

## Geopolitical Shifts



**June 2012:** It has been an eventful start to the century from a geopolitical perspective. 2001 saw the 9/11 terrorist attacks in America. The attack was not only an assault on American families and the American economy. It also sent a shock wave through the world showing the vulnerability of industries including finance, transportation and tourism. In 2003 a new era of geopolitical relationships began with the “war on terror” in Iraq and then Afghanistan. In 2007 the financial bubble burst leading to a global financial crisis that many economists consider to be the worst since the Great Depression of the 1930s.

Today the world leaders are still struggling to stabilize the global economy. The financial crisis led to many people worldwide losing retirement savings and homes, while facing skyrocketing food prices and growing unemployment. Desperate situations call for desperate acts: In December 2010, a young fruit and vegetable seller in Tunisia, who supported eight people on less than US\$150 a month got fed up with injustice, poverty, dictatorship and corruption and set himself on fire triggering a year of tremendous political and social unrest, widely called the Arab Spring. Today, the world and the countries involved are still struggling with the way forward.

Despite the Arab Spring many populations worldwide do still not enjoy the freedom of democracy and for some countries the term “election” it is more a matter of “transition of power” than a free election. No matter the wording, elections and transitions often lead to shifting political alliances among countries and critical new geopolitical relationships can emerge when power balances changes within countries. In this year of geopolitical change worldwide, many questions of how relationships will shift remain unclear while others are more easily answered.

From a business perspective the terrorist attacks and geopolitical shifts of the last decade have shaken up the corporate world. It has dawned on many more business leaders that the geopolitical environment needs to be reflected in the company’s strategy because not doing it equals risky business. Understanding and mitigating geopolitical trends and risk as well as political and social changes is new to many corporations. But as Jeffrey E. Garten, the former undersecretary of [commerce for international trade](#) and the current dean of the [Yale School of Management](#), argues, “CEOs ought to think more broadly about what true business leadership means today.... They ought to realize that they should take more responsibility for shaping the environment in which they and everyone else can prosper. They should be corporate chief executives, but also business statesmen.” (Source: [Strategy+Business](#))

With this in mind let's take a look at some of the more important geopolitical shifts happening in the world. What are the implications for your organization – and for society more broadly?

## 2012 – A year of elections

This year, the world's superpowers and leading economies – including the United States, China, France and Russia – have elected or are in the process of electing new political leaders. The ongoing financial crisis has already made it difficult for political leaders in Europe to keep their seats as populations are fed up with austerity, overspending and lack of employment possibilities. The latest casualty was French President Nicolas Sarkozy from France's major right-wing party Union pour un Mouvement Populaire who in May 2011 was replaced by François Hollande of the Socialist Party. He joins a growing list of European leaders who find themselves out of office as a result of the financial crisis and growing economic pressures...

<b>Spain</b>	The Socialists of Jose Luis Rodriguez Zapatero were wiped off the map in November 2011 elections; Mariano Rajoy's conservatives took over.
<b>Italy</b>	The criticisms finally stuck to long-serving "Teflon" leader Silvio Berlusconi who resigned in 2011 because of trust issues. Mario Monti, a former European Commissioner, was named to replace him and lead a technical government until elections in 2013.
<b>Britain</b>	Gordon Brown led the Labour Party to defeat in the May 2010 election; Conservative Party leader David Cameron became leader of an often-fractious coalition government, with Liberal Nick Clegg as his Deputy.
<b>Ireland</b>	Brian Cowen who was promoted to prime minister in 2008 after being finance minister, didn't even get to run. Weeks before the February, 2011 election, he resigned as leader of the Fianna Fail Party. Enda Kenny, a centre-right member of the Fine Gael party, was elected by Irish parliament as prime minister in March 2011.
<b>Portugal</b>	A month after Portugal requested a 78 billion Euro bailout, the center-left Socialist government of Jose Socrates was voted out of power in June, 2011. The Social Democrat Pedro Passos Coelho took office in his place.
<b>Denmark</b>	The center-right Lars Løkke Rasmussen lost power in September 2011, partly due to discontent over austerity measures introduced amid the debt crisis. Center-left Helle Thorning-Smith replaced him as prime minister.
<b>Finland</b>	Finland's government was reconfigured after June elections following a sharp surge in support for nationalists who opposed bailouts for debt-stricken Eurozone countries. A conservative-led coalition spanning left and right was formed to keep the nationalist True Finns out of power.
<b>The Netherlands</b>	In April 2012, center-right Dutch Prime Minister Mark Rutte resigned after his ruling coalition lost the support of a populist party on disagreements over austerity measures. With elections due in September 2012, the fragmented Dutch political landscape could yield further uncertainty and potentially threaten the country's coveted AAA debt rating.

Sources: [The Salt Lake Tribune](#), the Wall Street Journal, Reuters

## In Action!

**From Putin to Medvedev to Putin again:** There were five officially registered candidates, four representatives of registered parties and one independent. The election was for a new, extended term of six years. But, as anticipated, Vladimir Putin regained power after his protégé President Dmitry Medvedev, who in turn took on Putin's old job as prime minister. Some of the not so lucky candidates in the Russian presidential race claim the poll was not fair and refuse to recognize the results. In the run-up to and following the election many thousands of people protested against Vladimir Putin's election as president and the US and EU have asked the Russian government to investigate the allegations of irregularities. (Source: [RT](#) & [BBC](#)). As the Kremlin no longer controls Russia in the same way as before through its consolidated political party and as unrest smolders in the Russian population, Vladimir Putin could be hard tried this term to fulfill his promises to voters.

**A “Greek Tragedy”?** In October 2009 Greek Socialist leader George Papandreou gained power over conservative opponents. Two years later, at the height of Greece's worst financial crisis since World War II, Papandreou's own deputies forced him out as Greece verged on sovereign debt default and a possible exit from the Euro. Caretaker Prime Minister Lucas Papademos was appointed to form a new government, only to be replaced amid bitter political in-fighting after the May 6 election this year by caretaker Prime Minister Panagiotis Pikramenos who will hold office until the election on 17 June (Source: [The Salt Lake Tribune](#) & [Boston Globe](#) ). Greece is a county in political limbo facing potential economic meltdown and angry voters, with control of its economic future largely ceded to the European Central Bank and the IMF in the face of insurmountable loans. It is no longer only a financial crisis but increasingly a political crisis. What’s could be next? Will the European Union also seek political control via budgetary mechanisms?

**Egypt after the Arab Spring:** The second presidential election in Egypt’s history with more than one candidate was held on 23 and 24 May 2012 resulting in the Muslim Brotherhood's candidate Mohamed Morsi, and Ahmed Shafik, a former appointed Mubarak Prime Minister of Egypt, receiving the most votes. As neither had a clear majority, they will contest the runoff on 16 and 17 June. Surprisingly projected moderate frontrunners Abdel Moneim Aboul Fotouh and Amr Moussa did less well than expected, while the Muslim Brotherhood did better. As the run-off approaches, the election of Ahmed Shafik could be seen as a negative result for the thousands of Egyptians who opposed the old regime, with his office of Ahmed Shafik attacked shortly after the announcement and potential further unrest possible if he is elected. On the other hand the election of an MB President after the party’s success in Parliamentary elections, could herald a more religious tone to government, which could isolate secular opinion – and present a greater challenge to the military who have more interest in political disunity and retaining a strong power base. However, the run-off goes, the journey remains far from over for those in search of democracy in Egypt.

### **Look Out For...**

**Mexico – a troubled state:** Mexico goes to the polls on 1 July 2012. A new President of the Republic will be elected to serve a six-year term, as current President Felipe Calderón is ineligible for re-election according to the Mexican constitution. Around 10,000 protesters, mainly university students, have already marched in the streets against Mexico's Institutional Revolutionary Party (PRI), which ruled from 1929-2000 and is once again poised to win the upcoming presidential vote. The protest is mainly against media coverage that is said to favor the presidential Enrique Peña Nieto of the PRI. (Source: [The Guardian](#)). While Mexico’s economic growth has outpaced that of its northern neighbors, it remains a deeply troubled state, rife with drug-related crime. Whoever takes power in the election will face both a difficult and a dangerous mission.

**Democrat or Republican?** The race for the White House is getting into full swing with the United States presidential election due to be held on 6 November 2012. Incumbent Democrat President Barack Obama is running for a second and final term with his Republican challenger confirmed as former Massachusetts Governor Mitt Romney. As of now it looks like a close race with Barack Obama in the lead in some of the many polls ([Real Clear Politics](#)) – but it is far too soon to call a favorite. However, the US is still struggling to get on its feet after a long and fatiguing financial crisis – and facing ongoing challenges to its superpower status. Whoever wins the race will therefore face momentous and perhaps unprecedented decisions on taxes, spending, healthcare, job creation, and the entire role of government – as well as foreign policy in a rapidly shifting geopolitical environment.

**Transition of power:** Yet another superpower is ready for elections late this year. This is an election that doesn’t involve millions of dollars, TV debates, conventions or soliciting of voters as in the US. But nonetheless the current Chinese President Hu Jintao will hand over power to a new generation of leaders. In October the 58-year-old engineer Xi Jinping is expected to become the new General Secretary of the Communist Party of China – and therefore the most powerful man in a country of 1.3 billion people. If the world is hoping for great reforms in the Chinese political system it might have to wait another five years as Xi Jinping is described by some commentators as a true "elitist" who

believes that "dedicated and committed Communist Party leadership" is the key to enduring social stability and national strength in China. (Source: [The Telegraph](#))

## Shifting alliances

With the collapse of the US and the global economy, the US is no longer considered the unquestionable superpower of the world – and thus the ally of choice in geopolitical terms. The question is which are the emerging superpowers and what will be their roles in an ever-more connected world. Clearly, China is one. A PEW survey released in July 2011 indicates that 15 of 22 nations believe that that China either *will replace or already has replaced* the United States as the world's leading superpower. This view is especially widespread in Western Europe, where at least six in ten people in France (72%), Spain (67%), Britain (65%) and Germany (61%) see China overtaking the U.S (Source: [PEW Global](#))

More Western Europeans Convinced China Is World's Leading Economy				
Name China as world's leading economic power				
	2009	2010	2011	09-11 change
Spain	22%	34%	49%	+27%
Germany	28%	51%	48%	+20%
Britain	34%	44%	47%	+13%
France	35%	47%	47%	+12%

(Source: [PEW Global](#))

Looking further ahead, we could also expect others among the BRICS to aspire to greater geopolitical roles globally. However, with many new leaders rising to the pinnacle of power around the world even as economic pressures continue, the picture is far from clear in terms of who will lead the world in the decades to come – but without doubt new alliances will be forged and others will shift.

## In Action!

**Arab League tensions over Syria:** In November 2011 Syria was suspended from the Arab League with only one vote against (Lebanon) because it has failed to stop violence against demonstrators and continued its crackdown against those calling for political change. One could ask why the Arab League which once was seen as the club of ineffective dictators, is now seen supporting anti-government protesters in Syria by applying American and Western strategy in the region? Could it be a growing concern about the distribution of the geopolitical power in the world?

**Germany-France: Can they figure it out?** With Francois Hollande's election and the shift in political ideology in France, Germany's Angela Merkel has lost a loyal ally. For the first time in 30 months of the Euro crisis, cracks are showing in the Franco-German relationship over how to regain confidence in the Euro. The topic of common Euro bonds and how to save Greece has split the two European leaders, radically changing the debate. (Source: [The Guardian](#)). On top of that Hollande is also upsetting NATO as he plans to withdraw roughly 3,400 French troops stationed in Afghanistan at the end of this year, two years ahead of the NATO timetable. (Source: [Mail Online](#))

## Look Out For...

**The role of BRICS and beyond:** Four years ago the US government's [National Intelligence Council](#) released the report "[Global Trends 2025: A transformed World](#)" predicting: "*The whole international system as constructed following WW II will be revolutionized. Not only will new players Brazil, Russia, India and China have a seat at the international high table, they will bring new stakes and rules of the game.*" It's happening a bit faster than they expected. There's no doubt that US influence in the global political and economic landscape does dominate today and will still do so in future. But with the rise of BRICS, it will have to increasingly share power with these rising nations. For example, at the G20-IMF meeting in May, the IMF sought to raise US\$400 for new crisis intervention funds. As the US

has refused to contribute to this crisis fund, the BRICS are seen as the best source for cash but it comes with a price – the BRICS want greater representation on the IMF board. (Source: [Reuters](#))

**Eurozone/EU under pressure:** [Stratfor](#) has argued for some time that the crisis in Europe is less a financial crisis than a political one. Though Europe continues to be submerged by the continuing sovereign debt and Eurozone crisis, with more countries and banks feeling the pressure, the Europeans will have to agree on more than just budget-deficit thresholds as the foundation for closer integration. The treaty to cede control over budgets goes to the very heart of sovereignty and European nations will not give up control unless their neighboring countries take their security and political interests seriously. Some commentators see Europe evolving into a set of regionalized groupings, with differing ideas about security and economic matters. One country may belong to more than one grouping, but for the most part membership will largely be based on location (Source: [Stratfor](#)). These economic, political and security tensions put the Eurozone/EU under more pressure and shifting alliances are likely as everyone tries to protect their own interests.

### Critical future geopolitical relationships

Geopolitical relationships are shifting as influence falls in the West and rises in the East. Fixing the Eurozone's problems will require a dramatic power shift among EU nations towards Germany. The voice of the people is shifting both alliances and power bases in multiple parts of the world simultaneously. However, it will not only be economic and financial clout and crises that define the most critical geopolitical relationships for the future. Natural resources are an increasingly important base of geopolitical leverage and advantage. They are also critical to the security of national populations in terms of the means of living and economic growth and consequently to the stability of civil society. Increasingly resource-rich countries are seeking to capitalize on their advantages as pressure on natural resources increases and companies seek to access future growth markets, while less well-endowed countries are aggressively expanding investments to secure future supplies of scarce resources (e.g., water, energy, minerals, arable land). The game of geopolitical relationships did not end with the cold war it just changed! How it plays out is crucial for world peace, financial stability and prosperity. So what are some of the geopolitical relationships which will be critical to the future?

#### *In Action!*

**Russia-US relationship:** It is reported that Russia has successfully tested a new type of intercontinental ballistic missile designed to overpower the American missile defense system. Despite the US insisting that the defensive system is not directed against Russia, but at the emerging threats from Iran or North Korea, the Russians remain unconvinced, and President Putin has called for the production of new missile systems to be doubled in 2013. The development of the systems, though, has been slow with costly failures. Another worrying sign for the relationship between Russia and the United States is President Putin cancelling his visit to the United States for a summit meeting of the Group of 8 nations in May at Camp David. (Source: [The New York Times](#))

**China-US relationship:** In an effort to strengthen the relationship between the two superpowers the US and China signed a joint statement in January 2011 emphasizing the commitment of both countries to a positive, cooperative and comprehensive US-China relationship. (Source: [Foreign Affairs](#)). With or without the joint agreement the US and China are huge powerhouses that cannot entrust their security to one another and no matter what, they will continue to pursue their own interests and ideologies in the geopolitical landscape. Recently, tensions emerged as blind Chinese activist Chen Guangcheng was allowed by the US to seek refuge in the US Embassy, an implied support of the importance of human rights and fundamental freedom. With the US presidential election coming up and the anticipated retirement of seven of the nine members of the Standing Committee of the Politburo of the Chinese Communist Party at the end of this year, new relationships will need to be built in the future. But for both sides, Chinese or American, it might be best to heed the advice to keep your friends close and your enemies even closer.

## Look Out For...

**The I and C in BRICS - Can they agree?** Although the Himalayas have historically prevented India and China from any significant military contact, the long – and long-disputed – border does from time to time raise tensions between the two countries. Since the US nuclear deal in 2005, which drove India closer to the US, the relationship between China and India has shown serious cracks. But with China as India's biggest trading partner it definitely has the economic upper hand. Looking ahead, as the two countries increase their spheres of global and economic influence, there are likely to be increasing areas of strategic competition, for example over China's maritime expansion into the Indian Ocean which India sees as its sphere of influence, and for control of strategic resources in Africa, Asia and Latin America. (Sources: [Washington Post](#) and [Stratfor: China, India: Competition in the Indian Ocean](#))

**The South China Sea:** It is home to the Spratly, Paracel and the Pratas Islands, the Macclesfield Bank, and the Scarborough Shoal, islands that can be used as listening and staging posts. The South China Sea produces a tenth of the world's fish, transits a third of the world's shipping, and as much as 213 billion barrels of oil (according to the Chinese) and 900 trillion cubic feet of natural gas can be found there. Understandably China is trying to enforce an ancient claim to the entire 3.5-million square kilometers of the South China Sea, leaving some smaller rivals including the Philippines, Vietnam, Malaysia, Taiwan and Brunei to ask the United States for support and protection (Source: [BBC](#)). How competing claims are resolved, along with the geopolitical development of the area will have both immediate and long-term consequences for global security. This is due in large part to the economic significance of the area, its strategic location, the sheer number of states directly and indirectly involved with it (China, South Korea, Japan, etc), and their economic significance on the global level (Source: [Foreign Policy Journal](#)).

**The BRICS in Africa:** The countries that offer some of the world's richest reserves of minerals are undergoing fundamental changes, BRIC-style. As the world enters a period of potential resource scarcity, Africa has plenty to offer: Oil, timber, coal, copper, bauxite, gold, diamonds, uranium, gas and more. And despite significant economic and social development improvements in the last decade, many economies on the continent still suffer poverty, skills deficits and high levels of unemployment – making the context right for wealthier nations to come in and help boost African development, often in exchange for resources. As China, India and increasingly Brazil compete to seize the opportunities, a phrase originally used by Warren Buffett in 2003 to describe the US trade deficit comes to mind, "colonized by purchase rather than conquest." Is this a risk for African nations (and potentially other resource-rich countries)? Will strategic resources become more closely regulated in future? What will this competition for resources mean for geopolitical relationships more broadly?

**In July/August: Look out for trends in action on the Democratization of Everything!**