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#### 1 – FOUR TRANSFORMATIONS

Herbert Meyer was special assistant to the Director of Central Intelligence during the Reagan administration. Currently, he writes in a Frost & Sullivan Global Intelligence Briefing (<http://www.frost.com>), there are four major transformations that are shaping political, economic and world events, each with profound implications for American business, culture and way of life. All will be familiar to our long-time readers. We summarize and paraphrase his points below:

#### 1. THE WAR TO MODERNIZE ISLAM

Islam has not found a way to reconcile with the modern world. People can argue about whether the wars in Afghanistan and Iraq are right or wrong. However, the underlying strategy is to remove radicals and empower moderates in the Islamic world. Our hope is that, over time, the moderates will find a way to bring Islam forward into the 21st century. That's what our involvement in Iraq and Afghanistan is all about.

In some ways, this war to modernize Islam is going very well. Afghanistan and Iraq have the beginnings of modern constitutional governments, which are huge steps forward. Women are being brought into colleges and workplaces. The Saudis are starting to talk about some good things, while Egypt and Lebanon are beginning to move in a good direction.

At the same time, not all is well with this war. The level of violence in Iraq is much worse and doesn't appear to be improving. It's possible that we're asking too much of Islam all at one time. We're trying to jolt them from the 7th century to the 21st century all at once, which may be further than they can go. They might make it – or they might not. People can argue about what and how the US is doing in Iraq and Afghanistan, but any signs of modernization are positive.

The real place to watch is Iran, which many experts believe should have been dealt with before Iraq. If Iran actually obtains nuclear weapons, it will be a terrible situation. There are two ways to deal with it. The first is a military strike, which will be very difficult. The other way is to separate the radical mullahs from the government, which is the most likely course of action.

70% of the Iranian population is under 30. They are Moslem but not Arab. They are mostly pro-Western. Thanks to TV and the Internet (even where banned), the average 18-year-old outside the US is very savvy about what is going on in the world, especially in terms of popular culture. There is a huge global consciousness of which young people around the world want to be part, and it is increasingly apparent to them that the only things standing in their way are the miserable governments under which they live.

So the Iranian problem isn't so much the weapons, it's the people who control them. If Iran has a moderate government, the weapons become less of a concern.

#### 2. THE EMERGENCE OF CHINA

In the last 20 years, China has moved 250 million people from farms and villages into cities; their plan is to move another 300 million in the next 20 years. That's why China is addicted to manufacturing, and why Americans have come to expect low prices. A unique kind of economic codependency has developed between the two countries: we are subsidizing their economic development; they are subsidizing our economic growth.

Because of its huge growth in industrialization, urbanization and manufacturing, China is hungry for energy, power and raw materials. China has 8 new nuclear electric power generators under construction

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and 45 more planned. It is buying its way into the oil infrastructure around the world. Its quest to assure it has all the oil and raw materials it needs drives demand and prices up worldwide, and is now a major factor in world politics and economics.

The Chinese are a smart and industrious people. They may be able to pull it off and become a very successful economic and military superpower. If so, we will have to learn to live with it. We have our Navy fleets protecting the sea lines, specifically to guarantee the ability of oil tankers to travel freely. If the Chinese want to share the responsibility of keeping the world's oil lanes open, that's a good thing.

What could go wrong with China? For one, you can't move 550 million people into the cities without major problems. Although it gets almost no publicity, China is experiencing hundreds of demonstrations around the country, which is unprecedented. These are average citizens who are angry with the government for building chemical plants and polluting the water they drink and the air they breathe.

Two, China really wants Taiwan, not so much for economic reasons, but for nationalistic (and hence dangerous) reasons. We may wake up one morning and find they have launched an attack on Taiwan, which will be a mess, both economically and militarily. If the US honors its commitment to the military defense of Taiwan, it makes a shooting enemy of China. If it does not, every treaty the US has will be worthless. One hopes China won't do anything stupid.

### 3. SHIFTING DEMOGRAPHICS

Most countries in the Western world have stopped breeding. For a civilization obsessed with sex, this is remarkable. Maintaining a steady population requires a birth rate of 2.1. In Western Europe, the birth rate currently stands at 1.5, or 30% below replacement. In 30 years there will be 70 to 80 million fewer Europeans than there are today. The current birth rate in Germany is 1.3. Italy and Spain are even lower at 1.2. At that rate, the

working age population declines by 30% in 20 years, which has a huge impact on the economy.

When you don't have young workers to replace the older ones, you have to import them. The European countries are currently importing Moslems. Today, Moslems comprise 10% of France and Germany, and the percentage is rising rapidly because of higher birthrates. However, the Moslem populations are not being integrated into the cultures of their host countries, which is a political catastrophe.

One reason Germany and France don't support the Iraq war is they fear their Moslem populations will explode on them. By 2020, more than half of all births in the Netherlands will be non-European. The canary in the mine is anti-Semitism. When it goes up, it means trouble is coming. Current levels of anti-Semitism are higher than ever. Europe will likely get shabbier, more dangerous and less pleasant to live in.

In Japan, the birth rate is 1.3. As a result, Japan will lose up to 60 million people over the next 30 years. Because Japan has a very different society than Europe, they refuse to import workers. Instead, they are just shutting down. Japan has already closed 2000 schools, and is closing them down at the rate of 300 per year. Japan is also aging very rapidly. By 2020, one out of every five Japanese will be at least 70 years old. Nobody has any idea about how to run an economy with those demographics.

China and India do not have declining populations. However, in both countries, there is a preference for boys over girls, and the technology to ascertain the gender of a fetus is now cheap and widely available. As a result, in each of these countries there are 70 million boys growing up who will never find wives.

The birth rate in Russia is so low that by 2050 their population will be smaller than that of Yemen. Russia has one-sixth of the earth's land surface and much of its oil. You can't control that much area

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with such a small population. Immediately to the south, you have China, potentially with 70 million unmarried men; a nightmare scenario for Russia.

In the US we also have an aging population, and Boomers are starting to retire. This may stress the treasury and health care system, but also presents enormous opportunities for products and services tailored to aging populations.

#### **4. RESTRUCTURING OF AMERICAN BUSINESS**

The fourth major transformation involves a fundamental restructuring of American business. Today's business environment is very complex and competitive. To succeed, you have to be the best, which means having the highest quality and lowest cost. This has led to vertical disintegration, outsourcing and fracturing, a process now in its second generation (as even small companies outsource non-core functions).

Among the effects of this trend are that our traditional measurements of economic activity are not accurate; there is much work and much income not being counted. We are far richer and more productive than we know. The restructuring of American business also means we are coming to the end of the age of the employer and

employee. Everyone is on their way to becoming an independent contractor.

The US is in the process of building the world's first 21st century model economy. The only other countries doing this are the UK and Australia. The model is fast, flexible, highly productive and unstable in that it is always fracturing and re-fracturing. This will increase the economic gap between the US and everybody else, especially Europe and Japan.

On the one hand, this makes the US a magnet for bright and ambitious people. There is no better place in the world to be in business and raise children. The US is by far the best place to have an idea, form a business and put it into the marketplace. We take it for granted, but it isn't as available in other countries of the world.

On the other hand, it also makes us a target. Ultimately, however, the basis for our strength, superiority and long-term viability is not our economy but our traditional Judeo-Christian culture. The only people who can hurt us are ourselves, by losing our culture. If we give up our Judeo-Christian culture, we will lose ourselves, and lose our future.

## **2 – THE SPOILING ATTACK**

The United States has now spent four years fighting in Iraq. The best that can be said about the war at the moment is that it is a strategic stalemate. The worst that can be said is that the United States has failed to meet its strategic objectives and that failure represents defeat.

In considering the situation, however, one's attention is drawn to a strange paradox that has been manifest in American foreign policy since World War II. On the one hand, the United States has consistently encountered strategic stalemate or defeat in particular politico-military operations. Outcomes appeared to be disappointing if not catastrophic in Korea, Cuba, Vietnam, Iran

and Iraq. Yet, over the same period of time, US global power, on the whole, has surged.

This general paradox is explained at [www.stratfor.com](http://www.stratfor.com) by George Friedman, who believes there is an underlying order to US foreign policy that makes the apparent chaos of policymaking understandable and rational.

### **SCHOOLS OF THOUGHT**

There are three general explanations for the paradox of military stalemate yet growing US influence and power in the world. One is that US power is more economic than military; another is that the US

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has been extraordinarily fortunate; a third is that public convulsions notwithstanding, these conflicts never involved fundamental national interests.

If we apply these analyses to Iraq, three schools of thought emerge. The first says that the Iraq war is unnecessary and even harmful; the second says that the war is essential and that defeat or stalemate could be catastrophic; and the third says that the outcome will not be decisive.

## **WHICH IS IT?**

Let's begin with something that is obviously true, writes Friedman. When we consider Korea, Cuba, Vietnam, Iran and even Iraq, it is clear that the United States devoted only a tiny fraction of the military power it could have brought to bear if it wished. Clearly, it was prepared on some level to accept stalemate and defeat.

In other words, the United States has consistently entered into conflicts in which its level of commitment was extremely limited, in which either victory was not the strategic goal or the mission eventually was redefined to accept stalemate, and in which even defeat was deemed preferable to a level of effort that might avert it. Public discussion on all sides was apoplectic both during these conflicts and afterward, yet American global power was not materially affected in the long run.

## **THE SPOILING ATTACK**

This appears to make no sense until we introduce a military concept into the analysis: the spoiling attack. The spoiling attack is an offensive operation; however, its goal is not to defeat the enemy but to disrupt enemy offensives – in effect, to prevent a defeat at the hands of the enemy. The success of the spoiling attack is not measured in terms of enemy capitulation, but the degree to which it has forestalled successful enemy operations.

If we consider the examples cited above and apply the concept of the spoiling attack, then the conversion of American defeats into increased US global power no longer appears quite as paradoxical.

In Korea, spoiling Communist goals created breathing space elsewhere for the United States, and increased tension levels between China and Russia. In Cuba, containing Fidel Castro was, relative to cost, as useful as destroying him. In Vietnam, frustrating the North's strategic goals for a decade allowed the Sino-Soviet dispute to ripen, thus opening the door for Sino-US entente even before the war ended. In Iran, being ousted mattered only if the Soviets replaced the US, which of course it did not.

If we apply the concept to Iraq, it is possible to understand the reasons behind the size of the force deployed (which, while significant, still is limited relative to the full range of options brought to bear in World War II) and the obvious willingness of the Bush administration to court military disaster. The invasion four years ago has led to the Sunnis and Shia turning against each other in direct conflict. Therefore, it could be argued that just as the United States won the Cold War by exploiting the Sino-Soviet split and allying with Mao Zedong, so too the path to defeating the jihadists is not a main attack, but a spoiling attack that turns Sunnis and Shia against each other. This was certainly not the intent of the Bush administration in planning the 2003 invasion; it has become, nevertheless, an unintended and significant outcome.

As with the invisible hand in economics, so too do politicians pursue immediate ends without necessarily being aware of how they contribute to overall outcomes. The incongruities of stalemate and defeat on the one side and growing US power on the other must be reconciled. The liberal and conservative arguments explain things only partially. But the idea that the United States rarely fights to win can be explained. It is not because of a lack of moral fiber, as conservatives would argue; nor a random and needless belligerence, as liberals would argue. Rather, it is the application of the principle of spoiling operations – using limited resources not in order to defeat the enemy but to disrupt and confuse enemy operations.