

International Political Economy

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Special Report

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WICKED PROBLEMS IN 2010

Annual Business Forecast

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Marvin Zonis offers his Annual Forecast for 2010.

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WICKED PROBLEMS IN 2010

Annual Business Forecast

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According to the eminent physicist and mathematician, Freeman Dyson, “The purpose of thinking about the future is not to predict it but to raise people’s hopes.” He went on, “It is characteristic of all deep human problems that they are not to be approached without some humor and some bewilderment.”

Well, I do want to address “deep human problems” which I refer to as “wicked problems,” problems that are difficult or impossible to solve. In addition, the effort to solve one “wicked problem” often leads to the creation of new “wicked problems.” I fear, therefore, that I will fail to raise your hopes. But I will share with you my considerable bewilderment for the future in 2010.

MAJOR GLOBAL TRENDS

Some global trends are obvious for 2010.

Fortunately, there are no wars between major military powers nor are there likely to be.

Food prices are likely to continue their upward trajectory and lead to further malnutrition and more children’s deaths.

Governments everywhere will play a larger role in their countries. Governments are good for many things. But not for generating wealth. The result will be slower global economic growth.

The Chicago model, which dominated global economic thinking, at least for the last three decades, has lost its power. Rightly or wrongly, countries everywhere will be searching for a new way to understand their economies.

Governments will struggle to manage and contain the anger of their citizens in the face of rising unemployment, housing foreclosures, collapsed investments, investment fraud, government corruption and political repression.

HUMILIATION/ANGER/MISTRUST

The three great psychological variables, which I highlighted last year, will take on increasing power in 2010.

Nowhere more so than in the United States. The broadest measure of unemployment, which is called U6 and includes discouraged workers, part-time workers who want a full time job, and marginally attached workers, has reached a post-depression high of 17.5 percent. In October 2009, the homes of 332,000 Americans were foreclosed. An estimated 7 million homes are likely to be foreclosed in the future.

These realities are driving humiliation and anger. Watch for the Democrats to respond with new populist measures in 2010.

In 2006, Osama Bin Laden pronounced on the fate of Muslims. "They [the United States] have attacked our brothers in Palestine as they have attacked Arabs and Muslims elsewhere. The blood of Muslims is shed. It has become too much. . . We are only looked upon as sheep and we are very humiliated." Everywhere around the world, Muslims feel humiliated and angry and they will only feel more so in 2010 as the war in Afghanistan deepens.

No matter how well intentioned, military occupation generates humiliation and anger. Its capriciousness and uncertainty are deeply unsettling, whether the occupation be by the US in Iraq or Afghanistan or in the West Bank by the Israelis.

Of course, even the Israelis will feel humiliated in 2010. They will see the US as abandoning them and the American Jewish community split over its formerly unflinching support for what every Israeli political leader may feel Israel needs (or wants).

THE GLOBAL ECONOMY

The greatest challenges for governments in 2010 will be:

to design strategies for addressing their massive fiscal deficits and debts;

to design strategies for dealing with capital flows into their countries that minimize the risks of their destabilization;

to design and implement new strategies for future global growth in which the US is not the driver of that growth through its massive imports and the rest of the world seeks prosperity through massive exports to the US.

These problems will not be solved in 2010. But at least they will be addressed.

THE MIDDLE EAST

AFGHANISTAN

President Obama will send an additional 30,000 US troops to the country. But what those troops will do in 2010 has been one of his greatest challenges. Instead of measuring success through body counts of dead Taliban, the US will pursue a "smart" strategy, called the "Community Defense Initiative."

NATO will train, arm, and fund local militias who will defend their turf against the Taliban. NATO will also reach out to moderate Taliban forces to wean them from violence. Much of this will occur through economic assistance, more often called bribes.

One consequence will be increasing US distance from the corrupt and ineffectual President Karzai and his government, thus insuring that Afghanistan will continue in its historical pattern of diffuse power with little of what the rest of the world would

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consider to be “government.”

Corruption will remain a staggering feature of Afghan life. Transparency International has ranked the country 179th out of 180 countries for 2009. Only Somalia is considered more corrupt.

NATO will make progress and the Taliban will be weaker at the end of 2010. Nonetheless, the US continues to plan for a very long occupation. In the past three fiscal years, the US has spent \$2.7 billion on military construction and is set to spend \$1.3 billion in fiscal 2010 on more than 100 projects at 40 sites across the country. The President may be preparing for a quick victory and exit in 2011, but the US is in Afghanistan for the long haul and for another trillion dollars.

PAKISTAN

In the 2009 Failed States Index, Pakistan comes in 10th out of 177 countries – more stable than Iraq and Afghanistan but more of a failure than Haiti or Burma or Nigeria. It will retain that status in 2010 – a Haiti with nukes.

There will be much to worry about in 2010. Let me suggest only a smidgen of the threats.

President Asaf Ali Zardari is one of the most despised men in the country. The widower of Benazir Bhutto, he came to power through his wife’s assassination. In her governments, he was known as “Mr. Ten Percent,” the most corrupt of the corrupt. (Pakistan, by the way, ranks above Russia and Iran in terms of corruption – at 139 out of 180 countries – but below Nigeria and Belarus.) President Zardari is despised for corruption and for being seen as the tool of the Americans.

After a ruling by the independent Supreme Court, the Government has abandoned attempts to extend an amnesty for 8,000 government employees, among whom is President Zardari. He responded by transferring key presidential powers to his prime minister, beginning with control over the country’s nuclear arsenal.

As a flood of court suits take shape in 2010, Zardari will transfer more powers to his prime minister in hopes of remaining as president. But he will fail and be driven from office in 2010.

The two most likely successors are the Prime Minister, Yousaf Raza Gilani, and Nawaz Sharif, the head of the Pakistan Muslim League.

Gilani, of course, is already in power while Sharif is supported by Saudi Arabia, which sees Sharif’s Islam as an improvement over the Taliban. His coming to power would stimulate the further Islamicization of the country.

The military has the deciding vote. The Pakistani armed forces have ruled the country directly for a majority of its years of independence and its indirect influence remains nearly as strong. The current chief of staff, General Ashfaq Kayani succeeded to his post when President Musharraf surrendered that office in November of 2007. A “soldier’s soldier,” he ordered the military out of politics and supported the democratic process that brought Zardari to power. But General

Kayani's term of office will expire in November 2010 and he is expected to retire. His successor will be less inclined to keep the military out of the political process.

In this turbulent political atmosphere, Zardari will be out, Gilani in and the military back.

Despite US protestations, Pakistan will ease off its military campaign on the Pakistani Taliban and continue to provide safe haven for the Afghan Taliban and Afghan militia groups led by Jallaluddin Haqqani and Gulbuddin Hekmatyar. The regime will hang on but its government will be weakened and civil society will decline even more.

The US response will be to increase US CIA and Special Forces actions in the country. The Predator Drone missile attacks will be broadened across the country to target the anti-US Taliban militias holed up in Baluchistan province. The result will be more internal chaos in Pakistan and more hatred of the US and of Pakistani leaders for not preventing the attacks.

IRAQ

None of the three groups competing to protect their power and wealth – the Shia, the Sunnis, and the Kurds – have permanent allies in the country, only permanent interests, as the saying goes. In 2010, the Shia government will work most closely with the Kurds against the Sunnis.

That in turn will stimulate the rise of Al Qaeda in Iraq, a group that seeks to turn Iraq into an Islamic state run by Sunnis. They will not win in 2010. But they will continue to create havoc, in a last ditch attempt to regain relevance.

One great challenge will be to prevent attacks on oil exports. In the end, it is money that makes Iraq run and the money comes from oil (and US aid). Insurgents have attacked pipelines disrupting oil flows and diminishing oil revenues, running at more than \$4 billion per month.

(Transparency International ranks Iraq as 176th out of 180 countries, only slightly less corrupt than Sudan, Afghanistan, and Somalia. Iraq and Afghanistan share another set of rankings. In the 2009 "Failed States Index" of *Foreign Policy* magazine, of 177 countries, Iraq was ranked 6th and Afghanistan, 7th following such country catastrophes as Somalia and Sudan and the Democratic Republic of the Congo.)

An even greater challenge in 2010 will be holding elections and the forming of a new government. Watch for Nuri al Maliki to emerge again as the Prime Minister and dominant power. But the issue is how angered the Sunnis will be by his retaining power and strengthening Shia control. Their anger will feed the insurgency, which is not going away any time soon.

These internal conflicts will not diminish in 2010. Where does that leave the US, committed to ending all combat operations in 2010 and committed to withdrawing all troops by the end of 2011? US troops, perhaps as many as 40,000 will remain in Iraq to "train" and "advise" the Iraqi forces.

ISRAEL - PALESTINE

Prime Minister Netanyahu is a man on a mission. The mission is not to bring

peace with the Palestinians but to prevent Iran from building or having the capability to build a nuclear weapon. His determination is so strong that much of US policy towards Iran is aimed at dissuading the Israelis from attacking Iran. In 2010, the US will succeed in that goal, but not without much pain.

Part of the pain will come from the failure of Israel and the Palestinians to work out any significant moves towards real peace. The blame is widely shared.

President Obama demanded a settlement freeze of the Israelis in order to foster negotiations with the Palestinians. But the Israelis were offered nothing tangible in return and they balked. Now Premier Netanyahu has countered with a settlement freeze on the West Bank but not in Jerusalem, which the US had demanded, and not before authorizing commitment to build 900 new homes in Gilo, a settlement on the West Bank, outside Jerusalem. The Prime Minister, after all, is a politician. He can read the realities of his coalition – that he remains in power only with the support of the Israeli right who demand a tough line on the Palestinians and absorption of vast swaths of the West Bank into Israel proper and continued occupation.

The Palestinians have also played their part in this debacle. Control is divided between Hamas and the Palestinian National Authority. The two factions are at war. Hamas gets credit among Palestinians because they are the ones who seem able to wring concessions from the Israelis. President Abbas is so frustrated that he has announced he will not seek re-election.

Even at the risk of building Hamas credibility, the Israelis will release Marwan Barghouti, imprisoned during the second Intifada in 2002 for incitement to murder, in exchange for the Hamas release of Sergeant Gilad Shalit, captured in a cross border raid on June 25, 2006 by Palestinians and held since then in Gaza.

Barghouti is the most popular leader for Palestinians in both Gaza and the West Bank and will become a forceful challenger to Israel's occupation.

Israel feels increasingly pressured and isolated -- untethered from the US, beaten up by the Goldstone report and the UN Security Council, hectoring by the Palestinians and threatened by the rapid developments in international justice – the International Criminal Court and the special tribunals for Rwanda and Yugoslavia. In 2010, Israel's back will be up against the wall – less flexible, more intractable, more hostile to the Palestinians, the Iranians, and the United States.

IRAN

The regime is in trouble. It will survive 2010 but pressure will build steadily. For one thing, the most senior Shiite cleric, Grand Ayatollah Hossein Ali Montazeri, living in Qom and once Khomeini's choice as successor, has recently issued a statement. In it he said,

“A political system based on force, oppression, changing peoples' peoples' votes, killing, closure, arresting and using Stalinist and medieval torture, creating repression, censorship of newspapers, interruption of the means of mass communications, jailing the enlightened and elite of society for false reasons, and forcing them to make false confessions in jail, is condemned and illegitimate.”

An ever-increasing number of Iranians, in fact, see the government - if not the entire regime - as illegitimate.

The challenge for the government comes not from outside the system – as was the case with the Shah’s troubles in 1978 – but with angry insiders. Four men lead the disgruntled: Mir Hussein Mussavi, Prime Minister during the Iran – Iraq war in the 1980s; Mehdi Karroubi, former Speaker of the Parliament; Mohammad Khatami, a former president; and Ali Akbar Hashemi Rafsanjani, also a former president. The first two ran against Ahmadinejad in the June 2009 presidential election but were defeated through elaborate vote rigging by his loyalists. The latter three are clerics. All four are pillars of the establishment. Their courageous stand against the government has emboldened the people, especially the youth.

It is unclear whether Ahmadinejad and the so-called “Supreme Leader,” Ayatollah Khamene’i, are in charge or are now beholden to the Revolutionary Guards who may have staged a quiet coup. In either case, the government will respond to the disgruntled with greater repression in 2010.

They will also be unable to get to “yes” with the International Atomic Energy Agency, the United Nations, the European Union, or the US. The result will be new sanctions – many targeted against individual leaders of the Revolutionary Guards. But sanctions will not derail the Iranian nuclear enrichment program. The powers that be see nuclear enrichment as a symbol of Islamic Iran’s technological progress and its independence from foreign “bullying.”

The Iranians will not build a bomb in 2010 nor will the opposition succeed in overthrowing the government. The risks of an Israeli military attack will grow. The US will strive mightily, and with success, to prevent such an attack.

Learning to live with a nuclear capable Iran is in the cards. One inevitable consequence of the failure to stop the Iranian program has been that other Middle East states have begun civilian nuclear programs. Egypt, Saudi Arabia, the United Arab Emirates, Libya and Turkey have all launched programs to generate electricity through nuclear reactors. They are hedging their bets against an Iranian bomb and, in the process, enhancing the prospects for nuclear proliferation.

SAUDI ARABIA

As the annual pilgrimage to Mecca – the Haj – began on November 25, 2009, heavy rainfall caused flooding. Over 50 people died. That was a bad omen that will haunt the Kingdom in 2010.

Despite his shining black hair and goatee, King Abdullah is going on 87 years of age. His Crown Prince – Prince Sultan bin Abdulaziz Al Saud – is also an octogenarian and fighting cancer. In 2010, effective power will be wielded by the Interior Minister and hardliner, Prince Nayef bin Abdulaziz. Nayef is widely credited with running a successful anti-terrorism campaign which devastated Al Qaeda in Saudi Arabia.

He will have his hands full in 2010. Saudi Arabia is fighting a war on its southwest border against the Houthis of Yemen, a Shia group with alleged ties to Iran. The

Houthis are ideologically and strategically antithetical to the Wahhabi Sunnis who have come to dominate the Yemeni political establishment with aid from the Saudis. Al Qaeda, meanwhile, is seizing the opportunity provided by chaos on the Yemeni-Saudi border to smuggle arms and men back into the Kingdom. New terrorist attacks are in the making.

DUBAI

I warned in years past that when tiny countries build the world's tallest buildings, that was a sign that they suffered from grandiosity and would head for a fall. That fall has occurred. Dubai's massive debts and even more massive white elephant buildings will lose investors billions, threaten all indebted countries, puncture the self-esteem of Arabs everywhere and stimulate their rage and the belief that the world is out to get them.

EGYPT

For those who believe in the power of numbers – the confluence is powerful. Husni Mubarak became president of Egypt in 1981 and is now 81 years old. In 2010, he will resign and designate his son, Gamal, as successor. The armed forces, the traditional power in the country, will support him. Gamal will open Egypt's repressive state and support more rapid market reforms. Egypt's economy has grown 5 percent per year for the last three years. Gamal's reforms will drive even faster growth.

EUROPE

EUROPEAN UNION

The first EU President, Herman Van Rompuy, is tougher than generally recognized and will make the EU more of a force than first imagined. Chosen for his new job because of his skill as a consensus-builder, he is also a ruthless political operator. In Belgium, he is known as a dirty tricks operator. He will apply those talents to the EU and make it more of force than now imagined.

The direction Europe will go under his leadership is revealed by one of his first statements after his appointment: "The financing of the welfare state, irrespective of the social reform we implement, will require new resources. . . The possibility of financial levies at the European level needs to be seriously reviewed."

Strengthening the center is also the goal of the new Internal Markets European Commission member, Michel Barnier, a former French Foreign Minister.

Watch for more power to Brussels and more taxes in Europe for 2010.

RUSSIA

President Medvedev sounds, a lot of the time, like a Western European social democrat. His speeches urge greater democratization, civil liberties, freedom of speech and assembly and an independent judiciary – all of which Russia is pathetically lacking. But he never implements specific reforms that would contribute to bringing those virtues about. Bet on the fact that Medvedev has yet

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to get out from under Prime Minister Putin, the real power in the country.

The recent death in prison of Sergei Magnitsky is a better indicator of the status of the country than the fine speeches. Magnitsky was a 37 year-old lawyer for Bill Browder, a grandson of the former leader of the Communist Party of the US and a University of Chicago graduate, who founded Hermitage Capital, once Russia's largest foreign portfolio investor. Browder was denied a visa to re-enter Russia after he launched an anti-corruption shareholders' campaign. Magnitsky worked on a \$230 million tax fraud connected with the confiscation of Browder's holdings. He was arrested and less than two years later died in prison.

Russia's Caucasus region remains a cauldron of unrest. Daily attacks by Islamic activists strike at targets of Russian authority. More threateningly for Russia, the attacks have spread outside of the Caucasus and will continue across Russia in 2010.

Razman Kadyrov, the president of the Chechen Republic, runs a particularly brutal regime, abducting critics even off the streets of Moscow and killing domestic opponents. The repression has served to stimulate more reprisals. They will grow in number and intensity in 2010.

Russia's main goals in the coming year will be to maintain domestic order to allow it to continue its emergence as a power to be reckoned with. A weak economy in 2010 will stimulate domestic unrest, especially among Muslims, but not enough to diminish Russia's pursuit of its international ambitions.

Russia has won permission from Syria to build two naval bases on Syria's Mediterranean coast. That will allow Russia to project power directly to the Middle East and the Mediterranean and Atlantic. The bases will also advantage Russia in any negotiations with Ukraine over the Russian naval base at Sevastopol, whose lease expires in 2017.

Russia is also trying to enhance its power by building two pipelines, North Stream and South Stream, to by pass Ukraine and Poland. That will give Russia much more control over its energy supplies to Western Europe. The pipelines will be expensive – an economic burden to Russia. But Western Europe's future demand for gas is uncertain both from Europe's efforts to diversify its energy sources and its uncertain economic recovery.

Russia's gas situation itself is uncertain. The gas for North Stream was to come from Russia's vast Shtokman field 370 miles north of Russia in the middle of the Barents Sea. But despite having spent \$1 billion on preliminary studies by the Gazprom-Total-NorskoiHydro consortium, no decision has yet been made to go ahead and develop the field. Russia's economy has been so weak that Gazprom cut domestic supplies of gas by 100 million cubic meters in 2009 and so may not have to develop Shtokman at all. These uncertainties over supply and demand mean that North Stream construction will be slowed in 2010 and South Stream postponed.

Russia all the while is trying to embrace China and form an anti-US coalition. This won't work for Russia either in 2010.

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UNITED KINGDOM

The ouster of Gordon Brown that I had predicted for 2009 did not occur. Watch for 2010. But astoundingly, I may turn out to be wrong again. Despite the worst post-war recession in Britain, employment has already started to go positive. The economy is still declining but will turn positive in 2010 and it will feel to the Brits like the “good times” have returned.

FRANCE

Now that we know that Carla Bruni Sarkozy has signed on to appear in the next Woody Allan movie, her star quality will further outshine her husband, merely the president of the French Republic.

The French state commands a higher percentage of its GDP than any other developed country. The consequence is slower growth. But also a lower downside. As a result, France has weathered the global crisis more effectively than other developed countries. While unemployment is up, France resumed very modest economic growth in the second quarter of 2009 and will continue modest growth into 2010.

GERMANY

My call for 2009 in Germany also proved to be wrong. Chancellor Angela Merkel has returned to power in a liberating coalition with the Free Democrats of the right rather than a grand coalition with the Social Democrats on the left with whom she was forced to rule in her first term.

The challenge is to understand why the left did not benefit from the crisis that swept the world from the abuses of capitalism, the province of the right.

Fear of further instability is, I believe, the answer. The voters are playing it safe and conservatism in 2010 will replace the past excesses – in politics and in consumption.

ITALY

Anyone who knows Italian politics or has seen the movie, *Il Divo*, about seven time Premier Giulio Andreotti, understands that the Mafia, Camorra and 'Ndrangheta remain formidable forces in Italian public life because the Italian state has never made a firm commitment to destroy them. Too many politicians benefit from their support.

The result is that at its heart, Italian politics are corrupt. Prime Minister Berlusconi's astounding history of multiple corruptions and ability to change Italian laws to keep himself out of jail despite those corruptions exemplifies the Italian problem.

In 2010, Berlusconi will remain powerful, the Italian state corrupt and its economic growth puny.

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ASIA

JAPAN

What can one say about Japan that hasn't been said? Debt levels growing unsustainably. Currency strength punishing exports. An ageing population reluctant to spend. Failing universities. Japan isn't going away. But it will be overtaken by China in 2010 as the world's second largest economy.

CHINA

China is getting its leadership succession in order. Xi Jinping, elevated to the ruling Politburo in October 2007, was given responsibility for running the Beijing Olympics of 2008, a test he passed with great success. He is now on track to succeed Hu Jintao as president of China in 2012.

Li Keqiang, appointed to the Politburo along with Xi, is now charged with pulling off a successful World Exhibition at Shanghai in 2010. This will be the test to determine his likelihood to succeed Prime Minister Wen Jiabao. Expect him to pass the test brilliantly.

This focus on a stable succession is a reflection of the lengths to which China's rulers will go to preserve domestic stability. Two recent events give us additional clues.

During the spectacular October 1, 2009 parade to celebrate the 60th anniversary of the founding of the PRC, the people of Beijing were not allowed to view the parade from the sidewalks along the parade route. Nor could they watch even out their apartment windows. Only TV provided the people of the capital with a view of the celebration.

One conclusion to be drawn from this story is that as China becomes more prosperous, its leaders fear it will become less and not more stable. Their sensitivity to Tibet and Xinjiang and Taiwan will only be enhanced in 2010.

Then there was their government's response to the global debacle. The Chinese stimulus package at nearly \$600 billion was a far more significant percent of the Chinese GDP than was the slightly larger US stimulus package. More to the point, Chinese banks were urged to increase bank lending dramatically. They responded in 2009 as expected – shoveling money out the door to the tune of 80% of China's GDP. That would be equivalent to US banks lending more than \$11 trillion in a single year.

No wonder the Chinese economy will maintain its robust growth in 2010 despite the plunge of its exports. The money has fueled a boom in plant, infrastructure and building construction, all employment intensive industries. China will be more productive and better positioned to resume its export driven growth in 2010 as the US and Western Europe recover.

But the downsides are obvious. For one thing, China needs to switch to greater internal consumption from its present level of exporting nearly 40% of its GDP. Towards that end, China has taken only "baby steps" in the words of Stephen Roach, Morgan Stanley's Asia man.

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The other downside has been the growth of bubbles from easy credit. The Bank of China has now told banks to rebuild their capital bases to cover 150 percent of bad loans. The year ahead will see the deflation of the bubbles and a slow resumption of export strength.

China believes it needs to maintain its currency pegged to the US dollar as a way to insure export competitiveness. As the dollar has plunged against other currencies, so has the yuan, keeping Chinese exports inexpensive for Americans. But the exports of most of China's export competitors have not been pegged and have appreciated against the dollar, making their exports more expensive. Vietnam's devaluation of its currency has been partly driven by the Chinese peg.

All of this has put China under pressure to let its currency appreciate against the dollar. It will resume appreciation in 2010, but only modestly, perhaps by 4 percent.

China continues to set its sights high. In 2010 the country will launch its first orbiting space module to gain experience for its own space station project.

INDIA

Indian economic growth will rebound to above 7 percent in 2010. Indian growth is driven by domestic consumption to a far greater degree than the case in China. Pent up demand in India extends to virtually every imaginable good and service, from clothing to cars, from tourism to telecommunications.

In 2010, the government will tackle its challenges more effectively – road building, education and empowering women, among them.

What it will not succeed in doing is dealing with its troubling sanitation and housing issues. The UN estimates that 600 million Indians – some 55 percent of the population – have no access to modern facilities and use the outdoors instead.

Housing for the poor is also appallingly inadequate. It is difficult to come up with a figure for the homeless in India because of definitional issues – officially, a home by the Indian census bureau is defined as a structure (any structure) with a roof (any roof) irrespective of whether that structure has a floor, electricity, sanitation and the like. By all reasonable definitions, as many as 100 million Indians may be living on the streets.

But through it all, India has maintained its democracy and its cohesiveness. It will continue to do so in 2010.

SINGAPORE

Times are hard all over. The city state cut its ministers' pay for 2010 by 22 percent to \$1.49 million per year and salaries in the superscale grade by 15 percent to \$338,000 per year.

NORTH AND SOUTH KOREA

North Korea continues on its path of internal abuse. Of its population of 24 million, some 9 million are estimated to live in hunger. Global relief efforts feed only 2 million of them. Yet the regime continues its expenditures on its nuclear and missile programs. It now claims to have produced weapons grade plutonium as well.

While its people go hungry, the country also spends for the comfort of its leader. Kim Jong-Il boasts six private trains all with luxury cars and 19 railroad stations reserved exclusively for his use while traveling about the country.

But watch for a far more compliant Kim in 2010. Sanctions are taking their toll and Kim will meet with his enemy, Lee Myung-bak, South Korea's president.

All the while, South Korea was barely touched by the global recession. Its economy fell by 5.1 percent in the fourth quarter of 2008 but rebounded by the first quarter of 2009. The country's GDP is now larger than it was a year ago. It will grow again in 2010, rebuilding the credibility of President Lee whose star dimmed with the downturn.

INDONESIA

The president, Susilo Bambang Yudhoyono, is embroiled in serious corruption charges. Senior police officials have been taped in a plot to frame and then oust the heads of the anti-corruption commission. The police plotters mentioned the president as complicit in the scheme. Whatever the outcome of this scandal, Indonesia's attempts to be known as a member of the BRIC countries – fast growing emerging markets – will not occur in 2010, despite its uninterrupted 6 percent annual growth for the last 5 years.

But Indonesia, with the region's most vibrant democracy, will swing more weight in 2010 as a member of the G20 and as the world's largest Muslim country

THE WESTERN HEMISPHERE

BRAZIL

The most exciting event in 2010 for Brazil will be its presidential election in October. That tells us just how far Brazil has come in the last 25 years.

The closer the country gets to the election, the more opaque its outcome has become. It started as a simple contest between Dilma Rousseff, president Lula's Chief of Staff, and Jose Serra, the Governor of Sao Paulo province. But when the president supported Jose Sarney, a former president and now president of the senate, embroiled in a corruption scandal, new candidates appeared. Now, the contest looks to be between two men and three women. Lula will mobilize his entire election machinery to get Rousseff elected as Brazil's first female president.

With average annual growth of 5 percent, Brazil has begun to address its astounding domestic problems of crime and poverty and begun to play a more assertive role in Latin America as well as globally. The willingness of the US to support Brazil for a permanent seat on the UN Security Council, however, has been dramatically weakened by Lula's welcoming the pariah president of Iran,

Mahmoud Ahmadinejad, on a state visit. No progress towards that end will be made by Brazil in 2010.

ARGENTINA

Political turmoil will again engulf the country in 2010 as opposition builds to President Cristina de Fernandez Kirchner. The next elections are scheduled for 2011 but her populist policies continue to work against the long-term good of the country. She may not be ousted in 2010, but her powers will be severely curtailed.

Hugo Chavez remains a good friend and supporter of the Kirchners. Banned from international debt markets since its default, he lends Argentina funds at an annual rate of 15%. Argentina will reach a deal with its debt holders, settle their claims at pennies on the dollar, and re-enter global financial markets.

VENEZUELA – COLOMBIA

The US has shaken Latin America by its October 2009 pact with Colombia giving the US seven naval and air bases in that country. The US claims the agreement merely formalizes past anti-narcotics understandings. But the rest of the continent doesn't see it that way. Instead it is viewed as a new US effort to contain Venezuela and its left leaning allies, Bolivia and Ecuador, which has ousted the US military from its territory, and to establish total military superiority in Latin America.

That the US has provided Colombia with \$4.6 billion in military aid since 2000 is well understood to have greased the deal.

The result will be new status for president Chavez who has taken the lead in protesting the US move, increased arms spending by Colombia's neighbors, growing anti-American sentiment across the continent. President Lula's warm reception for Ahmadinejad is just one indication of what's ahead.

THE UNITED STATES

The US will continue to decline in 2010 and the anger of Americans will increase. President Obama's approval ratings have fallen in almost perfect correlation with the state of the economy and rising unemployment. Given the likelihood that unemployment will not diminish any time soon, his approval ratings will continue to decrease. Even members of his own party will take advantage of his weakness to seek more federal funds for their constituents. The Congressional Black Caucus, for example, has frozen the financial reform bill until their districts receive more federal assistance.

The Republicans, of course, smell blood and will capitalize on the President's weakness by winning a substantial number of seats in the 2010 elections for the House and Senate, just not enough to end the Democratic majorities.

To slake the mounting popular anger, the Democrats will use their majorities in 2010 to pass populist measures such as serious anti-market financial regulation and a second stimulus bill. That bill will not, of course, be called that. It will be a "Jobs Promotion Bill" or the like.

Meanwhile, the President is going full blast into Afghanistan.

It took 94 days for President Obama to make the decision, counting from the time General McChrystal asked for the extra troops until his announcement. Ninety-four days is actually fewer than the delegates to the Constitutional Convention of 1787 took to write the US Constitution. But not by much.

The Republicans will spend 2010 looking for the incarnation of Ronald Reagan whose “It’s morning again in America” slogan drove the Republicans to victory in 1984. The problem with Ronald Reagan’s “morning” was that it introduced the United States to the kinds of policies that resulted in the disaster in which the country now finds itself – that it was possible to have it all without having to pay for it; that debt was the panacea. The federal debt started its massive upswing under Reagan and, with the exception of the Clinton years, has climbed ever since. Under Reagan, the same upswing began among households whose debt and consumption levels eventually rose to unsustainable levels.

The principle symptom of Reagan’s commitments is that the vast majority of the fiscal 2010 deficit of the US Government will come from combination of Republican tax cuts and Republican spending programs, rather than from the new Democratic Party spending.

(Here’s a forecast for 2012. Sarah Palin will be as close as the Republicans can get to a neo-Ronald Reagan. She will run against President Obama and be defeated by him.)

In 2010, the US will continue its search for partners through “engagement” and “cooperation” and “coordination.” All this recognizes a powerful new reality. Relative to other countries, the US is far weaker than it has been since the end of the Second World War. The US can no longer unilaterally carry out its wishes as it has been accustomed to do. The Soviet Union may be gone. But China, the European Union, Islamically inspired jihadists, Russia, India, Brazil, and even Japan are now asserting themselves.

The problem with building partnerships is that they take far longer than acting unilaterally. President Obama’s efforts to show respect in Asia – bowing to the Emperor of Japan was only the beginning – will try the patience of the American people in the coming year. But the President correctly understands what is necessary to build partnerships.

DEATH WATCH

My predictions for 2009 were, as usual, wide of the mark. Fidel Castro, Kim Jong-Il, Robert Mugabe, and Than Shwe, the chair of the Burma military junta, are all, regrettably, still with us. With this record of prediction, inclusion on my Death Watch is beginning to look like a benediction for longevity.

So, for 2010, what? The risky call for 2010 is that we will finally see the end of Osama Bin Laden and Ayman Al Zawahiri, his sidekick. Pakistani intelligence knows their whereabouts and the US and Britain will put on a full court press to have them killed. The 82 year-old King of Thailand is hospitalized with flu-like symptoms and has been in ill health for a considerable number of years. President Mubarak of Egypt may succumb. The President of Israel, Shimon Peres, is in good health. But at 86, how good could it be?

CONCLUSION

So where does this all end up? I suggested at the outset of this talk that I would fail to raise your hopes but would share my bewilderment. But when you put it all together, 2010 is likely to be a less threatening year – economically, politically, and militarily – than 2009. Of course, numerous wild cards are out there that would result in vastly costly outcomes. But, bewildered as I am, who knows?