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RISKS TO WATCH GLOBAL TRENDS

It is time to make forecasts about the year ahead, but nowhere is prediction more fraught with peril than in politics and world affairs. The success rate is in inverse proportion to the costs that unexpected acts in the real world can impose on the investor. So despite the difficulty of providing a reliable guide to the future, there are huge incentives to try to chart the way ahead. Reuters tries to gauge political risks with appropriate cautions in mind. We reckon it is possible to use our expertise to diminish surprise and anticipate both dangers and opportunities. With trepidation, therefore, here's our pick of countries, issues and threats that will pothole the road to prosperity in 2011.

KEY GLOBAL TRENDS TO WATCH:

WASHINGTON VERSUS BEIJING

This is top of many people's lists and has been a "global risk" for the last couple of years. But being familiar doesn't disqualify it. Trade rows, competitive currency weakness, gunboats on the South China seas, regional grandstanding, economic rivalry and diplomatic divergence over North Korea and Iran make the headlines, but the uneasy relationship between the world's No. 1 and No. 2 economic powers drives numerous other issues. Watch the body language of President Hu Jintao's visit to the United States in January for a harbinger of the tone for the year.



THE COUNTRIES OF OLD MEN

Watch for disturbances in countries with elderly rulers and no visible succession plan. Egypt's Hosni Mubarak is 82 and has had health problems. His son waits in the wings, but is no certainty to succeed his father. The Saudi gerontocracy may be tested by the death of King Abdullah, with concerns over how foreign and oil policy might be affected by conservative Interior Minister Prince Nayef winning the throne. What truth is there in WikiLeaks-ed reports that Iran's supreme leader Ayatollah Ali Khamenei has terminal cancer and what impact would his death have on bubbling internal power struggles? While 83-year-old King Bhumibol Adulyadej is revered by Thais, his son does not have the same support in deeply divided Thailand. Will we see a return of massive red-shirt protests and the kind of bloody showdown that killed dozens in Bangkok in May?

Elsewhere, Lebanon's Hezbollah is not seen as wanting to strike the Israeli north, nor is sectarian violence expected to resurrect itself in Iraq. Let's hope both are true. Watch for Yemen, a failing state that has involuntarily exported trouble across its land border to Saudi Arabia and to the United States via airborne bombs.

IT'S THE ECONOMY

Successful political management of Western economies is as challenging as ever with growth uneven, debt levels high and austerity the watchword. Politicians know it is hard to do the right thing and still get elected. Watch for wavering in the face of protest, and tactical moves on reforms that are necessary but electorally costly. It's all a question of timing. Britain's coalition government is playing a long game, knowing it can impose painful cuts now and not face the public until 2015. Politicians in Ireland are not so lucky, but the likely Fine Gael/Labour election victors will not fundamentally be able to ease the budget pain. Italy will likely drift into early elections with its deep-rooted debt problems un-tackled. Spain, whose politicians are mindful a general election must be held by March 2012, had to be cajoled into budget cuts, labour law reforms and asset sales by markets pushing its debt costs higher. Generally the timing does not

THE UNQUANTIFIABLE BUT UGLY

What's the chance of an Israeli military strike against Iran's nuclear facilities to slow Tehran's progress towards atomic weapon capability? The only thing we can say is that it's a probability of somewhere between zero and 100 percent. What can be said with certainty is that the economic impact of Israeli action would be enormous initially, which means this risk can't be ignored. Nor can it really be measured, unfortunately. What else should we worry about in the Middle East? Currently it appears there is only a remote chance of a return to violent Intifada due to the dead-end state of Israeli-Palestinian peace talks.

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work for the euro zone's peripheral economies, which just can't cut their spending and fire up tax-generating growth quickly enough to climb out of their fiscal holes. While the threat of sovereign default has eased, it is only political will in the zone's larger countries, mainly Germany, which keeps the periphery from insolvency. That makes for political uncertainty.

CRISIS BACKLASH

Street violence is visible, noisy and alarming, but does it change anything? There will be anti-austerity protests in Europe but our best guess is that violence will be contained, governments will not fall and fiscal reforms will haltingly continue. Much of the developed world is facing up to a real decline in living standards as the social contracts installed after World War Two fray under the weight of unfulfillable pension promises and national indebtedness. That makes for an angrily discordant tone to political discourse, with screechiness at its most ear-splitting in the United States, where the Tea Party has assailed the political establishment. The TPs lose their status as rebel outsiders in January when those of them elected in the Republican victory in the mid-terms take their seats in Congress. The tone might not change but the practicalities of governing in cohabitation will make sully compromise inevitable.

PRE-ELECTION POSTURING

Almost as distorting for policy-making as a looming election is the prospect of one. Watch for gesture politics and jockeying for position in France. Sarkozy has to resurrect his political standing hurt by confrontations with unions over pension reform if he is to win re-election in March 2012. Intriguingly the biggest impact might be outside France. Sarkozy will be trying to reform the global monetary system while at the helm of the G20 presidency to win electoral credit at home. Will Washington agree to a diminished role for the dollar in international finance? U.S. President Barack Obama has to find a way to create jobs and stimulate domestic demand, with a gridlocked Congress and mounting concern over trillion dollar deficits and debt mountains standing in his way. And he'll be starting his campaign for re-election too. Most U.S. media attention will be on the early rounds of the dogfight over the Republican nomination. Russia, too, will be watching to see which of Putin and Medvedev runs for the presidency in 2012. The assumption is that the role is there for the taking for Putin, now prime minister, should he decide to return to his old position but watch for Kremlin intrigue revealing itself in unusual ways. While not strictly within our definition, China is also preparing for a leadership shift, with Xi Jinping set to succeed Hu Jintao as president towards the end of 2012 or in early 2013. To ensure the transition is smooth and happens against a stable economic background, watch for measures to balance export-led growth with domestic demand and a shift to a more market-based currency regime. And no tolerance for dissent.

COUNTRY RISK

Every country has its risks. At least the ones at home

you can gauge for yourself. But if a developed world investor wants a decent return he or she must venture abroad. Is anywhere safe? Try Turkey, where the ruling AKP under Prime Minister Tayyip Erdogan will likely win a third term in an election that must happen by July 2011 and the broad course of pro-growth reforms should stay on track. Somewhere for the cautious to avoid - Sudan, where the January referendum may break Africa's largest country by land mass into two. It will be hard work to avoid war, with devastating humanitarian consequences and an economic cost of \$100 billion to the wider region, according to estimates. And here's one you can't avoid - Nigeria goes to the polls in April, and if levels of voter intimidation and ballot stuffing reach the levels of previous elections, watch for widespread unrest. If President Goodluck Jonathan's bid to hold onto power is perceived to be unfairly thwarted, watch for a return to violent militancy in the oil-producing Niger Delta region. That would have an impact on oil supplies and potentially the price you pay for petrol at the pump.

THE BIG BANG

North Korea looks the likeliest place to spark a major regional crisis. Putting a percentage on its likelihood is again impossible, but we can say it is more likely in 2011 than in 2010. With ruler Kim Jong-il (right) appearing to bolster his son and appointed successor Kim Jong-un's stature through sabre-rattling, the potential for cross-border clashes with the South has risen. Recent revelations of advanced uranium enrichment facilities in the north have enhanced Pyongyang's nuclear stature, boosting its bargaining power as it seeks to stave off regime-ending economic collapse. Implosion in the North is more likely than war. Both are possible. Either would have vast economic and human consequences.

THE LITTLE BANG

Terrorism and the mutating threat from al Qaeda and its sympathisers have not gone away in the last decade and need to stay on the list of dangers. Attackers keep probing for weak spots in security (the Yemen printer cartridge bombs, for instance) and the continued large Western military presence in Afghanistan feeds militant propaganda. While it is a lot harder to launch a 9/11 spectacular, don't rule out a successful attack on a civilian airliner at some point.

BYTE-SIZED PROBLEMS

The Stuxnet virus, WikiLeaks revelations, subsequent hack-backs on those who tried to shut it down, China-based attacks on Google and the use of social media to "out" information that was legally locked down showed the power of computer and Internet-based transmission mechanisms to disrupt social and political norms in 2010. It doesn't amount to cyber-warfare as some doom-sayers would have it, or the brave new world of limitless information freedom that Internet zealots promise. It does represent an assault on privacy as we used to know it, a huge cost for business to protect itself and an intriguing new element to black ops espionage. Plus a redefinition of what it means to be friends with someone.

