

More War, No Peace, Less Growth

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TRYING, FINALLY, TO GET IT RIGHT FOR 2007

The U.S. National Oceanic and Atmospheric Administration forecast eight to ten hurricanes for 2006 and noted that the year might be “hyperactive.” In fact, only five hurricanes materialized and none hit the United States. Considering that, my forecast for 2006 was not a complete washout.

Remember what the 19th-century mathematician Francois Arago said, “Never, no matter what may be the progress of science, will honest scientific men who have regard for their reputations venture to predict the weather.”

Well, here I go again. It’s not the weather forecast. But it’s my political forecast.

Five major trends are driving global politics.

1. The Islamic world sees its failures to achieve what it considers to be its rightful place in the world as a major insult accompanied by a lack of appropriate respect. In 2007, the United States will have to come to terms with that sense of being aggrieved. This will not be accomplished with bombs but with massive accommodation.
2. The decentralization of power in the world which began with the collapse of the USSR is continuing at an accelerating pace. After World War II, Washington and Moscow were the centers of the universe. With the Soviet Union’s collapse, it

was Washington alone. Now, the United States may still be the world's "sole superpower" measured by its military power. But other global centers now exist – London, Bonn, Moscow, Riyadh, Tehran, Delhi, Beijing. They all are very much part of the global "action." In 2007 we will see these centers driving new economic, scientific, and political initiatives.

3. The world is awash with a 'tsunami' of liquidity that has managed to bury risk. This coming year will see the re-emergence of political risk, at least partially driven by rising nationalism across the globe. Whether it be the Japanese prime minister demanding more patriotic education in school or the Malays supporting greater Malay power or the Turks refusing to recognize the independence of the Republic of Cyprus, nationalism is on the rise everywhere. The result be more conflicts between nationalisms and more concern over risk.
4. The Internet will become an ever more powerful force and will increasingly weaken and paralyze democratic governments. Small numbers of people, organizing through the Internet, can exert ever more influence over democratic governments. Whether they are citizens of any particular country or not, whether their goal is terrorism or saving the whales, small blocking groups are driving policy.
5. Democracy, nonetheless, continues to be the hallmark of our age, everywhere, it seems except in the Middle East where sheiks, kings, and majesties actually rule, producing stagnant cultures, economies, and publics.

THE MIDDLE EAST

IRAQ

The greatest failure of the Bush administration has been its failure to “win hearts and minds,” in Iraq, certainly; but also in the United States. The Republican Party paid in the mid-term elections. “Stay the course” is not and never was a meaningful policy. But it is a meaningful commentary on the President’s rigidity and lack of introspection and intellectual curiosity. That the President did not order a reassessment of his Iraq policy until after the 2006 elections, when the Iraq Study group threatened to produce recommendations he might find unpalatable, was an appalling dereliction of his responsibilities.

The Iraq Study Group, co-chaired by James Baker and Lee Hamilton, has struggled to produce recommendations that will generate a stable outcome in Iraq and be acceptable to the President and to his newly invigorated Democratic opposition. But the reality is that there are no policies which the United States can adopt in 2007 that will produce that stable outcome. The ability of the U.S. to commit extra troops to smother the civil war is limited by a lack of troops and the pullout of other coalition forces that will occur in 2007. After three years of failing to train Iraqi security forces, it is highly implausible that in the midst of the deepening civil crisis we will succeed in 2007. Bolstering one or the other of the Shi’a factions or imposing a new U.S. backed dictator will not succeed

because neither of those factions nor any dictator will have enough troops to dominate the country and impose its will.

I believe that the President will begin a withdrawal of U.S. troops from Iraq in 2007. But the war and the deaths and the horrible destruction of the Iraqis will continue. The U.S. will do less of the fighting against the insurgents while speeding up the training of Iraqi security forces. In effect, this will be a policy of siding with the Shiites who control – along with the Kurds – the Iraqi security forces.

The reality is that the U.S. has lost in Iraq just as it lost in Vietnam. The only question worth asking for 2007 is how many more U.S. and Iraqis will die before the Iraqis themselves produce a stable outcome.

So one theme of 2007 will be the “blame game,” the ‘who lost Iraq’ question. Watch the neo-cons and member of the administration work to shift the blame in 2007 from the U.S. to the Iraqis.

IRAN

Most Americans seem to believe that Iranian President Ahmadinejad is a man whose seat back and tray table are not in the full upright and locked position. In fact, he is a brilliant political operator who has vastly enhanced the global stature of his country and made his

government the most powerful of post-revolutionary Iran. He has done this because he is not a cleric, is seen as an ascetic who is not corrupt, promises to bring vast improvements to the usually forgotten towns and villages of the country, and insists on Iran's right to master nuclear technology.

The dream of nuclear technology is not some recent clerical innovation. The Shah of Iran with American support began pursuing nuclear technology in the 1960s. In fact, the current U.S. Ambassador to Iraq, Zalmay Khalilzad, was my student in the Political Science Department at Chicago. He received his PhD degree in 1978 with a thesis on the Shah's efforts to master nuclear technology. It is unlikely that any positive or negative sanctions would provide sufficient incentive for the clerics to abandon their nuclear programs.

Nor is it likely that the U.S. will be able to mobilize the support of China and Russia in pushing powerful sanctions through the Security Council. Both countries are concerned with the arc of American aggression which they see surrounding their countries. To the West, NATO has pushed up to the borders of Russia and the U.S. even talks of including former Soviet Republics such as Ukraine into the alliance. To the south, the U.S. has bases in Central Asia, Turkey, the Gulf, and now has fashioned a nuclear treaty with India. To the East, the U.S. and Japan and South Korea are military as well as economic allies. Iran, in other words, is one of the last states not yet absorbed into the American orbit. The Russians and the Chinese want to keep it just that way.

A U.S. military strike to destroy Iran's nuclear program is within U.S. military capability. Heavy bombers based in Diego Garcia, along the southern shores of the Gulf, and in the U.S. can drop massive tonnage on Iran. The problem is that Iran has the capacity to retaliate. The Revolutionary Guards have bases along the Persian Gulf equipped with Chinese anti-ship missiles. They would clearly strike oil tankers exiting the Straits of Hormuz. Iran also has an air force, however dated, that would seek to bomb American installations around the Gulf. Those bases would need to be destroyed. But so would the headquarters of the military and Revolutionary Guards, located in downtown Tehran. The point is that any U.S. military strike would need to be huge in scope; would need to inflict massive damage; and would generate widespread hatred of the U.S. on the part of the vast majority of the Iranian population who now look to the U.S. as their ideal. On top of that, the Bush administration is weakened and bogged down in Iraq. Don't expect a U.S. bombing campaign in 2007.

Then there are the Israelis. When Prime Minister Olmert equates Ahmadinejad with Hitler, you know that Iran is taking him very seriously. If the U.S. fails to act (and one Israeli official has already suggested "the country that did not bomb Auschwitz will not bomb Iran") then Israel might. It would be technically more difficult for Israel which lacks heavy bombers and would necessarily entail commando teams seeking to destroy a small number of crucial installations not to eliminate but to set back the Iranian program by a decade or more.

But for the time being, the most important Israeli goal is to work out a modus vivendi with the Palestinians and with Hizballah and with Syria. Any strike against Iran would freeze those possibilities indefinitely. Don't expect Israeli military action in 2007.

What's left for dealing with Iran in 2007 is to attempt to resurrect a "grand bargain." The U.S. would abandon its military threats, reduce or eliminate its sanctions, accept Iran's nuclear program, and acknowledge Iran's political significance in Iraq. Iran, in turn, would agree to intensive, unscheduled nuclear inspections and to diminish its support for Hezbollah and Hamas. Does this sound even remotely probable given the Bush administration's palpable hatred for the clerics and the clerics all too palpable hatred for the Bush administration? What incentives could the U.S. offer Iran that would be strong enough to overcome their resistance to dealing with "the center of global arrogance?" Not likely. But making an effort to engage the Iranians, however challenging, is just the least bad of all the bad alternatives.

All the while, Iran will become more, not less radical in its global stance. Ahmadinejad's mentor and spiritual adviser is Ayatollah Mohammad Taghi Mesbah Yazdi. Mesbah Yazdi is more fundamentalist than any of the fundamentalists. He urges that Iran completely isolate itself from the West. He supports "martyrdom" and suggests that Islam legitimates nuclear weapons. He will become a member of the Assembly of Experts that chooses the successor to the Supreme Religious Leader, the successor to Khomeini. Ahmadinejad in pushing Mesbah Yazdi is doing all he can to thwart the power of the

more moderate clerics. In 2007, Iran will become ever more difficult and ever less to the liking of the vast majority of the Iranian people. Still don't look for a revolution. The regime is too ruthless and unhesitatingly kills its opponents before any organized opposition can form.

ISRAEL-PALESTINE

We don't call it "The Middle East Crisis" for nothing. It is the lynch pin of everything that happens in the region. The United States has kept that crisis and most of the others in the world on the back burner since 2001. But the wars between Israel and the Palestinians – now joined by Hizballah in Lebanon – are, finally, coming to be recognized as the key to the entire Middle East. As the new refrain in the Middle East has it, "the road to Baghdad goes through Jerusalem." Nothing will be settled in the region until the Palestinians have their independent state.

But the Palestinians are desperately divided, the Israelis are conflicted and Prime Minister Olmert is weak. Any progress will require major concessions from the Israelis and major U.S. involvement to convince both sides of their own best interests. The challenge is that so many Israelis and their most committed American supporters see the PLO as evil. Yet it is clear after the debacle of the recent war that Israel needs a new approach to guaranteeing its security. Whatever it is that Israel has been doing for the nearly 60 years of its existence as an independent state has not given it the security it craves and deserves. It is time for Israel to try to do something it has never tried before –

to try to build a meaningful Palestinian government which can control an independent Palestinian state.

That will not happen in 2007 and until it does, any unilateral Israeli withdrawal from the West Bank is out.

President Bush will be forced in 2007 to initiate a U.S. led diplomatic initiative to deal with this long-standing crisis in order to make some progress in Iraq and in order to keep the Sunni states of the Middle East aligned with the United States. But President Bush will refuse to involve himself deeply in that effort. The incompetence of American diplomacy – demonstrated so convincingly in our dealing with North Korea and Iran – will deepen, rather than resolve, the Israel-Palestinian crisis in 2007.

ISRAEL

Israeli politics is in its usual mess. Ehud Olmert is largely detested for the incompetence of the Lebanese war. But he has brought so many political groupings from the Knesset into his coalition that there seems little danger of his government falling. There also seems little danger of anything meaningful coming out of his weakened and fractious government.

But for 2007, the Israeli economy will remain strong and Israel will become more of a high technology powerhouse, richer than all but a handful of countries.

LEBANON

Lebanon has become a quagmire – for the Lebanese. It will not get any better in 2007. The battle lines have been drawn. Lebanese Shiites mobilized in Hizballah along with their pro-Syrian allies demand a greater share of power. They seek to bring down the pro-Western Siniora government while ending the inquiry into the assassination of Prime Minister Rafiq Hariri. With the assassination of Pierre Gemayel, internal tensions have turned even uglier. The bitter reality is that U.S. support for Israel in its bombardment of Lebanon in the war against Hizballah, have left all Lebanese with little faith in Western assistance. Lebanon will go from bad to worse. More Lebanese will free their country. Hizballah will become a greater thorn for the Israelis. Internal war is on the way in 2007.

SYRIA

Bashar Assad has fooled most observers by consolidating his power and preserving the power of the Assad clan, the Alawis, and the military. Any dramatic change in the Syrian economy will threaten their power so don't look for market reforms. Similarly, any conclusive finding of Syrian involvement in the murder of Hariri would be likely to bring them down. So watch Syria in 2007 maintain its tough stance in Lebanon, its support for Hizballah and Iran, and its distance from U.S. peace plans in Iraq.

OIL

The consuming countries got a big break in 2006 as oil prices fell to the \$60 level from a \$78 high. As a result, global demand is growing again, even after the robust U.S. demand

for gasoline in the summer of 2006. The risks for 2007 are clear on both the upside and downside. Robust demand growth from China and the U.S. will keep supplies tight. Political pressures in the Gulf producing countries – Iran, Iraq, Kuwait, Saudi Arabia, and the UAE – risk supply. So does the failure of the Gulf producers to invest in increasing supplies. In 2007 it will still be the case that OPEC countries can produce no more oil than they could in 1980. Non-OPEC suppliers who have met the increase in global demand since then will see diminishing production in 2007.

The downside risks would be realized by a hard landing in the U.S. economy which would dampen demand. On balance, the risks are on the upside. Watch for oil prices averaging \$65 in 2007.

EUROPE

GREAT BRITAIN

In 2007, you won't have Tony Blair to kick around any more. Tony Blair, perhaps President Bush's closest ally has admitted that Iraq, for which he committed so much of his country's blood and treasure, has turned out to be a disaster. (Interestingly, he attributes the disaster not to the fatally flawed vision of this unnecessary war of choice but to faulty execution on the part of the U.S.)

Blair has dominated the British political stage for so long and has made his message of ‘New Labor’ so central to British thinking that it will be the centerpiece of British politics for years – whether politics is dominated by the Labor or Conservative Parties. Gordon Brown will succeed Blair in 2007 and carry on that tradition.

The British economy in 2007 will continue to outperform the rest of Europe while London will continue to replace New York as the world’s global financial capital. The City has too many advantages compared to New York -- most importantly, a dramatically better geographic position for both travel and communications across time zones.

FRANCE

We won’t have Jacques Chirac to kick around anymore either. (Although his wife Bernadette has said he has not completely shut the door on running for another term. One of his motivations is that as long as he is French president he can escape the corruption trials awaiting him from his years as Mayor of Paris.) If he does run, he will not be elected. France is a deeply troubled country with stubbornly high unemployment, high taxes, slow growth, stagnant incomes, and discontented immigrants and – its people realize with ever greater intensity – less global significance. The political elite of France have failed and there will be a powerful anti-establishment tide in the 2007 presidential elections. All three of the most plausible successors – Segolene Royal of the Socialists, Nicholas Sarkozy of the UMP, and Jean- Marie Le Pen of the National Front – present themselves as outside the consensus. In fact, both Royal and Sarkozy or Segolene and Sarkozy

as they are called have been deeply involved in elite politics for decades. But watch for Royal to make history as she becomes France's first female president. The problem for France is that her election will do little to cure the ills of her country. France is destined for bitterness.

GERMANY

Angela Merkel will maintain her tenuous coalition in 2007 and be Europe's most powerful leader. One way for her to demonstrate her leadership is to spearhead the effort for a new European Union mini-constitution. The French and Dutch voters torpedoed the last one. But as she assumes the presidency of the EU on January 1, a new commitment to ever tighter European integration will be successful. March 25, 2007 will be the 50th anniversary of the Treaty of Rome which established what is now the EU. She will still be EU president and would love to conclude her term with a new constitution on that auspicious date.

Germany will also host the 2007 G8 Summit and German troops are committed to serve in Lebanon. Germany will emerge in 2007 as the first among equals in the EU, no longer subordinated to France or Great Britain.

German business leaders believe that 2007 will be a banner year. But the strength of the euro will make German exports less competitive and the 3% rise in VAT taxes at the beginning of 2007 will substantially dampen the economy.

ITALY

Italy is the true tragedy – or maybe farce – of the EU. Its deficits have been above the EU 3% limit since 2003 and probably a lot longer given its ‘creative accounting.’ Its credit ratings have been downgraded. Its politics are paralyzed as power is used to block but not to construct. Its global competitiveness has diminished as wages have risen without comparable productivity gains. Its education system is a mess.

The goal in Italy is to project a *bella figura*, an “attractive figure.” The Italians have been pulling that off against all odds since the end of World War II, at least. But it is getting harder and harder. The coming year will be no different as Italy slides further down in the global rankings.

RUSSIA

President Vladimir Putin has decimated Russian democracy. There appears to be about as much democracy in Russia as there is in Iran, which is to say none at all. Simultaneously, the president has managed to decimate what is left of a market economy. Kremlin insiders can more or less confiscate any business they choose. And recently they have been choosing to force the owners of more and more business to sell out, often by threatening the business with a bankrupting tax bill. The latest company to be ‘confiscated’ is the world’s major manufacturer of titanium, with whom Boeing has a

contract. Now it is owned by the Kremlin which appoints Kremlin insiders to run the newly nationalized firms.

The latest company to be hit is the Shell oil company over its contract on the Sakhalin Peninsula. But this time it's not taxes, but claims for billions of dollars of alleged environmental damage. Shell responded that it had filed an environmental action plan with the Government of Russia, which a high official then dismissed as "a collection of jokes."

It's not just businesses getting squeezed. It's the people of Russia. Assassination and contract killings have become an instrument of political competition and control.

It is also the non-Russians. In 2007, Russia will expel citizens of CIS countries who are working in the country. The burden will fall especially heavily on workers from Azerbaijan, Georgia, Uzbekistan and Tajikistan. It will also seek to reduce the number of all foreign workers and break up any concentrations of non-Russians and non-Russian orthodox people across the country. Extreme nationalism and xenophobia will become more acceptable.

President Putin will not change the constitution and run for a third term in 2008. But in 2007 he will choose his successor from a short list of two he has already designated: Dimitri Medvedev, 40, Chairman of the Board of Gazprom and in charge of the Kremlin

administration and Sergei Ivanov, 53, former director of the FSB (successor to the KGB) and minister of defense.

Gazprom will continue to bludgeon CIS countries into a more accommodative stance towards Russian domination. Uzbekistan has just caved in. Georgia is under immense pressure.

ASIA

CHINA

The big story in China in 2007 will actually be 2008 – the Beijing Summer Olympics in August, 2008. The coming year will be spent in sprucing up the country for the tens of thousands of journalists and visitors who will flood the country and especially the capital city. What the government wants for 2007 is simple – 10% growth and quiet at home.

The United States will continue to pressure China on trade, especially with anti-free trade Democrats in the Congress. Giving them ammunition is the recent decline in oil prices.

As a result, the percentage of the U.S. current account deficit accounted for by the trade deficit with China has increased. The U.S. will put more pressure on China in 2007. The Chinese will respond. It will let the yuan continue to appreciate against the dollar.

The great challenge for China is to shift its economy from an export and investment driven economy to one driven by consumption. In 2006, China was farther away from this goal than ever as exports expanded twice as fast as consumption. Investment rose to more than 50% of GDP, higher than any country in history.

China is also moving backwards in terms of energy efficiency. According to Ed Yardeni, “China required 4.3 times as much energy as America in 2005 to produce one unit of GDP, up from 3.4 times in 2002.”

China is rapidly expanding its military assets. It is building a blue water navy and has access to ports on the West side of the Malay peninsula, courtesy of Myanmar. Now it is building a port at Ghawar in Pakistan only 50 miles from the border of Iran on the Arabian Sea.

China will note two very important anniversaries in 2007. The year will mark the anniversary of the start of the Sino-Japanese war and of the “Rape on Nanjing” when at least 200,000 Chinese were killed as women were raped as well. The tensions between China and Japan will grow in 2007.

JAPAN. Prime Minister Abe has pleased the nationalists in Japan by demanding that the education system instill greater patriotism. The nationalists will respond to the chauvinism emanating from China with more anti-Chinese rhetoric. They will become

even more hawkish on North Korea which they see being supported by China and which the Japanese see as a principal threat to their security. The U.S. will make more efforts in 2007 to convince the Japanese that the American security guarantee is still valid. The fear is that absent faith in that guarantee, the Japanese will move to “go” nuclear

Despite the China – Japan tensions, the two countries will continue to be each other’s second largest trading partners. But if China’s growth were to slow – and that would be likely in the event of a significant slowdown in the U.S. – Japanese exports would slow, diminishing Japan’s economic prospects. Any slowing in spending by U.S. consumers would also hurt Japan. The U.S. is Japan’s largest trading partner – largely through its purchase of Japanese automobiles. The Government of Japan will respond by maintaining low interest rates in Japan and maintaining a weak yen to stimulate exports.

INDONESIA

President Susilo Bambang Yudhoyono seems to have, finally, committed to serious reforms. As a result, 2007 should be a banner year for Indonesia and see its economy grow strongly. His most difficult challenge will be to diminish the rampant corruption which the ouster of President Suharto did little to end.

INDIA

I returned last week from a visit to India. The country is throbbing with energy as ever greater numbers of entrepreneurs attract more and more investment capital. They struggle

against the usual bottlenecks – power, ports, roads – but they are also struggling to overcome a more difficult challenge – a shortage of human capital. India has chosen to go the high-tech route to development, whether through business process outsourcing, software development, call centers, or high-tech manufacturing. Firms are competing for the limited number of the Indian population that can contribute and are beginning to find that a vast population, now above 1.1 billion, does not present a useful labor force absent massive educational reforms. The high-tech route also produces another challenge for India. It is not providing enough jobs. The service sector and high-tech manufacturing simply cannot absorb the tens of millions of new workers that enter the labor force each year.

Nonetheless, the bottlenecks have not yet reached the level at which they will dampen the booming economy. India should continue to grow in 2007 by at least 8%. More good news comes from finance minister Chidambaram's revamping the government's tax collection. Tax revenues are up 40% over last year, giving the government new resources to attack the bottlenecks.

Still, India's sustaining rapid growth beyond 2007 will require robust new reforms. But Prime Minister Manmohan Singh is hemmed in with a coalition government that includes political parties from the communist left to the center right. Consensus on reforms is limited, especially with parties seeking local political advantage through pork barrel projects meant to enhance their regional rather than national support.

India is worried that its economic growth is attracting vast numbers of illegal immigrants. One response will be the building of a high fence to seal its lengthy and otherwise porous border with Bangladesh to the east. The border fence will completely surround Bangladesh and be more than 4, 100 kilometers long. The government will spend hundreds of millions on the fence. But its utility is problematic.

On the diplomatic front, India, with U.S. encouragement, is attempting to change its geographical complexion. While India has been thought of as the heart of South Asia, it would now like to be known as the Western edge of East Asia. India seeks to associate with the powerful and economically prosperous states to its East, including especially China, South Korea, and Japan. This has been especially welcome by Japan which sees India as a counterweight to China. For the same reason, China is opposed to India's joining Asian regional organizations.

Not that all aspects of the Japan-India relationship are positive. Japan was shocked when the U.S. agreed to provide nuclear materials and technology to India, a country that had refused to sign the nuclear Non-Proliferation Treaty.

NORTH KOREA

No amount of sanctions will convince North Korea to end its nuclear program and open itself for inspection. North Korea has experienced grave hardships and further punishment will do nothing to budge Kim Jong Il. What might be useful is for the United

States to enter into bilateral talks and offer Kim a deal. This is an attempt the Bush administration has refused to contemplate insisting on talking with North Korea only in the company of South Korea, Japan, China, and Russia. But those states have very different interests in North Korea and the U.S. will not be able to get the action it wants with them along.

The issue is important, not because North Korea is likely to launch nuclear war. But because Kim may choose to keep himself in power by selling nuclear technology, as he has done with missile technology. A more chilling prospect is that North Korea's nuclear capability will lead to South Korea's deciding it cannot depend on an American commitment to defend it and itself go nuclear. This would certainly drive Japan to a nuclear program which, in turn, would intensify China's concerns for its own security. In short, a failure to end North Korea's nuclear capability could lead to a nuclear Asia.

In 2007, pressed on all sides, Mr. Kim will become even less predictable than he is now. In 2007, I suspect, dealing with North Korea will be as frustrating as it was in 2006 while Kim makes more progress towards more nuclear weapons.

THE WESTERN HEMISPHERE

U.S. POLITICS

The Bush administration will become ever more of a lame duck in 2007 as the attention of politicians turns to the main event – the 2008 elections. On the Democratic side there will be a massive “anybody but Hillary” campaign searching for a candidate who could head off her juggernaut in the primaries. Obama will run if he can convince his wife, Michelle, that he would not be assassinated. (That was something Colin Powell could never convince Alma, his wife, to be the case.) Many others will enter the Democratic race which, as a result, will not be decided in 2007.

The Republicans have a clearer field. John McCain leads but does not generate the visceral dislike that Hillary generates in so many. That gives the challengers a more difficult target and will do much to shrink the field of hopefuls. At the end of 2007, the Republican contest will be a whole lot clearer than at the end of 2006.

Income inequality will continue to increase in 2007 – enough to guarantee that it will be a political issue in the 2008 election.

Robert Gates will be in charge of DOD in 2007. The Defense Department controls some 80% of all U.S. intelligence collection. As former CIA chief, Gates is perfectly

comfortable in that world. Given the recently created office of DNI – Director of National Intelligence – headed by John Negroponte, watch for turf battles to erupt.

LATIN AMERICA

Much of Latin America is enjoying a relatively rare bout of prosperity. The prosperity is driven by high global prices for the raw materials and foodstuffs that the continent exports. The fundamental flaw of Latin America is its failure to industrialize. With the exception of Mexico, Chile, and Costa Rica, the countries of the region are not internationally competitive and have not been able to export higher value added industrial products. They are at the mercy of the commodity price cycle and will remain so in 2007.

MEXICO

The Mexican economy is dependent for its well-being on the U.S. economy. As the U.S. slows in 2007, so will economic growth in Mexico. The slowdown, in turn, will fuel the dissidents. AMLO, Andres Manuel Lopez Obrador, the defeated PRI candidate for president has refused to concede to President Felipe Calderon. He will also go about strengthening his ties with the People's Popular Assembly of Oaxaca (APPO), which initially sought the ouster of the local governor but has since turned violent. The great danger to Mexico in 2007 is the linkage of these political dissidents with the ever more powerful and well armed narcotics gangs. The Colombia model is the nightmare scenario for Mexico. Mexico will not be turned into Colombia in 2007. But the new president will

be so busy dealing with his internal crises and his split parliament that basic structural reforms will be ignored.

What's the problem? Just remember that it is the phenomenal demand for cocaine and every other illegal narcotics that has driven Colombia to its present state and is driving Mexico to internal destruction.

GLOBAL WARMING

Some 850 new coal fired plants are now being planned or are under construction in three countries, none of which are covered by the Kyoto accords – the U.S., India, and China. By 2012, the plants in those three countries are likely to pump an additional 2.7 billion tons of carbon dioxide into the atmosphere. No matter how much the Kyoto countries cut their CO₂ emissions, the reductions will not come close to matching the new output from the new coal plants. If you love global warming in 2007, you'll like it even better in 2012.

THE INTERNET

Will contribute to wrecking democracy as we know it and to paralyzing governments of all political persuasions. The ability of small numbers of people to discover their perceived common interests through the Internet and then use the Internet to organize is a

growing risk for all democracies. Small numbers of citizens can mobilize enough political power to block meaningful legislation. The U.S. and India each have more than 2 million Non-Governmental Organizations. Those NGOs are largely self-appointed and self-selected guardians of some cause to which their members are committed. No one elected them yet they exercise power at least to block legislation that affects their interests. The ultra-nationalist and ultra-religious Israeli settlers on the West Bank are another example of a small blocking group organized around and through the Internet. The proliferation of special interest groups in Italy has been effective in preventing Italy from privatizing and reforming its economy with the result that its economy has become a shambles. But nowhere is the role of the Internet more evident than among terrorists who have discovered how to use the web to encourage young, angry men to self-organize into terrorist cells. The Internet will become an ever more powerful tool in 2007 to limit the ability of democracies to deal effectively with their challenges.

THE DEATH WATCH

Remember, this is not a wish list. It is a forecast. My record on forecasting deaths in 2006 was not all bad. Ariel Sharon is alive but not politically. Fidel Castro is apparently also alive but not well enough to attend his 80th birthday party in Havana. Jacques Chirac did not have another stroke. The Saudi King and Crown Prince are still with us and both still healthy. Batting less than 500%.

Who will be visited by the grim reaper in 2007? King Mahendra of Nepal is on my list. He withstood a Maoist rebellion, suppressed his own people and called out his army to protect his throne. But he has lost the struggle and will be in exile or dead before 2007 is out.

Dr. Mahathir Mohamad, the former Prime Minister of Malaysia and the father of its modernization will be 82 in 2007. He also has appeared recently to be losing his deft touch. He will be remembered as a great leader but also a leader who introduced divisive elements – controversy over the role of Islam --into his country.

One of the most amazing rulers is the King of Thailand. King Bhumibol has served since 1946 – longer than any other head of state. Born in 1926, the King is revered by Thais and is credited with moving Thailand to democracy in the 1990s but he did not oppose the September 2006 military coup. He may very well leave the scene in 2007.

Just for good measure, I will stick with the king of Saudi Arabia who was born in 1924 and his Crown Prince who is not much younger but has been operated on for cancer.

THE UNIVERSITY OF CHICAGO

has a brilliant future in 2007 and beyond. The demand for talent-intensive, intellectually based skills is increasing relentlessly across the globe. With the Graduate School of

Business at the top of its game under Dean Snyder and the University enjoying a huge burst of energy and growth under new President Robert Zimmer and Provost Thomas Rosenbaum, the University of Chicago will become ever more central to the global economy, to the development of global culture, and to global intellectual developments.

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