

THE REVENGE OF GEOGRAPHY	1-7
POLITICAL MAP OF THE WORLD	4
INTEREST RATES AND ECONOMIC INDICATORS	8
COBANK ANNOUNCES 2013 BOARD OFFICERS	9-12
ABOUT COBANK	9
COBANK DIRECTOR BILL FARROW APPOINTED TO BOARD OF CHICAGO FED	13

The Revenge of Geography

Media coverage of international events tends to focus almost exclusively on human factors – things like elections, treaties, trade agreements and military conflicts.

All, of course, are undeniably important to the course of world history. But they aren't the whole story. As world affairs expert Robert Kaplan notes in a new book, geographic factors exert a profound but increasingly overlooked influence on states and how they cooperate and conflict with one another.

Kaplan is a longtime foreign correspondent who is also chief geopolitical strategist for Stratfor, the well-known and highly regarded private intelligence firm. OUTLOOK recently interviewed Kaplan about the central thesis of his book, titled "The Revenge of Geography," and how it can help us understand geopolitical events taking place today and in the future.

OUTLOOK: Tell us what you were trying to accomplish in "The Revenge of Geography."

Robert Kaplan: If you read the opinion pages and the journals of intellectual thought of both right and left, they all have something in common. They're all about what the United States can do, what we can overcome. They're about the power of the individual, the power of new technology, of new financial mechanisms. Nothing is impossible in foreign policy, whether you read *The New York Times'* editorialists or those of *The Wall Street Journal*. This book stands athwart that belief. All these people – which I call the "global elite" – are telling us what we can do. This book is about constraints. It's about the things that limit our actions.

I have focused on geography, which is the most fundamental and simple constraint. It is such an obvious constraint that it goes unnoticed and unremarked upon. There is this sensibility out there that because of electronic communications that geography doesn't matter. That's wrong. Geography still matters a great deal.

About this article

Robert D. Kaplan is chief geopolitical analyst for Stratfor, a private global intelligence firm, and is a non-resident senior fellow at the Center for a New American Security in Washington, D.C. He has been a foreign correspondent for The Atlantic for more than a quarter century. He is the author of 14 books on foreign affairs and travel. In 2011, Mr. Kaplan was chosen by Foreign Policy magazine as one of the world's "Top 100 Global Thinkers."

OUTLOOK: Where does this hubris, this lack of appreciation of geographic factors, come from? Is it just because of technology? Is it an American phenomenon or a global phenomenon?

RK: I think it's partly because of the lifestyle of the global elite, which travels around in business class, crossing entire continents in hours, dipping down even in poor countries to stay at luxury hotels. Their world is one of luxury travel and conferences, and they're isolated from the reality on the ground.

The idea that the United States could overcome geography started to really gain traction two decades ago. The fall of the Berlin Wall was thought by intellectuals to mean that suddenly every place in the Middle East and Africa could also be liberated and democratized, and that things such as national character and territory no longer mattered. This was wrong.

OUTLOOK: Give us an example of how an appreciation for geographical constraints can help us better understand international events.

RK: Take a look at Russia and its president, Vladimir Putin. The American media loves to hate Putin. They consider Putin evil, that he has the most cynical imperialistic designs. And of course Putin has done a number of things to cultivate this impression. He has conducted a limited invasion of Georgia, and has used Russian natural gas and pipeline configurations into Central and Eastern Europe as a way to politically intimidate former Warsaw Pact allies that are now in NATO, like Poland and Bulgaria and Hungary. He has used intimidation in the Baltic States through crime groups using ethnic Russian minorities to turn against majority populations. Russia also desperately wants to re-integrate Ukraine into its orbit, and this is the real drama because Ukrainians are resisting. We don't know how it will end.

But Vladimir Putin is just a normal Russian autocrat who understands his country's geography. Russia occupies half of the lines of longitude on Earth, yet it has a population smaller than Bangladesh. It has very few good natural borders, and so it has been invaded over the centuries, not just by Napoleon and Hitler but by Swedes, Lithuanians and Poles – all coming from Europe. Russia is also threatened by Muslims in the Caucasus and in Central Asia. So Putin is doing what any normal Russian leader would do. He is trying to carve out buffer zones of influence in Eastern Europe, in the Caucasus and in Central Asia.

Because these buffer zones are inconvenient to America's own national interest, we oppose him. But that doesn't mean that what Putin desires is illegitimate. It just means there is a conflict between our national interest and his. It's almost as if the West expects Russia to be ruled by someone

The fall of the Berlin Wall was thought to mean that suddenly every place in the Middle East and Africa could also be liberated and democratized. This was wrong.

like themselves, by some Western-oriented democrat. Wake up for a minute. Russia will be ruled by a Russian. And that Russian, whether democratic or not, is going to have a sense of his country's geography and that sense of geography is going to force him or her to try to create buffer zones on Russia's periphery.

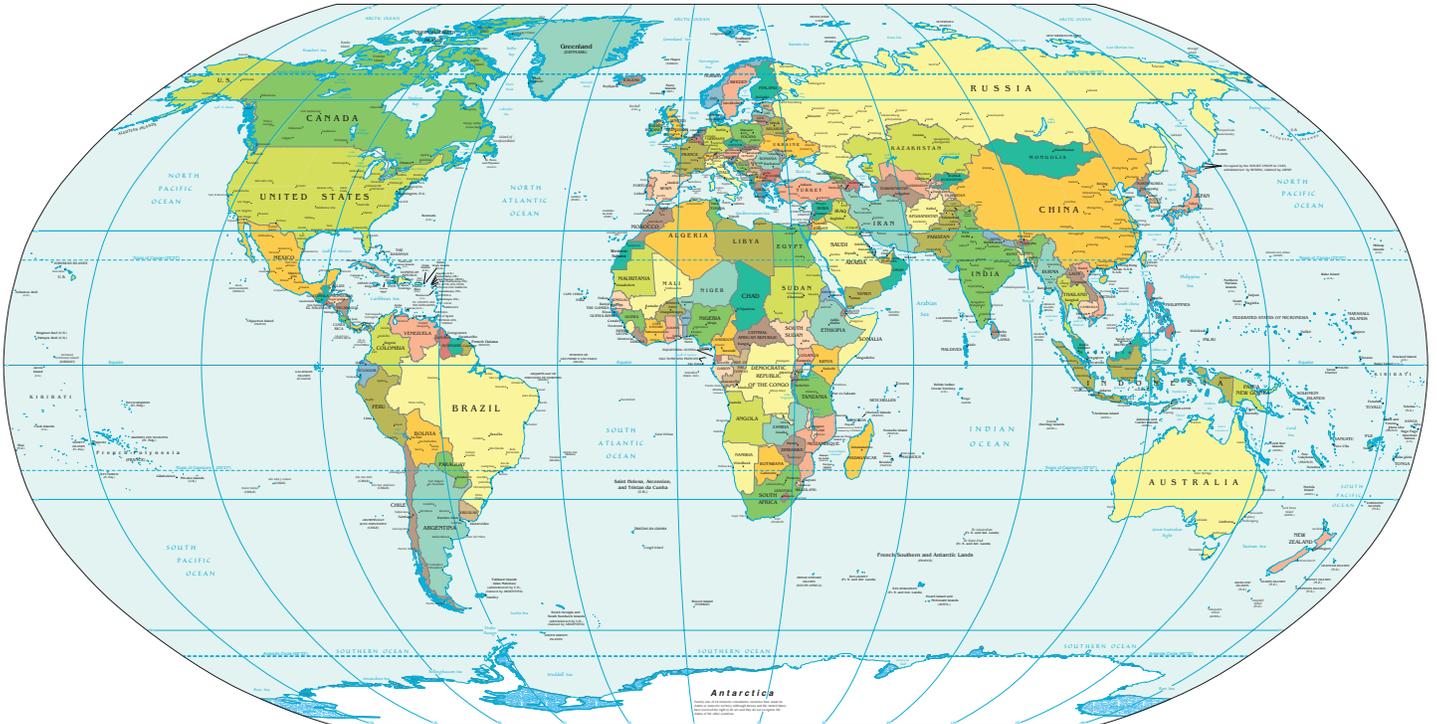
OUTLOOK: You mentioned Putin's attempt to bully Central and Eastern Europe. Europe itself, however, possesses some special geographical characteristics that your book highlights that helped propel it to world dominance.

RK: Yes, Europe has a remarkably long coastline for its relatively compact size and that coastline is rich in natural harbors. It is likewise blessed with several major rivers, such as the Rhine and Danube, that have facilitated mobility. So Europe's historic maritime dynamism that was used in the past to project its power is no accident. Moreover, the fact that Europe is located mainly in the upper temperate zone that is neither excessively hot nor cold creates an almost perfect geography for incubating the states that would come to dominate world politics for so long.

OUTLOOK: How do geographic factors help explain events in China?

RK: When China looks just beyond its border to the Russian Far East, to Central Asia, to Mongolia, it sees societies that are poorer but that are nevertheless rich in natural resources. China is flush with cash and has a robust economy, so it faces few impediments to expand into those regions in one form or another. China is quickly, in an economic sense, taking over Central Asia. It is poised to erupt into Outer Mongolia and the Russian Far East. It is effecting a divide-and-conquer strategy throughout Southeast Asia, too. So China has great possibilities for expanding its zone of influence.

At the same time, there is a geographic problem that China faces. Ethnic Han Chinese predominate in the center of China and on the Pacific coast. But on the periphery you have Inner Mongolians to the north, Uighur Turk Muslims to the northwest and Buddhist Tibetans to the southwest. And where these minorities live, which is on the plateau uplands, is also where 80 percent of China's coal comes from, where much of its natural water sources come from, and where significant amounts of other energy resources and minerals and metals come from. So in that sense China's geography is claustrophobic. Were China to open up and liberalize, it might lead to ethnic minority unrest in all of these areas.



POLITICAL MAP OF THE WORLD

Source: University of Texas at Austin, Perry-Castañeda Library Map Collection.

OUTLOOK: Is China then at risk from a resources standpoint if these ethnic minorities become more empowered?

RK: No, I don't believe so. The empowerment of the ethnic minorities will not really endanger China's ability to extract energy from central Asia, from Myanmar, from the Middle East and other places. But the empowerment of the ethnic minorities will really threaten the Chinese political system itself.

OUTLOOK: How do geographic factors come into play in the Middle East?

RK: Let's compare Iran, an enemy state of the U.S., with Saudi Arabia, an ally. Iran is a country where the political space overlaps with the natural geographic space, the Iranian plateau. It is a country that is heir to governments and civilizations that go back to antiquity - from the Medes and the Parthians to the Achaemenids and Sassanids right up to the ayatollahs of the present day. The government of Iran may collapse, it may undergo change, it may evolve because of the pressures of economic sanctions. But there will always be an Iran.

Saudi Arabia, by contrast, is more artificial. It's the contrivance, in a sense, of the Saudi royal family, and indeed of one man, Abdul Aziz ibn Saud and his conquests in the early 20th century. It is artificial because of the differences

We should not be surprised if 10 or 20 years hence that we have closer relations with Tehran than we do with Saudi Arabia.

between the people of the arid central Najd, with its capital of Riyadh, and the large populations who live for example in cities such as Mecca along the Red Sea in what is known as the Hijaz. Those people are affected by the millions of pilgrims who come from other countries to visit the holy sites and they are more cosmopolitan as a consequence than many in the Najd.

The founding family may have been very impressive and enlightened at the time by the standards of the region but the family is facing greater problems than ever before: the diminishing underground water table, high male youth unemployment, a division within the family itself as it evolves from a group of just a dozen or so to hundreds of grandchildren all vying for power and influence. The future does not look bright for Saudi Arabia.

So keeping all of this in mind, my geographically based analysis is that we should not be surprised if 10 or 20 years hence that we have closer relations with Tehran than we do with Saudi Arabia.

OUTLOOK: In your book, you describe the Israeli-Palestinian conflict as a classic example of the stubbornness of geography. Arabs see the existence of Israel, or most certainly the occupation of the West Bank that goes back to the 1967 war, as an affront that must be erased, along with the Israeli settlements that have been erected there in the intervening years.

RK: Yes, and because of geography, Israel also faces a demographic dilemma. If it continues to occupy all of the West Bank, it must evolve into some variation of an apartheid society, which is defined as one ethnic group ruling a demographically larger ethnic group through somewhat repressive measures. That's because the Palestinians' birth rate is much higher than that of Israelis. And Israelis are conscious of this demographic clock. Yet in groping for an answer, Israel finds it hard to locate Palestinians with whom it can negotiate.

OUTLOOK: How has geography influenced the history of the U.S.?

RK: Americans are creatures of their geography. They happen to occupy the last resource-rich part of the temperate zone that was settled by Europeans at the time of the Enlightenment. And this temperate zone region proved to be very rich in energy and other natural resources and proved to be very easy to get from one point to another point because there were more miles of navigable inland waterways than in much of the rest of the world combined.

What Mexico eventually evolves into will have significant effect on what the U.S. evolves into because Latin history is moving north.

This played a large part in determining what America became. America is protected by oceans on two sides and the Canadian Arctic to the north. Its only real security/demographic dilemma is with Mexico to the south. Its geography has helped sustain its prosperity and also permitted it to be more idealistic in its approach to foreign affairs than more vulnerable states with genuine threats on their borders.

OUTLOOK: Will the natural geographic advantage of the U.S. continental land mass, temperate zone, rivers, and resources continue to deliver meaningful benefits in the future?

RK: Yes, and the most obvious example from a geographical resource standpoint at the moment is natural gas from shale. Shale gas is giving the United States a major advantage going forward in terms of energy and manufacturing.

OUTLOOK: In your book you say that what happens in Mexico may be as important to us as what happens in Europe.

RK: Mexico has a younger population than the United States and its population is growing faster than the American population. Meanwhile, Mexico's economy is going to become one of the dozen largest in the world. Its economic growth rate, even in the teeth of this global recession, was 4 percent. I wish we had 4 percent. So it's a dynamic country. On the other hand, if you look at a map of Mexico and see who monopolizes the use of force, you'll find significant regions dominated by various drug cartels. So it's a very troubled country even as it is a very dynamic country, technologically and economically.

We don't know which direction Mexico will go. But what Mexico eventually evolves into will have significant effect on what the U.S. evolves into because Latin history is moving north. The southern halves of Texas, New Mexico and Arizona and the southern fourth of California are heavily Latino. The northern third of Mexico is developing its own economy, its own reality, separate from that of Mexico City. The ties that link the northern third of Mexico to the American Southwest are becoming more and more intense, so we're seeing a reorientation of the United States from an east-west shining sea of patriotic myth to a more north-south orientation.

The United States' geography has helped sustain its prosperity and also permitted it to be more idealistic in its approach to foreign affairs than more vulnerable states with genuine threats on their borders.

OUTLOOK: What are the key lessons of the book for American policy makers?

RK: One lesson is that we must pay attention not only to China and the Middle East but also to Mexico because no place is more important to the cultural evolution of the American Southwest, and by extension much of the rest of the United States, than Mexico.

OUTLOOK: What will the political geography of the world look like in 20 years? What will be the biggest changes from today?

RK: That's a very good question. The biggest change is likely to be more emphasis on the Arctic and the upper latitudes as a result of warming and the opening up of northern sea lanes. I also expect South America and Africa to become more important in geopolitical terms or at least more integrated into the rest of the world than they are today. ■

Interest Rates and Economic Indicators

The interest rate and economic data on this page were updated as of 11/30/12. They are intended to provide rate or cost indications only and are for notional amounts in excess of \$5 million except for forward fixed rates.

KEY ECONOMIC INDICATORS

Gross Domestic Product (GDP) measures the change in total output of the U.S. economy. The Consumer Price Index (CPI) is a measure of consumer inflation. The federal funds rate is the rate charged by banks to one another on overnight funds. The target federal funds rate is set by the Federal Reserve as one of the tools of monetary policy. The interest rate on the 10-year U.S. Treasury Note is considered a reflection of the market's view of longer-term macroeconomic performance; the 2-year projection provides a view of more near-term economic performance.

HEDGING THE COST OF FUTURE LOANS

A forward fixed rate is a fixed loan rate on a specified balance that can be drawn on or before a predetermined future date. The table below lists the additional cost incurred today to fix a loan at a future date.

FORWARD FIXED RATES

Cost of Forward Funds

Forward Period (Days)	Average Life of Loan			
	2-yr	3-yr	5-yr	10-yr
30	5	5	5	5
90	5	8	10	11
180	5	12	17	19
365	14	24	35	36

Costs are stated in basis points per year.

ECONOMIC AND INTEREST RATE PROJECTIONS

Source: Insight Economics, LLC and Blue Chip Economic Indicators

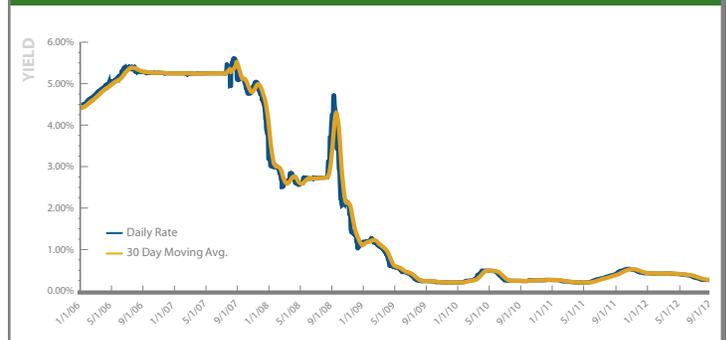
US Treasury Securities

2012	GDP	CPI	Funds	2-year	10-year
Q4	1.70%	2.50%	0.15%	0.30%	1.72%
2013	GDP	CPI	Funds	2-year	10-year
Q1	1.60%	1.80%	0.15%	0.30%	1.71%
Q2	2.20%	2.00%	0.15%	0.30%	1.75%
Q3	2.60%	2.30%	0.15%	0.31%	1.80%
Q4	2.90%	2.20%	0.15%	0.40%	1.85%

SHORT-TERM INTEREST RATES

This graph depicts the recent history of the cost to fund floating rate loans. Three-month LIBOR is the most commonly used index for short-term financing.

3-MONTH LIBOR



PROJECTIONS OF FUTURE INTEREST RATES

The table below reflects current market expectations about interest rates at given points in the future. Implied forward rates are the most commonly used measure of the outlook for interest rates. The forward rates listed are derived from the current interest rate curve using a mathematical formula to project future interest rate levels.

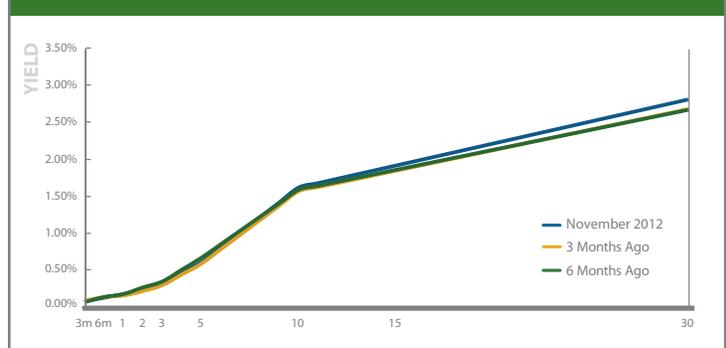
IMPLIED FORWARD SWAP RATES

Years Forward	3-month LIBOR	1-year Swap	3-year Swap	5-year Swap	7-year Swap	10-year Swap
Today	0.31%	0.33%	0.44%	0.75%	1.15%	1.65%
0.25	0.31%	0.33%	0.48%	0.83%	1.23%	1.72%
0.50	0.33%	0.35%	0.53%	0.91%	1.32%	1.79%
0.75	0.34%	0.37%	0.59%	1.00%	1.40%	1.86%
1.00	0.35%	0.39%	0.65%	1.09%	1.49%	1.94%
1.50	0.41%	0.46%	0.83%	1.28%	1.66%	2.09%
2.00	0.48%	0.57%	1.02%	1.49%	1.83%	2.24%
2.50	0.68%	0.79%	1.26%	1.70%	2.02%	2.38%
3.00	0.88%	1.01%	1.50%	1.91%	2.21%	2.52%
4.00	1.34%	1.49%	1.94%	2.30%	2.54%	2.77%
5.00	1.84%	2.01%	2.38%	2.59%	2.82%	2.98%

RELATION OF INTEREST RATE TO MATURITY

The yield curve is the relation between the cost of borrowing and the time to maturity of debt for a given borrower in a given currency. Typically, interest rates on long-term securities are higher than rates on short-term securities. Long-term securities generally require a risk premium for inflation uncertainty, for liquidity, and for potential default risk.

TREASURY YIELD CURVE





About CoBank

CoBank is a \$90 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture and the nation's rural economy. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at www.cobank.com

CoBank Announces 2013 Board Officers

CoBank this month announced the appointment of officers for its 2013 board of directors.

Everett Dobrinski, chairman of the board since 2008, will continue in the chairman's role in the coming year. He is the owner and operator of Dobrinski Farm, a cereal grain and oilseed farm in Makoti, North Dakota. He is also a member of the board of the Farm Credit Council and previously served as chairman of Verendrye Electric Cooperative. In addition, he is a former director of the Dakota Pride Cooperative and a current member of the board for the North Dakota Coordinating Council for Co-ops. Dobrinski first joined the CoBank board in 1999.

Dan Kelley will serve as first vice chairman. Kelley is chairman and president of GROWMARK Inc., an agricultural and energy cooperative in Bloomington, Illinois. A director since 2004, he produces corn and soybeans in a family farming partnership near Normal, Illinois. In addition, he serves as a director for National Bank, Nationwide Mutual Insurance and Midwest Grain LLC, a grain merchandising company. He is also chairman of the Illinois Agricultural Leadership Foundation.

Mary Fritz will serve as second vice chairman. Fritz is the owner of a dry land grain and cow/calf operation in Chester, Montana. A director since 2003, she also serves as vice chair of the Farm Credit Council board and is a former director and chair of Northwest Farm Credit Services in Spokane, Washington.

"I look forward to working closely with Dan, Mary and the rest of our board members in the coming year," Dobrinski said. "The success CoBank has enjoyed is due in large part to our cooperative structure and the fact that our board is elected by customer-owners throughout rural America. Our top priority for 2013 remains the same as always: preserving the long-term financial strength of the bank so it can continue fulfilling its mission and delivering dependable credit to the vital rural industries we serve."

As previously announced, the number of seats on the CoBank board is being consolidated as part of the merger between CoBank and U.S. AgBank, which closed at the beginning of 2012. Going forward, CoBank will have



DOBRINSKI



KELLEY



FRITZ

24 elected directors from six voting regions around the country, in addition to between two and five appointed directors. The names of all of the bank's 2013 directors are listed in the table below, along with occupation, residence, region, seat type and term expiration date.

REGION	NAME	OCCUPATION	RESIDENCE	TYPE OF SEAT	TERM EXPIRES
East	William H. Harris	Owner of a cash crop farming operation	LeRoy, NY	Modified equity	2015
East	James A. Kinsey	Owner/operator of a purebred Angus seed-stock operation	Flemington, WV	One-member-one-vote	2016
East	J. Scott Markham	Owner of a diversified corn, dairy heifer and beef operation	Constableville, NY	Modified equity	2013
South	Robert M. Behr	COO, Citrus World	Lakeland, FL	Modified equity	2016
South	George B. Kitchens	GM & CEO, Joe Wheeler EMC	Decatur, AL	One-member-one-vote	2013
South	David L. Reinders	CEO, Sunray Co-op	Dumas, TX	One-member-one-vote	2014
South	Richard W. Sitman	Owner, retail rental and storage business	Kentwood, LA	One-member-one-vote	2015
Central	Everett M. Dobrinski	Owner, cereal grain and oilseed farm	Makoti, ND	One-member-one-vote	2015
Central	Daniel T. Kelley	Owner, corn and soybean farm	Normal, IL	Modified equity	2013
Central	David J. Kragnes	Owner/operator of a diversified farm raising wheat, sugarbeets, soybeans and corn	Felton, MN	One-member-one-vote	2016
Central	James R. Magnuson	GM & CEO, Key Cooperative	Sully, IA	One-member-one-vote	2014
Central	Kevin A. Still	CEO, Co-Alliance LLP	Danville, IN	One-member-one-vote	2014
Mid Plains	Robert W. Bray	Farmer and rancher; owner of big-game hunting business	Redvale, CO	Modified equity	2014
Mid Plains	Oghi A. "Tony" DeGiusti, Jr.	Owner of an alfalfa, grass hay and wheat farm and cow/calf stocker operation	Tuttle, OK	Modified equity	2014

REGION	NAME	OCCUPATION	RESIDENCE	TYPE OF SEAT	TERM EXPIRES
Mid Plains	Ronald J. Rahjes	Farmer producing wheat, corn, soybeans and grain sorghum	Kensington, KS	Modified equity	2015
Mid Plains	Clint E. Roush	Owner/operator of a wheat, alfalfa hay and stocker cattle operation	Arapaho, OK	One-member-one-vote	2014
Mid Plains	Scott H. Whittington	GM, Lyon-Coffey Electric	Burlington, KS	One-member-one-vote	2016
Northwest	Gene J. Batali	Owner, spearmint farm	Yakima, WA	Modified equity	2013
Northwest	Mary E. Fritz	Owner of a dry land grain and cow/calf operation	Chester, MT	Modified equity	2015
Northwest	Erik N. "Rick" Jacobson	Retired President & CEO, NORPAC Foods Inc.	Bend, OR	One-member-one-vote	2014
West	J. "Less" Guthrie	Owner of a cow/calf and stocker cattle ranch and diversified farming operation	Porterville, CA	Modified equity	2013
West	Jon E. Marthedal	Owner of a farm producing grapes, raisins and blueberries	Fresno, CA	One-member-one-vote	2013
West	Alarik Myrin	Owner/operator of a ranching and farming operation	Altamont, UT	Modified equity	2014
West	David S. Phippen	Almond grower and co-owner of an almond processing company	Ripon, CA	Modified equity	2015
	William M. Farrow III	President & CEO, Urban Partnership Bank	Evanston, IL	Appointed	2014
	Gary A. Miller	President & CEO, GreyStone Power	Douglasville, GA	Appointed	2013
	Catherine Moyer	CEO & General Manager, Pioneer Communications	Ulysses, KS	Appointed	2014
	Barry M. Sabloff	Retired Executive Vice President, Bank One	Winnetka, IL	Appointed	2016

Nine current members of the board are stepping down at the end of 2012 as a result of the board consolidation process. Those directors include: Wayne S. Allen, Wesley D. Brantley, John J. “Jack” Breen, John C. Eisenhut, Kenneth W. Shaw, Donnell Spencer, David V. Vanni, Robert J. Wietharn and Leland T. Willeke. Most will continue to serve as non-voting board advisors throughout 2013. In addition, director Robert D. Nattier is retiring from the CoBank board after 10 years of service, including five as chair of the board’s Governance Committee.

“I’d like to personally express my gratitude to these directors for their dedication throughout a crucial transition year for our board,” Dobrinski said. “All have worked tirelessly to ensure the success of the CoBank-U.S. AgBank merger, and we deeply appreciate their service and their commitment to the mission of the Farm Credit System.” ■



CoBank Director Bill Farrow Appointed to Board of Chicago Fed



FARROW

CoBank director William M. Farrow III has been elected to a three-year term on the board of the Federal Reserve Bank of Chicago, one of 12 regional Reserve Banks that make up the nation's central banking system.

Farrow is the president and CEO of Urban Partnership Bank, a Chicago-based certified Community Development Financial Institution. He previously served as executive vice president and chief information officer for the Chicago Board of Trade. He has served as an outside appointed member of the CoBank board since 2007.

As a member of the Chicago Fed's board, Farrow and his fellow board members will provide the Federal Reserve System with a wealth of information on economic conditions in the region. This information is used by the Federal Open Market Committee (FOMC) and the Board of Governors in reaching decisions about monetary policy. The Chicago Fed serves the Seventh Federal Reserve District, which includes portions of Illinois, Indiana, Wisconsin and Michigan and the entire state of Iowa. In addition to participating in the formulation of monetary policy, the Chicago Fed supervises member banks and bank holding companies, provides financial services to depository institutions and the U.S. government, and monitors economic conditions in the district.

"I am honored to have been chosen for this position and look forward to working with my fellow board members to fulfill the Chicago Fed's mission and public policy objectives," Farrow said.

The Chicago Fed's board is designed to represent an economic cross-section of the district. Six board members (three bankers and three non-bankers) are elected by representatives from the Seventh District banks. The other three members are appointed by the Federal Reserve's Board of Governors.

Farrow holds a master's degree in management from Northwestern University. In addition to serving as CEO of Urban Partnership Bank, he is also the owner of Winston and Wolfe, LLC, a privately held technology development company. In addition, he serves as a trustee of the Illinois Institute of Technology. ■

Commentary in Outlook is for general information only and does not necessarily reflect the opinion of CoBank. The information was obtained from sources that CoBank believes to be reliable but is not intended to provide specific advice.