

North Korea Will Never Give Up Its Nuclear Weapons

WASHINGTON – The sudden White House announcement about a May Summit meeting between US President Donald Trump and North Korean leader Kim Jong-un has taken Washington and the world by surprise. It is not clear what the American game plan is. Until not too long ago the U.S. policy regarding North Korea seemed to be sanctions, and more sanctions. No talks. In fact, Trump himself, a while ago publicly declared that negotiations would lead nowhere.

Trump “forced” Kim to negotiate?

Now, the improvised White House narrative is that Mr. Trump’s tough actions –the new round of sanctions, plus threats to destroy North Korea– have “forced” Kim to ask for direct talks which could entail “denuclearization”. If you believe all this, then it follows that Trump managed to bend North Korea.

Do not count on denuclearization

Still, beyond the surprise announcement of this May Summit, my assessment is that this opening, however startling and significant it may be, (it would be the very first such encounter between the leaders of these two nations, technically still at war with each other), it cannot possibly mean that the North Koreans are truly willing to negotiate the end of their nuclear program.

And for a very simple reason. North Korea is a semi-failed state in which most people are close to starvation. It has no real economy, and no prospect of creating a viable one under this medieval, cruel and bizarre dictatorship.

Korea has nuclear weapons –and nothing else

The only real asset that North Korea has is its nuclear weapons, now combined with an increasingly more modern panoply of ballistic missiles which may be capable within a short period of time to enable the rogue state to deliver nuclear weapons as far as the East Coast of the United States. America must take notice of North Korea for this very reason. Because it represents a potentially serious national security threat.

Well, precisely for this very reason, nuclear weapons being all that North Korea has to be taken seriously by the rest of the world, I cannot see any scenario under which Kim will give this huge –in fact only– real asset away. He will not, even if promised in return American technologies, food aid, substantial financial aid and all sorts of political reassurances that the US will sign a peace treaty, that America will never attack them, and what not.

Simply stated, North Korea's standing in the world, such as it is, is due only to its ability to threaten other countries with incredible destruction, including the United States. Without nuclear weapons, North Korea is like Sudan, or the Central African Republic: an inconsequential, impoverished state with no real future and no prospects.

What is the point of this May Summit?

I have no idea as to what Kim may have in mind by offering these talks with President Trump. Of course, if we just focus on the optics, to be face to face with the leader of the U.S. will be a huge public relations coup for Kim. He will be able to say that finally he is recognized as the supreme leader of a world power. However, when it comes to what a bilateral negotiation may bring, I am not too optimistic.

Kim will not give up his nuclear arsenal

America (and the world) wants North Korea to ultimately give

up its nuclear weapons, its missiles and all its nuclear facilities. But this is all they got. Even if promised a lot, the North Koreans will not give up their membership in the nuclear club.

Farewell to Africa?

WASHINGTON – Jacob Zuma is finally gone. It was a painful process. It took years; but he is now out of power. At last, he was forced to resign as South Africa's president. That said, the very fact that he was elected and that he managed to stay there so long is a disgrace.

Zuma is bad governance

Zuma is glaring, if sad, illustration of Africa's widespread bad governance record. He rose to power through backroom deals. He had no clue about governing. He relied on nepotism and cronies to stay on top. He was stupendously corrupt. Now that he has been forced out, his legacy is an exhausted and impoverished South Africa

Water crisis in Cape Town

Cape Town, jewel of South Africa, is literally running out of water. An awful combination of a historic drought and an almost criminal lack of planning by local and national administrators led to this impending urban catastrophe. Lacking water in reservoirs on account of an unprecedented lack of rain, nobody thought that there should be a "Plan B". There are no alternatives, other than praying for substantial rain. No new aqueducts have been planned. No nothing.

There you have it. By all accounts, South Africa is still in

the lead when it comes to economic development and higher standards of living in the African Continent. And yet this is a country in which chronic mismanagement, combined with endemic corruption and incompetence, dashed even modest most hopes and expectations for a better future. Sadly, Nelson Mandela, himself a truly exceptional human being, left no legacy.

No end to Congo's violence

"No conflict since the 1940s has been bloodier, yet few have been more completely ignored. Estimates of the death toll in Congo between 1998 and 2003 range from roughly 1m to more than 5m—no one counted the corpses. Taking the midpoint, the cost in lives was higher than that in Syria, Iraq, Vietnam or Korea. Yet scarcely any outsider has a clue what the fighting was about or who was killing whom. Which is a tragedy, because the great war at the heart of Africa might be about to start again." —*The Economist*

Well, it seems that the Congo is once again reaching a boiling point. A vast, unmanageable country, with large mineral resources, is becoming a failed state. More violence and more deaths to be expected.

Major troubles in Ethiopia

"On Thursday, Hailemariam Desalegn abruptly announced he would step down as Prime Minister and head of the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) coalition. He cited ongoing "unrest and a political crisis" in the country as major factors in his resignation, which he described as "vital in the bid to carry out reforms that would lead to sustainable peace and democracy".

"Hailemariam, who has sat at the helm of the Ethiopian government since 2012, said he will stay on as prime minister in a caretaker capacity until the EPRDF and the parliament accept his resignation and appoint his successor. This is the

second state of emergency to be declared in Ethiopia in the last two years.”

“In August 2017, Ethiopia lifted a 10-month state of emergency imposed after hundreds of people were killed in anti-government protests demanding wider political freedoms.”

“The country’s Oromo and Amhara people – who make up about 61 percent of the population – have staged mass demonstrations since 2015 demanding greater political inclusion and an end to human rights abuses. The protests have continued this month, with many people expressing frustration over a perceived slow government release of political prisoners.” –*Aljazeera*

Ethiopia’s leaders liked the Chinese model. They believed that they could be both total autocrats and smart technocrats capable of delivering economic development and higher standards of living. Instead their way of governing generated wide unrest. Can they retain control? If so, at what price?

Bad governance

What am I driving at with these stories? very simple. These snapshots unfortunately illustrate that Africa is not yet delivering on its promise to be the next bright chapter in human development.

The common thread here is that bad to awful governance, treating political power as a personal or factional perk to be abused to the extreme, is the cause of most of Africa’s problems.

Syria Is Not A Strategic Priority For Washington

WASHINGTON – It is clear that Russia, as the key ally of president Assad of Syria, has taken a lead role in trying to set the stage for a final peace settlement regarding this tragically battered country. The recent Sochi meeting in which president Putin hosted president Rouhani of Iran and president Erdogan of Turkey seems to illustrate a resurgent Russia once again playing a key role in the Middle East.

America in retreat?

In Washington, the defenders of the (frankly defunct) myth of Pax Americana sounded alarm bells. *“America is in full retreat –they admonish us– and the bad guys are filling the void. We are losing ground, while they are gaining”.*

Indeed. But here is the question. Is the American national interest really profoundly impacted by who is in control in Syria? What’s so important about Syria from Washington’s standpoint? Well, very little. Sure enough, if we look at a map of the Middle East, we can see that a firm Russian foothold into Syria, plus continuing Iranian influence there, changes the geopolitical picture.

Russia and Iran in the lead

True. Still, this being the case, in what way does this geopolitical realignment affect America’s vital interests? Syria is now a semi-destroyed and completely impoverished country. Whoever will exercise influence on Damascus does not gain that much. In fact, to the extent that the Russians need to prove that they are real friends of Assad, they would have to support Damascus financially, for many years. And this may prove to be quite a burden for a Russian state not exactly swimming in wealth.

Iran's influence in Syria is a concern. However, there are several counterweights within the region to Tehran's hegemonic ambitions. From this perspective, it would be prudent for Washington to continue supporting its traditional Sunni Arab allies who are actively opposing Tehran's expansionism.

Middle East no longer of critical importance

That said, even taking all this into account, the idea that Washington *"must"* regain its historic role as a key powerful player in the Middle East has no longer any strong rational justification.

Of course, until a few years ago, one could have argued that the Middle East indeed had extraordinary strategic value for Washington, because it sits on most of the oil the rest of the world desperately needs.

Well, this argument is far less compelling today, in this new era of abundant oil supplies in large measure caused by America's newly discovered technologies (fracking and horizontal drilling) that allowed US energy companies to exploit massive domestic shale oil reserves. Indeed, thanks to fracking, in just a few years America doubled its oil production. This is a real game changer.

Besides, if you add to this dramatic domestic oil production boom increased oil supplies from Canada, plus imports from Mexico, Colombia, and Venezuela, the U.S. has, or will soon have, *"hemispheric energy independence"*. This means that most of the oil America will need will come from domestic sources or from imports from reliable neighboring countries, and not from the Persian Gulf.

Middle Eastern oil not so important

Now, this is a major and completely benign geopolitical change! In simple language, as the U.S. no longer relies on Middle Eastern oil for its very economic viability,

controlling events in the region is no longer such a key priority.

Besides, going forward, the slow but steady emergence of electric vehicles as commercially plausible alternatives to gasoline powered cars makes the strategic importance of oil, and therefore of Middle Eastern oil and whoever owns it or controls it, progressively far less significant.

Down the line, if you take oil out of the equation, or at least if you downgrade its strategic value as the (no longer so) essential fuel for all modern industrial countries, the Middle East becomes far less important. Absent oil and the power and wealth that it brings, Taiwan is a far more significant player in the global economy than Saudi Arabia.

Let Syria go

Bottom line, let's not fret about who will be in charge in Damascus. After years of civil war that caused destruction and millions of refugees, Syria is a disaster, a true basket case. Even assuming wildly optimistic scenarios, it will take years and astronomic investments to bring it back to semi normality. Let Russia worry about all this.

Palace Coup In Zimbabwe Will Not Bring Along Genuine Democracy

WASHINGTON – Despite some last minute confusion regarding the timing of his exit, Robert “Mad Bob” Mugabe is finally gone. He is a despot, a cruel dictator, and the undisputed author of

Zimbabwe's economic ruin. After 37 years of autocracy, is this finally good riddance? Well, I would not bet on a good outcome. A happy ending is highly unlikely. Indeed, this sudden change at the top of the government in Zimbabwe is certainly not about an injured nation that finally rebels against its tormentor, forcing him out of power while creating genuine foundations for democratic rule and true accountability.

Just a palace coup

Sadly, this is just a garden variety palace coup. One faction against another, with the military finally deciding that it was time for the old man (now 93) to go. In particular, the army chiefs did not like the prospect of Grace Mugabe, the President's much younger and equally rapacious wife, replacing him this way creating a dynastic rule.

For this reason the generals took over and rearranged the palace furniture, so that their favorite "leader", Emmerson Mnangagwa, Mugabe's Vice President, (who had just been sacked by Mugabe), will become the next president. Now 75, Mnangagwa, is not exactly part of the next generation. At home, he is affectionately known as the "Crocodile". This nickname alone may give you an idea of what kind of man will become the future president of a post-Mugabe Zimbabwe.

New handpicked leader not a champion of democracy

The poor citizens of this unlucky country are rejoicing –for the moment. They chant in the streets of Harare, proclaiming that now they are finally "free". Well, I would not be so sure.

Their new leader is also a cruel despot, while perhaps endowed with a bit more pragmatic attitude, at least if compared to Mugabe. It is a well known fact that as a senior cabinet official, for years Mnangagwa (cheerfully?) implemented the most awful violations of human rights directed by his boss,

“Mad Bob” Mugabe.

Economic disaster

So, here is the grim picture. After 37 long years of Mugabe’s systematic looting and monstrous mismanagement, the economy of Zimbabwe is virtually destroyed. It will take a miracle to create a genuine pro-growth, business friendly environment that will entice desperately needed foreign investors.

The “regime change” that just took place, while welcome, won’t mean much when it comes to hopes of economic development; unless it is accompanied by genuine democratic reforms. And this is highly unlikely. Indeed, we can rest assured that the authors of this palace coup acted in their own self-interest; most certainly not in the interest of the people.

Silence across Africa

But this is not the entire story about poor Zimbabwe. The real story is that for decades all the African leaders stood silent, as Mugabe imposed his cruel dictatorship on the citizens of Zimbabwe who back in 1980 applauded him as their liberator.

Indeed, it is absolutely true that Robert Mugabe led the fight against white minority rule. And he deserves credit for that. Because of his role in the struggle against oppression, after this troubled former British colony finally obtained independence from the UK, (this way formally ending the white minority regime), Mugabe became the legitimate leader of Zimbabwe back in 1980.

This happened after Ian Smith, the self-appointed leader of a new Rhodesia led by a white minority government, was forced to give up power, and abandon his crazy dream of a sustainable white minority government. Because of his critical role in the long struggle against the white minority government, Mugabe the Freedom Fighter entered the Olympus of Africa’s Great Men.

That said, it became obvious almost from day one that the poor people of Zimbabwe had traded one white dictator (Ian Smith) for another (Robert Mugabe). The difference being that Mugabe was a resistance hero and therefore politically untouchable, within Zimbabwe and across Africa.

South Africa did nothing

And yet much could have been done to stop him. Especially after the end of white minority rule in South Africa in 1994, it would have been quite possible for the new African National Congress (ANC) leadership now in power in Pretoria to force Mugabe to stop or at least tone down his crazy autocratic rule. By African standards, South Africa's economy is a giant compared to that of neighboring Zimbabwe. Had it wanted to, South Africa could have easily imposed its will on Harare.

But no, absolutely nothing was done. South Africa did nothing. Zimbabwe's other neighbors also did nothing. The African Union did nothing. Ostensibly this silence about Mugabe's gross violations of human rights was out of deferential respect for a "Freedom Fighter" who got rid of white oppression, this way gaining a special place in the hearts of all Africans.

Yes, Mugabe did good things in his years as a Freedom Fighter. But he will be remembered as one of the worst (and most incompetent when it comes to economic management) dictators of this century. And every African head of state knew all this. And they did absolutely nothing to stop him.

Disingenuous western media

Let me add a sad foot note to this tragic story. A recent BBC retrospective analysis of Mugabe's 37 rule is titled: "*Robert Mugabe -revolutionary hero or the man who wrecked Zimbabwe?*". This headline is at best disingenuous, at worst horrible journalism.

After 37 years of dictatorship which led to economic ruin,

fantastic inflation, political persecutions against ethnic opponents and millions of Zimbabweans in exile, is the BBC still in doubt about who Mugabe really is? Does this matter really require further scrutiny and analysis before reaching a conclusion?

Come on, BBC!

Manafort Indictment Is Just The Beginning

WASHINGTON – Russia probe Special Counsel Robert Mueller indicted former Trump insider Paul Manafort and his associate Richard Gates in connection with his broad mandate to investigate alleged efforts on the part of Russian operatives to manipulate the 2016 elections. Mueller's investigation is also supposed to provide conclusive evidence as to whether or not there was any "collusion" between Russian operatives and individuals working for the Trump campaign.

No Russia connection

Well, if you were expecting explosive developments coming out of these indictments, you will be disappointed. Manafort and Gates are accused of several serious financial and other crimes. But there is nothing in the indictment that alleges actions or conspiracies related to possible connections

between Russia and the Trump campaign. Zero. Absolutely nothing.

Assuming that the charges can be proven in court, Manafort and Gates are two sleazy and clearly a bit too self-confident "Beltway Bandits" who sold their services to people close to then Ukrainian President Victor Yanucovych. Bear in mind that such an activity is not illegal.

Tax fraud and money laundering

What is illegal is to conceal the profits of such consulting activities, while also concealing the nature and full scope of the work done on behalf of a major foreign client.

In other words, even assuming that Manafort and Gates are guilty, (for the record, both of them pleaded "not guilty" when they appeared in front of a judge on Monday), they would be guilty mostly of tax evasion and money laundering –serious offenses, no doubt; but completely disconnected from the main thrust of Mueller's investigation about alleged collusion between the Trump Campaign and Russian operatives.

What is Mueller up to?

So, what do we make of this? First of all we should understand that this is by no means the end of Mueller's investigation. At most, this is the end of the first act. We are still at the beginning of a long process.

If this is indeed so, then the money laundering and tax evasion charges against Manafort and Gates, apparently disconnected from the main thrust of the Russia inquiry, acquire a new flavor. If Special Counsel Mueller has reason to believe that Manafort knows something important about an alleged Trump-Russia collusion, then the indictment against him is in fact a form of heavy psychological pressure.

Pit pressure on the small fish

It is quite common for American prosecutors to go with full force against second or third tier players in a criminal investigation in order to force them to collaborate with them in exchange for leniency. Keep in mind that, if proven guilty, Manafort could go the jail for many years. If he fully cooperates with the authorities, his personal future becomes a lot brighter.

Is this Mueller's game plan? Yes, it probably is.

A major investigative effort cannot end with Manafort

Indeed, it is most unlikely that Robert Mueller, a tough, seasoned law enforcement official, an experienced lawyer and a former FBI Director, assembled a large team of important lawyers and prosecutors just to investigate Paul Manafort –a questionable character whose crime seems to be that he tried to hide a few millions of dollars (of legitimate earnings) from the IRS. Therefore, it cannot be that this is the end of the probe. It would be wise to stipulate that with this indictment Mueller is just getting started.

Will they find anything?

That said, this does not guarantee that Mueller, despite a serious effort to determine whether crimes were committed, will find anything. Investigating potential wrongdoing and actually finding any are two different things.

Only Skilled Workers Will Make It In The Global Economy

WASHINGTON – We can argue that in America may be about half

the work force is doing alright because it is positively connected to the fast-moving global economy. For them globalization is good. Most of them are “knowledge workers”. They design the sophisticated technologies which power global or globally connected businesses, or at least are familiar with them and know how to work productively with them.

Some do well, many do not

If they are in high-tech, renewable energy, complex global logistics, medical science and diagnostics, digital design, supply chains creation, management and sustainability these American workers are probably doing alright.

However, most of the others –those who perform low value, repetitive tasks or who are engaged in manual labor – are or will soon be at the bottom of the skills pyramid. Unfortunately this means that their jobs are not and cannot become stepping stones to future employment in more challenging and more rewarding sectors. In many cases, the jobs that involve repetitive tasks will probably be outsourced, or will disappear altogether, as victims of the relentless automation wave.

Lack of skills, lack of opportunity

If you belong to the bottom half of the “old economy”, your current position is bad and likely to get worse. If you do not have and cannot acquire the skills that give you dexterity with machines that work with numbers, (most likely because you had a poor education and therefore you do not know how to work with these systems), you have no career future. You are or will soon be pushed down into dead end manual labor jobs like janitor, landscape worker, bus boy, or nursing home attendant.

The unlucky former manufacturing workers who lost their jobs due to globalization and automation are equally in bad shape. If they cannot be retrained so that they could aspire to the more sophisticated positions in new high-tech manufacturing or

services, in most cases they will end up in one of those dead end, low paying occupations.

Getting the jobs back

Of course, when then candidate Donald Trump came along in 2016 arguing that the only reasons these fine factory workers lost their jobs is the greed of their corporate employers seeking easy profits by exporting jobs overseas, along with unfair trade competition from China, Germany, South Korea, Japan, Mexico and everybody else, these displaced workers were eager to listen. And they were willing to believe that, indeed, all it takes to restore their old manufacturing jobs, (with all the perks and benefits), is a new President who really wants to help the little guy by turning things around in Washington.

Yes, they believed that a President can reverse the negative impact of globalization. Yes, he can force U.S. companies to stay at home and hire more American workers. Yes, he can re-negotiate unfair trade deals, so that the avalanche of cheap imports will stop, while American companies will find new markets abroad.

A nice dream

This is unfortunately only a nice dream. No, no President, however well-intentioned, can stop, let alone reverse, globalization. Yes, he can strong arm corporations in order to slow down or stop the outsourcing process. But this is no long term solution.

In the end, American companies will succeed only if they can be and stay competitive. Forcing them to keep expensive or money-losing operations in America, so that workers can collect a pay check, while their nimble foreign competitors conquer markets leads only to eventual economic decline.

The way out

So, what is the proper way of addressing this crisis brought about by the competition of cheap labor (mostly from Asia) and the relentless march of automation?

The only way is for the unskilled to become skilled.

Those who are not employable today because they lack the knowledge and the basic understanding of how the high-tech knowledge economy works need to get those skills. And fast. Those who do not, are left behind. For them there is no upward mobility, no career ladder.

The old adage that "hard work" is the key ingredient to success in America is no longer valid. Yes, diligence and discipline still matter. But only when accompanied by the sophisticated knowledge that allows mastery of complex systems.

How is France doing?

Well, if this is the rather gloomy picture for millions of Americans who may have missed the bus leading to the global economy, what about elsewhere? What about France, for instance?

France recently embarked in a an incredibly ambitious political experiment. The French voters ditched the established political parties, of the left and the right, and elected President the young and completely untested Emmanuel Macron. And the reason is that this investment banker turned politician, promised nothing less than economic renaissance.

While he phrased his campaign slogans differently, he promised the same end results promised by candidate and now President Donald Trump: a complete bottom-up economic transformation.

Newly elected French President Emmanuel Macron claims that his policies will kick-start France into high gear. This rather old and unimaginative country will become a "Start-Up Nation".

As a result of fresh pro-growth policies, there will be a fresh crop of entrepreneurs and innovators.

Reform labor laws

Well, in principle this is possible. However, how do you make this happen? One good place to start is by reforming the antiquated French labor market. France is still prisoner of the old, pro-union leftist agenda which is all about the protection of workers rights. Nothing wrong with that, in principle.

The problem is however that by focusing on the protection of those who are employed, French labor laws make it much harder for employers to hire new workers. Indeed, when a new worker is hired, given all the protections he/she is entitled to, it becomes almost impossible or at least extremely costly to dismiss him/her when business is down.

In other words, by offering maximum protection to employed workers, French labor laws made sure that fewer workers would be hired, even in good times. In addition, the perks and benefits going by law to employees made French labor costs too high, this way making French companies less competitive in the global market place.

Bite the bullet

It seems that President Macron is willing to bite this bullet. His government wants to tackle labor laws reform.

But here is the political and psychological problem. Even if well designed and skillfully implemented, labor law reforms will threaten the job security of existing workers before they will be able to broaden the labor market, therefore offering new opportunities to those who cannot get into it today. Which is to say that there will be pain first (guaranteed), and (possible, hoped for) gains later.

Can Macron convince France?

Can President Macron convince the French people that he can manage this complicated process well? Can he convince workers who may lose their jobs now, on account of more flexible labor laws, that in the future, given greater overall flexibility, more appealing jobs will sprout across the nation, this way creating brighter prospects for millions of old and new workers? This is going to be a tough sale.

In the end, it is obvious that a brittle French jobs market will not help advance Macron's vision of France as a "Start-Up Nation". Economic renaissance is very appealing until voters realize that change may entail threats to their current security. I am a bit pessimistic about the depth of France's newly discovered enthusiasm for enterprise and innovation, once the French realize that this hoped for transformation is not pain free.

I doubt that Macron will have the ability to convince most of the country that a more fluid society with fewer protections is also a more flexible society that creates more opportunities. No doubt most French would like to see more competitive companies and more jobs created. But those who are employed now do not want to lose whatever job security they have.

The challenge

As noted above, even here in America, until not too long ago the quintessential "Start-Up Nation", in many sectors of our society and economy we are failing to live up to the old and time-tested "can do" spirit of flexibility and quick adaptation to new circumstances.

We failed to build the education, vocational training and retraining structures that would have allowed millions of workers to have a relatively smooth transition from old-fashioned, large scale manufacturing to a new, complex and

more demanding knowledge economy.

Can an even more ossified France do a better job? Can a young, optimistic President Macron inject a new vigor into a declining economy?

Time will tell.

Will Washington Give Arms To Ukraine?

WASHINGTON – Back in February 2014, right after a popular rebellion ousted pro-Russian President Viktor Yanucovych, this way taking over political control in Kiev, the then Obama administration was long on promises of aid and support; but very short on delivering almost anything of real value to the new supposedly pro-American and pro-European Ukrainian government.

Economic basket case

On the economic front, Ukraine was then (and still is today, by the way) a virtual basket case: an impoverished, non competitive, underperforming economy, poisoned by systemic corruption. On the military side, whatever your political preference on who is to blame for the ongoing fighting between government forces and pro-Moscow ethnic Russians in Eastern Ukraine, back in 2015 it became obvious that Washington was not going to support the new anti-Russian Kiev government in any meaningful way.

Non lethal military aid

President Obama offered some non lethal equipment, (such as radar, night vision goggles), MREs, (military food rations), blankets, uniforms, and socks, (yes, socks), to the Ukrainian army –but no real weapons.

New Trump approach?

Now, with Trump in the White House, most recently the noises have been changing. It is no accident that U.S. Secretary of Defense Mattis recently made a high-profile visit to Kiev on that country's Independence Day. During public celebrations which included a military parade, Mattis stood at the side of Ukrainian President Petro Poroshenko. Mattis trip to Kiev followed another important visit to Ukraine by Secretary of State Rex Tillerson in July.

In public remarks in Kiev Mattis stated that the Pentagon is reviewing options that could include supplying real weapons to Ukraine; including anti-tank Javelin missiles, and possibly anti-aircraft missiles.

Of course, Mattis insisted that this American hardware –assuming a US Government decision to send it to Kiev– falls under the category of defensive weapons. America's stated goal –again, assuming a green light on this– would be to give Ukraine the tools to defend itself from Russian attempts to unilaterally change borders in the East.

Mattis justified any possible U.S. policy shift regarding weapons sales to Ukraine by pointing out that Russia is not living up to its commitments under the Minsk agreements aimed at solving through peaceful means all issues related to the future of ethnic Russians in Eastern Ukraine.

Policy shift

Well, should these supplies of U.S. weapons to Ukraine actually take place, this would indicate a major policy shift from the “do nothing” Obama years. For several years, Obama's

deeds (forget his speeches in support of Ukraine) indicated that America would not get involved, even indirectly, in any conflict involving Russia in Eastern Ukraine, a region with deep historic, ethnic and religious ties to the Russian state. With Obama in the White House, Ukrainian President Petro Poroshenko realized that he was on his own.

Now Donald Trump is President. So, a new more muscular approach to Ukraine in Washington vis-a-vis Russia? We shall see. Despite what Secretary Mattis just said in Kiev, I am inclined to believe that the Trump administration does not want America enmeshed, even if indirectly, in yet another, almost impossible and probably endless conflict, far from home.

A crowded national security agenda

Let's look at the long "to do" list for the U.S. military, when it comes to hot spots. Washington is and will be engaged in the Middle East, (Iraq and to a lesser extent Syria) for quite some time. The President just announced a more muscular and open-ended policy towards Afghanistan, with the stated goals of defeating the Taliban insurrection. And then you have creeping and potentially explosive crises with North Korea, Iran, and may be with China on the South China Sea. Based on recent Washington moves and public pronouncements, we may also have to add Venezuela to this already long and challenging national security agenda.

Does Washington want to add an insoluble conflict in Eastern Ukraine to the headaches list, while cash strapped America has a hard time keeping up with existing and potential commitments? I do not think so.

Will NAFTA Be Fixed?

WASHINGTON – It is not a bad idea to look at ways to improve NAFTA, the Free Trade Agreement linking Canada, the U.S.A. and Mexico that came into force in 1994. Back then, we had a different world. The Internet was just beginning to blossom; the on line giant Amazon did not exist, and Apple's future was uncertain. Energy production and possible new cross border investments within North America did not even remotely resemble what we have now. Think of the incredible shale oil and gas revolution in the U.S., large scale oil extracted in Canada from oil sands in Alberta, and then exported to the United States, and the recent liberalization of the energy sector decided upon by Mexico, simply because they are shipped from Mexico.

Make it better?

What is not entirely clear at this early stage in the process is the spirit animating the American negotiators. As a presidential candidate, Donald Trump argued that NAFTA is a horrible arrangement that hurt the U.S. economy and workers, a key item within a long list of fatally flawed trade agreements.

So here is the question. Is the goal here to improve NAFTA or to try to kill it? We shall soon find out.

Key issues

Among the many issues that will be addressed by the U.S., Mexican and Canadian negotiators, "rules of origin", "dispute resolution" and "government procurement" stand out.

Rules of origin

In order to qualify for the NAFTA free trade preference, (this means no customs duties within the free trade area), goods

coming into the United States –say from Mexico– must qualify as “made in Mexico”. For example, they cannot be sneakers or T-shirts made in China, exported to Mexico and then re-exported tariff free to the U.S.A., pretending that they are made in Mexico.

However, in this global economy sustained by global supply chains, how does one establish clear rules aimed at determining the origin of complex products? Think for a moment of automobiles assembled in Mexico. Almost by definition they contain many foreign made parts –parts not originating from other NAFTA countries.

Well, here is the question. What is the limit of foreign (non NAFTA) made components (in terms of value of the components, and in terms of overall percentage of parts) beyond which the car assembled in Mexico no longer qualifies as “originating in Mexico” and therefore not qualifying for the NAFTA preference?

How strict?

How high do you set the bar? Is a car with 30% non NAFTA components still qualifying for tariff-free NAFTA status? Or can the NAFTA negotiators be more lenient and set the bar at 40%? This is a big deal.

More or less stringent rules of origin will affect established trade relations with a global web of suppliers. No wonder the Japanese are following the NAFTA renegotiation issue very closely. The Japanese brands assemble cars in Mexico. Ostensibly those cars are “made in Mexico” and so they can be exported to America customs free, as they benefit from the NAFTA trade preference.

Components made in Japan

But here is the thing. Everybody knows that these cars contain a large amount of components made in Japan. If adopted by the three partners, more stringent NAFTA rules of origin will

inevitably disrupt established supply chains created by the Japanese brands to export components that end up in cars that until today met the minimum NAFTA origin criteria to be considered as “made in Mexico”.

So, here is the issue that will affect the negotiations. America wants much stricter rules of origin, because it does not want what the U.S. considers to be essentially Japanese cars, disguised as “made in Mexico”, to come into the USA tariff free, (because of the NAFTA preference),

Can a compromise be reached regarding what percentage of a finished product must be made of components made in Mexico, Canada or the U.S.A. in order to give this product “NAFTA origin”?

Dispute resolution provisions

The Americans also do not like the “dispute resolution” mechanism included in the original NAFTA Treaty. Many in the U.S. look at it as a binding arbitration process which amounts to an infringement of US sovereignty. Americans do not like to be bound by a process whereby non-U.S. judicial bodies decide the outcome of trade disputes. The other two NAFTA countries would like to preserve it this dispute resolution mechanism. Is compromise possible?

Public procurement

Public procurement is another sticky issue. The three countries would like to have free and equal access to public procurement bids (think of government contracts which may include IT services, or infrastructure projects) put out by their NAFTA partners. Except when they do not.

Especially with President Trump pushing for an “America First” general approach on all trade and non trade issues, when it comes to public procurement, Washington wants to privilege U.S. companies through “Buy American” policies.

And this would include all or most government contracts. This is obviously against the spirit of wide open procurement with a bidding process open to all firms within NAFTA.

Uncertain outcome

In the final analysis, all these are very complex and technical issues –on a good day. If the parties are willing to compromise, there is an opportunity to improve NAFTA.

But if there is a negative bias against NAFTA, it is relatively easy to tear apart this free trade area linking the 3 economies of North America.

America Needs Ballistic Missiles Defenses

WASHINGTON – The news of North Korea's successful test of an Intercontinental Ballistic Missile, (ICBM), a missile that could theoretically hit the United States mainland is bad enough. But it gets much worse when combined with a just released assessment compiled by U.S. intelligence stating that North Korea may have also mastered the ability to miniaturize a nuclear warhead so that it can be fitted on the tip of its new ICBMs. Taken together, all this means that North Korea could soon have the capability to launch a nuclear armed intercontinental missile that could reach Seattle, Minneapolis, even Chicago or New York City. A very unpleasant

prospect, given the paranoid leanings of North Korea's leader Kim Jong-un.

No defenses

But it gets worse. These unexpected developments from North Korea reminded all Washington policy-makers that America does not have real defenses against missile attacks. Yes, you got it right. America lacks meaningful defensive systems capable of neutralizing even a small scale missile attack originating from a third rate rogue state like North Korea. In simple language: we cannot be assured that we can shoot down and incoming missile before it hits America.

Yes, believe it or not, America has essentially no missile defenses. To be precise, America has some systems. But they are rudimentary and probably not accurate.

Regarding a possible nuclear attack from the Soviet Union, (later on Russia) or China, Washington relied and relies on its massive nuclear deterrent, that is on the power of dissuasion embedded in a guaranteed retaliatory strike against an attacker. Which is to say that deterrence –a credible threat of massive retaliation against an attacker– is in essence our only protection.

Deterrence

The conventional wisdom has been and still is that no "rational" foreign leadership would consider attacking the United States with nuclear weapons, knowing that the U.S., even if mostly destroyed, would still retain a lethal retaliatory force consisting of many nuclear missiles carried by its fleet of submarines. No "rational actor" would attack America knowing in advance that America, even if mortally wounded, would retain the capability to inflict intolerable damage on the attacker.

That said, deterrence applies only to "rational actors".

However, when North Korea and soon enough Iran will have nuclear weapons and ICBMs to deliver them on target, we enter a completely new dimension. A dimension we are currently not prepared for. These are not “rational actors”. Therefore deterrence may not apply to them.

The Strategic Defense Initiative

So, what do we do? Well, a few years ago the U.S. Government articulated a revolutionary “Grand Plan” aimed at neutralizing not just some, but all nuclear weapons. Way back in the 1980s, then President Ronald Reagan was sold on the idea that we could render all nuclear weapons “impotent and obsolete” by developing a variety of anti-missile systems which could hit incoming ICBMs before their warheads could reach their targets on U.S. territory.

Reagan’s Strategic Defense Initiative, (SDI) –the Pentagon program created with the objective of developing the necessary anti-ballistic missiles technologies and weapons systems– was launched with much fanfare and a great deal of hype.

President Reagan promised that U.S. technological prowess soon enough would allow America to deploy layers of fully functioning systems able to protect America from any nuclear attack by hitting missiles and warheads before they could reach their targets on U.S. soil. These systems would render all nuclear weapons “impotent and obsolete”. No point in developing nuclear weapons if they could be destroyed before they could be detonated.

It did not work

But SDI did not work out as advertised. The technological challenges were and still are immense. The task of hitting literally thousands of small targets traveling at fantastic speed, with absolute accuracy, seemed too daunting. After Reagan left the political scene in January 1989, Washington’s focus shifted elsewhere.

Nonetheless America kept investing, albeit only modestly, in new anti-ballistic missiles technologies that could deliver effective systems down the line. Following this trend, at the beginning of his new administration, (January 2001), President George W. Bush made ballistic defense one of his national security priorities.

Renewed efforts in the new millennium

With the objective of pursuing more modern systems, the Bush administration in 2002 decided to withdraw from the Anti-Ballistic Missile (ABM) Treaty that the U.S. had signed with the Soviet Union in 1972, (and still enforced by the Russian Federation). By withdrawing from the ABM Treaty, an agreement which limited the numbers and types of anti-ballistic missiles that both the USSR and the US could deploy, Washington gained the latitude to test and eventually deploy new systems in line with the goals set forth by the National Missile Defense Act.

Unfortunately, 9/11 and its aftermath dramatically changed American national security priorities. Because of the two long and costly wars, first in Afghanistan and then Iraq, the Bush administration did not devote meaningful resources to its anti-ballistic missiles programs.

Insufficient resources

The Obama administration which followed 8 years of Bush in January 2009 certainly did not recognize the urgency of this defensive program. It funded some work on anti-ballistic missile systems, but only very modestly in the ensuing 8 years.

As a result today, as we face an increasingly real North Korean nuclear threat, we have almost nothing in place to defend America against incoming nuclear armed missiles. As indicated above, we have some systems. But they are small in terms of the number of deployed interceptors, and not necessarily accurate. Therefore they are unreliable.

No military or diplomatic solution

As many have already concluded, there are no good options when it comes to eliminating the North Korean nuclear threat through military means. Attacking North Korea's missile sites and other facilities connected with its nuclear programs, while possible, most likely would trigger a general conflagration in the Korean peninsula, with the almost inevitable direct involvement of South Korea, China, and possibly Japan.

Non military solutions do not exist. Diplomacy will not convince Kim Jong-un to scrap its nuclear program, simply because this is the only asset he has that gives him international standing. Without nuclear weapons North Korea is just a grotesque aberration: an impoverished police state run by a crazy despot.

The recent new round of UN sanctions imposed against North Korea, should not create false hopes. The Security Council unanimous vote has been applauded because it may lead us to believe that China is finally coming to our side. But it is not so.

China will not help

As long as China keeps the North Korean economy and state above water –and there is no sign that Beijing will cut all economic ties with its old ally– North Korea will continue to have the financial and technical means to continue its nuclear weapons programs. Therefore, do not count on more UN sanctions as the tool that will make this emerging nuclear threat against America and its allies go away.

Redouble our efforts

All in all, even recognizing that Washington wasted at least 10 years doing almost nothing when it comes to creating defensive systems against nuclear armed ballistic missiles,

now is the time to redouble our efforts and invest in state of the art interceptors and other devices that some day will neutralize the threat posed by rogue nuclear states.

OPEC Defeated By US Shale Oil?

WASHINGTON – It seems that American shale oil producers, an assorted group of small and medium-sized firms which gained strength in the last decade and are now operating in many states, have become the swing producers in a position to influence global oil prices. How did that happen?

Cutting costs

U.S. shale oil production is relatively new. At the beginning of the “shale revolution” the cost of extracting oil from shale formations was quite high. But now they have come down significantly, mostly because of aggressive cost cutting measures adopted in response to OPEC imposed low prices. (More on this below). On account of this incredibly fast makeover, today a large number of the shale companies, especially those operating in West Texas, are profitable even with oil well below \$ 50 per barrel.

Most interestingly, shale oil producers now have the ability to ramp production up and down with relative ease, this way adjusting to global market conditions, without causing major disruptions to their operations. They can increase output when prices are higher and cut back when prices are too low. Conventional oil producers do not have this option.

With crude around \$ 50 per barrel, it is good news to have a substantial number of U.S. based oil producers supplying the domestic market, while making a profit even in this new era of low prices. This is a big plus for the American energy sector, and for all American consumers of energy products.

OPEC reactions

With good cause, OPEC saw the spectacular increase of U.S. production caused by the large scale exploitation of abundant shale oil reserves (an additional 4 million barrels a day in just a few years) as a threat to its market dominance.

Hence a very simple strategy aimed at eliminating the American shale oil threat. The plan was to deliberately over produce, this way causing a global glut and consequently falling oil prices. The bet was that a long stretch of low prices would kill the U.S. high cost shale newcomers who –according to all analysts– could not survive with oil below \$ 60 per barrel.

After having eliminated the U.S. menace, OPEC would go back to business as usual, reaffirming its position as the oil cartel which alone has the power to dictate prices by manipulating supply.

The strategy failed

But it did not work out this way. Not by a long shot. And this is because the U.S. shale producers, surprising everybody, managed to quickly adopt major technological improvements which increased well productivity, while aggressively cutting other production costs, this way staying profitable even with oil below \$ 50 per barrel.

All in all, the Saudi/OPEC plan failed. While several marginal U.S. shale producers could not make the adjustments fast enough and went bankrupt, most of the shale sector survived the OPEC imposed squeeze on profits.

The high cost of low prices

In the meantime, the extended period of low prices hurt OPEC producers very badly. They saw their precious oil based revenue dwindle rather dramatically. It soon became clear that most OPEC countries could not sustain an extended period of low prices.

Therefore, led by Saudi Arabia, the OPEC cartel, (this time working in concert with non OPEC Russia), tried to change strategy and jack up prices by cutting production, this way eliminating the oil glut they had created.

But this new approach is also failing. As oil prices go up on account of OPEC/Russia production cuts, the U.S. shale companies ramped up production, this way offsetting the OPEC/Russia cuts. As OPEC imposes cuts on its members, the U.S. shale sector produces more, while Saudi Arabia is denied the revenue gains that should have resulted from production cuts. So, the OPEC strategy aimed at eliminating the U.S. shale threat to its market dominance did not work.

Loss of precious revenue

That said, the sustained "attack" against US shale has been horribly expensive for the OPEC cartel members. Years of low prices hurt major Middle Eastern oil producers, (not to mention Nigeria and Venezuela, and non OPEC Russia, among others), in a significant way.

Most of these countries rely heavily on oil revenues to finance all or most public spending. Many of them had adopted national spending programs and budgets which assumed oil prices at \$ 90, or \$ 80 per barrel.

This means that all of them are facing fiscal problems or outright crises. Lacking oil revenue in the expected amounts, they have to cut spending and borrow more in international financial markets. But this is not an easy adjustment.

For example, in Saudi Arabia major spending cuts caused by declining oil revenue could lead to unprecedented political problems down the line. Almost the entire Saudi population depends one way or the other on direct or indirect government subsidies funded entirely via the oil revenue.

Reforms will take time

We know that the Saudi Monarchy is now openly committed to a major economic and fiscal transformation which will (hopefully) reduce and eventually eliminate all state subsidies, while promoting plans aimed at diversifying the economy. But, even in the best of circumstances, this is going to be a long journey. Cutting government largesse too much too soon could be politically dangerous.

Bottom line; U.S. shale wins; OPEC cartel and its new allies lose.