Forcing Change

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In This Issue

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2010 Trends and Analysis: The World, the Asian Continent, and Economics

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What are the trends that will shape 2010?

This report explores some of the larger issues that may come to light in 2010 *and beyond*. Of course, it's impossible to know with certainty what will transpire. But there are developments occurring today that point to challenges and changes this year.

To that end, this report has to limit itself in scope – otherwise it would take on the thickness of a book. Hence, we will spotlight three areas. Please keep in mind that even in this we are extremely limited; not all global issues will be covered, not all Asian challenges will be explored, not all economic changes will be considered.

1) **Global:** Trends that are international in nature.

2) **National:** A focus on some national Asian concerns. Due to space restrictions I have limited our attention to a select group of nations. Just as it is impossible to cover all continents, it is unrealistic to tackle each country in the Asian zone. Therefore some key players – such as Indonesia, North Korea or Japan – have not been included.

3) **Economic:** Only a small segment of the financial world can be explored.

Why undertake such a limited review? Like it or not, the issues and concerns listed below have the potential to impact whole regions, and in some cases, the international landscape.

Who should read this report? If you fall into one of the categories below, this document will have something in it that pertains to you.

- Interested in world issues and foreign affairs.

- Involved in Christian missions, development work, and/or disaster relief.

- Engaged in business activities: nationally, regionally or at the global scale.

- Seeking to understand the trends that may impact investment opportunities.

- A community leader who wishes to understand the larger trends, and would like to start thinking through how these challenges will impact society.

- Anyone who's interested in reading the news before it hits the headlines.

What should our response be? Everyone will take away something different. Some will see opportunities for action – others may find it overwhelming. Your attitude and worldview, willingness, and personal drive will be factors in determining what you do with this information.

Knowing that this report cannot cover every issue, it is my hope that it will provide a general guide to areas of concern for 2010 and beyond. In other words, use this document as a launching pad to dig deeper into the trends and challenges.

This report is subdivided into three main sections: Global Issues, Asian Geo-Strategy, and Economics.

Global Issues

Climate Change

- Expect an increase in public skepticism as the pseudo-science that backs up "global warming" continues to come apart at the seams. "Climate-gate," that inconvenient incident in late 2009 that demonstrated the outright manipulation of science to match a political goal, played a major role in reversing the public's perception of "global warming." This year will see more people questioning the science, politics, and economics that undergird the global climate change agenda.

- Expect an increase in rhetoric from the Climate Change lobby industry, especially as we near the November deadline for the next high-level Climate Change *meeting*.

- Watch as catastrophic natural events are subtly (and not-so-subtly) blamed on "climate change." The recent Haiti earthquake is a case in point: Actor and activist Danny Glover publically linked "climate change" to the Haitian quake. Not going so far as Glover, a recent *Forbes* online article found a way to tidily blend the quake and "global warming" ("Lessons From Haiti," 21, January 2010).

"The number of people killed and affected in the Haitian disaster is enormous, and in proportions rarely seen. However, with increasing urbanization and population pressure, combined with consequences of global warming, the sheer numbers of people at risk of devastation and destitution due to natural disasters are likely to increase."

Sadly, massive natural disasters permeate history, many with far higher death figures than Haiti. If you take the time to trace the death totals of historical famines, earthquakes, volcanoes, floods and tsunamis, landslides and hurricanes, it becomes immediately apparent that

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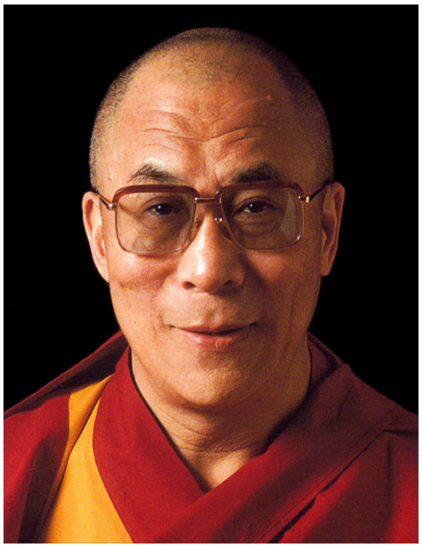
history is replete with examples extending back to the outer limits of mankind's story. This in no way downplays the Haitian disaster – the suffering in Haiti is colossal. It does demonstrate, however, that a certain political and quasi eco-spiritual spin now immediately accompanies natural disasters. This thinking stems from the deep ecology movement and from Eastern spiritual beliefs. In the words of the Dalai Lama,

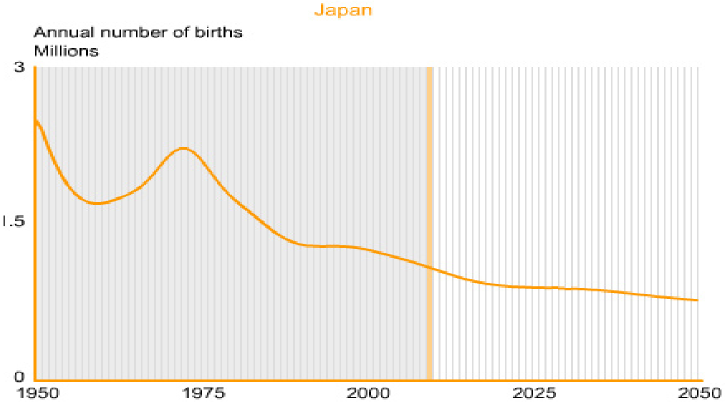


Dalai Lama

"Until now, you see, Mother Earth has somehow tolerated sloppy house habits. But now human use, population, and technology have reached that certain stage where Mother Earth no longer accepts our presence with silence. In many ways she is now telling us, 'My children are behaving badly.' She is warning us that there are limits to our actions…" (as published in UNEP, *Only One Earth*, p.61).

Demographics

The demographic nature of our planet is shifting, and this change is occurring at different rates in different parts of the globe. This isn't necessarily about "2010," but it is something to consider as we progress into a general demographic decline. Here's the trend: The contemporary populations of Canada, Japan, Australia, Chile, Russia – the majority of Europe, the Korean Peninsula, and China are experiencing an aging trend. The repercussions of China's aging population will be felt most acutely in a few decades from now, whereas Japan and parts of Europe are feeling it already.



This aging trend will impact national and regional economies in the medium and long term, and will play a role in re-shaping the business environment, the housing industry, and the medical/health fields.

A well-done DVD documentary on this issue is titled *Demographic Winter: The Decline of the Human Family* (www.demographicwinter.com).

International Organization:

European Union

The EU is going to rapidly empowered itself during 2010. The reason for this is that the Lisbon Treaty officially entered force on December 1, 2009, putting into motion a huge shift from European nationalism to supra-nationalism. Europe is becoming One Country, and diplomatic functions are already shifting from national postings to EU embassies. A recent *Telegraph* article explains,

"The move has led to fears that British consular facilities could be shut down as Brussels establishes itself as a world power.

Critics say the 54 new embassies in countries including Afghanistan, China, India and 33 African nations will shift power away from the British foreign office towards a new EU diplomatic service.

Embassies in the key capitals of Beijing, Kabul and Addis Ababa, the seat of the African Union, are regarded as marking a major shift to giving the EU a role as a global player to rival nation states.

The embassies will takeover national bilateral missions in the 54 countries where they are set up, headed by ambassadors who are empowered to speak on behalf of the EU as a whole.

'They are going to be a bit more political,' a Brussels official told the EU observer website.

The decision to give 54 of the European Commission's 136 delegations full ambassadorial status was taken without any public announcement when the Lisbon Treaty entered into force three weeks ago.

Twelve of the embassies are in Asia and the Pacific Ocean, including Australia, China, India, Indonesia and Vietnam. A network of 33 in Africa will cover countries ranging across the continent from Ghana to Kenya and South Africa to Zimbabwe. Eight of the new-model units are in Europe in Armenia, Georgia, Macedonia, Moldova, Norway, Serbia, Switzerland and Ukraine.

A decisions over New York has been delayed amid a fierce political battle over the EU's role in the United Nations Security Council." (Telegraph, 22 January 2010).

This is HUGE! The enormity of this shift cannot be overstated. Europe, which has asserted itself as a global economic powerhouse through the European Central Bank, is now poised to lead the world as the trendsetter in global governance. Expect the EU to take a more dominant role within international organizations, such as the United Nations (it will be very interesting to see how this gets sorted out), and possibly NATO and the Organization for Security and Cooperation in Europe.

Furthermore, watch as the EU propels the Euro-Mediterranean Partnership, now known as the Union for the Mediterranean. This program places the Europe in the center of Middle East geopolitical developments, allowing the EU to involve itself politically with Israel – including the "Occupied Palestinian Territories," Jordan, Lebanon, Libya, Syria, Turkey, Egypt, and others.

Another area to watch is the EU's advisory role in other regional blocks, such as the African Union, Gulf Cooperation Council, and the Union of South American Nations. The European Union has been involved for some time in these newer regional bodies, but it can be expected that EU diplomats will become increasingly important as regionalism transcends nationalism.

Finally, a comprehensive EU foreign policy will progressively take shape during 2010.

United Nations

Influential lobby groups supporting global governance will be pushing for an empowerment of the United Nations. Part of this is the recognition that the current United States administration is largely sympathetic to the UN agenda.

In 2010, Citizens for Global Solutions, formerly the World Federalist Association, will expand their push for an empowered United Nations. Other lobby groups and pressure organizations seeking UN empowerment includes the Council on Foreign Relations, Better World Campaign, World Federalist Movement, The Stanley Foundation, and One World Trust. The CGS agenda for 2010, which follows suit with these like-minded groups, focuses on seven interlocking core issues.

- An appeal for independent UN funding. In the past CGS has pushed for a global tax regime in order to fill UN coffers. Other UN empowerment issues include the continual drive for a United Nations Parliamentary Assembly (a form of world government), the ratification and support of different treaties, and a UN Emergency Peace Service – a global military unit under the command and control of the UN.

- The ratification of the UN Law of Sea treaty, essentially creating an "international ocean governance framework" (*The National Interest and the Law of the Sea,* Council on Foreign Relations, p.6)

- A push to have the United States re-engage with the International Criminal Court, thus giving the ICC a needed political boost within the international community.

- An increase in UN peacekeeping missions, including a step-up of United States support for UN military empowerment.

- To promote a nuclear weapon drawdown at the global level. A noble goal, but the politics of nuclear disarmament is rife with special agendas. While all would agree that nuclear weapons pose a threat and would like to see their demise, be aware that other agendas and motives come into play. An example: one component of the international community would like to see complete and general disarmament, yet allow the UN to develop a military force with potential nuclear capabilities. (In the future, *Forcing Change* will publish a report on UN military designs).

- Ensure the global climate change program moves forward, pressing towards an internationally binding set of rules under the auspices of the United Nations.

- Promote global human rights. This is of special importance because in 2012 the United States will hold a seat on the UN Human Rights Council. Moreover, the UN human rights agenda – an extensive package of treaties and codes – is being coordinated to act as the guiding framework for a United Nations-led global ethic.

P.S. The United Nations this year will work to ramp up its relationship with regional organizations such the African Union, NATO, the Shanghai Cooperation Organization, the Organization of the Islamic Conference, the League of Arab States, and other regional/multinational institutions. This is important as a large percentage of UN security missions are done in cooperation with regional entities.

NATO (North Atlantic Treaty Organization)

In 2010 NATO will be hashing out a "New Strategic Concept." This will involve an extensive review of NATO core concepts, with the idea of re-aligning itself to meet 21st century global challenges. Find below some of the areas likely to be considered.

- Article 5: To make NATO members believe in Article 5, the treaty text that asserts collective assistance when a NATO nation faces a potential conflict. This centers on the credibility of NATO as an unbiased entity, and not just a secondary arm of the US military. Just as important to this process is to make the non-NATO world believe in the credibility of Article 5. In essence, the world needs to see NATO as a "strategic reassurance" organization, able to extend its arm in defense of its members' interests regardless of geographical challenges (ie, Afghanistan). In 2010, expect the banner of "Article 5" to be waved in the media and in foreign policy discussions, especially if Pakistan starts to crumble (see the section on Pakistan below). The practical side of empowering Article 5 will probably come through advanced NATO exercises, simulations, and contingency planning. Such actions will be designed to demonstrate the global reach of NATO, including its naval operations (one such event took place in 2007, with a NATO maritime mission circumnavigating Africa).

- Building a realistic NATO/Russian partnership: A touchy and problematic endeavor that has been discussed over the years. There is a possibility that this "New Strategic Concept" will open the doors for Russia, but it's questionable how Moscow would respond to (or leverage) such as opportunity.

- Expectation to expand NATO activities in non-traditional areas. This may include high-seas piracy and the stabilization of "failed states." Look for a stronger NATO presence in the Middle East.

- Dealing with new regional and global challenges, including energy security, nuclear proliferation, climate change, and missile defense. How does NATO involve itself? What partnerships need to be built or strengthened? Should NATO involve itself in areas traditionally outside its jurisdiction?

- The development of partnerships with non-NATO countries, and other regional and international actors – including the European Union. How should NATO and the United Nations interact? What about the Organization for Security and Cooperation in Europe?

NATO's role in the Middle East is growing (it has been suggested by some that NATO take over the Gaza situation). And there is a Mid-East connection to the New Strategic Concept: Israel has been seeking input into the process, as there is a developing relationship between NATO and Israel – including participation in training exercises. At the same time, NATO has been working with the Gulf Cooperation Council nations through the Istanbul Cooperation Initiative (ICI). Gulf countries included in the ICI are Bahrain, Kuwait, Oman, and the United Arab Emirates. For 2010 there's talk of establishing a NATO presence in an ICI nation to conduct operations against Somali pirates. Expect the New Strategic Concept to adopt a "transformational" approach to the Middle East. This will likely come through an upgraded view of the Istanbul Cooperation Initiative.

Finally, this year will see an increase in NATO operations in Afghanistan. More troops from participating countries will be deployed; this will probably include the United States.

Shanghai Cooperation Organization (SCO)

Known originally as the Shanghai Five, the SCO is a mutual security organization made up of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. Although the SCO is primarily focused on security issues, there is an upswing in economic cooperation between members, and 2010 will see the creation of an SCO Centre of Joint Business Cooperation. Moreover, there has been a significant push by Iran to economically engage with SCO countries, with a real surge in the last nine months of 2009.

Watch in 2010 as the SCO is sold to Western elites as an "underutilized" partner. If an Iranian conflict appears imminent or starts to take shape, don't be surprised if the SCO offers a Russian/Chinese solution.

League of Arab States

The Arab League, which has 22 members, is primarily involved in political issues. The focus for 2010 will be on the creation of a Palestinian state, and it is expected that several different plans will be pursued in accordance to the Saudi-designed Arab Peace Initiative. Israeli condemnation, which is a hallmark of the League, will continue under a new media program – the development of an Executive Office for the Arab Information

Ministers Council. This year's media campaign will highlight Jerusalem: condemning Israel and Judaism while asserting an Arab right to the city.

Other Regional Unions

2010 will see more progress in the development of regional alliances, especially as Europe gains ground. Although these blocks will be primarily constructed as economic zones, such as the Gulf Cooperation Council, there will be increasing pressures to harmonize in other areas. See the section on Economics for more details.

Collective Operational Reaction Force

See the listing under "CIS Nations" later in the article.

Asian Geo-Strategy

Afghanistan

The ongoing conflict in Afghanistan is not going to subside; that's not the history of this region. There may be economic incentives introduced by the international community as a counter-approach to warfare, but this will not lead to a solution. Indeed, it may propel the level of Taliban resistance in the medium to longer terms. Contrary to what many people originally thought, the Obama administration isn't curtailing America's involvement in the conflict, but has increased the presence of forces. Something to consider: There may be a correlation between this escalation, which involves the US Marines, and an anticipated blow-up in the Afghan-Pakistan Khyber Pass region (Pakistan is heating up).

China

The country that seems too big to fail in terms of the global economy is not beyond its share of problems. Much of its ability to stave off the global recession was due to Chinese government infusions of credit and money, up by 30% according to a recent article in *The Scotsman* ("China crisis would affect whole world." 19 January, 2010).

What has happened to all this government-induced liquidity? China is now experiencing a growing asset bubble: Rising housing prices and speculative building. Hence, 2010 will probably see a tightening of bank lending in China, which could have repercussions in different sectors of the global economy. Keep in mind that the world has become largely dependent on the Chinese in a number of areas, from manufacturing consumer goods to international financing. China is America's largest foreign banker.

Dian L. Chu, an economic analyst, reminds us that, "China is a communist country with capitalistic powers. This is not an economy where price signals always decide business strategy." (*Kitco* commentary, 12 January 2010).

Dian further notes that there are some strong fundamentals at work in the Chinese economy, and that the overgrowth in urban building may be a forerunner to "an anticipated mass urban migration such as the one China is destined to experience." Such a move would dilute the asset bubble now occurring. However, it's not all roses. Dian tells us, “Although the China real estate bubble burst should have a fairly muted overall effect as discussed here; nevertheless, if loan defaults start to rise, China might need to raise cash to keep its banks afloat. In that case, it might sell a chunk of its $2.2 trillion in U.S. debt, which would likely pressure the Dollar and drive up interest rates in the U.S.”

What happens in China now has the potential to impact global oil prices, gold values (China is a major gold producer and consumer), world currency moves and other international elements. Furthermore, China has a presence on the African continent, primarily with petroleum interests, and in South America where it's involved in energy concerns and telecommunication projects.

Finally, the military and technical build up in China is substantial. One military project, once fully developed, will enhance China's deep ocean capability: The creation of a new anti-ship ballistic missile (ASBM) system. It's difficult to ascertain from public sources when it comes on-line, however, if successful, an ASBM system will give China a unique ship-strike option: The capability to pinpoint a ship 2000 kilometers away and destroy it with one ballistic missile (some have suggested that the range may be closer to 3000 kilometers). *Jane's*, one of the largest open-source military and security research companies, explains this further,

“Through this approach, China is working to make it more difficult for the US to intervene militarily in China's maritime periphery. An ASBM, if developed and deployed successfully, would be the world's first weapons system capable of targeting a moving aircraft carrier strike group from long-range, land-based mobile launchers.” (6 January 2010).

China is also developing the JL-2 submarine-launched ballistic missile. According to one analysis, “When operational, this missile will allow Chinese submarines for the first time to target the continental United States from operating areas located near the Chinese coast.” (*Defense News*, 4 January 2010).

Like it or not, China is a world player and is poised to up the ante in the game of geo-strategy. Watch the dragon in 2010.

P.S. China plans to build a network of high-speed rail lines across 8,000 miles in the next three years. This will be an interesting development, as it may include a rail linkage into Russia. See the Russian section below for more information on a trans-continental rail network.

CIS Nations

The Commonwealth of Independent States is comprised of nations that broke from the Soviet Union. Over the years there has been a slow but steady re-alignment between the CIS nations and Russia. In 2010 expect CIS nations to move deeper into Moscow's orbit. Part of this will take place through a new trade agreement that came into play on January 1, 2010, between Russia, Belarus, and Kazakhstan (Eurasian Economic Community). Watch also as the Collective Security Treaty Organization, comprised of CIS states, undertakes a series of joint military training operations in 2010. These exercises are designed to solidify and streamline the Collective Operational Reaction Force (CORF), a joint military program that incorporates CIS members. There is some speculation that CORF will attempt to assume a greater regional responsibility after NATO pulls out of Afghanistan.

India

The growing wealth of India and its increasing role as a regional player and global leader cannot be overlooked. India has the second largest population on the planet, and is rapidly transforming itself into a technical and knowledge-driven economy. It is also leading the way in South-South trade development, and is working with South Korea to establish a strategic economic relationship. Expect India to play a larger regional and international role in 2010 and beyond.

Watch also as India continues to grapple with internal tensions and a stressful relationship with Pakistan, including continued exchanges of gunfire along the India-Pakistani border. Moreover, India and China have long been at odds over the

Himalayan frontier; 2010 may see a notching up of trade disputes and diplomatic pressure in relationship to this issue. Already the United States is finding itself diplomatically caught between these two countries in respect to the Himalayan dispute.

P.S. India will be ramping up its space program in 2010, and is looking to develop an anti-satellite capability.

Iran

Beyond the geopolitical tensions between Iran and Israel, one that may spill into a serious regional conflict, the other key issue for Iran is its internal social unrest. Iran is experiencing a social crisis as the youth of the country, which makes up a significant national demographic, becomes increasingly dissatisfied with the ruling elite and the military backing of the current government. This internal pressure may spill into a low intensity civil conflict, or another Iranian revolution. Of international significance is the Strait of Hormuz. If Iran experiences a major upheaval or outright military conflagration, there is a strong probability that global petroleum shipping could be seriously impeded in this critical choke point (the Strait of Hormuz connects the Persian Gulf with the Gulf of Oman and the Indian Ocean). Iran will be a hot issue in 2010.

Israel

Yes, Israel is part of Asia! Items to watch: America's renewed interest in Middle East peace talks, Gaza rebuilding and the role of the international community – including the European Union, and the ongoing issue of Iran. Israel is currently working on its Iron Dome defense system, an anti-rocket defense program aimed at eliminating in-coming short-range missiles. This could be operational inside 2010.

As tensions flare once again in the Middle East, watch as the international community (and affiliated non-governmental organizations), ramp up anti-Israeli rhetoric. And as mentioned earlier, it is to be expected that the Arab League will begin a media campaign around the issue of Jerusalem. The United Nations and the UN Human Rights Council have been especially hard on Israel (yet rarely condemn terror attacks against the nation); don't expect this situation to turn around in 2010.

While Israel is the most stable Western partner in the region with an impressive track record in many areas (technologically, democratically, economically), it is not a "clean" country. Have Israeli forces stepped over the line during engagements? To say otherwise would counter Israel's own admissions. This is not a justification but a sad fact: Israel is a nation at war, engaged in a low-to-medium intensity conflict that could erupt into a large scale embroilment, against enemies that have categorically announced mass death to the Jewish people. It's an all-around dirty situation.

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In early 2010 there have been reports that Hizballah brigades are poised to strike against soft Israeli targets, and have the backing of Iran and Syria. If this report is based in fact, the Iranian nuclear "standoff" or a Lebanese crisis could be trigger events. (see *DEBKAfile*, "Exclusive: US intelligence finds 5,000 Hizballah training to seize Galilee towns").

Pakistan

Often overlooked by the average Western citizen, Pakistan is a crucial regional actor. An ongoing issue of prime importance is the northwest Khyber Pass region, part of the Federally Administered Tribal Area (actually, the entire FATA zone is under pressure). It is a mix of Taliban/Pashtun fighters and supporters, tribal politics and militias, armed criminal elements, a major weapons market (a large amount of handcrafted weaponry comes out of this region), Pakistani security forces, and American advisors (read Special Operations) – and air strikes. It is a powder keg poised to explode, and when (probably not "if") it does, the ripple effect could unglue the entire Afghan/Pakistan region. Not only would America/NATO become directly involved in Pakistan security – remember, Pakistan is a nuclear equipped country – but India may see the need to act as well. The longstanding tension between Pakistan and India is another concern for regional stability.

Finally, it is anticipated that a major natural gas pipeline agreement linking Iran and Pakistan may come to fruition this year (this project originally included India).

P.S. Pakistan is home to numerous "underground" madrasses. Central Asian youth are turning to these extremist religious schools in large numbers, giving rise to concerns over a growing Islamic militant presence in the country.

Russia

Of course, Russia is both a European and Asian nation. For 2010, keep your eyes on Russia's geopolitical maneuvers in the Eurasian zone. This will come through increased involvement with the CIS nations, more reach into Ukrainian's political and business elites, and more activity in the Black Sea. Russia is also working with China to create a new economic cooperation package that will boost energy

sharing and nuclear development. This is extremely important; A Russian-Sino alliance has existed for some time, but the strengthening of this partnership doesn't bode well for Western hegemony. Expect more arms trading, and research and development projects between these two nations. Watch also as Russia increases it's reach into European markets and, more ominously, into European political circles.

A major Russian export for 2010 will likely be corruption. In 2009 the known cases of corruption rose substantially. In the first nine months of last year, almost 38,000 corruption crimes were exposed. Not only is "corruption" – real or otherwise – one of the best legal tools to use in displacing opposition, business or otherwise, it has become an exportable trademark.

At the risk of sounding melodramatic, it must be stated that there is a deeper rhythm to this European/Asian giant; there is a "red orchestra" playing. It is made up of Russian/Soviet agents and assets, upper echelon military personnel, local and national politicians, business and financial actors – including (especially) arms manufacturing and energy interests; This orchestra also includes the "red mafia," lobby groups and special interest organizations, and a host of interlocking individuals and agencies – indeed, the state apparatus. Many of us in North America can only see the orchestra pit dimly (myself included), yet the song is undeniable. It speaks of unmitigated power, deceit and masterful propaganda, and the long-term strategic plan of a Russian-directed *internationa*l. The beat has a distinctive Soviet feel.

The old Russian bear is not dead, and the more one studies its movements – it's orchestra – the more one realizes that the bear's tactic is *provocation*. Simply put, to open a way (or incite a way) for your enemies to hang themselves. It will be interesting to see how 2010 unravels in this light. Watch the CIS nations, Afghanistan, Pakistan, Iran, and Europe's far-eastern countries, and the West's involvement in these regions. Listen also to the rhetoric that comes from Western politicians and social leaders in relationship to Russia, and the move in the West to vilify and replace capitalism. The orchestra has been playing softly for many years, and there are times when the song has stumbled (NATO never disbanded), yet the tune carries an unmistakable message: the bear is awake.

Regarding Russian infrastructure: Of interest for 2010 *and beyond* are talks between Russia, China, Norway, and Finland. The purpose is to construct a trans-continental rail system allowing freight shipments from China to the Norwegian coast, thus cutting the time needed to ship materials to the eastern part of the United States by 14 days. Just as important is the possibility that this rail network will bridge growing European and China markets (along with US access), allowing Russia to be the main intermediary for a large percentage of global trade transit. Russia already controls much of the petroleum energy that feeds Europe (and has used this as a geopolitical tool); it will be interesting to see how it leverages the flow of international trade goods.

On the security front this year will see a renewed interest in START, the Strategic Arms Reduction Treaty, between the United States and Russia. While START negotiations may already be taking place, Russia has warned that it will develop new offensive weapons systems to counter America's anti-missile shield. Don't expect 2010 to be a year when the nuclear hawk has its wings clipped.

Finally, Russia has been talking of creating a new European collective security system. This has been supported by French leaders and is being courted in the Ukraine.

P.S. Both China and Russia are engaged in seriously upgrading and beefing up their strategic arsenals.

Economics

World Debt

Recently, McKinsey Global Institute released its report, *Debt and Deleveraging: The Global Credit Bubble and Its Economic Consequences* (January 2010). The report recognized that astronomical national debt is a global issue, and not just relegated to the United States (although US debt levels are unprecedented). In fact, McKinsey found that by 2008, "several countries – including the United Kingdom, Spain, South Korea, and France – had higher levels of debt as a percentage of GDP than the United States."

Debt is how our world operates. Currencies are based on debt, business "growth" is tied to debt, and national development is built on debt: everybody is in debt! You may not be in personal debt, but as a national citizen you share in your country's debt burden. We are in a web of debt.

Real debt reduction will be slow to non-existent in 2010 at the national level. Watch as this problem spurs-on calls for global monetary reform.

Carbon Currency

In some ways I see the topic of a Carbon economy diminishing from the public eye during the next few months, but coming back into vogue prior to and immediately after the Mexico climate meeting in November. This issue will not go away easily. Too much is at stake in the global banking community to let a Carbon economy slide away. Anticipate more calls for a "Carbon Currency" and "Carbon Tax" in 2010. The call for such monetary tools will come from the financial industry and those politicians inextricably linked to the Climate Change agenda.

United States of America

Despite news reports about America's recovery, there is very little good news about the US economy. Real unemployment is rising, the nation is debt soaked and drowning, foreclosures are high and will move upward (2009 saw 2.82 million foreclosures, and one estimate for 2010 is 3 million), and the commercial real estate market is teetering. Furthermore, the later part of 2010 will see the start of another round of mortgage defaults, with a wave effect moving into 2011.

Will interest rates rise in the US? There is an interesting argument that says "no," as the Fed has become so involved in the last 12 months with buying mortgage backed securities (toxic debt) that a rise in rates would greatly devalue their holdings. Rising rates would also clobber what little life the housing market now has. Letting interest rates rise would be economic suicide, but maintaining artificially low rates will drive inflationary pressures. Pick your poison – or maybe China will.

What makes of all this especially significant is that the US is "loosing place." At one time America was the first nation the world looked to for leadership, and the role of "sole superpower" allowed the economy to move forward by exporting debt in exchange for cheaply manufactured goods. This, plus the fact that world energy trades were (and are) conducted in US dollars, helped maintain the strength of the greenback. These trades are still happening, but now the world community is looking for dollar alternatives.

America has a long way to go before the economy stabilizes. As a result of the combined world political and economic shift, the future of the US political/economic landscape may look different than what America is used to. To top it off, 2010 will see the beginning of a "debt roll over" as potentially trillions in US Treasury bills will need to be re-issued. How the international banking community handles this will have an impact on the value of the US dollar. Right now, in the beginning of this year, there is a greenback rally – and this may continue for a time. However, the long-term value of the US dollar is in question. 2010, like 2009, will not be an easy year for the United States.

Japan

Japan is in serious financial trouble due to massive government debt, a week overall growth rate, a rapidly diminishing rate of domestic savings, and an aging population. What makes Japan unique is that it's an undeniable economic power, a technical and industrialized nation, and a global leader in trade. In fact, Japan's credit rating is in serious jeopardy, and it's entirely possible that 2010 will see a rise in interest rates and a tightening in credit. Watch Japan in 2010 and beyond. It will be interesting to see how the international banking community responds, either to shore up the nation or strip it of assets.

England

Great Britain has one of the most globalized economies, thanks in large part to the City of London – the world's largest financial centre. But the United Kingdom is in a precarious situation. One commentator recently wrote,

"Like the ship in Jason and the Argonauts, the UK economy is drifting towards a pair of clashing rocks. On one side: the threat of deflation, a double-dip and an even deeper, longer recession. On the other: dependence on quantitative easing (QE), a massive, growing public deficit and a risk of inflation." (William Robins, *CityWire*, 01 February 2010).

This situation is exasperated by the fact that Great Britain has been clobbered with outrageous government spending, failing social infrastructures, big-brother styled monitoring of civilians (a sure way to demoralize a population), and high debt levels. In fact, debt levels in the UK are wild. According to McKinsey Global Institute, England's debt went up 157% between 2000 and 2008 (see the McKinsey report, *Debt and Deleveraging*, p.3).

BRIC

BRIC is the acronym for Brazil, Russia, India, and China. These four nations represent the largest and most dominant economies in the developing world and have formed a loose alliance. Watch as 2010 sees a wave of Initial Public Offerings (IPOs), particularly from Russia and China. A recent Reuters' press release stated,

"New share listings in Russia and China accounted for 76 percent of global IPOs so far in 2010, with January flotation volumes of $6.7 billion, the highest on record for the month… BRIC IPO volumes for the beginning of 2010 are at their largest level, in terms of both value and number of issues, for any January on record… Last year, BRIC IPOs raised a total $63 billion, accounting for over 90 percent of emerging market offerings. The world's largest IPO of 2009 was that of the Brazilian subsidiary of Banco Santander…" (Reuters update on China/Russia/BRIC-IPOs, 27 January 2010)

Group of 20

In 1999 the G20 was formed as a response to the 1997 Asian financial meltdown. During the last eighteen months, the G20 has positioned itself to be the managing agency for the new, postcrisis global economy. Recently, the Governor for the Bank of England, Mervyn King, suggested a radical proposal: to merge the G20 and International Monetary Fund into a super-regulator with the authority to reform the world's monetary system.

Don't be surprised to see more recommendations like this during 2010. Indeed, it wouldn't be surprising to see an eventual merger of the G20 with other international financial agencies. How would this look? At this point it's hard to see anything other than a strengthened, informal network. However, if the global economy falters seriously enough it's entirely plausible that a new world superstructure could come to fruition.

Regional Economic Blocks:

Euro

Greece is presently running with an unsustainable debt load, and is in serious economic trouble. Some analysts see this as the death rattle for the Euro, causing a chain reaction that could collapse the Euro-system. I don't think so. Greece is a relatively small player and I would expect that the IMF or European Central Bank (ECB) could cut a deal that keeps Athens in play. California has a bigger debt load, but this hasn't tanked the US dollar (yet).

Earlier, the Europe Union set out its Growth and Stability Pact, an agreement that places certain standards on national members of the EU – primarily in deficit spending and total government debt loads. Spain, Greece, Italy and Ireland are unable to meet these requirements, and other countries are struggling to tow the line. Hence, tensions are mounting as larger Euro-zone countries find themselves attached to weaker neighbours. With this in mind there is a possibility that Growth and Stability Pact requirements may be lessened, and/or an IMF/ECB/G20 "solution" be found to the Euro situation. All of this may weaken the Euro currency.

The European Union's bloated bureaucracies and burdensome social programs add more stress to the system. Finally, European banks have been tight with credit. This situation is impacting businesses and certain industries, and there doesn't appear to be much loosening in the coming months (housing loans may be an exception).

Another Euro situation occurring in 2010 will be a series of EU-based Free Trade negotiations with high-growth nations and regions, including activating a trade arrangement with the Gulf Co-operation Council that will network into the Asian markets (see the information below on FTAs and the GCC). If these trade agreements can be realized, it will effectively place the EU and Euro into a more dominant global role. This may lessen some of the internal European tensions while raising the bar against the international reserve status of the US dollar. Much will depend on what can be accomplished in 2010.

Free Trade Areas

2010 will see a surge of interest in negotiating new Free Trade Areas (FTA). Some FTAs being studied include…

1) South Korea-China-Japan.

2) European Union and India.

3) Peru-Morocco-India-Egypt.

4) India-Japan.

5) South Korea and the European Union.

6 Mexico-India.

7) An FTA style agreement between China and Taiwan (it's being talked about!).

There has been FTA overtures between South Korea and the United States, but it is unlikely anything will move forward in 2010. Columbia, which has an inactive FTA with the United States, is hoping that this agreement will come into play this year. However, due to political turmoil in the US, it is unlikely that the Columbian deal will see activation. More FTA developments for 2010 can be found below.

<u>ASEAN</u> (Association of South-East Asian Nations)

Watch as the China-ASEAN free trade agreement comes into play during 2010, making ASEAN (combined with China) a new regional trade powerhouse. This year also marks the start of the ASEAN-Australia-New Zealand Free Trade Area.

<u>Gulf Cooperation Council</u>

With the Dubai debt scare a few weeks back, it seemed that that Gulf region may be in serious trouble. What makes this region especially susceptible is the price of oil. The nations that comprise the GCC are primarily funded through petroleum dollars, and the lower global prices of 2009 were problematic. However, with oil moving up, the GCC nations are again moving forward with increased regional spending.

In a *Bloomberg* report published in January, it was reported that Saudi Arabia, Qatar, and Abu Dhabi will be "spending $600 billion by the end of 2013 to build roads, railways and new cities while expanding energy and manufacturing." Many international investors see Saudi Arabia as the golden goose, and European firms are particularly eyeing up the Saudi economy.

"'As a region I think we are on the cusp of some very, very serious growth opportunities in the years ahead,' said Arif Naqvi, CEO of Dubai-based Abraaj Capital Ltd., the biggest private-equity company in the GCC, in an interview in Davos. 'It is probably higher than in other parts of the world. There is liquidity and there is a desire.'

The new spending may benefit Munich-based Siemens AG, Europe's largest engineer, which said in November it is looking to win more contracts in Saudi Arabia to tap rising demand for power generation. Paris-based Total SA, Europe's largest refiner, said Nov. 24 it is in talks with Qatar to build a petrochemical cracker, a fuel-processing plant.

Emad Mostaque, a Middle East equity-fund manager in London for Pictet Asset Management Ltd., which oversees more than $100 billion, plans to add to Saudi shares that currently represent a third of his portfolio. Saudi Arabia's benchmark Tadawul All Share Index has jumped 30 percent since the start of 2009, the best-performing of the Gulf markets, followed by Oman.

'Saudi Arabia is where we see the most potential,' Mostaque said in a phone interview. He said he recently bought more shares in Riyadh Bank, Riyadh-based Saudi food producer Almarai Co. and Riyadh-based Saudi Basic Industries Corp., the world's largest petrochemical producer." (*Bloomberg* online, 28 January 2010).

Currently the GCC is forming itself into an economic union and, not too long ago, had anticipated unveiling a currency for the region in 2010. The timetable for this monetary union now looks to be in 2015 or 2017. Incidentally, 2017 is the year when a majority of the multi-billion dollar regional projects are to be completed – including a high-tech rail network, new free-trade port facilities, inter-regional highways, bridges, and airports.

In 2010 expect to see a trade package take shape between the GCC and the European Union (likely a reactivation of an existing agreement). And expect to see major free trade programs develop between the GCC and China, the GCC and India, and the GCC and South Korea. Such a move will create a type of economic feedback loop between the European Union, the Gulf Cooperation Council, China, India, South Korea, and in turn the ASEAN block.

<u>South America</u>

For the past ten years, a core of South American nations has called for an integrated economic community. But it's not without its problems. As an idea it has morphed and changed often, reflecting the tensions between South American countries and the lack of overall unity. Presently, it's difficult to say where the idea rests; Hugo Chavez has been touting a regional currency built on the Bolivarian Alliance for the Americas. Difficulties exist with this model as well. However, with all of the above noted, it is still worthwhile to monitor South American integration negotiations for 2010.

Eurasian Economic Community

On the first day of the new-year, Russia, Belarus and Kazakhstan formed the Eurasian Economic Community. Watch as other CIS nations gravitate toward this new regional trade zone (eventually the EEC is to have its own regional currency). 2010 will also see the Ukraine and Armenia eye-up the EEC, although it's doubtful they will join in the near future.

Something else to keep in mind is that the Ukraine's political and business milieu has taking on a pro-Moscow flavour (Ukraine's elite are heavily tied to Russian intelligence and business interests). All of this places Georgia in a precarious position. Moreover, the EEC heightens the geopolitical/economic struggle between ex-Soviet block countries; whom do they orient themselves with? Russia, or the EU/NATO zone? This is where regional economics and geo-strategy collide.

PS. In the past few years Russia has repeatedly called for a single global currency. 2010 will probably witness more Russian calls for a new global monetary system.

2010 is shaping up to be an interesting year. It will be a time of challenge, change and complexity. Pray for wisdom, discernment, and perseverance as we seek to understand the times in which we live. FC

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