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THEY SAID IT

Seek not to know what must not be reveal'd;
Joys only flow where Fate is most conceal'd.
Too-busy man would find his sorrows more
If future fortunes he should know before.

John Dryden and Sir Robert Howard, *The Indian Queen*, 1664

In this Issue

Catastrophe and Collapse.

CATASTROPHE AND COLLAPSE.

Longtime readers know that there are a handful of traditions to which we generally adhere in our first-of-the-year pieces. First, we almost always start with our domestic forecast and then follow-up a week later with our foreign policy predictions. We won't be doing that this year, for obvious reasons, the *most* obvious of which is that even we aren't foolish enough to make a prediction about a presidential election a full ten months away, only to see it possibly invalidated a mere handful of hours after publication. Iowa may not be decisive in the selection of a GOP nominee this year. But given the nature of this year's GOP campaign, the caucus results and the reactions of the candidates, the pundits, and the public could provide some valuable insights into the future. So, we'll wait and see.

Second, we normally start these pieces with either a quip about how difficult predicting the future is or a caveat about how these predictions should be taken not as literal, mark-'em-down expectations, but as a vehicle for a discussion about the problems facing nation and the possible impact that these may have on the world, its people, and especially the capital markets. But we figure you know all this by now. One of us *is* from Nebraska. But he doesn't happen to be either an Oracle or a billionaire. And if he really knew what was going to happen in the next year, he would be both. Right?

So take this for what it's worth. And most importantly, enjoy it. If that's even possible, given what follows.

It is often said that there is an ancient Chinese curse that condemns the accursed to "live in interesting times." We suspect that this will be the theme of a great many forecast pieces this year by men and women more widely read than we. The problem with this is that, like many such bits of "Chinese wisdom," this one is no more Chinese than pizza. It is a trope famously employed by Bobby Kennedy in a highly praised speech he gave in South Africa, apparently believing that Western wisdom was too passé or too insipid to impress the oppressed.

Turns out, though, that this “ancient” Chinese curse probably originated with Ernest Bramah, a turn-of-the-century English fiction writer and a noted conservative. Which is to say that all of those who seek to burnish their intellectual *bona fides* by citing the wisdom of the East as outlined in this quote are, in truth, paying homage to another dead white male, and a right-wing anti-socialist to boot.

For our part, while we agree that these are interesting times, we think that a more fitting theme for our take on the year-to-come in geopolitics can be found in the works of another English conservative, a contemporary of Bramah’s, though one notably more famous. As we look at the world, at the forces loosed upon it, and, most especially at the “leaders” who will be tasked with managing those forces, nothing strikes us as more applicable than that which Churchill wrote to his wife on the eve of the First World War: “Everything tends towards catastrophe and collapse.”

And this brings us to our first prediction, one that we have been waiting some 14 years now to make

Forecast #1: The Euro is done, kaput, fini. Before the end of the year, the powers that be in Euroland will be forced to admit what the rest of the world already knows, namely that this attempt to forge EUtopia has been as unsuccessful as all previous attempts, with its only saving grace being the comparative lack of bloodshed.

Now, to be honest, we haven’t been waiting 14 years to make this prediction. We actually made a similar prediction last year. But it has been almost 14 years since we wrote the following, which many of you will recognize, given our penchant for repeating it:

Psst! You wanna know a secret. The Euro, and the mess it represents, is going to be a social, economic and political catastrophe. Indeed, I think it is probable that the adoption of the Euro will be to 21st century Europe, what the killing of the Archduke Ferdinand was to 20th century Europe; i.e., that point in time when history will record that the unraveling began in earnest.

What makes us think that this is the year it will all fall apart, given that we thought the same thing last year? The answer is that there is no reason to think otherwise. It is going to fall apart sometime. And we’ll keep expecting it until it does.

On a more serious note, last year, Greece was the big problem. This year, Greece is just one of a handful of major problems. We’d guess that before long it will be clear that the only functional – which is to say non-dysfunctional – economy in the Eurozone is that of Germany. The entirety of southern Europe has already proven itself to be a disaster, and France is only marginally behind.

Our guess is that, beginning in February, when the Italians must start the process of refinancing more than 90 billion euros in debt over a three-month span, the collapse will begin in earnest. The Italian bond auction will be a disaster. The European Central Bank will be forced to respond to calm the markets. And the ever-anxious Germans will finally declare that they’ve had enough. They will issue an ultimatum that the rest of Euro-land fall in line and do as their German masters tell them . . . or else.

If the rest of the Eurozone capitulates, then Germany gets what it wants – what it has *always* wanted, through two world wars – control of the continent. If not, then Germany takes its ball – or its deutschemark, if you prefer – and goes home. Whatever the case, chaos will ensue, either immediately or eventually. The great unraveling will begin. And the only good thing that can be said about it is that it didn’t precipitate or require a war. So that’s good news, right?

And in more . . . ummm . . . “good” news . . .

Forecast #2: The Obama Administration will declare an end to hostilities in Afghanistan and begin withdrawing troops ahead of schedule.

You will note here that we did not say that the Obama administration will declare victory. A rogue official or two – perhaps even the ever-awkward Vice President – may suggest that the war in Afghanistan

has been “won.” But official administration policy will be simply to declare the mission over and begin preparations for the return of troops earlier than was planned.

Now, the reasons that “victory” will be left out of the equation are manifold. For starters, there is the usual left-ish discomfort with the idea of winning wars and imposing American will on others. There will be some of that at play here, obviously; just as there has been in the withdrawal from Iraq.

A bigger, more significant reason for the administration’s refusal to mention victory will be its refusal to achieve victory, not that it will be alone in refusing to do so.

Everyone involved in the war in Afghanistan is tired of the war in Afghanistan. God knows that the American troops are tired. They’ve been told to take territory, to hold territory, to kill the enemy, to confine the enemy, to destroy al Qaeda, to destroy the Taliban, to negotiate with the Taliban, to fight the warlords, to befriend the warlords, to fight corruption, to “rebuild” a society that was never built in the first place, and to do it all while distinguishing civilians from combatants, not harming those civilians, leaving indigenous culture intact, and playing nice with anybody and everybody, despite the fact they may or may not be trying to kill them. They have done so remarkably well, under the circumstances and given the changing nature of their mission. They’ve earned a respite. And they deserve our undying thanks.

They do not comprise the only exhausted party, though. The Afghani people are tired. Their country has been at war, more or less, since Jimmy Carter was president. They’d like a little peace themselves, we’d guess. Their current leaders would also like some peace, we’d imagine, so that they can go about stealing, looting, and selling the poppy crop for millions without the “harassment” of American do-gooders. Their former and presumably future leaders, the Taliban, are tired. They’d like to quit fighting American soldiers and get back to blowing up ancient artwork and torturing little girls.

Heaven knows the Pakistanis have had enough of this mess. Once upon a time, they had a pretty sweet deal. They had billions in aid from the American rubes. They had technical and material assistance in weapons and missile-building from the neighborhood tough-guy Chinese. They had their own network of radical Islamist madrasas and training camps. And they were able to put all of these things to good use killing the *real* bad guys in the world, the Indians!

And then stupid Osama bin Laden came along and screwed everything up. Now they have nothing – or almost nothing. They have Afghani Pashtun interlopers in their territory. They have Arab terrorists hiding out there as well, taking advantage of their shared faith and bringing down the literal and figurative wrath of a now sentient American government, which is to say that Pakistani civilians are dying in drone attacks while blowhards in Congress threaten to quit sending the welfare checks. The Chinese have moved on to oilier pastures with fewer Americans. And given all of this, how are they supposed to find any time at all to plan, much less carry out any vicious, murderous attacks against the world’s largest democracy? What fun is this?

As for the aforementioned Arabs who have been hiding out in Pakistan, you know that they’re exhausted – or they would be if they had time to stop and think about it. But they don’t, since they’re too busy running, hiding, and trying to avoid being blown-up by some 20-year-old kid in Florida who is “piloting” an unmanned drone and thereby giving lie to his father’s repeated insistence that he’d “never amount to anything ‘cuz all you do is play that stupid video game!”

As you well know, we are loath to give President Obama credit for much, but we’ll give him this: moving the director of the CIA to the Pentagon (Leon Panetta) and replacing him at Langley with the general formerly in charge of the war in Afghanistan and Pakistan (David Petraeus) was a stroke of genius – witting or not. Since the move, the al Qaeda leaders in Pakistan having been dying so quickly that it’s hard to keep up anymore. Those few who are left are constantly on the move, have given up hope of ever

having any peace, and are reportedly looking to leave Pakistan for less stressful environs.

Which brings us to . . .

Forecast #3: The Middle East will resemble a New Years Eve party at the Occupy Wall Street camp at Zuccotti Park and make just about as much sense. The turmoil and bloodshed will shake the very foundations of the modern world order. Between the shift in the global jihad away from Central Asia and back to the "homeland"; the ongoing revolution in Arab lands and their spillover into already unsettled non-Arab territory; the Islamification of the world's largest Arab nation; and the desperate last gasp of the original "Islamic Republic"; the Middle East will become the focal point of many of the world's problems this year and will remain so for a great many years to come.

Last spring, after Osama bin Laden was killed and replaced by his erstwhile second-in-command, the Egyptian Ayman al-Zawahiri, we wondered, in these pages, if the unrest in Zawahiri's native land and the overthrow of his onetime tormentor, Hosni Mubarak, along with the obvious futility of the protracted war over nothing in the AfPak region, might not prompt the jihadists to shift their attention away from the desolate mountains of Central Asia and back to the massive crowds of Egypt, the oil of Libya, and proximity to the hated "Zionist" enemy. Ironically, the effectiveness of the aforementioned American drone war in Pakistan may have forced that decision upon them. As London's *Guardian* newspaper put it in a Christmas Day report:

Senior British officials believe that a "last push" in 2012 is likely to definitively destroy al-Qaida's remaining senior leadership in Pakistan, opening a new phase in the battle against Islamist terrorism.

So many senior members of the organisation have been killed in an intense campaign of air strikes involving missiles launched from unmanned drones that "only a handful of the key players" remain alive, one official said.

However, well-informed sources outside government and close to Islamist groups in north Africa said at least two relatively senior al-Qaida figures have already made their way to Libya, with others intercepted en route, raising fears that north Africa could become a new "theatre of jihad" in coming months or years.

"A group of very experienced figures from north Africa left camps in Afghanistan's [north-eastern] Kunar province where they have been based for several years and travelled back across the Middle East," one source said. "Some got stopped but a few got through."

We have long known that the Libyan rebels who overthrew (and then killed) the dictator Moammar Qaddafi had connections to Islamists, including Al Qaeda. We have also long known that Libya was the principal foreign supplier of Al Qaeda terrorists to the AfPak theater. We have long known as well that these trained terrorists would return home, that they would try to integrate themselves into the new government in Tripoli, and that they would likely be welcomed.

Add all of this to the fact that the first two rounds of Egyptian parliamentary elections have proven far more disastrous than even the most pessimistic pessimist might have expected last summer, producing huge majorities for Islamist parties, namely the "moderate" Muslim Brotherhood and the hard-core Salafists, and you have a recipe for quite a messy Islamist takeover in the northwest corner of Africa.

Add as well the fact that Egypt's people are starving, that its government has no money to subsidize grain purchases and no prospects for revenue, and that the Egyptian people still, by and large, consider oil-rich Libya to be an Egyptian province rather than an independent state and the prospects for an intra-Islamist war or, worse yet, a super-Islamist state do not sound all too far-fetched.

Strangely, if the Islamists in Cairo took up arms against the Islamists in Tripoli, they might not necessarily be alone in waging such a bizarre intra-Islamist battle. On the other side of the Mediterranean tensions are escalating along the Turkey-Syria border, where the Turks cannot help but view the ongoing unrest in Bashar Assad's isolated kingdom as both a threat and an opportunity. After all, the Turks have long resented their Arab neighbors, long resented the Syrians in particular, long feared a mass refugee influx from Syria, and long dreamed of reestablishing the dominance over the Muslim world that they enjoyed at the height of the Ottoman Empire

The question of how the Turks choose to handle this problem/opportunity will likely weigh heavily on the NATO meetings in Chicago this May. We suspect that President Obama and the Turks will disagree on almost every issue. We suspect further that someone in the group, but not necessarily the Americans or the Turks, will suggest that the whole NATO thing has outlived its usefulness. Finally, given that the G8 will also be meeting in Chicago – Obama's hometown – at the same time, we suspect that the matters of Turkey's role in the Middle East and the future of NATO will not receive the attention they deserve, leading to much confusion, much irritation, and perhaps even an international incident derived from this "misunderstanding." All things considered, it could become rather ugly.

Finally, we expect that the Mad Mullahs of Iran, slowly dying and fearing that their people are nearing full rebellion, will do the unthinkable and will try to stave off the inevitable a little longer by actually provoking the United States, either by attempting to close the Straits of Hormuz or by getting a little too frisky with American ships trying to prevent them from doing so. This will force Barack Obama either to put up or shut up. And our guess is that this "man of peace" will put up.

Obama has spent the last three years earning the reputation of a feckless conciliator, willing to bow or bend to anyone for the sake of appearing meek and unassuming. But now he is running for re-election,

with almost no hope that the economy or any other domestic issue will save him. And he will likely be handed the one issue that can, i.e., a chance to change his image and "win" one for the team.

Many of our fellow conservatives assume that Obama is incapable of such gumption, even if it means a second term. We think they're wrong. Indeed, we think that he has already made his decision. Consider, if you will, a recent exchange between Secretary of Defense Leon Panetta and CBS News anchor Scott Pelley. Among other things, Panetta said, "the United States does not want Iran to develop a nuclear weapon. That's a red line for us . . . We will take whatever steps are necessary to stop them."

Now, forgive us for stating the obvious, but Defense Secretaries talk like that and issue bold statements like that under one of two conditions, either when they have been told to do so or when they have not been told to do so. In the case of the former, they have been sent to deliver a clear and unambiguous message. In the case of the latter, they are looking for work in a few days' time. Panetta, we should note, is still gainfully employed.

This isn't to say that Obama may not change his mind. But that is unlikely, we think, given what is at stake for him personally and for the country.

Add all of this together: the radicalization of Egypt and Libya, the potential for hostilities between Turkey and its Arab neighbors, and the distinct possibility of a conflict between the United States and Iran, and the Middle East will be a major flashpoint. And this doesn't even include the obvious clusterf . . . errr . . . mess in Iraq, the ongoing cold war between the Saudis and the Iranians, and the potential instability of even more autocratic regimes.

Note as well that the one Middle Eastern nation that we have yet to mention is Israel. This is not to say that Israel won't be important or won't play its usual role as the Islamists' favorite scapegoat and the Western leftists' favorite punching bag. But it does tend to prove a point we made many years ago when we were still working for one of the two now-defunct

firms we used to call home, namely that the problems in the Middle East have *nothing whatsoever* to do with Israel. Indeed, as we put it lo those many years ago: You could move the entire nation of Israel to North Dakota and not only would its neighbors not notice, but the Muslims there would continue to kill each other in massive numbers and their homeland would continue to be the most volatile region in the world.

Forecast #4: Vlad the Impaler will reclaim his throne in Russia and will continue to be a thorn in Barack Obama's side.

This should go without saying, but on the off chance it doesn't, we'll say it: One does not go from being a KGB officer in Soviet East Germany to being a political hero in post-Soviet free Russia to being ruler-for-life in post-free-re-autocratized Russia without being wily, cunning, and willing to do absolutely whatever is necessary to get and keep power. This is bad news for the protestors who believe they have a chance of "shaming" Putin into leaving the Kremlin and giving up his crown. Putin is not Gorby. And the protestors (and maybe Gorby himself) will be lucky if they do not learn first-hand what the Chechens know. Putin is vicious. And while the world may be watching – kinda, sorta – nobody really has any authority or ability to stop him from doing whatever he wants, or whatever it takes, as the case may be.

Once he has done so, he will return to his other pursuits, namely seeking the glory of Mother Russia. Many of Putin's critics presume that he seeks a new Cold War. Nothing could be further from the truth. Putin is, as we have said before, an old-school Russian Czar, a student of and fierce competitor in "the Great Game." That his actions bring him into conflict with the United States is, by and large, a byproduct of the fact that Russia's concerns are at cross purposes with America's. Nothing personal. He's simply playing the game, taking advantage where he can. Putin has neither friends nor enemies. He has interests. And he will do whatever he must to advance Russia's interests, which, by the way, have always involved the warm water ports in the South.

For the time being, advancing those interests will make him a royal pain in backside for Barack Obama. But then, what isn't?

Finally, that brings us to our last prediction, our "out-of-left-field," black-swan prediction, which is . . .

Forecast #5: The much ballyhooed "Chinese Century" will come to an end, less than twelve years in.

Longtime readers know that we have never believed that the "Chinese model" is one to emulate or that the Chinese system will beat the Anglo-American version. The Chinese economy is, according to the experts, expected to overtake the American economy by 2016, and maybe it will. But color us skeptical.

Murdering thugs don't impress us much. And neither do the economies they construct nor the statistics they fabricate to illustrate the success of that economy. The "leaders" of China are vicious and dissolute. They are no less "Communist" in this sense than was Mao, irrespective of their economic predilections. And the propensity of some Western journalists and politicians to express their unending admiration for them is both maddening and bewildering.

Any attempt to predict which regime might be overthrown or might simply collapse and when that will happen is, to put it mildly, a fool's errand. Still, if ever there was a regime poised for collapse or overthrow, it has to be the Butchers of Beijing. Decades of economic growth coupled with decades of massive corruption, exacerbated by years of official lies and further compounded by fresh economic complications could all lead to a massive explosion of restlessness, which could quickly catch fire and spread. It's hard to say, naturally. But clearly something is stirring in the so-called People's Republic.

By now, you likely know how the Chinese economy has come under some stress. You know about the slowdown. You know about the inflation. You know about the official, state-sanction defaults . . . errr . . . payment postponements. You know about all of

the economic maturation issues. The journalist and author Gordon Chang recently summed them up as follows:

Since late September, economic indicators – electricity consumption, industrial orders, export growth, car sales, property prices, you name it – are pointing toward either a flatlining or contracting economy. Money started to leave the country in October, and Beijing’s foreign reserves have been shrinking since September.

All of this, we should note, is before the collapse of the Euro hits export-based China as hard, if not harder than any other country.

In the face of all of this, people have grown restless. Again, as Chang summarized:

It is not only that protests have spiked upwards – there were 280,000 “mass incidents” last year according to one count – but that they are also increasingly violent as the wave of uprisings, insurrections, rampages and bombings suggest. The Communist Party, unable to mediate social discontent, has chosen to step-up repression to levels not seen in two decades. The authorities have, for instance, blanketed the country’s cities and villages with police and armed troops and stepped up monitoring of virtually all forms of communication and the media. It’s no wonder that, in online survey, “control” and “restrict” were voted the country’s most popular words for 2011.

For us, though, perhaps the most damning “data” aren’t really data but stories, stories telling of the frustration that many young Chinese are facing in their attempts to take advantage of the purported “good life.” Christina Larson tells some of these stories in a recent piece for *Foreign Policy*:

In June, a Chinese friend of mine who grew up in the northern industrial city of Shenyang and recently graduated from university moved to Beijing to follow his dream -- working for a media company. He has a full-time job, but the entry-level pay isn’t great and it’s tough to make ends meet. When we had lunch recently, he brought up his housing situation, which he described as “not ideal.” He was living in a three-bedroom apartment split by seven people, near the Fourth Ring Road -- the outer orbit of the city. Five of his roommates were young women who went to work each night at 11 p.m. and returned around 4 a.m. “They say they are working the overnight shift at Tesco,” the British retailer, but he was dubious. One night he saw them entering a KTV Club wearing lots of makeup and “skirts much shorter than my boxers” and, tellingly, proceeding through the employee entrance. “So they are prostitutes,” he concluded. “I feel a little uncomfortable.” . . .

Despite China’s astonishing economic growth, it has gotten harder for people like my friend to get by in the big city. His is not a particularly lucrative profession. Like many in Beijing, he cannot count on his annual pay to keep pace with China’s official rates of inflation -- which many economists suspect are lowballed anyway. (The consumer-price-index inflation rate is considered so sensitive that the State Council approves it before it is released publicly.) Even so, every month this year consumer-price-index inflation has exceeded the official average monthly target of 4 percent. Last month state media **hailed** it as good news that it was, officially, just 4.2 percent.

Anyone in Beijing can point to examples of friends who see rents hiked 10 percent or more in one year. The prices at restaurants keep going up, even as portions are getting noticeably smaller. Throw in the loss of intangibles that money can't buy -- like **air quality** and **food safety** -- and you begin to understand the grumbling among some of Beijing's non-wealthy folks that their standard of living seems to be diminishing, even as the national GDP surges ahead at a heady 9 percent.

Could it possibly be true that a swath of people in China's big cities is *downwardly* mobile, if one compared wages with living expenses? I asked Patrick Chovanec, an associate professor at Tsinghua University's School of Economics and Management in Beijing. Alas, he told me, it's difficult to find much clarification in China's **famously fudgeable** official statistics. (For instance, the official unemployment rate only includes individuals with urban *hukous*, or permanent residency permits -- which excludes the most economically vulnerable.) Still, he noted: "If you perceive that you're losing buying power -- or have rising but unmet expectations -- that's when people get upset And this country, for a country growing at over 9 percent, is in a foul mood."

Indeed, there is a palpable sense of frustration in Beijing, especially compared with the last time I lived here in 2008. You can see it on the dour faces on the metro, hear it in raspy voices at dinner conversations, and especially sense it in the new gruffness of taxi drivers, who

no longer think ferrying people around town for 10 yuan, about \$1.60, is such a good deal for them (their base fare hasn't been raised).

The principal condition for revolution is, as the eminent political theorist Ted Robert Gurr has explained for years, the existence of Perceived Relative Deprivation, which is the belief, among the general population, that conditions were improving but that the improvement has stopped, thereby depriving the people of benefits to which they believe they are entitled. Given this, it would seem to us that the members of the Chinese politburo might not want to get too comfortable. Larson concludes her piece writing that "as my friend, the struggling reporter, put it: 'People no longer believe you can win by working hard and honestly in China,'" which strikes us as the very embodiment of Perceived Relative Deprivation.

Does this mean that the Chi-Comms are necessarily doomed? Yes, yes, a thousand times yes! Does it mean that they are doomed this year? Well . . . no. Corrupt, centrally planned, dictatorially enforced states eventually fall. Period. No amount of economic growth or number of American and German luxury automobiles can save them. When they fall is another story. And, as we said above, trying to predict the timing of such a fall is foolish at best. Which is why this is our "out-of-left-field" prediction.

Still . . . if you ask our opinion, we wouldn't recommend you go placing any long-term bets on the Chinese economy as it's currently constructed. Let's just say they're living in interesting times, to say the least.

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