

Morris Annual Global Economic Forecast



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Introduction:

One is afforded the opportunity, in the 10th and 11th years between decades, to reflect on the end of a 10 year cycle of life, (2001-2010) and the beginning of a new one. 2010 was an end and a beginning, but 2011 is a beginning.

What I will discuss in this forecast are the discrete, at times, imperceptible trends that I believe will burst into view during this year and impact events in this decade.

I began the 2010 forecast by identifying and discussing **a prism** that must become the new mechanism for viewing current and future events. I said the following:

"...if I were to explain a distinction between the coming decade and the last, it is that in the last decade, the linkages, aforementioned,(technological globalization) and the intra-dependencies they foster will become more immediate and more determinate of

political, economic, social, military and environmental policies, agreements and conflict around the world and will become more pronounced and visible in the next decade.

I mean by that that throughout the 20th century, the average person in each nation was vaguely familiar with the idea of other nations. The idea or knowledge of other nations and their competitive capacity is no longer vague. (We know what China or India or Brazil can do and what France, or Greece or Argentina cannot do). In the last decade, such linkages were made over technology and new forms of media that the average person around the world could speak with and see a person in another country, nearly as immediately as their physical neighbours. In political or economic thought in the past, it was only possible to say that 'X event was happening in Y country and A event was happening in B country. Now, in the 2011-2020 decade, it will be possible to see and say that, "X event is happening in Y country, BECAUSE A event is happening in B country".

The "smartest nations are the one's whose governments and business leaders think in terms of this new logic.

This web of dependent inter-relationships will form the basis for a new form of perception and analysis. (One which I – and others in other ways - have worked to develop for the last 12 years, and will undermine the basis of so much of our binary approach to reading political, economic and social phenomena).

This Forecast was completed on January 7th 2011, however, the events in Tunisia followed by the events in Egypt – which prove my thesis – upheld its publication.

Two New Ways to See the World:

There are two additional prisms that grow out of this idea that may assist readers in thinking intelligently about China-US economic realities, for instance:

1. We must end the habit of saying The US 'and' China, when we speak of the economic relationship between the two. Its "US-China" or 'China-US'; whichever is your preference. This recognizes that neither is in position to survive without the other. China needs US consumers to buy Chinese products. And the US needs China to buy its US Government Bonds: thereby providing credit to the US government, financing US debt and deficits. The two nations are inextricably linked to each other. So all the 'brassy' talk from Americans about becoming aggressive with China is galloping nonsense. In like manner, all those who salivate for China to 'dominate' or overtake the US, are in the grips of unnamable tomfoolery.
2. The second prism to employ when looking at China is that for 10 years it has maintained economic growth rates of over 9%. China boasts now, a middle-class about the size of the total US population of 330 million people. What you should know now, in my view, is that for China, the era 'easy growth' is over. China will

grow now against a more competitive world, as labour costs in China rises, together with the cost of living and greater demands for fair trade from its trading partners.

On this second point, I wish to emphasize: China has progressed as far as it can on its own; which is to say: on terms that allows it to ignore the rest of the world. It is going to have to re-value its currency upwards this year, but not because the US has implored this action. Rather, because it needs to control 4% inflation. This means the US will have to learn a new diplomatic language based ironically, on its own market values...which is: learning to wait for the *market* to force structurally prudent actions on the Chinese. This means studying China's growth patterns, and building policy around the natural pressure points of China's growth process. (For those who have read me through the years, you will know that this - in my foreign policy theory - is the art of cultivating a "pre-text"; a zone for acting in one's own terms and in one's own interest.) To much of the US's reaction to China's increasing economic and political strength has been met by whining. More strategic action is required, based on a deep understanding of how integrated markets function, together with the role of currencies and how these interests may be balanced against one another beyond the lazy default 'zero sum' propositions now in vogue.

With this understanding of the prism or the lens through which we must look at both at the world in general and at the particular relationship of its two powerful nations, let's look at specific country issues; though my discussion of the US-China will overlap:

China:

Let's attempt to cut through the banal rhetoric that has been gushed about China: It will be important to make two points here:

The effect of China's necessary revaluation of its currency will mean slower growth, the effects of which we should see in the 3rd quarter of this year. But again, note that this will not have occurred because of political pressure. It is rather the case that China has grown to the full extent that it can grow without now depending upon and engaging the rest of the world. It has grown as much as possible without undertaking substantial domestic reforms, because of a large demanding middle class, and an even larger working class yearning for middle class status.

This year, look for China to unleash a raft of domestic reforms in housing, education and healthcare. Look for the government to expand the use of technology to a wider population and look for rising tension between the government and citizens demanding those reforms.

In other nations, this is normal. However, in China, even a modest success of these reforms will produce an explosion in Chinese demand, the economic impacts of which

will place pressure on supply all over the world, and will likely force an upward tick in commodity prices, which in turn will, again impact the Chinese growth rates, adding steam to inflationary pressures.

United States:

The several points of pressure in the US Chinese Relationship:

In the recent visit of the Chinese President to the United States, President Obama and President Hu Jintao wanted to *lessen tensions*, and find areas of cooperation; however, there has been a fundamental shift in the China-US relationship:

- a. China accepted – for the last 20 years - that it had much to learn from America. However, after the financial crisis, China concluded that America was fiscally irresponsible and undisciplined. As such, the fundamental shift is that China no longer regards America as a credible guide on economic matters, and sees America as lacking the will to do what is responsible to put the country right economically.
- b. The Chinese cannot understand the American actions in or approach to Iraq and Afghanistan. As such, American foreign affairs initiatives will not go unquestioned.
- c. Whilst China has incentives to reduce tensions between itself and the US, the previous points mean they will have a difficult path developing a vision of the future they can share and enforce as `partners` as Henry Kissinger suggested during President Hu Jintao`s visit.
- d. The US sees its relationship with China as a `special relationship`. China sees the relationship as one amongst many it must have with the big 5 nations of the world – US, Europe, Russia, India and Japan - to create a multilateral system in foreign affairs.

The US Economy:

We can discuss a variety of matters concerning the US economy I will stick to two and a comment:

- a. The Bank Bailouts during the financial crisis are in large part responsible for the stagnant growth in the US Economy. Essentially, you have a large number of bankers, who before the crisis were essentially on their way to jail. Then, in walks the government with 100s of millions of dollars, saving them.

A pretense has followed in which everyone including the media has treated the crisis as a liquidity crisis when, properly, it is a balance sheet problem. There are too many banks, as such, most of the banks are worthless. There were well over 8000 banks in the US before the crisis. I argued 3 years ago that 4000 of them must go away and die.

The problem is these "Zombie Banks" are not lending. They cannot. And this means that small businesses cannot get the the credit required for new business development. To compound the matter, Mr. Obama also made a

mistake in extending the Bush tax holiday to wealthy people rather than to entrepreneurs, who drive job creation.

If the Zombie Banks died, this would stuff the good banks with cash, and supply-demand mechanisms would be restored and business would regenerate economic activity.

- b. Second is the quantitative easing by Federal Reserve Chairman Benjamin Bernanke. The problem is he is inventing money out of thin air. The basic principle is that you cannot destabilise supply and demand and in this case, debase value without consequences, indefinitely.

Mr. Bernanke's 'zombie dollars' are being used in a most pernicious way. Crudely, the Chinese are buying commodities all over the world. Americans are feeling nervous about that. As such, the 600 billion which Mr. Bernanke invented three months ago, is now in emerging markets, 'hotting up things' by buying up commodities and assets. So it is that, the Americans are hedging against their own currency by insuring the investment of every dollar in commodities. This is perfectly rational. However, it suggests deeper problems with US currency and means even Americans believe the 'other shoe' in the financial crisis will eventually drop.

The comment I have is the following: There is a fundamental concern I have held about the US economy. For about 27 years or more, the US economy has been largely consumer driven. And this has been financed largely on credit. But this capacity for consumerism has shrunk severely. Now add to that 25 million unemployed Americans, and of that number, 10 million 'hardcore' unemployed. This means that American competitiveness can become critically undermined.

It is for these serious reasons that I oppose ideological policymaking and demand serious approaches to policy questions. Not only therefore must taxes and regulations be reduced, directly in the interest of entrepreneurship, but it must be made competitive. For instance *I recommend here that the US government allow an 'opt out' of the minimum wage, allowing workers to negotiate to work for at least 3 years at a non-minimum wage income.*

Additionally, in order to deal with the longterm unemployed, I advise that the government should invest \$100 billion dollars in education-innovation grants and prizes for attendance at Community Colleges. This sets the stage for a recovery with roots, driven by innovation and education.

I said in 2007 that the unemployment crisis in the US will last for 5 years at a minimum. I feel certain of this forecast. This is the final year for governance in the first term of the Obama administration. 2012 is a presidential election year. Sadly, therefore, I can see no reason to alter my forecast, as nothing will be done about joblessness. Also, as I have

said previously, the US companies that will thrive in this environment will be technology companies, defence contractors and finance companies.

I forecasted growth below 3% for the US for the past 3 years. I see no reason to change that. I see no initiatives to drive competitiveness, as nearly all policy debates in the US are ideological rather than substantive. I expect the loose monetary policy to force inflation into view, with severe displays in emerging markets as well; see quantitative easing above. I expect substantial destabilization in the Middle East this Summer, and impacts on energy, commodity prices to impact economic activity in the US. Furthermore, I expect in the summer of this year, at least four state to face serious bond defaults, raising `bailout` debates again, with even less substance.

The Far East and India:

Nothing will Change in Japan this year, except that its savings rate will fall, as its population ages, and demands in terms of both expenses related to that and the consumerism of younger Japanese will change thrifty habits of the Japanese over the next 10 years. Yen will remain strong, political resolve weak, and interestingly, it spells trouble for Toyota and Japanese exporters.

I make no real statements about Indonesia, Malaysia, Thailand, or Taiwan. South Korea is the true story of the East, leading the world in manufacturing and exports in almost all technology categories. I think it will continue to emerge as a regional economic power with solid growth at about 6% for 2011, despite demand declines and price increases in commodities. Singapore had the fastest growing economy in the world last year, Such is Singapore's discipline that if it is maintained, it will find itself approaching Japan's previous reputation as an international investor in other countries, after China, in the next 10 years.

India maintains too defensive a posture to become a global player. However, it's increasing openness will come as a relief to those suffering 'China fatigue'. Its room to grow is substantive in terms of diversification and I think because of the English language, poor Indians can exploit economic opportunity more readily than poor Chinese. Because of its commitment to education, the presence of quality control – unlike in China - I see enormous but more measured growth for India this year and for the next 10 years.

Unlike China, India is nowhere near its margin for easy growth. Its domestic markets are largely untapped, and mere infrastructural readiness programmes can drive the Indian economy for the next 3 years. This means investment and growth in real terms. This year should also see the further maturation of the Indian capital markets, allowing for more openness and more direct investment by foreigners. Growth will likely exceed 8.5% this year. In this decade India will become the dominant auto manufacturer in the world.

South America:

My essay for 3 years ago "The Rise of the Spanish Caribbean" is still timely and addresses the growing Spanish or Hispanic economic and cultural hegemon in the Americas. The essay can be 'googled' on the internet. However, Panama and the Dominican Republic deserve special mention here. Panama is in the midst of a \$15 billion dollar expansion of the Panama Canal. We understand the impacts of this. However, Panama has got to grips with its potential and sees itself now as the Singapore of South America and the Caribbean Basin.

Panama improved the physical stock in the country and is dealing with its atrocious education problems. Less than 10% of students graduate highschool, as is the case in the Dominican Republic. Into such a mix came the finest medical school in the world: Johns Hopkins University Medical School. The loss of this opportunity in the English speaking Caribbean (an opportunity I tried to exploit), is a great blow to the possible branding of any international medical systems we try to implement.

Hopkins will bring a myriad of collateral programmes, such as its Youth Scholar programmes and its general medical systems training to Panama and that will draw Brazil, Colombia, Nicaragua, Peru and Chile into the sphere of Panama and a new centre of excellence will be born in tandem with Panama's renewed commercial significance.

Whilst hotel development has slowed in the Dominican Republic, there are other developments which have compensated. New cruise arrivals in Santo Domingo buoyed the local economy. However, sadly, the Colonial Zone in the Old City should represent itself much better as the first city of the Americas. Young members of the old families, prominent in this area are making plans for changes. The problem for the older wealthy families is that investors are arriving who have no interest in the cozy relationships built up over the decades. These investors will invest wherever they like and will empower neglected areas of the community. This is already happening in the centre of Santo Domingo in Piantini and Naco.

For me the Dominican Republic is the most attractive economy in the Americas in terms of economic potential along with Brazil. It can serve as breadbasket for the Caribbean region. But farmers will have to become reliable and deliver on time or at all, according as contracts stipulate. But the 'feel' of the country is that everything is possible.

I expect growth in the neighbourhood of 4.5 to 4.8% in Dominican Republic. This shrinkage is owing to the losses from declining global demand. If DR fixed its agribusiness sector, it could see growth as high as 6% *because* of price sensitive demand.

Brazil:

I regard Brazil as 'little India' in terms of potential. Its economy is about the size of California and Italy, but has much greater significance. I expect Brazil to see such growth in the next 4 years that I expect it in those 4 years, literally to be a different country.

Having survived a series of financial crises at the beginning of the last decade, Brazil's leaders are seasoned at dealing with its issues, as is evidenced in the increases in production that came in part from public investment in the conditions of workers, which altogether lead to increases in productivity and so exports. The new president Dilma Rousseff was tested at the outset with an environmental tragedy and was rightly given good marks for her stewardship. New energy finds will mean Brazil will see its exports earnings increase and so its capacity to finance its social vision has become more viable; the success of which has been to lift 35 million people from poverty into the first rungs of the middle class.

Tourism numbers are likely to increase every year for the next 10 years and the final frontier for Brazil is the development of a global IT industry, which is underway.

The problem for Brazil is that its growth has been so rapid that it cannot in many cases keep up with the demand, even in its own production. This means that a serious look must be taken at its potential growth and the demands that must be satisfied to sustain it. Also, it means that inflation can become a real issue and it will. It is not a solution to outrun one's inflation rate. That rate and growth always find equilibrium and you end up paying a terrible price for failing to exercise discipline, sometimes in the short run.

The second problem is that any collapse in global commodities prices will mean trouble for Brazil. The result of domestic investment has been, and increase in the cost of living. If prices for exports fall, those new high domestic prices will remain. Brazil must do more to diversify away from commodities and develop its services platforms as DR has done. As I believe we will see a commodities splurge in the next 3 years, Brazil has time. But not much. It must diversify in order to see sustainable development over the long term at a slower pace.

Yet another problem for Brazil is the quantitative easing I mentioned before. Those Zombie Dollars created by Bernanke are surfacing in Emerging Markets, particularly Brazil, pushing up its currency and making it less competitive in the midst of a commodity boom. The danger is that Brazilian holders of those dollars will find themselves shorted in any US dollar currency crisis. It's as if the Americans have taken the decision to spread a virus around the world, to spread the effects of an inevitable contagion.

I see growth rates between 5 and 7.5% and in the next 4 years another 5 million people added to the middle class. An increase in domestic demand, and the headwinds of inflation.

Africa:

The bright spot for me in this report is the Rise of Africa. I wrote in the Turks and Caicos Free Press newspaper in 2008, that Africa will become in many ways the new China. These are still frontier, rather than emerging markets, though it is the first time in history that that is so.

Caribbean government's that are stuck making the same 40-year old excuses, may take note that the main reason for this stupendous development in Africa is the removal of government red tape, and the reduction of the timeframe for establishing business from months to hours. It also reflects reforms in the courts and the use of electronic technologies to extend government services and create transparency.



Africa is also being affected by the Chinese decision to hedge their US dollar risks, by buying up commodities and securities in Africa, amongst other places.

The recent launch of a record-breaking IPO in Rwanda indicates a growing confidence in capital markets in Africa and will mean that traditional markets may see a decline in business, with the more brazen investors seeking the highest possible returns turning for the first time to Africa.

What is critical for Africa is an observation I made in 2008, which is repeated in the Economist last week:

'Annual GDP growth rates do not reflect how well this income is distributed. If rising GDP leads to rising income gaps, one can expect more instability and political strife which will then do away with the progress these countries made.'

That is to say, we must look for `investment penetration` and `distributive depth` to determine the viability over the longterm of these spectacles of agreeable developments in Africa. Failure to build an underlying infrastructure and the absorptive capacity of citizens, means `prophylactic development`, which happen in proximity to be does not touch the domestic markets, sustainably.

Additional bright lights in Africa are Sierra Leone and Liberia. The recent decision by Rio Tinto to invest \$10 billion dollars in the iron ore industry is an opportunity for Liberia in particular to come a ways into the 21st century. The restoration of the old intra-national railway by Mittal and others will also mean new urban developments and port facilities.

This is all consistent with my essay of 4 years ago Africa Rising, in which I said that despite the new scramble for Africa, there are sufficient numbers of talented Africans that they will not be left out entirely.

My African disappointment is of course South Africa. I think the principal mistake of the last 10 years was the Presidency of Mbeki, which was in my view a disaster. Zuma following on is self explanatory. South Africa, despite its abundance of natural resources will never really become a competitive global exporter of commodities, although I thought it would have made at least as much of its Indian relationship as Brazil has done. Self-sufficiency is South Africa`s opportunity and it is nowhere close to this realization.

The Caribbean:

No region of the world is a greater disappointment. After more than 40 years of independence on average, our chief manufacture in the Caribbean is crime.

We have managed to lead the world in Murders, even with the collapse of crime in Haiti. The reason for this is simple: Visionless, crony governments, an innovation adverse merchant class whose main aim is for nothing to change, and a banking system that has the same business model as pawn shops.

In fact, it is not the fault of the bankers that they have shackled us under this system. It is the lack of vision or perspective of the governments themselves.

With the exception of Barbados we have poor systems of education in which we use the teaching profession as a default full employment scheme.

CARICOM is ceaseless to be born and the men who brought it about, are still grinning from photographs, with no achievement for all the talk and years of waste.

There is not a single area or issue on which the English speaking Caribbean is leading or attempting to or has imagined leading the region of the Americas or the world. There is

no technology which we have mastered in the service of efficiency, proficiency or to defeat a deficiency.

Several years ago I asked the Secretary General of CARICOM a series question as we sat on a panel at the College of the Bahamas:

- a. What are the industries in which CARICOM will be market leaders in 10 years?
- b. What investment and institutions are required for them?
- c. Why have a Caribbean Court when in no CARICOM country are the courts respected?
- d. Why in the age of the internet and in the face of brain drain do you promote free movement of UWI graduates?

None of these questions were answered. That is because they cannot be and that is because these men cannot imagine the world in which we now live. They were petty civil servants in the old colonial systems. And they have no sovereign sense of themselves that permits them to imagine forcing the world onto their agenda. They are happy to be powerful in their own counties and outside to have less power than an Amway salesman, so long as they can bruise any citizen in the own country who opposes them, and sit next to the US Ambassador at glittering functions.

As for the Bahamas, again I wrote a paper 16 months ago called 'Bahamas at a CrossRoads'. In that paper I laid out what I thought should be the priorities of any government of the Bahamas facing down the economic crisis. It was interesting to receive an email telling me "even the IMF says we are doing well". This goes to the heart of our problem. If one is a leader or an official in a government, why would you depend on an assessment made by an agency that uses data you gave them to prove a well-being you live with every day?

That is because that official has nothing in his mind against which to benchmark the progress of the Bahamas. If the argument is the Bahamas is doing badly, he responds by citing for instance crime problems in the US without recognizing the basic categorical mistake in logic. That is, you are going to compare our faults to the faults of America, then you have to show that we have the benefits America offers as well such as The Kennedy Space Centre, or Harvard University or Forensic Analysts who can diagnose any human problem with the highest possible level of expertise available on the planet. When that same official wants to say that we are doing well, he switches categories and goes for the lowest category comparison. Oh he says, we are ahead of Jamaica, Guyana and Haiti, but not America, or Singapore or Estonia.

What this shows is the defensive, personal, weakmindedness that governs us and in the face of crisis they take the habit of speaking universally, saying "oh nothing else can be

done' – even though in other places something is being done successfully - rather than speaking personally and saying "I do not know what is to be done"; which is the truth.

This habit and its corollaries are the reasons the Bahamas is where it is today. And whilst the rest of the world is engaged in cutting edged technological advancement or educational excellence, we are defending D grade national averages and embarking on two things now that show our lack of imagination: a. The Bahamar project which will pump money into the economy just in time for elections. A project that cannot succeed as planned, since there can be no wisdom in building 3000 rooms on the island on which you closed 3000 rooms. Second, it will succeed in reducing the prices of hotel rooms across Nassau, because that will be its only competitive opportunity. b. The sale of BTC is evidence that we do not know the age we live in. The government spent \$150 million in retirement packages for BTC employees 15 years ago. Then 8 years ago spent \$50 million or more laying nationwide fiber optics, whilst giving up market share to a host of companies such as Cable Bahamas. The question is how does the price, plus the expected equity earnings amortise those outlays? But more importantly, where will the capital come from to provide eGovernment infrastructure in the digital age?

It is the failure in imagining these things right, or at all, that makes it impossible for young people in the Bahamas to retain any hope that their governments will change. Those who lead those governments lack the generational instincts for the age in which they insist on remaining in power, and so necessarily, they reduce all questions of innovation to the base politics they can understand, even as the world changed more last year than all the years they spent in political life combined.

In Turks and Caicos, Jet Blue begins flights this month. The flights are expensive. However, overall bookings in TCI are up substantially. The English have put in place a loan guarantee for \$260 million dollars. This means two things amongst others: 1. Whilst the people of TCI will have to pay this money back, it gives the English a pre-text to retain control because of the risk to the UK taxpayers and TCI loses that final veneer of independence under which we never took handouts from the UK. That is now dead. 2. The second point is this: it is likely, if not already, that very soon, in the process of all that is underway in TCI that Turks and Caicos Islanders will have no real power for at least 10 years or more in TCI. This does not mean there will be no elections, but whomever wins that election will have the power only to control his or her facial expressions, if that.

The UK by means of the new constitution will not allow for instructive leadership and a growth toward maturation in governance. Instead, the leaders under the new constitution will need the governor's approval to blink. It is sad when one thinks of what could have and ought to have been. It was ours to have and we did not meet the opportunity at its mark.

A Note on Revolutions, Egypt and The Middle East:

Note: I published significant commentaries based on this note in FACEBOOK to preserve the forecasted elements.

In 1998, at the Smithsonian Institution - Washington DC -, my colleague from George Mason University, Dr. Katya Vladimirov, others and I, gave lectures on the history of revolutions. In those lectures Professor Vladimirov demonstrated that the same families ran the civil services and high government positions in Russia and Poland before and after revolutions.

This harkens to that famous phrase, *the more things change the more they remain the same*.

After 20 years of travel in, observation of and writing on the Middle-East, applying Professor Vladimirov's thesis, here is my basic proposition on Egypt:

President Hosni Mubarak will go, yet when he is gone, whomever and whatever replaces him will be the part of the existing power structure and will prove more dangerous, which means tensions in the región have already escalated, and what we see now – inside and outside Egypt - is a scramble for a perspective, a pre-text and a policy.

However, we must look at this situation at ground level through the eyes of Egyptians. The causes of the movement against Mubarak are complex. But when examined closely we discover that this movement was not spawned from a social class, rather it has been young people, and amongst this group, some facts can offer us coherence.

- a. In order to placate the young Egyptians, nearly 10 years ago, the government increased the subsidy for education. This had the foreseeable, but unintended consequence of a massive rise in the number of graduates in "hard subjects", such as sciences and technology: nearly 1 million graduates per year. However, the world economy shrank and that meant that under-employed and unemployed young Egyptians were thrown into despair. Unemployment amongst this group in Egypt exploded to 25%, effectively touching every household. Add to that the impact of the rise in basic food and cooking oil prices and hopelessness married to frustration produced a volatile child: Anger. This is the source of the movement.
- b. However, neither violent nor protest revolutions `succeed` for a variety of reasons:
 - i. Poor people have never lead a revolution and in general do not instigate or initiate them.
 - ii. Middle-class people lead, instigate and initiate revolutions based on their outrage at not being able to maintain their lifestyles, or when their sense of uncertainty removes that final veil of security.

- iii. Once the revolution begins, middle-class people conscript poor people with talk of brotherhood and fraternity.
- iv. Once the revolution has obtained its objectives, its middle-class leaders draft a member or members of the elite to lead them. They do this because they do not trust each other, and they desire to draw on the prestige of an elite person – against whose class they revolted – because they themselves tend to desire the privileges of elites.

Social or status classes and privileged communities are preserved by those who recently or are near to gaining entrance.

This thesis can be observed in practise the Tunisian situation, which occurred only weeks ago, which gave impetus to the current Egyptian protests.

The differences in Tunisia and Egypt can be captured the sentiments of the French philosopher Jean Jaques Rousseau, who more than 220 years ago wrote the following: *“People accustomed to masters will not let mastery cease ... Mistaking liberty for unchained license, they are delivered by their revolutions into the hands of seducers who will only aggravate their chains”*

I predict that this is exactly what is happening in Egypt. People will mistake their new found freedom to challenge the government for real power, and when they begin to find divisions even amongst themselves, they will turn to the main beneficiaries of the very system Mubarak created: The Army. And by new means and methods they will find themselves again unfree; this time by an overlord far more ruthless than Mubarak.

This reveals many problems and a deep conundrum:

- a. The Americans and their allies fear the rise of the Muslim Brotherhood and other groups. Yet, they fear Mubarak's remaining in place as much as they fear his departure.
- b. If they support Mubarak – who because he risked his life for them, rightly expects their support – they would incite hate in the people now protesting in the street, and groups regarded as extreme – such as the Muslim Brotherhood – would gain further influence.
- c. If they reject Mubarak too forcefully, then governments in Saudi Arabia, Jordan, Lebanon, Yemen and The UAE, right the way across the Middle-East – expecting US support – will lose faith in their US partnerships and do deals with extreme groups in their countries tonight, in order to save themselves.

The Americans and the British – the two principal causers of the organization of the Middle East as we know it – have been struggling to find the right voice. There is a

strategy which they can adopt straight away that would prove more effective than anything so far: Shut Up!

No Egyptian – in the street - is interested in anything the Americans or British have to say. The same goes for the external impacts of internal re-organization of Egyptian political life. Mubarak will stand his ground, as I think he should. The public movement against him will insist that he goes, as they are right to demand. The Army stands in the middle and will try to maintain as much control as possible, whilst trying to meet first demands that Mubarak goes, then modest reforms that do not threaten 'stability'; partly defined as the maintenance of their system of benefits.

Externally, there are a host of concerns of no direct concern to the movement in the streets. To observe the depth of the imagined conundrum in its full horror, the Americans imagine the next Egyptian election. Over the years, the money America and its allies provided to dictators and authoritarians was used to enrich those dictators and abuse their people. And whenever the people protested, American cash bought weapons were used to suppress them.

These sentiments are in the minds of the people in the streets. And if they are radicalized, strategically, it could mean the development of an *Islamist Triangle*: The Muslim Brotherhood in Egypt, Hamas in the Gaza Strip - which grew out of the Muslim Brotherhood - and Hezbollah in Lebanon. This would increase the influence of Iran and would force Iraq and Syria toward more fundamentalist politics and policies.

However, I do not find the rise of the Muslim Brotherhood a reasonable fear in this stage of the situation because of the role and prestige of the Army: ironic though it is. The crowds gathered in the centre of Cairo may be unified concerning Mubarak's departure. But they are not unified about anything else. And once Mubarak is gone, the internal strife, born of long held frustrations will mean an uneasy reality in Egypt in which the interests of the West are no longer paramount, leading to the development of either a strengthened position for the Army or the increased influence of radicals.

In the absence of schools and clinics and other social services, groups like the Muslim Brotherhood abhorred the vacuum and provided those services with a missionary fervour. No new president of Egypt could ban these groups running in elections. As such, these groups – in spite of the Army's prestige - stand to reap some political benefits of the gratitude for the services they provided; except - again - they are diametrically opposed to America and Israel. To have the 8th largest army in the world near the hands of these groups, rightly terrifies America and its allies: though, this, if it did occur, is the result of accommodation of dictators over such a long period.

So America and her allies are caught in their own panoptica, between their stated values and the ordinary Egyptian demands for freedom and justice; caught by the possibility of a

government made up of people who may reject American influence or friendship, whilst blaming America for their condition.

So the way to read coded diplomatic speak, mainly by Britain and the US, is not: `Mubarak, quit and hold elections`. It is closer to: *Mubarak, promise you will leave. Announce reforms. Then put a man in place that we know and can work with.* Literally, they need President Mubarak to do them the favour of making space for a new Egyptian leader who will continue to support their interests; even as they abandon him. The significance of this is that Egypt is not strategic partner with America. Rather, whomever is president of Egypt is *personally* America's strategic partner. And that fact indicates how fraught with subtle dangers is the current situation.

Given these particulars, my view of the fallout from the current situation are as follows:

- a. I repeat: whatever follows Mubarak will be weaker and less able to cultivate open ended friendly relations with the US.
- b. Other Arab leaders will make deals with extreme elements in their countries because now they see that America will abandon leaders, once protests begin.
- c. This will lead to higher tensions in the region, meaning more strident US support for Israel, which will again lead to greater tensions.

These events are even more troubling for Jordan. Nearly 60% of its population is Palestinian. A stronger Muslim partnership in government means it will no longer enjoy near neutrality on the Israeli-Palestinian question.

What we can take from all of this is that `people power` sounds good. But in certain regions, because of the political mixture, history of conflicts, together with the balance of interests and power, it is simply not probable. Also, it is the end of accommodationist diplomacy practised by Henry Kissinger. And though I doubt its prospects for success, this is the age of values diplomacy.

However, remember this rule: the first act of a post-revolutionary period is almost always cruelty. That is an indicator of what it to come. Whilst we hope for something different in Egypt, thinking people will reflect that the only certainty is nothing will again be the certain.