

The Political Forum

*A review of social and political trends and events
impacting the world's financial markets*

Mark L. Melcher
Publisher
melcher@thepoliticalforum.com

Stephen R. Soukup
Senior Editor
soukup@thepoliticalforum.com

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THEY SAID IT

“Whether we imagine a man, for instance, knowing in advance the day of his death and the situation it would find him in, or a people knowing in advance the century of its downfall, both pictures would bear within themselves as inevitable consequence a confusion of all desire and endeavour. For desire and endeavour can only unfold freely when they live and act blindly, i.e., for their own sakes and in obedience to inward impulses. After all, the future is shaped only when that happens, and if it did not happen, the future life and end of that man or that people would be different. A future known in advance is an absurdity. Foreknowledge of the future, however, is not only undesirable, it is for us also unlikely. The main obstacle in the way is the confusion of insight by our wishes, hopes and fears; further, our ignorance of everything which we call latent forces, physical or mental, and the incalculable factor of mental contagions, which can suddenly transform the world.”

Force and Freedom: Reflections on History, Jacob Burckhardt

FORECAST 2004: ALL IS IN FLUX, NOTHING STAYS THE SAME

This is my 14th formal New Year's forecast piece in 15 years. I missed writing one in December 2000, having left Prudential Securities in late October of that year, and thus being unemployed at the time. When I was at Prudential, the annual auguring issue was called the “fearless” forecast, which, it turns out, was an appropriate adjective given, as I subsequently discovered, that there was, indeed, some risk involved in writing about politics at that particular venue.

In the long run, however, the most important ingredient in any forecasting project is not fearlessness, but humility. As I have learned over the years, it is easy to predict upcoming events, but difficult to do so with great accuracy. As noted above by Burckhardt, latent physical and mental forces, as well as the incalculable factor of mental contagions, can indeed suddenly transform the world.

Subscriptions to The Political Forum are available by contacting:
The Political Forum

8563 Senedo Rd., Mt. Jackson, Virginia 22842
Tel 540-477-9762, Fax 540-477-3359, Email melcher@thepoliticalforum.com,
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Yet, a once-a-year attempt to look into the future with an eye on specificity is, I believe, a worthwhile enterprise, even if events quickly belie the individual forecasts. Among other things, it forces a person to think seriously about the past, the present and the future, and the result can serve as a framework from which to view and assess subsequent events as they unfold. Then, when reviewed 12 months later, the old predictions invariably provide both a healthy dose of humility and a dash of tonic for the intellect.

I am going to concentrate on the international scene this week. Then, Steve will handle the predictions concerning domestic politics next week. As always, we will be heavily involved in each other's efforts. Thus, I will make my forecasts based on the assumption that his are going to be accurate, and he will do the same regarding mine. The most obvious example of this coordination is that I will assume throughout my article that Steve is right when he predicts that George Bush will be reelected and he will assume that I am correct when I say that no international event will doom Bush's chances of reelection. So, with that said, here goes.

Prediction No. 1 is that there will be no terrorist incident on American soil in 2004 that is horrendous enough to alter radically the domestic and geopolitical landscape in the way that the attacks of September 11, 2001 did.

It is, of course, impossible to be confident in making such a prediction. I would guess that not even the most knowledgeable counter-terrorism official in the United States could do so. Yet, it should be noted that all of the predictions in this issue are predicated on this one being accurate, since a major domestic terrorist incident similar to or more destructive than September 11 would transform the world and in doing so render all forecasts preceding the incident null and void.

I don't mean to imply that I have no confidence in this prediction. For starters, I base this upbeat view on the fact that no such incident occurred during the recent holidays, despite the presence of what government officials continuously described as "credible threats." So either the threats were, in fact, not credible, or American counter-terrorism officials did a magnificent job of thwarting them. Either way, recent events provide some reason for optimism.

I don't doubt that one day Americans will once again suffer terrorist attacks on the home front, possibly even this year. I noted this probability as follows in last year's forecast article: "As the Israelis have found, absolute safety from committed terrorists is not achievable." But I think there is room for hope that incidents of terrorism can be kept relatively small and infrequent via the wonders of modern technology; a dedicated, world-wide anti-terrorism network; committed political leadership; and sustained public support for the effort.

Last year, I forecast that the United States would make "great strides, both domestically and internationally, in its war against militant Islamic terrorism in 2003." Fortunately, I think I was right on that one. The explanation I gave in support of this prediction is therefore worth repeating. It went as follows. "U.S. efforts to track down, surveil, capture or kill al Qaeda and other radical Islamic terrorists are beginning to yield positive results, not just in the United States, but very significantly, throughout the world. Considerable success has also been achieved in identifying and cutting off sources of terrorist funding. And stepped up domestic measures to protect citizens and other likely domestic targets of terrorism are falling into place." This year I would add that I expect additional great strides to be made in 2004.

While on the subject of terrorism, I would point out that the aggressive effort that was made within the United States in the aftermath of the September 11 attacks to interview and screen young Muslim men was not done solely to uncover potential enemies. It was also intended to find Arabic speaking citizens and foreign nationals who will fight on America's side in the war against terrorism, working within the Muslim communities and reporting back to the appropriate authorities when they spot trouble or troublemakers. And this is working.

It is also worth noting that the recent proposal to fingerprint and photograph foreign nationals entering and exiting the United States is not simply aimed at identifying previously unknown individuals coming into the country, but to assist in compiling a database on those people who are already in the United States, both unknown and known, who tend to travel in and out. And this will help immeasurably in the fight against terrorism.

Prediction No. 2 is that by this time next year Iraq will be run by an Iraqi government that is reasonably stable and putatively friendly toward the United States.

As you may have noticed, several assumptions are made intrinsic to this prediction by the words "reasonably" and "putatively." By "reasonably" stable I mean that I do not expect that the Iraqi government will be either democratic or widely esteemed by the Iraqi people. Nor do I think that terrorist attacks on the Iraqi government, on Iraqis who participate in and support the government, and on Americans and American interests in Iraq will end in 2004. Thus the government will be only "reasonably" stable.

"Putatively" friendly means that I do not expect that either the Iraqi government or the Iraqi people will greatly appreciate the U.S. presence in their country. The leaders of the Iraqi government will dislike having Americans looking over their shoulders because this will limit their ability to conduct bloody reprisals against rival Iraqi factions, to engage openly in acts of gross corruption, and to assume dictatorial powers, all of which will be their wont. The Iraqi people will not appreciate the U.S. presence because America will continue to be the scapegoat for all the social and economic ills that are endemic to Middle Eastern societies.

Despite all this, from the American perspective things will look pretty good in Iraq by the end of next year. A "permanent" U.S. military, diplomatic and commercial presence there will provide a highly valuable intelligence gathering outpost for the entire Middle East region; a launching pad for covert destabilization efforts in Syria and Iran; a staging area for any U.S. military action that might be required in the region; and a treasure trove of diplomatic opportunities for dealing with nations such as France, Germany and Russia that wish to participate in Iraqi business ventures. In fact, by the end of 2004, I expect that these three countries, as well as China and the United Nations, will be well acclimated to the new Iraqi government and to America's "permanent" supportive role there.

This is not to say that there won't be a great deal of trouble in Iraq and in surrounding areas in 2004. As I indicated earlier, I expect continued terrorist activity against Americans and American interests both in Iraq and throughout the Middle East during the year. Indeed, I have no doubt that things will be messy enough so that critics will still have reason to claim that the "place is becoming a quagmire."

I should add here that I don't think tranquility will be one of the primary goals of the Bush administration in Iraq during 2004 anyway. Indeed, I would expect President Bush to keep the entire Middle East in a high boil for some time to come by maintaining a very aggressive posture toward terrorist groups that operate in the region, as well as toward nations that openly support terrorist activities. Bush is not one to allow the wicked to rest, as the saying goes.

Finally, I would add that while American politicians and citizens alike can argue whether the Iraqi venture has been either wise or worth the cost, the fact is that the United States has learned much in Iraq during the past year, both practically and philosophically, that is likely to be of great benefit in the years ahead.

On a practical level, it has afforded the U.S. military a unique opportunity to test weapons and tactics for use in urban warfare, as well as to train its forces in the art of establishing and managing a civil government in a hostile environment. On the philosophical front, the Iraqi experience has had the beneficial effect of teaching some American politicians and pundits, as well as a certain idealistic sector of the public, that the neo-Wilsonian dream of "spreading democracy" around the globe is considerably more difficult, costly, dangerous and impractical than they had thought. It has also shown another, entirely distinct segment of the American public that violence can, in fact, solve some things and that there is, indeed, considerable truth in the dictum that Arab culture tends to respect power and disdain weakness.

Prediction No. 3 is that cracks will begin to appear in the Chinese success story in 2004.

By just about any measure, the Chinese government has done a remarkable job during the past two decades of managing the difficult transition from a backward, xenophobic and brutal Communist dictatorship to a major economic player in the globalized economy. The road has not been free of bloodshed, brutality and corruption, but then, no one could have expected that such a voyage would be without hardship.

The problem, as I see it, is that the most difficult and dangerous obstacles in the journey have yet to be negotiated. Idealists argue that one of these is the establishment of a democratic government. But that's nonsense. Voting booths are not necessary for either peace or prosperity. What is necessary is that the rampant corruption that is endemic to Chinese society be severely curtailed; that property rights be guaranteed by the rule of law rather than cronyism; that the nation's nearly bankrupt financial system be made solvent; and that the massive number of out-of-date, inefficient, non-competitive enterprises that exist throughout China be shut down.

If these things are not done, the Chinese dream of domestic peace and prosperity will not be fulfilled. The "hot" economy of today will eventually suffer a turndown, which will spark a social crisis. Unemployment will soar, government brutality will escalate, the dogs of war will begin to bark as the Chinese government seeks ways to lay the blame on foreign influences, new manufacturing jobs will go elsewhere, new investment will grind to a halt, and the state's already tottering financial system will face collapse.

This is no secret, of course. The Chinese leaders know what needs to be done, and have recently begun to address each of the problems mentioned above. And this is why I predict that the

system will begin to show serious strains in 2004. The process of uncovering corruption alone can have a devastating impact on the financial system of a nation, as U.S. investors have learned on numerous occasions. But taking on corruption, while at the same time attempting to develop a fair system of property rights that will protect entrepreneurs, closing down out-of-date factories, and keeping a bankrupt banking system afloat, is hardly conducive to social or economic stability.

I'm not saying that this can't be done. I am saying that it can't be done without causing some serious social and economic disruptions along the way. As Confucius probably never said, but would have had he thought of it, the unexploded bomb in the back yard is most dangerous when it is being defused. And there are a lot of bombs that need to be defused in the Chinese backyard if that nation is going to fulfill the grand expectations that are an integral part of the dreams of those who have invested in the Chinese success story.

Prediction No. 4 is that Russia, under the leadership of Vladimir Putin, will fully emerge from its 14-year-long struggle to redefine itself in the post-Soviet world as an authoritative, nationalistic colossus similar in many ways to the Czarist Russia that the communists overthrew 87 years ago.

As I indicated in the preceding prediction, the true nature of the future Chinese government is still unknown. China is still very much mired in the immediate post-communist period, struggling to find the proper governmental formula for a nation that has for over a half century been a tragic guinea pig for the feverish, demented dreams of a muddle-headed German exile to Queen Victoria's England, whose economic and social theories were already out-of-date when he wrote them down in the 19th century.

Russia, on the other hand, is now emerging from the dark chrysalis of post-communism and will, in 2004, reveal the nature of the beast that this process has produced. Without question it will not be the beautiful democratic creature that many Western well wishers had expected at its joyous conception on that fateful day in November 1989 when the Berlin Wall fell. But neither will it be as ugly as the Communist monster that begot it, at least not in its early years.

By overwhelmingly backing Vladimir Putin, the Russian people have chosen a new government model, one that favors order over freedom, which has been a characteristic choice of the Russian people since 862 when the Varangian Russes, headed by a Viking named Rurik, took over the Slavic city of Novgorod and planted the seeds from which the Russian empire grew.

Not surprisingly, it turns out that the new Russia will resemble in many ways the Czarist nation that the Communists destroyed. The new Russia will be deeply corrupt; dismally authoritative; generally supportive of individual freedom but dismissive of individual rights when exercised against authority; highly nationalistic; secretive; suspicious of its immediate neighbors and covetous of their treasure and independence; aggressive and pugnacious in the foreign policy arena, especially in matters that concern it directly; open to trade, foreign investment and tourism, on its own terms; dedicated to the art of realpolitik; confrontational toward Europe, routinely taking advantage of its fading importance on the world stage and the mealiness that is the historical mark of an imperfect union of states.

Finally, it will be generally friendly toward the United States, recognizing, as I put it in an article that I wrote for Lehman in October 2001 entitled “Strength From Adversity,” that “the goal of reestablishing a dominant, meaningful position on the world stage, as well as in its own neighborhood, could be accomplished more quickly and more easily if it could be done within the context of U.S. cooperation and support.”

In the meantime, Putin’s Russia will make no effort to curtail corruption in an attempt to promote economic efficiency or entrepreneurship. It will instead centralize the corruption in the hands of Putin’s cronies, and accept whatever consequences result as a cost of doing business, whether they be inefficiency, social unrest, or international condemnation. Unlike China, Putin has no intention of defusing the time bombs that are scattered throughout Russia’s backyard. He’ll use them as a threat to keep the Russian people in line. And he will be successful, for a while at least.

Prediction No. 5 is that the European economy will be hit in 2004 with a punishing round of corruption scandals, like the one involving Parmalat that is currently rocking Italy.

I have no inside knowledge about the possibility of such an occurrence, of course. But I base this prediction on two factors. The first is that there is no shortage of serious corruption in the European business community. (Does anyone have a problem with that statement?) The second is that the exposure of a scandal like the one at Parmalat tends to create tensions among mid and upper level employees at other firms with similar problems, prompting them to blow the whistle on the big bosses in hopes of not being caught up in the legal storm should one occur. It also tends to make auditors nervous and more inquisitive, which in turn prompts them to take steps to limit their liability in case they have overlooked something in the past, intentionally or otherwise. And finally it awakens the sleeping regulators who begin to fear that their life-long government sinecures could be threatened by a scandal that resulted from their laziness and ignorance.

Prediction No. 6 is that the threat from North Korea will be brought under control in 2004.

This is essentially a repeat of one of last year’s predictions, which, needless to say, did not prove prescient. Nevertheless, I think that agreements were made during 2003 between the United States, China, and Japan that will result in an initiative effectively to eliminate the threat from Korea’s Kim Ding Dong in 2004. The reasoning behind this prediction is the same as last year, namely that “I just think that he’s rapidly becoming a nuisance to his enemies and a burden to his friends, and that someone, somewhere, somehow will sweep the little psycho from the world stage sometime this year.”

Along these lines, it is, I think, worthwhile to recall a story Steve relayed just two weeks ago that has since come to the attention of some of the folks in the mainstream media, most notably *The Wall Street Journal*. Noting recent announcements by Japanese Prime Minister Koizumi that his nation would both send troops to assist in the pacification of Iraq and would proceed with plans to build and deploy a ballistic missile defense system designed in cooperation with the United States, Steve suggested that Japan was beginning the process of remilitarization, in large part to counter the threat posed by North Korea and little Kim, and that this process would aid American interests and radically alter the balance of power in East Asia.

Last Friday, in a front-page, above-the-fold story, the *Journal*, further detailed the Japanese remilitarization movement and the import of that movement on the future of the region. Among other things, the *Journal* noted that Japan currently has the world's fourth-largest military budget (\$39.5 billion) and is currently developing a host of high-tech *offensive* weapons. It further noted that current polls show overwhelming support among the Japanese public for taking a more active roll in "efforts to maintain international security" (67%-11%), and that a significant percentage of the population (42%) and the two major political parties (including the ruling Liberal Democratic Party) support amending the nation's constitution, specifically to revise the Article 9, in which the nation "forever renounce[s] war."

With Japan taking a more assertive role in the region and, if Prime Minister Koizumi can be believed, slowly emerging from its protracted recession, North Korea will find itself in an increasingly difficult position. No one can say how or when the reign of terror will end there, but it looks increasingly like it will.

Prediction No. 7 is that Israel will be safer and more secure by the end of 2004 than it is today.

As with the preceding prediction about North Korea, this one is essentially a repeat of one I made last year, which, I am a little embarrassed to say, was a repeat of a prediction I made the year before, both of which proved to be wrong. But as with the North Korean prediction, I continue to think that I have been early, not entirely mistaken.

I have never believed that Israel's enemies will ever give up their fight to eliminate the Jewish state. But I have always thought that eventually the killing will taper off as Israel's enemies grudgingly begin to appreciate the fact that they cannot drive Israel out of existence and that the cost of continuing to try is prohibitively expensive in lives and suffering.

I doubt that 2004 will mark the end of the conflict, but I think that the downfall of Saddam Hussein, American pressure on Syria and Iran and on other radical Islamists throughout the Middle East, and Israel's relentless campaign to destroy the radical Palestinian leadership will begin to take its toll on the Palestinian war effort in 2004.

In closing I would once again note that while I stand behind these predictions, I think that the value in such an article lies not with the certainty of the forecasts, but with the assumptions that underlie them, because these can serve as a solid foundation from which to observe and evaluate events as they unfold in a world of surprises and change; a world where, as the misanthropic and irascible Heraclitus noted some 2,500 years ago, "all is in flux, nothing stays the same."

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