a variety of economic and political issues.

United States: Major Tests For Obama In 2010

Mid-Terms Elections

The US president, Barack Obama, faces a major test in November 2010, when the entire House of Representatives, one-third of Senate seats and 36 state governorships are up for election. Although we expect the US economy to grow by 2.8% in 2010 we are expecting a modest slowdown in the second half of the year, which could increase public dissatisfaction with Obama. We thus expect Republican gains in both houses. However, even if the Democrats were to lose ground, this would not necessarily derail Obama's bid for re-election in 2012. It is far too early to say who the Republican presidential candidate will be, but the search will surely gather momentum after the mid-term elections.

Afghanistan

By November we should have a clearer idea of whether Obama's 'troop surge' in Afghanistan and diplomatic overture to 'moderate' elements of the Taliban are working. US troop deployments are expected to reach 100,000 by June, taking the Western total to 150,000. This would exceed the Soviet Union's peak military presence of 120,000. The surge is aimed at defeating the Taliban in its southern strongholds, especially Helmand province. The US hopes that if it can put the Taliban on the back foot, moderate elements will abandon the hardliners, paving the way for a political solution with the government in Kabul. The US will continue to train the Afghan National Army so that Afghanistan can become more self-reliant for security. However, these are colossal challenges. We can certainly envisage a situation whereby the surge fails, forcing Obama to consider sending even more troops, or cut US losses with a managed exit. Another risk is that the Taliban will lie low, creating the impression it has been defeated, only to re-emerge. We expect Afghanistan to remain a major political issue for the US.

Iran

Although we believe the US and Israel will refrain from attacking Iran's nuclear facilities, we are less confident than we were a few months ago. Iran remains intransigent, and the moment is fast approaching when the US and Israel will have to decide whether they can live with a nuclear Iran. Even if the US were to abstain, leaving the attack to Israel, Iran would probably interpret an Israeli strike as a de facto US strike and retaliate, most probably through proxy groups in the Middle East, and possibly far beyond. Even a short Israeli bombing campaign against Iran would be seen by investors as a global crisis, leading to a spike in oil prices and risk aversion. However, we do see a counter-argument to the Iran war scenario, namely that a nuclear Iran would not be so dangerous to the Middle East, because Tehran would be highly unlikely to use nuclear weapons, and because Israel has overwhelming nuclear retaliatory capabilities.

US-China Relations

Bilateral relations have come under strain lately over a variety of issues. These include China's exchange rate policy; possible implementation of protectionist measures by both sides; US arms sales to Taiwan; President Obama's meeting with the Tibetan spiritual leader the Dalai Lama; how to deal with Iran's nuclear programme; climate change; Chinese internet censorship and human rights; and cyber-security. While these disagreements are unlikely to produce a major crisis in relations, the cumulative impact will be to undermine trust between the two countries. Moreover, there is a risk one bone of contention will affect another unrelated matter.

Table: Election Timetable, 2010

April	Region	Election	Date	Ruling party or candidate	Opposition party or candidate	Expected outcome	Short-term political risk rating*
Sri Lanka	Asia	Legislative	April 8	Sri Lanka Freedom Party (SLFP)	United National Party	SLFP win	74.8
Hungary	Europe	Legislative	April 11 and 25	Free Democrats and Socialists	Fidesz	Fidesz win (majority)	64.8
Sudan	SSA	Presidential	April 11	Omar al-Bashir	Salva Kiir	al-Bashir win	39.6
Sudan	SSA	Legislative	April 11	Coalition: National Congress Party and SPLM	na	Coalition win	
Cyprus (Northern)	Europe	Presidential	April 18	Mehmet Ali Talat	Dervis Eroglu	Eroglu win	na
Austria	Europe	Presidential	April 25	Heinz Fischer	na	Fischer win	77.5
Austria	Europe	Legislative	April 25	National Convergence	Movement for the Liberation of Central African People (MLPC)	na	
Solomon Islands	Pacific	Legislative	April	Coalition	Misc.	Coalition	na

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May							
UK	Europe	Legislative	May 6	Gordon Brown (Labour Party)	David Cameron (Conservative Party)	Conservative win	77.5
Germany (N Rhine- Westphalia)	Europe	State	May 9	Jurgen Ruttgers (CDU)	SPD	na	84.4
Philippines	Asia	Presidential	May 10	Gilberto Teodoro Jr	Benigno Aquino III (Liberal Par- ty); Manuel Villar Jr (Nacionalista Party)	Aquino win	67.9
Philippines	Asia	Congres- sional	May 10	Lakas-Kampi- CMD	Liberal Party, Nacionalista Party, National- ist People's Coalition, etc	Lakas-Kampi- CMD remains largest bloc	
Dominican Rep.	Carib- bean	Legislative	May 16	Democratic Liberation Party	Dominican Rev- olutionary Party	na	72.7
Suriname	Latin America	Legislative	May 25	National Party of Suriname	Democratic National Platform 2000	na	na
Czech Rep.	Europe	Legislative	May 28	Technocratic inter- im government	Communists	Coalition	61.9
Colombia	Latin America	Presidential	May 30	Probably Juan Manuel Santos	Many candidates	Santos win	69.6
Madagascar	SSA	Legislative	May	Transitional government	Coalition	Too uncertain	34.0
June							
South Korea	Asia	Regional	June 2	Grand National Party	Democratic Party	na	81.3
Netherlands	Europe	Legislative	June 9	Christian Democratic Appeal (CDA)	PVV (Far-Right), PvdA (Lab), SP (Socialists)	CDA-led coalition	85.2
Slovakia	Europe	Legislative	June 12	Smer-led coalition	SDKU	Smer-led coalition	75.2
Guinea	SSA	Presidential	June 27	Sekouba Konate (interim)	Various	Too uncertain	31.3
July							
Burundi	SSA	Presidential	July	Pierre Nkurunziza	Agathon Rwasa (FNL); Domitien Ndayizeye (FRODEBU)	Nkurunziza win, possible violence	54.0
Burundi	SSA	Legislative		NCDD-FDD	Misc.	na	
Japan	Asia	Upper House	July	Democratic Party of Japan (DPJ)	Liberal Democratic Party (LDP)	DPJ losses (minor)	91.5

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Mauritius	SSA	Legislative	July	Mauritian Labor Party-Parti Mauricien Xavier Duval (MLP-PMXD)	Mauritian Militant Movement-Mauritian Socialist Movement (MMM-MSM), Rodriguan People's Organization (OPR)	MLP win	82.7
August							
Rwanda	SSA	Presidential	August 9	Paul Kagame/Rwandan Patriotic Front	Victoire Ingabire /United Democratic Forces	Kagame win	67.5
Tuvalu	Pacific	Legislative	August	Independents	Independents	na	na
September							
Afghanistan	Asia	Legislative	September 18	na	na	na	na
Sweden	Europe	Legislative	September 29	Fredrik Reinfeldt (Moderate)	Mona Sahlin (SDP)	SDP win	91.5
Venezuela	Latin America	Legislative	September 26	Socialist Union Party of Venezuela	We Can Social Democracy Party	Socialist win	58.5
October							
Latvia	Europe	Legislative	October 2	Multiparty centrist coalition	na (all parties in current coalition)	New coalition government	49.0
Brazil	Latin America	Presidential	October 3	Dilma Rouseff	Jose Serra	Too uncertain	72.1
Brazil	Latin America	Legislative	October 3	Workers Party, Democratic Movement Party (PMDB)	Social Democratic Party	PMDB win	
Bosnia & Herzegovina	Europe	Presidential	October	Haris Silajdzic (Bosniak), Zeljko Komsic (Croat), Nebojsa Radmanovic (Serb)	Various	na	34.6
Bosnia & Herzegovina	Europe	Legislative	October	Alliance of Independent Social Democrats, Social Democratic Party of Bosnia-Herzegovina, Party for Bosnia-Herzegovina	Misc.	Nationalist parties win	
Tanzania	SSA	Presidential	October	Jakaya Kikwete	Freeman Mbowe; Chadema Ibrahim	Jakaya Kikwete	69.6
Tanzania	SSA	Legislative	October	Chama Cha Mapinduzi (CCM)	LIPUMBA/Civic United Front (CUF)	Chama Cha Mapinduzi (CCM)	
November							

Table: Election Timetable, 2010

US	North America	Legislative	November 2	Democratic Party	Republican Party	Republican net gains in both houses	88.1
US		Gubernatorial (36 states)		Split	na	na	
Azerbaijan	Europe	Legislative	November 7	New Azerbaijan Party	Azadliq 'Freedom' Coalition	New Azerbaijan Party	66.7
Bahrain	MENA	Legislative	November	Al-Wefaq		Status quo	66.5
Egypt	MENA	Legislative	November	National Democratic Party (NDP)	Kefaya (secular-liberal coalition), Muslim Brotherhood (independents)	NDP win	64.8
December							
Equatorial Guinea	SSA	Presidential	December	Teodoro Obiang Nguema Mbasogo		na Incumbent win	64.0
St Vincent & Grenadines	Caribbean	Legislative	December	Unity Labour Party	New Democratic Party	na	na
To be announced							
Australia	Asia	Legislative	Late 2010/early 2011	Kevin Rudd (Australian Labor Party)	Tony Abbott (Liberal Party)	Labor win	86.5
Madagascar	SSA	Presidential	na	Andry Rajoelina	Marc Ravalomanana	Too uncertain	34.0
Myanmar	Asia	Legislative	na	State Peace and Development Council	National League of Democracy	SPDC win	54.8
Moldova	Europe	Legislative	Late 2010	Alliance	Communists	na	40.8

* Out of 100, with 100 the best; na = not available/applicable; SSA = Sub-Saharan Africa; MENA = Middle East and North Africa. Source: International media, BMI

Western Europe: Fiscal Austerity Will Be Unpopular

The big election to watch will be in the UK on May 6. We expect the opposition Conservative Party, led by David Cameron, to win a narrow majority, ousting Prime Minister Gordon Brown and his Labour Party, which has been in office for 13 years. However, Cameron will inherit one of the shakiest economies in the developed world and will be under intense pressure to deliver fiscal consolidation. He is thus unlikely to be greeted with the euphoria of Tony Blair in 1997 and will probably not enjoy a honeymoon period. Cameron's big challenge will be to enact badly needed budgetary and welfare

reforms, while overhauling state-controlled financial institutions, without causing significant pain for either businesses or those dependent on benefits.

There is a further risk at hand. The British media has suggested the growing possibility of a 'hung parliament' (ie no party wins a majority), for the first time since 1974. If this were to happen a cross-party pact would have to be agreed, with the smaller opposition Liberal Democrats likely either to join the government or provide support on key votes. The resulting administration would be perceived as weak and ephemeral, greatly increasing political and economic uncertainty in the UK, and possibly necessitating a new general election within a year.

Elsewhere in Western Europe, the fallout from Greece's debt crisis will have been a stern warning of the need for fiscal and debt consolidation. However, budget cuts will not be easy at a time when unemployment is so high in many states. Youth unemployment is a particular concern, since this is higher than national averages. Meanwhile, the profiles of far-right parties, such as the Netherlands' PvdV party, which looks set to make big gains in the June general election, are rising. PvdV leader Geert Wilders has emerged as one of Europe's most controversial figures, owing to his warning that the Netherlands is being 'Islamified'. A strong showing by the PvdV could boost other ultranationalist parties in Europe.

Central And Eastern Europe: New Governments, Old Problems

Central and Eastern Europe will see elections in Hungary, the Czech Republic and Slovakia in April, May and June respectively. Later in the year, Latvia and Bosnia & Herzegovina will also hold polls.

Hungary

We expect a big majority win by the centre-right Fidesz party, which would bode well for stability.

Czech Republic

A centre-left victory is increasingly likely, but the outcome may well be a broad and unstable coalition, which would be negative for political stability.

Slovakia

Prime Minister Robert Fico's centre-right Smer-led coalition is likely to continue.

Latvia

A new coalition will take power after October's election, but with no party polling more than 16% support, it will likely be unwieldy.

Bosnia

Rising nationalist rhetoric and possible outbreaks of localised violence are risks ahead of presidential and legislative elections in October.

As with Western Europe, the main challenge for Central and Eastern European governments will be to reduce unemployment and rein in deficits.

Turkey

There is no election in 2010, but we still see a risk that political tensions will rise as a result of the ongoing investigations into foiled coup plots involving active and retired military officers. Government proposals to amend the constitution to restrict the privileges and powers of the military and judiciary are also harming relations between the moderate-Islamist ruling AK Party (AKP) and the powerful, secular armed forces. However, the military lacks the prestige it once had, and any action against the government would be extremely risky. Nonetheless, the AKP will likely divert substantial political capital to address these tensions, possibly at the expense of liberal economic reform.

Russia: Watch The Caucasus

Russia's government should remain broadly stable in 2010, and while the United Russia party performed worse than expected in local elections in March, it easily outperformed all of its rivals. Recent anti-government protests have attracted only a few thousand people, and are not problematic. The bigger political unknown is whether President Dmitry Medvedev and Prime Minister Vladimir Putin will both contest the presidency in 2012. Neither has ruled this out, meaning there could be increased jockeying between the two camps. Any sign of public disagreement between the leaders could heighten political uncertainty for investors.

Meanwhile, the Kremlin has begun a process of replacing long-serving republican presidents and regional governors with a new, younger generation of officials. While this is arguably natural progress, the federal government must be sensitive to local political sentiment, given that the regions no longer hold elections for their leaders (these were scrapped in 2005). Another potential risk is the possibility that Medvedev and Putin will compete to ensure that their own loyalists are appointed to regional posts.

On the security front the March 29 2010 bombings in the Moscow Metro reinforce our concerns about rising violence in the North Caucasus, and its ability to affect Russia's major cities. Despite considerable federal subsidies to improve local economies, and repressive security measures, Kremlin-appointed regional leaders and military commanders have failed to rein in the current insurgency. The main hotspots will remain Chechnya, Ingushetia and Dagestan. In addition, there have been renewed calls from the Circassians (who are spread over at least three territories) to create a common republic. Any attempt to reorganise local borders could be highly destabilising, given the diverse population of the Caucasus.

Middle East: Ongoing Challenges

Aside from the potential for the Iranian nuclear dispute to escalate, we see no abnormal risks on the horizon in 2010.

Iran

President Mahmoud Ahmadinejad's administration will probably face lingering protests, but these do not appear to have the numbers or breadth of appeal to unseat him. Internal divisions within the regime are a bigger political risk, and these could intensify if rumours about Supreme Leader Ayatollah Ali Khamenei's deteriorating health are correct.

Lebanon

In the event of an Israeli military strike on Iran, the Islamic Republic's proxy in Lebanon, Hizbullah, is likely to retaliate by firing rockets into northern Israel. This would likely draw a military response from Israel, and possibly a replay of the 2006 war. Given that Hizbullah is believed to be more heavily armed than it was in 2006, and that Israel would want to make up for the 'defeat' it suffered last time, a conflict could be considerably more destructive and deadly this time around. This scenario could well play out even without the catalyst of an Israeli strike on Iran.

Iraq

As of March 31 a new Iraqi government had not yet been formed following the national elections that month. With former prime minister Ayad Allawi's secular opposition bloc just edging out incumbent Prime Minister Nouri al-Maliki's party, it will get the first opportunity to form a government. Allawi's party is supported by both Shi'a and Sunni Muslims. If he were to become prime minister we would expect the process of sectarian reconciliation to accelerate, and the risk of Iraq descending once more into violence would recede. However, if Allawi's attempt to form a government fails and Maliki retains his position while excluding Allawi's secular bloc from a governing coalition, this would further disenfranchise the Sunni community and could prompt more sectarian violence. In our view, the best way forward as regards stability would be a governing coalition comprising both Allawi and Maliki's parties.

Egypt

One of the biggest uncertainties in the region stems from the possibility that the Egyptian president, Hosni Mubarak, who is 81, may die without having formally appointed a successor. Although his son, Gamal, has long been seen as heir-apparent, the transition is far from assured, and if the president dies, it is quite possible that the head of the intelligence services, Omar Suleiman, could become president. These contenders may not have to wait for such an eventuality, however, if the incumbent decides not to seek re-election when his term expires in 2011. A wild card event could be a victory for former International Atomic Energy Agency (IAEA) director Mohammed ElBaradei, although this would require constitutional reform, which in turn would depend on substantial pressure either from the Egyptian public or the international community, or both.

In the meantime, we expect the ruling National Democratic Party (NDP) to win a resounding majority in upper and lower house elections in May and November, respectively. The real question is the extent to which the banned opposition Muslim Brotherhood is allowed to field candidates. If it does manage to

participate (with its members standing as independents), we would expect the Brotherhood to win a large share of the public vote, as was the case in 2005. However, given the tensions surrounding the presidential polls, the NDP will be keen to shore up its position, making any major efforts towards political liberalisation highly unlikely.

Yemen

The state of war between the security forces and Houthi-led rebels is over for now, but the risk of a revival of tensions remains. Moreover, the fact that Saudi Arabia lost 109 troops in the fighting shows just how deadly the dispute is. The patent failure of security and diplomatic efforts to resolve the Houthi rebellion in Sa'ada leaves Yemen dangerously exposed to other domestic political pressures. These extend to a separatist movement in the south of the country and al-Qaeda's Yemeni franchise, which is increasingly able to exploit the security vacuum. Overall, the threat of a failed state has never been as strong since Yemen was unified in 1994.

Africa: The Election Conundrum

Several African states will hold presidential elections, some of which are likely to be disputed, in 2010. Where this is the case, there could be outbreaks of violence, which would challenge the legitimacy of the prevailing government. This, of course, assumes elections actually take place.

Côte d'Ivoire

Long-awaited elections continue to be postponed, with President Laurent Gbagbo having dissolved the government and the Independent Electoral Commission (CEI) in February 2010. We believe Gbagbo may be stalling the polls in order to maintain the status quo. Nevertheless, we expect elections in the second half of 2010, given increasing pressure from the electorate.

Sudan

In April the country's first multi-party elections since 1986 were held, amid fears of ballot rigging. Results were unavailable at the time of writing.

Madagascar

The outlook is uncertain, with President Andry Rajoelina seemingly unwilling to compromise with the opposition in the aftermath of his March 2009 power grab. The transitional authority has unilaterally announced plans for parliamentary elections in May 2010. Even if the polls go ahead, they will likely lack legitimacy.

Guinea

An assassination attempt on the junta leader, Moussa Dadis Camara, in December 2009 has led to the postponement of parliamentary elections from March 2010 to June. While the attempt on Camara's life threatened to create a dangerous power vacuum, the situation has stabilised in recent months. The defence

minister, Sekouba Konate, has assumed the position of interim president and has moved quickly to meet at least some of the demands of the international community, including the Economic Community of West African States (ECOWAS). Konate and the interim prime minister and cabinet are potentially precluded from standing in the elections, in order to guarantee a transparent return to civilian rule.

Nigeria

President Umaru Yar'Adua has been severely incapacitated for several months, and Vice President Goodluck Jonathan is acting president. Jonathan seems to be gaining confidence, having dismissed the cabinet in March 2010 and forming a new hand-picked administration that would allow him to press ahead with reforms. It now seems a distinct possibility that he will attempt to stand as the ruling People's Democratic Party (PDP)'s presidential candidate in the 2011 elections. However, the increasing likelihood of this risks stirring up tensions in the north, since it would violate the unwritten agreement that the presidency is rotated between the north and the south of the country.

Zimbabwe

We continue to see the unity government between President Robert Mugabe's ZANU-PF party and the opposition Movement for Democratic Change (MDC) as inherently unstable. In addition, the issue of Mugabe's succession is gaining urgency. There are two front-running factions, one led by Senior Vice-President Joyce Mujuru and the other by the current Minister of Defence, Emmerson Mnangagwa. At this stage, the Mujuru camp seems to have the upper hand, but this is far from a foregone conclusion and the succession battle could become a major source of instability.

Asia: Broadly Stable, But 'Rogues' Need Vigilance

Most Asian states should have a reasonably calm year after election-heavy schedules in 2008 and 2009.

Japan

The Upper House election in July will be a major test for Prime Minister Yukio Hatoyama's Democratic Party of Japan (DPJ) government. The DPJ is seeking an outright majority in the chamber so that it can end its reliance on its minor coalition partners, but the party is rapidly losing support. That said, the opposition Liberal Democratic Party (LDP) is even more unpopular and several of its key members are forming new parties, leaving it in greater disarray.

Philippines

Benigno Aquino III, son of former president Corazon Aquino, is the frontrunner for presidential elections in May, but the ruling Lakas-Kampi-CMD looks set to form the largest block in Congress. The main risks stem from potentially higher public spending ahead of the vote, electoral malpractices, pre-election violence or post-election disputes.

Thailand

Prime Minister Abhisit Vejjajiva faces ongoing protests by supporters of ex-premier Thaksin Shinawatra (the Red Shirts). The deteriorating health of King Bhumibol Adulyadej. With more than 60 years on the throne, he has been a key arbiter in Thai politics, and his passing could exacerbate the country's deep faultlines.

Pakistan

The country will remain vulnerable to terror attack as the government fights Islamist militants in the Afghan border regions. President Asif Ali Zardari, meanwhile, is looking vulnerable, and even if he remains in office, he is likely to have surrendered many of his executive powers to Prime Minister Yusuf Raza Gilani within the next few months. Late 2010 will also see the selection of a new Chief of Army Staff, which could test civil-military relations. Nonetheless, there does not appear to be any near-term risk of anti-systemic (ie radical Islamist) political change in Islamabad.

There are two potential wild cards in Asia:

North Korea

The bungled currency reform at the end of November 2009 has left the country shaken, and reportedly prompted the execution of the economic official who masterminded it. We do not preclude further instability in 2010. Meanwhile, the uncertain health of the country's leader, Kim Jong Il, is likely to receive renewed attention. In the event of Kim's passing, we expect a military-dominated collective leadership to assume power. Overall, we do not see Pyongyang making any meaningful concessions on its nuclear programme, even if it returns to the Six-Way Talks.

Myanmar

The government will hold its first elections since 1990 in 2010. The timetable has yet to be announced, but these are unlikely to be free and fair. We see a risk of renewed violence as citizens vent their dissatisfaction with the junta. At this stage, it is impossible to predict the outcome.

Latin America: Political Risks Contained, But Watch Cartels

Brazil

The race to succeed President Luiz Inácio 'Lula' da Silva in October is becoming much tighter, with his chosen successor, Dilma Roussef, narrowing the gap with José Serra of the opposition Partido da Social Democracia Brasileira (PSDB). We generally see little change in Brazil's economic trajectory under either candidate, although if Serra wins, we would expect Brazil to move away from Lula's somewhat critical stance towards the US and potentially adopt a more pro-Washington position. This could remove a pillar of moral support for Latin America's left-wing leaders.

Andean Region

Despite more conciliatory rhetoric in recent months, we expect ongoing tensions between Venezuela and Ecuador on one hand and Colombia on the other over the latter's willingness to allow US troops into the region. Colombia will hold a presidential election in May, and we expect former defence minister Juan Manuel Santos, a close ally of outgoing president Álvaro Uribe, to win. This bodes well for continuity. However, Santos has had tense relations with Venezuelan president Hugo Chávez and Ecuadorean president Rafael Correa, and Chávez may well seek to play the anti-Colombia/US card as legislative elections approach in September.

Cartel Wars

We expect a continuation of the cartel wars in Mexico and Central America. This is likely to be particularly damaging for states where levels of drug-related violence and corruption are especially high. We also see a possible escalation of cartel-related violence in Colombia.

Wild Cards To Watch

'Surprises' are by definition difficult to predict. However, there are many 'known unknowns' out there. Examples include:

A New Islamist Terror Attack In A Major City

The risk of this was evident in the foiled Christmas Day 2009 plot to destroy an airliner over Detroit. This would put the global 'war on terror' firmly back on the international agenda, although it is unclear who would be the target of any retaliation.

A New Crisis Between India And Pakistan

We remain concerned that Pakistan-based Islamist militants might carry out a new attack in India, which would force New Delhi to turn up the heat on Islamabad.

The Sudden Deaths Of Ageing Leaders

Many heads of state are in their late 70s or 80s, and in several cases, their successors will lack the authority of the incumbents. Thus, there is scope for succession struggles.

Sudden Regime Collapse

Several regimes could face major tests in 2010. Although Iran, Myanmar, North Korea, and Zimbabwe do not appear to be on the brink of imminent collapse, political change can happen surprisingly quickly once cracks appear in regimes.

'Cultural' Incidents

Cultural sensitivity remains a major political issue. Even seemingly obscure events such as a Danish newspaper publishing anti-Islamic cartoons or disputes between countries over their histories (eg Cambodia and Thailand, China and Japan) can raise political temperatures surprisingly quickly.

A New Global Pandemic

The past decade has seen SARS, bird flu and swine flu. Although deaths have been relatively contained, we cannot rule out the emergence of new viruses that mutate and become dangerous.

Natural Disasters

While these are impossible to predict, their destructiveness will depend to some degree on the government's response. Responses perceived as incompetent (eg Hurricane Katrina in New Orleans in 2005) can have major political consequences.

Cyber-Attacks

These are increasingly perceived as security threats. Although there have not been any major incidents, cyber-warfare is still in its early stages of development, and could bring surprises in years to come.

Many of the above have been anticipated for some time, but are still likely to catch observers and investors by surprise if they happen.

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