Key Political Issue:  
Chaos in the Eastern Mediterranean

**Summary** - While Central Asia and Central Africa are often cited as the world’s two most unstable regions, another region, the Eastern Mediterranean, has emerged as an increasingly worrying source of economic and political instability. Politically, the Arab Spring has had a massive impact on the southern and eastern coasts of the Eastern Mediterranean, producing wars in Libya and Syria and upheaval in Egypt, Gaza and Lebanon. Meanwhile, most of the region’s economy has nosedived in recent years, highlighted by the depression in Greece that has impacted other countries such as Cyprus.

**Political and Economic Upheaval:**
- The Arab Spring and the European debt crisis have served to destabilize what has been throughout history one of the world’s leading flashpoints, the Eastern Mediterranean region that stretches from Greece in the north, around the eastern Mediterranean to Libya in the south.
- These momentous events have led to massive political changes across the region, with governments in Egypt, Libya and Greece being ousted and with Syria on the brink of a full-scale civil war.
- Moreover, what had been one of the fastest-growing regions in terms of economic growth has fallen into uncertainty, with most of the region’s economies experiencing deep recessions.

**A Changing Balance of Power:**
- These changes are having a massive impact on the balance of power in the Eastern Mediterranean.
- First, outside powers such as the United States, Europe and Russia have been forced to scramble to keep up with the rapid political changes that are continuing in the region, with each of these powers potentially losing key allies in the region.
- Second, Turkey has emerged as a much more powerful player in the region, returning to a role that it held prior the collapse of the Ottoman Empire.
- Finally, Israel sees itself threatened by the massive changes in the political leadership of its Arab neighbors and it fears that the region’s new leaders will prove to be much more hostile to Israel than their ousted predecessors.

**What to Watch For:**
- Egypt’s uncertain political future will have a major impact on the entire region.
Key Economic Issue:
Greece’s No-Win Election

Summary - It was an election that was not divided by the traditional split between left-wing and right-wing political parties, but rather by the differences between parties that either supported or opposed the international community’s bailout program for the collapsing Greek economy. In the end, Greece’s traditionally two most powerful parties (those that support the bailout that they negotiated with international lenders) managed to win enough seats in the parliament to form a coalition government. However, this will do little to ease Greece’s pain as years of economy decline lie ahead and this election may have prolonged an eventual solution to the crisis.

Pro-Bailout Support:
• The center-right New Democracy party won a narrow victory over the left-wing (and anti-bailout) Syriza party by a margin of 29.7% to 26.9% and this meant that New Democracy won the 50-seat bonus granted to the winner of Greek elections.
• As such, New Democracy now holds 129 seats in the 300-seat Greek parliament.
• In the meantime, the once-powerful center-left PASOK party suffered a crushing defeat, winning just 12.3% of the vote.
• Nevertheless, PASOK’s 33 seats mean that it can form a pro-bailout coalition with New Democracy if it chooses, as is expected.
• Meanwhile, extremist parties such as the far-right Golden Dawn and ANEL parties, as well as the far-left Communists, all won enough votes to qualify for the parliament.

Kicking the Can:
• The parliamentary majority held by pro-bailout New Democracy and PASOK parties means that any chance of Greece dropping the euro (or being kicked out of the Eurozone) over the near-term has been diminished.
• However, this means that Greece will be saddled with a currency that has a value far too high for a country like Greece.
• Without a weaker currency, Greece will struggle to improve its export competitiveness and this will delay Greece’s recovery from its current depression.
• As such, Greece’s (and the Eurozone’s) economic crisis will not worsen dramatically over the near-term, but it also will not come to an end, to the long-term detriment of Greece and much of southern Europe.

What to Watch For:
• New Democracy and PASOK may seek to add a third party to a new coalition government, such as the Democratic Left, in order to boost the government’s hold on the parliament.
Regional Overview: North America

Regional Summary:
- This year’s G20 summit took place this week in Mexico.
- Asians now make up the largest segment of the immigrant population in the United States.

G20 Summit in Mexico:
- This year’s summit of the G20 group of the world’s largest economies took place in the Mexican resort city of Los Cabos, with the summit being dominated by the ongoing debt crisis in Europe.
- A key agreement reached at this summit was the agreement by the BRICS group of leading emerging markets to increase their contributions to the International Monetary Fund (IMF) in exchange for greater voting rights within that body.
- Meanwhile, European leaders vowed to push for closer political union in order to prevent future crises.

The Growing Asian Population in the United States:
- A new study revealed that Asians are now the fastest growing segment of the United States’ immigrant population, surpassing Latin Americans.
- According to 2010’s immigration statistics, 36% of all newcomers in the US were Asian, as opposed to the 31% that were Hispanic.
- This trend reflects the rising demand for skilled labor in the US, while the demand for manual labor has fallen sharply in recent years as a result of the economic difficulties in the United States.

A Look Ahead:
Key Issues or Events in the Next Seven Days:
- Polls in Mexico continue to show the candidate of the PRI, Enrique Pena Nieto, as the clear front-runner for that country’s presidential election that takes place in less than two weeks.

Regional Risk Factors to Watch:
- Weaker job creation levels in the United States could temper increases in domestic demand in the US in the coming months.
Regional Overview: South America

Regional Summary:
• A new law paves the way for peace talks in Colombia.
• Economic growth slowed in Argentina and is likely to continue to decline.

Peace Talks Law in Colombia:
• Last week, Colombia’s Congress approved a new law that provides the guidelines for peace talks between the Colombian government and the country’s two main left-wing rebel groups, the FARC and the ELN.
• According to this new law, rebels that confess to their crimes, turn over their weapons and compensate their victims will be given light prison sentences.
• This signaled a major shift in the Colombian government’s policies towards the rebels as it had previously refused to consider negotiations with the country’s left-wing rebel groups.

Economic Growth in Argentina Trends Downwards:
• The Argentine economy grew by 5.2% on an annualized basis in the first quarter of 2012, a better result that had been expected but nevertheless a significant decline from the economic growth rates that have been recorded in recent years.
• Argentina’s economy has been slowed by a combination of high inflationary pressures, reduced export demand in Latin America and growing government controls over the economy.
• There are fears that Argentina could slip into a recession before the end of this year.

A Look Ahead:

Key Issues or Events in the Next Seven Days:
• The Rio+20 environmental summit will take place this week in Brazil, bringing together more than 130 world leaders in Rio de Janeiro.

Regional Risk Factors to Watch:
• Land reform remains a contentious issue in Paraguay and is raising tensions in that country.
Regional Overview:
West Europe

Regional Summary:
• The Socialists won a clear victory in France’s parliamentary elections.
• Investors remained concerned about the state of the Spanish economy.

Socialists in Charge in France:
• France’s Socialist Party strengthened its grip on power in that country after they won enough seats in last weekend’s second round parliamentary elections in France to secure a majority of seats in the parliament.
• The Socialists won more than 320 of the 577 seats in the French National Assembly, their best result in modern times.
• As a result, Socialist President Francois Hollande will now have a much easier time passing his economic policies that call for higher taxes on the wealthy and higher levels of public spending.

No Respite for Spain:
• Despite securing a 100 billion euro ($125 billion) bailout for its struggling banking sector, Spain continued to be punished by the financial markets for its poor economic prospects and its inability to bring government spending under control, particularly at the local and regional level.
• This week, Spanish borrowing costs continued to rise sharply, with the yield on Spain’s benchmark ten-year bonds rising to 7.1%, a level considered to be unsustainable for the Spanish economy.
• This has raised fears that Spain will quickly need to secure a second, larger bailout in the near future.

A Look Ahead:
Key Issues or Events in the Next Seven Days:
• France’s government will receive a report detailing how far it is from balancing its budget, tempering the new French government’s appetite for major spending programs.

Regional Risk Factors to Watch:
• European Union leaders continue to frequently blame the United States for Europe’s debt crisis, ignoring the basic economic facts behind the crisis, most notably the deterioration in the export competitiveness of many Eurozone member states.
Regional Overview: Central and East Europe

Regional Summary:
• Pro-bailout parties won a narrow victory in Greece’s parliamentary elections.
• Russia is seeking to play a greater role in the affairs of the eastern Mediterranean.

Greece’s Critical Election:
• The center-right New Democracy party that backs the austerity measures imposed on Greece by international lenders won a narrow victory in last weekend’s closely-watched Greek parliamentary elections.
• New Democracy won 29.7% of the vote, allowing them to win 129 seats in the 300 seat parliament thanks to the 50-seat bonus given to the party that finishes in first place.
• The party will likely seek to create a coalition government with the center-left Pasok party that has 33 seats.
• Syriza, the left-wing anti-bailout party that has surged this year, finished second with 26.9% of the vote.

Russia in the Eastern Mediterranean:
• Russia’s backing of Syrian President Bashar al-Assad has frustrated the efforts by Western and Middle Eastern governments to isolate Syria’s government.
• Russia’s recent decision to send attack helicopters and other weapons to Syria was condemned by the United States and many other countries.
• However, Russia is determined to continue to play a role in the eastern Mediterranean, as shown by its policies in Syria and its efforts to strengthen ties with Greece and Cyprus.

A Look Ahead:
Key Issues or Events in the Next Seven Days:
• The far-right Golden Dawn party qualified for representation in the Greek parliament by winning 7% of the vote in that country’s parliamentary elections.

Regional Risk Factors to Watch:
• Ethnic tensions are rising in many areas of southeastern Europe as that region’s economy continues to struggle.
Regional Overview:
Middle East and North Africa

Regional Summary:
• Uncertainty loomed following Egypt’s presidential election.
• The successor to Saudi Arabia’s King Abdullah died last week.

Presidential Election in Egypt:
• Egypt’s presidential election took place last week and afterwards, both candidates (the Muslim Brotherhood’s Mohammed Mursi and former Prime Minister Ahmed Shafiq) claimed victory.
• Independent observers claimed that it appeared that Mr. Mursi had won the election by a narrow margin.
• Egypt’s new president will take office amid great uncertainty as the validity of the country’s parliament and its efforts to create a new constitution have been challenged in the country’s courts.
• Furthermore, Egypt’s military council granted itself sweeping new powers, challenging the next president.

Saudi Successor Dies:
• Crown Prince Nayef bin Abdul Aziz al-Saud, the next-in-line to the throne of Saudi Arabia, died last week at the age of 76.
• The conservative crown prince was best known for serving as the country’s interior ministry since 1975 and leading the Saudi government’s crackdown on Islamist militants inside the country over the past decade.
• Afterwards, Defense Minister Prince Salman bin Abdul Aziz al-Saud was named as Saudi Arabia’s new crown prince.

A Look Ahead:
Key Issues or Events in the Next Seven Days:
• Former Egyptian President Hosni Mubarak was reported to be close to death, just weeks after he was sentenced to life in prison.

Regional Risk Factors to Watch:
• The efforts by Egypt's armed forces to retain much political power in that country could lead to massive new street protests, destabilizing that country further.
Regional Overview: Sub-Saharan Africa

Regional Summary:
- Radical Islamist militants struck again in northern Nigeria.
- South Sudan will celebrate its first year of independence.

Boko Haram Strikes Again:
- The radical Islamist group Boko Haram carried out a new round of suicide bombings last weekend in Nigeria, this time targeting three churches in the northern Nigerian state of Kaduna.
- At least 75 people were killed in these bombings and the clashes that took place immediately after the bombings.
- These attacks have further raised religious tensions in northern and central Nigeria and show that the Boko Haram group continues to have the ability to carry out sizeable attacks.

South Sudan After One Year:
- The world's youngest country, South Sudan, prepared to commemorate its first anniversary of independence, but the country faces a number of massive challenges.
- Externally, South Sudan’s tense relations with Sudan continue to prevent the country from developing its economy, as this dispute has shut down South Sudan’s vital oil industry, devastating the country’s economy.
- Internally, the government in Juba has struggled to extend its control to all areas of South Sudan, while internal conflicts have worsened in many areas of the country.

A Look Ahead:
Key Issues or Events in the Next Seven Days:
- The situation along the border between Sudan and South Sudan remains very tense.

Regional Risk Factors to Watch:
- Ethiopia’s efforts to dramatically increase its production of sugar has led to clashes over land targeted for sugar production.
Regional Overview: Central and South Asia

Regional Summary:
• Pakistan’s prime minister was barred from holding public office.
• Sri Lanka’s economy continued to grow at a very respectable pace.

Pakistan’s Prime Minister Barred from Office:
• This week, Pakistan’s Supreme Court barred Prime Minister Yousuf Raza Gilani from holding public office, two months after he was convicted by the same court of contempt of court.
• Prime Minister Gilani was convicted on charges of ignoring the court’s order to launch an investigation into corruption charges against Pakistan’s President Asif Ali Zardari.
• As Prime Minister Gilani’s Pakistan People’s Party has a majority of seats in the parliament, it should have little difficulty choosing a new prime minister.

Sri Lanka’s Strong Economy:
• The Sri Lankan economy continued its post-civil war surge when it expanded by 7.9% on an annualized basis in the first quarter of 2012.
• Sri Lanka’s industrial and service sectors both performed very well in early 2012, offsetting the impact of higher fuel prices and the growing weakness of many of Sri Lanka’s key export markets.
• Looking ahead, economic growth in Sri Lanka is forecast to moderate in the months ahead, but a hard landing for the Sri Lankan economy is not foreseen this year.

A Look Ahead:
Key Issues or Events in the Next Seven Days:
• The arrival of the monsoon season in South Asia will determine the success of that region’s vital agricultural sector this year.

Regional Risk Factors to Watch:
• Pakistan’s deteriorating relations with the United States also threaten to increase tensions between Pakistan and India.
Regional Overview: 
East Asia and Pacific

Regional Summary:
• New Zealand strengthened its defense ties with the United States.
• Japan will restart two of its nuclear reactors as that country’s power shortages worsen.

New Zealand’s New Defense Priorities:
• In recent months, the government of New Zealand has moved to strengthen defense ties with the United States and Australia, bringing an end to New Zealand’s relative neutrality in recent years.
• Earlier this month, New Zealand signed a deal with NATO to expand ties in the fields of military intelligence, disaster relief and other areas.
• This week, New Zealand and the United States signed an agreement to expand their co-operation in terms of defense ties and maritime security.

Japan’s Nuclear Restart:
• Last weekend, Japanese Prime Minister Yoshihiko Noda announced that Japan would restart two of its nuclear reactors, the first two that are to be restarted following the shutdown of all of Japan’s nuclear plants in the wake of the Fukushima nuclear disaster.
• Two reactors at the Ohi nuclear plant in western Japan will be restarted in three weeks time in a bid to prevent Japan from suffering from worsening power shortages this summer.
• The frequent blackouts in Japan have put Prime Minister Noda’s government under increasing pressure.

A Look Ahead:
Key Issues or Events in the Next Seven Days:
• Weakening export markets are bad news for Hong Kong’s economy.

Regional Risk Factors to Watch:
• Weakening natural resource demand over the near-term is likely to slow economic growth in Australia.
Greece’s economy remains in a serious depression and economic growth is not forecast to return to that country until at least 2014. However, by remaining in the Eurozone, Greece will have to dramatically reform its economy in order to boost low levels of export competitiveness in order to restore healthy rates of economic growth.