2009 was a year of crisis. This applies as much to finance as it does to energy, proliferation, and other pressing security challenges. Moving into 2010, there is a growing disconnect between the scale of global crises and the policy responses these have engendered. Novel ideas have either been lacking or, as in the case of US foreign policy, proven difficult to implement. With power gradually shifting from West to East, finding effective solutions to global governance questions has become ever more complex.
Two critical trends have stood out in shaping world affairs of late. First, the financial crisis and the international economic downturn have affected countries and regional balances of power around the globe. While impacts vary widely, the most important consequence of the financial crisis from a strategic perspective may be its accelerating effect on the long-term power shift from West to East, and to China in particular. Although the issue of Islamist terrorism and the US response to it has captured most attention in the first decade of the 21st century, the financial crisis has brought to the fore a growing diffusion of power that has long been underway as a result of globalisation. This process is bound to have a profound impact on the world. The need to adapt the international system to accommodate China and other emerging economies will become increasingly critical as they turn geo-economic gains into long-term geopolitical capital.

Second, US foreign policy has witnessed a major redefinition under Barack Obama, who took office in January 2009. Although Islamist terrorism and the two wars inherited from former President George Bush remain high on Obama’s security agenda, he has abandoned the concept of a ‘war on terror’, made efforts to reach out to the Muslim world, and shifted attention from the ‘war of choice’ in Iraq to the ‘just war’ in Afghanistan. With regard to nuclear proliferation, Obama has come up with new approaches too, focusing on a policy of engagement with Iran and seeking to strengthen non-proliferation through a strong US commitment to nuclear disarmament. Furthermore, describing himself as ‘America’s first Pacific president’, he has set out to complement the traditional, Western-dominated network of US allies with stronger relations with China and other rising powers in the East, whilst at the same time mending fences with Russia. Well aware of the limits of US power in the emerging multipolar world, he has made cooperative problem-solving the credo of his foreign policy. However, while Obama has initiated many new processes and developments in his first year, his strategies have yet to yield substantial results commensurate with US interests.

Beyond these two key trends, and partly affected by them, there are other major developments worth noting. Three of them concern global governance challenges: Energy security continues to gain importance on the political agenda, with increasing splits not only between producers and consumers, but also within these respective camps. Climate change is
increasingly recognised as a major global issue, yet no effective international regime for tackling it is in sight as major powers disagree over priorities, responsibilities, and concrete measures. A growing ‘crisis of crisis management’ to address violent conflicts can also be identified. Dwindling political will, institutional deficits, and operational capacity shortfalls are the main problems. In addition, a variety of specific regional developments can be made out across Europe, Africa, the Middle East, Latin America, and Asia that are likely to remain high on the strategic agenda in 2010.

This chapter provides a brief overview of all these developments. The following chapters will then examine in more detail the five key strategic trends 2010 as identified by the Center for Security Studies. Chapter 2 analyses the geoeconomic and geopolitical impacts of the financial crisis, Chapter 3 covers Obama’s foreign policy in Afghanistan and the Middle East, Chapter 4 assesses the non-proliferation – disarmament nexus, Chapter 5 looks at the pervasive resource nationalism sweeping across parts of the world, while Chapter 6 is about the crisis of crisis management.

What both this overview and the subsequent chapters reveal is that the current strategic picture is predominantly associated with a deep sense of crisis. But while there has been much rhetoric about the need for change, a major finding of this book is that governments have all too often come up with traditional policy responses. Novel ideas have either been lacking or, as in the case of US foreign policy, proven difficult to implement in ways that really change the status quo. With global politics becoming more complex, and power increasingly diffuse, finding convincing strategies to deal with crises into 2010 will become all the more challenging.

Two key trends

The financial crisis and the redefinition of US foreign policy can be identified as the two most salient recent strategic trends. Since the financial crisis was triggered by Wall Street, it could be argued that the US stands at the heart of both trends. This also partly explains why there is a considerable degree of interaction between these trends. Before examining the financial crisis and the changes in US foreign policy each in more detail, it is worth taking a brief look at this interaction first.

On the one hand, the financial crisis has had an obvious restraining effect on Obama’s foreign policy. Although the new US president came up with an ambitious foreign policy agenda,
On the other hand, the way the US has handled the financial crisis has contributed significantly to the fact that the economic downturn never turned into a major global depression, with stabilisation measures working well. If Wall Street stood at the beginning of the financial crisis, the government in Washington has played a large role in mitigating it. The financial bailout of banks and the huge stimulus package of US$787 bn, together with the major stimulus packages launched across the OECD and emerging economies, have seen growth return to many economies towards the end of 2009.

It remains an open question to what extent this positive development will mean that the US and other govern-
ments choose to ignore their previous assurances to rewrite the rules between politics and the market and to restructure the global financial system.

Financial crisis
Over the past two years, the world has experienced the most severe financial crisis since the Great Depression. Triggered by the bursting of the US housing bubble, there was a major crisis of credit, capital, and confidence in the banking sector, which significantly reinforced an economic downturn that had already been underway. The result was a global recession marked by a notable decline in economic activity, rising unemployment, a sharp drop in international trade, and a slump in consumer wealth and demand. According to recent estimates, the world economy has contracted by 8 per cent because of the crisis, the deepest slump since World War II.

The financial crisis and the economic downturn have reflected both the extent of global economic interdependence in the early 21st century and the risks and weaknesses that today’s deregulated global economic system entails. While the causes of the crisis and its impact on different countries and regions will be examined in detail in Chapter 2, it is worth pointing out that many poor countries lacking the capacity to mitigate the effects of the crisis were hit particularly hard. Whereas most emerging economies also received some bruises, they have proven to be more resilient than during previous recessions. The Chinese economy stands out as recovering particularly fast from the crisis. Its growth rate is expected to climb above 9 per cent and constitute more than 25 per cent of world economic growth in 2010.

Western states have been particularly active in managing the crisis and investing public money to stem the economic decline. Many of them, however, face a daunting future as they are now confronted with large budget deficits and soaring debt levels while economic demand remains fragile and dependent on government intervention.

The financial crisis thus reinforces the long-term trend of a geoeconomic power shift from West to East. China is set to continue its rise even faster than anticipated – provided that it can handle its enormous socioeconomic domestic challenges. While China still remains a long way from overtaking US GDP, it will surpass Japan as the world’s second-largest economy in 2010. Other Asian emerging economies such as India and Indonesia are expected to gain further ground on the West as well. Powers like Bra-
zil will also continue to increase their share of global GDP, pushing towards a more multipolar economic world in future.

There is a need to adapt the global governance schemes of the 20th century to the changing geoeconomic and geopolitical realities. The World Bank, the IMF, and the UN Security Council will certainly come under further pressure to change, but the real shift so far has been from the G8 to the G20 as the dominant global economic forum. While the G20 has been vital in coordinating the short-term response to the crisis, it has failed to reach consensus on reforming the international financial system. As greater legitimacy is unlikely to translate into greater effectiveness, other, more issue-specific, governance schemes with varying memberships are bound to play an important role. The five-nation consultations between the US, China, India, Brazil, and South Africa on climate policy are a good example. By contrast, talk of an unofficial G2 between Washington and Beijing sitting at the pinnacle of global governance seems premature.

**US foreign policy redefined**
The second key trend of a transformation of US foreign policy is much more actor-driven than the financial crisis. Barack Obama won the presidency on a platform promising change. Once in office, he was quick to reorient US foreign policy, adapting it to a changing environment and marking a break with the tainted legacy of his predecessor George W. Bush.

Obama faces formidable foreign policy challenges. Concerning the two wars inherited from Bush, Iraq has been characterised by improved security, but a very uncertain political future, while the situation in Afghanistan has deteriorated dramatically in recent years. Islamist terrorism has continued to pose a major threat to US security as al-Qaida has proven flexible in finding new sanctuaries and has succeeded in transforming itself from an organisation into a powerful ideological movement inspiring other jihadist networks as well as home-grown terrorism. The attempt by ‘al-Qaida in the Arabian Peninsula’, a group based in Yemen and Saudi Arabia, to blow up a US airliner in American airspace in December 2009 indicates the residual virulence of the terrorist challenge and the ongoing difficulties of the US to enact effective counterterrorism policies.

With regard to nuclear proliferation, Iran and North Korea have remained defiant towards calls by the UN Security Council to stop
all nuclear activities and, in the case of Pyongyang, to denuclearise. Tehran has continued to enrich uranium, having secretly built another processing facility that hit international headlines in September 2009. It has also conducted further missile tests. Pyongyang reasserted its status as a nuclear weapons state in January 2009 and subsequently refused any linkage of the issue of US-North Korean diplomatic normalisation with denuclearisation, only to revise this policy again and call for new negotiations in early 2010. Meanwhile, it launched a multi-stage missile in April 2009, conducted a second nuclear test in May, and fired short-range missiles in October. The common denominator between Iran and North Korea is that both make occasional notional concessions to win more time, but then continue political backsliding on such agreements for maximum leverage.

Obama also inherited severe strains in the relationship with Russia. Relations with China were not free from tension either, as Bush had viewed Beijing as a strategic competitor and had repeatedly annoyed the Chinese leadership with remarks on Taiwan, democracy, and human rights. On top of all these challenges, the US image in the world was at an exceptionally low point when Obama took office.
As for Obama’s new foreign-policy strategies, laid out in a series of programmatic speeches in Prague, Cairo, Tokyo, and West Point, he was quick to implement his two major electoral promises of refocusing US counterterrorism on the fight against al-Qaida and shifting priorities from Iraq to Afghanistan and Pakistan. The significant increase in troop numbers in Afghanistan was by far his most important decision to date, as it placed the fight against the Taliban and al-Qaida in the Hindu Kush at the heart of US foreign policy and rendered it his biggest foreign policy risk. While Obama’s Iraq policy has been characterised by continuity rather than change compared to the late Bush period, he adopted a more impartial and determined role as mediator in the Arab-Israeli conflict, despite the limited domestic capacity in both Israel and Palestine to make peace.

Concerning the proliferation challenge, Obama has invested much in advancing a new policy of engagement with Iran. The scope for progress in
the nuclear crisis has narrowed again in recent months, however, following domestic post-election instability in Iran and the ongoing intransigence of its leadership regarding the uranium enrichment program. While the US administration has paid far less attention to North Korea so far and seemed uncertain where to go after Pyongyang had walked out of the Six-Party Talks, it managed to secure tighter UN sanctions in June 2009. At the same time, it has left the door open for engagement as initial bilateral high-level talks under Obama took place in December 2009.

Efforts to strengthen the non-proliferation regime have received a boost, as Obama has put nuclear disarmament back on the international agenda and has made it the cornerstone of US non-proliferation policy. Measures like the proposed new treaty with Russia over further cuts in the strategic nuclear arsenals, Obama’s announcement to push for US ratification of the Comprehensive Test Ban Treaty, and his support for the abolition of all nuclear weapons may not bring about policy changes in Iran or North Korea, nor will they have an immediate effect on nuclear security. But, as will be outlined in more detail in Chapter 4, they do lend greater credibility to US efforts to reinforce the Non-Proliferation Treaty at the New York Review Conference in May 2010, and they may help Washington assemble large-scale international support for tougher measures against Tehran and Pyongyang.

Two policy changes also worth mentioning concern China and Russia. Dubbed ‘strategic reassurance’, the Obama administration’s new China policy seeks to engage Beijing as a global partner and stresses both the advantages of China’s rise and the enormous scope of Sino-US cooperation. Although the bilateral Strategic and Economic Dialogue has yet to prove its merit, Obama’s conciliatory language during his trip to China in November 2009 has certainly been noted with satisfaction in Beijing. There has also been a ‘reset’ of relations with Russia, built upon several bilateral meetings between Obama and President Dmitry Medvedev, renewed arms control negotiations, and the US decision to scrap the East European components of its missile defence plans. But as with Sino-US relations, it remains to be seen to what extent an improved atmosphere with Moscow will translate into concrete policy cooperation on major international issues such as proliferation and regional conflict stabilisation, with Iran and Afghanistan being key tests in 2010.
An overall assessment of Obama’s foreign policy after his first year in office suggests a mixed balance sheet. He no doubt has succeeded in significantly improving the US image and enhancing its soft-power credentials to ensure Washington can exert effective leadership in tackling global problems. On the other hand, despite promising strategies to align US interests with actual capabilities, he has failed to yield concrete results. Nowhere is this more obvious than in the Middle East and in Afghanistan and Pakistan, which remain critical barometers of Obama’s foreign-policy success ahead of the mid-term polls, and indeed into the next presidential elections (see Chapter 3). The coming months will show whether Obama is able to implement some of his concepts that have won him the Nobel Peace Prize. The obstacles to progress remain formidable.

Global issues
Besides the financial crisis and the ensuing structural economic shifts and the US foreign policy changes, important other trends have been discernible in the past year regarding both global issues and regional developments. To start with the former, three trends worth noting concern mounting global governance deficits in the fields of energy security, climate change, and crisis management in violent conflict. As far as energy policy is concerned, oil markets have been extremely volatile of late, wreaking havoc for producers and consumers alike. Divisions over the ‘rules’ of access to energy and governance of markets in the East and West are intensifying for consumers. Producers are split too, with price being the major bone of contention. Perhaps most importantly, resource nationalism is on the rise again, as producer states managed to hold onto power when the oil prices had slackened. They will now want to make sure that the geological cost of extraction is aligned to the realities associated with the political cost of survival. Another price peak might be some way off, but, as will be outlined in Chapter 5, the political ‘fundamentals’ do not bode well for consumers.

The state remains at the heart of energy policy to provide the necessary certainty for the private sector to make major investments. This applies not only to Asian oil majors, but also to supposedly liberalised European energy markets. Every time the EU tries to diversify supply options beyond Russia, as in the case of the ‘nascent’ Nabucco pipeline, Moscow is able to play individual member states off against Brussels by enticing them to sign long-term supply contracts. The Nord Stream pipeline, which deliberately bypasses Poland in order to feed German markets, is the latest
and most critical example of this approach. Once completed, it will also make it easier for Russia to selectively cut supplies to Ukraine without affecting broader European supplies. It is thus little wonder that energy companies and upstream suppliers still look towards the highest political bidders to place their bets rather than purely focusing on balance sheets.

*Little progress in tackling climate change*

Perhaps the one area of energy policy where certainty provided by the public sector is most urgently needed, yet critically lacking, is in relation to climate change to shift investments towards low-carbon technologies. More than 100 national leaders participated in the Copenhagen conference in December 2009. They struggled to negotiate a follow-up agreement to the Kyoto Protocol that had set targets for the reduction of greenhouse gas emissions by 37 industrialised countries from 2008 to 2012. The balance sheet of these efforts is mixed at best.

Rather than producing a comprehensive, legally binding agreement, Copenhagen ended with a political statement of intention, which the 193 participating nations merely ‘took note of’. Instead of setting specific targets for emission cuts and timetables, the Copenhagen Accord merely provides an Annex where countries can register their unilateral reduction pledges and actions, to be reviewed according to methods that have yet to be defined. Although it does contain references to short- and medium-term funding for mitigation and adaptation in developing countries, the commitments are sketchy and well below expectations.

Given the diversity of interests between developed and developing nations and the multiplicity of issues at stake, the Kyoto approach of universal negotiations at UN level and top-down regulation may no longer point to the future. Weak though the Copenhagen pledging model is, it has at least ensured that the developing countries are now on board in climate change governance, the substance of which is likely to evolve further in the coming years. It is also important to note that the US is now committed to the notion of reducing carbon emission and promoting clean energy, though Obama may find it difficult to convince the Senate to approve legislation to set up a cap-and-trade system. As the EU is realising, setting politically catchy ‘20-20-20’ targets to reduce emissions and increase renewables and efficiency is one thing, actually achieving them is another.
Climate change: Emission reduction commitments

<table>
<thead>
<tr>
<th>Countries</th>
<th>Announced commitments by 2020</th>
<th>% of global CO₂ emissions, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>40-45% reduction of carbon intensity* from 2005 levels</td>
<td>20.97%</td>
</tr>
<tr>
<td>USA</td>
<td>17% reduction of carbon emissions from 2005 levels</td>
<td>19.92%</td>
</tr>
<tr>
<td>EU</td>
<td>20% (or even 30%) reduction of carbon emissions from 1990 levels</td>
<td>13.56%</td>
</tr>
<tr>
<td>Russia</td>
<td>25% reduction of carbon emissions from 1990 levels</td>
<td>5.48%</td>
</tr>
<tr>
<td>India</td>
<td>20-25% reduction of carbon intensity from 2005 levels</td>
<td>4.57%</td>
</tr>
<tr>
<td>Japan</td>
<td>25% reduction of carbon emissions from 1990 levels</td>
<td>4.27%</td>
</tr>
<tr>
<td>Canada</td>
<td>3% reduction of carbon emissions from 1990 levels</td>
<td>1.98%</td>
</tr>
<tr>
<td>South Korea</td>
<td>4% reduction of carbon emissions from 2005 levels</td>
<td>1.69%</td>
</tr>
<tr>
<td>South Africa</td>
<td>34% reduction of carbon emissions below business as usual</td>
<td>1.2%</td>
</tr>
<tr>
<td>Brazil</td>
<td>36.1-38.9% reduction of carbon emissions (reference year not specified)</td>
<td>1.2%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>20% (or even 30%) reduction of carbon emissions from 1990 levels</td>
<td>0.15%</td>
</tr>
</tbody>
</table>

Note: These are announced commitments rather than official pledges to be registered in the appendix I of the Copenhagen Accord. List is not exhaustive. Status 5 January 2010.

*Carbon intensity – the amount of carbon emitted in proportion to output

Source: International Energy Agency and various news sources

A crisis of crisis management
The complexities of finding a viable system of international governance are also visible in the field of crisis management. As a result of the ongoing problems in Afghanistan and the financial crisis that is eroding the funding base for running operations, it has become ever more difficult to muster the political will to find appropriate responses to the long-standing crisis of crisis management. The need to address the crisis is pressing in view of the steady increase in demand for crisis management over the past decade. The UN currently deploys
almost 83,000 personnel (military and civilian) in 16 peace operations, whereas NATO’s presence of more than 70,000 troops in Afghanistan is the largest single operation worldwide. In Africa, which has become the geographical focus of crisis management, over 80,000 uniformed personnel are currently deployed by international and regional organisations.

As will be discussed in Chapter 6, three critical challenges to effective crisis management can be identified today. First, as global power shifts to the East are creating new dynamics in the debate about the future of crisis management, a clear strategic vision of how to address threats to peace and stability is urgently needed. Second, more effective coordination among the principal institutional providers of crisis management is required to overcome overlap, strategic incoherence, and wasted resources. Finally, as many operations are ill-equipped to deliver in complex environments, building up adequate military and civilian capabilities is indispensable.

Regional trends
There have also been major developments with regard to specific regions around the world. In Europe, the most important event was the enactment of the Lisbon Treaty on 1 December 2009. It was the endpoint of a protracted process, marked by the signing of the EU Constitution in 2004, two negative votes by France and the Netherlands in 2005, the signing of an adapted treaty in Lisbon in 2007, the negative Irish vote in 2008, and a positive revote in Dublin. Ratifications by Poland and the Czech Republic in the autumn of 2009 were the final hurdle to be overcome.

The Lisbon Treaty provides institutional reforms aimed at making decisionmaking more effective and strengthening Europe’s role in the world. However, there are likely to be new institutional duplications between the new permanent EU president, the new EU foreign minister, and the rotating EU presidency run by member states. By choosing Herman van Rompuy and Catherine Ashton for the EU’s two new top jobs, Europe has hardly signalled its intent to be on par with the major powers of international diplomacy given their relative lack of foreign policy experience.

Despite the Lisbon Treaty, the EU is likely to remain inward-looking and concentrate on its own economic recovery in the coming years. Having been split over how to tackle the financial crisis, new frictions have emerged over the compatibility of national stabilisation measures with
NATO launched a process to redefine its own strategic concept at its 60th anniversary summit in Strasbourg/Kehl in April 2009. It will encounter controversial debates in 2010 as divisions about its priorities (global crisis management vs. collective defence), relations with Russia, burden-sharing, and other issues remain deep. Strains over the difficult mission in Afghanistan may increase as well, as some member states are devising exit strategies while the US calls for more NATO troops. Although the return of France into NATO’s integrated military command structure and the accession of Albania and Croatia indicate the continuing relevance that European countries attach to the Atlantic Alliance, the fissures in NATO’s foundation will be hard to fix anytime soon.

An important national development with repercussions for Europe concerns the change of government in Germany at the end of September 2009. Widely expected to strengthen Germany’s capacity to act after years of ‘grand coalition’ compromises, the new government of Christian Democrats and Free Democrats has had a false start. With some Free Democrats joining calls by the opposition’s Social Democrats to start withdrawing from Afghanistan, or at least to further limit the German rules of engagement,

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**The EU after Lisbon: Some major changes**

- New President of the European Council, elected for 2.5 years (to be re-elected once).
- New High Representative of the Union for Foreign Affairs and Security Policy, also Vice-President of the European Commission, should improve coherence and visibility in EU external relations.
- New European External Action Service to provide back-up and support to the High Representative.
- Qualified majority voting extended to new policy areas and defined as double majority of 55 per cent of states representing at least 65 per cent of the population (from 2014). Special decision-making arrangements for ESDP remain.
- Extended co-decision of European Parliament with Council of Ministers.
- Pillar structure abolished.

EU law and the issue of how flexibly the budget deficit limit of 3 per cent GDP ought to be handled. With some countries like Britain, Ireland, Greece, and Latvia being particularly hard hit by the crisis, there are internal power shifts within the EU that may diminish European unity. As developing a sense of common strategic purpose remains a major challenge for the EU, its foreign policy will likely continue to focus on Europe’s troubled neighbourhood, with major projects like the Mediterranean Union and the Eastern Partnership (launched in May 2009) being in urgent need of a new impetus.
the issue may well dominate German foreign policy in 2010.

The dynamic evolution of Turkey’s foreign policy is another national trend in Europe worth pointing out. Now less obsessed with EU membership, Ankara has begun to diversify its foreign policy by seeking to play a much bigger role in the Middle East, the Caucasus, and Central Asia and announcing the opening of 26 new diplomatic missions in 2010. With its relevance as an energy hub increasing, Turkey’s new position in the world is marked by growing self-confidence and ambition. This even extends to fresh attempts to resolve the regional conflicts with Armenia and the Kurds, although Prime Minister Erdogan’s overture towards the latter has met stiff domestic opposition.

If Turkey is increasingly looking eastward, this is not just because of energy opportunities, but also because of the security challenges emanating from the region. The numerous political conflicts in the North Caucasus are increasingly superseded by Islamist terrorist activity, with Russia appearing at a loss of how to deal with the growing instability at its southern borders. The situation in the Southern Caucasus remains tense, too, particularly as far as the unresolved Georgian-Russian conflict is concerned. As for Central Asia, geopolitical rivalry in this energy-rich region has further intensified, as some states like Tajikistan and Kyrgyzstan have suffered badly from the financial crisis and are increasingly dependent on external aid. Islamist terrorism remains a problem, too, although authoritarian governments arguably frame their domestic opposition or separatist movements in this context to justify the state’s increasing repression in the name of political cohesion.

Africa

The global economic crisis, coming on top of the fuel and food crisis of 2007/8 and the growing negative effects of global warming, has hit Africa hard. Overall, however, there has been relatively little macroeconomic instability compared to previous financial crises, indicating an increased structural resilience on the part of many African countries. While it remains unclear when and whether the regions’ resource-rich economies will return to the remarkable growth rates of the pre-crisis period, there are grounds for optimism. This also has to do with the fact that China is investing more than ever in Africa, with Russia and emerging economies such as India rapidly stepping up their presence on the continent, too. While this development has made conditional aid offered by the West less attractive, all sources of income remain
important for states struggling with balance of payment crises.

Africa’s growing strategic relevance is not only the result of its resource wealth, but is also security-driven, as both Islamist terrorism and piracy are on the rise on the continent. This is reflected in the new US Africa Command and the steady increase in US security assistance programmes for African countries. China now has a naval presence in the Gulf of Aden to protect sea lines from pirates in what constitutes its first maritime operation outside the Pacific. Beijing has even indicated that it may build a permanent base in the region to strengthen its long-term engagement.

The number of conflicts in Africa has gone down in recent years. Still, two of the world’s worst conflicts persist in Darfur and Somalia. In the Democratic Republic of Congo, the civil war that cost almost 4 million lives between 1998 and 2004 continues to simmer. There have been some military gains by the government after an unprecedented military operation with Rwanda against rebels in the eastern region in early 2009, albeit at a very high humanitarian cost. Zimbabwe has likewise become somewhat more stable after President Robert Mugabe swore in his rival Morgan Tsvangirai as prime minister in a power-sharing agreement in February 2009. Further instabilities loom in Guinea,
however, following a military coup in late 2008. Heightened tension is also likely in Sudan as the country prepares for presidential and parliamentary elections in 2010 while President Omar al-Bashir is wanted by the International Criminal Court for atrocities committed in Darfur.

**Middle East**

In the Middle East, the financial crisis has not been a framing issue comparable to many other regions. To be sure, the Middle East has suffered from the global economic slowdown and the ensuing declining capital flows, losses in sovereign wealth funds, and tumbling oil prices. Among the countries particularly affected are Kuwait, Bahrain, Iran, and, above all, Dubai. Nevertheless, the impact has been limited overall, not least because Saudi Arabia and the UAE came up with stimulus packages exceeding 10 per cent of their GDP.

Traditional politics has continued to dominate headlines in the Middle East. This holds true for the Arab-Israeli conflict and the Iran crisis (nuclear and domestic) as well as the situation in Iraq (see Chapter 3). Yemen is another major crisis hotspot, with a civil war in the north, a separatist movement in the south, and Al-Qaeda expanding its presence as the government remains weak and corrupt. A further deterioration of the situation in Yemen could have strategic implications not only from a counterterrorism perspective, but also as concerns the situation in the Gulf of Aden.

**Latin America**

The financial crisis has been a far bigger issue in Latin America. But as with Africa, macroeconomic resilience has been more solid than in previous crises. No major political fallout has been discernible either in the populist Socialist camp of countries like Venezuela, Bolivia, and Ecuador or in the moderate camp including the likes of Brazil, Chile, and Mexico. All leaders in these states remain in office. But there was a military coup against President Manuel Zelaya in Honduras, resulting in Latin America’s deepest political crisis in years after the President attempted to redraw constitutional strictures along ‘Bolivarian’ lines.

As for the increasing tensions between Colombia and some its neighbours, they have much to do with the decision of Álvaro Uribe’s government to permit increased US military presence on its soil in support of its antidrug operations. Venezuela protested loudest, with Chavez ordering his military to prepare for possible war in November 2009. Even Brazil and Chile raised concerns, pressing for
assurances that the US will not operate outside Colombian territory.

**East and South Asia**
The rise of China continues to be the key geostrategic development in East Asia. Another issue affecting the regional strategic outlook is North Korea’s nuclear program. An interesting development partly reflecting these two issues concerns the recent shifts in the foreign policy stances of Japan and Taiwan, both of which tend to perceive their strategic position in East Asia as deteriorating. In Japan, voters in August 2009 handed a landslide victory to the Liberal Democratic Party, which questioned the country’s alliance with the US in favour of greater national independence and a reorientation towards Asia. As for Taiwan, there has been rapprochement with China under new President Ma Ying-jeou, marked by the renewal of a cross-strait dialogue. With the US seen as increasingly prioritising cooperation with China, Taiwan obviously wants to hedge its bets with its policy of engagement, although the key political issue of reunification versus independence is unlikely to be tackled anytime soon.

In South Asia, India has similar concerns that stronger ties between Washington and Beijing could herald a weakening of its relationship with the US. Delhi has also noticed that Pakistan has become the centre of attention of US policy in South Asia, with Islamabad facing increasing domestic instability while playing a major role in the US strategy for Afghanistan. Terrorism, both Islamist and secular, will remain a major issue in South Asia in 2010, as will nuclear (in)security in Pakistan. Meanwhile, the civil war haunting Sri Lanka for 26 years has come to an end as the Tamil Tigers were militarily defeated in 2009, though the government has yet to launch a process of national reconciliation.

**Change and continuity**
2009 was a year of crisis. This applies as much to finance as it does to energy, sharpening political conflicts, growing proliferation concerns, and other pressing security challenges that need to be addressed. Such crises demand major policy responses, but into 2010, the disjunction between the scale of global crisis and the policy reactions this has actually engendered is acute. Contrary to the ubiquitous rhetoric of change, the policy responses delivered so far have often been all too familiar.

Massive sums of money were made available to deal with the financial crisis and economic downturn, but with debts racking up the world has fallen back on broken markets, be they
financial, food, or fuel. Convincing answers are still lacking as to how sovereign balance sheets can absorb private debt without a sustained period of economic growth. This shortcoming is particularly troubling for the US in light of its budgetary difficulties.

Externally, Obama’s policies of change have yet to materialise on the ground in the Middle East, in South Asia, or in relations with China and Russia. Similarly, making nuclear disarmament the cornerstone of US non-proliferation policy may strengthen Washington’s authority in this field, but is unlikely to bring decisive policy success.

There has also been much continuity with regard to global governance deficits in energy, climate change, and crisis management. Resource nationalism has made a sharp return in light of increasing prices, while climate negotiations are stuck. If these two long-term crises require long-term solutions, the need to enhance the effectiveness of crisis management in addressing political violence is urgent.

Better governance in all these issues require a strong US lead to ensure others follow. However, this will become increasingly difficult to pull off as power shifts further towards the East. Indeed, while there has been little policy innovation overall in 2009, the structural shifts underway in the global economy will be the major driver of change, irrespective of how governments decide to act in future.
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