

STRATFOR Global Intelligence Annual Forecast 2012

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There are periods when the international system undergoes radical shifts in a short time. The last such period was 1989-1991. During that time, the Soviet empire collapsed. The Japanese economic miracle ended. The Maastricht Treaty creating contemporary Europe was signed. Tiananmen Square defined China as a market economy dominated by an unchallenged Communist Party, and so on. Fundamental components of the international system shifted radically, changing the rules for the next 20 years.

We are in a similar cycle, one that began in 2008 and is still playing out. In this period, the European Union has stopped functioning as it did five years ago and has yet to see its new form defined. China has moved into a difficult social and economic phase, with the global recession severely affecting its export-oriented economy and its products increasingly uncompetitive due to inflation. The U.S. withdrawal from Iraq has created opportunities for an Iranian assertion of power that could change the balance of power in the region. The simultaneous shifts in Europe, China and the Middle East open the door to a new international framework replacing the one created in 1989-1991.

Our forecast for 2012 is framed by the idea that we are in the midst of what we might call a generational shift in the way the world works. The processes are still under way, and we will therefore have to consider the future of Europe, China and the Middle East in some detail before drawing a conclusion. The 2012 forecast is unique in that it is not a forecast for one year in a succession of years, all basically framed by the same realities. Rather, it is a year in which the individual forecasts point to a new generational reality and a redefinition of how the world works.

2012 may not be the conclusion of this transformative process. Neither was 1991 the conclusion. However, just as 1991 was the year in which it became clear that the old world of the Cold War no longer functioned, 2012 is the year in which it will become clear that the Post-Cold War world has come to an end, being replaced by changed players and changed dynamics.

Europe

The European Union and eurozone will survive 2012, and Europe's financial crisis will stabilize, at least temporarily. However, Stratfor expects Europe to continue its long, painful slide into deepening recession. We expect accelerating capital flight out of peripheral European countries as investors in Europe and farther afield lose confidence in the European system. We expect financial support measures to be withdrawn on occasion to maintain pressure on governments to implement fiscal reforms, which will lead to financial scares.

However, the driving force behind developments in Europe in 2012 will be political, not economic. Germany, seeing an opportunity in the ongoing financial crisis, is using its superior financial and economic position to attempt to alter the eurozone's structure to its advantage. The core of this "reform" effort is to hardwire tight financial controls into as many European states as possible, both in a new intergovernmental treaty and in each state's national constitution.

Normally, we would predict failure for such an effort: Sacrificing budgetary authority to an outside power would be the most dramatic sacrifice of state sovereignty yet in the European experiment -- a sacrifice that most European governments would strongly resist. However, the Germans have six key advantages in 2012.

First, there are very few scheduled electoral contests, so the general populace of most European states will not be consulted on the exercise. Of the eurozone states, only France, Slovakia and Slovenia face scheduled national elections.

Out of these three, France is by far the most critical: The Franco-German partnership is the core of the European system, and any serious breach between the two would herald the end of the European Union. If Germany is to compromise on its efforts for anyone, it will be for France, and if France needs another country in order to secure its own position in Europe, it needs Germany.

Consequently, the two have chosen to collaborate rather than compete thus far, and we expect their partnership to survive the year. Luckily for the German effort, French elections will be at the very beginning of the

ratification process, so any possible modifications to the German plan will come early.

Second, Germany only needs the approval of the 17 eurozone states -- rather than the 27 members of the full European Union -- to forward its plan with credibility. That the United Kingdom has already opted out is inconvenient for those seeking a pan-European process, but it does not derail the German effort.

Third, the process of approving a treaty such as this will take significant time, and some aspects of the reform process can be pushed back. European leaders are expected to sign the new treaty in March, and the rest of the year and some of 2013 will be used to seek ratification by individual countries. Amending national constitutions to satisfy Germany will be the bitterest part of the process, but much of that can be put off until 2013, and judgment by European institutions over how the revision process was handled comes still later. Such delays allow political leaders the option of pushing back the most politically risky portions of the process for months or years.

Fourth, the Germans are willing to apply significant pressure. Nearly all EU states count Germany as the largest destination for their exports, and such exports are critical for local employment. In 2011, Germany used its superior economic and financial position as leverage to help ease the elected leaderships of Greece and Italy out of office, replacing them with unelected former EU bureaucrats who are now working to implement aspects of the German program. Similar pressures could be brought to bear against additional states in 2012.

Those most likely to clash with Germany are Ireland, Finland, the Netherlands and Spain. Ireland wants the terms of its bailout program to be softened and is threatening a national referendum that could derail the ratification process. Finland's laws require parliamentary approval by a two-thirds majority for some aspects of ratification. The normally pro-European government of the Netherlands is a weak coalition that can only rule with the support of other parties, one of which is strongly euroskeptic. Spain must attempt the most painful austerity efforts of any non-bailout state if the reform process is to have credibility -- and it must do so amid record-high unemployment and a shrinking economy.

Also, if Greece decides to hold new elections in 2012, European stakeholders will attempt to ensure that the new government in Athens does not end its collaboration with the European Central Bank (ECB), European Commission and International Monetary Fund. None of these issues will force an automatic confrontation, but all will have to be managed to ensure successful ratification, and the Germans have demonstrated that they have many tools with which to compel other governments.

Fifth, the Europeans are scared, which makes them willing to do things they would not normally do -- such as implementing austerity and ratifying treaties they dislike. Agreeing to sacrifice sovereignty in principle to maintain the European economic system in practice will seem a reasonable trade. The real political crisis will not come until the sacrifice of sovereignty moves from the realm of theory to application, but that will not occur in 2012. In many ways, the political pliability of European governments now is all about staving off unbearable economic catastrophe for another day.

The economic deferment of that pain is the sixth German advantage. Here, the primary player is the ECB. The financial crisis has two aspects: Over-indebted European governments are lurching toward defaults that would collapse the European system, and European banks (the largest purchasers of European government debt) are broadly insolvent -- their collapse would similarly break apart the European system.

In December, the ECB indicated that it was willing to put up 20 billion euros (\$28 billion) a week for sovereign bond purchases on secondary markets to support struggling eurozone governments, while extending low-interest, long-term liquidity loans to European banks in unlimited volumes. The bond program is large enough to potentially purchase three-fourths of all expected eurozone government debt issuances for 2012, while the first day of the loan program extended 490 billion euros in fresh credit to ailing banks.

Together these two measures make a eurozone financial meltdown highly unlikely in 2012, but they will greatly degrade European competitiveness and efficiency. That will be a problem for another time, though.

For now, ECB actions are buying economic and political breathing room: economic in that austerity efforts can be somewhat softer than they would otherwise need to be, and political in that there is a feeling that Germany is willing to compromise somewhat on the issues of budgetary discipline today

in order to achieve its broader goals of budgetary control tomorrow. Therefore, while the financial support is not exactly buying good will from other European states, it is certainly buying time.

As the ratification process proceeds, European hostility toward Germany and Brussels will increase. Internationally, the key theme will be states attempting to protect themselves from what they see as a growing -- and unwelcome -- German intrusion into their internal affairs.

At the national level, the deepening recession will translate into general anger toward the government's announced austerity measures. The relative dearth of elections will deny that anger its normal release valve of centrist opposition parties, emboldening nationalist and extremist movements and leading to social unrest.

Political and financial turbulence will persist within this framework as Germany negotiates the new treaty with other eurozone countries. Though the core of these negotiations is a highly contentious abdication of national fiscal sovereignty, Europe is highly likely to adopt the new treaty since a perceived failure would dramatically accelerate the collapse of EU political structures and implementation will not happen in 2012.

Former Soviet Union

Russia's Challenges

In 2012, the Kremlin will face numerous challenges: social unrest, restructuring Russia's political makeup (both inside and outside of the Kremlin) and major economic shifts due to the crisis in Europe. The social unrest seen at the end of 2011 will continue festering throughout the presidential elections in 2012.

Kremlin chief Vladimir Putin will have to reshape the political landscape from one dominated by his party to one that accounts for the increasing support for the nationalists and a new class of young, liberal activists. Simultaneously, Putin will restructure his inner circle of Kremlin loyalists, who have allowed infighting to divert their attention from their roles in tackling Russia's social unrest and financial problems. None of this will significantly diminish Putin's authority.

The Kremlin will also have to adjust its economy in 2012 to accommodate changes in previous plans involving billions of dollars in investments from Europe in some of Russia's most strategic sectors. The crisis in Europe means any such investments will be significantly reduced, so the Kremlin will have to restructure the economic plans for its modernization and privatization programs and fund many of the projects itself. Putin will be able to navigate through these obstacles, though they will take up much of the Kremlin's attention. None of these factors will fundamentally change Russia's direction either domestically or in its foreign policy.

Russian Resurgence

Russia will continue building its influence in its former Soviet periphery in 2012, particularly by institutionalizing its relationships with many former Soviet states.

Russia will build upon its Customs Union with Belarus and Kazakhstan as it evolves into the Common Economic Space (CES). This larger institution will allow the scope of Russia's influence over Minsk and Astana, as well as new member countries such as Kyrgyzstan and possibly Tajikistan, to expand from the economic sphere into politics and security as Moscow lays the groundwork for the eventual formation of the Eurasian Union, which it is hoping to start around 2015.

As Ukraine's chances to grow closer to the European Union decrease, Kiev will realize that Moscow is the only outside power it can turn to. Russia will be able to take advantage of Ukraine's inability to maneuver and will gain access to strategic Ukrainian assets, possibly including minority control in its natural gas transit system. However, Ukraine will continue to resist the institutionalization of Russia's influence via the CES by maintaining a degree of cooperation with the West.

In the Baltic countries -- which, unlike other former Soviet states, are committed members of NATO and the European Union -- Russia's ultimate goal is to neutralize the countries' pro-Western and anti-Russian policies, a goal it will make progress toward in Latvia in 2012. It will face setbacks in Lithuania, but Lithuania will not be able to seriously challenge Russia's maneuvers in the region because of ongoing difficulties for its primary supporters: NATO and the European Union.

Russia and the West

Russia will continue managing various crises with the West -- mainly the United States and NATO -- while shaping its relationships in Europe. Moscow and Washington will continue their standoff over ballistic missile defense and U.S. support for Central Europe, and Moscow will react to the ongoing row by increasing security pressure on Central Europe and bolstering its economic presence in the region.

Russia will use these crises as an opportunity to deepen divisions among the Europeans, between the Europeans and the United States, and within NATO while promoting the perception that Russia is being forced to act aggressively. The security situation will become tenser, and Russia will attempt to push these crises with the United States to the brink without actually rupturing relations -- a difficult balance.

Russia will also use the financial and political crises in Europe to bolster its influence in strategic countries and sectors. Moscow and Berlin will continue their close relationship, especially in economic matters and security, but Russia will focus more on Central Europe in areas of security and energy and in picking up assets. There is no real counter to Russia in Europe, as the Europeans will be absorbed with domestic and EU issues. But this does not mean Russia has a free pass, as it must still manage the domestic effects of its neighbors' crisis.

Central Asia

Numerous factors will undermine Central Asia's stability in 2012, but they will not lead to a major breaking point in the region this year. Protests over deteriorating economic conditions will occur throughout the region, particularly in Kazakhstan, though these will be contained to the region and will not result in overly disruptive violence. Serious issues in Kazakhstan's banking sector could lead to a financial crisis, though the government will be able to manage the difficulties and contain it during 2012 by using the oil revenues it has saved up.

The more pressing problem is the rising Islamist militancy in the region. Sporadic attacks will continue in Kazakhstan, and Kyrgyzstan, Tajikistan and Uzbekistan could see an increase in attacks. However, these attacks will not achieve their strategic goal of overthrowing regimes or coalesce into a

transnational movement capable of destabilizing the region. In addition to these security tensions, looming successions for the longtime leaders in Kazakhstan and Uzbekistan will create political tensions, but barring the death of either leader, no major political upheavals are expected.

Middle East

Iran and the Saudi Dilemma

Iran's efforts to expand its influence will be the primary issue for the Middle East in 2012. The U.S. military withdrawal from Iraq has rendered Iran the pre-eminent military power in the Persian Gulf, but Tehran cannot count on the United States being as constrained beyond this year, and Turkey, Iran's natural regional counterweight, is rising steadily, albeit slowly.

Iran's efforts to consolidate and extend its regional influence must therefore accelerate this year before its window of opportunity closes. Iran will still be operating under heavy constraints, however, and will therefore be unable to fundamentally alter the politics of the region in its favor.

Iran's regional expansion will be felt most deeply by Saudi Arabia. The Saudi royals now doubt that the United States has the ability or the willingness to fully guarantee Riyadh's interests. Adding to Saudi Arabia's vulnerabilities, the Gulf Cooperation Council states fear that if Iran is not contained within Iraq, it will exploit continued Shiite unrest in Bahrain and in Saudi Arabia's Shia-concentrated, oil-rich Eastern Province.

In 2012, Saudi Arabia will lead efforts to shore up and consolidate the defenses of Gulf Cooperation Council members to try to ward off the threat posed by Iran, but such efforts will not be a sufficient replacement for the United States and the role it plays as a security guarantor. A critical part of Iran's regional agenda for the year will be to force Riyadh into an accommodation that benefits Iran and allows Saudi Arabia some reprieve. This could lead to temporary truces between the two adversaries, but given Iran's constraints and limited timetable, Saudi Arabia is more likely to stay committed to the U.S. security framework in the region -- for lack of better options.

Turmoil in Iraq and Syria

The effects of Iran's expansion efforts will be most visible in Iraq and Syria. In Iraq, Iran's main challenge is to consolidate Shiite power among several competing groups. As Iraq's fractured Shiite leadership tries to solidify its influence with Iranian support, Iraq's Sunni and Kurdish factions increasingly will be put on the defensive. This ethno-sectarian struggle and the security vacuum created by the U.S. withdrawal will degrade Iraq's overall security conditions.

Meanwhile, Turkey will attempt to contain the spread of Iranian influence in northern Iraq by building up political, economic, military and intelligence assets.

In Syria, the ultimate goal of Saudi Arabia, Turkey and the United States will be to disrupt Iran's Shiite arc of influence by trying to crack Syrian President Bashar al Assad's regime. However, without direct foreign military intervention, the Syrian regime is unlikely to collapse. Al Assad will continue to struggle in trying to stamp out domestic unrest. The regime's limited options to deal with the crisis will force Syria to further rely on Iran for support, which will allow Tehran to reinforce its presence in the Mediterranean.

Stratfor cannot rule out the remote possibility that the al Assad clan will be coerced into a political exit. Such an outcome would risk inciting a sectarian struggle within the regime. Iran's goal is for Syria to maintain a regime -- regardless of who leads it -- that will remain favorable to Iranian interests, but Iran's ability to influence the situation is limited, and finding a replacement to hold the regime together will be difficult. It should be noted that the battle for Syria cannot take place without spilling over into Lebanon. In that regard, Lebanon faces a difficult year as proxy battles intensify between Iran and Saudi Arabia in the Levant.

Turkey's Struggles

Overwhelmed by instability in its periphery, Turkey will continue to face significant challenges to its regional ascendancy. Despite its rhetoric, Turkey will not undertake significant overt military action in Syria unless the United States leads the intervention -- a scenario Stratfor regards as improbable -- though it will continue efforts to mold an opposition in Syria and

counterbalance Iranian influence in Iraq. Ankara will thus work to maintain a decent bilateral relationship with Tehran despite growing tensions between the two.

Economic conditions in Europe will slow Turkey's economic growth, Kurdish militancy in Turkey will remain a significant threat, and concerns over Turkish Prime Minister Recep Tayyip Erdogan's health could turn the government's focus inward as it tries to work through a contentious set of proposed constitutional changes. On the foreign policy front, Turkey will try to influence the rise of political Islamists, particularly in Egypt and Syria, but Ankara's own constraints will prevent it from taking meaningful steps in that regard.

Egypt's Political Transition

Egypt's turbulent political transition likely will give rise to a parliament with a significant Islamist presence, thereby complicating the ruling military elite's hold on power. However, the democratic transition will be a partial one at best; the country's fractious opposition and impotent parliament will continue to suffer from internal divisions and will be unable to overrule the military on issues of national strategic importance. Thus, the military will remain the de facto authority of the state.

Concerns over the country's struggling economy will outweigh the military's concerns over its political opposition. Egypt's preoccupation with its economic and political issues will undermine its ability to patrol its Sinai buffer, leading to increased tensions with Israel. However, both sides will continue to maintain the peace treaty that has been the foundation of Israeli-Egyptian relations for the past generation.

The Hamas Agenda

Hamas will take advantage of the slowly growing political clout of Islamists throughout the region in hopes of presenting itself to neighboring Arab governments and the West as a pragmatic and reconcilable political alternative to Fatah. These moves will help protect Hamas from the potential regime crisis in Syria (where its politburo is based) and bolster its relationships with Egypt, Jordan and Saudi Arabia. At the same time, Hamas will be on alert for tactical opportunities to undermine security in the Sinai Peninsula with the hope of creating a crisis between Egypt and Israel.

Egypt's preoccupations and Hamas' expanded room to maneuver will incentivize the Jordanian leadership to strengthen its ties with Hamas. It will also allow Jordan to manage its own unrest by building more credibility among Islamists, leverage its relations with Fatah and keep a tab on Hamas' actions as the Jordanian monarchs adjust to changing regional dynamics.

East Asia

Three things will shape events in East Asia: China's response to the economic crisis and possible social turmoil amid a leadership transition; the European Union's debt crisis and economic slowdown sapping demand for East Asia's exports; and regional interaction with the U.S. re-engagement in the Asia-Pacific region.

The 2008 financial crisis exposed the inherent weaknesses of the Chinese economy, which, like its East Asian powerhouse predecessors, largely was based on a growth model driven by exports and government-led investment.

While Beijing had been aware for some time of the need to shift toward a more balanced economic model, the continued slump in Europe and fears of another global slowdown have forced the government to face the challenges of economic restructuring now, rather than constantly staving them off.

Even in the best of times, the redirection of an economy the size of China's would be difficult, but the pressure for change comes amid a leadership transition, when Beijing is particularly sensitive to any disruptions. With the politburo lineup changing in October and the new state leaders taking office in early 2013, the Communist Party of China (CPC) is focused on maintaining social stability to preserve the legacy of the outgoing leadership and solidify the legitimacy of the incoming leadership.

A rapid drop in economic growth poses a serious threat to China in 2012; a modest slowdown is widely expected this year due to the weakening export sector, a slump in the real estate market, and investment and risks to the banking system. Beijing is betting the decline will remain at a manageable level -- at least for a year of transition.

The sharp drop in demand from Europe will harm the export sector in particular, with growth likely reduced to single digits. This declining

external demand will threaten the already weakened export-oriented manufacturing industry, which has experienced rising costs in labor, raw materials and utilities as well as appreciating currency on top of its already thin-to-nonexistent profit margins.

China will seek to compensate in part by refocusing on exports to the United States and expanding in emerging markets in Southeast Asia, Latin America or Africa, though this will not fully make up for the drop-off from Europe. Moreover, growing trade protectionism because of the economic downturn and political considerations -- especially the upcoming U.S. election season - - will likely put Chinese manufacturers at the center of trade frictions, making their position even more vulnerable. Beijing will employ traditional tools including targeted credit, tax reductions and direct subsidies to mitigate the risks of rising unemployment and bankruptcy in the financially strained manufacturing sector.

While Beijing knows that rolling out another massive fiscal stimulus and bank loans as it did in 2008-2009 is unsustainable and would put the economy at risk, it sees few other short-term options and thus will use government-led investment to sustain growth in 2012.

Beijing will resume and launch a number of large infrastructure projects even at the expense of overcapacity and lack of productivity. However, accounting for around 10 percent of gross domestic product and a quarter of fixed investment, the decline in the real estate sector due to Beijing's tightening measures since 2010 represents one of the largest threats to Beijing's effort to stabilize growth.

With affordable housing projects -- Beijing's plan to offset the negative consequences from falling real estate prices and weakening investment -- unlikely to reach their designated goal, Beijing may have to selectively relax its real estate tightening policy in 2012 while trying to avoid overcompensating by causing a sharp market rebound or property price inflation. The ruling Communist Party had promised it would bring these issues under control; its failure to do so could undermine the Party's credibility.

The continued high-level credit boom combined with the need to work out nonperforming loans (NPL) from the 2008-2009 stimulus will bring China into heightened NPL risk. The actual NPL ratio may rise as high as 8-12

percent in the next few years. At least 4.6 trillion yuan (\$729 billion) out of a government-estimated local debt of 10.7 trillion yuan is set to mature within two years, and Beijing expects 2.5 trillion to 3 trillion yuan of the total risk to turn sour. The NPL risk, the 2.1 trillion-yuan debt from investment in the railway system and the massive informal lending from the shadow banking system that grew significantly during Beijing's credit tightening pose a systemic risk to the banking sector.

Beijing may have to take some pre-emptive actions, such as refinancing measures or capital injections, in 2012 to ensure Chinese banks are able to maintain confidence in China's financial system. China's leaders, faced with near-term stabilizing options and long-term deep reforms, will choose the former, postponing the crisis but amplifying it when it becomes unavoidable in the future.

Given the economic uncertainty and political sensitivity surrounding the leadership transition, political elites in Beijing will attempt consensus at the highest levels. As it learned from the Tiananmen Square incident, CPC factional infighting exploited at a sensitive time is a serious risk, and we expect to see measures to ensure ideological and cultural control throughout the Party and down through the rest of society.

Meanwhile, the priority to ensure a smooth transition means Beijing will be much less tolerant of actions that could spread instability, though Beijing is also cultivating pre-emptive methods for social control, such as community-level management or providing carefully controlled outlets for expressing grievances to better manage the country's social frustration, which will likely be exacerbated by the deteriorating economic situation.

Internationally, China will continue to accelerate its resource acquisition and outward investment strategy. As domestic problems mount, China may use external disputes to ease public dissatisfaction. Anticipating U.S. economic and trade pressure due to the electoral season and strategic encroachment in China's periphery, Beijing will focus its attention on reducing miscalculation and stressing interdependence in its relations with Washington while clarifying its response to the U.S. engagement.

Meanwhile, China will balance nationalistic initiatives with maintaining neighborly relations -- particularly with the South China Sea claimant countries, India and Japan -- and countering perceived moves by the United

States to constrain China's economic influence in the region and lines of supply. The South China Sea claimant countries, including Malaysia, the Philippines and Vietnam, will respond by accelerating their military purchases, taking advantage of the U.S. re-engagement efforts to hedge against China.

Most Asian countries -- which showed a strong economic recovery throughout 2010 and early 2011 -- will experience reduced growth amid the global economic slowdown. As the most important economic partner to many countries, China will increase its economic assistance and trade to Association of Southeast Asian Nations countries to leverage its influence.

Beijing hopes to again project economic power in the region through aid, the import of consumer goods, currency swaps and regional trade agreements, but Beijing's role may also face challenges by renewed interest from other nations -- for example, the United States and Japan.

The death of North Korean leader Kim Jong Il has increased uncertainty on the Korean Peninsula. The first six months of the year will be critical as the unity of the regime is tested amid the leadership transfer.

The leadership structure between civilian and military elements was established in recent years to strengthen the role of the Workers' Party of Korea as one of the pillars of power and to rebalance the military's role, but the process was not yet complete at the time of Kim's death. North Korean leaders are unlikely to fundamentally change the direction of Pyongyang's foreign policy in the near term. Their attention initially will be focused internally, and they will seek to avoid any sudden shift in policy that could destabilize the regime or significantly increase foreign pressure.

China will look to make a push to ensure even greater influence on the Korean Peninsula during the transition period. In addition, bilateral discussions with the United States on resuming the six-party nuclear talks were showing progress before Kim's death, and Pyongyang is likely to restart these discussions sometime during the year.

South Asia

The U.S.-led campaign in Afghanistan will not maintain sufficient force levels long enough to militarily defeat the Taliban -- and their various factions -- or pacify the country. But the Taliban will not be in a position to drive the United States and its allies from the country by force.

Force structure choices must be made in 2012 to define the war effort through 2014, but the United States and its allies will continue to combat the Taliban in 2012 even as Afghan forces increasingly bear the brunt of the war effort. The United States will continue to consider a political accommodation with the Taliban, but such accommodation is unlikely to be reached this year.

The most important development in South Asia is Pakistan's ongoing political evolution. While other states, including Iran, are interested in shaping the future political landscape of Afghanistan, Pakistan continues to be at the heart of the Afghan war.

As such, U.S.-Pakistani tensions will intensify in 2012 as the United States reaches an understanding with Pakistan, which will have to deal with the situation in the region after the United States leaves. Political, religious, ethnic and ideological tensions will intensify inside the country, and these will affect Pakistan, Afghanistan and U.S.-Pakistani relations moving forward.

Latin America

Mexico

Through the first half of 2012, Mexico will be enmeshed in campaigning for its July 1 presidential election. The country faces the possible end of what will be 12 years of rule by the National Action Party (PAN). Faced with public condemnation of rising violence, the PAN has lost a great deal of credibility over the past five years, something likely to benefit the Institutional Revolutionary Party and the newly unified Revolutionary Democratic Party.

We expect no major legislative action under the administration of outgoing President Felipe Calderon as the three main parties compete for public

approval. The new president takes office Dec. 1, meaning most of the new administration's major policy moves will not occur until 2013. Regardless of any change in party, Mexico's underlying challenges will remain.

The country's drug war rages on, with Los Zetas having consolidated control over most of Mexico's eastern coastal transportation corridor and the Sinaloa cartel having done the same in the west. Both cartels have a significant, growing presence in Central America and relations with South American organized crime.

We expect the cartels to intensify their efforts to extend control over regional supply chains in 2012, although the Mexican cartels will remain dependent on relationships with local organized crime in other transit and producing countries. Despite significant territorial control in Mexico by Sinaloa and Los Zetas, numerous smaller criminal entities are still struggling for access to key transport hubs such as Acapulco.

Meanwhile, the two main cartels will continue to attack each other in critical transit cities such as Veracruz and Guadalajara. Continued inter-cartel competition among Mexico's diverse criminal groups will prevent any kind of alliance between Los Zetas and Sinaloa that allows them to abandon violence in favor of more profitable smuggling conditions.

Similarly, the government faces severe constraints on its counter-cartel activities. It cannot afford to be seen publicly backing away from attempts to rein in violence. At the same time, any significant uptick in military offensives against the cartels carries the risk of intensifying the violence. The government will therefore attempt to emphasize social and economic policies while maintaining its current, high-tempo counter-cartel strategy.

Brazil

Brazil will spend 2012 focused on mitigating shocks to trade and capital flows from the crisis in Europe. However, with only 10 percent of Brazil's gross domestic product dependent on exports, Brazil is much less vulnerable than many other developing countries.

In politics, Brazil will remain focused on trying to strike a balance between growth and inflation during the expected slowdown with judicious fiscal

outlays and monetary expansion. Brazil will thus remain primarily focused on domestic issues through 2012.

Trade protectionism will play a strong role in efforts to shield vulnerable industries. With global trade slowing, China will look for alternative export markets; these two trends will drive increased bilateral tensions between China and Brazil over the next year. Key Brazilian domestic issues will include ongoing city and border security initiatives; social welfare programs; infrastructure construction; and the development of, and politics surrounding, Brazil's petroleum reserves.

Venezuela

Uncertainty surrounding the health of Venezuelan President Hugo Chavez makes it difficult to forecast the precise direction of Venezuelan politics in 2012. There will certainly be continued speculation about a potential successor from the Chavista elite, and growing dissatisfaction with the status quo among Chavez's base will be a prominent political force.

Meanwhile, the political opposition parties -- which at this point appear prepared to unite behind a single candidate to be selected in February -- will make their most credible play for power in a decade. Under these conditions, the 2012 election will serve as a disruptor of Venezuelan politics. While the exact details of the outcome are unpredictable, 2012 will likely see some sort of power transition away from Chavez.

Regardless of who holds power at the end of the year, 2012 will continue to be characterized by growing domestic economic uncertainty, periodic infrastructure failure and poor distribution of basic goods. Dissatisfaction with these and other socio-economic issues will drive further protests, but the majority of political action will be centered on the election.

Cuba

Cuba's slow and cautious transitional measures can be expected to continue in 2012. Key reforms such as making credit and private property available to individuals are under way, and similar reforms, including attempts to loosen travel restrictions, can be expected in the next year.

Cuba's ultimate international challenge is to balance the liberalization demands of the United States with its need for subsidized Venezuelan oil. A sudden disruption of these shipments is unlikely, but a political shift in Venezuela could force Cuba to reach out to the United States as a much more powerful -- but also more politically invasive -- economic partner.

Sub-Saharan Africa

Somalia

In 2012, a containment strategy will solidify against Somali jihadists -- both the transnationalist group al Shabaab and its nationalist rival, the Somali Islamic Emirate. This strategy will have three elements.

The first will feature African Mission in Somalia (AMISOM) forces consolidating their presence in Mogadishu. These forces include peacekeepers from Uganda, Burundi and Djibouti, and additional forces from Sierra Leone will be deployed soon.

In the second part of the strategy, Kenyan troops will strengthen the cordon along the Kenyan border with southern Somalia. The 4,000 Kenyan troops there, nominally part of AMISOM, will hold territory and interdict Somali jihadists moving about the area. Lastly, Ethiopian forces will fortify a cordon along Ethiopia's border with central Somalia, also attempting to hold the territory and interdict jihadists. To deny the Somali militias propaganda material, AMISOM, the Kenyans and the Ethiopians will not push deep into Somali territory to engage the jihadists.

Instead, local militias employing guerrilla tactics will fight the jihadists within the containment zone. The combined efforts will successfully disrupt the jihadists' lines of supply, but they will not bring about their defeat.

The United States will continue covert action in the Somali theater. U.S. special operations forces and unmanned aerial vehicles will collect and share intelligence with the Somali government and its allies. Additionally, U.S. forces in East Africa and the Horn of Africa will remain poised to strike high-value Somali jihadists or senior al Qaeda targets, should the opportunity arise.

Nigeria

Nigeria will see sustained militant violence in its northern region. Aggrieved political elites in the north, believing the government of President Goodluck Jonathan stole political power from them, will seek to use the Boko Haram militant group to their advantage. As part of their campaign to regain political power in 2015 national elections, these northern politicians will provide Boko Haram with arms and funding while protecting it politically. This will enable the group to carry out frequent attacks on Nigerian government and civilian targets in its core area of operations in the country's northeast and northwest.

Boko Haram will also conduct operations in the Nigerian capital of Abuja, but these will be rare. Boko Haram's statements will be jihadist and fierce, but the nature of its support will prevent it from carrying out attacks that would trigger an international response and result in a loss of leverage for northern Nigeria's political elite, such as transnational operations or attacks against foreign political or commercial facilities in Nigeria.

The Niger Delta in the south will also see a slow but steady return to militant violence. Though the Jonathan administration has stated that it will serve only from 2011 to 2015, divisions will start to emerge within the Jonathan camp over whether a single term is sufficient. Like their peers in northern Nigeria, political elites in the Niger Delta region, including Jonathan, will start reactivating alliances with regional militant groups such as the Movement for the Emancipation of the Niger Delta (MEND).

Attacks by MEND or other Niger Delta militants in 2012 will be infrequent and ultimately will not threaten oil production. However, they will form the basis for a counter-campaign by the Niger Delta political elite to demand political patronage while the region's elite decides whether to run for the ruling party's nomination for the presidency in the next elections.

Sudan

Domestic opposition in Sudan and South Sudan will prevent both governments from signing a legally binding oil revenue-sharing accord. Instead, they will accept the continuation of ad hoc agreements regarding the distribution of oil revenues.

Additionally, U.N. peacekeepers will maintain their deployments in South Sudan and Darfur to respond to border clashes between militias on both sides of the Sudan-South Sudan border. It will take much of the year, but Khartoum and Juba will settle into an informal understanding over border demarcation.

South Africa

South Africa will remain focused on internal rivalries that will inhibit its ability to consolidate its influence in the southern African region. The ruling African National Congress (ANC) will contend with internal rivalries as it moves toward a leadership convention and election in December 2012.

South African President Jacob Zuma will be working to secure a second term as ANC president, a post that would effectively make him the party's candidate for South African president in 2014 elections. Simultaneously, the Zuma camp will work to ensure that no rival faction in the ANC gains enough momentum to challenge Zuma.

Update on Global Food Commodities

Summary

Corn, soybeans, rice and wheat are the most important food staples consumed in the world. We monitor these commodities because market fluctuations can lead to domestic unrest in import-reliant countries. Below is an assessment of these vital commodities.

Analysis

Most countries have domestic agricultural industries. However, the majority of these countries do not produce more than what their populations can consume. Only a handful of countries are able to export significant quantities of key food staples to countries that cannot meet their consumption needs or experience temporary setbacks in their agricultural sectors.

Output from exporting countries is an important geopolitical issue. Increased demand for global food supplies can cause localized shortages and price spikes. Food shortages and price increases, in turn, can lead to political turmoil and social unrest in countries whose populations depend on these imports for survival.

The most important staple crops consumed by populations around the world are corn, rice and wheat. Soybeans have also become an important alternative source of protein, particularly in Asian diets. Corn and soybean exports are largely dominated by states in the Western Hemisphere, while global wheat supplies are primarily grown by states in the Northern Hemisphere. Asian states account for the majority of all globally traded rice, but China, the world's largest producer of rice, consumes almost all of the rice it produces.

The following breaks down the current status of each of the four major staple crops. Production forecasts are drawn primarily from the U.S. Department of Agriculture's Foreign Agriculture Service estimates.

Corn

The United States, Brazil, Argentina and Ukraine account for more than 80 percent of global corn exports. While some 90 countries rank among the world's corn importers, Japan, Mexico, South Korea and Egypt are the most import-dependent nations, purchasing more than 40 percent of all globally traded corn.

The status of the corn market depends on weather conditions in the four major exporting countries. For the United States and Ukraine, the fall corn harvest has already occurred. While U.S. production fell by only 1 percent, the country's total exports are expected to shrink by 10 percent. Ukraine, however, nearly doubled production and more than doubled exports as a result of a record-breaking harvest.

For Brazil and northern Argentina, the period from December to February is key. It is during these summer months that corn goes through its silking and filling stages. A severe drought is currently affecting the region, and the extent to which the corn crop will be affected is not yet clear. Estimates of Argentina's production have fallen by 10 percent, but the country is still projected to produce more corn this season than in each of the previous two

seasons. The most recent drought in Argentina occurred in the 2008-2009 season, during which corn production fell by about 30 percent. Although the ongoing drought also affects Brazil, Brazilian corn output is expected to increase by several percentage points compared to 2011.

Assuming current expectations hold, Argentine and Brazilian production will reach a combined output of 87 million metric tons. Since global corn production is expected to rise by several percentage points in the 2011-2012 season, Brazil and Argentina would have to lose nearly 50 percent of their expected corn crop for global production to fall below the 2010-2011 seasonal output.

Soybeans

The popularity of soybeans is growing. While less soy is produced than the other three food staples, soybean production has increased by nearly 150 percent in the past two decades, nearly twice the rate of corn production. The United States is a major producer and exporter of soybeans, but the fastest growth has occurred in Brazil. Indeed, there is growing domestic and foreign investment into the South American soybean industry, particularly in the Mercosur countries -- Brazil, Uruguay, Paraguay and Argentina.

The rising popularity of soy can be attributed to its being a relatively cheap source of protein for humans and livestock. Most soybeans are consumed in Asia's rapidly growing markets. China consumes more soy than any other nation. It imports more than 60 percent of globally traded soy, which represents more than 80 percent of China's total annual supply. To mitigate the risk posed by a sudden disruption in the soy trade, China stockpiles its soybeans for later consumption.

The drought that is affecting corn production in Brazil and Argentina is also expected to affect soybean production as the season progresses. Projected output for Argentina this season has dropped by nearly 3 percent, but the country still expects a slight increase in production compared to the previous season. Brazil will not be as lucky. The above-average rainfall seen in soybean-producing center-west states, such as Mato Grosso, will not further compensate for the drought in Parana state. As such, soybean production in Brazil will decrease by 2 percent. This will contribute to a 3 percent decline of global soybean production. Despite this decline, Brazil is expected to become the world's largest exporter of soybeans in the 2011-2012 season

following an 8 percent dip in U.S. production.

Rice

The two largest rice producers by far are India and China. The two countries collectively produce more than half of the world's rice. Much of this rice is consumed domestically, however, and only India is a significant net exporter. Controlling nearly 80 percent of global rice exports, the top exporters of rice in order of rank are Thailand, Vietnam, India, Pakistan and the United States.

The rice market is temperamental, easily thrown off by too little or too much rainfall. The majority of rice produced in the world is consumed in the country of production; only about 7 percent of the world's rice production is available on global markets. Comparatively, 11 percent of corn produced is available on global markets, 20 percent of wheat and 37 percent of soy. This makes rice the most easily destabilized of the four key staples.

The 2011-2012 season has been more stable than the previous year, despite the flooding in Southeast Asia and the drought in China during 2011, and global production rose by just over 2 percent. With a 30 percent uptick in production over the previous year and an expected 17 percent increase in exports, Pakistan was the only top-five net exporter to have a noteworthy season.

Wheat

Wheat is widely produced by countries all over the world. However, more than 90 percent of the export market is dominated by ten entities: the United States, Australia, Russia, Canada, European Union, Argentina, Kazakhstan, Ukraine, Turkey and Uruguay. China is by far the largest producer of wheat, accounting for about 17 percent of global production. Only the states of the European Union collectively produce more. However, China is not a major player in the global market because it consumes almost all it produces. Because most wheat is grown in the Northern Hemisphere, July and August are critical for adequate rainfall.

The current season's total wheat production is estimated to be up 6 percent from the previous season. The only major decline was in the United States, which saw a 10 percent drop from the previous season. Both Kazakhstan and

Russia have had stellar years for wheat. Russian production increased from the previous year by more than 30 percent. Kazakhstan had its highest production in 30 years, representing a 132 percent increase over the 2010-2011 season and an expected export increase of more than 50 percent.

Jihadism: A Persistent, Low-Level Threat

For the past six years, Stratfor has published an annual forecast on al Qaeda and the jihadist movement. Since our first forecast in January 2006, we have focused heavily on examining and documenting the change of jihadism from a phenomenon involving primarily the core al Qaeda group to one based primarily on the broader, decentralized jihadist movement and the lesser threat the latter poses.

The central theme of last year's forecast was that the al Qaeda core would continue to be marginalized on the physical battlefield and would struggle to remain relevant on the ideological battlefield. While we did not forecast the May 2 killing of Osama bin Laden, his death certainly furthered the downward trend we predicted for the al Qaeda core organization. Due to the al Qaeda core's struggles, we forecast that regional jihadist franchise groups would continue to be at the vanguard of the physical battle and would eclipse the al Qaeda core in the ideological realm. We also noted that grassroots operatives would remain a persistent, albeit low-level, threat for 2011.

The past year saw hundreds of attacks and thwarted plots planned by jihadist actors in places like Pakistan, Yemen and Somalia. But in terms of transnational plots and attacks, activity was down considerably compared to 2010. As we forecast, almost all of these plots involved grassroots operatives or militants from regional jihadist groups rather than militants dispatched by the al Qaeda core leadership. For 2012, we anticipate that these trends will continue and, given bin Laden's death, the core al Qaeda group will not only continue to degrade but struggle to survive. Like the past two years, jihadism in 2012 will be defined by the activities of the franchise groups and the persistent grassroots threat.

Definitions

Contemporary vernacular imbues "al Qaeda" with a number of definitions, and the al Qaeda label is applied, often incorrectly, to several distinct actors. Therefore, we need to define what we refer to as jihadism, al Qaeda and the various agents in the jihadist movement to understand jihadism as a phenomenon.

Jihadism

In Arabic, "jihad" means to "struggle" or "strive for" something. The word commonly refers to an armed struggle, and one engaged in such a struggle is called a "mujahid" (mujahideen in the plural). Mainstream Muslims do not consider "jihadist" an accurate term for those who claim to fight on their behalf. In fact, those called jihadists in the Western context are considered deviants by mainstream Muslims. Therefore, the jihadist label reflects this perception of deviancy. We therefore use the term jihadist to refer to militant Islamists who profess the violent overthrow of existing regimes in favor of global or regional Islamic polities. We use the term "jihadism" to refer to the ideology propagated by jihadists.

Al Qaeda, al Qaeda Prime or al Qaeda Core

Stratfor views what most people refer to as "al Qaeda" as a decentralized global jihadist network rather than a monolithic entity. This network consists of three distinct and quite different elements. The first is the vanguard al Qaeda organization, which we frequently refer to as al Qaeda prime or the al Qaeda core. The al Qaeda core is the small organization founded by bin Laden and currently led by Ayman al-Zawahiri and a small circle of trusted associates.

Although al Qaeda trained thousands of militants in its camps in Afghanistan, most of those trained were either grassroots operatives or members of other militant groups who never became members of the core group. Indeed, most of the trainees received only basic guerrilla warfare instruction, and only a select few were designated to receive training in terrorist tradecraft skills, such as bombmaking. Of the few who received this advanced training, fewer still were selected to join the al Qaeda core organization.

The al Qaeda core was designed to be a small and elite organization stationed at the forefront of the physical battlefield. Since the 9/11 attacks, the United States and its allies have applied intense pressure on this core organization. This pressure has resulted in the death or capture of many al Qaeda cadres and has ensured that the group remain small due to operational security concerns. The remnants of this insular group are lying low in Pakistan near the Afghan border, and this isolation has significantly degraded the group's ability to conduct attacks. Accordingly, the al Qaeda core has been relegated to producing propaganda and providing guidance and inspiration to other jihadist elements. With the death of bin Laden, the burden of the propaganda efforts will fall to al-Zawahiri, Abu Yahya al-Libi and, to a lesser extent, native English speaker Adam Gadahn. Despite the disproportionate amount of media attention it receives, the al Qaeda core constitutes only a very small portion of the larger jihadist movement and has not conducted a successful terrorist attack for years.

Franchise Groups

The second element of jihadism associated with al Qaeda is a worldwide network of local or regional terrorist or insurgent groups. These groups have been influenced by the al Qaeda core's philosophy and guidance and have adopted a similar jihadist ideology. In many cases, members of these groups received training in al Qaeda camps in the 1980s and 1990s. Some of these groups have publicly claimed allegiance to bin Laden and the al Qaeda core, becoming what we refer to as franchise groups. These include such organizations as al Qaeda in the Islamic Maghreb (AQIM) and al Qaeda in the Arabian Peninsula (AQAP). Notably, even though these groups adopt the al Qaeda label, they are locally owned and operated. As such, some group leaders, like Nasir al-Wahayshi of AQAP, maintain relations and are philosophically aligned with the al Qaeda core. Others, like Abu Musab al-Zarqawi, the former leader of the al Qaeda franchise in Iraq, can be at odds with the al Qaeda core's leadership and philosophy.

Other regional groups may adopt some or all of al Qaeda's jihadist ideology and cooperate to some degree with the core group. But for a variety of reasons, they maintain even more independence than the franchise groups. They are more akin to allies than true members of the al Qaeda movement.

Grassroots Jihadists

The third and broadest element of the global jihadist network encompasses what we refer to as grassroots jihadists. These are individuals who are inspired by the al Qaeda core -- or, increasingly, by the franchise groups -- but who may have little or no actual connection to these groups. Some grassroots operatives, such as Najibullah Zazi, who pleaded guilty to charges related to a New York City Subway bomb plot in 2009, travel to places like Pakistan, Somalia or Yemen, where they receive training from jihadist franchise groups. Other grassroots jihadists, like accused Fort Hood shooter Maj. Nidal Malik Hasan, may communicate but have no physical interaction with members of a franchise group. Some grassroots militants have no direct contact with other jihadist elements. Lastly, some would-be grassroots militants seek out contact with other jihadist elements but accidentally make contact with government informants. In recent years, such cases have been occurring more frequently, resulting in sting operations and arrests.

Moving down the hierarchy from the al Qaeda core to the grassroots operatives, there is a decline in operational capability and expertise in what we refer to as terrorist tradecraft -- the skills required to effectively plan and execute a terrorist attack. The operatives belonging to the al Qaeda core generally are better trained than their regional affiliates, and both of these elements tend to be far better trained than grassroots operatives, who must travel abroad to obtain training.

While these various elements of the jihadist network are distinct, the Internet brings them together, especially at the grassroots level. Videos, websites and online magazines indoctrinate aspiring militants in the jihadist ideology and provide a forum for like-minded individuals and groups.

2011 Forecast in Review

As noted above, the heart of our jihadist forecast for 2011 was the idea that the efforts of the U.S. government and its allies would continue to marginalize the al Qaeda core on the physical battlefield, which would in turn cause the organization to continue to struggle for relevance on the ideological battlefield. We concluded that the regional jihadist franchise groups would remain at the forefront of the physical battlefield and assume a more prominent position in the ideological battlefield. While the franchise

groups have indeed subsumed the al Qaeda core, many groups, such as al Shabaab and Tehrik-i-Taliban Pakistan (TTP), are weaker than they were a year ago.

We did not see a successful attack attributed to the al Qaeda core in 2011, though there is evidence to suggest the group had never stopped planning. For example, in April German authorities arrested a Moroccan-born man, Abdeladim el-K (German privacy law prevents suspects from being fully identified), who they claim was sent to Germany by al Qaeda operational leader Atiyah Abd al-Rahman to conduct an attack. German police on Dec. 15 also arrested a man who reportedly was inspired by el-K and who was allegedly attempting to continue el-K's attack plans.

2011 differed from previous years in that there were no transnational attacks from franchise or affiliate groups. AQAP conducted an attack in Jeddah, Saudi Arabia, in August 2009, attempted an attack on a Detroit-bound airliner on Dec. 25, 2009, and attempted to bomb cargo planes in October 2010, but was quiet last year, as were the TTP and AQIM. The Caucasus Emirate, a jihadist group loosely affiliated with al Qaeda, was active in the Caucasus and conducted some attacks in Moscow, but those attacks were not categorically transnational. Likewise, al Shabaab carried out some attacks in northern Kenya following the Kenyan invasion of southern Somalia, but we consider those attacks more regional than transnational despite their occurring across a national border.

In our 2011 forecast, we also noted our belief that, due to the accessibility of U.S. and European societies and the ease of conducting attacks against them, we would see more grassroots plots, if not successful attacks, there than attacks by the other jihadist elements. This forecast was accurate. Of the 12 plots against the West in 2011 that we classify as jihadist (down from 20 in 2010), one plot was connected to the al Qaeda core, 11 to grassroots elements (down from 15 in 2010) and none to franchise groups (down from 4 in 2010). The one plot connected to the al Qaeda core involved an operational planner who linked up with grassroots militants in Germany.

We also forecast that, because of the nature of the jihadist threat, soft targets would continue to be attacked in 2011 and that additional plots targeting aircraft would take place. We saw the continued focus on soft targets, but aside from the March 2 attack against U.S. Air Force personnel outside the Frankfurt airport and the Caucasus Emirate's suicide bombing attack at the

arrival terminal of Moscow's Domodedovo airport in January, we did not see plots directed at aircraft. Instead, we saw aviation-related plots often focused on soft targets outside airport security.

In addition, we predicted an increase in plots and attacks involving firearms and other weapons rather than improvised explosive devices (IEDs). The shooting in Frankfurt, the thwarted knife attack against cartoonist Lars Vilks in Goteborg, Sweden, and several thwarted plots in the United States, including those in Seattle, Alabama, New York and Killeen, Texas, all evidence our prediction.

Our regional forecasts for 2011 were accurate, especially for the United States, Europe, North Africa and Indonesia. Our biggest miss was underestimating how involved AQAP would become in Yemen's internal conflict as different groups challenged President Ali Abdullah Saleh's rule and how this involvement would distract the group from conducting transnational attacks.

Forecast for 2012

We anticipate that the al Qaeda core will continue to struggle in the physical and ideological arenas. The group still has prolific spokesmen in al-Zawahiri, al-Libi and Gadahn, but in 2011 the group issued remarkably few messages. The remaining leaders appear to be lying low following the deaths of bin Laden, al-Rahman and others.

Even though AQAP lost important English-speaking ideological figures when Anwar al-Awlaki and Samir Khan were killed (Khan was the editor of AQAP's English-language Inspire magazine) the group's main operational and ideological leadership remain at large. Among this leadership are the group's emir, Nasir al-Wahayshi, operational commander Qasim al-Raymi, and innovative bombmaker Ibrahim Hassan al-Asiri.

The remaining ideological leaders include the group's mufti, or religious leader, Saudi-born Ibrahim Suleiman al-Rubaish. With a degree in Islamic law, fighting experience with bin Laden at Tora Bora and time served in Guantanamo Bay, al-Rubaish has impeccable jihadist credentials. The influential head of AQAP's Shariah Council, a Yemeni imam named Adel bin Abdullah al-Abab, is among AQAP's ideologues. While AQAP is unlikely to ever recreate what Samir Khan accomplished with Inspire

magazine, the group's al-Malaheim Media is still active, and its Arabic-language offerings continue. Those messages frequently are translated into English on such websites as the Ansar Al-Mujahideen English forum.

Moreover, the English-language statements of al-Awlaki and the editions of Inspire magazine remain on the Internet with a readership that numbers in the thousands. Indeed, an article from the first edition of Inspire, "How to Make a Bomb in the Kitchen of Your Mom," was linked to thwarted grassroots plots in Texas and New York in 2011. We believe that the threat from grassroots jihadists will persist for the foreseeable future.

We disagree with those who claim that the unrest in the Arab world will end jihadism. The overthrow of the Gadhafi regime in Libya and the democratic movements in Tunisia and Egypt will provide alternative outlets to jihadism for dissent, and other Islamist movements, such as the Muslim Brotherhood, will undercut jihadism ideologically. But the small core of hard-line jihadists will remain undeterred; this group will continue to propagate its ideology and recruit new adherents.

Recruitment will be more difficult in the current environment, and while this may hasten the eventual decline of jihadism, it will not kill the ideology this year. In addition to persisting in such lawless places as Yemen, Somalia and the Afghanistan-Pakistan border, jihadism will maintain its niche in the West, and grassroots jihadists will continue to be radicalized and mobilized in the United States, Europe, Australia and elsewhere.

Regional Forecasts

The United States and Europe

The al Qaeda core and franchise groups will continue to struggle attacking the United States and Europe directly and will continue to reach out to grassroots operatives who have the ability to travel to the West. Otherwise, they will attempt to recruit aspiring jihadists living in the West. This means we will likely see more thwarted or botched plots involving poorly trained operatives and simple attacks like the shooting in Frankfurt. While such attacks can and do kill people, they are not spectacular events as 9/11 and the 2008 Mumbai attacks were. This trend also means that travel to places like Pakistan, Yemen or Somalia, or contact with jihadist planners there, will continue to be an operational weakness that Western intelligence agencies

can exploit. Such was the case in Birmingham, England, where 12 suspected plotters were arrested in September and November. Individuals seeking to acquire weapons and explosives will also remain vulnerable to detection.

While Nasir al-Wahayshi's appeal for aspiring jihadists to avoid contacting franchise groups and traveling overseas in search of training is sound, it has been difficult for jihadists to follow. This is evidenced by the fact that we have seen very few plots or attacks in which the planners were true lone wolves who had absolutely no contact with outside jihadists -- or with government agents they believed to be jihadists. While the leaderless resistance model can be difficult for law enforcement to guard against, its downside for jihadists is that it takes a unique type of individual to be a true and effective lone wolf.

Since we believe most plots in the United States and Europe in 2012 will involve grassroots jihadists, we also believe that soft targets -- public gatherings and mass transportation hubs, for example -- will continue to be the most popular target set. In places like Pakistan, Yemen, Afghanistan and Somalia, we believe hotels and housing compounds will be more attractive targets than U.S. embassies or consulates, which are much more difficult to successfully attack. With a thwarted plot against a cartoonist involved in the Mohammed cartoon controversy taking place as recently as September, we do not see any end to that threat.

We predict that al-Wahayshi's advice will go unheeded and that grassroots jihadists in the United States will continue to plan and conduct simple attacks using firearms and other weapons. We do not foresee difficult and elaborate attacks employing explosives.

Pakistan

The government of Pakistan has been busily trying to divide the TTP and channel the group's efforts toward other targets in the region, such as foreign forces in Afghanistan and India. Islamabad has had some success in that regard, but we anticipate that some factions of the TTP will continue to target the Pakistani state. In any case, we expect to see fewer and smaller attacks in Pakistan in 2012 than in 2011.

Afghanistan

We will need to keep a close eye on the leadership of the Afghan Taliban and their dialogue with the Karzai government. The current conflict between the Taliban and Afghan and NATO forces will lessen somewhat if the Taliban become more involved in the political process, but we do not anticipate the militant group renouncing violence altogether. With some Pakistani jihadist groups vowing to target foreign forces in Afghanistan, acts of terrorism may increase against foreigners in Kabul and Kandahar. Given the intensity of foreign counterterrorism operations and the ongoing insurgency, jihadist groups in Afghanistan and Pakistan will have little opportunity to set their sights on targets beyond the immediate region.

India

India continues to face the threat of Kashmir-based militant groups as well as transnational jihadist groups supported by state and non-state elements within Pakistan. These groups include the Haqqani network and residual elements of Lashkar-e-Taiba, all of which will continue to plan attacks inside India and against Indian interests in nearby countries, such as Afghanistan. India also faces a persistent but smaller threat from domestic jihadist groups like Indian Mujahideen.

Central Asia

For the first time in modern history, Kazakhstan in 2011 was the site of multiple suspected jihadist attacks, including three suicide attacks. Jund al-Khalifa, a Kazakh al Qaeda franchise group, emerged last summer, and we anticipate that it will continue its activities in 2012. Other groups, such as the Islamic Movement of Uzbekistan, are active in the region, but because these groups are weak and disorganized and operate largely from the area along the Afghanistan-Pakistan border, they do not pose a major threat to the region's governments.

Caucasus

The Russians have hit the Caucasus Emirate very hard, arresting or killing several key leaders. The group was already suffering from internal divisions at the beginning of 2011; consequently, it did not pose a strategic threat to Russia last year. However, the jihadist group will continue to attack Russian

and local government security forces in the Caucasus and will continue its attempts to take the fight to the heart of Moscow -- especially since Caucasus Emirate leader Doku Umarov and dissenting Chechen insurgent leaders resolved their differences last summer. Low-level attacks against soft targets can be expected in the coming year. With the 2014 Winter Olympics being held in Sochi, we anticipate the Russians will focus a great deal of effort on weakening the jihadist groups in the region.

Yemen

As noted above, AQAP has lost some important English-speaking ideologues, yet the group maintains much of its militant capability. Yemen, where AQAP is based, increasingly is seen as a destination to which foreign jihadists travel to fight and receive training. With the government in Sanaa struggling to retain power in 2011, AQAP was able to take advantage of the instability of the Saleh regime, which was cracking down on protests and fighting throughout the country, and seized portions of southern Yemen. The group also has become very adept at using ambushes, roadside IEDs and sticky bombs to assassinate government officials and military officers. AQAP's experience could later be applied elsewhere if the group is able to again expand its focus beyond Yemeni government targets.

As the crisis in Yemen is resolved and the government turns its attention to regaining control of the country, we anticipate severe clashes between AQAP and government forces. If AQAP declines to fight and withdraws to its remote hideaways, the group may resume operations against foreigners in Sanaa and Aden and conduct transnational attacks. Given AQAP's tactical advances, such attacks might be more deadly than similar attacks in the past.

Iraq

While the Islamic State of Iraq was greatly damaged by Sunni cooperation with the Americans, the U.S. military withdrawal will change that dynamic. The power struggle between Sunnis and Shia could allow the Islamic State of Iraq to regenerate because the Sunni sheikhs not only tolerate the organization, but support it as a tool against the Shia and their powerful Iranian supporters. Given the tense political situation and the still-unresolved ethno-sectarian balance of power, there will be plenty of opportunity for terrorist attacks.

North Africa

In northern Algeria, AQIM has continued to resist the al Qaeda core's targeting philosophy, instead concentrating on attacking government and security targets. In a sense, AQIM essentially functions as the Salafist Group for Preaching and Combat but with a different name. The Algerian government has hit AQIM very hard in its traditional mountain strongholds east of Algiers, and the ideological rift over whether to follow al Qaeda's dictates also has hurt the group. Increased abductions of Westerners and clashes with security forces in the Sahara-Sahel are not convincing evidence of AQIM's expanding reach -- nor are incompetent attacks to the south of Algeria. Much of this expanded activity in the south is the result of rivalries between sub-commanders and attempts at raising money via kidnapping and banditry for survival. This is a sign of weakness and lack of cohesion, not strength.

A cell of Moroccan militants allegedly linked to AQIM conducted a successful bombing attack in April against a cafe in Marrakech, Morocco, that killed 17 people, but it was a relatively unsophisticated attack against a soft target. Moroccan authorities claim to have arrested those responsible for the attack.

AQIM elements in the mountains east of Algiers remain weak and ineffective. Even the IEDs the group has employed have been somewhat weak, indicating that the group is running out of explosives. Some of the factions in the Sahel allegedly have received weapons from Libya, but aside from some landmines we have not seen signs of advanced weaponry, such as shoulder-fired anti-aircraft missiles or anti-tank guided missiles.

On the whole, AQIM is a shadow of what it was five years ago. It will continue to kidnap victims in the Sahel -- or acquire kidnapped foreigners from ethnic Tuareg rebels in Mali and Niger -- and conduct the occasional small attack, but it still is not a unified militant organization that poses a regional, much less transnational, threat.

Libya

Former members of the Libyan Islamic Fighting Group (LIFG) fought against the Gadhafi regime, and the group's leader, Abdelhakim Belhadj, is now the commander of the Tripoli Military Council. (Belhadj and the LIFG

renounced jihadism in March as part of a deradicalization program run by Seif al-Islam Gadhafi.) With the fall of the regime in Libya and the current struggle for power among the various militias -- some of these militias, like the Tripoli Military Council, are Islamist -- jihadists have been presented an opportunity. It will be important to monitor Libya to see if the jihadist elements are able to make any gains there.

Egypt

The overthrow of Hosni Mubarak has created an opening for Egyptian citizens to participate in the political process. This will help dilute jihadist sentiment in the country. A faction of former militant group Gamaah al-Islamiyah is even taking part in the elections. However, while Mubarak was deposed, the military regime is still in place. The small core of hard-line jihadists is unlikely to embrace the change and will continue its struggle. Indeed, jihadist elements have attacked a number of oil pipelines in the months since Mubarak fell. We anticipate that attacks against pipelines and security forces will continue, and 2012 could also see a return of attacks against tourists in the Sinai if the authorities are unable to weaken the jihadists there.

If the military regime is unwilling to relinquish power to the newly elected parliament, the resultant conflict and disillusionment with the democratic process could convince people to turn to jihadism as a viable political alternative.

Somalia

Divisions between Somali jihadists weakened al Shabaab in 2011, with rifts emerging between factions with nationalist goals and those aligned with al Qaeda with transnationalist goals. Al Shabaab has lost much of its territory in Mogadishu, and though it still has assets in the capital city and can conduct attacks and occasional raids there, it no longer controls large sections of the city. The Kenyan invasion of southern Somalia, the increased presence of African Union Mission in Somalia peacekeepers in Mogadishu and continuing pressure from U.S. unmanned aerial vehicle operations has forced al Shabaab to retrench. Aside from some low-level attacks in northern Kenya, the group cannot plan or conduct attacks outside Somalia. We do not see al Shabaab being defeated in 2012, but we believe that they will be unable to conduct a spectacular attack outside their immediate region.

Nigeria

Boko Haram made huge operational leaps in 2011; the group now employs vehicle-borne improvised explosive devices (VBIEDs) instead of small IEDs and small arms and machetes. This indicates that at least some element of the group has received outside training, likely from AQIM or al Shabaab (there have been reports of both). Boko Haram also became a transnational threat when it conducted a VBIED attack against a United Nations compound in Abuja that killed at least 21 people. Boko Haram has made threats to conduct attacks in the Niger Delta, but so far it has been unable to strike outside northern Nigeria or the capital. Despite its operational advancement, Boko Haram is still far from being a true transnational threat. The group may attempt to increase its operational range inside Nigeria, but we expect it to remain predominantly focused on northern Nigeria. We also believe that Boko Haram would strike other Nigerian cities, such as Lagos, before embarking on transnational attacks.

Indonesia

The Indonesian government has continued to hit the remnants of Tanzim Qaedat al-Jihad and other jihadist elements hard, and it is unlikely that Indonesian jihadists will be able to regroup and conduct large-scale terrorist attacks in 2012. However, they will likely continue low-level attacks against soft targets, such as Christian churches in places like Poso, to incite sectarian violence. Non-jihadist Islamist groups -- Front Pembela Islam, for example - - may also incite riots and contribute members to other jihadist groups.

Conclusion

While the al Qaeda core has been marginalized and heavily damaged, the ideology of jihadism continues to survive and win new converts, albeit at progressively lower numbers. As long as this ideology is able to spread, the war its adherents are waging will continue. While jihadists do not pose a strategic geopolitical threat on a global, regional or national scale, they nonetheless are capable of killing scores of people. For that reason alone, the jihadist threat remains in 2012.