

The Briefing

A Newsletter of The Alabama World Affairs Council / Spring 2008

This Spring: Peter Zeihan, Stratfor's Director of Global Analysis; Three Senior Air War College Instructors

Strategic Forecasting, Inc., more commonly known as Stratfor, is a private, non-partisan intelligence agency based in Austin, Texas, with offices in Washington and around the globe. Stratfor is a leading private intelligence service and is highly respected in government and press circles. Barron's once referred to it as "The Shadow CIA." Their global staff of intelligence professionals provides its members with insights into political, economic, and military developments to reduce risks, to identify opportunities, and to stay aware of happenings around the globe. They deal in situational awareness (what's important), analysis without political bias, and (sometimes fearless) forecasting about what's coming next. Stratfor representatives routinely appear at conferences and as subject-matter experts in mainstream media.



APR 8

Peter Zeihan, Stratfor Director of Global Analysis, will speak to the council on April 8, 2008. He leads the development of Stratfor's political and economic forecasts. For seven years Mr. Zeihan has been instrumental in Stratfor's coverage of a broad range of geographic and topical areas, at times directly overseeing the firm's efforts for Central Europe, the former Soviet Union and energy issues. He has also played a leading role in Stratfor's East Asian and Middle Eastern analyses. This experience has led to the development of the Stratfor Global Market Brief as well the creation of a global energy analysis, sought-after tools for leaders across the business spectrum.

Prior to joining Stratfor, Mr. Zeihan worked with the U.S. Embassy in Canberra, Australia, and was formerly Susan Eisenhower's office coordinator while with the Center for Political and Strategic Studies in Washington, D.C. In such capacities, he regularly analyzed developments in Asia, Europe and the former Soviet Union while producing briefs and publications for a variety of clients.

Zeihan has a master's degree in political and economic development from the Patterson School of Diplomacy at the University of Kentucky, a postgraduate diploma in Asian studies from the University of Otago in New Zealand and a bachelor's degree in political science from Truman State University.

Three senior **Air War College** **MAY 8** **Instructors**, just returned from their trips with AWC students to different areas of the world as part of the College's Regional Studies Program, will make their "Report to Alabama" on May 8. The speakers will be chosen on the topical interest of the area they visited, their expertise on the area, and their proven ability in the classroom. Judging by previous audience comments, this is one of AWAC's favorite programs annually.

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One Board Member Leaves, One New Member Elected

Long-time member of the Board of Directors, Dr. Grant Hammond of the Air War College faculty, has left for a prestigious assignment as Dean of the NATO Defense College in Rome, Italy. At the August 2007 Board meeting, Mr. Thornton Clark was unanimously elected to fill the vacancy. Mr. Clark is a graduate of Lanier High School in 1955 who left Montgomery to go to Harvard and make his way in the world of international banking and high-end corporate travel. Upon his retirement to Savannah, he served for seven years as the President of the Savannah Symphony. After 50 years away, he returned to his native city and has shown a great interest in the work of our Council.

Also at that August meeting, a committee was formed to consider changes to the organizational structure and leadership of the Council.

Membership, Finances Steady

The membership of the Council has remained relatively steady at about the 450 mark as old members drop off for a variety of reasons and new members sign on. While the dues structure remains scandalously low, enough members have joined at the higher levels and some civic-minded corporations have stepped forward to sponsor some of our programs, that our financial status remains satisfactory.

Board Member Profile

Alex Whaley was introduced to the Alabama World Affairs Council in 2000 by Ann Williams (a very persuasive longtime AWAC member), and has been an active member ever since. He was elected to the Board of Directors in September 2003 and has sponsored one of our programs on October 16, 2007.

Alex is the president of Whaley Construction Company Inc., in Troy. The company was established in 1931 by his grandfather as Whaley Lumber Company, and has grown from a "steam powered" sawmill to a modern, computerized, industrial and commercial construction firm specializing in design-build, construction management, and conventional construction operations. He says he sees in his business that Alabama is joining the global economy ever more deeply and finds the World Affairs Council's emphasis on international affairs not only interesting but useful and informative about the ways and involvement of other nations.

Alex is a native of Troy and graduated from Auburn University in 1989 with a degree in Building Science. Upon graduation, Alex worked with the large international engineering and construction firm Fluor Daniel. While working with Fluor, Alex and his wife Suzi lived and worked in exotic locations ranging from the

Philippines and the Netherlands to Detroit and Chicago.

Alex and Suzi, a native of Texarkana, Texas, and a graduate of Mary Baldwin College in Virginia, met at Heathrow Airport in London in 1988. They were on separate trips with their college graduating classes and were picking up their luggage at the baggage carousel. Twenty years later they are having a great time raising their 8-year-old daughter Emma, and their 6-year-old son Scout.

He is a state director of the Alabama Associated General Contractors, serving as chairman of that association's strategic planning committee. He is a past chairman of the Pike County Chamber of Commerce and serves on several education foundations and technical-school boards.

Alex is a thirty-year member of the Alabama Treasure Forest Association, an association devoted to the responsible stewardship of the land. He is an instrument-rated pilot and a lifelong outdoor enthusiast, including hunting, fishing, boating, and swimming. Suzi has worked in the film business as a costume designer and art director and has written and directed her own short film. She is currently writing a screen play, and the kids are thrilled that "Mom" is an author. The Whaleys make their home in the Edgewood area of Montgomery.

Our web site is maintained by Prof. Jeremy Lewis at Huntingdon College.

awac.us check us out!

Different Views from Our Previous Speakers

Our opening speaker on September 11, 2007, **Major General Bill Nash** of the Council on Foreign Relations, spoke of the entire spectrum of conflict management, the before, during, and after: prevention, mitigation, and recovery. He was critical of U.S. pre-war policy, suggesting that our rationale for invading Iraq was faulty and that we short-changed the planning for post-war contingencies.

On October 16, **Arthur Herman**, an historian, gave a comprehensive historical overview of Iran leading up to “the current mess.” In order to curb Iran’s nuclear ambitions and drive for regional hegemony, if sanctions didn’t work and it came to the point that U.S. military action were deemed absolutely necessary, he suggested a much strengthened reprise of the 1987 “tanker war,” in which the U.S. Navy, to keep the Persian Gulf shipping lanes open, destroyed two Iranian oil platforms and sank a few frigates and fastboats.

On November 20, **John Pomfret** gave a fascinating insider’s view of today’s China from the bottom up, born of his years as a student at Nanjing University in the early 1980s, his subsequent assignment as the Washington Post bureau chief in Beijing, and his continuing friendship with five of his college classmates. He covered the dizzying changes from the days of the Red Guards to today’s wide-open, dog-eat-dog capitalist economy in a nation still in the grip of the Communist Party, a nation he described as without a moral compass.



Alice Prince, Susan McCarron, and Jane Cleveland with speaker John Pomfret.

On January 15, **Ambassador Chas Freeman**, one of America’s foremost diplomats, spoke of the complexities of the relationships in the Middle East, the wrong-headed (in his view) attempt to impose American values on others, particularly Islam, and the apparent current U.S. policy of force first and then diplomacy. Asked if there was a current presidential candidate with a more constructive approach to Middle East policy who could get us out of our current troubles, his answer was very direct: No.



Dr. & Mrs. Vocino before Prince Turki al-Faisal at AWAC, January 2007.

Executive Director's Corner: Dr. James Nathan

Note: The author, a college professor, does not profess to be an economist, but believes this issue is of paramount importance.

A WEAPON OF MASS DESTRUCTION

What does Jefferson County have to do with Latin America circa 1990? More than you'd think. In the late 1980s, Latin America was broke. Its bonds were running at 10 cents to the dollar. Without credit, governments were being forced to raise taxes and lower wages. The cost of imports, and goods made of imported raw material, were so high in pesos, bolivars, etc. [and Latin currencies were sold at such a discount], that imports had to be financed in dollars, and paid in cash. In Mexico City, La Paz, and Bogota, imported shampoo and razor blades could be had only at huge prices, if at all.

Toggle forward to 2008.

Birmingham's sewers are broke. Of course, you can still flush anywhere in the Magic City, and you can still drink water. But Jefferson County was supposed to pay Paris-based Societe Generale and Regions 184 million dollars. The deadline was Friday. The money wasn't there.

What now? Foreclosure? It's one thing to take a house. It's quite another to recover a sewer, road, a port, or a school district. But it could happen.

Willie Sutton famously said he robbed banks because that's where the money is. No longer. Most American banks are exposed to the debt markets. And the debt markets are huge, an unimaginable \$516 trillion, according to the International Bank of Settlements.

How much is 516 trillion? It's some 40 times the American GDP or 200

times the American federal budget, or five times the sum of every stock market in the world!

The latest generation of bankers, as Pimco's Bill Gross wrote, has managed to create a "shadow banking system," a Frankensteinian leveraged body, made of cut and paste IOUs. The new finance, as Gross puts it, has created securitized WMDs: Weapons of Mass Destruction.

Derivatives with little or no additional collateral or regulations are a synthetically created debt that has been sold at huge multiples when compared to the underlying assets. These debt packages, in turn, were used as collateral for further loans. The leverage achieved by these debt instruments is astronomical. The counter party to these trades might leverage the notes they buy on the order of 30 to 1, a level that Carlo Ponzi would have understood in a heartbeat.

Hedge funds, investment banks, and rich individuals, or so it seemed until last year, have found a new alchemy for minting money. And it worked, as long as housing prices were stable or increasing [as they had been since the 1930s]. Not that many people understood what was behind it.

In fact, according to one report, the debt system had become so complex that Federal Reserve Chairman Ben Bernanke required a face-to-face refresher course from hedge fund managers in mid-August of 2007.

When the word got out that some of the component parts of the debt [which

parts? Who knows?] might be bad, lending stopped. Auctions for municipal debt were held. Nobody showed up. Debt markets congealed. Globally, too many banks, hedge funds, money market funds, and insurance companies are frozen or trying to liquidate.

The run on Northern Rock, one of Britain's largest home loan companies, was so furious that the British government had to take it over. In the U.S., there was no taker for Bear Stearns desperate attempt to offer high interest notes to keep their doors open. In effect, the Federal Reserve did for Bear Stearns what the British government did regarding Northern Rock.

The Secretary of Treasury, Henry Paulson, told talks shows, March 16th, that Treasury would do what it takes. One hopes Mr. Paulson looks to the example of Latin America. In the days of the first president Bush, Treasury Secretary Nicholas Brady persuaded banks to accept lower payments on Latin loans in exchange for treasury guarantees.

It was a spectacular success, and in ten years, Mexico, The Philippines, Colombia, Brazil, and Venezuela paid off the principle and interest twenty years in advance. If Mr. Bush's father could come up with a plan that rescued much of the third world in its hour of peril, one would hope the current president and its equally able treasury secretary would come up with something equally innovative. Time is short and the situation critical.

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