

## 2009: THE CRISIS BEFORE US

Marvin Zonis, Professor Emeritus  
The University of Chicago  
Booth School of Business

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### THE PSYCHOLOGY OF THE GLOBAL CRISIS

It will be impossible to understand the world in 2009 without understanding three psychological processes now at work: Humiliation, Anxiety and Mistrust.

#### Humiliation

The dictionary defines humiliation in the following ways:

Feeling [disrespected](#);

Experiencing a loss of [stature](#) or image;

An image change reflecting a decrease in what others believe about your stature;

Induced [shame](#);

To reduce the [pride](#) or fail to recognize the [dignity](#) of another;

An event perceived to cause loss of honor and induce [shame](#);

Feeling powerless;

Being unjustly forced into a degrading position; and

Ridicule, scorn, contempt or other treatment at the hands of others.

#### Anxiety

Another dictionary definition:

Painful or apprehensive uneasiness of mind usually over an impending or anticipated ill;

An abnormal and overwhelming sense of apprehension and fear often marked by doubt concerning the reality and nature of the threat, and by self-doubt about one's capacity to cope with it.

#### Mistrust

The Merriam-Webster dictionary defines trust as the “assured reliance on the character, ability, strength, or truth of someone or something; one in which confidence is placed.”

A sense of humiliation or disrespect or feeling diminished or depreciated or reduced in worth or dignity is precisely what billions of people around the world are feeling as the value of their assets have been destroyed; their jobs lost; and their prospects for betterment eliminated. In every case, what follows this sense of humiliation – or however you wish to refer to it – is anger and, usually, rage.

Anxiety is pervasive as well. The sense of fear drives panic and leads to a mutually reinforcing pattern of sell-offs that in turn generate anxiety and fear that in turn lead to more sell-offs.

Trust is what is now lacking. Mistrust is pervasive – mistrust of the economic elites who got us into this mess and mistrust of the political elites who watched the bubbles build

and let it happen and mistrust in each other for being co-conspirators. When people mistrust in this way, they withdraw their trust from the government and strengthen their trust in more particular identities – those who share their ideologies, their fellow-religionists, their ethnic groups or tribes, their families. All result in national solidarity dissipating.

Put together pervasive fear and a fraying of the national bond with rage and you have the ideal formula for political instability. That is what we will see across the world in 2009 with significant consequences for political and economic stability.

### **ANTI-ANXIETY AND ANTIDEPRESSANT MEDICATION**

What will be going up in 2009 besides political instability? For sure, sales of anti-anxiety and anti-depressant medication. This will be the great year for psychotropic drugs. As it is, the people of industrialized countries are no strangers to the world of mood changing drugs. France has been the world leader in the consumption of antidepressants. The U.S. is not far behind with 213 million prescriptions issued for antidepressants in 2003, the most frequently prescribed class of drugs in the country. Total world revenues for antidepressants were above \$13 billion in 2005 and are estimated to have climbed substantially since then. Tens of thousands of US troops in Iraq have been prescribed antidepressants to help them cope with the horrors of their duties.

All this will seem quaint as hundreds of millions turn to new drugs to cope with the 2009 economic and political crises. Fortunately for them, the patents on 9 out of 10 of the most prescribed anti-depressants expired in the years 2006-2010. So the price of the drugs is plummeting as the market is flooded with generics. In other words, don't take this boost in pill popping as a useful stock tip for 2009.

(<http://www.visiongain.com/Report.aspx?rid=167>)

### **POLITICAL RISK**

In all countries, financial/economic crises generate a political response. Democracies are fortunate because their periodic elections allows the incensed populus to “throw the bums out,” something which the American people did with a vengeance on November 4. But countries without regularly scheduled elections or with fake elections have no mechanism for the peaceful expression of political rage. Watch for significant political crises in countries that have experienced sharp downturns in income. Their political leaders will respond with new outbursts of populism, attacks on market economies and “casino capitalism,” and the reassertion of religious sensibilities, especially Islamic radicalism. But the result of all that will be to postpone the emergence of their countries from the economic debacle leaving their people more humiliated, more enraged, and more poor.

### **COMMODITIES**

The IMF identifies 53 developing countries and 5 industrial countries that rely on non-fuel primary products for a major share of their export income. These include, for example, Burundi (97 percent), Madagascar (90 percent), and Zambia (88 percent). Of the industrial countries, Australia's share of commodity exports to total exports is at 54 percent while Iceland is at 56 percent. In addition, many countries remain overwhelmingly dependent on export receipts from a single commodity. A single commodity represents more than 90 percent of export earnings in Dominica – bananas, or coffee in Ethiopia, sugar in Mauritius, uranium in Niger and copper in Zambia.

(From (<http://www.imf.org/external/pubs/ft/fandd/2003/03/cash.htm>).

So what's happened to commodity prices? Let me give you some examples:

**PALM OIL** has fallen 64 % from its recent high. (ringgits per metric ton): 4,298-d1,550

**WHEAT** down 60%. (In cents per bushel, from 1,280 to 514)

**SOYBEANS** down 47%. (In cents per bushel, from 1,658 to 884)

**COFFEE** down 32%. (cents per pound, from 165.40 to 112.20)

**COPPER** down 61%. (cents per pound, from 407.75 to 157.1)

**RUBBER** down 49%. (yen per kilogram, from 350 to 179.5)

**COBALT** down 75%. (dollars per pound, from 120 to 30)

**COTTON** down 51%. (cents per pound, from 90 to 44.30)

**OIL** down 72% (dollars per barrel, from 147 to 50)

**LOW GRADE IRON ORE** down 71%. (dollars per metric ton, from 200 to 57)

Watch for the 53 developing countries that depend on commodity exports for their economic well-being to sink into economic hardship. Also, expect political turmoil to follow economic decline. For the countries suffering commodity collapses that already confront political unrest, the formula is likely to prove debilitating and destabilizing.

21 of these basket case commodity countries are in Africa. Zimbabwe is already on the brink of political and economic catastrophe. It is now guaranteed disaster. South Africa is in the midst of a political transition, which has already destabilized the country. It will be further shaken in 2009. Other commodity exporters in Asia – Australia, Indonesia, Bangladesh, the Philippines and Thailand will be hurt and will see an upswing of anger directed at political leaders. (As Stephen Roach has noted, “Exports accounted for 46.7% of gross domestic product in Asia, excluding Japan, in 2007. That is a jump of 11 percentage points more than the comparable figure in 1998, during the last economic crisis in the region. In other words, Asia is now 30% more reliant on exports than it was less than a decade ago.) In the Middle East, Turkey, Syria, and Morocco will be hard hit. In the Western Hemisphere, Canada, Argentina, Brazil, Chile, Ecuador, Mexico, and Peru will be battered.

Identifying the commodity-currency countries: According to the IMF

(<http://www.imf.org/external/pubs/ft/fandd/2003/03/cash.htm>), these are the 58 countries:

<b>Sub-Saharan Africa</b>	<b>Asia-Pacific</b>	<b>Middle East and North Africa</b>	<b>Western Hemisphere</b>	<b>Europe</b>
<b>Burundi</b>	<b>Australia</b>	<b>Morocco</b>	Argentina	<b>Iceland</b>
<b>Cameroon</b>	<b>Bangladesh</b>	<b>Syrian Arab Republic</b>	<b>Bolivia</b>	Norway
<b>Central African</b>	India		Brazil	

<b>Republic</b>	<b>Indonesia</b>	<b>Tunisia</b>	Canada
<b>Côte d'Ivoire</b>	Malaysia	Turkey	Chile
Ethiopia	Myanmar		Colombia
<b>Ghana</b>	New Zealand		Costa Rica
<b>Kenya</b>	Pakistan		Dominica
Madagascar	<b>Papua New</b>		<b>Ecuador</b>
<b>Malawi</b>	<b>Guinea</b>		Guatemala
<b>Mali</b>	Philippines		Honduras
<b>Mauritania</b>	Sri Lanka		Mexico
Mauritius	Thailand		Nicaragua
Mozambique			<b>Paraguay</b>
<b>Niger</b>			Peru
Senegal			St. Vincent and
South Africa			Grenadines
Sudan			Suriname
Tanzania			Uruguay
<b>Togo</b>			
Uganda			
Zambia			
Zimbabwe			

But the bad news of commodity price decline driven political instability gets worse. For farmers that grow commodities and countries and companies that extract them respond to price signals. As commodity prices have been battered, production will decline in 2009. When global economic growth returns – in 2010 or beyond -- and demand for commodities responds, prices will be sharply higher. This will especially be the case with petroleum prices. Bet on \$80 per barrel being the new equilibrium price for oil given sharply higher production costs. With prices hovering around \$50, don't expect much new oil to be brought online in 2009.

## **TERRORISM**

After Mumbai, we know for certain that terrorism is alive and will be well in 2009. This will be true whether Osama Bin Laden is alive or dead. This will be true whether or not President Obama sends thousands of fresh American troops to Afghanistan. That country – but never Iraq -- had been terrorism central. But now terrorism has globalized and become a distributed phenomenon. No matter the outcome in Afghanistan, and I remain pessimistic, terrorism will become more severe in 2009 as the global economic crisis intersects with traditional Muslim grievances to produce more angry young men and boys, susceptible to the blandishments of their politically calculating elder leaders. They

remain convinced, despite years of evidence to the contrary, that they can achieve their aims through murdering innocents.

## **THE MIDDLE EAST**

### **AFGHANISTAN**

What is wrong with the following picture? NATO has 47,000 troops in the country, of which 13,000 are Americans while another 20,000 U.S. troops operate independently of NATO. President Obama will increase the number of U.S. troops to 53,000. The world has pledged \$20 billion in aid to the central government. Meanwhile, Afghanistan produces more than 90% of the world's heroin. The war in Afghanistan will become more severe in 2009 and the United States and NATO will find themselves ever more distant from establishing a meaningful central government. Afghan corruption and tribalism will keep the heroin flowing and the war, a losing proposition.

### **DUBAI**

The world's tallest building, The Dubai Tower, will be completed in September, 2009. When small countries build tall towers, it is a sure sign that grandiosity has taken hold. And grandiosity always precedes a fall. So will it be in Dubai. The Emirate with its startling transformation will suffer severe setbacks in 2009 and be bailed out by the richer Emirate, Abu Dhabi.

### **IRAN**

Iran will celebrate important 30<sup>th</sup> anniversaries in 2009. January 19 will mark the 30th anniversary of the flight of the Shah in 1979; February 1, the return of Ayatollah Khomeini from exile; and November 4, the seizure of the US Embassy. President Ahmadinejad will use the occasion to beat the drum for the Islamic Republic's greatness and his responsibility for it – hoping to enhance his chances for re-election in the presidential elections of June 12. But the winner of that election will, in the end, be determined not by the candidates but by the 'Supreme Leader'. He will throw his support and that of the entire system to his favored candidate or, failing that, will not support any of the pre-approved candidates. In either case, the value of incumbency will be dramatically reduced.

The most likely challengers to Ahmadinejad are his successor as mayor of Tehran, Mohammad Bagher Qalibaf, Mehdi Karroubi, a reformist former speaker of the parliament, and any number of 'wild cards,' among whom are the grandson of Ayatollah Khomeini and a former president.

Ahmadinejad has done such a pathetic job of managing Iran's economy that he likely to be defeated. Official government statistics have inflation pegged at an annual rate of 29 percent. Non-official economists see the rate at double that. The government has apparently been raiding the Oil Stabilization Fund to pump resources into the economy. The result has been extraordinary hardships for the average Iranian and increasing political dissatisfaction.

Ahmadinejad has bolstered his position the old fashioned way – through hyper-nationalism and blaming the U.S. for Iran's woes. His government has also increased aid to Hezbollah in Lebanon and Moqtada al Sadr's Mahdi Army in Iraq.

Iran vigorously carries on with its program of nuclear enrichment, increasing the number of centrifuges at work, and stiffing the International Atomic Energy Agency's attempt to learn more about all dimensions of the nuclear program. Importantly, if Ahmadinejad is defeated in the coming elections, it will mean little to Iran's nuclear policies that are securely in the hands of the Supreme Leader.

Despite Iran's denials, it is hell bent on acquiring nuclear weapons. Its enrichment program is meant to provide the nuclear material. Its military runs a program to design and build nuclear weapons. Its space program is a cover for its work on ICBM nuclear delivery rockets. They will not achieve success in these endeavors in 2009. But they will remain busy at work.

Iran seems to have considerably moderated its position on Iraq. It has reached the conclusion that its best interests in that country would be served by a speedy American withdrawal and the stability of the al-Maliki Shiite based government. As a result, Iran supported the recent Status of Forces Agreement negotiated between Prime Minister al-Maliki and the U.S. and passed by the Iraqi parliament.

Iran's support for the treaty increases the likelihood of direct U.S. – Iranian talks in 2009. President Obama will make the break through. And Iran will accept. But don't look for any beneficial results anytime soon. Iranians are not the world's most adept rug dealers for nothing. Negotiating skills are their middle name.

## IRAQ

The Iraqis have committed to a Status of Forces Agreement with the U.S. that calls for a withdrawal of U.S. forces from Iraqi cities, towns, and villages by June 30, 2009. They have effectively validated incoming President Obama's timetable for an Iraqi withdrawal. (An escape clause exists in the Agreement which allows Iraqi Prime Minister al-Maliki to ask for an extension in the event of a security crisis.)

The pact is a triumph for al-Maliki who stood up to Bush administration demands and forced the U.S. to back down and accept specific dates for an American withdrawal. In addition, the U.S. has agreed that it will hold no permanent bases in Iraq after its withdrawal and will never use Iraqi soil to attack another country – conditions especially welcomed by Iran.

Al-Maliki has turned into something of a strongman while bullying his opponents, especially the Kurds, while reaching out to the Sunnis. He is positioning himself for two key elections to be held in 2009 – local provincial elections towards the beginning of the year and general elections towards the end. The fate of those elections and of the al-Maliki government depends on three factors. First, the Government of Iraq must convince the Sunnis that they can be included in the national state and that their participating in the elections will determine that. The Shiites, in other words, have to be prepared to share power, not only with the Sunnis but in a more meaningful way with the Kurds. Second, the ability of the central government to control Moqtada al Sadr and his Mahdi Army will determine its ability to establish a national, cohesive state and unity among Shiites. Third, the Iraqi security forces must prove capable of replacing U.S. troops in maintaining the safety of cities and the security of key officials.

Security is certainly vastly improved – killings in Baghdad have fallen from 4,000 per month in the last half of 2006 to “only” 500 per month at present. These vast improvements will not be reversed by the elections of 2009. But progress to a stable and inclusive state will be very limited in 2009. Iraq will remain a fragile, fragmented, corrupt, patronage ridden, petro-state.

## ISRAEL

If President Bush is a “lame duck,” then Israeli Prime Minister Olmert is a “dead duck.” The recent news from Israel’s Attorney General that Olmert is likely to be indicted for double dipping on his travel expenses have killed off whatever power he had after his forced resignation. The result will be a hiatus in Olmert’s search for an agreement with the Palestinians as well as Israel’s coping with the challenge of Iran’s nuclear program. The paralysis will be resolved after February 10 when Israel holds parliamentary elections and is able to form a new government. Given that a majority of the Israelis support a peace deal with the Palestinians, I am betting on Tzipi Livni, the candidate of Olmert’s Kadimah Party and his chief negotiator with the Palestinians, to be Israel’s next Prime Minister. Absent a new terrorist attack inside Israel proper, she is likely to defeat Bibi Netanyahu who has taken a much tougher line against the Palestinians. Peace talks will accelerate, driven also by the new push that will come from the Obama administration. What better triumph could Secretary of State Hillary Clinton achieve than to oversee the Palestine-Israel Peace Deal of 2009!

## SYRIA

The 2008 assassination of General Mohammad Suleiman, President Assad’s chief liaison with both Hezbollah and North Korea was a shock to his regime. But Assad continues to maintain his power as a secretive and combative ruler. Privately, talks with Israel will continue. Publicly he will support Iran and their allies in Lebanon and maintain his tough, anti-U.S. stance. He will stonewall the International Atomic Energy Agency, still trying to determine just what Israel blew up in September 2007. But someone – the U.S.? Israel? is out to send him a message. Damascus politics will be at a boil in 2009.

## ASIA

### CHINA

According to Chinese astrology, 2009 will be the year of the Ox. But I see 2009 as the year of Unrest in China. Some of the unrest will be driven by important anniversaries. March 10, 2009 will mark the 50<sup>th</sup> anniversary of the Tibetan rebellion, which drove the Dalai Lama into exile. The 20<sup>th</sup> anniversary of the crackdown of June 4, 1989 in Tiananmen Square will also stir unease. But most of the strikes, riots, and demonstrations will be driven by economic unrest driven by rising unemployment, property seizures, and economic hardship. The rulers of China understand perfectly well that economic decline in China translates rapidly into political unrest. And GDP growth in China of less than 6 percent per year is considered economic decline. Thus Chinese authorities have demonstrated their concern by taking all sorts of policy initiatives to prevent a catastrophic economic decline. Moreover, the Chinese authorities have run the world’s best run economy for decades and they have the foreign exchange reserves and bureaucratic capacity to make those policy initiatives work.

Nonetheless, Chinese exports will plummet in 2009 both from the stronger renminbi – up 20 percent over the dollar – and from the world’s economic retreat. That in turn has led to a significant freezing up of the property market and the beginning of significant price declines. Add to this a major increase in unemployment and a generalized anger over continued corruption and property seizures, especially by local officials. The result is a perfect recipe for widespread unrest that will blossom in 2009.

The regime response will be very different in 2009 from the response at Tiananmen in 1989. This time, with the world watching and China far more deeply enmeshed in global economics and politics, the regime will loosen, not tighten. The result will be a more open China, a less corrupt China.

What will really grow in China in 2009 will be religion. The Chinese people have no overarching system of values in which to find refuge in times of rapid social change and in times of trouble. Buddhism, Taoism, Islam, Catholicism, Protestantism are the 5 officially recognized religions. They will be the only growth industries in 2009.

#### INDIA

India will hold general elections in 2009. The ruling Congress coalition led by Prime Minister Manmohan Singh faces an extraordinarily powerful challenge from the opposition BJP. The people of India will become increasingly critical of the Prime Minister because of the ineptitude of his government in dealing with the outrages of late November. The BJP will exploit popular dissatisfaction and has branded the Prime Minister as soft on terrorism and insufficiently protective of Hindu national interests. This electoral pressure will force the Prime Minister to take a far tougher line on the terrorists. That means he has to attack Pakistan – at least verbally -- and threaten armed retaliation. All this will deeply challenge President-elect Obama who is committed to treating the South Asia conundrum as a single whole rather than in three parts – Afghanistan, Pakistan, and India. It is clearer now, than ever before, that the instability NATO is fighting in Afghanistan is deeply enmeshed in the politics of both India and Pakistan.

But dealing with the region in its entirety will be more difficult than ever given the Mumbai terrorist attacks and Indian and Pakistani politics.

The BJP is likely to win the 2009 elections and Hindu nationalism will be ever more assertive. This will worsen relations between India and Pakistan but also between India’s Hindu majority and its 140 million Muslims, the vast majority of whom have not participated in the economic boom of the last several years.

India’s economy, somehow, will continue to grow through all this. Inflation is down, food production is up, consumer confidence is high and consumer spending as a percentage of GDP is about 70 percent higher than in China. Savings have reached 30 percent of GDP insuring that vast funds are available to invest in the economy. The Terrorist attacks will be a relatively short bump in the economic road and not a roadblock.

## INDONESIA

Indonesia has the fourth largest population in the world and is a member of OPEC. But unfortunately for Indonesia, the country became a net oil importer in 2004. 34 political parties are competing in parliamentary elections on April 9. Candidates are beginning to declare themselves for the presidential elections to follow with many promising to copy Barack Obama's winning Internet campaign strategy.

## JAPAN

Industrial production in Japan fell 12 percent from September, 2008 to December. (Countries everywhere in the world that live by auto exports will suffer from them.) Already in recession, Japan's economy will continue to decline in 2009. The result will be pain for Prime Minister Taro Aso, the 68 year old arrogant and vain leader who, for example, refuses to wear eye glasses when reading his speeches. The results are endless verbal gaffes and embarrassments. He will be gone in 2009. But unfortunately, the traditions of Japanese politics will remain – sclerotic and timid.

## NORTH KOREA

This mysterious dictatorship has become even more mysterious with the illness of Kim Jong Il. He has apparently suffered two brain aneurisms which have left him disabled on his left side. Watch for his fading from power in 2009. A clique of military officers will become more influential. They will hold onto power by accelerating the strident and virulently anti-South Korean and anti-U.S. propaganda fed to the North Korean people. Negotiations over the dismantling of their nuclear installations will depend on massive aid from South Korea and the West, just sufficient to keep the military rulers in power and their people barely fed.

## PAKISTAN

The absurdity and tragedy of Pakistan are exemplified by the apparent perpetrators of the Mumbai terrorism – Lashkar-e Taiba or “Army of the Pious.” The organization was branded a terrorist organization by the U.S. in 2001 after 9/11 and after attacks on the Indian parliament. Pakistan then banned the group. But its leaders, after a brief imprisonment, were released and allowed to carry on. Lashkar then started a front organization and has operated openly in Pakistan ever since. Lashkar appears to be an arm of the Pakistani military and uses its militant brand of fundamentalist Islam to recruit and motivate its youthful killers.

What's wrong with Pakistan, and as a result, all of South Asia and increasingly the world, is that Pakistan has no functioning central government able to control its territory. More or less independent bureaucracies carry on their own domestic and foreign policies. Increasingly descending into Islamic fundamentalism, nuclear-armed Pakistan is in danger of collapse and remains the single greatest threat to world peace.

## THAILAND

The standoff between the yellow shirted opponents of the government of Thailand and the red shirted supporters of the government will continue into 2009. But the humiliation driven rage and anxiety are building to stunning and probably uncontrollable level. This time, violence is likely. Thailand's growth rate is plummeting, adding to the rage.

## EUROPE

### FRANCE

France and Germany will both be in recession during 2009. But President Sarkozy is nonetheless celebrating. The opposition Socialists seem to have committed hara-kiri in electing Martine Aubry as their leader by 102 votes of the 134,800 cast over Segolene Royal whom Sarkozy defeated in the last presidential elections. Ms. Aubry is a hard left socialist, the mother of the 35 hour work week and has promised to move her Party to the left and definitely not to the center. Just the prescription likely to drive France back to the stone age. Instead, President Sarkozy will continue to nibble away at France's anti-business practices while using public monies to strengthen French business. His French version of a Sovereign Wealth Fund will pump euros into French businesses to fend off foreign takeover bids – a policy which is, unfortunately, not in the long term interests of French companies. Sarkozy will also bring France back to the West. He will rejoin the joint NATO command and celebrate the 60<sup>th</sup> anniversary of the founding of NATO with a joint ceremony with Germany on the Rhine.

### GERMANY

Germany's economy is in trouble and so is its Chancellor. Angela Merkel has offered only a stingy 12 billion euros over two years as a fiscal stimulus package. She has taken an unusually passive stance in dealing with the crisis, leaving Europe's response to British Prime Minister Brown and to French President Sarkozy. At the heart of it all seems to be the German election calendar. Germany will hold a federal election in September 2009 and Merkel's Christian Democratic Union (CDU) is losing power to her coalition partner, the Social Democratic Party (SPD). The SPD has been surging in the polls and advocates precisely the kinds of policies that will dampen German growth – a ban on firing in firms that are profitable and a rise in the minimum wage along with new and harsh regulations on finance. Ms. Merkel is a skilful politician and will struggle between now and the Fall to reassert the dominance of the CDU. But she will fail and Germany will turn left.

### GREAT BRITAIN

Great Britain, along with Ireland and Spain, are the countries in Western Europe in even worse shape than the U.S. Household debt in the UK reached 165 percent of personal income. House prices, aided by mortgages of 120 percent of house values, boomed far more than in the U.S. In the last ten years, the size of the state ballooned from 37 percent of GDP to 46 percent. And now, the central industry in the country – finance – is in a state of near collapse. The boom days of London with its restaurants and clubs at sky-high prices are over. The next General Election must be held by 3 June 2010. Watch for Gordon Brown to call a snap election to benefit from his global standing before his domestic standing collapses. Watch for Labor to lose.

### CENTRAL AND EASTERN EUROPE

The 20<sup>th</sup> anniversary celebrations for the fall of the Berlin Wall will be an ambivalent affair. No one will long for the return of Communism. But its successor regimes have left their people wondering what happened to the promises of 1989. A survey by the European Bank for Reconstruction and Development in 2007 found that only 30 percent of the people believed they lived better than in 1989. And that prosperity has been based on foreign capital flows. The region will suffer because those flows, particularly private

flows, will decline markedly in 2009. Worse, most transition countries have failed to make adequate preparations for the dramatic downturn in economic growth they can expect in 2009. Ukraine, riven by political feuds will be the worst off. President Viktor Yushchenko, Prime Minister, Yulia Tymoshenko, and the main opposition leader, Russia-friendly Viktor Yanukovych, are at loggerheads and paralyzing Ukraine's attempts to deal with its key problems which will deepen into recession in 2009.

## IRELAND

On the basis of its ecological credentials, Ireland is a winner. In 2009, it will become the first country to ban the sale of incandescent light bulbs. But in all other ways, 2009 is shaping up to be a disaster for the country. Its spectacular growth has been replaced by an equally spectacular fall. The GDP for 2008 will fall by at least 2.5 percent. 2009 and 2010 will also see negative growth and a massive increase in unemployment, collapsing house prices, and depression level consumer spending.

Having rejected the new European Union Lisbon Treaty in June of 2008, Ireland will soon be the only one of the 27 member states not to have accepted the Treaty. Before the Lisbon Treaty can be enforced across all EU member states, it must be approved by all member states.

Czech President and Milton Friedman devotee, Vaclav Kraus, will become President of the European Union in 2009. He has been an outspoken opponent of both the EU and the Lisbon Treaty, seeing both as an infringement on personal liberty. He will not work ardently to convince the Irish to reverse their stand. How the Irish will be brought around in 2009 remains a great mystery.

## RUSSIA

Russia powerfully demonstrates one side of an old debate – the side that argues that governments can create more economic problems than can the economy. Russia's economic problems are essentially political in nature -- the attempts by the state to capture the rents from its extractive industries and to manage much of its economy through Kremlin insiders. The results have been exactly what any ChicagoBooth graduate would have predicted – plummeting economic efficiency, a drying up of foreign investment, a shortage of advanced technology. As oil prices collapsed and the ruble weakened, Russia's stock market plunged. But many of the leading businessmen had borrowed heavily against their high stock prices. The ride is over. The Kremlin is now bailing out companies – initially, those with Kremlin connections. But now distressed companies are seeking government help and finding it comes with strings – often the strings of a quasi-nationalization. The economic prospects for Russia are much diminished.

Russia in 2009 will see an economic hard landing – not the 7 to 8 percent of the boom years and not the slowdown to 3 percent, which its leaders had recently forecast. Russia's growth will be lower. Its leaders will respond to public discontent in a number of ways. Anti-Americanism will be whipped up with Russia's troubles laid at the feet of the U.S. This hostility will increase as Russian leaders realize that Barack Obama is not the nice guy they had imagined. Russia will also play tougher with its neighbors, especially the former Soviet Republics now independent of Kremlin control. Russia will also press into what it calls is “far abroad,” states not peripheral to Russia, in an attempt to form new anti-American alliances.

The ace in the hole for Russian leaders is the proposed new constitutional amendment now working its way through the Russian system. It would allow 6 year terms for presidents and 5 year terms for parliamentarians. The measure is widely understood to pave the way for Vladimir Putin to return to the presidency after he already ran up against term limits in serving two four year stints as president. If the economy goes further south or if political unrest begins in the Russian Orthodox parts of the country, Putin can put the blame on Medvedev and return to supreme power as, once again, the country's savior.

#### TURKEY

Like many other countries, Turkey will hold elections – municipal elections – in March of 2009. Prime Minister Erdogan has slowed reforms and taken a more vigorous anti-Kurdish and anti-American line in 2008 and has gotten closer to the Iranians. This may be simple electioneering. But it is more likely a sign of the Prime Minister's frustration at not being able to advance his attempts to bring Turkey into the European Union.

But his policies are unlikely to stray from Turkey's traditional pro-Western stance. For one, the military is still watching over his shoulder. For another, Turkey is negotiating another agreement with the IMF. While the Fund will not demand the stringency of past agreements, given the international crisis, it will certainly motivate Prime Minister Erdogan to stay on the straight and narrow fiscal path he has so impressively followed. Finally, Turkey depends desperately on foreign capital. Some 70% of the capitalization of the Istanbul stock exchange, for example, is made up of foreign capital. That capital is already moving out and could flee if the government carries on.

Watch for Turkey is remain politically stable in 2009 with the Prime Minister's Party retaining control of Istanbul, Ankara, and Bursa.

#### U.S. FOREIGN POLICY AND EUROPEAN-U.S. RELATIONS

European leaders will continue to express great pleasure at the election of Barack Obama – we don't call it European Obamamania for nothing. But their joy will begin to collapse as the policies of the new President return to hard-headed American foreign policy "realism." Obama is likely to work towards preserving American hegemony in politics, economics, and military power. He will attend the 60<sup>th</sup> anniversary celebrations of the founding of NATO in April 2009. Watch for him to show up with a list of demands for greater European participation in Western security challenges – starting with their committing more combat troops to Afghanistan. Obama will also be tough on Iran, tough on China, and tough on Russia. Obama's foreign policy realism will lead him to make overtures to opening talks with Iran. But the overtures will be accompanied by new sanctions meant to bring Iran more readily to a deal. Obama will want Europe to take a tougher and more unified stand against Russian efforts to bully its neighbors and use its energy supplies as a political weapon. (Former German Chancellor Gerhard Schroeder who approved the Nordstream gas pipeline under the Baltic Sea from Russia to Germany in his last few weeks in office is especially on the U.S. disfavor list. A few weeks after leaving office he then accepted the position of Chairman of the project.) Obama will also want the Europeans to take a tougher stance on China to pressure it to suspend its immediate interests in bolstering its economy and political influence in Iran, Sudan, and elsewhere in Africa by adhering more closely to UN sanctions. The Europeans will face a

classic “realist” ploy from Obama – the prospect of warmer U.S.-European relations accompanied by U.S. demands as the price for those relations.

## **THE WESTERN HEMISPHERE**

### **BRAZIL**

President Luiz Inácio Lula da Silva, in his second term, has succeeded, as he described it, in making Brazil into “a serious country.” Brazil is so serious a country that it has now been rated “investment grade.” So serious that Brazil will become a more significant global actor in 2009. President Lula has demanded four major global changes: First, that the South increases its power in a new international order. Second, that “a new, more transparent and rule-based international system” be created. Third, that industrialized world take the lead in cutting greenhouse gasses without penalizing the chances for the developing countries to drive economic growth. And Fourth, that “intellectual-property protection cannot take precedence over the ethical imperative of ensuring that poor populations have access to life-saving drugs.”

Brazil will play an assertive global role in 2009. President Bush convened the G-20 (the G-7 plus the major emerging economies) in Washington in order to deal with the global economic crisis. In many ways, President Lula has made Brazil the leader of the emerging markets and the most important spokesman for them. The President will further diversify Brazil’s international contacts. For example, the President has been playing off Russia and France to supply major new arms purchases.

Brazil’s booming agricultural sector will lose its luster in 2009. Its farmers depend, unusually, on multinational grain companies for a substantial proportion of their financing. Those companies will back off and cut loans to Brazil’s farmers who, in turn, will cut plantings and produce a smaller crop of grains in 2009.

Brazil will not make progress in moving its economy from commodity exporting to a higher value added manufacturing export economy. That will guarantee that the government will use up much of its foreign exchange reserves and be punished by the global slowdown and the collapse of the commodity boom. As a result, the left will lose power in 2009 and the right will gain.

### **CANADA**

The headlines on Toronto’s *Globe and Mail*, October 3, 2008:

“Canada’s Commodity Engine Stalls” and “Once Mighty Potash Falls Hard” In short, Canada’s commodity boom has come to an end. Agricultural products, fertilizer exports are all down while oil prices have collapsed. Add to that the role of Canada as auto parts supplier to the US ‘Big Three’ and you have the makings of a very serious downturn in Canada. While the conservative Prime Minister Stephen Harper was recently re-elected, his tenure will be challenged by a united opposition. Canada is caught in powerful forces that drive instability.

### **CUBA**

The biggest changes in Cuba in 2009 will start in the U.S. President-elect Obama said he would lift travel restrictions so families in the United States could visit relatives in Cuba and also that he would lift restrictions on how much money Cuban-Americans could send

to Cuba. He also said he was willing to meet with Raul Castro. All this is a fitting present from Obama to mark the 50<sup>th</sup> anniversary of the Cuban revolution because only outside money can ameliorate the poverty inflicted on Cubans by their revolution. With Fidel Castro's death likely, his brother, Raul, will open the Cuban economy somewhat more and contribute to what will be the lengthy unwinding of the devastating damage already done.

## MEXICO

Mexico will be battered in 2009. Mexico's oil output has been falling even before oil prices collapsed. The U.S. Energy Information Agency estimates that Mexico will become a net oil importer of oil by 2017 as its oil fields' output decline ever more rapidly. Of all OECD states, Mexico has had the lowest tax revenues because the government has been able to live off those oil revenues. But it is not only that revenue source that is disappearing. So it is with remittances. There are fewer migrants to the U.S. and plunging remittances from those already in the United States. From 1997 to 2006 those remittances increased by 5 times to \$24 billion dollars per year, providing Mexico with greater foreign exchange earnings than did its oil exports. Now remittances are falling. The plunge in government revenues will see drug traffickers become more powerful than ever. Their corruption and influence have already reached high into the government. In 2009 they will threaten the integrity of the state. North of the border, the U.S. will worry, mindful of the fact that instability in its significant neighbor to the south is, in the end, driven by the demand by Americans for illegal drugs.

## THE UNITED STATES

Brand USA will be enhanced by the Presidency of Barack Obama. So will Brand Chicago with the International Olympic Committee voting the city as the site of the 2016 Summer Olympics. Brand CHICAGOBOOTH will be greatly enhanced as well as Dean Snyder employs the vast new resources so generously provided us by David Booth.

National politics will be transformed by the centrist Obama administration. The U.S. will go from faith based policies to fact based policies. In the process, the President will win the support of centrist Republicans, leaving the ideological right a more truncated and marginal group. The Republican Party will avoid facing up to its crisis of identity in 2009, waiting for a new "magic leader" to appear, and continue to flounder. No such leader is on the horizon as neither Sarah Palin nor Newt Gingrich fit the bill.

The key to the U.S. future will be the wisdom with which the new administration stimulates the economy while instituting needed new regulations over the financial system.

The fundamental threat to the political stability of the United States comes from the apparent ending of the American dream. According to the Pew Charitable Trust, American "...men who were in their thirties in 1974 had median incomes of about \$40,000, while men of the same age in 2004 had median incomes of about \$35,000 (adjusted for inflation). Thus, as a group, income for this generation of men is, on average, 12 percent lower than those of their fathers' generation. While factors other than cash income also contribute to economic mobility, these data challenge the two-century-old presumption that each successive generation will be better off than the one that came before." With, the failure of the average American to do better than his father

accompanied by a massive increase in inequality coupled with the economic crisis, this country faces an erosion of the roots of its political stability.

The economic recession will also see massive domestic social effects. Crime will rise especially because cities face budgetary crises and are cutting back on police forces. Teenage pregnancies will rise and the welfare system will be stressed. Most Americans will delay major life decisions absent personal savings and economic hardships. Marriages and household formation will be delayed, further diminishing economic stimulus. New births will be postponed as well, easing pressure on the school system in years ahead as the entering school cohort shrinks.

#### **VENEZUELA**

Populism, as widely predicted, turns out not to be as much fun as Hugo Chavez had imagined. As oil prices have plunged, his lavishing funds around Latin America has lost him the support of many of his own people. His political party has lost control of metropolitan Caracas and the three most populous states. He will remain in power in 2009 – a thorn in the side of the U.S. and a promise to the Russians that they are still a global rather than a regional actor. But the luster is gone.

#### **DEATH WATCH**

Many world leaders are pushing the longevity tables. As usual, some will not survive the year.

Fidel Castro handed power to his brother Raul in July 2006 after his intestinal surgery. The 82 year old Fidel's death will unleash new political turmoil with Raul and his military supporters, Miami exiles, and internal opposition all competing for places in the post-Fidel regime.

Kim Jong-Il suffered a stroke or cerebral hemorrhage on August 14, 2008 and a second stroke in October 2008 that has left him paralyzed on his left side and affected his speech. Another fatal stroke is likely to follow in 2009.

Robert Mugabe, the 85 year old despised destroyer of his country will leave power only through death, which will call for him in 2009.

Than Shwe is the chair of the Burma military junta. At 75 years old, he has been in power for 16 years. The regime he runs is beyond despicable. It recently sentenced a citizen of the country to 45 years in prison for organizing a private relief effort for the victims of the May 2008 disastrous typhoon. Dead in 2009.

#### **CONCLUSION**

Well, there's the good news and the bad news for 2009. Regrettably, most of the news is bad. But the good news is that the United States will start the year with a new President and a new administration committed to rectifying the catastrophes of the Bush Presidency. The ROW – the rest of the world – with the exception of Islamic militants, is ready and able to help the Obama administration overcome the challenges. The bad news is that those challenges in the United States and everywhere else are staggering.

The global economic decline will drive humiliation, anxiety, and mistrust. The resulting rage will generate political instability in many countries and reduce the chances in those countries for a speedy resolution and for economic recovery.

The lucky countries – those with democratic political systems –have institutionalized means to express that rage and direct it into electoral channels that do not threaten the stability of the system.

“Democracy,” as Winston Churchill famously said, “is the worst form of government except for all those others that have been tried.”