

# International Political Economy

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## Special Report

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### **Global Forecast 2003: The Year of War**

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The year 2003 is likely to be a year of heightened anxiety and uncertainty as the U.S. pursues the war against global terrorism and, it seems, a war against Iraq. Europe will be absorbed with EU issues while Japan will, as usual, face inward. Russia and China will be the major supporters of the U.S. in the coming year.

Marvin Zonis + Associates, Inc., (MZ+A) helps firms assess, monitor and manage political risk. "Political risk" refers to the uncertainties that arise from instances of political instability (such as riots and coups), poor public policy (such as inflation and currency crises), and weak institutional frameworks (such as discriminatory regulations and ineffective legal systems). "Political risk management" refers to the development of processes, structures, and knowledge that allow firms to deal effectively with political risk.

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# Global Forecast 2003: The Year of War

*by Marvin Zonis*

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I have titled my Forecast for 2003, "The Year of War."

Make no mistake. The United States is at War now. It will be at War in 2003. 2003 will be the "Year of War."

The wars are many. A war by al Qaeda against the U.S., against Israel, and against the West; the U.S. war against the al Qaeda and a high probability of a U.S. war against Iraq. An Israeli war against the Palestinians and a Palestinian war against the Israelis. A war in Kashmir fought between Pakistani terrorists, Kashmiri freedom fighters and the Indian armed forces. A war in Russia between Chechen freedom fighters, al Qaeda terrorists-Chechen and non-Chechen—and the Russian army.

The United States will continue its war in Afghanistan and in the border regions with Pakistan seeking to find Osama bin Laden and his lieutenants and broadening the search to isolated areas of Yemen and Somalia. The United States also will continue its war against groups committed to the al Qaeda cause in Yemen, in the Philippines, in Georgia, and in Africa, working closely with military forces of scores of other countries.

The two crucial questions for 2003 are:

One, "Will these wars result in more acts of massive terrorism, as in 2001?" and

Two, "Will the U.S. go to war against Saddam Hussein in 2003?"

## **Terrorism in the U.S.**

The probability of major terrorist attack within the continental U.S. in 2003 is better than ever. The Department of Homeland Security will help focus the resources of the U.S. Government on preventing such an attack. But creating a new organization and making that organization effective are vastly different challenges as any business executive who has attempted a major merger is well aware. The bureaucracies incorporated into the new department will fight their new partners for resources and power. The FBI was powerful enough to prevent its merger in to the Department. It will continue to be more effective at protecting its turf and solving crimes than at preventing them. The bureaucratic struggles will distract attention from destroying the terrorists.

Any coming attack on the United States will strike again at symbols of U.S. "arrogance, corruption, and imperialism," as the enemies in the Arab world would put it. Now that so much attention has been focused on airlines, forget the planes and the airports. Car bombs and suicide bombers in crowded shopping malls are much more likely.

## War with Iraq

War with Iraq now seems virtually certain in 2003, although I believe this to be the wrong war at the wrong time and in the wrong place. The right war is the war against the al Qaeda terrorists. There is no credible evidence that Saddam has supported the terrorists nor that US military power has lost its capacity to deter him from using weapons of mass destruction, if he had them. Any war in Iraq will distract our armed forces and intelligence agencies from ferreting out and killing al Qaeda. Worse, the war with Iraq will spike oil prices, damage our ties with the Middle East, and supercharge Muslim hatred to the U.S.

But the Bush administration has issued its "National Security Strategy of the United States," in September, 2002, effectively a rationale for a new American imperialism. The report suggests that the United States has a moral obligation to recast the world in its image. It claims that will bring democracy and a market economy to the rest of the world and, therefore, greater freedom and prosperity. Not only will that be good for the peoples of the world who will benefit from the new U.S. imperialism, but it will, of course, also be good for the U.S. (Shades of the Japanese East Asian Co-Prosperity Sphere of World War II!)

To accomplish these goals, the new strategy document suggests, the U.S. is entitled to conduct "preventive war." The first of these preventive wars will dispose of Saddam Hussein.

Certainly, the build up of U.S. pressure is part of a Bush strategy to foment the assassination of Saddam. The CIA has reported to the President that only when Saddam's senior military officers are convinced that a U.S. invasion to overthrow his regime is imminent could there be a meaningful possibility that one of them would attempt to kill him. The relentless build up of U.S. pressure may yet lead to his death and eliminate any U.S. invasion.

But since Saddam has weathered many coup and assassination attempts over the last twenty years, count on Saddam to stay alive and to stay in power. The Bush administration has determined that "disarming Iraq" means "regime change" in Iraq. That will have to be done through a U.S. military attack, likely in early 2003.

Now, imagine that you are Saddam Hussein. You know a U.S. war against you is coming and unlike the last one, this time there is no doubt that the U.S. is serious about ousting you from power. What is your best strategy?

Among all his bad options, Saddam has two "least bad" strategies. He could decide, "Before I go I'll do as much damage to others as possible." He would ignite his oil fields and those of Iran and Kuwait, his hated neighbors as well. He would send any Scuds he might have at Tel Aviv and Riyadh and Ankarawith or without chemical or

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biological warheads. Whatever hell he could raise, he would before the U.S. onslaught.

Or he has a second possible strategy. He could take his most loyal troops the 40,000 Special Republican Guards who appear willing to die to defend him give each one a machine gun and distribute them around 40,000 apartments in Baghdad and just sit tight. They would await the attack and force U.S. troops to fight in downtown Baghdad. The Americans will take more casualties than in any other form of warfare while being pilloried for inflicting large numbers of casualties on innocent Baghdadis.

In the end, Saddam's fate will not be determined by the strategy he adopts. He will be overthrown. His regime will be ended. But his strategy will influence post-war Iraq, the Middle East, and the Islamic world in general.

## **An Oil Price Spike**

No matter how many barrels are pulled from the Strategic Petroleum Reserve and no matter how many new barrels the Saudis agree to put on world markets, expect an oil price spike in 2003 above \$40 per barrel that will diminish U.S. and global economic growth. The length of the spike will be determined by the damage Saddam does and the speed with which the US manages to oust his regime. But restoring Iraqi oil production and increasing that country's capacity to produce will be no short-term challenge.

## **More al Qaeda Recruits**

A U.S. attack on Iraq will raise more hatred against the U.S. in the Islamic world. The more damage the U.S. will inflict on Iraq and the more Baghdadis will have been killed, the more the hatred. New recruits will be generated for al Qaeda.

## **More Terrorism**

Some of those recruits will swell the ranks of suicide bombers who aim their bodies and their weapons against Israeli civilians in Tel Aviv and Jerusalem as well as settlers and soldiers in the Occupied Territories. Other recruits will seek to destroy Israelis wherever they may be. But even more menacingly, the suicide bomber will arrive in the U.S. and the UK in 2003.

## **Israel**

No state will suffer more than Israel from the hatred of the Islamic world that will follow the war on Iraq. Terrorist attacks will increase and Ariel Sharon will be reelected. But he has no foreign policy other than repression; no plan for peace. Watch for the economy to decline along with the Tel Aviv stock exchange. The only thing going up in Israel in 2003 will be emigration.

## **Palestine**

The Palestinians will elect a new parliament in January, 2003. It is likely to be the most democratic election held for years in the Arab world, if the Israelis allow it to go forward. The new parliament will weaken the power of Arafat and attempt to move the Palestinians beyond the "no" to peace that has been his hallmark. The best hope for the Palestinians will be their own new more democratic society.

## **The Arab World**

The hatred against the U.S. will spread deeply to the entire Arab world, including the countries which we used to count as allies—Egypt, Jordan, and Saudi Arabia. Their governments are tough enough to withstand the spasms of rage that will come from their people. But even while increasing repression at home, Arab rulers will need to respond to that hatred. Americans will not be welcome in the Arab world—not as tourists nor as investors. The repression and the economic slowdown will hasten the fall of their regimes. Just not in 2003.

The Arab world has produced a society, a culture, and an economy which should embarrass its people. Africa may have worse statistics. But the Arab world has had trillions in oil revenues which could and should have been used for a transformation. Instead, the total Arab world, with a population larger than the U.S., produces annual economic output including oil less than Spain, population 40 million. Or take another measure—exposure to foreign ideas. Fewer foreign language books were translated into Arabic last year—spoken by 300 million people—than were translated into Greek. Greece has a population of 11 million people.

The overthrow of Saddam will lead to massive unrest and political turmoil throughout Arab countries. Unwinding the rule of Arab tyrants will accelerate. Political unrest and more violence are likely in 2003.

At least for the short term, more political unrest means less investment, less economic growth, and the further decline of the Arab world.

## **Afghanistan**

The U.S. has fewer troops in Afghanistan—some 7,000—than it has in the former Yugoslavia. The reality is that the U.S. has fought the war in Afghanistan on the cheap. It has sought to avoid U.S. casualties at the cost of victory. The U.S. did not have enough troops to fight the battles of Tora Bora or Khost. We depended on local Afghan forces and lost both battles. Osama and his lieutenants escaped. The U.S. has not allowed the international peace-keeping force in Afghanistan out of Kabul so that our troops could have unhindered access to the whole country to hunt down al Qaeda forces. The consequence

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has been to prevent President Karzai from establishing his rule across the country. Instead, the warlords are back. Now we have concluded there are no meaningful al Qaeda forces left to track down and the military will switch to "nation building." There is an awful lot of nation building to do in 2003 and there is an awful lot of security to be restored by the international peace-keepers.

## **Pakistan**

The bankruptcy of President Bush's stated goal of moral clarity, "you are with us or you are with the terrorists" is demonstrated by Pakistan. Pakistan is with us and with the terrorists; with us and with the "Axis of Evil." While President Musharraf committed his country to the struggle against al Qaeda, his secret services and military were transferring nuclear technology to North Korea so Pakistan could, in return, acquire missile technology. Tribal leaders along the Afghan border have been providing sanctuary to al Qaeda refugees while the newly elected Islamic governments of Pakistan's provinces bordering Afghanistan have promised to shield any Taliban in their territories. Pakistan, in short, has demonstrated just how complex the war on terrorism actually is and must be.

Pakistan is a decaying nuclear power with powerful Islamic fundamentalist movements. It is the world's most dangerous country. It will not disintegrate in 2003 but it should be the Number One priority for U.S. foreign policy.

We could begin with something simple like stimulating the Pakistani economy. It turns out there is a useful way to do that. What we could do is increase the Pakistan quota for its textile exports to the U.S., its chief revenue earner. But so far, the President has been unwilling to take on the organized U.S. textile lobby. He will not do so in 2003 either, because domestic political support is still more important than foreign policy.

## **Iran**

The fascist clerics will remain in power. But they hate Saddam even more than the Bush administration. Not only did Saddam invade their country and destroy their oil fields and refineries, but he fought them for 8 years and then won. He also provides military bases and weapons to the principal organized opposition to the clerics. So the clerics will cooperate with the United States in the war with Iraq. Their rule depends on hatred for the "Great Satan." They cannot support the U.S. openly. But they can conduct policies parallel to those of the U.S. and can provide indirect help. (Not by chance did President Bush refrain from mentioning Iran when he branded Iraq and Korea "rogue states" in September, 2002 in his National Security Strategy of the United States.)

All the while, domestic pressures build against the clerics. Seventy percent of Iran's population was born after the overthrow of the Shah. They do not understand the asceticism of the hardliners, nor their repression. The course of the hardliners is unsustainable.

Revolution is unlikely. Continuity is impossible. More confrontations will occur throughout 2003, but the regime will continue to hold.

## Russia

President Putin faces a parliamentary election in December, 2003 in which he will seek to replace the Communist Party as the largest party in the parliament with his own supporters and then he faces a presidential election in 2004 in which he will seek to win another four year term. Given the iron rule of democratic elections, 2003 will see an end to reform in Russia as Putin seeks to woo the voters. Reform will be dead at least until after March, 2004. Russia will remain poised between democracy and authoritarianism, between an economy dominated by the state and the few big businessmen we used to call them robber barons in this country and a market economy. Fortunately for Russia, its dependence on commodity exports will stand it in good stead through the war with Iraq. As oil prices spike, so will Russia's prosperity, smoothing the way towards a Putin electoral victory. The problem is that states that depend on commodity exports always prove to be losers. There is not enough value added in commodity exports to get rich witness what has happened to the Saudi economy. The same fate awaits Russia.

President Putin was the first foreign head of state to call President Bush after the September 11 outrage. Their relationship has become more intense since then. Our president refers to Putin as "my friend Vladimir" and has expressed complete understanding for Putin's tough stand against his Chechen freedom fighters/terrorists, depending which side you are on. So Russia is in the "Grand Coalition." It will benefit from committing to the U.S. More importantly, the long term strategic rebalancing of the world, including Russia in the West, is a major plus for U.S. foreign policy.

## Europe

While the U.S. and its principal ally, the United Kingdom, is focused on al Qaeda, terrorism, and Iraq, Europe will be more absorbed by the meaning of the European Union and the means of expanding the EU to incorporate new members. Former French President Valéry Giscard d'Estaing is chairing a convention that will present a new constitution by September, 2003, which then needs to be approved by the member states. The new constitution is bound to have the EU take a nationalist turn—more powers will remain with national governments—a victory for France.

Meanwhile, the EU will move on expansion. Poland, Hungary, Slovenia, Slovakia, the Czech Republic, Estonia, Latvia, Lithuania, Cyprus, and Malta are all candidates for membership in the next round of EU enlargement. In 2003, the national parliaments of each of those countries and all the 15 member states must ratify their admission. Then each candidate country has pledged to put EU membership to its own citizens in a referendum. In 2003, Europe will be absorbed with institution building and internal organization.

Continental Europe came to Anglo-Saxon equity financing only recently and just as the party was about to end. The crash in stock markets no where more deeply felt than in Germany appears to have killed off equity financing. Germany's economy has now become "the sick man of Europe." Its structural problems are deeply rooted and its geopolitical worries substantial. Worse for the U.S., European savings poured into U.S. equity markets in the 1990s and into buying U.S. companies to participate in the high-tech boom. The flow of funds across the Atlantic that helps sustain the U.S. current account deficit of 5% of America's GDP will diminish. The dollar will weaken but exports will boom.

Watch for a Europe in 2003, more resentful of the U.S., more resistant to U.S. dominance, and more nationalistic.

## **Turkey**

Turkey, the country not on the list of candidates for the EU, will be very much on the minds of Europeans. The newly elected Justice and Development Party has its roots in Islam and the Europeans need to be convinced that the Turks are not the opening wedge of a new Islamic assault on Europe. In fact, the new Turkish government will not be any more fundamentalist than were the Christian Democrats in Italy. The new Turkish government has a better chance of instituting the significant democratic and market reforms that will be just the ticket towards EU membership. In 2003, the U.S. will push the Europeans relentlessly to set a date for Turkish membership talks. The U.S. wants Turkish support for the war against Iraq. The U.S. also wants to prove to the Islamic world that it is not anti-Muslim, despite the near universal perception among Muslims that U.S. policy is overwhelmingly anti-Muslim. For the EU to accept the Turks will require them to swallow very hard and to be willing to redefine Europe as non-Christian. They will respond by setting a date in 2003 for a debate in the more distant future for a possible Turkish membership in the even more distant future.

## **China**

In March, 2003, Jiang Zemin will step down as president of China to be replaced by Hu Jintao, who became Secretary General of the Communist Party in November, 2002. At the same time, Wen Jiabao will become the prime minister, the chosen heir of the market reformer, Zhu Rongji. But Jiang will remain in the powerful position of Chair of the Central Military Commission, effectively Commander in Chief of the armed forces.

All the members of the new Standing Committee of the ruling Politburo are engineers. They have been chosen to drive economic development, essential to maintain political stability. But intrigue at the center will bedevil the engineers throughout 2003. Jiang has brought his closest political ally, Zeng Qinghong into the ruling circles. He will become Vice President in March and limit Hu and Wen's ability to create policies that differ from

former President Jiang's.

But they all do love engineering projects. They will travel to the central city of Chongqing in July to officiate at ceremonies closing the Three Gorges Dam and beginning the buildup of the Yangtze—a colossal waste of money estimated to have cost \$75 billion. Nonetheless, the state is likely to move forward in 2003 with another massive engineering project, building three 1000 mile canals to shift water from the Yangtze in China's south to the arid north and especial to Beijing. That project will cost nearly the same as the Three Gorges project.

In the last months of 2002, China became the world's largest recipient of foreign direct investment, managing to attract more investment capital than even the United States. Those funds are crucial for China to meet its most important goal—political stability. So watch for China to continue to fulfill its international obligations in 2003—especially carrying out the reforms it promised when it joined the WTO and continuing to align its foreign policy with the U.S.

Major problems remain—Taiwan is number one. The Chinese continue to build their armed forces to resist a declaration of Taiwan independence. The initiative is with the Taiwanese. China will not push for reunification in 2003. But they will if the Taiwanese push for independence.

Then there are the burdens in China of the bankrupt State Owned Enterprises that suck up capital but provide jobs and more social peace.

The massive debt overhang of the State owned banking system is the major problem. It too will be finessed in 2003 by greater and ultimately unsustainable state funding.

But the most interesting way to think of China is that it runs a deficit in its tourism account. More Chinese spend more money outside their own country as tourists than non-Chinese spend as tourists in China. The Chinese economic boom and cultural opening has reached down to its growing middle class.

## **India**

India has survived as a unified and democratic state and managed finally to generate economic growth despite its vast array of ethnic groups, languages, and religions. In that sense, it is utterly irrelevant to compare China's booming economy to India's more pedestrian growth. China has the great advantage of being largely ethnic Chinese. India will suffer through another year of internal feuding between Hindu nationalists, secular democrats, and Muslim leaders. No meaningful new market reforms will be produced.

India will continue to grow its world class business services but they cannot meet India's need for jobs. India will become more dichotomous in 2003 between the high tech powerhouses of Bangalore and Hyderabad in the south and the primitive infrastructure, manufacturing, and poverty of the north.

No Hindu nationalist government can be forced by the U.S. to make meaningful concessions on Kashmir, which India has occupied since independence. Watch for the terrorism to continue, no matter how cooperative President Musharraf of Pakistan might become.

## Japan

Japan will be a loser yet again in 2003. The main challenge for Prime Minister Junichiro Koizumi will be not to lose his job. In September, he faces reelection as head of the Liberal Democratic Party. If the economy does not show some signs of life, he will be ousted. To save his job he will implement a new fiscal stimulus package of immense benefit to the construction and real estate industries and, therefore, of great benefit to his political war chest. But the new spending will do little for the economy. It will drive Japan's debt to GDP ratio to levels historically unprecedented for any advanced society. The long awaited financial crisis and a collapse of the yen is a fifty-fifty shot. Otherwise, Japan limps along in 2003, seeking to solve its problems through exportsrunning current account surpluses exactly what got it into its fix to begin with.

## North Korea

Kim Jong Il will preserve his rule through a new diplomatic techniqueconfession. He has now confessed that it was a North Korean naval vessel that unprovoked, opened fire on a South Korean ship, killing more than a dozen sailors. Then he acknowledged that yes, the Japanese had been right, his country has been kidnapping Japanese citizens out of Japan and forcing them to live in North Korea in order to train Korean spies. And most devastating of all, he has now acknowledged that his country has centrifuges seeking to produce enough enriched uranium to make nuclear weapons.

This "Rogue State"the term in fact was not displaced by President Bush's use of "the Axis of Evil," but reappears in his "National Security Strategy of September, 2002"—is a burden no other country wishes to take on. China, Japan, South Korea, and the U.S. have no alternative in 2003 but to continue to finance the perpetuation of the Communist regime. Then alternativea take over by the Southis worse.

The challenge for President Bush will be to induce the North Koreans to behave more responsibly in return for the support. No more missile technology proliferationcertainly not to Pakistanand no more nuclear weapons development. But how the U.S. can accomplish that, given the failures of Presidents Carter and Clinton remain obscure.

## **Brazil and Argentina**

Brazilians have chosen a new President. Argentina will do so in March, 2003. Luiz Inacio Lula da Silva will be inaugurated in Brazil at the beginning of the year. His left wing trade unionism and earlier radical rhetoric scared voters, the IMF, and the Bush administration. But watch his presidency to be more sober and centrist than imaginable even a few months ago. For one thing, Lula's party did not win a substantial share of the seats in the parliament and he will have to fashion a coalition with more centrist parties. For another thing, Lula needs to establish the conditions for the economy to grow again given the burdensome level of public debt with their punishing high interest rates. He will not renounce the debt in 2003. But he will implement sensible policies aimed at convincing the IMF to extend new financing.

The Peronists will win again in Argentina. But the Peronists will win without a clue as to how to address their country's crisis. As a result, Argentina will continue to disintegrate in 2003. Its best young people, having lost hope for their lives, will flee to the United States and Europe, contributing to a vicious downward cycle.

The good news for Latin America is that George Bush despite what seems like overwhelming evidence to the contrary is a free trader. He will push his Free Trade Area of the Americas, aiming to get it launched by its due date of January, 2005. The likelihood is that Brazil's and Argentina's interests in agricultural exports are incompatible with the increased agricultural protectionism and subsidies in the U.S. That would lead those countries to revitalize Mercosur and, perhaps, drive them to the World Trade Organization. Whatever the outcome, free trade will increase in the Americas.

## **The United States**

No administration in recent U.S. history has been as ideologically driven as the Bush administration. The President is proud of being a born again Christian and has unaffectedly said that Jesus is his favorite thinker. The most powerful politicians in the House and Senate boast of their deep ideological commitments. The Bush administration also has many Jews in its senior ranks, who are proud to belong to an organization called Jewish Intellectuals for National Security Affairs that boasts of its commitment to a vision of Israeli security compatible with that of Ariel Sharon and the Likud Party.

The most senior administration official outside that ideological camp is Secretary of State Colin Powell. Condoleezza Rice is gunning for his job and the pressures on him to leave after the successful ouster of Saddam will be intense.

The new right wing and hawkish ideological commitments will drive U.S. policies and politics in 2003. This does mean fairly obvious policies such as gutting the environmental legislation of recent years. But it also refers to a new business agenda many of whose consequences will be positive for the competitive position of US firms. None more so,

perhaps, than the Republican assault on the trial lawyers and the bankrupting settlements they have won in their class action suits—in asbestos, for just one example. But the radical agenda also means assaults on what we have considered to be the inalienable civil liberties of people living in the United States and on the policies that have contributed to greater equality of opportunity and equality of income distribution.

Those policies have been at the root of the basis for the extraordinary political stability the U.S. has enjoyed since the Civil War—a widely held belief in the possibilities of social mobility. As the ideologues root out policies that contribute to a belief in those possibilities, so they will undercut U.S. political stability.

2003 will also witness a continued massive assault on the incompetence of U.S. intelligence agencies. Henry Kissinger will not bring an apolitical, objective view to their failures before September, 2001. But no matter, the failures of the intelligence communities are widely known—reliance on technological rather than human intelligence, aversion to risk, and a retreat to headquarters, independent fiefdoms, and on and on. The shift to greater competence has already begun and will be pushed in 2003.

The ideologically driven U.S. defense and foreign policy intellectuals are right on many fronts. None more so perhaps than their certainty that there is no end in sight to the dominance of the United States in economic preponderance, military supremacy, and intellectual and scientific prowess.

What they are wrong on is the notion that any of this has anything to do with the non-military international policies of the U.S. Essentially, the Bush administration has failed to address the sources and roots of terrorism and has committed to the "War against Terrorism with a Global Reach." But terrorism is like crime. No one can win a war against crime and no one can win a war against terrorism. Diminish it, yes. Eliminate it, no. What we also need to do is to fashion policies that diminish the reasons that encourage people to turn to terrorism. We need to address the sources of their hatreds. We need to start with the total support we give to the State of Israel. The U.S. has not yet begun to address those issues.

## **The 2003 WWBBW Awards— The World Would Be Better Without Awards**

Yasir Arafat is the man who cannot say yes to a deal for a Palestinian state nor can he explain why not or even what kind of deal he would accept. His corrupt and inept stewardship of his people has contributed to their immiseration—although not as much as have the Israeli military attacks. His failure to lead his people to peace reflects his preference for remaining as their head rather than risk his losing power to Islamic groups. Arafat is a loser.

Prime Minister Mohammad Mahathir of Malaysia will go. He has set his retirement for October, 2003. Last year, I looked forward to his departure from the world stage. But he has been so steadfast in his resistance to political Islam and especially to Islamic terrorism that he has served as a great stabilizer in Southeast Asia. Those policies of the faltering Prime Minister I will miss.

Hugo Chavez was also a winner of the award last year. He is a winner again this year. His Venezuelan populism has led local investors to shift their money out of the country and foreign investors to shun the country. The economy is failing, even in the face of higher oil prices. Chavez should have faced an election in 2003 but he extended his term until 2007. Instead, a referendum on his rule has been set for February. He will win through manipulation of the process. But as the urban poor Chavez's constituents suffer more poverty in 2003, he will lose power by the ballot or through a coup that succeeds, unlike the embarrassing failure of last April.

## Death Watch

Who are the world political leaders most likely to die in 2003. My four top picks as the most likely to die in 2002 are still here.

Osama bin Laden is still on the run, I regret. His chief deputy and military mastermind, Ayman al Zawahiri is apparently with him. Mulla Omar, the boss of the Taliban is nowhere to be found. They will be subject to an intensive manhunt and with a reward of \$25 million on his head; it may just be the paying proposition for some enterprising Graduate School of Business students.

Saddam Hussein has to be on the list. In August, 2002, Vice President Cheney raised the possibility of finding a country willing to take Saddam, and his family into exile as Saudi Arabia has done with Idi Amin. But after that one mention, the subject disappeared. Count on the U.S. to seek Saddam's death and not his exile.

Leaders of states across the Muslim world are at risk from the rage of their own people. Recent failed assassination attempts in Turkmenistan and Kyrgyzstan are a warning of what might come after the US onslaught against Iraq.

## Beyond 2003

Let me make ten bets beyond 2003:

1. We are entering a long term period of troubled relations with the Arab world in particular and with many countries with majority Muslim populations based on our policies hostile to their interests and on their failures to develop democratic governments or prosperous economies. The answer to the question of "Why do they hate us" is two fold. First, because we do hateful things. Second, because they have utterly failed to develop societies or cultures that work. Political relations will be increasingly frayed.

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2. A central commitment of the Bush administration will be to reduce Western dependence on Arab oil sources through developing alternative supplies, particularly Russia, providing a further basis for close ties and insuring that the U.S. will not criticize Russian repression.
3. The U.S. will also, finally, develop a massive campaign to win "hearts and minds" in the Middle East.
4. Regrettably, this campaign will not likely include a massive and sustained U.S. commitment to achieve peace in what is the principal source of enmity between the Middle East and the U.S. the failure of Israel to grant the Palestinians a meaningful chance to have an independent state.
5. The principal goal of U.S. foreign policy will be to prevent the proliferation of weapons of mass destruction. The U.S. will use military force, if necessary, as a last resort to prevent so-called "Rogue States" from acquiring the capability of inflicting massive damage on the U.S.
6. Europe will be increasingly marginalized. The U.S. will focus less on Europe as it worries more about proliferation, the Middle East, and the rise of China. Europe, having been the center of the world for 500 years through its wars, its colonial empires, and its economies will resent its marginalization and will turn increasingly inward to develop its political and economic union.
7. U.S. diplomacy has played second fiddle to the U.S. armed forces in advancing the international interests of the U.S. That is likely to continue as Colin Powell is the "odd man out" in the Bush administration and as the U.S. military takes over "nation building" in Afghanistan, weakening the Agency for International Development. U.S. foreign policy will become increasingly militarized.
8. The U.S. military is only at the beginning of developing the capabilities of fighting wars without American casualties. New technologies for robotic warfare are just about to arrive and will transform the way we kill.
9. The role of the U.S. government will increase as new responsibilities for security are assumed by all levels of government. The cost of the government will go up. So will the size of the bureaucracies. Transaction costs will increase. The sustainable rate of U.S. economic development will inevitably diminish.
10. President Bush has been brilliant in converting the crisis of September 2001 into an opportunity whereby he focused his otherwise lost presidency and assumed his role of Commander In Chief. This has brought him staggering popularity and a Republican controlled Congress. He will make progress against the terrorists and will see economic growth return. He will be reelected in 2004 and return himself, for a second term.

In short, 2003 is likely to be a year of violence and of heightened anxiety and uncertainty. The major uncertainty will be whether, when, and how much terrorist violence comes to the United States. It is certain that more terrorist violence elsewhere in the world is ahead, with American businesses likely to be the targets. The effects on us and on the U.S. economy will be determined by the extent of the carnage. But with war likely in Iraq and U.S. armed forces in action in a score of countries around the globe, expect the anxiety level to be high.