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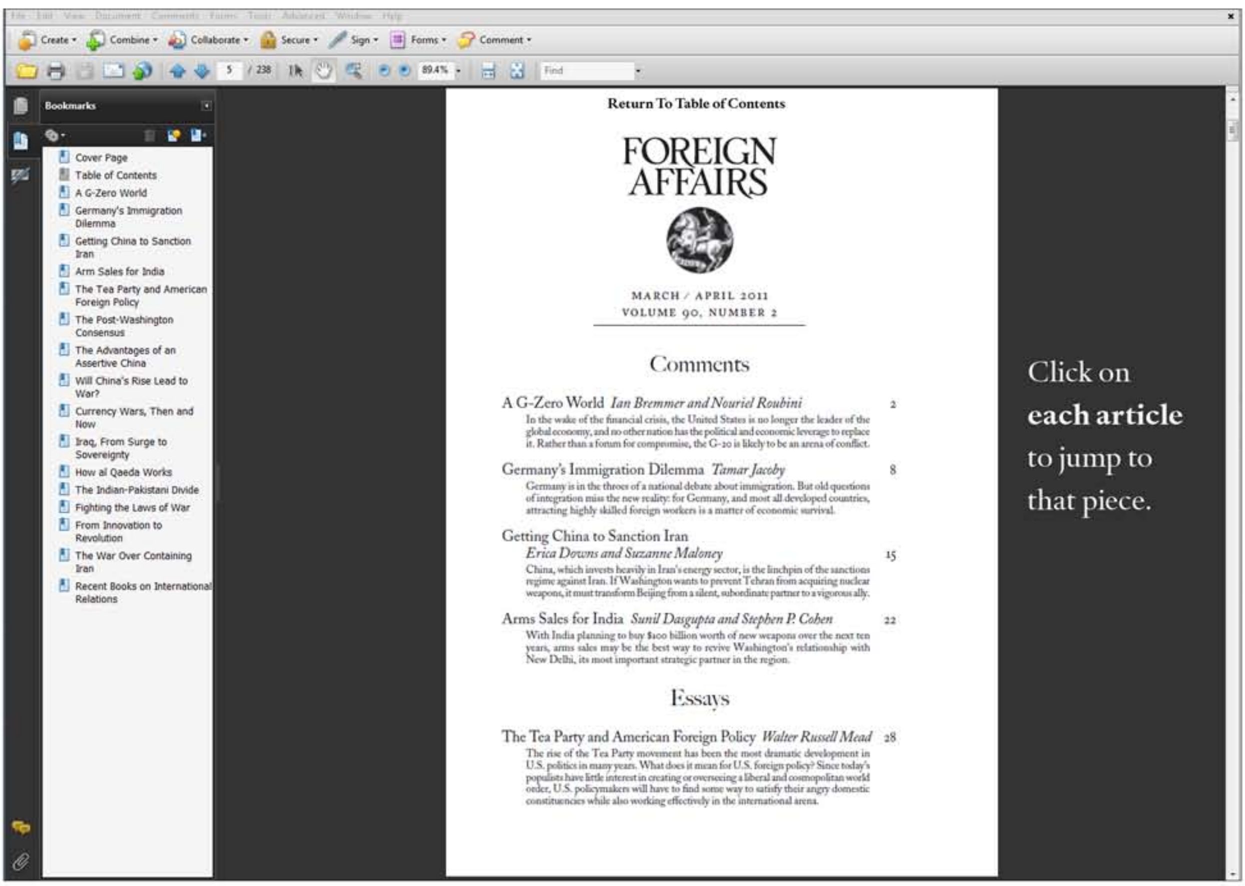

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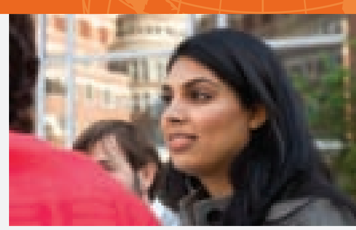

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Printed in the United States. Visit our Web site at www.foreignaffairs.com.

GST number 127686483RT.
Canada Post Customer #4015177 Publication #40035310.
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AP/WIDE WORLD PHOTOS

Overblown? An atomic test, Las Vegas, Nevada, May 25, 1953

The world is dangerous enough as it is; threat inflation is not required for threat reduction.

The Mushroom Cloud That Wasn't

Why Inflating Threats Won't Reduce Them

Michael Krepon

At the height of the Cold War, almost no one was bold enough or foolish enough to predict the Soviet Union's collapse, let alone without the eruption of a nuclear exchange between the two superpowers. One of the few who prophesied its demise, George Kennan, was deeply worried about a nuclear cataclysm. Kennan, a former U.S. ambassador to the Soviet Union and the father of containment policy, warned repeatedly that unwise U.S. nuclear policies could lead to Armageddon. The Cold War is now history, but warnings of an impending nuclear catastrophe are still very much alive. Anxieties today stem not from the threat of a surprise Soviet missile attack but from the fear of Iran, North Korea, Pakistan, and terrorist groups seeking to carry out catastrophic attacks against soft targets in the United States.

And yet, not a single death has occurred as a result of nuclear terrorism. Since 9/11, there have been more than 36,000 terrorist attacks, resulting in approximately 57,000 fatalities and 99,000 casualties. A terrible, mass-casualty attack using nuclear or biological weapons could occur at any time, and much more can be done to keep the United States safe. As the attacks that have occurred have repeatedly demonstrated, terrorists do not need weapons of mass destruction (WMD) to cause grievous harm; they can do so using hijacked airplanes, fertilizer, automatic weapons, and grenades.

But the situation is far from bleak. It is not easy for terrorist groups to acquire the skills and materials necessary to construct a nuclear weapon. Meanwhile, Washington and Moscow have reduced their nuclear arsenals by 34,000 weapons over the past two decades, nuclear testing is now rare, the list of countries with worrisome nuclear programs is very short by historical standards, and the permanent members of the UN Security Council now have less to fight about—and more reasons to cooperate in preventing worst-case scenarios from occurring—than ever before.

MICHAEL KREPON is Co-Founder of the Henry L. Stimson Center, a Diplomat Scholar at the University of Virginia, and the author of *Better Safe Than Sorry: The Ironies of Living With the Bomb*.

Yet warnings of the possibility of nuclear, chemical, or biological weapons attacks are as loud as ever. These warnings must be put in perspective. The United States has managed to remain safe from nuclear catastrophes in far more dangerous times. And if the threat is so great, and the protections so weak, why have there not been grievous WMD attacks on U.S. cities already? Wise U.S. initiatives to reduce these dangers have helped tremendously, such as programs initiated by then Senator Sam Nunn (D-Ga.) and Senator Richard Lugar (R-Ind.) to lock down dangerous weapons and materials and to dismantle Cold War–era missiles and bombers. There is another explanation as well: the threat itself has been greatly exaggerated.

CRYING WOLF

Predicting nuclear disasters was common during the Cold War. Paul Nitze, Kennan's successor as director of the State Department's policy planning staff, issued the Cold War's most famous warning to President Harry Truman in April 1950, forecasting four or five years of great danger ahead facing an emboldened Joseph Stalin. The anxieties expressed in Nitze's report—known as NSC-68—were reasonable given that the Soviet Union had conducted its first nuclear test in August 1949, Mao Zedong had just taken over mainland China, and the Korean War, which was to begin in June 1950, was already brewing.

The next warning of nuclear danger came in November 1957, four days after the launch of the second Sputnik. The Gaither Committee, headed by a Ford Foundation and RAND Corporation executive and assisted by Nitze, warned President Dwight Eisenhower, "The evidence clearly indicates an increasing threat, which may become critical in 1959 or early 1960." Such anxieties stemmed from presumed gaps between the bomber and missile capacities of the United States and those of the Soviet Union. But these gaps proved to be imaginary—Washington actually led Moscow in these areas. The most harrowing episode of the Cold War—the Cuban missile crisis, of October 1962—was in fact prompted by Moscow's weakness, rather than its strength, as the Soviets sought a quick fix for their perceived strategic disadvantage.

The doomsayers got it wrong again during the Ford administration, when a group of experts was assembled to determine whether the U.S. intelligence community was underestimating the Soviet threat. These hawkish experts, known as Team B, included the historian Richard Pipes; a young Paul Wolfowitz, who would later become deputy secretary of defense; and Nitze. Team B issued a report in 1976 predicting that unless urgent measures were taken, the Soviet threat would reach its peak between 1980 and 1983. Although the 1979 Soviet invasion of Afghanistan lent credence to Team B's assessment at first, the ill-conceived occupation that followed turned out to be a harbinger of the Soviet Union's dissolution rather than a steppingstone to more ambitious conquests.

Today, as was the case during the Cold War, there is no shortage of nonproliferation specialists predicting impending nuclear disasters. Eighty-five experts polled by Senator Lugar in 2005 estimated that the risk of a WMD attack occurring before 2010 was 50 percent and before 2015, 70 percent. The *Bulletin of the Atomic Scientists* has set its iconic Doomsday Clock at five minutes to midnight—two minutes

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closer to Armageddon than it was during the Cuban missile crisis. A bipartisan congressional commission concluded in 2008 that "America's margin of safety is shrinking, not growing" and that "unless the world community acts decisively and with great urgency, it is more likely than not that a weapon of mass destruction will be used in a terrorist attack somewhere in the world by the end of 2013." Graham Allison, one of the commission's members, had warned in 2004 that "the detonation of a nuclear device in an American city is inevitable if the U.S. continues on its present course." And soon after leaving office, former Vice President Dick Cheney warned that there is a "high probability" that terrorists will attempt a catastrophic nuclear or biological attack on the United States in the coming years.

These sorts of scary predictions have a basis in reality. After all, Iran has mastered the ability to enrich uranium, is laying the foundation for a nuclear weapons program, and has close ties to terrorist groups; Pakistan is ramping up its capacity to produce plutonium as the central government's influence is waning; and North Korea has a bomb-making capacity, weapons-grade material, and a need for hard currency. Al Qaeda's leaders have sought to acquire and use these weapons, and other extremist groups have an interest in doing so, too.

Experts cite such worrisome developments and then use threat inflation to seize the public's attention and to secure sufficient appropriations for their preferred remedies. They, along with government officials, members of Congress, and the intelligence community are all safer warning of great danger than downplaying threats—except when their inflated anxieties facilitate a preventive war based on false premises. The Iraq war notwithstanding, when worst cases do not materialize, those who issued dire warnings can take credit. And if attacks do occur, the alarmists can always say, "I told you so."

As real as these threats are, hyping them carries its own risks. Crying wolf too often can lead to complacency when action is needed most. Repeated warnings can also prompt taxpayers and lawmakers to question what was gained from prior investments in reducing threats and so limit appropriations for new ones. This is a major problem, since remedial efforts over short periods of time are insufficient; reducing the nuclear threat requires success over the long haul.

Most important, fear-based strategies lead to wasteful spending and costly errors in judgment. Dire warnings of impending nuclear dangers during the Cold War led the United States and the Soviet Union to produce a staggering 125,000 nuclear warheads and test an average of one nuclear weapon per week between 1962 and 1989. The cost of building, operating, and maintaining the U.S. nuclear arsenal from 1945 to 1991 was approximately $5 trillion. Likewise, excessive anxieties have led to wars that did not extend American ideals or defend U.S. national interests. The misguided and poorly executed war in Vietnam killed almost 60,000 U.S. troops. The 2003 war to oust Saddam Hussein, justified as a mission to keep WMD out of the hands of Washington's foes, has cost the lives of over 4,000 U.S. military personnel, perhaps 100,000 or more Iraqis, and more than $1 trillion. These costs have far exceeded any presumed benefits. The fact that a major attack has not occurred on U.S. soil since Saddam was ousted has little to do with

George W. Bush's war of choice, which has fueled anti-American extremism in the Middle East. Rather, it has everything to do with cooperative threat-reduction programs and improved intelligence coordination among U.S. agencies and between the United States and foreign intelligence services.

THE NUCLEAR LOCKBOX

Contemporary nuclear dangers pale in comparison to those of the decade of the 1990s, when a weakened Russian leadership presided over massive, poorly guarded nuclear stockpiles. As Boris Yeltsin jockeyed with Mikhail Gorbachev for the Kremlin's leadership in 1991, no one could be sure who would control Russia's nuclear codes or whether the military chain of command would remain intact. At the time, the Soviet Union was believed to possess more than 29,000 nuclear warheads, as well as 600 tons of highly enriched uranium and 100 tons of plutonium—enough raw material to make 64,000 additional nuclear weapons. Even the overseers of these vast stockpiles did not have accurate counts of the weapons and the material in their possession, making theft difficult to detect. To make matters worse, Russia faced grave economic hardships during the 1990s, when its GDP fell by 40 percent. (By contrast, the United States' GDP fell by 30 percent during the Great Depression.) Poverty—especially among nuclear scientists and military officials—increased the risk of theft, diversion, or covert sales of nuclear weapons and bomb-making material.

In response to these grave circumstances, the U.S. Congress endorsed the programs launched by Nunn and Lugar in 1991 to stop the proliferation of dangerous weapons and materials from Russia and the former Soviet republics. Washington provided specialized equipment to help with transportation and to increase security around sensitive sites; trained scientists who had previously worked on WMD programs for alternative careers; aided in the dismantlement of Soviet missiles, submarines, and bombers; and blended down highly enriched uranium for use in nuclear power reactors—which provided electricity to those former Soviet republics that agreed to relinquish their inherited nuclear arsenals (all eventually did). These cooperative threat-reduction programs were effectively implemented by the Clinton and Bush administrations, and they have since been expanded to include over 300 sites in the former Soviet Union and 113 other countries. As a result of U.S. assistance, radiation detectors and other monitoring devices have been installed at border crossings in Central Asia and at ports from Pakistan to the Philippines in order to screen shipping containers before they leave shore. Weapons-grade nuclear materials have been transported to central storage sites and flown out of potential danger zones.

These cooperative threat-reduction programs are the most creative initiatives to reduce nuclear dangers since the field of arms control was conceived in the early 1960s. Unlike the strategic modernization programs and arms control treaties that were so politically contentious during the Cold War, cooperative threat reduction enjoys broad bipartisan support. These post–Cold War remedies cost a pittance compared to the alternatives—the development of next-generation nuclear weapons systems or cleaning up after a mushroom cloud.

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. . . BUT FEAR ITSELF

The world is dangerous enough as it is; threat inflation is not required for threat reduction. Politicians and proliferation experts can warn citizens without alarming them. All of the policies that successfully prevented a nuclear catastrophe from occurring during the Cold War—containment, diplomacy, deterrence, conventional military strength, and arms control agreements—can be employed even more effectively today.

Many conditions for success are already in place. Cold War hot spots—such as Berlin, Cuba, and Taiwan—have cooled down, and the Middle East is no longer a flashpoint for great-power confrontation. According to the Natural Resources Defense Council, there are approximately 20,000 fewer nuclear weapons in Russia today than there were in the former Soviet Union when the Cold War ended. No permanent member of the UN Security Council has tested a nuclear weapon in over a decade, and the importance of these weapons in major power politics has never been lower. With patient and persistent diplomacy, nonproliferation has become a global norm, with very few exceptions.

For the first time since the atomic age began in 1945, all permanent members of the UN Security Council, as well as India, Israel, and Pakistan, face a common enemy—nuclear terrorism. This common enemy provides a basis for collaboration in fighting proliferation. Cooperative threat reduction, rather than spreading fear and inflating threats, will be the key to averting a nuclear catastrophe in the twenty-first century.

Nitze, the man who repeatedly warned of impending nuclear disasters, also offered the perfect mental antidote to scaremongering. He advised U.S. officials to "try to reduce the dangers of nuclear war within the relevant future time period as best you can; you just get depressed if you worry about the long term." The best counter to nuclear pessimism is, Nitze advised, to "work the problem" methodically and persistently, day by day. As Obama administration officials seek to moderate public anxiety about nuclear terrorism without letting down their guard, they would be wise to heed Nitze's advice. The threat is very serious, but the U.S. government knows how to reduce nuclear dangers, and it is making headway. Washington's worst nuclear nightmares did not occur in the past, and they can be prevented in the future.

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Tomorrow's Institution Today

The Promise of the Proliferation Security Initiative

Amitai Etzioni

By early December 2002, the U.S. government knew that an unflagged merchant ship, the *So San*, was transporting ballistic missiles and missile components from North Korea to the Middle East. As the ship traversed the Arabian Sea, U.S. officials asked the government of Spain, whose navy had been trailing the *So San*, to stop and search it. Their demands that the ship stop ignored, Spanish special forces rappelled onto the deck of the moving ship. Aboard, they discovered 15 complete Scud missiles, 15 warheads, and barrels of rocket propellant hidden under sacks of concrete. Two days later, Yemen admitted that it was the intended recipient.

The Bush administration was keen to stop such traffic, but the ship was allowed to continue on its voyage. Although the initial search of the *So San* was considered legal because the ship had tried to conceal its nationality, international law did not authorize confiscating what this or that nation considered contraband. "We have looked at this matter thoroughly," the White House told reporters, "and there is no provision under international law prohibiting Yemen from accepting delivery of missiles from North Korea."

The inability to prevent the *So San* from delivering its cargo revealed a related flaw in the international nonproliferation framework. Less than a year later, the United States attempted to fill the gap by launching a new international arrangement: the Proliferation Security Initiative, a cooperative effort aimed at stopping the transfer of weapons of mass destruction (WMD). Under the auspices of the PSI, countries can share intelligence and coordinate their militaries to interdict ships and aircraft suspected of carrying such weapons or the materials from which they can be made.

Many of the challenges that countries now face—such as the global economic crisis and threats to the environment—must also be tackled on a transnational level. But the old international system, based on arrangements worked out by instructed representatives of national

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AMITAI ETZIONI is University Professor and Professor of International Relations at George Washington University and the author of *Security First: For a Muscular, Moral Foreign Policy*.

governments, is too cumbersome, too slow, and too narrowly crafted to solve cross-border problems. Recognizing this, academics and politicians have proposed a slew of initiatives for building new transnational institutions. Many of these suggestions consist of one overarching framework, such as a league of democracies, a strengthened United Nations, or a global federation. The more promising model, however, is less streamlined and more complex; it is based not on a single organization but on a mix of building blocks—building blocks like the PSI.

INSTITUTION WITHOUT AN ADDRESS

The PSI was designed to address what many consider to be the top security threat to the United States, its allies, and world peace: the acquisition or use of WMD by terrorists or rogue states. It was launched on May 31, 2003, by the United States, after President George W. Bush declared, "When weapons of mass destruction or their components are in transit, we must have the means and authority to seize them." Initially, 11 countries joined the PSI, but the number of participants grew rapidly; more than 90 countries now take part, including France, Russia, and the United Kingdom (but not China). These states share intelligence, patrol the seas, and interdict ships that are suspected of carrying nuclear contraband. They have also attempted to expand these measures to international airspace.

Unlike most international organizations, the PSI has no headquarters or secretariat, no charter or rules. It has participants, not members. The U.S. State Department refers to the PSI as an "activity." Plenary meetings are rare, and there are calls to make them even less frequent. The PSI has no council in which one member can exercise veto power. It has no multistate committees that must unanimously approve each target, as was the case for a while for NATO during its bombing operations in Kosovo in 1999. And it has no bureaucracy that must be paid for and monitored and that may hinder action with red tape, turf wars, or office politics.

Theoretically, each PSI participant acts on its own, sharing information and coordinating its actions with the others, especially those with navies in the relevant places. In effect, however, the PSI is led by the United States, the only country with a truly global navy, which then works with its major allies, other major powers, and a considerable number of small countries. The main role of the other participants (especially the smaller ones) is to provide support, such as intelligence or docking space, and consent for ships registered under their flags to be boarded and searched. This is important, as more than half of the world's largest cargo ships are registered in tiny nations such as Cyprus, Liberia, and Panama. To put it differently, even though a large number of separate bilateral ship-boarding agreements reinforce the PSI, it acts as a single standing global antiproliferation force led by one nation, with a rotating cast of volunteers joining the patrols and raids. The PSI is also unlike the coalitions that intervened in Iraq in 1991, Bosnia in 1995, and Kosovo in 1999. These were ad hoc efforts tailored to one situation and limited in duration, whereas the PSI functions continuously. In a world with no central government, the PSI provides a rudimentary police force.

The standby and operational nature of the PSI is what gives it strength. Compare the preparations necessary for a PSI mission with the steps needed to take similar measures the old-fashioned way: first, any such action might well have required the approval of the UN Security Council (which could have taken years to secure, if it was secured at all); then, a budget for the mission would have to have been secured; finally, the necessary troops would need to have been assembled and transported to the theater of operation. The PSI anticipates all these steps. It frequently holds joint training operations to work out in advance how countries will coordinate a mission.

It is difficult to gauge the ultimate effectiveness of the PSI, but it has been successfully employed about a dozen times already. The initiative's most prominent accomplishment to date occurred in October 2003, when U.S. intelligence established that equipment for enriching uranium (produced in Malaysia using designs provided by the network led by the Pakistani scientist A. Q. Khan) was on its way to Libya via Dubai. The ship involved was the German-flagged *BBC China*, and following a request by the United States, the owner of the ship diverted it to an Italian port. The Italian government, a PSI participant, searched the vessel and seized parts for a gas centrifuge. The action was an important step in exposing Khan's illicit nuclear network and in halting Libya's clandestine nuclear program.

TOO LEGIT TO QUIT?

An effective international system relies on a combination of military force and legitimacy—on hard and soft power. The PSI's special merit is that it commands not only a very considerable level of hard

power but also a fair amount of legitimacy. The Bush administration was widely criticized for its wanton disregard for international (and domestic) laws and norms. In the case of the PSI, however, it followed a rather different course, taking pains to ensure that the initiative was consistent with international law.

The challenge the PSI first faced was the basic international legal and normative precept that ships have the right of uninhibited passage in international waters and the right of "innocent passage" through national territorial waters. At the same time, the very goal of the PSI requires interventions that appeared at first to conflict with these long-established normative and legal concepts. But existing international law did provide some leeway. Article 19 of the UN Convention on the Law of the Sea outlines the circumstances under which the passage of a ship is considered "prejudicial to the peace, good order or security of the coastal State." Transporting nuclear contraband could qualify.

The PSI acquired another layer of international legitimacy in 2004, from UN Security Council Resolution 1540, which calls on all states to take efforts against the proliferation of WMD. The resolution is widely considered to provide a sort of legal imprimatur to the PSI and was called "complementary" to it by one U.S. counterproliferation official.

To further square itself with international law, the PSI draws heavily on bilateral agreements between the United States and "flag of convenience" states—countries, such as Liberia and Panama, where a large portion of the world's biggest ships are registered for the sake of low taxes and lax regulations. These agreements allow the United States to inspect ships after giving very short notice to the governments under whose flags they sail or on the basis of a priori understandings. In February 2004, for instance, the United States and Liberia signed an agreement whereby each country is authorized to inspect ships registered under the other country's flag on suspicion that the vessel is transporting WMD, their delivery systems, or related items. The United States and Panama signed a similar agreement the same year. By 2007, the United States had such agreements with the Bahamas, Belize, Croatia, Cyprus, Malta, the Marshall Islands, and Mongolia.

Because the PSI operates under international law, has been at least indirectly blessed by the UN, and has been fortified by bilateral agreements, it can defend itself against charges that it is illegitimate. Its authority is not beyond reproach, nor does it meet every standard of international law. But considerable efforts have been made to form and operate the PSI in ways that are compatible with international law, international treaties, and UN resolutions. And it compares favorably with many other international activities—one reason it has attracted so little criticism.

A MODEL TO COPY

The PSI should be strengthened. Legal scholars should further develop the normative and legal rationales behind the PSI with the hope that transporting nuclear contraband across national borders will come to be viewed as such a gross violation of international security that it will be considered legal for any nation to use most any means to prevent it. Indeed, it has been suggested that such an act should be considered akin to slavery and piracy, two activities that have long been deemed to warrant violating the notion that ships should be free from interference on the high seas and be allowed innocent passage through territorial waterways.

Because of a mix of self-serving and altruistic motives, the United Kingdom promoted the norm to ban the transnational transport of slaves beginning in the late eighteenth century. As a consensus grew around it throughout the first part of the nineteenth century, the ban was gradually ensconced in custom, and a license to interdict ships that were suspected of transporting slaves became part of international law.

Until very recently, piracy, too, was universally considered a legitimate target of national navies; indeed, it was viewed as providing a precedent for the PSI. However, as a result of what at least communitarians would consider a radical interpretation of human rights, some European governments have recently held that because pirates are criminals, they can be pursued only by the police, not the military—never mind that police have no jurisdiction on the high seas. Decisions like these have hampered attempts to fight piracy in the Gulf of Aden. If basic security is to be restored to the seas, the public interest must take precedence over absolutist interpretations of pirates' human rights, just as it did over the human rights of slave traders.

Both the legitimacy and the military power of the PSI would be buttressed if the group's mission and composition were expanded. So far, the PSI has been largely limited to the seas; PSI participants should move to also interdict nuclear contraband transported by air and land. These are much harder tasks—for one, the window for action in the air or on land is measured in hours, not days—but they are necessary to make proliferation harder. And in the long run, if the PSI is to become an important component of and a prototype for a new set of international institutions, the list of participating nations will have to be expanded, especially to include important countries such as Brazil, China, India, and South Korea.

The PSI model could be applied to other international efforts—such as armed humanitarian interventions, emergency disaster relief, or campaigns to prevent the spread of epidemics—thus adding new building blocks to a new global architecture. At least one recent effort appears to be designed like the PSI. The Global Initiative to Combat Nuclear Terrorism, which was launched in 2006 by the United States and Russia and now counts 75 participants, aims to improve international cooperation in tracking nuclear terrorists and securing fissile material.

The limited expansion of international norms and laws, backed up by the military forces of major countries, may well transform the PSI into an ever more acceptable and capable standing global force. An expanded PSI could be an important element of a significantly more effective, and yet still legitimate, new global security architecture. Policymakers seeking to confront new challenges are right to call for new forms of governance to update today's outmoded intergovernmental system. True, the PSI provides only one model for that system, a system that will have to be pieced together from a variety of elements. But when considering a framework for the future, it would be a mistake to ignore the precedent of the PSI.

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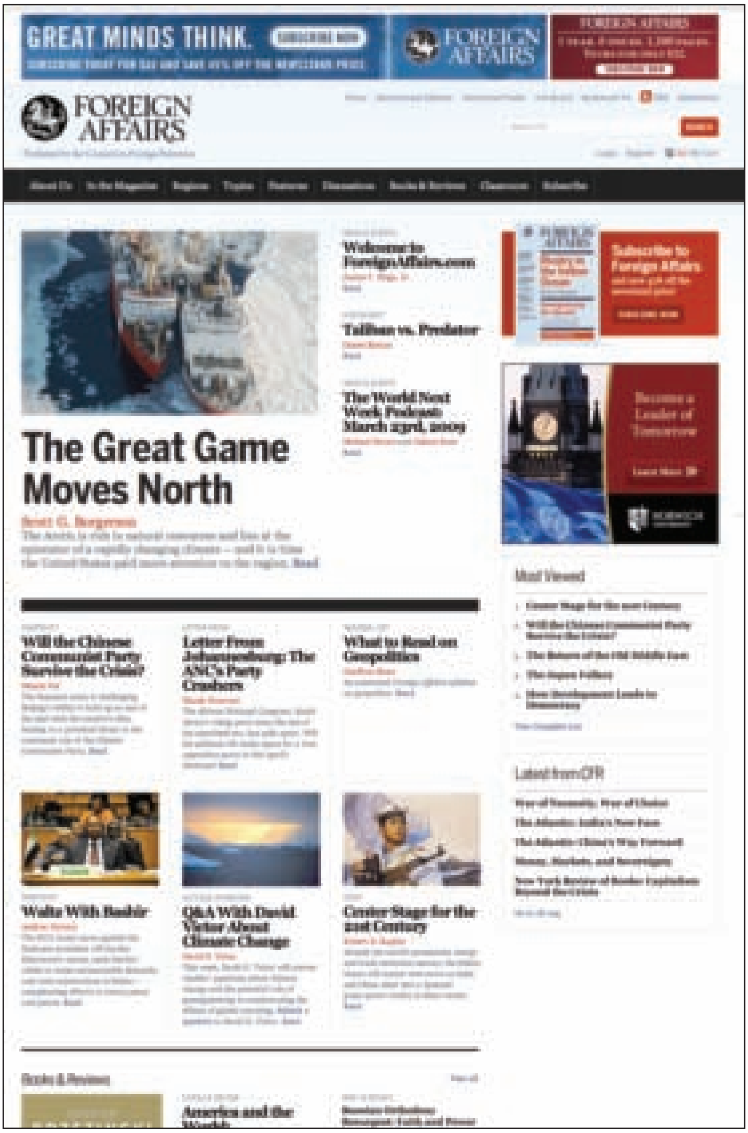

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Essays

AP/WIDE WORLD PHOTOS

Secretary of State Hillary Clinton with Chinese Foreign Minister Yang Jiechi, February 21, 2009, Beijing

The time has come to acknowledge that although working with China sounds easy, it is not.

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The G-2 Mirage

Why the United States and China Are Not Ready to Upgrade Ties

Elizabeth C. Economy and Adam Segal

It took just one month for U.S. President Barack Obama's foreign policy team to establish its line on China: more cooperation on more issues more often. As Secretary of State Hillary Clinton enthusiastically declared during her brief visit to Beijing in late February, "The opportunities for us to work together are unmatched anywhere in the world."

The Obama team is in good company. Henry Kissinger has called for the U.S.-Chinese relationship to be "taken to a new level" and Zbigniew Brzezinski has advocated the development of a G-2, a group of two comprising China and the United States that could address the international financial crisis, tackle climate change, limit the proliferation of weapons of mass destruction, and maybe even help resolve the Israeli-Palestinian conflict. Early notes of potential discord—Treasury Secretary Timothy Geithner's description of China as a currency manipulator, Secretary Clinton's call for greater religious freedom in China, National Intelligence Director Dennis Blair's openness to potential future arms sales to Taiwan—were muted in the interest of elevating the U.S.-Chinese relationship.

Calling on the United States and China to do more together has an undeniable logic. Both Washington and Beijing are destined to fail if

Elizabeth C. Economy is C. V. Starr Senior Fellow and Director for Asia Studies at the Council on Foreign Relations. Adam Segal is Maurice R. Greenberg Senior Fellow for China Studies at the Council on Foreign Relations.

they attempt to confront the world's problems alone, and the current bilateral relationship is not getting the job done. Real coordination on trade and currency reform remains stunted, both sides lag behind the rest of the world in addressing climate change, and meaningful partnership on global challenges—from food safety to nuclear proliferation—is limited.

But elevating the bilateral relationship is not the solution. It will raise expectations for a level of partnership that cannot be met and exacerbate the very real differences that still exist between Washington and Beijing. The current lack of U.S.-Chinese cooperation does not stem from a failure on Washington's part to recognize how much China matters, nor is it the result of leaders ignoring the bilateral relationship. It derives from mismatched interests, values, and capabilities.

The United States must accordingly resist the temptation to initiate a high-profile, high-stakes bilateral dialogue and instead embrace a far more flexible, multilateral approach to China. In other words, Obama should continue to work with China in order to address global problems, but he also needs to enlist the world to deal with the problems created by the rise of China.

The good news is that the United States and China do share some fundamental foreign policy goals: kickstarting economic growth and maintaining an open global economy, maintaining peace and stability in East Asia, and halting climate change. There is already a robust process of government-to-government exchange, with more than 60 bilateral dialogues and working groups in existence, including the Strategic Economic Dialogue, the U.S.-China Senior Dialogue, and the Defense Policy Coordination Talks. The United States and China have cooperated on counterterrorism, negotiated with North Korea through the six-party talks, and undertaken joint research on alternative energy. Recently, the Pentagon welcomed the deployment of the Chinese navy for antipiracy operations in the Gulf of Aden, where both the United States and China depend on the same shipping lanes.

Recognition of China's importance, however, cannot paper over the difficulties the two countries have faced—and will continue to face—as they try to convert shared strategic goals into concrete cooperation. Even after 30 years of engagement, the United States and China still disagree about how the world should work. When

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there is agreement on the principles of global governance, more narrow economic interests or differences in political values typically make a common front elusive. And even when shared values and interests allow the two sides to move forward, the vast gap in governance and implementation capabilities often leads to mutual frustration and recriminations.

THE GREAT STALL

A SIGNIFICANT obstacle to effective U.S.-Chinese cooperation is the dramatically different view of sovereignty, sanctions, and the use of force that each country brings to the table. Beijing's need for resources and export markets, along with its oft-repeated mantra of not mixing business with politics, clashes with the West's efforts to prevent human rights abuses and improve governance in the developing world. For example, Chinese state-owned companies have vast resource holdings and development interests in countries such as Angola, the Democratic Republic of the Congo, and Myanmar (also called Burma), where human rights abuses and problems of poor governance are rampant. Likewise, China's refusal to stop its growing arms trade has contributed to instability in Sudan and Zimbabwe, even as the rest of the world has urged restraint in weapons sales to those nations. Yet Beijing repeatedly refuses to exert its economic leverage for political ends, arguing that the political and economic realms should remain separate.

Although Washington and Beijing share some common interests in Darfur, Myanmar, and other regions in which serious human rights violations are occurring, their opposing perspectives on sovereignty and humanitarian intervention lead to very different policy prescriptions. In September 2007, for example, Beijing, along with Moscow, blocked a UN Security Council resolution sponsored by the United States and Europe that forcefully condemned the Myanmar government for the use of force against Buddhist monks who were leading antigovernment protests. China, which has strong political ties to Myanmar's rulers and large investments in oil and gas projects in the country, insisted that the crackdown was an internal affair, called for restraint, and finally voted for a much-watered-down resolution.

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Beijing's growing dependence on imported oil and gas has also been an obstacle to broader U.S.-Chinese cooperation on limiting Iran's nuclear program. China has generally rejected calls for tough sanctions against Iran and undermined efforts by the United States and Europe to stop the flow of Iranian money through foreign banks. As Iran's trade with the European Union (EU) has declined, it has picked up with China.

In addition, China's authoritarian but decentralized political and economic system also makes cooperation on issues such as product safety and environmental protection difficult. Beijing is often incapable of following through on its international obligations because local actors have strong economic incentives to maintain the status quo. Even when the central government has the best intentions, a lack of transparency and accountability further undermines the implementation of laws.

The current lack of U.S.-Chinese cooperation stems from mismatched interests, values, and capabilities.

Over the past several years, for example, China's food- and product-safety records have come under increasing international scrutiny. China's vast exports ensure that almost no country goes unaffected when tainted pet food, toothpaste, dairy products, toys, or pharmaceutical ingredients are released onto the market. These poisonous products have entered the EU, Japan, Panama, the United States, and Vietnam—to name just a few. Efforts to address China's ongoing problems in the realm of food and product safety are hampered not only by bureaucracies with weak oversight capacity but also by a government that refuses to permit the media and on-the-ground watchdogs to investigate and warn the general public. Reporters from *Southern Weekend* and the *Oriental Morning Post* knew two months before the story became public, in September 2008, that melamine—a chemical that suppliers were adding to low-quality dairy products in order raise the protein level and pass inspections—had sickened children. But they were prohibited from reporting the news, in order to ensure a positive atmosphere for the Olympics. Although the press, bloggers, and nongovernmental organizations are becoming increasingly assertive, they are unable to act consistently as a check on local officials due to censorship and political harassment.

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Cooperation on climate change may prove even more challenging. As Washington weighs the value of pursuing a bilateral climate deal with China, Beijing's ability to enforce regulations will be called into question. Effective climate policy depends on transparency in reporting emissions, yet in the run-up to the Olympics, Beijing's published air-pollution index did not include two of the most dangerous pollutants: ozone and small particulate matter. A bilateral climate deal would also necessitate large-scale transfers of energy-related technologies, such as advanced materials for wind turbines, from the United States to China. However, China lacks the legal infrastructure needed to enforce intellectual property rights—a weakness that will worry the European, Japanese, and U.S. firms that design new green technologies. Even basic policy initiatives, such as the implementation of energy-efficient building codes, require a degree of enforcement capacity and official accountability that does not exist within the Chinese government.

Even basic policy initiatives require a degree of enforcement capacity that does not exist within the Chinese government.

A lack of transparency has also been a consistent barrier to improving the bilateral military relationship, which has consisted of high-level discussions about strategic issues as well as lower-level exchanges and working groups. As the defense scholars Kurt Campbell and Richard Weitz have argued, secrecy makes sense from the Chinese point of view; China is the weaker power and believes that uncertainty about its true capabilities can act as a deterrent. The United States, in contrast, believes transparency on the part of China would help avoid miscalculation and mishaps. Transparency is also critical when dealing with political fallout in the event of mistakes, such as the U.S. bombing of the Chinese embassy in Belgrade in May 1999 or the collision of a U.S. spy plane and a Chinese fighter jet in April 2001. Without such transparency, the United States and China's neighbors are reduced to gauging Beijing's intentions from its capabilities—a problematic proxy. The roughly 1,000 missiles targeted at Taiwan and the submarines and advanced weapons systems China has acquired—apparently to target a U.S. aircraft carrier group—all raise questions about the seriousness of Beijing's commitment to an improved military relationship with the United States.

The economic relationship is also a contentious issue. There are serious differences between what the two countries want and when they want it. Washington insists on currency reform, more open markets, and the protection of intellectual property rights. Beijing, by contrast, generally wants to be left alone to conduct its business as it sees fit or, at the very least, to ensure that Washington does not make things worse for China in the pursuit of its own agenda. Even when China has engaged directly on economic issues—such as the protection of intellectual property rights—it has viewed its efforts, given the difficulties of building an effective legal system, in terms of change over decades, a timetable completely out of line with the United States' much greater expectations.

The global economic crisis may well diminish these traditional differences between the trading partners. It has brought into sharp relief the extraordinary level of global economic interdependence, particularly between the United States and China. A stable recovery of the U.S. economy will require continued support from China, and China's future growth will also depend on the involvement of the United States and other nations. The relationship is no longer a matter of Washington banging on Beijing's door, alternately cajoling and hectoring Chinese leaders to reform their country's economy. Rather, the Chinese leadership, greatly concerned about the security of China's investment in U.S. Treasury bonds, the value of the dollar, and the loss of China's critical U.S. export markets, is calling on Washington to quickly respond to the global financial crisis as well as suggesting that it might expect some sort of quid pro quo—the lifting of U.S. restrictions on some technology sales, for example—for the continued purchase of U.S. Treasuries. Like their Washington counterparts, however, China's leaders will find that achieving real leverage in the context of a bilateral relationship is elusive.

THE COSTS OF COOPERATION

Although the United States needs to coordinate with China to respond to global challenges, elevating the bilateral relationship is more likely to lead to a quagmire, with recriminations flying back and forth, than to a successful partnership. To escape this downward spiral, Washington must solicit the help of the rest of the world. The United States is not alone in recognizing that China affects all the critical issues of the day or in seeking more from China as an emerging global power. Throughout the world, countries are realizing that the issues that currently define their relationships with Beijing cannot simply be negotiated bilaterally.

As a first step, the Obama administration should sit down with Japan, the EU, and other key allies to begin coordinating their policies toward China. Much of what the United States does, or is proposing to do, with China on the environment, human rights, and food and product safety is also being discussed or undertaken by Canada, the EU, Japan, and other states in Asia. Yet there is presently no coordination, which means these simultaneous efforts will be inefficient and may work at cross-purposes.

Despite insistent calls for a bilateral U.S.-Chinese effort to address climate change, cooperation would be managed best by involving other nations. The United States and China are the two largest emitters of carbon dioxide, and each is using the other as an excuse for inaction. China is currently calling for all the advanced industrialized nations to devote one percent of their GDPs to a climate fund for developing countries—a mechanism that would subsidize the transfer of clean-energy technologies to Beijing. The United States simply does not have the financial resources available to respond to this challenge. Meanwhile, Japan is pursuing a different tack and has already started to provide development assistance to China for clean-energy projects thanks to its highly sophisticated public-private partnerships that provide government financing for privately held Japanese technology companies. Beijing and Tokyo are moving ahead with technical cooperation and demonstration projects to capture and store carbon, enhance energy efficiency, and exploit renewable energy resources.

It makes sense for the United States to duplicate some of these efforts. After all, China is a large country, and there will always be unmet demand. In addition, the United States has a comparative advantage when it comes to training Chinese officials, monitoring greenhouse gas emissions, and designing some clean-energy technologies. But Washington does not want to undermine European and Japanese efforts by competing to cooperate with China. There is frequently a

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cost to cooperating with Beijing: Chinese government agencies often require donations or impose high overhead costs on foreign partners, and these fees could well rise as the Chinese play foreign actors off against one another. Moreover, Chinese energy and environmental agencies are woefully understaffed and often unable to meet the demands of in-depth cooperation with a number of different partners. There is also a very real danger that U.S. officials will raise expectations within China but fail to deliver if, for example, the U.S. government does not provide adequate funding for demonstration projects or training programs, as has happened with past cooperative energy and environmental ventures.

There is a similar lack of capacity for the enforcement of food- and product-safety initiatives. The U.S. Food and Drug Administration opened three offices in China with a total staff of 13 people—an admirable beginning but far from sufficient. At the same time, the EU and the Association of Southeast Asian Nations (ASEAN) are running their own food-safety programs with China, and Japan and South Korea have begun negotiations with China on the topic. A single, integrated response would be far more effective, and consumers worldwide would be much safer if U.S. inspectors worked alongside their European, Japanese, and South Korean colleagues.

As the global economic crisis deepens, trade will become an area ripe for multilateralism. For much of the last decade, while China ran up large trade surpluses with the United States and Europe, its overall trade was fairly balanced—with a total annual surplus fluctuating between one and two percent of GDP. It began rising in 2005, and by 2008 China's global trade surplus had exploded, reaching approximately 8.5 percent of GDP. Because other countries are now suffering from similar trade imbalances with China, the United States has the opportunity to work with China's other trading partners to push China to continue to revalue its currency, reduce its export subsidies, and open its domestic market. If approached multilaterally, these demands could be framed in the context of global, rather than bilateral, imbalances.

Regional security could also benefit from greater U.S.-Chinese cooperation and from the expansion of multilateral security exchanges. China currently participates in ASEAN's security discussions and has undertaken some training and military exchanges with several of the United States' allies in Asia. A more robust cooperation effort on the part of Japan, South Korea, the United States, and other maritime countries in the region would help define the basic ground rules as China's military operates farther and farther away from the mainland. The March 2009 incident at sea, during which a U.S. Navy surveillance ship was surrounded by five Chinese vessels in the vicinity of a Chinese submarine base, suggests the need to act sooner rather than later. Moreover, additional security exchanges could help persuade Beijing that its lack of military transparency undermines regional security and—by making it more difficult for Beijing to convince its neighbors that China's rise will be peaceful—costs China politically.

Finally, Washington will need to look beyond its traditional international allies to help enhance its leverage over Beijing. China often ignores calls from the United States and Europe for political reform and a more activist foreign policy, yet it expends considerable energy positioning itself as a leader of the developing world. On sensitive political issues, if the United States worked with the same developing countries China purports to represent—African countries on Darfur, island nations on climate change, ASEAN countries on Myanmar—this might be more effective in changing China's behavior than yet another call for action from Brussels or Tokyo. On the most sensitive political issues, such as China's domestic human rights record, partnering with developing democracies could give the United States more moral suasion.

BEYOND DIALOGUE

Expanding all these partnerships will require Washington to change its behavior, too. Inconsistency between rhetoric and action undermines U.S. legitimacy, both with China and with much of the rest of the world. Many throughout the world want to see Washington live by the same rules it is pushing China to adopt. The transparency and accountability the United States demands of China and advocates within the global financial system must be implemented at home first.

Potential partners will expect the new Obama administration to fulfill its promise to shut down the U.S. prison camp at Guantánamo, overcome congressional resistance to ending some types of agricultural subsidies in the next round of Doha trade talks, and put forth a realistic and aggressive climate-change action plan that is commensurate with the United States' contribution to the problem.

Other countries will need to step up, too. The EU countries have been unable to forge a consistent policy toward China, with the member states divided over the issue of Tibet and over the wisdom of lifting the arms embargo on Beijing, which was imposed after the 1989 Tiananmen Square massacre and seems an anachronism to some. The situation looks even worse in Japan, which is suffering from an economic recession and political paralysis. Yet U.S.-Japanese cooperation on China over issues such as climate change, naval security, and product safety should resonate well with the Japanese leadership.

Engaging the rest of the world does not mean ignoring China. The United States and China should reconfigure their relationship at an institutional level. In addition to all of the existing, issue-specific exchanges, there should be one overarching negotiation that sits above or outside the purview of the U.S. government's traditional cabinet-level agencies. The National Security Council and the vice president's office would ideally play a central role in this effort. Cooperation on the trade imbalance, a climate deal, and regional security depends on the close coordination of numerous bureaucracies within the U.S. government. Institutionally adjusting the level of the dialogue on the U.S. side would make it a bureaucratic priority on the Chinese side as well, increasing the likelihood that the right Chinese officials will be at the table. Similarly, a more centralized U.S. approach to China will lead to more effective cooperation with U.S. allies.

The year 2009 marks 30 years since the normalization of relations between the United States and China. Three decades of peace and stability in U.S.-Chinese relations should be celebrated. Further elevating the bilateral relationship, however, without addressing the very real differences in values and enforcement capacities between the two countries will lead nowhere—except to the creation of more empty frameworks for dialogues and never-ending dialogues to establish more frameworks. The time has come to acknowledge that although working with China sounds easy, it is not. If the United States wants to move its relationship with China forward for the next 30 years, it needs the rest of the world, not just China, on board.

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Deng Undone

The Costs of Halting Market Reform in China

Derek Scissors

The year 2008 marked the 30th anniversary of the beginning of market reforms in China—and perhaps the third anniversary of their ending. Since the present Chinese leadership took power, market-oriented liberalization has been minor. And as such policies have wound down, they have been supplanted by renewed state intervention: price controls, the reversal of privatization, the rollback of measures encouraging competition, and new barriers to investment.

Why would China, with a generation of successful market reform under its belt, move back toward state control? Because of politics run amok. When the administration of President Hu Jintao and Premier Wen Jiabao assumed control seven years ago, they acted like any new Chinese regime: they moved to solidify their power through economic stimulus. Only they did not stop. Soon after they took office, lending by state banks and investment by local and national state entities soared. Helped temporarily by very loose global monetary conditions, the Chinese state did well by most economic standards. And success created a constituency in political and business circles that is obsessed with growth at the expense of all else. This growth today is explicitly led by the state, fueled by investment by state-owned entities, and accompanied by powerful regulatory steps meant to ensure the state's dominance of the economy—all measures that contrast sharply with prior reforms.

Derek Scissors is Asia Economics Research Fellow at the Heritage Foundation.

The Chinese Communist Party no longer sees the pursuit of further genuine market-oriented reform as being in its interest. The burst of growth that the economy exhibited after the initial state-directed stimulus convinced the CCP that true liberalization is now unnecessary as well as sometimes painful. Whatever the objectives of the Obama administration, it must realize that it will be difficult to change Beijing's views quickly. True broad-based market-oriented reform in China should remain a long-term goal of U.S. economic policy. But for now, the Obama administration would do better to focus its economic diplomacy on evaluating and responding to the Chinese government's strategy of aggressively promoting state-led growth. It should not presume that Beijing will return to market reform anytime soon.

The U.S. government cannot afford to get this wrong. Because of the increasing pressure of the global economic crisis, some have called for a policy of partial disengagement. But the U.S.-Chinese relationship is the most important bilateral economic relationship in the world. Together, the United States and China accounted for more than 30 percent of the world's GDP in 2007. In 2008, bilateral trade stood at $409 billion—dwarfing the $206 billion worth of trade between the United States and Japan—and Chinese exports to the United States amounted to approximately 7.7 percent of China's GDP. At the end of 2008, Beijing was the largest holder of U.S. Treasuries, with over $700 billion in reserve.

Even incremental improvement in a relationship of this magnitude would have a large economic payoff, all the more so given the recent collapse of the global financial system. This crisis arose in part from imbalances in the U.S.-Chinese economic relationship. (Beginning in late 2002, U.S. monetary policy stimulated already excessive U.S. demand, which served as an even bigger outlet for already excessive Chinese supply. Beijing directly contributed to the prevalence of loose money in the United States by recycling dollars earned from trade into U.S. bonds, a strategy arising from Beijing's decision to keep China's capital account closed and the yuan not freely convertible.) At the same time, the situation could get considerably worse if attempts to rectify those imbalances are made too quickly or using the wrong methods. Washington is worried about its ability to continue financing public spending at home, and China, because of the U.S. bonds it holds,

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is important to that effort; Beijing is worried about maintaining its exports, growth, and, ultimately, high employment, and the U.S. market is crucial to that. The financial crisis has only raised the stakes of getting the U.S.-Chinese economic relationship right.

The question is how best to engage China. Free trade offers opportunities and choices to businesses and consumers; protectionism limits both. The 1930 Smoot-Hawley tariffs are an unforgettable reminder that it would be especially dangerous in the current environment for President Barack Obama to move away from open trade. And so he must engage China—only he must do so while reorienting U.S.-Chinese trade policy in light of Beijing's lack of interest in discussing issues such as its subsidization of state enterprises and its apparent decision to halt market-oriented reform. Washington should encourage the Chinese to focus on a narrow range of feasible measures. Energy, the environment, and bilateral investment are fine topics for bilateral negotiations, but the agenda should be restructured to emphasize a series of meaningful reforms designed to, for example, liberalize prices, curb state dominance in corporations, shield U.S. companies from mercantilist measures, and allow money to move freely in and out of China. This will be a far more difficult and protracted process than casual calls for the creation of a G-2, or a high-level, informal forum for discussion, suggest. The first step is to understand the true state of the Chinese economy and thus what can be expected of it.

THE VISIBLE HAND

STATE INVOLVEMENT in the Chinese economy is nothing new—it was a feature even during the reforms under Deng Xiaoping. In 1998, in the wake of the Asian financial crisis and while China was making a bid to join the World Trade Organization, President Jiang Zemin and Premier Zhu Rongji understandably sought to boost investment by Chinese state entities. The difference under Hu and Wen in 2002–8 was that their administration relentlessly advanced the state's role in the economy despite the absence of an economic slump. But with the concessions needed to accede to the WTO—for instance, lower tariffs—largely implemented by 2005, the state's more recent advance has effectively forced the market's retreat. It might seem natural under the present

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crisis for the Chinese state to extend its reach into the economy, but it has been doing so for years.

Former U.S. Treasury Secretary Henry Paulson, a perennial optimist, wrote in September 2008 that "China's leaders today are committed to reform, at least so long as it improves the country's political and economic stability." But this is true only if one accepts a very dubious definition of "reform" and ignores overwhelming evidence that reform has stopped. Price liberalization, the core of market reform, has been partly undone. Privatization was stalled at first and then explicitly reversed. Initiatives to increase corporate competition are also being rolled back. The Chinese state is increasingly encroaching on even the relatively open external sector by restricting incoming investments and imposing taxes on exports.

The central government has recently reversed the outstanding progress in the liberalization of prices that China made during the first two decades of reform. The price of labor (wages) remains largely free from government interference, but that is manifestly not the case with the price of capital (the interest rate), for which the People's Bank of China sets a compulsory and narrow range. Government intervention constantly distorts the prices of basic assets, such as land, often by simply forbidding or promoting transactions. The State Council sets and resets the prices for all key services: utilities and health care, education and transportation. Although the exchange rate has been loosened up over the past three years, the People's Bank of China sets the daily value at which the yuan must be traded against the dollar. And currency fluctuation is still starkly limited: the daily movement of the yuan against the dollar is not allowed to exceed 0.5 percent. The market in China has never really determined the sale prices of many ordinary goods by itself, and the tendency over the past few years has been to further extend price controls for goods. The state's complete control over grain distribution has distorted wholesale grain prices; a recent bout of inflation has prompted restrictions on the prices of retail food as well. The energy sector has always been tightly regulated. The government applied price ceilings for coal and oil products, such as gasoline, as global crude-oil prices spiked during the first half of 2008 and then lifted them once prices receded. The newest plan for the energy sector, issued by the State Council in late 2007, reserves the state's absolute right to set prices.

Likewise, although some Chinese state assets were privatized during the reform era, especially during the mid-1990s, liberalization has never been extensive, and in the third decade of reform, it faded. During 2006 alone, the number of individuals who owned businesses fell by 15 percent, to 26 million—a pittance given the country's total population of more than 1.3 billion. The latest official data publicly released show that truly private companies contributed less than ten percent of national tax revenues during the first nine months of 2007 and that the figure dropped in the first part of 2008.

Examining what companies are truly private is important because privatization is often confused with the spreading out of shareholding and the sale of minority stakes. In China, 100 percent state ownership is often diluted by the division of ownership into shares, some of which are made available to nonstate actors, such as foreign companies or other private investors. Nearly two-thirds of the state-owned enterprises and subsidiaries in China have undertaken such changes, leading some foreign observers to relabel these firms as "nonstate" or even "private." But this reclassification is incorrect. The sale of stock does nothing by itself to alter state control: dozens of enterprises are no less state controlled simply because they are listed on foreign stock exchanges. As a practical matter, three-quarters of the roughly 1,500 companies listed as domestic stocks are still state owned.

President Hu and Premier Wen have relentlessly advanced the state's role in the economy.

No matter their shareholding structure, all national corporations in the sectors that make up the core of the Chinese economy are required by law to be owned or controlled by the state. These sectors include power generation and distribution; oil, coal, petrochemicals, and natural gas; telecommunications; armaments; aviation and shipping; machinery and automobile production; information technologies; construction; and the production of iron, steel, and nonferrous metals. The railroads, grain distribution, and insurance are also dominated by the state, even if no official edict says so. In addition, state enterprises draw their top executives from the same pool as does the government. Chinese officials routinely bounce back and forth from corporate to government posts, each time at the behest of the CCP.

Moreover, the state exercises control over most of the rest of the economy through the financial system, especially the banks. By the end of 2008, outstanding loans amounted to almost $5 trillion, and annual loan growth was almost 19 percent and accelerating; lending, in other words, is probably China's principal economic force. The Chinese state owns all the large financial institutions, the People's Bank of China assigns them loan quotas every year, and lending is directed according to the state's priorities.

This system frustrates private borrowers. They might try to raise funds by selling bonds or stocks, but these sales are dominated by the state, too. The volume of bonds issued by the government is more than a dozen times that of bonds issued by corporations; private firms are crowded out. There was a wild bull run on domestic shares in 2006 and 2007 after the government decided to boost the stagnant stock market. But its means of doing so left a huge number of state-owned shares temporarily untradable. With those trading lockups expiring over the course of 2008, a flood of state shares again loomed large over the market, and prices crashed back down to earth. A stock-market rally in early 2009 seemed driven largely by high liquidity; it left the Shanghai Composite Index in late February 66 percent below its peak of October 2007.

REFORM ROLLBACK

One reason the rollback of reform has been overlooked by Washington is that China is officially engaged in a process of restructuring its economy. But this effort has none of the characteristics of market reform. It is aimed at shrinking the number of participants in many industries and expanding the size of the remaining enterprises; through both measures, it will reduce competition. This is not a strategy unique to China: Japan and South Korea have also created so-called national champions, supporting large corporate groups with the idea that their size will make them competitive on the global market. An unspoken corollary of this policy is that private domestic and foreign firms often are prevented from competing with these privileged firms. China has been enamored of the concept of national champions for at least a decade, but even more so since the ascent of Hu and Wen.

The results of this restructuring have been striking. Since the highly publicized contraction of the telecommunications industry from four firms to three, there are now only 17 national enterprises in the oil and petrochemicals, gas, coal, electric power, telecommunications, and tobacco sectors combined. First Aviation Industry and Second Aviation Industry merged; apparently, two firms in that sector was one too many. From cement to retail, all areas are consolidating. Rather than permitting competition to drive down the windfall profits from crude oil and drive out inefficient oil-product suppliers, for example, the National Development and Reform Commission raised taxes on crude for the three state oil giants—which together constitute the entire crude industry—while subsidizing them in the refining sector, where they face small competitors. The state now plays a central role in all oil-related activities in the country.

Economic freedom has also been curtailed by mounting barriers to foreign direct investment (FDI), which began to be erected in late 2005. New FDI transactions began to dry up in 2006 and, save for a few monthly blips, were scarce even before the current economic crisis. Happy official results are distortions. According to government figures, FDI in China rose by more than 13 percent in 2007. The European Union, however, reports that its investment in China plunged from about $7.9 billion in 2006 to about $1.5 billion in 2007. The official FDI figures were driven by funds repatriated by domestic enterprises through Hong Kong and offshore capital centers. And that money was not very productive. The Ministry of Commerce estimated that during the first five months of 2008, total FDI was 55 percent higher than during the same period in the previous year, but investment in fixed assets, where spending has a visible effect, fell four percent over the same period. The increases in FDI in 2008 were largely the result of financial speculation rather than an effort to develop new technologies or create desirable jobs.

This lack of genuine FDI is no accident: Beijing deliberately decided to restrict market access. Its mercantilist tendencies intensified sharply in the fall of 2005, as reflected in the discussion of the sale of minority shares in state banks at the plenary meeting of the CCP's Central Committee. Then, the pathbreaking acquisition in October 2005 of the state-owned Xuzhou Construction Machinery Group by

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the Carlyle Group, a U.S. private equity firm, was reversed. Several sales that had previously been approved were vetoed at the March 2006 meeting of the National People's Congress. Additional industries were designated as "strategic" and thus made off-limits to foreign investors. During the CCP's plenary meeting in the fall of 2006, this limitation morphed into an outright ban on any type of FDI that threatened "economic security"—a concept that was never defined.

Prior to the March 2007 meeting of the National People's Congress, the Ministry of Commerce formalized the requirements for foreign acquisitions, which allowed the ministry to ban any proposed purchase that allegedly harmed either China's economic security or its state assets. The first criterion has the effect of walling off entire sectors of the economy from foreign buyers; the second allows many offers to be rejected as unacceptable. In times when stock prices were soaring, Chinese regulators have said that foreign bids were undervaluing state firms compared to the market. But when share prices have been low, the government has blocked deals on the grounds that the market price was undervaluing state firms. No famous domestic brand can be acquired, and it is the Ministry of Commerce that decides what makes a brand famous—and usually after the offer to buy it has been made. The list of sectors that are regulated in this fashion is even longer than that of sectors the state insists on controlling.

Two recent laws that have been touted as market reforms will in fact place yet more limitations on the activities of foreign companies in China. The new labor law, aimed at enhancing workers' rights, is being implemented by the All-China Federation of Trade Unions, a xenophobic organ of the CCP that has uniformly ignored abusive behavior by state firms while periodically assailing foreign firms for comparatively minor violations. Despite its nominal purpose, the new antimonopoly law will not promote competition either. Designed to protect "the public interest" and promote "the healthy development of the socialist market economy," it forbids firms with dominant market shares from buying or selling goods and services at "unreasonable" prices, but it neither defines a market nor offers any method for identifying what is unreasonable. Most telling, the antimonopoly law contains exceptions for all industries controlled by the state and all industries deemed important to national security. It further requires that proposed acquisitions by foreign investors be subjected to both a review on national security grounds and an antitrust probe. Such screenings exist in many countries, but with the CCP's exceptionally broad definition of "national security," these are exceptionally sweeping. Also distressing, regulators can suspend or limit intellectual property rights if they deem these to have been abused in the service of creating a monopoly. The Chinese state has long considered many patents unfair, but now it has the legal means to act against them. The government can wield the antimonopoly law against foreign companies or governments that seek to protect intellectual property, as did the U.S. government before the WTO in 2007 and the French company Danone against the China Patent and Trademark Office in 2008.

TRADING FACES

The problems regarding trade are less subtle. If China's export trade remains largely open and competitive, its import trade still faces some nontariff barriers intended to protect state prerogatives or shelter vital industries, such as energy and agriculture. And then there is the main point of contention in U.S.-Chinese trade relations—in fact, in the entire economic relationship—the exchange rate. The reason for the issue's contentiousness is its visibility: persistently large trade surpluses for China should push the value of the yuan higher, but this has not occurred because the People's Bank of China fixes the price of the currency. A broad restarting of financial reform in China would have enormous benefits for the United States—one of which would be a looser hold on the exchange rate by Beijing. Merely liberalizing the exchange rate by itself, however, would not necessarily benefit the United States.

After a 2.1 percent revaluation in July 2005, the yuan climbed by 16 percent against the dollar, peaking almost exactly three years later. But over the same period, it fell six percent against the euro. While the yuan stagnated against the dollar during the second half of 2008, it soared against the euro, at one point climbing 14 percent in just a few weeks of October. In other words, the yuan may be undervalued against other major currencies even more so than it is against the dollar. Thus, it is not clear that allowing a wider daily trading band

and calibrating the yuan against a trade-weighted basket of currencies—two stated U.S. goals—would lead to a short-term appreciation of the yuan against the dollar.

An apparent alternative would be for Washington to demand a much larger one-time revaluation to increase the value of the yuan either across the board or against the dollar alone. But this would probably only sidetrack negotiations—and for little benefit. During the first six months of 2005, when the exchange rate was still entirely fixed, the United States ran a $90 billion trade deficit with China. But then, during the first half of 2008, when the yuan neared its peak value against the dollar, the trade deficit exceeded $115 billion. In other words, a more expensive yuan did not prevent the trade imbalance from widening. Although a freer exchange rate is in the United States' interest in the long term because it would dampen trade imbalances, the Obama administration should be careful what it wishes for now.

A more promising approach to U.S.-Chinese trade issues would be to encourage Beijing to liberalize its capital account, which would allow money to move freely in and out of China. (Together with the current account—the balance of exports and imports of goods and services—the capital account makes up most of a country's balance of payments.) It was once assumed that the difficult process of liberalizing China's capital account would occur naturally as the country started complying with the conditions for its accession to the WTO; an open capital account was to be ratified no later than during the 2007 Communist Party Congress. But there has been no progress, and perhaps even a regression, under the Hu-Wen regime. Beijing has showed little interest in allowing multinationals, much less Chinese citizens, to freely send earnings or savings out of the country.

Because capital-account liberalization would allow for the unfettered repatriation of profits, the U.S. business community has long advocated it. But it also offers a less obvious and more important benefit: by forcing financial policy to respond to market behavior, it could considerably reduce state intervention in the Chinese economy. An open capital account would permit capital to exit China, which would constrain the behavior of Chinese banks by draining off some of the guaranteed deposits they now enjoy. That, in turn, would inhibit the type of state-directed lending that has effectively been blocking privatization and subverting competition. Although such liberalization is still far in the future, it is worth pushing for it now.

GROW, GROW, GROW

Market reform has died out in China in part because the country's leaders have pursued GDP growth at the expense of all else. This decision has had its upsides: were it not for China's remarkable economic performance over the past three decades, and especially between 2002 and 2008, the country would not be treated as a major economic player. Although export weakness has been the subject of much gnashing of teeth in Beijing, the trade surplus was at $295 billion for 2008—another annual record on the tail of consecutive monthly surplus records from August through November of that year. According to the Chinese National Bureau of Statistics, between June 2002 and June 2008, China's GDP more than tripled and its exports more than quadrupled. (The nine percent increase in GDP for the whole of 2008 was considered dangerously slow in comparison.) This rapid GDP growth has created jobs: by the end of June 2008, the unemployment rate among registered urban voters was a mere four percent—even lower than the government's ambitious target of 4.5 percent. That figure may understate true joblessness by ignoring rural and unregistered urban employment, but it accurately reflects trends in the broader job situation. So many migrant workers from rural areas were absorbed into the urban labor force that the 20 million such workers reported to have lost their jobs in late 2008 still left well over 100 million rural migrants with jobs in cities. Urban wages have climbed significantly, by 18 percent between 2007 and 2008 (unadjusted for inflation) according to official data. The payoff of the wage increase was a 21 percent growth in retail sales (also unadjusted for inflation) during that period.

Of course, there were some drawbacks to six years of furious expansion. Most visible were food and energy inflation. According to official figures, food inflation peaked at 21 percent in April 2008 and

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energy inflation at a frightening 30 percent in August 2008. Moreover, these official results understated the effects of inflation because price controls on energy have always been in place and were extended to food. Yet even as GDP growth reached and stayed in double digits, job creation surpassed its target, and inflation spiked, fiscal and monetary policies remained intensely expansionist. At the peak of growth, in 2007, monetary policy became increasingly loose, and when GDP growth moderated in 2008, the government rushed to provide fiscal stimulus.

In 2007, inflation-adjusted "real" interest rates began to turn negative—the ultimate sign of a perverse monetary policy—and then became more starkly negative during the first quarter of 2008. The benchmark one-year interest rates set by the People's Bank of China for borrowing and saving remained fixed despite considerable inflation. At the end of June 2008, official consumer price inflation and producer price inflation were both close to eight percent, whereas the return on a one-year deposit was barely four percent. The January 2008 interbank bond yield was 2.81 percent, and after six months of purported monetary contraction, the July 2008 interbank bond yield was 2.76 percent. Before the financial shock, while the growth rate was still in double digits and the rate of inflation was climbing toward double digits, Beijing was trying to stimulate the economy further.

As consumer inflation began to ebb due to the crisis, real interest rates became less distorted. But this happened while the government was further opening the fiscal tap. China's urban fixed investment accelerated sharply, rising by 28 percent in the first three quarters of 2008. Its gain for the year as a whole ended up at 26 percent due to much weaker real estate investment at the end of year. Beijing has been determined to move investment growth higher. "We need to actively boost domestic demand, to maintain steady economic growth," said the economist Wang Tongsan, of the Chinese Academy of Social Sciences, in August 2008. "Investment is an indispensable part of boosting domestic demand." This would have been a reasonable position if the baseline from which domestic demand were to be boosted had not been a GDP growth rate above ten percent and if the means of such boosting had not been urban investment growth, which was already at more than 25 percent.

Washington should urge Beijing to liberalize its capital account, not its exchange rate.

These features suggest that U.S.-Chinese cooperation on energy and environmental concerns may be much more difficult than commonly thought. China wants to protect its environment and shift to cleaner energy sources. But the terrible distortion of its financial system and its excessive investment growth maintain production at levels that consume massive amounts of energy and deplete the environment. And the Chinese leadership is eager to push GDP growth back up to double-digit rates for the sake of creating jobs. In 2007, China began reporting modest increases in energy efficiency and slower rates of degradation in select air- and water-pollution measures. But these have been, and will continue to be, overtaken by economic growth. For example, Beijing has spent lavishly on nuclear, gas, and wind power in an attempt to diversify the country's energy sources and move away from coal, and it has tried to close small coal mines. Yet coal production jumped from 525 million tons in 2002 to a staggering

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1.26 billion tons in 2008. And in August 2008, the State Council emphasized the need for greater annual coal output to support greater industrial production.

GETTING TO YES

WITH CHINA's economic policy largely beyond Washington's reach, the most the Obama administration can control is how to engage the Chinese government. Fortunately, an effective framework for doing this already exists: the Strategic Economic Dialogue (SED), which was created by executive orders by George W. Bush and Hu in September 2006 to complement an increasingly ungainly clutter of high-level bilateral institutions. These include the Joint Commission on Commerce and Trade, which involves the U.S. Department of Commerce, the U.S. trade representative, and China's vice premier for trade; the Joint Commission Meeting on Science and Technology, which involves the director of the U.S. Office of Science and Technology Policy and the Chinese Ministry of Science and Technology; and the Global Issues Forum, led by the U.S. State Department and the Chinese Ministry of Foreign Affairs.

With the world's two largest economies facing so many common and clashing interests on so many issues—trade, investment, energy, the environment, health, and scientific research—such an institutional jumble is only natural. Discussions on traditional economic matters alone require the involvement of the Joint Commission on Commerce and Trade, the Joint Economic Committee, and the Economic Development and Reform Dialogue. This means, on the U.S. side, the involvement of the Departments of Commerce, State, and the Treasury and the trade representative and, on the Chinese side, the involvement of a delegation headed by a vice premier and representatives from the Ministries of Commerce and Finance and the National Development and Reform Commission. Any one issue involves input from several departments: the question of capital-account liberalization, for example, concerns the U.S. Departments of Commerce and the Treasury and the U.S. trade representative as well as the Chinese Ministry of Commerce, the People's Bank of China, and the National Development and Reform Commission.

It is important that the objectives of different departments be coordinated and that a higher authority be able to negotiate across issues that, if taken individually, might seem intractable. This is the proper role of the SED. Even if Obama favors a more direct and aggressive approach toward China than is currently possible with the SED's tangled and ponderous ways, it would be advantageous to be able to raise the stakes of, say, a dialogue on energy policy by holding it within the SED or another institution at a similar level. The SED should be maintained or an equivalent body created.

On the other hand, the U.S. Department of the Treasury should no longer play a leading role in the institution; this undercuts the SED's principal benefits by limiting its reach to that of one cabinet official. The counterpart of a U.S. cabinet secretary is a Chinese cabinet minister, a relatively low position in the CCP hierarchy. Thanks to U.S. efforts, a Chinese vice premier has already become involved in the SED. It would be ideal if the Chinese premier, who heads the State Council and thus all of the relevant bureaucracies, would take the lead in representing China in such discussions. Likewise, the U.S. vice president should be granted real authority to negotiate on behalf of the United States. Short of that, an especially powerful cabinet secretary—from the Treasury, the Commerce, or the State Department—should be given an additional title pertaining to economic policy or China. That would encourage the Chinese government to empower a vice premier to make difficult concessions. U.S. Secretary of State Hillary Clinton is an ideal choice: she is considered by the Chinese not only to hold a relevant position but also to be more than just a cabinet secretary. In contrast, U.S. Treasury Secretary Timothy Geithner does not have with Beijing even the clout that former Treasury Secretary Paulson did, who was considered to be a devotee of the U.S.-Chinese relationship.

SED talks should focus on obtaining from the Chinese leadership an explicit long-term commitment to liberalizing interest rates, exchange rates, and energy prices. This would go some way toward addressing China's underlying economic distortions rather than just a few of their manifestations. Instead of asking an unreceptive audience for sweeping privatization, the Obama administration should pursue more pragmatic and manageable improvements. And it should be forceful in going about this. For example, it should threaten to file complaints with the WTO over the pernicious effects of the Chinese state's dominant role in the economy if the central government does not make transparent its support for state-owned enterprises, especially larger ones.

The Obama administration should also seek from Beijing a formal commitment that it will open state-dominated companies to foreign investors, even if Beijing insists on some limits. Washington should switch its emphasis from getting Beijing to liberalize its exchange rate to convincing it to liberalize its capital account, and Washington should ask Beijing for a full schedule of steps it will take to open its capital account. The U.S. government should also emphasize that the discriminatory application of China's new labor and antimonopoly laws against foreign companies is unacceptable. Only after satisfactory results in these areas are achieved can there be progress toward a bilateral investment treaty.

Some current U.S. objectives fly in the face of Beijing's state-dominated model of development, which the Chinese government has deemed to be very successful. Only modest progress can therefore reasonably be expected for now—or until the flaws of China's model become more apparent to its devotees. The economic crisis might provide convincing enough evidence, but only if it turns out that China's recovery lags behind or depends on that of the United States. In any event, true market-oriented reform in China must remain the United States' ultimate goal, and so the Obama administration must continue to push for the greater liberalization of China's economy. This will be like pulling teeth in the short term but will greatly speed up the process if and when Beijing is again open to market-oriented reform. Protectionism is not the answer. It would harm the United States too much, even if it harmed China more, and it would be a retreat from leadership. The U.S. government must demonstrate its continued leadership by displaying the confidence that it can thrive in competitive environments at home, on the global market, and in China itself.

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State Capitalism Comes of Age

The End of the Free Market?

Ian Bremmer

Across the United States, Europe, and much of the rest of the developed world, the recent wave of state interventionism is meant to lessen the pain of the current global recession and restore ailing economies to health. For the most part, the governments of developed countries do not intend to manage these economies indefinitely. However, an opposing intention lies behind similar interventions in the developing world: there the state's heavy hand in the economy is signaling a strategic rejection of free-market doctrine.

Governments, not private shareholders, already own the world's largest oil companies and control three-quarters of the world's energy reserves. Other companies owned by or aligned with the state enjoy growing market power in major economic sectors in the world's fastest-growing economies. "Sovereign wealth funds," a recently coined term for state-owned investment portfolios, account for one-eighth of global investment, and that figure is rising. These trends are reshaping international politics and the global economy by transferring increasingly large levers of economic power and influence to the central authority of the state. They are fueling the large and complex phenomenon of state capitalism.

Not quite 20 years ago, the situation looked a lot different. After the Soviet Union buckled under the weight of its many internal contradictions, the new Kremlin leadership moved quickly to embrace

Ian Bremmer is President of Eurasia Group. He co-authored *The Fat Tail: The Power of Political Knowledge for Strategic Investing* with Preston Keat.

the Western economic model. The young governments of the former Soviet republics and satellites championed the West's political values and began joining its alliances. Meanwhile, in China, liberal market reforms that had been launched a decade before began to breathe new life into the Chinese Communist Party. Emerging-market powers, such as Brazil, India, Indonesia, South Africa, and Turkey, began deregulating their dormant economies and empowering domestic free enterprise. Across western Europe, waves of privatization washed away state management of many companies and sectors. Trade volumes swelled. The globalization of consumer choice and supply chains, of capital flows and foreign direct investment, of technology and innovation strengthened these trends still further.

But the free-market tide has now receded. In its place has come state capitalism, a system in which the state functions as the leading economic actor and uses markets primarily for political gain. This trend has stoked a new global competition, not between rival political ideologies but between competing economic models. And with the injection of politics into economic decision-making, an entirely different set of winners and losers is emerging.

During the Cold War, the decisions taken by the managers of the Soviet and Chinese command economies had little impact on Western markets. Today's emerging markets had yet to emerge. But now, state officials in Abu Dhabi, Ankara, Beijing, Brasilia, Mexico City, Moscow, and New Delhi make economic decisions—about strategic investments, state ownership, regulation—that resonate across global markets. The challenge posed by this potent brand of state-managed capitalism has been sharpened by the international financial crisis and the global recession. Now, the champions of free trade and open markets have to prove these systems' value to an increasingly skeptical international audience.

This development is not simply a function of the decline in the United States' power and influence relative to those of emerging states. If the governments of these states had chosen to embrace free-market capitalism, the United States' declining share in the world market would have been offset by global gains in efficiency and productivity. But the rise of state capitalism has introduced massive inefficiencies into global markets and injected populist politics into economic decision-making.

PRINCIPAL ACTORS

STATE CAPITALISM has four primary actors: national oil corporations, state-owned enterprises, privately owned national champions, and sovereign wealth funds (SWFS).

When thinking of "big oil," most Americans think first of multinational corporations such as BP, Chevron, ExxonMobil, Shell, or Total. But the 13 largest oil companies in the world, measured by their reserves, are owned and operated by governments—companies such as Saudi Arabia's Saudi Aramco; the National Iranian Oil Company; Petróleos de Venezuela, S.A.; Russia's Gazprom and Rosneft; the China National Petroleum Corporation; Malaysia's Petronas; and Brazil's Petrobras. State-owned companies such as these control more than 75 percent of global oil reserves and production. Some governments, on discovering the leverage that comes with state dominance of energy resources, have expanded their reach over other so-called strategic assets. Privately owned multinationals now produce just ten percent of the world's oil and hold just three percent of its reserves. And in much of the world, they must now manage relations with governments that own and operate their larger and better-funded commercial rivals.

In sectors as diverse as petrochemicals, power generation, mining, iron and steel production, port management and shipping, weapons manufacturing, cars, heavy machinery, telecommunications, and aviation, a growing number of governments are no longer content with simply regulating the market. Instead, they want to use the market to bolster their own domestic political positions. State-owned enterprises help them do this, in part by consolidating whole industrial sectors. Angola's Endiama (diamonds), Azerbaijan's AzerEnerji (electricity generation), Kazakhstan's Kazatomprom (uranium), and Morocco's Office Chérifien des Phosphates—all of these state-owned firms are by far the largest domestic players in their respective sectors. Some state-owned enterprises have grown particularly enormous, most notably Russia's fixed-line-telephone and arms-export monopolies; China's aluminum monopoly, power-transmission duopoly, and major telecommunications companies and airlines; and India's national railway, which is among the world's largest nonmilitary employers, with over 1.4 million employees.

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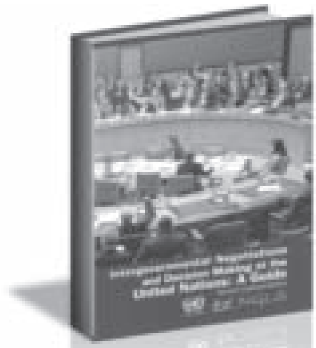

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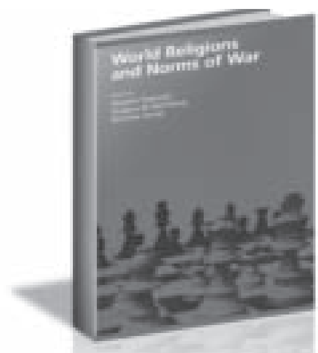

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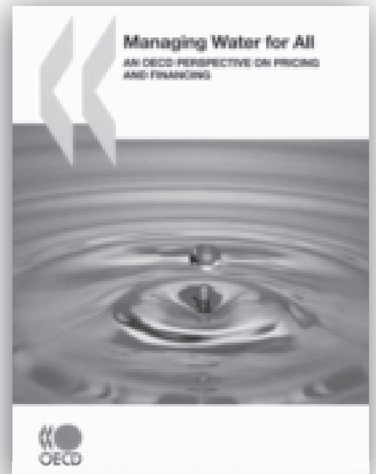

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Is Informal Normal? Towards More and Better Jobs in Developing Countries

ISBN: 978-92-64-05923-8, 163 pp, April 2009

Shoe shine workers in Cairo, street vendors in Calcutta, badly-paid public officials driving their taxis at night in the streets of Moscow: this is informal employment - jobs or activities in the production and marketing of legal goods and services that are not regulated or protected by the state. Over half the non-agricultural jobs in developing and emerging economies come into this category.

The informal sector deprives states of revenues and workers of social protection. It also, however, frequently constitutes the most dynamic part of the economy and creates massive employment. Informal employment is ubiquitous and growing. *Is Informal Normal?* provides evidence for policy makers on how to deal with this issue of crucial importance for developing and developed countries alike.

> *"This volume is an important contribution to the current policy debates on the informal economy. It recommends providing support to the working poor in the informal economy, making formal structures more efficient and flexible and creating more formal jobs."*
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A more recent trend has complicated this phenomenon. In some developing countries, large companies that remain in private hands rely on government patronage in the form of credit, contracts, and subsidies. These privately owned but government-favored national champions get breaks from the government, which sees them as a means of competing with purely commercial foreign rivals, and they are thus able to carve out a dominant role in the domestic economy and in export markets. In turn, these companies use their clout with their governments to gobble up smaller domestic rivals, reinforcing the companies' strength as pillars of state capitalism.

In Russia, any large business must have favorable relations with the state in order to succeed. The national champions are controlled by a small group of oligarchs who are personally in favor with the Kremlin. The companies Norilsk Nickel (mining); Novolipetsk Steel and NMK Holding (metallurgy); and Evraz, SeverStal, and Metalloinvest (steel) fall into this category. In China, the same applies, albeit with a wider, less high-profile ownership base: the AVIC empire (aircraft), Huawei (telecommunications), and Lenovo (computers) have all become state-favored giants run by a small circle of well-connected businesspeople. Variations of the privately owned but government-favored national champions have cropped up elsewhere, including in still relatively free-market economies: Cevital (agroindustries) in Algeria, Vale (mining) in Brazil, Tata (cars, steel, and chemicals) in India, Tnuva (meat and dairy) in Israel, Solidere (construction) in Lebanon, and the San Miguel Corporation (food and beverage) in the Philippines.

If business and politics are closely linked, then domestic instabilities that threaten ruling elites begin to take on greater importance.

The task of financing these companies has fallen in part to SWFs, and this has greatly expanded those funds' size and significance. Governments know they cannot finance their national champions simply by printing more money; inflation would eventually erode the value of their assets. And spending directly from state budgets could leave a shortfall in the future if economic conditions deteriorated. Thus, SWFs have taken on a greater role. They act as repositories for excess foreign currency earned from the export of commodities or manufactured goods. But SWFs are more than just bank accounts. They are state-owned investment funds with mixed portfolios of foreign currencies, government bonds, real estate, precious metals, and direct stakes in—and sometimes majority ownership of—a host of domestic and foreign firms. Like all investment funds, SWFs look to maximize returns. But for state capitalists, these returns can be political as well as economic.

Although SWFs have gained prominence in recent years, they themselves are nothing new. The Kuwait Investment Authority, now the world's fourth-largest SWF, was founded in 1953. But the term "sovereign wealth fund" was first coined in 2005, reflecting a recognition of these funds' growing significance. Since then, several more countries have joined the game: Dubai, Libya, Qatar, South Korea, and Vietnam. The largest SWFs are those in the emirate of Abu Dhabi, Saudi Arabia, and China, with Russia playing catch-up. The only democracy represented among the ten largest SWFs is Norway.

CLOSE TIES

One essential feature of state capitalism is the existence of close ties binding together those who govern a country and those who run its enterprises. Russia's former prime minister, Mikhail Fradkov, is now chair of Gazprom, Russia's natural gas monopoly. Gazprom's former chair, Dmitry Medvedev, is now Russia's president. This client-patron dynamic has brought politics, politicians, and bureaucrats into economic decision-making to an extent not seen since the Cold War. And it is this dynamic that raises several risks for the performance of global markets.

First, commercial decisions are often left to political bureaucrats, who have little experience in efficiently managing commercial operations. Often, their decisions make markets less competitive and, therefore, less productive. But because these enterprises have powerful political patrons and the competitive advantages that come with state subsidies, they pose a great and growing threat to their private-sector rivals.

Second, the motivations behind investment decisions may be political rather than economic. The leadership of the Chinese Communist Party, for example, knows that generating economic prosperity is essential to maintaining political power. It dispatches China's national

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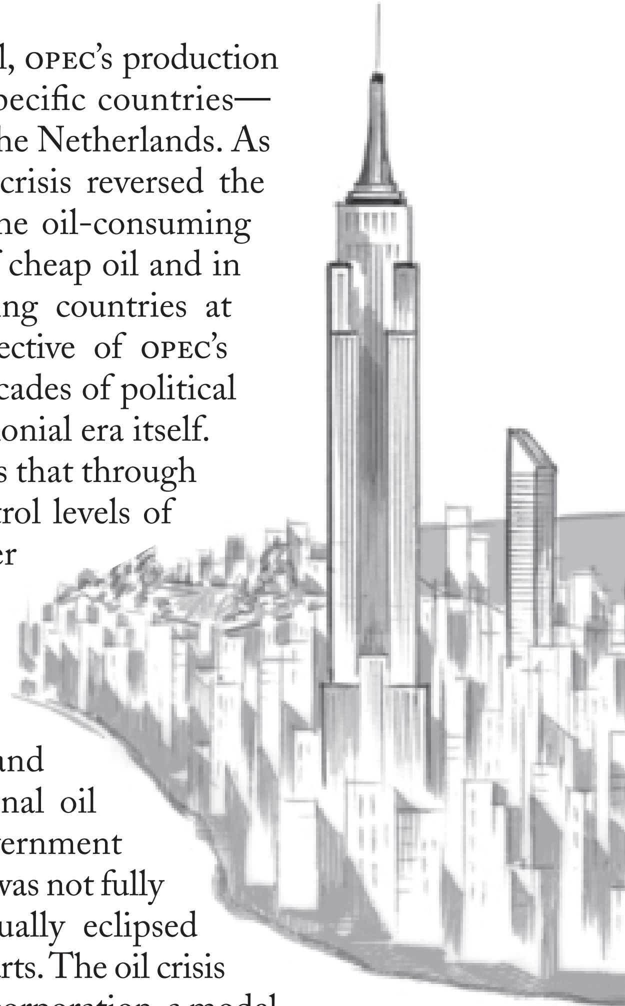
oil corporations abroad to secure the long-term supplies of oil and gas that China needs to fuel its continued expansion. Thanks to state funding, these national oil corporations have more cash to spend than their private-sector competitors—and they pay above-market rates to suppliers to lock in long-term agreements. If the national oil corporations need additional help, the Chinese leadership is able to step in with promises of development loans for the supplier country.

Such behavior distorts the performance of energy markets by increasing the cost that everyone pays for oil and gas. It also deprives privately owned energy multinationals of the additional income they may need for expensive long-term projects, such as deep-sea exploration and production. This slows the development of new hydrocarbon reserves since few state-run oil corporations have the equipment or the engineering expertise needed for this kind of work. State capitalism ultimately adds costs and inefficiencies to production by injecting politics, and often high-level corruption, into the workings of markets.

If business and politics are closely linked, then the domestic instabilities that threaten ruling elites—and, more specifically, their definition of the national interest and their foreign policy goals—begin to take on greater importance for businesses. For outsiders, better understanding these political motivations has become a coping strategy. Many private companies doing business in emerging markets have learned the value of investing more time in closer relations with both the government leaders who award major contracts and the bureaucrats who oversee the legal and regulatory frameworks for their implementation. For multinationals, this expense of time and money might seem like a luxury at a time of global recession, but to protect their overseas investments and market share, they cannot afford to do otherwise.

ENTER THE STATE

STATE CAPITALISM began to take shape during the 1973 oil crisis, when the members of the Organization of the Petroleum Exporting Countries (OPEC) agreed to cut oil production in response to the United States' support of Israel in the Yom Kippur War. Almost overnight, the world's most important commodity became a geopolitical weapon, giving the governments of oil-producing countries unprecedented



international clout. As a political tool, OPEC's production cuts served as embargoes against specific countries—in particular, the United States and the Netherlands. As an economic phenomenon, the oil crisis reversed the previous flow of capital, in which the oil-consuming states bought ever-larger volumes of cheap oil and in turn sold goods to the oil-producing countries at inflationary prices. From the perspective of OPEC's members, the crisis put an end to decades of political and economic impotence and the colonial era itself.

The oil crisis showed oil producers that through unified action, they could both control levels of production and capture a much larger share of the revenues generated by the major Western oil companies. This process proved easier in cases in which national governments could use domestic companies to extract and refine their own oil. In time, national oil companies came under greater government control (Saudi Aramco, for example, was not fully nationalized until 1980) and eventually eclipsed their privately held Western counterparts. The oil crisis gave birth to the modern national oil corporation, a model that has since become widespread and has been applied to the natural gas sector as well.

A second wave of state capitalism began during the 1980s, driven by the rise of developing countries controlled by governments with state-centric values and traditions. At the same time, the collapse of governments that relied on centrally planned economies for growth caused a surge in global demand for entrepreneurial opportunity and liberalized trade. That trend, in turn, sparked rapid growth and industrialization in several developing countries during the 1990s. Brazil, China, India, Mexico, Russia, and Turkey, along with countries in Southeast Asia and many others, moved at different speeds along the path from developing to developed.

Although many of these emerging-market countries had not been part of the communist bloc, they did have histories of heavy state

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involvement in their economies. In some of them, a few major enterprises, often family owned, enjoyed virtual monopolies in strategic sectors. After World War II, Nehru's India, post-Atatürk Turkey, Mexico under the Institutional Revolutionary Party, or PRI, and Brazil under alternating military and nationalist governments never fully subscribed to the capitalist view that only free markets can produce durable prosperity. Political beliefs predisposed these regimes to the idea that certain economic sectors should remain under government management, not least to avoid exploitation by Western capitalists.

When they began to liberalize, these emerging-market countries only partially embraced free-market principles. The political officials and lawmakers who introduced partial reforms had spent their formative years in educational and government institutions that had been created to propagate national values as defined by the state. In most of these countries, economic progress was accompanied by far less transparency and a much weaker rule of law than was the case in established free-market democracies. As a result, it is hardly surprising that the new generation's faith in free-market values has been limited. Given the relative immaturity of their governing institutions, emerging-market states are those in which politics matters at least as much as economic fundamentals for the performance of markets. Rich-world governments once took little notice of them, since these countries had little or no influence in international markets.

New York City used to be the world's financial capital. It no longer is even the financial capital of the United States—Washington is.

A third wave of state capitalism was marked by the rise of SWFs, which by 2005 had begun to challenge Western dominance of global capital flows. These capital reserves were generated by the huge increase in exports from emerging-market countries. Most SWFs continue to be run by government officials, who treat the details of their reserve levels, investments, and management of state assets as something close to a state secret. As a result, it is not clear to what extent these funds' investment and acquisition decisions are influenced by political considerations.

The International Monetary Fund is now leading efforts to mandate higher levels of transparency and consistency in SWFs, but such attempts will enjoy no more success than do most voluntary arrangements. Those SWFs that are especially opaque will remain opaque, and political leaders will continue to run them in order to gain both political and financial returns. As a justification, the funds' managers can point to the avowedly political calls for divestiture from Darfur or Iran by the Western equivalents of SWFs, such as Norway's Government Pension Fund or the California Public Employees' Retirement System.

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A fourth wave of state capitalism has now arrived, hastened by the recent global economic slowdown. But this time, the governments of the world's wealthiest countries, and not just those of emerging-market countries, are the ones intervening in their economies. In the United States, lawmakers have intervened in the economy despite the public's historic mistrust of government and its faith in private enterprise. Australia, Japan, and other free-market heavyweights have followed suit. In Europe, a history of statism and social democracy makes nationalization and bailouts more politically palatable.

Still, the world's leading industrialized powers have not embraced state capitalism without reservations. In the United States and Europe, the power of the invisible hand remains an article of faith. Governments on both sides of the Atlantic know that to maintain popular support, they must keep their promises to return the banking sector and large enterprises to private hands once they have been restored to health. But as long as economic stimulus is at the forefront of political consideration in Washington, across Europe, and in China, India, and Russia, political policymakers will remain at the center of the global financial system. To pump-prime the economy, finance ministries and treasuries will rescue private banks and companies, inject liquidity, and print money simply because no one else can. Central banks, few of which are truly independent, are no longer the lenders of last resort, or even of first resort; they are the only lenders. This development has produced a sudden and important shift in the center of gravity of global financial power.

Until very recently, New York City was the world's financial capital. It no longer is even the financial capital of the United States. That distinction now falls to Washington, where members of Congress and the executive branch make decisions with long-term market impact on a scale not seen since the 1930s. A similar shift of economic responsibility is taking place throughout the world: from Shanghai to Beijing, from Dubai to Abu Dhabi, from Sydney to Canberra, from São Paulo to Brasília, and even in a relatively decentralized India, from Mumbai to New Delhi. And in London, Moscow, and Paris, where finance and politics coexist, there is the same shift occurring toward government.

HIGH STAKES

State capitalist economies are likely to emerge from the global recession with control over an unprecedented level of economic activity, despite having taken large financial hits, along with everybody else, during 2008 and 2009. China and Russia are bailing out both their state-owned enterprises and their private national champions. Both favor consolidating major industries to cut costs. Following the fall in oil prices from $147 a barrel in July 2008 to less than $40 in February 2009, Russia is facing its first budget deficit in a decade. China, a major oil importer and consumer, got some relief from the price drop, but the global slowdown has left the governments of both countries vulnerable to rising unemployment and accompanying social unrest. Both governments have responded, for the most part, by exerting still tighter state control over their economies.

Despite the global recession, SWFs, already major global economic players, are here to stay for the near future. Although their total net value fell from an estimated high of about $4 trillion in 2007 to less than $3 trillion by the end of 2008, this latter figure still approaches the total global holdings in foreign currency of central banks and exceeds the combined assets held by all hedge funds worldwide. SWFs account for about 12 percent of global investment, twice the figure of five years ago. That trajectory is set to continue, and some credible forecasts put their likely value at $15 trillion by 2015.

In short, despite the global financial crisis, national oil companies still control three-quarters of the world's primary strategic resources, state-owned enterprises and privately owned national champions still enjoy substantial competitive advantages over their private-sector rivals, and SWFs are still flush with cash. These companies and institutions are truly too big to fail.

Deeper state intervention in an economy means that bureaucratic waste, inefficiency, and corruption are more likely to hold back growth. These burdens are heavier in an autocratic state, where political officials are freer to make commercial decisions without scrutiny from a free press or politically independent regulatory agencies, courts, or legislators. Nonetheless, the ongoing global recession has undermined international confidence in the free-market model. Whatever the true

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cause of the crisis, the governments of China, Russia, and other states have compelling reasons to blame American-style capitalism for the slowdown. Doing so allows them to avoid responsibility for rising unemployment and falling productivity in their own countries and to defend their commitment to state capitalism, which began long before the onset of the current crisis.

In response, U.S. policymakers must try to sell the value of free markets, even though this is a difficult moment to do so. If Washington turns protectionist and keeps a heavy hand on economic activity for too long, governments and citizens around the world will respond in kind. The stakes are high, because the large-scale injection of populist politics into international commerce and investment will obstruct efforts to revitalize global commerce and reduce future growth. Protectionism begets protectionism, and subsidies beget subsidies. The Doha Round of world trade talks in 2008 failed in part because of the United States' and the European Union's insistence on continued high agricultural tariffs and China's and India's desire to protect both their own farmers and some of their still-nascent industries, which cannot yet compete on their own. The Doha stalemate has already cost hundreds of billions of dollars in potentially increased global trade.

Other protectionist initiatives have begun to weigh on global commerce. China has reinstated tax relief for certain exporters. Russia has limited foreign investment in 42 "strategic sectors" and imposed new duties on imported cars, pork, and poultry. Indonesia has imposed import tariffs and licensing restrictions on over 500 types of foreign products. India has added a 20 percent levy on soybean oil imports. Argentina and Brazil are publicly considering new tariffs on imported textiles and wine. South Korea refuses to drop its trade barriers against U.S. auto imports. France has announced the creation of a state fund to protect domestic companies from foreign takeover.

There is already a push by several countries in different regions to raise tariffs to the maximum levels permitted under the Uruguay Round of the General Agreement on Tariffs and Trade. Comprehensive global agreements and dispute mechanisms are being superseded by a patchwork of about 200 bilateral or regional agreements. (Another 200 or so are in the works.) This fragmentation inhibits global competitiveness, disadvantages consumers, and weakens the multilateral system—all at a time when the global economy needs a new stimulus.

THE ROAD AHEAD

A GROWING NUMBER of Americans have come to believe that globalization moves their jobs to other countries, depresses their wages, and exposes U.S. consumers to shoddy foreign products. By 2012, there is likely to be at least one major U.S. presidential candidate who stands on a neo-isolationist, "Buy American" platform. If U.S. lawmakers are to avoid this protectionist trap, they would do well to relearn the lessons of the 1930 Smoot-Hawley Tariff Act, which raised tariffs on 20,000 imported goods to record levels, prompted retaliation in kind, and thus deepened and lengthened the Great Depression.

The global financial crisis has created an illusion of international unity based on the mistaken fear that everyone is sinking in the same boat. A year ago, the talk in policy circles was of "decoupling," the process by which emerging economies develop a domestic base for growth broad enough to free them from dependence on consumer

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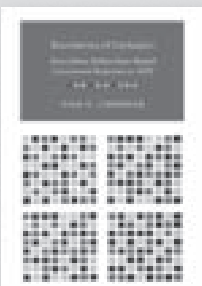

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demand in the United States and Europe. Predictions of decoupling have proved premature. Economic problems originating largely in the United States have forced a hard landing in dozens of developing countries by crushing demand for their exports.

But beneath the surface, decoupling is still apparent in the growing domestic markets of Brazil, China, India, and Russia; in the investments these countries' governments are making abroad; in the regionalization of capital flows; and in the longer-term possibility that the Gulf Cooperation Council, members of the Association of Southeast Asian Nations, and some South American governments will launch viable regional currencies and become more self-sufficient.

The United States can no longer count on strategic partners to buy its debt, as it did on Japan and West Germany in the 1980s. It must now rely on strategic rivals, particularly China, which does not believe that the United States can indefinitely retain its role as the global economic anchor. Hoarding dollar reserves has helped Beijing keep the value of the Chinese currency low, boosting China's exports and generating record trade surpluses. But China's priority now lies in building its domestic market to create a new model of economic growth that depends less on exports to the United States and Europe and more on demand from Chinese consumers. When and if China succeeds, "decoupling" will become a more meaningful term, and China will have less incentive to buy U.S. debt. If fewer countries want U.S. Treasury bills, the interest rate will have to be raised to make them attractive to buyers, and this will mean longer-term U.S. indebtedness. The United States' economic recovery, once it begins, will thus be slower, and the erosion of the dollar's position as the world's reserve currency will accelerate.

> Now is the right time for the United States to welcome new infusions of foreign investment, including from sovereign wealth funds.

The U.S. government might conclude that its power to set and enforce global economic rules is on the wane. It cannot, in any case, have much faith in playing a leadership role in the G-20 (the group of major economies). This forum includes emerging powerhouses, such as China and India, which have been excluded from the G-7 (the group of highly industrialized states), and the natural divergence between their economic interests and those of the developed states will make it difficult to build any consensus on the toughest economic challenges. The problem is amplified by the tendency of politicians, in both the developed and the developing worlds, to design stimulus packages with their constituencies, not the need to correct macroeconomic imbalances, in mind.

In the long term, state capitalism's future will likely prove limited, particularly if it cannot provide even its two leading practitioners with a working model for sustainable economic growth. Managing China's looming social and environmental challenges will ultimately prove beyond the capacity of bureaucrats; they will eventually realize that the free market is more likely to help them feed and house the country's 1.4 billion people and create the 10–12 million new jobs needed each year. In Russia, faced with a declining population and an economy too dependent on the export of oil and gas, policymakers may conclude that future economic prosperity requires renewed free-market reforms. The United States should reassert its commitment to expanding trade both with the European Union (the world's largest and most cohesive free-market bloc) and with growing economic powers, including Brazil, India, South Africa, Turkey, members of the Gulf Cooperation Council, and emerging-market countries in Southeast Asia, not least to ensure that these countries do not creep toward state capitalism, thereby adding to the inefficiencies in the global market and limiting U.S. commercial opportunities.

At the same time, U.S. policymakers should push for new commercial opportunities in state capitalist countries, while also helping U.S. companies active in China, Russia, the Persian Gulf, and elsewhere develop hedging strategies against the risk that market access may be lost to more favored domestic companies. As a model of effective hedging, U.S. multinationals should look to Japan's "China plus one" diversification strategy of investing in other countries in addition to China. Instead of betting too heavily that Chinese markets alone will provide the bulk of their future earnings, U.S. companies should broaden their investment targets to include a range of emerging-market countries across Asia and beyond.

Now is the time for the United States to welcome new infusions of foreign investment, including from SWFs. Some proposed investments already require careful review to ensure that they do not compromise U.S. national security. As long as such a review is genuine, rather than a political effort to discourage foreign investment, it need not dissuade investment proposals. The need to protect their investments will give foreign governments and companies a greater stake in the stability of the U.S. financial system. Mutually assured financial destruction will ensure that state capitalist countries understand that it is also in their interest for the United States to remain economically successful.

Whether free-market capitalism will remain a viable long-term alternative will depend in large measure on what U.S. policymakers do next. Success will depend not just on making good economic policy calls but also on continuing to make the overall U.S. brand compelling. Washington must preserve the United States' huge comparative advantages in hard power—an area in which the United States still outspends China ten to one and outspends all the other states of the world put together—and soft power, which the Obama administration has, so far, improved by enhancing the United States' image worldwide.

State capitalism will not disappear anytime soon. Throwing up walls meant to deny access to U.S. markets will not change that. Instead, profiting from commercial relations with state capitalist countries is in the United States' near-term economic interests. For the sake of the United States' and the world economy's long-term prospects, defending the free market remains an indispensable policy. And there is no substitute for leading by example in promoting free trade, foreign investment, transparency, and open markets, in order to ensure that the free market remains the most powerful and durable alternative to state capitalism.

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Necessity, Choice, and Common Sense

A Policy for a Bewildering World

Leslie H. Gelb

The United States is declining as a nation and a world power, with mostly sighs and shrugs to mark this seismic event. Astonishingly, some people do not appear to realize that the situation is all that serious. A few say it is serious and hopeless. I count myself among those who think it is most serious yet reversible, if Americans are clear-eyed about the causes and courageous about implementing the cures.

The United States is in danger of becoming merely first among major powers and heading to a level somewhere between its current still-exalted position and that of China today. This would be bad news for both the United States and the world. Were this to happen over time, it would leave nations without a leader to sustain world order and help solve international problems. No single country or group of countries, and no international institution, could conceivably replace the United States in this role—and leaders the world over know this well.

The decline starts with weakening fundamentals in the United States. First among them is that the country's economy, infrastructure, public schools, and political system have been allowed to deteriorate.

Leslie H. Gelb is President Emeritus of the Council on Foreign Relations. This essay is adapted from *Power Rules: How Common Sense Can Rescue American Foreign Policy* (HarperCollins, 2009).

The result has been diminished economic strength, a less vital democracy, and a mediocrity of spirit. These conditions are not easy to reverse. A second reason for the decline is how ineffectively the United States has used its international power, thus allowing its own and others' problems to grow and fester. The nation must attend to both issues, the former even more than the latter. Here I address principally foreign policy.

Foreign policy is common sense, not rocket science. But it keeps getting overwhelmed by extravagant principles, nasty politics, and the arrogance of power. These three demons rob officials of choice, which is the core of commonsense policy. In fact, the decision-making drill, although complex in substance, is a relatively straightforward process. Most foreign policy professionals understand it well: find out what is really going on in other countries; figure out the problems and the opportunities, the likely interplay of power, and what can and cannot be accomplished. Of course, professionals will argue among themselves and make mistakes. But both the arguments and the mistakes will be within reasonable bounds, and policy will be adjusted as events evolve. The problem is that Americans have often transformed this sensible procedure into farce, and farce into tragedy.

Time and again, the demons of ideology, politics, and arrogance have come to dominate, or at least exercise disproportionate influence on, governmental and public debate about foreign policy. They are persistent and tormenting forces, not subject to the normal give-and-take. The true believers and the cynics who employ the demons to their advantage are hard to counter with arguments based on reason or fact.

The demons ensnare leaders into thinking about what they supposedly must do, rather than about what they can do. Once the demons grab hold of a policy, American leaders leap skyward, with wild descriptions of threats and assertions of bold and unattainable goals. At these moments, when chasms yawn between rhetoric and reality, U.S. leaders commit their most tragic and costly mistakes—mistakes the country is no longer strong enough to afford.

Common sense tells policymakers not what to think about problems but how to think about them systematically. It is what rescued the nation at critical periods in its history. It is what saved American values from floating off and becoming empty dreams and focused them instead on concrete plans to reconstruct Western Europe and Japan after World War II. It is how the United States won the war in Asia after it lost the battle in Vietnam. It is how the Cold War was won without direct combat. It is hard to imagine any other approach that can possibly fit this new and bewildering world.

A return to pragmatic problem solving will not be easy. Those possessed by the demons are much tougher fighters than the moderates who are constrained by the reasonableness of common sense. But common sense is worth the fight because it offers the best hope for using the United States' substantial power effectively and because power is still the necessary means to solve problems in the international affairs of the twenty-first century.

DECLINE AND CHAOS

The bases of the United States' international power are the country's economic competitiveness and its political cohesion, and there should be little doubt at this point that both are in decline. Many acknowledge and lament faltering parts here and there, but they avoid a frontal stare at the deteriorating whole. It is too depressing to do so, too much for most people to bear. The federal deficit is now projected at $1.75 trillion for fiscal year 2009 and, with the costs of Medicare and Social Security skyrocketing, is likely to get even larger. The federal debt is already staggering: it tops $10 trillion. The United States is now the biggest debtor nation in history, and no nation with a massive debt has ever remained a great power. Its heavy industry has largely disappeared, having moved to foreign competitors, which has cut deeply into its ability to be independent in times of peril. Its public-school students trail their peers in other industrialized countries in math and science. They cannot compete in the global economy. Generations of adult Americans, shockingly, read at a grade-school level and know almost no history, not to mention no geography. They are simply not being educated to become the guardians of a democracy.

These signals of decline have not inspired politicians to put the national good above partisan interests or problem solving above scoring points. Republicans act like rabid attack dogs in and out of power and treat facts like trash. Democrats seem to lack the decisiveness, clarity

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of vision, and toughness necessary to govern. This tableau of domestic political stalemate begs for new leadership. The nation that not so long ago outproduced the rest of the world in arms and consumer goods, the nation lionized and envied for its innovation, can-do spirit, and capacity to accomplish economic miracles, has become overwhelmed by the tasks it once performed competently and with relative ease.

Conditions in many countries around the world have improved considerably, but conditions in many other countries remain woeful and are getting worse. There is now a steady stream of internal conflicts and genocidal bloodlettings, a cascade of failed and failing states, whiffs of renewed nasty competition among great powers, a wildfire of international crime, and worries about worldwide health pandemics, food shortages, environmental disasters, rampant religious extremism, threatening economic depression, and a ceaseless, deadly international terrorist threat.

The world today is an almost unfathomable montage of primitivism amid unprecedented global plenty—of new riches in countries that have been poor for centuries and of great gulfs between rich and poor nations and between the rich and the poor within them. It is as if almost half the world has reverted to a Hobbesian state of nature, in which life is "nasty, brutish, and short," a prestate condition in which tribes devour one another in ritual rivalries. Meanwhile, most countries in the other half, including both mature and budding nations, now have to spend more time and resources restoring their own shaky economies and can do little to help the drowning nations deal with their poverty or insecurity.

The real danger in this universe of primitivism and plenty is not new wars or explosions among major states, or a world war, or even a nuclear war. It is the specter of nations drowning in a flood of terrorism, tribal and religious hatred, lawlessness, poverty, disease, environmental calamities, and governmental incompetence. Many nations are going under because they are simply unable to cope, and they will drag others down with them.

Managing these problems lies beyond the power of the weak and poor states themselves. And these states do not receive much succor from their neighbors or regional organizations. Major powers such as

China, India, and Russia are not ready to lend others a hand, both because they are still evolving themselves and because they lack the tradition of helping those less fortunate. Europe and Japan do help in various ways, consistent with their goal of sustaining their own high standards of living. The United Nations helps with refugees, health care, and the like, but its members do not seem eager to take on additional responsibilities. Nongovernmental organizations heroically make life more bearable for ordinary people in unbearable situations with irredeemable governments.

What is unexpected and tragic is that the drownings are multiplying at the very moment that the United States is declining—when the one nation most likely and most able to help them cannot do as much as it has done in the past. The tragedies are taking place when the United States cannot prevent them with new Marshall Plans and new NATOs.

CONFRONTING THE DEMONS

AFTER CONFRONTING the reality of the United States' declining power, the next step toward redeeming the nation is to acknowledge and confront the destructiveness of its domestic demons: principles, politics, and arrogance.

Everyone wants to be on the side of advancing freedom and democracy and combating communism and terrorism. But that desire opens the floodgates to setting unachievable objectives. No presidential appointee wants to be accused of offering proposals that are perceived as weak or that will risk losing the next election for the president or his party. And no civilian feels comfortable telling the U.S. military that it cannot do the job (especially when the military itself is loath to admit any shortcomings). Even when the demons do not win arguments outright, they triumph in fixing the direction of policy or in eliminating viable alternatives. Everyone is aware that how people behave in these demon-driven situations determines how they will be portrayed—as liberals, wimps, not team players, loose cannons—and that these characterizations usually last forever. Few have been punished in the government job market for being a conservative or a hawk. People do not like to talk about this, but it is the constant, private lament of Washington's professionals.

The demons are both a blessing and a curse. Ideology serves both to ennoble American causes and to produce excesses. There is a fine line between promoting democracy in Egypt, for example, and pushing leaders of that nation toward offering unrealistic and unwise political concessions to extremists. Politics is at once integral to the democratic process in the United States and the cause of politicians' acting against the national interest in order to win or stay in public office. Although acting with confidence is good, it must fall short of the arrogant belief that one can do anything regardless of realities.

It takes courage to question whether another country is ready for democracy and whether Washington is pushing it too hard. Doing so exposes the questioner to charges of callous indifference to American ideals and disrespect for foreign cultures. The same problem applies to any set of principles that is elevated to dogma, including anticommunism, antiterrorism, realism, and globalization. These all lead to exaggerated goals and truncated means. They all divide the world into black and white, inhibiting the drawing of subtle and serious distinctions.

Whereas principles are waved around flagrantly, politics in foreign policy is more like the proverbial elephant in the room—the overwhelming presence that everyone pretends not to notice. It is there, and everyone is calibrating its effects. But mentioning it is taboo. No one wants to bring profane domestic politics onto the sacred turf of national security. Retired senior officials rarely even touch on the subject in their memoirs. Politics comes out into the open only in regard to nonsecurity matters, such as trade or immigration, which are generally recognized to be political.

A terrible price paid for this silence is that the crucial political calculations made about the political viability of a policy are never seriously examined. Participants in the debate generally make their own private assessments of the politics and build these into their policy recommendations. None of these judgments gets examined, and the consensus almost invariably points toward toughening the policy in question, but often without persuasive reasons for doing so. Few are willing to appear to be not tough enough and risk not being invited to the next meeting. This silence also opens the door to exaggerating threats to justify the bolder counterthreats.

Along with principles and politics, the arrogance of power—the runaway confidence Americans have that they can do anything they put their minds to—also attends these meetings. Self-confidence in the face of challenges is a boon. But embracing unfavorable odds without the wherewithal to overcome them is hubris. No official wants to say that the United States cannot do something. A military officer risks his career if he points out that the forces approved by the secretary of defense are inadequate to the mission. He opens himself to the charge of lacking a can-do spirit. Ambassadors hesitate to argue against a demand by Washington for them to do some table-thumping abroad; doing so would cast doubt on whether they have the stomach for the job. Being weak is punished. Being tough and failing is not.

In a sense, Americans are driven to excess by the very qualities that make them so special: their self-confidence and their impulse to help others achieve a better and freer life. But these potent instincts also allow the extremists in their midst to carry them away, to exaggerate the threats they face, to override sensible limits, and to narrow debate. The United States' demons permit the extremists to ignore complexities and reduce arguments to powerful simplicities. These simplicities—good versus evil and toughness versus weakness—then play into the larger political arena, into the media's penchant for black-and-white drama, and into the U.S. Congress' impulse to score points. For most of the last half century, these demons have prevailed in the internal battles over U.S. foreign policy.

HISTORY'S LESSONS

An examination of the Cold War shows just how much damage the demons have caused. To be sure, there were impressive successes, such as President Harry Truman's phalanx of productive international institutions, President Richard Nixon's diplomatic triumphs around the world, and President George H. W. Bush's deft handling of the conclusion to the Cold War. But these were overshadowed by many costly mistakes.

In the 1950s, Secretary of State John Foster Dulles persisted with his public theme of "rolling back" the Soviet empire in Eastern Europe and stirred its captive peoples toward hopeless revolutions, even though he understood that President Dwight Eisenhower would never risk a world war for any of their causes. He was driven by his righteous anticommunism, which to him justified any cost.

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President John F. Kennedy sent a few thousand Cuban expatriates to hell in the Bay of Pigs in 1961, even though no one could explain to him beforehand how the mission could possibly succeed without the U.S. air cover he refused to provide. But he feared that if he called off the operations, Republicans would accuse him of wimping out. He was prepared to sacrifice the lives of the Cuban invaders for his own political reputation.

Presidents Kennedy and Lyndon Johnson warred in Vietnam based on the rationale that they were preventing the Sino-Soviet communist monolith from conquering first Asia and then the world. But from the late 1950s on, U.S. intelligence had firm evidence that no such monolith existed. In fact, the CIA knew that there had been a highly exploitable Sino-Soviet split. The two Democratic presidents and Nixon were all driven by anticommunism, fear of the political consequences of losing a war, and hubris about the United States' strengths.

After the Arab oil boycott in 1973 and its clear demonstration of the United States' dependence on a critical commodity from the world's most volatile region, Nixon and Secretary of State Henry Kissinger were sufficiently alarmed to create the position of "energy czar" and hold a conference on energy supplies. But subsequently, neither they nor their successors did anything about that dependence, fearing the political costs of the extra taxes that would have been required. The price of that inaction has been two wars, costly defense budgets, and enormous outflows of U.S. wealth.

President Jimmy Carter committed the blunder of thinking and stressing at the outset of his administration that the war on "isms" was over, despite increasing evidence that the Soviet Union was becoming more, rather than less, assertive. Carter was so convinced that the United States' anticommunist ideology had been the major cause of crucial U.S. policy errors that he concocted a naive counter-ideology that weakened U.S. power and policy everywhere, as did his incredible passivity when Iranian militants held 52 Americans hostage for 444 days. Carter was an unusual, if not unique, case of a president driven by a pacifist ideology.

President Ronald Reagan rightly helped the mujahideen oust Soviet forces from Afghanistan but was so fixated on anticommunism that he completely missed the new terrorist threat there. And he missed it again in 1983 after an attack killed 241 U.S. servicemen in Lebanon. The terrorists surely got the message that he did not want to tangle with them. Reagan was heading into difficult political winds and wanted to avoid a popular backlash over further loss of American lives. And what but crazed anticommunism could have led to the Iran-contra affair: trading arms to Iran for American hostages in order to produce illegal monies to fund anticommunist contras in Nicaragua? His own adviser told him this was an "impeachable offense."

President George H. W. Bush, for all his sophistication in orchestrating the demise of the Soviet empire and other ventures, committed serious errors of his own in the name of a realist foreign policy. First, he sided with Iraq's Saddam Hussein against Iran by providing him with arms and intelligence, just as Reagan had. Then, he looked the other way when Saddam began to threaten Kuwait. The U.S. ambassador to Iraq at that time, April Glaspie, even went so far as to tell Saddam, "We have no opinion on the Arab-Arab conflicts." Saddam surely took this as a green light to invade Kuwait. A hard line from Bush almost certainly would have stopped Saddam in his tracks. Bush's mistakes all appear to have stemmed from an excessive devotion to an ideology of realism that undervalued values and overvalued Saddam's importance to the United States in containing Iran. Bush also essentially gave the green light to Serbian ethnic cleansing in Bosnia and Croatia when he went along with Secretary of State James Baker's line that Americans did not "have a dog in this fight." Stopping genocide did not square with Bush's realist conception of the national interest.

> An examination of the Cold War shows just how much damage the United States' demons—principles, politics, and arrogance—have caused.

The list of President Bill Clinton's mistakes includes hesitation, backtracking, and inaction—the quintessential sins of liberal politicians. At the start of his first term, Clinton seemed to operate on the erroneous assumption that he did not need a foreign policy in the post–Cold War world, that domestic and economic policies would suffice. He promised to end the genocide in Bosnia during his first presidential campaign but then dallied for three years before acting. He tarried again before taking military action in Kosovo. But the worst, as Clinton admits, was his inaction in the face of the Rwandan genocide. Not only did he reject the Pentagon's modest plan to set up a safety zone on Rwanda's border, but he and his team also opposed sending additional UN troops. And he was plainly in search of domestic political redemption in his grossly overeager attempts to conclude major agreements with Yasir Arafat and Kim Jong Il in the last days of his administration. Throughout his years in office, Clinton did not care much about what was going on overseas so long as he felt the American people did not care either. He was not going to get out front and expose himself politically.

As for President George W. Bush, he rushed blindly into the Iraq war without hard evidence and fought it for years without a clue—no information, no plans, just prideful boasting. He ignored an abundance of advice about these problems, all the while rejecting serious diplomacy. He frequently threatened Iran and North Korea, calling on them to halt their nuclear programs or else—only to retreat at every turn. He ignored expert advice that his threats would fall on deaf ears. Now, Pyongyang has nuclear weapons, and Iran may not be far behind. Bush was captive to his own version of a new antiterrorist ideology, his utter devotion to the ultraright's mania for military force, and national arrogance, which he came to embody.

UNHAPPY TRUTHS

The United States' demons seem primed to haunt the country for the second decade of the twenty-first century. One can almost sense their giddy anticipation as they hear what U.S. leaders, Democrats and Republicans alike, have said about Afghanistan, Russia's military moves on Georgia, and other matters.

Several unhappy truths can be predicted about Afghanistan: Both Democrats and Republicans will continue to favor increasing U.S. troop levels and other commitments there, because the country could become home again to a dangerous al Qaeda and because doing so would be another reason to remove troops from Iraq. But even with greater efforts in Afghanistan, the situation will probably continue to deteriorate. The British and Soviet armies could tell the United States a thing or two about fighting in that country—and losing. In the end, the Afghans will determine their own fate.

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Fighting the Taliban and al Qaeda, the villains of 9/11, remains a popular endeavor among Americans, and this popularity drives U.S. strategic thinking to such an extent that the fight has become dogma. The chorus now consistently sings this memorable line: there is no alternative but winning in Afghanistan and preventing these terrorists' return to power. Although meeting that objective would be good, the underlying realities are that the Western-backed government in Kabul is corrupt and cannot run a country, much less a war, and that the Taliban still have a substantial following and know how to fight.

Piling up U.S. commitments in Afghanistan promises only a slight chance of success there. That fact should send U.S. leaders into an active search for alternative policies. There is talk of a strategy called "surge and negotiate," which would involve increasing the United States' military punch and then offering compromises to the enemy. That approach needs to be fleshed out to give Washington a decent chance of forging a political settlement with its adversaries and of developing a strategy to deal with terrorists should the compromises fall through. The British used a divide-and-conquer technique to try to separate their opponents and turn them against one another. This technique has a good record: no group is monolithic, and all are able to be split to a certain degree, especially if strong economic incentives are offered to those who behave well.

But the overall approach needs something more, something on the military side in the event that international terrorists once again start using Afghan territory as a base. In this case, a strategy of deterrence should not be excluded. The United States has the military capability to do great damage to anyone in Afghanistan who intends harm to U.S. forces or U.S. allies. Afghan poppy fields can be destroyed, and operations can be conducted against terrorist leaders and headquarters without reoccupying the country. President Barack Obama would do well to demonstrate early on in his administration a great capability to punish.

After the Russians occupied the provinces of Abkhazia and South Ossetia and other parts of Georgia in the summer of 2008, U.S. and European political leaders outdid themselves in issuing vague warnings that Moscow should back off—but they never threatened military action or a boycott of Russian oil and gas. The threats were of no more

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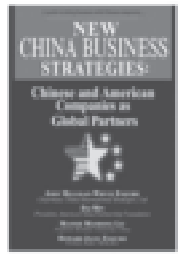

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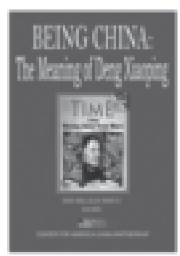

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than wrist slaps: keeping Russia out of the World Trade Organization, dumping it from the G-8, suspending its membership in various for-show NATO groups. Russian leaders eventually removed their troops from undisputed Georgian territory, but the rhetoric on both sides pointed toward overreach and trouble.

The demons create ideological and political necessities, and necessity admits of no serious discussion. Necessity transformed centuries of Vietnamese culture and history into a supposedly manageable square on the strategic chessboard and made victory in Iraq look as easy as the conquest of Panama. Necessity leads presidents and their advisers to establish dangerously unachievable goals that greatly exceed the country's power, that may or may not represent the wishes of the people they are intended to help, and that justify engulfing the United States in quagmires from which arrogance alone promises to extract it.

Defeating Hitler and Hirohito in World War II was a true necessity, but how best the United States could do this was up for debate. Containing Soviet communism was also a true necessity, but the places and the means should have been debated and often were not. Defeating terrorists is a new true necessity, but how to distinguish among them and combat them needs to be freely examined.

SCHOOLS OF THOUGHT

The core problem is not American democracy or American ideals or American power. It is Americans themselves. In part, leading Democrats and Republicans mishandle the politics of U.S. foreign policy. Most Democrats adhere to fundamental liberal beliefs about the value of negotiations and cooperation with other states. At the same time, however, they calculate that this will sound too soft to mainstream Americans. As a result, they seem to be torn between their beliefs and their politics, and they create the impression that they were for something before they were against it and against it before they were for it. Democrats convey uncertainty about what they will do; the public senses this and then loses confidence in how they will manage national security.

By contrast, the Republicans exude nothing but conviction about the virtues of being aggressive, standing up to any possible adversary, and painting the world in simple black and white. They are forever proclaiming that they will never allow the United States to be pushed around in the world. And although Republicans have little regard for careful formulations of problems and difficulties, and the public senses this as well, mainstream Americans appear to like the Republicans' conviction. Thus, the American public has more confidence in the GOP than in the Democratic Party when it comes to international affairs.

In part, the moderates are reluctant to fight for the reasonable portrayal of problems and what can be done about them. The moderates know that good policy requires an open and honest review of the facts. They know that the effective use of power requires being able to push a range of buttons until some are found to work. Yet they do not fight for choice.

Most foreign policy experts are pushing for a new grand strategy to replace the old strategy of containment. They are disposed toward big ideas and toward wedging all the pieces of a problem snugly together into one big, neat theory. They are not enamored of loose ends or unintended consequences, which call their expertise into question. To their credit, most contribute valuable perspective and insights, although not without drawbacks.

The neoconservatives rightly remind Americans that irredeemable and irreconcilable evil is out there. But then they paint almost all foreign opponents (and some domestic ones as well) with a similar brush. They see past enemies, such as China and Russia, as future enemies as well. And they portray the United States' allies, particularly the European ones, as mostly worthless: lacking any military power and averse to the use of force.

The reality is that the neoconservatives will never be happy unless they are promoting some form of ideological warfare. Some of them argue that instead of the old ideological clash between democracy and communism, there is a new one: between democracy and autocracy—the United States versus China and Russia. But the leaders of China and Russia are not going around the world proselytizing for their forms of government today the way their communist predecessors did. Rather, Moscow is playing its old power games by trying to muscle its neighbors, but this time mostly with economic rather than military power. At this point, China's leaders are interested almost solely in protecting themselves from domestic threats. The only preaching being done by these two autocracies is against the United States' "unilateralism," and they do this to give themselves some elbowroom for pursuing their own limited global concerns. If there is anything approaching an ideological battle in the world today, it is between what other states perceive as U.S. unilateralism and their own new sense of entitlement.

The realists, comfortable with power, rightly remind Washington to focus on the United States' vital interests rather than take on all the world's problems. But they are often too impressed by power per se. Many of them were too eager to embrace Saddam, for all his sins and unpredictability, as a counterweight to Iran. Many now are eager to excuse the rough behavior of China and Russia as merely what big dictatorial nations do. And they have not paid much attention to how to use U.S. power with failed or failing states or to address new transnational issues, such as the environment. The realists continue to chafe at the value of values and the U.S. president's need to espouse them to sustain his foreign policy at home. Their realism is sometimes actually not realistic enough, and when it is not, the realists overlook both policy choices and policy areas that call for the application of power.

> The core problem is not American democracy or American ideals or American power. It is Americans themselves.

The liberal internationalists still exist today as an important element within the Democratic Party. Their most impressive contribution has been to keep reminding Washington of the need to cooperate with allies and negotiate with adversaries in almost all instances. But since the Vietnam War, they have been calling for new international institutions without being specific or practical about them, and they have been drifting toward softer and more unrealistic definitions of power. Formulating a strategy is difficult for them because it is mainly a call for more negotiations and more multilateral diplomacy and less reliance on military power and force. To complicate matters further, when they come under great political pressure, many of them appear to abandon these principles and become war hawks themselves, as happened when the decision to invade Iraq was being debated.

Interestingly, some of the liberal Democrats have joined with the neoconservatives to form a new group that advocates a concert of democracies, or some kind of institutional alliance to consolidate like-minded democracies. That sounds like a helpful project, and it might even be one, if its advocates would demonstrate how they propose to corral the world's hundred or more democracies. Besides, they make little room in their concert for China and Russia, which are not democracies but matter more than, say, Botswana, Costa Rica, Peru, or Mauritius when it comes to diplomatic coalitions and power.

Then, of course, there are the globalizers, who, to their credit, bear witness to the new centrality of economics, which the national-security-oriented foreign policy clan traditionally ignores—out of ignorance. But the globalizers still tend to overplay their hand by suggesting that economics will bring peace and democracy. Notoriously, they scant diplomatic and military choices.

ENDS AND MEANS

Only a foreign policy grounded in common sense can rescue the United States. Such a policy would not turn on inflated great-power conflicts or the imagined absence of power conflicts, and it would appreciate the diversity of the twenty-first-century world. A commonsense policy, however, does not mean a seat-of-the-pants or ad hoc policy. It means an approach that allows leaders to examine each situation on its own merits and link it to others when linking is justified by evidence and reason. Nor would such a policy be rudderless; indeed, common sense insists that policy be grounded in strategy, priorities, and clear direction. Common sense also allows strategy, priorities, and direction to be treated as guidelines, not straitjackets.

In contrast to all general policies, a commonsense policy would indeed be untidy, but its positive attributes would be indisputable. It would comport with an untidy world and not weed out facts that do not fit the guiding theory. It would offer most policy choices a fair hearing. It would also accommodate American ideals, stressing achievability rather than posturing or threats. Common sense does not preclude flexing one's military muscle or using military force; deterrence, containment, and punishment remain crucial. But before the cannon fire begins, common sense demands a strict accounting of the alternatives and of the probable consequences. A commonsense policy would focus on diplomatic and economic power but keep military power ever in the background as the principal means of pressuring other nations and solving problems.

These days, devising a commonsense U.S. foreign policy boils down to following five guidelines. First, make the United States strong again by restoring its economic dynamism and pragmatic, can-do spirit. U.S. resources and the United States' will to help the world are the ultimate bases of the nation's international power. If these deteriorate, its power abroad will shrink. To prevent this shrinkage will require giving far higher priority to energy independence, physical and human infrastructure, and homeland security. Unless weaknesses in these areas are reversed, even the most clever U.S. policies will fail.

Second, understand clearly that mutual indispensability is the fundamental operating principle for power in the twenty-first century—meaning that the United States is the indispensable leader but needs equally indispensable partners to succeed. The aim here is not foolish multilateralism but the creation of small and ad hoc power coalitions to solve particular problems.

Third, focus U.S. policy and the power coalitions that must be forged on addressing the greatest threats—terrorism, economic crises, nuclear proliferation, climate change, and global pandemics—and then just mind other threats as best one can. Policy and power cannot work without clearly set priorities, which are forever preached about but usually ignored.

Fourth, remember that international power works best against problems before, rather than after, they mature. This suggests the need to develop power coalitions early on to combat agreed-on and foreseeable threats. It is fashionable to argue that power fares best in crises. That may be true in domestic affairs, but when it comes to international affairs, nations become so entrenched in their positions during hard times that in such moments war has historically been more likely than peace.

Fifth, realize that although the essence of power remains pressure and coercion based on a state's resources and international position, in other respects power is not what it used to be. The strong cannot expect to command the weak as in the past; the weak now can resist, and do. Traditional power does not work very well against today's problems, because these exist mostly within nations rather than between them. They are harder for power to reach or isolate. Power today must focus more on riding economic and diplomatic tides than on initiating military storms. This, in turn, means that power will work more slowly now than before. A premium must be placed on patience.

These realist and commonsense principles are not self-executing. They have to be fought for in the policy and political arenas, where the demons and their handlers have long presided. But moderate political leaders and moderate policy experts can pick up the cudgel of common sense, and win. Although some Americans have become addicted to extremism, most can be weaned away from this by their leaders' emphasizing the practicality of common sense.

Yes, questions arising from basic common sense get squelched for fear of political retribution and because public debate in the United States has become overwhelmed by declarations of American principles and affirmations of U.S. military might. But they get crushed mainly because moderates simply do not fight. Will it require an unmitigated disaster to wake Americans up? And even then, will liberals and conservatives just continue to devour each other?

Every great nation or empire ultimately rots from within. One can already see the United States, that precious guarantor of liberty and security, beginning to decline in its leadership, institutions, and physical and human infrastructure, heading on the path to becoming just another great power, a nation barely worth fearing or following. It is time to send up flares signaling that the United States is losing its way and its power, that it is in trouble. But it is even more important to reaffirm the belief that the United States is worth fighting for both across the oceans and at home. There should be no doubt that the United States, alone among nations, can provide the leadership to solve the problems that will otherwise engulf the world. And for all the country's faults, there should be no doubt that it remains the last best chance to create equal opportunity, hope, and freedom. But to restore all that is good and special about the United States, to rescue its power to solve problems, will require something that has not happened in a long time: that pragmatists, realists, and moderates unite and fight for their country.

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> "By 2020 we will be one of the world's 20 leading economies. It is the right moment in history to come to Nigeria and Africa."
>
> **Ojo Maduekwe**
> Minister of Foreign Affairs

Nigeria

THE NEXT 10 YEARS

» How can Africa's most promising nation deliver on its future? A seven-point plan should catalyze Nigeria's economic evolution.

When hopes are high, living up to expectations is not always easy, especially when a major financial crisis engulfs the world's markets: no nation is left unaffected. Adaptability and resilience are put to the test, and the ability to reform and transform will determine who is most likely to weather the storm.

A short look back at Nigeria's recent history shows how a considerable oil boom in the 1970s accelerated development. With it, however, came widespread corruption, resulting in thirty years of military juntas and coups. Civilian rule eventually returned on the eve of the new millennium, when Olusegun Obasanjo took office in 1999. By the time Umaru Musa Yar'Adua was elected president in 2007, the country had set its sights on the goal of democracy, and on improving the lives of the Nigerian people, particularly those in regions outside of the oil-rich Niger Delta.

"With efforts being made to improve the political and electoral processes, our democracy has definitely opened up," says Mansur Ahmed, director general of the Nigerian Economic Summit Group (NESG). "Secondly, in terms of overall economic policy and fiscal prudence, we have had tremendous improvement over the past five years. With President Yar'Adua's commitment, we believe that this is going to keep improving."

Arguably Nigeria's greatest macroeconomic achievement has been the sharp reduction of its external debt, which declined from 36 percent of GDP in 2004 to less than four percent in 2007. Favorable crude oil prices enabled Nigeria to clear its debts with the Paris Club of lenders who, impressed with economic programs implemented since 2003, wrote off another $18 billion. Infrastructural spending opened up, and a whole new vision of the future took shape, one shared by the entire nation.

"We are at the cusp of such a new era," observes H. Odein Ajumogobia, federal minister of state for energy (petroleum). "When this administration came in on May 29, 2007, the president declared a seven-point agenda, underpinning a new ethos in terms of the rule of law, which is critical for people to have confidence. All of us, the ministries and departments, are clearly focused on ensuring the due processes are followed. The world today is knocking on our door and it is for us to create the environment for people to come in."

Nigeria has realized that in order to move forward it will need to not only embrace foreign investment, but also ensure that the imported knowledge is transferred to its own businesses. Already local private companies are establishing a vibrant market for information and communication technologies, real estate, power generation, and agriculture, heralding the emergence of African innovation.

"Goldman Sachs said that if Nigeria continued to do what it started in 1999, within twenty years we would be one of the world's twenty leading economies," explains Minister of Foreign Affairs Ojo Maduekwe. "On top of that, we are about 140 million people, English speaking, vibrant, and dynamic. It is the right moment in history to come to Nigeria and Africa."

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NIGERIA'S ECONOMIC FRONTRUNNER

The fact that Nigeria today is in a position where it can confidently set development targets ten years ahead has a lot do with its number one income earner: oil. Nigeria's oil sector provides 20 percent of the country's GDP, 95 percent of foreign exchange earnings, and approximately 80 percent of budgetary revenues. But before Nigeria can attain its global ambitions by 2020, it will need to face some difficult domestic realities.

Nigeria's Ministry of Energy reports oil reserves in the Niger Delta region of around 35 billion barrels as well as 197 trillion cubic meters of gas. But for a nation rich in fossil fuels, Nigeria has a paradoxical poverty in energy generation and distribution; it's current capacity of around 5,000 MW is way below demand, while many regions remain completely without electricity. A target has been set to increase access to 50 percent of the population by 2010.

Minister Ajumogobia points out the complexities in bridging that gap for an emerging African country. "Our job as a government is to try and improve the well-being of our people, while the priority of the oil companies is to make profits." Minister Ajumogobia says he doesn't see those objectives as necessarily being misaligned, and through a dialogue with its partners, Nigeria hopes to reach a good compromise. "Western nations are talking about clean energy and carbon emissions, but first and foremost we want our people to have energy, and gas is obviously abundant. Commercially speaking, the export of liquefied natural gas (LNG) is more attractive than supplying domestically, but we want gas to be deployed to every part of the country."

> "We can create something very positive. We need to focus our energies on adding value to our natural resources in an environmentally friendly way."
>
> **H. Odein Ajumogobia**
>
> Minister of State for Energy (Petroleum)

As the leading producer of crude oil and natural gas, Delta State is at the heart of Nigeria's economic drive. But even after almost half a century of exploration and production, basic access to education, infrastructure, and food is still lacking. However, Delta State's current governor, Dr. Emmanuel Uduaghan, is now pursuing a sincere and realistic solution that aims at strengthening the agricultural sector. About 80 percent of the state's active labor force is engaged in farming, fishing, and hunting. Uduaghan has pledged his commitment to build a state that can survive without oil. More focus is being placed on Delta State's youth, who through training programs are being encouraged to enter into various aspects of agriculture, including poultry, fishery, and crop rearing.

"These trained youth, together with the current farmers, will increase agricultural production," foresees Uduaghan, adding that it will take them up to and beyond food sufficiency. "We are trying to attract investors to our community-friendly sectors through our one-stop shop, the Delta State Integrated Development Agency (DIDA). We have set up a structure that will make it easier for them to acquire land and can assist in the registration of companies."

Delta State is also now developing a supportive infrastructure encompassing deep seaports, expanded airports for increased cargo shipping, and roads, all measures geared toward enhancing the quality of life for citizens of Delta State.

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SEA TRUCKS GROUP

>> BUILDING THE FUTURE OF OFFSHORE EXPLORATION & PRODUCTION

As Nigeria explores and produces oil further from its shores, getting equipment down to almost two miles below sea level is a new challenge. Fortunately a company that has been servicing the industry for over thirty-five years is building brand new vessels that can live up to any kind of demand. The Sea Trucks Group is expanding not only its fleet, with seven new "DP3 hybrid" offshore marine construction vessels (three have been completed; the remainder are set for delivery in 2009–2010), but also its supply base and fabrication facilities in West Africa, and 20 acres of waterfront premises at the Hamriyah Free Zone in Sharjah, United Arab Emirates.

"Our focus for the next couple of years is going to be deepwater development, 200 miles from the coast, where in fact the whole Nigerian market is focusing," explains Jacques J. Roomans of Sea Trucks. "Four of our new vessels can work at those depths, something no one else in Africa can do." Despite the global economic downturn, Sea Trucks has been maintaining a good track record of contracts, attributable to the company's established projects and good reputation. Roomans believes that five of the new vessels, all of which will be completed by 2011 at shipyards in Singapore and China, could be employed on a permanent basis on the west coast of Africa.

"These new hybrid Jascon vessels can install rigid pipelines, flexible pipes, as well as umbilicals, perform deep water installation, well intervention, they can do everything," boasts Roomans. Exporting this experience to Southeast Asia as well as Australia and Europe, Sea Trucks constitutes a Nigerian company making a difference around the world. And with Seastream, its recent joint venture with Wellstream International, the company paves the seabed for more piping-hot deals, from Latin America all the way to Asia.

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FINANCING NIGERIA'S PROMISE, TRANSMITTING CONFIDENCE

One of Nigeria's greatest achievements in recent years was the overhaul of its banking system in early 2006. Reforms introduced by the Obasanjo administration reduced the number of banks from 89 to 24, increased a bank's minimum capital requirement to $190 million (25 billion naira), and stipulated that banks hold 40 percent of their deposits in liquid assets. But challenges still remain. About 65 percent of the economically active population is serviced by the informal financial sector, rural communities remain largely unbanked, the real estate and small business sector receive a low level of lending, and the credit card market is still in its infancy.

Meeting these needs was all the more reason for the South African Standard Bank Group, Africa's largest bank, to significantly increase its presence in Nigeria through a merger of its Stanbic Bank with IBTC Chartered Bank in mid-2007. The country's first-ever tender offer resulted in a

■ **Fazal Hussain,** CEO of HTN

total $640 million investment, the largest in Nigerian financial history, creating the Stanbic IBTC Bank plc. "From a Standard Bank portfolio perspective it was a bit of a no-brainer," reveals Chris Newson, CEO of the new entity. "In terms of economic growth, Nigeria offers great potential."

Last year, Stanbic IBTC put together Africa's largest ever telecommunications deal, a $2 billion syndicated loan for MTN Nigeria. Newson says that facilitating such developments is crucial to the country's rise. "Infrastructure in particular requires not only potential foreign capital given the enormity of the funding that is needed, but also foreign expertise. We are looking to facilitate the on-trade of foreign investors here and deem it to be a very important part of getting Nigeria on the map."

Indeed mobile connectivity in Nigeria has also been facilitated by transmission infrastructure set up by Helios Towers Nigeria (HTN). The company provides operators such as MTN, Celtel, and EMTS with immediately accessible "vertical space" for GSM/CDMA antennae and other transmission equipment. "When a mobile operator comes and invests in any country he has to roll out a network and 80 percent of the capital invested is in what we call the Radio Access Networks," explains CEO Fazal Hussain. Hussain says that demand from operators was so high that in just two years HTN set up 1,000 towers across Nigeria. Thus the private sector continues to meet Nigerian demand and to inspire confidence in this process of growth.

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Benue State: Benevolent to Investors

Blessed with the country's largest river system, Benue State's fertile lands have become known as Nigeria's food basket. Governor Gabriel Suswam has made it his mandate to make the most out of Benue's capacity to provide, by bridging local subsistence farming with the growing global demand for food supplies. Rich mineral deposits play an equally important role in the book of opportunities. The challenge lies in providing the right infrastructure to let Benue State's future take its course. To reach this goal, the state government has put incentives in place to attract investment, such as a 48-hour cap on land title issuing, tax holidays of up to five years, empowering its available manpower through three Universities, improvements to infrastructure, and cheap labor to service new investors' needs.

• Enjoying life in Benue: Gov. Suswam (right) and his deputy (center)

Since being elected governor of Benue State, Gabriel Suswam has made it his main priority to bring traditional agricultural activities into the 21st century, providing more modern, high-yield, and mechanized processes. The first and most challenging obstacle to overcome was the state's rapidly deteriorating infrastructure. If local produce was to reach global markets, the first step would be to bring the road network up to scratch. In his first 100 days in office, the Governor oversaw the reconstruction of 100 kilometers (62 miles) of roads in the state capital's Makurdi Township. As almost 80 percent of the state's 5 million citizens depend on agriculture for their income, the second point of action was to supply modernized farming tools. Thus in late 2007, the state revived the defunct Benue State Tractor Hiring Agency, releasing $200,000 for the purpose of refurbishing equipment.

The initial progress achieved by this go-getter attitude was soon noticed and praised by local media and national authorities. Recognizing Benue's agricultural strength, the Nigerian National Petroleum Corporation (NNPC) decided to build an ethanol plant in the state, one of four planned for the country under its Renewable Energy Project. NNPC group's management said that of the four, Benue is the "most committed", gaining the state global importance as a centre of alternative energy resource development. In order to raise awareness of Benue's deeds and needs, Governor Suswam led delegations to South Africa, China, Singapore, and Malaysia to drum up investment for opportunities in agriculture, tourism, energy and other enterprises. By 2008, Benue State began cooperating with a Chinese company to establish a cement plant at Igumale. It is one of two plants under

• Benue River flows through the state's capital Makurdi

construction in Benue to tap into the state's huge limestone deposits, the second being at Mbatyav.

The Chinese plant marked the first vote of confidence in a series of new foreign investments for Benue. Limestone is already being exploited by the Benue Cement Company, the best performing stock on the Nigerian Stock Exchange in 2006. But Benue is also ripe with coal, gypsum, natural gas, salt, barites, and gemstones, to name a few. The state is intent on securing its important role in Nigeria's future, and with its energetic governance already proving a positive track record, Benue's flow of progress seems unstoppable.

Interview with **Governor Gabriel Suswam**

Which have been the top priorities in achieving the goals you set up at the beginning of your mandate?

My goal as governor is to engage modern technologies in farming so that we optimally produce agricultural products that will not only be consumed in Nigeria but can also be exported. The main challenge here is the provision of infrastructure to the state. We also pay attention to other sectors such as health and education.

How do you plan to capitalize on the state's natural resources?

We may feed the nation but it has been at a level of subsistence. So I have entered into a relationship with the State of Iowa in the United States as they are advanced in some of the agricultural techniques pertinent to our aspirations. Experts have been conducting training on how to utilize mechanized farming to enhance production. Within our own state we are planning to give grants to farmers, clear more land for them, because what we have now are individuals with maybe one hectare or less. The perfect situation would be to have a farmer cultivating ten hectares so that food production can be expanded. We are also making arrangements to bring in farmers from Zimbabwe and give them a substantial part of wild land. There is land for everything and an abundance of minerals. And where there are gas deposits you are very likely to find oil, so maybe my children will come to enjoy that some day.

Talking about children, what kind of progress are you putting into practice to develop the education level of this state?

We are now focusing on IT. There will be centers where our children can be trained to use a computer and the internet. We are also introducing this at some primary and secondary schools, even in the villages. The world is a global village now. We also want to revitalize science classes because without science we can't evolve. We need scientists who can bring ideas to the table for us to develop as a state and as a nation. That way we build a solid society where the future belongs to the children. ■

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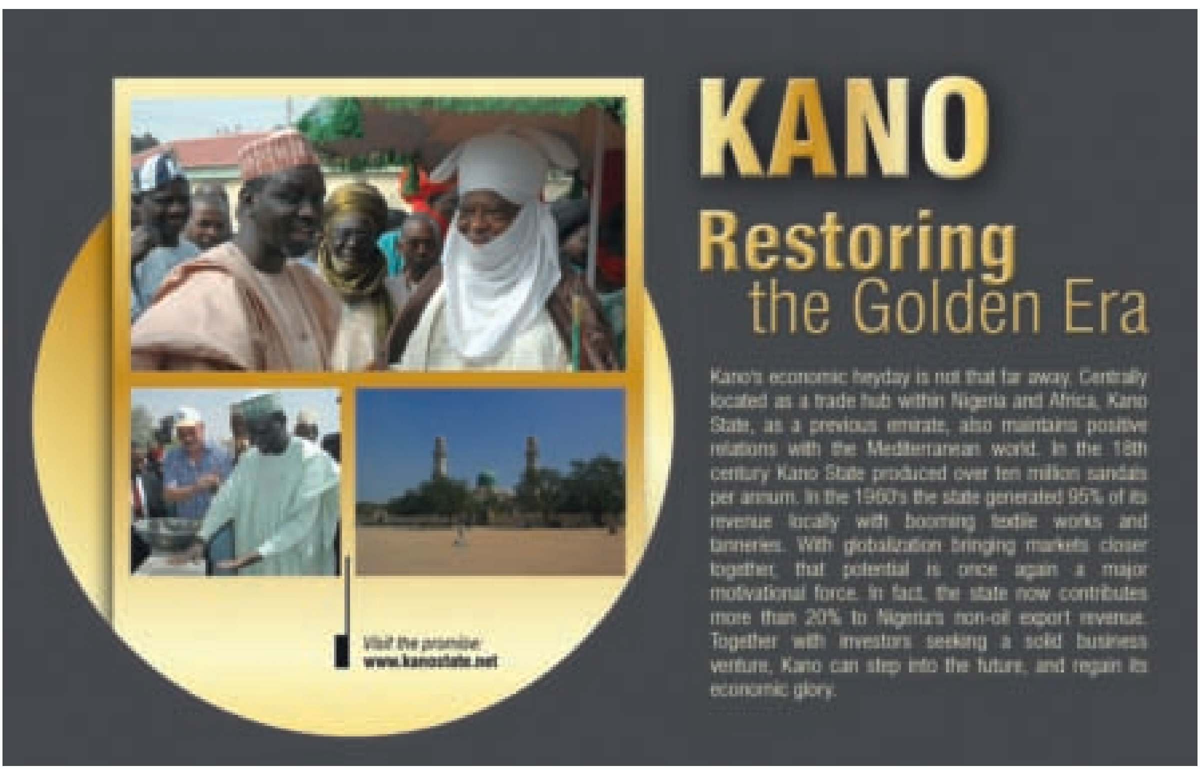
A SECOND LEASE OF LIFE FOR MANUFACTURING

An industrial revolution may never have taken place in Nigeria, but the nation has not been left behind in terms of manufacturing. As long as a thousand years ago, the state now known as Kano was a bustling economic and commercial center based around its tanneries and leather industries. Now, as the federal government seeks to boost every state's potential through its seven-point agenda, the idea of reviving a manufacturing industry has grown in light of liberalization within the energy sector.

Public-private partnerships will be able to facilitate the regional requirements for modernization and development, as the acting minister of commerce, Dr. Aliyu Idi Hong, recently announced at the 29th Kano International Trade Fair. Hong said the revamping of Nigeria's power sector with private impetus would manage to bring dormant industries back to life.

Kano State's government in particular is keen to foster this revival, utilizing its rich mineral resources and human power as a foundation. Governor Ibrahim Shekarau outlines how his administration aims to bolster the 350 existing large and medium-sized industries and create the capacity for new manufacturing enterprises to mushroom. "In order to move the state forward on this second tenure we feel we need to generate more resources to meet up with the challenges." Shekarau identifies a couple of major and fundamental issues impeding Kano's growth. "One is the issue of water supply; most of the industries, particularly tanneries, are water-based industries. The other is the power supply. Even within the state, a time will come when you cannot have a simple energy system to provide service to ten million people."

Hence, Kano has gone all out to identify private partners. "We have a major company from South Korea with whom we are about to sign an agreement. Some members of the State Committee on Energy propose to generate power from our waste material. Some are talking of using wind parks to generate energy, others of solar panels, all in an effort to make sure we get the new energy to address the future."



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PRIVATE BRICKS BUILD NIGERIA'S REAL ESTATE SECTOR

If there is one Nigerian sector that has witnessed tremendous changes in the past ten years, it is real estate. While at the turn of the century all planning and housing issues were prone to heavy government involvement, the emergence of land reforms and new land laws have now opened up Nigeria's growth. The release of lands for commercialized farming and other large-scale private businesses is in large part due to adventurous developers, who did not have the financial support of Nigeria's banks that developers can depend on now.

"In 2002 I took a major risk and plunged into it," says Olajide Awosedo, a real estate and property developer. "It was a major risk because at the time that I went in, the banks were not prepared for it. At that time they gave me loans at 39 percent. The cheapest I got was at 35 percent. But I took it, in spite of the fact that it was crazy, because I saw a huge potential in real estate." Awosedo's hunch was right, and an estate of homes that his company Grant Properties developed became a model for the budding sector. "The estate is in the Lagos Lekki axis. This axis is the most dynamic in West Africa in terms of growth. When I came in 2002 the whole area was bush."

■ Reverend Olajide Awosedo, CEO of Grant Properties

Through such efforts the real state sector is one of the most profitable in the country. Once it is propelled by the development of a sound mortgage system following the banking industry's capitalization, Nigeria may become the new paradise for brick-base speculators, without the subprime loan pitfalls of the West.

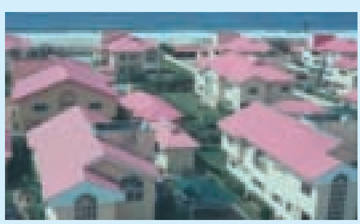
Grant Properties Limited:

Developing quality and value in Nigeria's real estate industry

www.grantpropertiesltd.biz

The U.S. housing market may be in a slump, but in Nigeria it's only just starting to boom. Between $500,000 and $1,250,000 will get you a 4- or 5-bedroom seaside habitat in a gated community on Lagos State's Lekki Peninsula. The Goshen Beach Estate, Lekki is the first of four real estate developments by Grant Properties.

"The real estate industry in this nation has never attracted so much attention as we are getting now," says Reverend Olajide Awosedo, President and CEO of Grant Properties Ltd. "When we started in 2002 there was no real estate sector in Nigeria." But Awosedo was able to realize his vision for high-end developments, pioneering a property trend in the Nigerian real estate market. Awarded the "Best Real Estate Developer" for the year 2008 by the Lagos State Government, Awosedo says his company, Grant Properties Limited has only scratched the surface of Nigeria's economic growth. Grant Properties targets the upper housing market, as it believes mass housing is a responsibility of the government. The potential is huge, as Grant Properties Limited plans to deliver 5,000 additional housing units in the near future, complete with access roads and modern amenities. "In the next five years we will be the number one developer in privately owned real estate in Nigeria," predicts the Reverend, "and we would be able to do even better with foreign technical partnership."



Nigeria Office: Christolem House, By Goshen Beach Estate
Lekki Phase One, Lagos, Nigeria
Tel: +234 1 8915823 / 8984063 / 8984168

UK Contact Address: The Goshen
47 Middleton Road, London E8 4BJ, UK
Tel: +44 207 9233325

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THE MAKING OF A KNOWLEDGE MATRIX

When Nigeria's former administration spoke about the great leap forward, it was not meant hypothetically. The new seven-point agenda makes education one of its main pillars, and Nigeria's young are now on the threshold of a major leap in development.

"Throughout history, many countries have gone through the agricultural revolution, the industrial revolution, but Africa has never participated in any of these," highlights Aloy Chife, founder and CEO of application service provider SW Global. "In an industrial revolution, you need a vast amount of capital, and for this reason Africa was held back. But in this digital revolution in which we live, all that is required is knowledge."

The only stumbling block that remains is the acquisition of information technology systems. "Microsoft and Oracle had offered good but very expensive solutions which are difficult for Africans to afford." SW Global therefore devised a pioneering method of providing universities with the necessary tools to advance ICT knowledge among students. Through a business model known as utility computing, SW Global helped bridge the digital gap at academic institutions.

"We provided everything from generators to the construction of digital centers, and 200 to 500 computers at our own cost. We then built a wi-fi network around the campus so that the Internet connection could be accessible from anywhere. Finally, we told the university not to pay us a dime, but to have the students pay a subscription fee. The fee ranges from the equivalent of $20 to $35 a year, which is quite affordable." This private initiative marks yet another step toward turning Nigeria into a self-sufficient knowledge nation.

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Project Assistants: Mariana Brilhante, Victoria Puviani
Editor: Mark Riley
Creative Director: Branko Bobic
For more information contact: info@smlstrategicmedia.com

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Diplomacy, Inc.

The Influence of Lobbies on U.S. Foreign Policy

John Newhouse

The area around K Street in Washington, D.C., abounds with lobbyists, many of whom represent foreign governments or entities. Although some major foreign governments continue to work mainly through their embassies in Washington, nearly one hundred countries rely on lobbyists to protect and promote their interests. The subculture of public relations and law firms that do this kind of work reflects a steady decline and privatization of diplomacy—with an increasing impact on how the United States conducts its own foreign policy.

The strongest lobbies promoting foreign interests are driven by cohesive ethnic population groups in the United States, such as Armenia, China, Greece, India, Israel, Taiwan, Ukraine, and, historically, Ireland. Even countries that have strong bilateral relations with the United States, such as Australia, Japan, and Norway, need lobbyists as well as embassies. Lobbyists can operate within the system in ways that experienced diplomats cannot. A lobbying group can identify with a domestic ethnic bloc even though it is paid by a foreign government. Ethnic politics can trump corporate interests and, more important, influence what agencies within the U.S. government may see as the national interest.

The United States is a nation of immigrants—a strength that has also created vulnerabilities. Although ethnic population groups have at

John Newhouse is a Senior Fellow at the World Security Institute and the author of a forthcoming book on foreign lobbies in the United States to be published by Simon & Schuster.

times offset isolationist tendencies in the United States, they also can find themselves conflicted on issues that could divide the motherland from the adopted country, the United States. In other cases, these so-called hyphenated groups unhesitatingly side with the United States and, in effect, become more royalist than the king.

Many lobbyists function as surrogates. A law firm or lobbying firm can make arrangements and put forward arguments in ways that its foreign client cannot, in part because most embassies do not operate as comfortably or effectively on Capitol Hill as can the firms. And then, the U.S. government has become so complex that only insiders, such as former members of Congress or congressional staff members turned lobbyists, can navigate its confusing structure. The most well-connected individuals are likely to join one of the major hybrid law and lobbying firms, such as Patton Boggs, Akin Gump Strauss Hauer & Feld, or BGR Group. The last firm became involved in the internal affairs of Iraq after the U.S.-led invasion in 2003. Led by former Ambassador Robert Blackwill, it was paid $380,000 to represent the Kurdish regional government of Iraq and $300,000 for providing "strategic counsel" to former Iraqi Prime Minister Ayad Allawi, who was striving to regain his post as leader of the Iraqi government. Official records show that other recent clients of this firm have included the governments of Qatar, Serbia, and Taiwan.

Lobbyists for foreign governments operate in ways that help U.S. officials and reinforce incumbency.

The most effective lobbying is done on Capitol Hill. Although members of the executive branch face limits on what they can do for lobbyists, congressional members and their staff are generally less constrained. When a faction in Congress takes a position under pressure from lobbyists, it can become very hard for executive-branch offices to resist. Functionally, the U.S. government is an anomaly, with a potent legislature unconnected to the executive branch but open to being exploited by domestic agents representing foreign governments.

Some of the big embassies, starting with the British and Israeli ones, have no difficulty gaining access on either end of Pennsylvania Avenue. But many, if not most, of the other missions are spread thin, with limited access to the people and offices that matter. A typical midsize embassy will have one or two officers covering the agencies of chief importance at home. Most often, this means the State Department and the Department of Defense, along with other agencies involved in security issues. These embassies cannot begin to compete with lobbying groups for influence and may not even try to cover Congress. A retired British diplomat who served as ambassador to Washington in the mid-1990s said that he spent most of his time on Capitol Hill, leaving his staff to monitor the national security apparatus.

Lobbyists for foreign governments operate in ways that help U.S. officials and reinforce incumbency. A lobbying firm, for example, can help set up a deal for a foreign country to purchase agricultural machinery from a U.S. supplier. A member of Congress from the district in which the supplier is located will then announce the sale—and the lobbyists, in turn, will say that congressional support of certain bills will help that business and others in the district.

The American Israel Public Affairs Committee, known as AIPAC, is the model for other lobbying groups and for lobbying firms that aim to influence U.S. foreign policy. It shows how they must focus on the internal rivalries within congressional committees and on other groups that involve politicians with voices that carry. Lobbyists working for foreign clients play a game that one of them described as "five-dimensional chess," which includes the White House, Congress, interagency conflicts, and the Republican and Democratic Parties.

A firm lobbying on behalf of a foreign client keeps data on every member of Congress, their staffs, and even some representatives in state legislatures who are considered rising figures. The firm will do a meticulous analysis of the voting records and public statements of various key players, notably the chairs of the Senate and House Foreign Relations Committees.

On Capitol Hill, the most influential lobbying factions are those that represent overseas business interests, such as Airbus, the European aviation conglomerate, and Gazprom, the Russian state-owned energy giant. The next most influential group is comprised of caucuses within Congress, which representatives and senators join to identify with or express support for a given country. The Congressional Caucus on India and Indian Americans, for example, is one of the largest and contains well over 100 members of Congress, none of them Indian.

The fallout from the process is sometimes seen not only in foreign capitals but also within the Washington bureaucracy as a tendency to "move the goalposts." A lobbying firm, for example, may hear of a negotiation that the State Department has concluded or is on the verge of concluding. It may then intervene on Capitol Hill, or, on occasion, with the White House to alter the outcome in a way that benefits its client. This represents a uniquely Washington way of doing business—a deal is not necessarily a done deal if one or more of the major parties wants to change its position.

Foreign governments, of course, do require help from time to time in navigating the Washington labyrinth, and many strive to have Washington support their interests and not their adversaries'. Israel and Taiwan are two countries that feel dependent on U.S. political support of this kind.

The activities of lobbyists working on behalf of foreign governments or businesses—notably those whose focus is largely commercial, not political—can be useful and in line with the national interest. The United States relies on a free and open trade and investment climate, which these lobbyists work to promote. Lobbyists representing foreign clients say that their work is a normal part of the U.S. political process and indistinguishable from lobbying on behalf of domestic clients. But the latter, however abusive it can be and often is, does not carry the risk of skewing U.S. foreign policy or compromising the national interest. Lobbying on behalf of foreign countries, many in Washington believe, can have an adverse affect on U.S. interests by challenging the sensible and balanced formation of foreign policy.

A HISTORY OF INFLUENCE

Among the earliest and most robust promoters of foreign causes in the United States were the Irish. Beginning in the early nineteenth century, the Irish American diaspora in the United States began providing material and political support to the forces of Irish nationalism. This continued through the 1990s and the so-called Troubles, when groups such as Irish Northern Aid funneled aid to families of political prisoners in Ireland.

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In the 1930s, as the Third Reich began to gather strength in Germany, many German Americans in the United States joined small groups such as Friends of New Germany. These were swiftly spun off into larger organizations—one became the German American Bund, and another was a fascist organization widely known as the Silver Shirts, a reference to the Nazi Brown Shirts.

Although these organizations had more visibility than actual impact, they did attract the attention of the U.S. Congress. In 1935, a report prepared by the House of Representatives warned of propaganda that aimed to "influence the internal and external policies of our country." The report led to the passage in 1938 of the Foreign Agents Registration Act, or FARA, which was designed to monitor the activities of groups lobbying on behalf of foreign causes. The law covers anyone who engages in political activities or acts in a public relations capacity for a foreign principal. Such agents are required to report their activities to the Justice Department and to disclose whatever gifts and services they provide to elected or appointed officials. These criteria are far stricter than what is required of lobbyists who represent domestic interests. However, compliance with and enforcement of FARA regulations are notoriously lax, and they are often ignored entirely if enforcing them could be politically awkward for U.S. allies.

Since 1966, when FARA was amended, there have been only three indictments on alleged FARA violations and no successful criminal prosecutions. The cases were dismissed because of statute-of-limitations problems. Asked about this seemingly limp enforcement, Dean Boyd, a Justice Department spokesperson, replied in writing, "The Justice Department generally seeks to obtain voluntary compliance with the FARA statute through a variety of mechanisms, including if needed civil and/or administrative resolution." Since the changes to FARA in 1966, Boyd wrote, the U.S. government has faced an increased burden of proof, which has "reduced the incidence of criminal FARA prosecutions and increased civil and administrative resolution of FARA questions."

Another law, the Lobbying Disclosure Act of 1995 (LDA), is even weaker. It is filled with thresholds that define what must be reported, such as requiring disclosure only when foreign clients represent more than 20 percent of a lobbying firm's total contacts. "The LDA is a joke," one Washington lobbyist told me, "because no one looks at those filings, and there has been no enforcement."

In June 2008, Senators Charles Schumer (D-N.Y.) and Claire McCaskill (D-Mo.) and then Senator Barack Obama (D-Ill.) introduced legislation that would require all lobbyists representing foreign clients to register under FARA, even if they have already registered under the LDA. Under current law, lobbyists registered under the LDA are exempt from also registering under the more rigorous FARA regulations. Another measure under this proposed legislation would require disclosure in cases in which lobbyists represent foreign principals—including governments and political parties—to U.S. officials stationed outside the country. Currently, FARA requires the disclosure only of those agents who represent foreign clients in front of agencies or officials located within U.S. territory. The Justice Department has not yet publicly expressed a position on the legislation.

The issue, then, is whether it is possible to enforce the existing statutes—if necessary by tightening them—or whether foreign agents and their influence will continue to flourish. The proposed Senate bill would be a good place to begin strengthening the oversight process. But statutes, however tightly written, must be enforced. As Senator Schumer said last year, "Too many lobbyists are skirting the law and operating in the shadows, and in too many cases the Justice Department is standing at the light switch and refusing to turn it on."

THE MODEL LOBBY

THE ISRAEL LOBBY operates within a loose umbrella organization called the Conference of Presidents, which contains a number of subgroups and committees. The centerpiece of the overall organization is AIPAC. Through AIPAC's network of contacts in government agencies and on Capitol Hill, its ability to influence events and policy in Washington is probably without precedent. In one example, AIPAC successfully lobbied Congress in 1995 to pass a bill requiring the United States to move its embassy in Israel from Tel Aviv to Jerusalem, despite private objections from the government of then Israeli Prime Minister Yitzhak Rabin and the Clinton administration.

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Although AIPAC characterizes its role as promoting financial assistance to Israel from the U.S. government, most of this appropriation has become routine and is rarely challenged. Where AIPAC devotes most of its energies is in defending Israel's hard line on the Palestinians to a U.S. audience and deflecting criticism in the United States of Israel's equally hard line on Hezbollah and, above all, Iran. Under the

Bush administration, officials such as Vice President Dick Cheney and Secretary of Defense Donald Rumsfeld were determined to support AIPAC in its efforts to align U.S. foreign policy with that of Israeli Prime Minister Ariel Sharon and his Likud Party—namely, in identifying Iran as not only a regional threat but also a global threat to peace and stability. In pressing for votes and support, AIPAC does not threaten members of Congress so much as it makes them worry about angry phone calls from wealthy constituents. Defying AIPAC can make life complicated for those in Congress who are looking toward their reelection.

Whether AIPAC will be able to sustain its dominant role is not clear, however. A growing number of Jewish Americans regard the lobby as a group of largely ethnocentric extremists and oppose its tactics. Support for Israel is becoming age-related—a recent poll conducted by New York University, for example, showed that more than two-thirds of the young, non-Orthodox Jewish students surveyed did not consider the situation with Israel and the Palestinians a high priority for the 2008 U.S. presidential election, whereas more than half of the Jewish Americans over the age of 65 who were surveyed did. Another poll, part of the Middle East Academic Survey Research and Exposition, conducted by the Institute for Research: Middle Eastern Policy, showed that an overwhelming majority—roughly four-fifths—of those U.S. academics polled regarded the Israel lobby as "negative" to "extremely negative" to U.S. interests. A slightly greater majority of those polled said they believed that the lobby's tactics expose the United States "to avoidable hostility in the Middle East."

Historically, the notable exception to AIPAC's uniform hold on the Israel lobby has been the Israel Policy Forum. According to M. J. Rosenberg, the group's director of research and its key figure, the forum's mission is to encourage the United States to pursue an end to the Israeli-Palestinian conflict and the establishment of a two-state solution.

An alternative group calling itself J Street was launched in April 2008. J Street defines itself as "the political arm of the pro-Israel, pro-peace movement," with the purpose of ending the Arab-Israeli and Israeli-Palestinian conflicts peacefully and diplomatically and supporting a new direction for U.S. policy in the Middle East. It has a lobbying arm that operates on Capitol Hill, and its political action committee

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endorsed 41 candidates in the 2008 congressional elections and distributed $578,000 among them. Thirty-three of these candidates won, although the degree to which J Street may have helped is unclear.

Reactions to J Street have been mixed. Skeptics, of whom there are many, feel that its efforts will founder—the two major political parties have trained themselves to listen to AIPAC first and act accordingly. Although an increasing number of Jewish Americans take issue with Israel's position on the Palestinians and favor a two-state solution to the Palestine problem, AIPAC holds several advantages, the first of which is that hard-liners in the Jewish American community care much more about advancing their position than do those who lean toward a two-state solution. Second, a deep fear of Arab intentions still leads many Jews in the United States to be more comfortable with AIPAC's politics. And lastly, and of no small importance, AIPAC is run by professionals who are rightly considered to hold black belts in the art of Washington politics.

This March, the clout of the Israel lobby and its allies on Capitol Hill was forcefully displayed by their successful derailment of the appointment of Charles Freeman to be chair of the National Intelligence Council. Freeman is among the most widely respected foreign policy analysts, and he has often taken exception to Israeli policies. In withdrawing from the appointment, Freeman wrote, "There is a powerful lobby determined to prevent any view other than its own from being aired. . . . It is not permitted for anyone in the United States to say so. This is not just a tragedy for Israelis and their neighbors in the Middle East; it is doing widening damage to the national security of the United States."

A QUICK STUDY

INDIA'S U.S.-BASED lobby is the only lobby in Washington likely to acquire the strength of the Israel lobby. It both relies on a strong network of law and public relations firms and is supported by a large ethnic population group in the United States, many of whose members are well educated and financially successful. For example, 20 percent of all the companies in Silicon Valley are owned by Indian Americans. The U.S.-India Business Council, which has a core committee of 200 companies that make up part of the United States' corporate elite, is closely allied with the India lobby. And like Jewish Americans, Indian Americans are strongly inclined toward political activism.

To date, the most controversial and potentially troublesome venture in which the maturing India lobby has played a major role was its promotion of the July 2005 statement issued by President George W. Bush and Indian Prime Minister Manmohan Singh that called for shipments of U.S.-produced nuclear fuel and technology to India. Under the agreement subsequently reached, India will separate its military and civilian nuclear programs and in return gain access to U.S. expertise and materials.

Many in the arms control community opposed the deal, suggesting that the agreement would increase India's ability to produce fissionable material for its nuclear weapons program. Congressman Ed Markey (D-Mass.), co-chair of a House task force on nuclear nonproliferation, called the agreement a "historic failure" that "pours nuclear fuel on the fire of an India-Pakistan nuclear arms race." A major complaint is that the deal in effect endorses India's refusal to join the Nuclear Nonproliferation Treaty and exempts India from the global rules that govern the nuclear trade. Under the agreement, India becomes eligible for the same trade and scientific benefits acquired by NPT signatories—including the five original nuclear weapons states.

Critics in the United States and India saw political as well as energy-related factors pushing the deal. Bush, they felt, was seeking to tap into India's expanding economy while creating a stronger strategic balance against China. Others suggested that the Bush administration's strong push for the deal was largely driven by Bush's quest for a legacy—an opinion shared by some Indian officials, who often heard from their U.S. counterparts that the deal had to be completed while Bush was still in office.

Within the United States, commercial pressure for the deal came from the U.S.-India Business Council, the U.S. Chamber of Commerce, the military-industrial sector, and the two U.S. companies that produce nuclear reactors, General Electric and Westinghouse. "Billions of dollars were at stake," one lobbyist involved in the negotiations told me. "The idea here was to bind India in a strategic relationship, and the military orders would then follow."

What the Bush administration was proposing ran sharply counter to provisions of the U.S. Atomic Energy Act, which require full-scale safeguards for any U.S. exports of nuclear material or technology. In order for the deal to go through, both houses of Congress would first have to approve legislation exempting India from U.S. law. The lobby began a full-court press, with the U.S.-India Business Council retaining the Washington law firm Patton Boggs and the Indian embassy hiring Venable, a law firm that employs Birch Bayh, a former U.S. senator and the father of the current senator Evan Bayh (D-Ind.).

The lobbying effort brought together for the first time a disparate coalition of Indian American groups, ranging from the Asian American Hotel Owners Association and the American Association of Physicians of Indian Origin to larger groups, such as the Indian American Friendship Council. The founder of this last group, Swadesh Chatterjee, proclaimed that a strategic partnership between the United States and India "will define the twenty-first century." Other groups that played an active role in the lobbying included the U.S. India Political Action Committee, which is run by Sanjay Puri, an influential businessman and lobbyist who was also a member of the transition team for Virginia's governor, Tim Kaine, now the new chair of the Democratic Party. Shekhar Tiwari, who unofficially represents the Indian American Republican Council, with 36 chapters around the country, told me that his group was "the main force behind the scenes" in pushing the deal.

The various groups supporting the deal argued that its passage would be good for the environment. India, the argument went, needs alternative energy sources to soft brown coal, the dirtiest power source and the one on which India and China chiefly rely. To make its case, the lobby spread a great deal of money around, and fundraisers were held for pivotal figures, such as then Senator Joe Biden (D-Del.), who was chair of the Senate Committee on Foreign Relations; Senator Richard Lugar (R-Ind.), the senior Republican member of that committee; and Senator John Kerry (D-Mass.), Biden's future replacement as chair. Former Senator Hillary Clinton (D-N.Y.), then the co-chair of the Senate India Caucus, was another beneficiary of the lobby's largess.

By November 2006, both houses of Congress approved the deal, known as the Hyde Act, by large margins. The debate over the deal and this outcome revealed a curious polarity—whereas majorities in both the Senate and the House supported the deal, a significant part of the foreign policy community had strenuously opposed it. This left Congress with an unanswered question—namely, how should the United States measure the advantages of a stronger, more productive partnership with this rising global power against the risks posed by the agreement, starting with its prejudicial bearing on the NPT and on nuclear arms control in general?

The Obama administration has encouraged India and Pakistan to keep relations with each other on a stable track. And the U.S.-Indian deal may not rock any boats in Washington unless India decides to test a warhead for its new intermediate-range missile system, the Agni II, a weapon allegedly designed to target China. It is clear, however, that on Capitol Hill, any future testing would be seen as conflicting with the legislative intent of the agreement and hence would put it in serious jeopardy.

AT NATO'S DOOR

THE QUESTION of how far and how fast to expand NATO was a deeply contentious issue within the U.S. foreign policy community in the mid-1990s. Countries in central and eastern Europe used their tightly focused political activities in Washington to promote various goals, including admission to Western institutions, starting with NATO. These countries included the Czech Republic, Hungary, and Poland, and later Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia. More recently, Georgia and Ukraine have used lobbyists in Washington to push for NATO membership, so far unsuccessfully.

By the mid-1990s, the risks of expanding NATO were clear. Russian nationalists could exploit the issue at the expense of more moderate figures. What Russia wanted then was to reclaim its historical place as a major player in European security—and it still does. At the time, figures inside the Russian security structure were nursing an old grievance. In 1991, just a few years before talk of enlarging NATO began, the Soviet Union's then leader, Mikhail Gorbachev, had received assurances from U.S. officials that in return for the Soviet Union's earlier acquiescence on German reunification, NATO would not deploy forces beyond Germany's eastern border.

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Germany favored having a buffer between itself and Russia and was the only serious western European advocate of enlargement. Various Washington luminaries pushed the idea as a way of preemptively stifling Russia's imperial impulses. There was also an assumption, probably well founded, that the Clinton administration saw enlargement as a means of gaining the support of ethnic eastern European voters in the run-up to the 1996 presidential election.

From the candidate countries, the Polish government pushed hard for enlargement, mainly through its embassy in Washington but also with strenuous support from the Polish American Congress, an umbrella organization that includes more than 3,000 Polish American groups, and with the assistance of a lobbying firm. Poland no longer worried about being threatened militarily by Russia, but it did have concerns about becoming part of a European security vacuum. Moving NATO in its direction, the thinking went, would further commit the United States to Europe's security. The Czech Republic and Hungary made similar efforts.

On April 30, 1998, the U.S. Senate approved a bill supporting NATO enlargement, and one year later, in March 1999, the Czech Republic, Hungary, and Poland gained admission to NATO. Five years later, in March 2004, other aspirants—Bulgaria, Romania, Slovakia, Slovenia, and the three Baltic states—were also accepted into the alliance. In order to achieve this end, each of them had turned to Washington-based lobbyists for help.

One lobbyist heavily involved in arguing for NATO expansion was Randy Scheunemann, who would later serve as chief adviser on foreign policy for John McCain's presidential campaign. For years, Scheunemann has been a central figure in a hawkish circle of foreign policy advisers who have sought to bring NATO steadily closer to Russia's doorstep and have argued for expelling Russia from the G-8 (the group of highly industrialized states), a position McCain took as a presidential candidate. Until early 2008, Scheunemann was simultaneously working for the McCain campaign and as a paid adviser to the government of Georgia. He was also a registered lobbyist for Latvia, Romania, and Macedonia. In 2006, McCain had co-sponsored legislation that passed in the Senate endorsing an expansion of NATO to include Albania, Croatia, Georgia, and Macedonia.

Among the other firms involved in lobbying for aspirant NATO members was the K Street firm of Jefferson Waterman International, which represented Bulgaria and Romania in the process. One of JWI's first and biggest clients was the Croatian regime of Franjo Tudjman, which various human rights groups have accused of committing war crimes during the Bosnian war in the 1990s. JWI assured the Croatians it could help. In a memo drafted by Charles Waterman, the firm's CEO, JWI was ready to counter "a wave of criticism" if Tudjman were to seize control over territory patrolled by UN peace monitors. Tudjman continued to renew JWI's contract through the end of 1998 (he died in 1999).

The Armenia lobby in the United States is surpassed in strength and influence only by the Israel lobby and the India lobby.

JWI, much like similar firms in Washington, draws its leadership and senior staff from government agencies, especially the CIA. Waterman is a former vice chair of the CIA's National Intelligence Council and was also national intelligence officer for the Middle East. Samuel Hoskinson, the firm's vice president and chief financial officer, also served as vice chair of the NIC and as a senior adviser to three national security advisers—Henry Kissinger, Brent Scowcroft, and Zbigniew Brzezinski. Samuel Wyman, the firm's executive vice president and chief operating officer, was an operations officer for the CIA in Africa, Europe, and the Near East.

In June 2007, Hoskinson and one of his colleagues at JWI became the heads of a group that calls itself the Alliance for a New Kosovo. They were advising Bexhet Pacoli, a wealthy Kosovar Albanian businessman, who made open claims of paying a large team of lobbyists and consultants in Washington to push the White House and Congress to support Kosovo's independence. Hoskinson told me that the foundation hired eight people to lobby Congress and the State Department and circulate arguments in the media. When the United States, along with dozens of other countries, recognized Kosovo as an independent state in February 2008, the firm regarded the outcome as among its largest achievements.

In May 2002, Ukraine made clear that membership in NATO was one of its principal goals. A year later, at the invitation of Davis, Manafort & Freedman, an influential Washington lobbying firm, Sergey Lavochkin, chief of staff to the Ukranian prime minister, visited Washington. In Washington, Lavochkin contacted the State Department and was told that it did not deal with lobbying firms on K Street and that he should try working through the U.S. embassy in Kiev. Later, in 2005, a staff member at the National Security Council called McCain's Senate office, which itself was pushing for Ukraine's acceptance into NATO, to complain that Davis, Manafort & Freedman's lobbying was undercutting U.S. foreign policy in Ukraine.

By early 2008, matters were changing. The Bush administration was arguing that both Georgia and Ukraine had all but met the conditions for NATO membership. France and Germany dissented, reflecting a generalized concern in Europe about Russia's increasingly shrill and intimidating protests. Indeed, Russia was threatening to target nuclear missiles at Ukraine if it joined the alliance. Predictably, this state of affairs worsened considerably when in August 2008, just four months after the NATO summit meeting in April, the conflict between Georgia and Russia erupted.

THE PERENNIAL QUESTION

The Armenia lobby is built on a strong domestic ethnic base in the United States and is committed to having Turkey publicly condemned for genocide relating to the slaughter of Armenians that occurred in 1915. Intense lobbying for a congressional resolution accusing Turkey of genocide began in the 1980s and has since become a perennial question. Most years, the White House and the State Department support the principle behind such a resolution but ultimately conclude that adoption of a resolution of that kind against the Turks would be harmful to U.S. interests.

In 2007, the outcome could have been different, and Congress came close to adopting a genocide resolution. The Armenian community was feeling confident after Democratic victories in the 2006 midterm elections—Nancy Pelosi (D-Calif.), Speaker of the House, and Steny Hoyer (D-Md.), House majority leader, were seen as allies, as was then Senator Biden. Passing the resolution could have meant the end of efforts to build a reliable and productive U.S.-Turkish relationship.

And it could have strengthened Turkey's incentive to hedge against its weakening position in the West and the rising instability in western Asia by initiating a nuclear weapons program.

The vote was close, with the House Foreign Affairs Committee approving the resolution 27 to 21. But then, Pelosi, after stating her intention to move ahead with a vote on the floor, drew back in the face of a strong, well-coordinated argument that its passage would threaten national security. Most convincing was a strongly worded open letter signed by eight former U.S. secretaries of state who all opposed the resolution on national security grounds. Also leading the charge against the resolution were former Congressmen Bob Livingston (R-La.) and Dick Gephardt (D-Mo.). (Gephardt had just signed on with the firm DLA Piper to promote Turkish interests under a contract worth $1.2 million annually.)

In early 2009, however, the genocide resolution's prospects rose sharply. As reported in the *Financial Times*, the public denunciation by the Turkish prime minister, Recep Tayyip Erdogan, of Israel's Gaza offensive last January angered many of the Jewish American and pro-Israel groups that had supported Turkey behind the scenes during the debate over the genocide resolution in 2007.

The Armenian government spends virtually nothing on lobbying services in Washington, because it does not need to: the Armenian community in the United States—concentrated in California, Maryland, Massachusetts, New Jersey, and the New York area—promotes Armenian causes through financial contributions and its influence on Capitol Hill. The Armenia lobby in the United States is surpassed in strength and influence only by the Israel lobby and the India lobby.

A major backer of Armenian causes in Congress is Kentucky Senator Mitch McConnell, who is the Republican minority leader in the Senate. McConnell is a senior member of the Senate Appropriations Committee and for years served as chair of the pivotally important Senate Subcommittee on State, Foreign Operations, and Related Programs, which controls roughly $20 billion in foreign aid. He has helped steer high amounts of earmarks and mandatory allocations toward Armenia and Ukraine. In fact, in some years, Armenia has been second only to Israel as the largest beneficiary per capita of U.S. aid. McConnell does most of his fundraising away from Kentucky, in

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major coastal cities where Armenian Americans and other ethnic groups are most politically active. In October 2006, the *Lexington Herald–Leader* reported that several years ago, while speaking on the Senate floor, McConnell said, "We have a lot of Jewish-Americans who are interested in Israel, a lot of Armenian-Americans who are interested in Armenia and a lot of Ukraine-Americans who are interested in Ukraine." He continued, according to the newspaper's account, "Boy, when we hear from them, we get real interested." The article also reported that McConnell has, over the years, received a large amount of campaign donations from lobbies representing those three countries and has awarded hundreds of millions of dollars more in aid to them than was requested by either Democratic or Republican presidents.

The Turkish government, on the other hand, measures the success of its heavy spending on lobbying in Washington by Congress' unwillingness, thus far, to adopt a resolution on the Armenian genocide. To block the resolution's adoption, Turkey relies on influential figures with prior service on Capitol Hill or in downtown Washington, such as Douglas Feith, a former undersecretary of defense for policy, and Richard Perle, former chair of the Defense Policy Board. In addition, Livingston, a former congressman and founder of the Livingston Group, and Gary Hymel, chief lobbyist for the New York–based firm Hill & Knowlton, have been useful to the Turks in the recent past thanks to the depth of their experience in Washington and their high-level contacts. In 1999, Livingston registered with FARA as a representative of the Turkish government. In March 1999, he created the Livingston Group, which describes itself as providing "comprehensive public affairs, government relations and lobbying services on a global basis." Its eight clients have included not only Turkey but also Azerbaijan, the Republic of the Congo, the Cayman Islands, firms in Morocco, and the Qatar Foundation, a nonprofit organization founded by the emir of Qatar.

Before Hymel arrived at Hill & Knowlton, he was an administrative assistant to Majority Whip Hale Boggs (D-La.) and then administrative assistant to Speaker of the House Tip O'Neill (D-Mass.) for eight years. Later, while associated with Gray and Company, he was asked to offset efforts by the Greek lobby to arrange a cutback in U.S. military aid to Turkey. Turkey ended up receiving more military aid from Congress than the year before.

In Washington, the executive branch has traditionally supported Turkey as a bulwark of NATO, with the core of the U.S.-Turkish relationship based on military assistance. Turkey is also a major procurer of U.S. military hardware, which has led Lockheed Martin and other major arms suppliers to spend a lot of money supporting the Turkish government.

LOBBYING ACROSS THE STRAIT

FOR YEARS, the lobby that promoted Taiwanese interests, known simply as the China lobby, was the superpower of lobbies representing foreign causes in the United States. From the 1940s, when the Chinese nationalist leader Chiang Kai-shek addressed a joint session of Congress, to the 1970s, no U.S. president challenged the so-called China lobby, which opposed all contacts with mainland China.

Until recently, the People's Republic of China chose not to emulate Taiwan, believing strongly that players on the world scene should not interfere in one another's internal affairs. The concept of lobbying another state's government struck Beijing as morally tainted. Instead, China used its strategic weight to cultivate special relationships with powerful figures such as Brzezinski, Kissinger, and James Schlesinger, who was secretary of defense from 1973 to 1975.

Although their principal focus was the White House, the Chinese were also creating a generation of their own "Americanologists," or Chinese diplomats who had assignments in the United States early on in their careers. Over time, these Chinese ambassadors came to be recognized as superior diplomats who could operate effectively on Capitol Hill.

In 1989, the Chinese government reconsidered its position on lobbying following the intense international reaction to its crackdown on student protesters in Tiananmen Square, an event that nearly caused a wave of severe economic sanctions against China. Its view of lobbying changed even more abruptly in 1995, when the Clinton administration reversed a previous decision and granted a visa to Taiwan's president, Lee Teng-hui. Beijing was shocked, and its embassy in Washington drew criticism from home for being bested by the "renegade bandits" in Taiwan. Chinese diplomats in Washington were deeply embarrassed and faced pressure to be more active; as a result, they began a process of making contacts in parts of Washington that they had previously ignored. Since then, China's reluctance to revalue its currency and refusal to address its big trade imbalance with the United States have become chronic political issues in Washington. On such trade-related questions, lobbyists can work more effectively than diplomats in promoting and protecting the interests of their foreign clients.

By 2005, China had acquired still stronger incentives to hire lobbyists. It had made a huge financial investment in the United States by buying U.S. Treasury bonds and other U.S. securities, and the U.S. market for its manufactured goods was large and growing. The Chinese government first hired Hogan & Hartson, one of Washington's largest law firms, and soon retained another firm, McDermott Will & Emery, to lobby Congress on textile quotas. In 2005, Patton Boggs signed on as well and, according to its FARA filing, contacted 13 of the 18 members of the Senate Foreign Relations Committee. Patton Boggs' China team included Mark Cowan, a former Reagan administration official and CIA operations officer.

China will likely call on lobbyists on K Street to draw support from a large swath of the U.S. business community.

In June 2005, China embarked on its biggest effort to date to take over a foreign company. The China National Offshore Oil Corporation (CNOOC), a state-owned oil company based in Beijing, made an offer of $18.5 billion for Unocal, the eighth-largest energy firm in the United States, as part of China's global campaign to secure energy resources. A bidding war loomed with Chevron, the U.S. oil giant, who was also looking to acquire Unocal. To help it win, CNOOC hired Akin Gump, a powerhouse Washington law firm.

The struggle on Capitol Hill over whether Congress would approve the deal pitted China's deep pockets and Akin Gump's potent human resources against Chevron and its political allies in Congress. Lobbyists working for Chevron wrapped their argument in nationalism, portraying CNOOC as a predatory arm of China's leadership looking to acquire a high-value U.S. asset.

In August 2005, CNOOC withdrew its bid, citing "regrettable and unjustified" political opposition in the United States. The level of political resistance in Washington had taken Beijing by surprise. Should

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Akin Gump, or another of China's highly paid firms, have better prepared CNOOC for the vector of Washington politics? Or, in fact, had China not fully transcended its past ambivalence toward the lobbying culture in Washington and so failed to invest enough resources?

Since then, residual anti-China sentiment on Capitol Hill has found its way into legislation aimed at changing Chinese policy on currency and trade issues. To counteract such measures in the future, China will likely call on lobbyists on K Street to draw support from a large swath of the U.S. business community, which views the growing Chinese market with great interest.

THE POWER OF MONEY

THE EFFECTS of the relentless increase in the privatization of U.S. foreign policy in recent years remain underexamined and minimally understood. Many foreign governments, friendly or allied or both, deplore the skewing of U.S. policy caused by the activities of Washington-based foreign agents. Not so long ago, the foreign and defense ministries of these governments would swallow hard when they saw a U.S. policy being redirected by special interests. But there was also a confidence that the U.S. government would, in the end, set policy back on a sensible course.

Over the past several years, however, these governments have lost that confidence. They have learned that the control of policy, once lost, may not be restored to capable, disinterested hands. Instead, they see a uniquely American habit of sustaining the democratic process with money; they see a broad and deepening pattern of corrupt and corruptible members of Congress making self-serving deals with lobbyists working for foreign entities.

Some of what these lobbyists do is harmless and perhaps even useful. However, more and more, the big money financing this activity works to steer U.S. national security policy in the wrong direction. The lobbying process ignores—or, in some cases, promotes—instability in potentially volatile regions, such as South Asia and the Middle East, often backing questionable regimes by disguising their activities and the threats they pose. The activities of lobbies representing foreign interests have contributed to the gradual erosion of the United States' credibility and influence in the world.

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> “The focus is on preserving macroeconomic and financial balance, creating regional development hubs, and enhancing the country’s capacity to generate new jobs and employment opportunities.”
>
> **H.M. King Mohammed VI of Morocco**

Morocco Rising

THE WILL TO SUCCEED

Since the ascent of King Mohammed VI to the throne of Morocco ten years ago, the country has been resolutely forward-looking. Traveling a difficult path of modernization and macroeconomic reform, Morocco has succeeded in bringing down government spending and creating an entrepreneurial business environment. Steady growth and a reformed economy have brought the country to a point of departure, even if difficulties remain. The World Economic Forum’s 2008–2009 Global Competitiveness Report ranks the kingdom only in the middle and thus points to the need for further reform of its labor market and tax system. Yet in Morocco today, people share a generally positive outlook. Business leaders and government offices are optimistic. “Morocco has embarked on a long journey of reform in all areas,” reflects Minister of Industry, Commerce, and New Technology Ahmed Chami. “I believe now is the right time to come to Morocco and join us by investing in Morocco.”

Heavy investments in growth sectors and essential infrastructure are beginning to pay dividends. “To remain competitive, we need to be proactive, to have more will to develop certain sectors in which we believe Morocco has a competitive advantage,” says Minister Chami, referring to a strategic support framework that extends to all sections of the economy. In addition to a “Plan Vert” (Green Plan) for rural development and separate initiatives for the tourism, energy, and finance sectors, the so-called Emergence Plan focuses on promoting the private sector in “world-class” local sectors, such as textiles, agro-industry and fisheries, and in global markets, especially off-shoring, automobiles, aeronautics, and electronics. The hope is for an additional 440,000 jobs and a 16 percent growth in GDP. For Saab Benabdellah, director general of the Moroccan Center for Export Promotion, this is a stepping stone toward greater international integration: “We had to start by targeting the sectors laid out under the Emergence Plan and bringing in certain companies. We were then able to demonstrate how Morocco can serve as a platform.”

> “If I had to sum up Morocco’s image in four words, I would say: stability, visibility, growth, and modernity.”
>
> **Abdellatif Maazouz,**
> Minister of Foreign Trade

Democratic reform and privatization of state monopolies are other factors that have contributed to stabilizing the country and strengthening the private sector. “Today, the Moroccan economic model is based on a partnership rationale,” says Minister of Economic and General Affairs Nizar Baraka. This is giving Morocco the confidence to seek a greater international role.

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Sponsored Section

STRATEGIC POSITIONING

» A GLOBAL ADVANTAGE

Globalization, for Morocco, is as much an opportunity as it is a choice. Its strategic position at the Strait of Gibraltar and geographic proximity to the markets of Europe, the Maghreb, and sub-Saharan Africa make it a natural platform for interregional trade and investment. Mediterranean transport routes pass by its shores and it is a junction for international flights. What is more, since the signing of multiple free trade agreements, including with the European Union, the United States, and Middle Eastern nations, Morocco has potential access to what Minister of Foreign Trade Abdellatif Maazouz calls "fifty-five countries and one billion consumers."

The relative maturity of its market has allowed Morocco to make important inroads into neighboring markets, while world market integration and international partnering are the priorities of the day. For Minister Maazouz this commitment to open markets is a compelling factor for foreign investment. "Morocco opens a huge market for companies that come and create value here."

The opening of the new Tangier Med port and terminal is a great symbol of Moroccan ambitions. Tangier Med is set to become the largest container port in the Mediterranean and will handle much of the growing traffic between Asia, Europe, and America's East Coast, just as the connected industrial zone is expected to attract onshore businesses. International names such as Dell, Accenture, and the Tata Group have recognized Morocco's potential and made the country their EMEA (Europe, Middle East, and Africa) near shoring headquarters. Similarly, suppliers to the aeronautics industry have settled in Morocco, manufacturing parts for Airbus and Boeing. Even traditional sectors are now attracting investment. Clothing retailers Mango, Zara, and Diego produce in Morocco. And Morocco's phosphates industry, already a world leader, aims for a further increase in production of 25 percent by 2012, with the help of foreign investors. The Jorf Lasfar industrial zone is under development and will be given to joint ventures with European, Asian, and U.S. investors.

> "Morocco, for Americans, is a strategic business location."
>
> **Saab Benabdellah,**
> Director General of the Moroccan Center for Export Promotion

And this should only be the beginning. The Central Bank hopes that Morocco's monetary, financial, and political stability will convince foreign banks to make the country their regional headquarters from which to invest in the Maghreb and French-speaking Africa. The Moroccan Center for Export Promotion (CMPE) in the meantime pursues a complementary promotional strategy. Established as a national focal point for trade and export development, it works toward forging closer ties between domestic and foreign businesses and toward raising the image of Moroccan companies abroad. In the mind of CMPE's director general, Saab Benabdellah, there can be no doubt that "Morocco is on the move."

BREAKING THE MOULD

>> FINANCIAL SECTOR ON THE MOVE

Morocco's economic development goes in tandem with the development of its banking and finance sector. Each requires the other to drive expansion and modernization, both major trends among Morocco's financial institutions. The banking system is well diversified in terms of products and services, but banking penetration overall remains low. Morocco is home to a strong domestic industry, even if concentration is high among the established players. The country's eight largest banks account for the vast majority of deposits, loans, and assets. The Moroccan Central Bank (Bank Al-Maghrib) in the meantime is aligning the banking sector with international risk and capital management standards and anticipates an advanced Basel II rating by 2010. The Casablanca Stock Exchange (CSE) is another target of the Bank Al-Maghrib. The CSE, which already enjoys an excellent standing, is being prepared for more foreign financial partnerships in an ambition to develop into a regional financial center.

Reaching into new or under-developed markets, whether at home or abroad, is a common growth strategy for Morocco's financial institutions. The Moroccan Bank of Foreign Commerce (BMCE) is a prime example of a bank using its domestic clout to drive its expansion. Part of Moroccan conglomerate FinanceCom, which has operations in banking, insurance, telecommunications, and media, BMCE is the kingdom's second-ranking bank. To finance its growth ambitions it profits from the country's growing economy and the possibility to cross-sell its products within the group. "We have to deepen the Moroccan domestic market. We are at 29 percent of banking penetration. We should be at least at 40 or 50 percent so there is room for improvement for domestic banks," explains Othman Benjelloun, president of BMCE. But increasingly, BMCE is also looking abroad. BMCE has developed interests in twenty-two countries; a London-based subsidiary, MédiCapital Bank, is to represent the company in the international corporate finance sector, and plans to establish BMCE as a strong regional player in Africa are under way. "A nascent multinational group of a Moroccan root," as Mr. Benjelloun describes the operation.

Expansion, however, can also mean a deepening of existing markets, as demonstrated by the bank Crédit Agricole Maroc (CAM). Traditionally oriented toward the rural population, the bank is finding itself uniquely positioned to benefit from a rapidly developing rural market. CAM has undergone a recent process of restructuring that has streamlined its services for the farming community, whether the bank is dealing with large or small farmers. "This is an organization that can serve as a model," insists Tariq Sijilmassi, chairman of CAM. "The objective is the financing of food, low-income banking, retail banking, and corporate finance." Forty percent of CAM's customers are small farmers who make use of the bank's microcredit facilities. The bank thus plays an important role in rural development, a fact that was duly recognized when the Ministry of Agriculture made CAM a main partner for the implementation of the Plan Vert and responsible for a funding system for farmers who are unable to get standard bank loans.

> "We are trying to bring our financial market, our capital market, and our insurance sector up to the best international standards."
>
> **Abdellatif Jouahri,**
> Director General of the Central Bank of Morocco

Another institution that has contributed to raising living standards in Morocco is the Credit Purchase Financing Company (SOFAC). At its inception in 1947, the original idea was for SOFAC to offer consumer credits for each Moroccan family to own an automobile, both as a measure to improve quality of life and also to support a young Moroccan automotive sector. More specialized today, and proving its success, SOFAC is still a leading player in the Moroccan consumer credit sector. And it remains faithful to its original credo. "We now work only with individuals and only operate with consumer credit, in order to be the experts in this field. Our corporate mission is to be a trader that allows individuals to improve their standard of living, which therefore helps the country's development," confirms Bachir Fassi Fehri, director general of SOFAC.

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TOURISM – A WORLD OF OPPORTUNITIES

» A BRIGHT VISION FOR MOROCCO

Tourism has long since developed into a mainstay for Morocco's economy. More than 7 million tourists visited in 2008, attracted not only by its sunny shores but by its distinct culture, history, and unique architectural heritage. Most visitors travel from Europe and enjoy quality tourism at comparatively low cost. Morocco believes in this competitive advantage and continues to invest.

Since tourism was made a national economic priority in 2001, the sector has followed an ambitious development strategy: "2010 Vision" is expected to raise the number of tourists to 10 million, bring hotel capacity to nearly a quarter-million beds, and lead to the creation of 600,000 new jobs. The emphasis is on product promotion, international partnerships, training, and institutional reform, as well as infrastructure development.

The National Company for Tourism Engineering (SMIT), the recently established Moroccan tourism organization, is responsible for the coordination of investment and facilitates partnership development. "We tell foreign investors: Come and make money here with us. It is this win-win partnership that can secure the sustainability of our development policy," says Omar Bennani, CEO of SMIT. Investors can enjoy financial packages offering significant tax breaks, as well as broader support measures, such as the training of personnel and the promotion of touristic facilities.

Investments are currently guided by a number of framework programs. The Azur Plan, for example will see the development of six new seaside resorts, two of which are set for completion in 2009: Saidia in northeast Morocco, developed in cooperation with Spanish investor Fadesa, and Mazagan to the south of Casablanca, developed in cooperation with the international Kerzner Group. Another program, the Mada'in Plan, aims at strengthening capacities in urban destinations, such as Marrakesh, Fez, and Casablanca.

NEW ENERGY

TOWARDS A SUSTAINABLE AND RENEWABLE FUTURE

Energy is food for growth. But as the country positions itself for further economic development, Morocco is struggling to meet rising demand. Highly dependent on external supplies - energy imports represent 96 percent of the total supply - Morocco is pushing ahead with urgent reforms to strengthen its energy sector. "In the medium and long term we will need to increase our production capacity because the country is growing rapidly and multiple sectors are increasing their electricity consumption," affirms Minister for Energy Amina Benkhadra. A total of 73 billion Moroccan dirham (MAD), about 7 billion USD, will be earmarked for investments in the energy sector up until 2012. A dedicated Energy Fund, endowed with 1 billion USD by foreign and domestic donors, is to furthermore finance a National Priority Action Plan for the attainment of greater energy independence. The action plan focuses on four measures in particular: promotion of energy efficiency, regional and international integration, rural electrification and, notably, the diversification of energy sources.

Diversification remains a particular challenge. Some twenty-nine companies are currently exploring for oil in an area covering 110 mining permits, seven recognition zones, and ten exploitation concessions, in an effort coordinated by the National Office for Hydrocarbons and Mining. Large unexploited reserves of bituminous shale are also beginning to attract investment. Morocco has signed agreements with Brazil and major international industry players to evaluate the full potential of its reserves, while a 100MW pilot plant is being developed to test electricity generation from shale.

Amina Benkhadra, Minister for Energy & General Director of ONHYM

However, it is the renewable energy sector that holds the promise of immediate relief and, given Morocco's abundant resources, of future expansion. Accordingly, the government is putting its weight behind the industry's rapid development. The short-term goal is to achieve an increase in renewable energy from the current 4 percent to 10 percent by 2012. Adding to existing capacities, large-scale installations are under way in Tangier, Tarfaya, and Ain Beni Mathar. But Morocco's ambitions are bigger still, as Minister Benkhadra explains: "We have decided to construct an industrial zone in Oujda for renewable energy technology with a section that will be dedicated to alternative energy forms, including areas expressly for the related suppliers and producers as well as an R&D hub." Oujda is to draw on direct cooperation with established industry players and help turn Morocco into a regional powerhouse for the renewable sector. Germany, Spain, Portugal, Ireland, and most recently the United States have already expressed their interest in the project.

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Farm Futures

Bringing Agriculture Back to U.S. Foreign Policy

Catherine Bertini and Dan Glickman

It is not easy for Americans to understand the starvation that afflicts much of the developing world. Families in the poorest parts of Africa and Asia spend up to 80 percent of their incomes on food; for the average U.S. household, that would mean an annual grocery bill of $40,000. Yes, there are hungry Americans in the millions, and the U.S. food-stamp program is operating at record levels. But hunger in the United States does not put tens of thousands of infants into hospitals and require them to be hooked up to feeding tubes. Nor does it lead to stunting, wasting, and debilitating forms of malnutrition, such as kwashiorkor and marasmus.

Yet even if Americans strain to comprehend the depth of hunger that plagues much of Africa and Asia, they do care about it. They know that chronic hunger among Afghans, Congolese, or North Koreans can pose a threat to their national security. Surveys conducted by the Pew Research Center have consistently revealed that Americans want to make ending hunger and poverty a priority for U.S. foreign policy. A recent survey conducted by the Chicago Council on Global Affairs showed that the American public feels

Catherine Bertini was Executive Director of the UN World Food Program from 1992 to 2002. Dan Glickman was U.S. Secretary of Agriculture from 1995 to 2001. They are Co-Chairs of the Chicago Council on Global Affairs' Global Agricultural Development Project, from whose final report this essay is drawn. The project's full report is available online at www.thechicagocouncil.org/globalagdevelopment.

aid to poor farmers overseas should play a more prominent role than any other form of U.S. development assistance.

Sadly, as global food emergencies have grown worse, the United States has been playing defense, desperately pouring $2.1 billion into food aid in 2008 to cope with a global food crisis that led to riots in more than 30 countries. Last year, a potent mix of high Asian demand, persistent drought in Australia, commodities speculation, high energy prices, and the diversion of crops to biofuels led to the greatest run-up in grain prices in decades. And although most food prices have since declined somewhat, many of the world's poor are still going hungry.

With the Obama administration struggling to address an economic crisis at home, the question arises, how much money will be left for the world's hungry? With the growing intensity of domestic economic distress, some Americans may have little interest in even considering that question. Yet the consequences of neglect would be immense. The Obama administration should make agricultural development its number one priority for foreign aid and actively enlist support from other donors and the International Monetary Fund and the World Bank.

A NEW APPROACH

THE GREATEST successes in economic development in history have begun with agriculture: the agrarian revolutions in England and France, which set the stage for the Industrial Revolution; the green revolution in South Asia in the 1960s and 1970s; and the mass movement of rural Chinese farmers out of poverty in the 1980s under Deng Xiaoping. All allowed farming communities to overcome hunger that had limited worker productivity, to increase rural income, to provide locally for the food needs of growing populations, and to improve school attendance.

The traditional approach to development—attacking poverty and assuming that rising incomes will take care of hunger—has simply not worked well enough. Developing countries must take the battle to where the problem lives: rural farming communities that often have little connection to markets, even domestic ones, and, as a result, have not profited from traditional investments in development. Roughly 80 percent of the hungry in Africa live on small farms. In these communities, the farming is done largely by women, who have traditionally received meager support for farm inputs, few loans to buy equipment, and little education in better farming methods. Yet worldwide, women own barely two percent of the land and receive only five percent of agricultural-extension services. Targeting and adapting agricultural development assistance to female farmers, who also are primarily responsible for the nutrition of their families, is one of the most important and most neglected ways to increase rural incomes and food availability.

Meanwhile, as the West focuses on climate change and debates carbon credits and limits on industrial emissions, massive damage is being done to the environment in developing countries, where a lack of agricultural technology and infrastructure perpetuates bad farming practices. Pressure on water and land resources has even become an element in regional political conflicts, as in Darfur.

Fortunately, Africa has significant untapped land resources and fertile soil that could be developed responsibly. More land could be brought into production if farmers moved away from rain-fed, low-technology agriculture, which is is vulnerable to the vagaries of the weather, and if inputs such as improved seeds and fertilizers were delivered to small farmers. What might all this cost? Some nongovernmental organizations (NGOs) and academics label current U.S. food donations a "Band-Aid." Well, if the Band-Aid alone is costing billions, what would it cost to cure the disease? The UN's Food and Agriculture Organization (FAO) recently set the price tag at a frightening $30 billion in additional annual investments globally, almost double the entire foreign-aid budget of the United States.

That level of investment is not likely needed—and anyway, developing countries could not likely absorb it immediately if it were provided. But regardless, fear of the eventual costs should not be the primary factor in determining whether to press ahead. With the number of people living with hunger now rapidly approaching one billion, it is time for the United States to show renewed leadership—and once again be seen as an innovator. Putting agriculture back at the center of U.S. development aid should be a key element in a foreign policy that reintroduces the United States to the world.

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. . . PAVED WITH GOOD INTENTIONS

How did food once again become such a serious political issue? Some observers have rightly pointed out that the current global strain on food supplies is, in fact, very familiar. During the last energy crisis, in the mid-1970s, a similar price surge in food occurred; President Richard Nixon even cut off exports of soybeans to Japan. The Saudis stepped in with large cash donations to the UN food agencies, and world leaders solemnly assembled for a food summit in Rome, just as they did last June.

There were promises of reform in the mid-1970s—just as there are today. But as soon as price pressures subsided, as they are doing again now, little changed, and agriculture quickly dropped down the list of development priorities. Because global food prices were declining, the global community overlooked the fact that hunger-related diseases steadily held their place as the number one threat to health globally, claiming more lives than AIDS, malaria, and tuberculosis combined.

U.S. policy has been to treat the symptoms of hunger with food aid. Food for Peace and other such U.S. programs have carried out the single greatest humanitarian effort in history, saving tens of millions of lives and supporting child nutrition and education for the world's poor. But it is time to address the underlying causes of the disease rather than treating just the symptoms.

Some analysts point out that, ironically, the very institutions that have downplayed the importance of agriculture for much of the last few decades—the World Bank, the World Trade Organization, the U.S. Agency for International Development (USAID), and the major NGOs—are now lining up, hats in hands, seeking donor funds for agricultural development to fix problems that their neglect helped create. But assigning blame is not constructive. Besides, there were advocates in all these agencies who saw the threat even before the numbers of hungry started to climb again in the mid-1990s.

Still, even a cursory analysis of how major donors have funded development will show that farming has long taken a back seat to more politically fashionable projects. This neglect of agriculture was reinforced by the success of the green revolution and by relatively low global grain prices, which made agricultural development seem a lower priority.

In fact, the United States has been feeding needy people abroad ever since a U.S. food shipment was first dispatched to help Venezuelan earthquake victims nearly two centuries ago. And it was the United States that created the concept of modern development assistance after World War II. After spending hundreds of billions of dollars on foreign aid, any American taxpayer—especially in this economy—has the right to ask what happened to the aid sent in the past. Some of it was no doubt wasted or even stolen, but that is far from the whole explanation. The broader question remains: If the ranks of the hungry and malnourished have once again begun to swell, just what went wrong?

First, Washington has invested too little money and talent in combating the root causes of hunger. U.S. aid to agriculture in Africa has dropped 85 percent since the 1980s. Although the United States has led the world in food aid for Africans, it has spent 20 times as much on food aid as on helping Africans better feed themselves. Since 1980, USAID's staff has been cut nearly by half and agricultural specialists have been virtually eliminated. And in 1993, the House Select Committee on Hunger was disbanded, removing an important legislative venue for highlighting the social and political impact of hunger and malnutrition.

Washington has invested too little money and talent in combating the root causes of hunger.

In real 2008 dollars, U.S. investment in agricultural development abroad dropped from $400 million a year in the 1980s to only $60 million in 2006. This occurred despite the fact that there was virtually no improvement in grain yields in Africa during that time. Washington was not alone in reducing funding. Other donors—and even the developing countries' governments themselves—all followed suit in neglecting agriculture. When funds were provided for agricultural development, donors often focused on stimulating investment, but hunger and malnutrition are most prevalent in rural areas where no one would likely invest to begin with.

In the 1990s, China, now the world's largest food producer, boosted its agricultural-research expenditures by 82 percent, and the developed world collectively spent 36 percent more in those years, even when food prices were historically low. By contrast, in Africa, the increase in agricultural-research funding was a mere 7 percent during this period. Exacerbating the situation was the fact that the United States cut its aid for agricultural research in Africa by 75 percent between 1981 and 2000. Between 1980 and 2003, total global official aid to developing countries for agricultural research fell by a staggering 64 percent, from $5.3 billion to just $1.9 billion in 1999 dollars.

What has distorted the picture even more is that the lion's share of public and private investment in agricultural research has been spent on temperate-climate crops, such as those grown in Europe, Japan, and North America. Much of that research is of marginal use in tropical and subtropical Africa. It has done little to help Africans cope with the growing impact that climate change and variations in rainfall have had on agricultural systems already vulnerable to cycles of drought.

Second, aid efforts have been hampered by developed countries' shortsighted trade and economic policies. The European Union, Japan, and the United States have continued trade policies and crop subsidies that have made it impossible for poor African and Asian farmers to compete. Biofuel programs—in some cases because investment came before the right technologies were in place—contributed to the historic global rise in grain prices in 2007 and 2008, as cropland moved from food production to producing raw materials for conversion into fuels. Military and other commercial interests, in themselves legitimate, have also intruded on foreign aid, reducing and distorting the effects of assistance. The Bumpers Amendment, which precludes funding agricultural projects that help developing countries produce crops that might compete with U.S. farmers, has further hampered aid efforts.

Third, not enough was done to keep multilateral institutions such as the development banks and the FAO focused effectively on hunger. Although the World Bank neglected agriculture for decades, it is now mending its ways and doubling its agricultural investment. But the FAO, despite some good work on issues such as biotechnology and technical standards for trade, has failed to deliver many successful programs and has developed a reputation with donors for poor management. A recent independent evaluation of the FAO devoted most of its 400 pages to cataloging the organization's administrative shortcomings. The U.S. State Department has been on the losing end of

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a decades-long battle between donors and developing countries over control of the agency, with the FAO's management exploiting the friction and often casting the United States in the role of a rich bully.

Finally, aid to end hunger has been distorted by the imposition of Western political views. In the 1980s, the political right pushed hard to reduce the role of the public sector in supplying development aid, arguing that unfettered private markets always do a better job. But this premise ignores the fact that markets in the world's most successful agricultural economies have often been anything but free of public intervention and government subsidies. Why should Africa be expected to be different?

The UN Development Program has calculated that the largest movement of people out of poverty in history took place in China in the mid-1980s, when Deng introduced a mix of free-market economics and subsidies for rural farmers. Democratic and increasingly free-market India, in contrast, continues to struggle with millions of chronically malnourished people, even though it has the largest domestic food-aid program in the world. In the United States and Europe, the necessity of some subsidies in agriculture, especially for land and water conservation, is widely accepted. No one has found a way to make the United States' own small farms competitive in a free market without public subsidies of one kind or another. Nonetheless, for decades, the World Bank and many Western aid agencies preached a rather purist version of free-market capitalism, without subsidies, as the solution to the hunger problems of developing countries. To those countries' government officials, many educated in the United States and Europe, it must have sounded like a treatise on chastity penned by Casanova.

On the left, agricultural-development aid has been hampered by opposition to agricultural modernization and mechanization from some environmentalists and NGOs. A few of these opponents exhibit a nearly Luddite-like aversion to modern agricultural innovation, especially with regard to genetically modified (GM) crops. Worries about using excessive water or chemicals, which made sense when it came to the countries of the old green revolution, simply do not in the context of nonirrigated Africa. Rather than adapting development approaches to local conditions, both the right and the left have seemed wedded to a one-size-fits-all ideological approach.

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The United States is generally seen as the major proponent of agricultural approaches that reflect the ideology of the right; the continental European donors are most often seen as the advocates of the left. (The United Kingdom remains apart, a mix of the two.) One upside of the latest global food crisis has been a willingness to begin to move away from self-defeating rigidities on both ends of the political spectrum; food riots have a way of concentrating minds and opening them up to new possibilities.

CHANGE AT HOME

AFTER THE 2007–8 global surge in food prices led to widespread protests, UN and donor task forces began to multiply. Interestingly, much of the thinking they have produced is not all that new. And it is surprisingly consistent: calls for liberalizing agricultural trade, scaling back subsidies to farmers in the developed world, increasing investment in agricultural research, and providing education to poor farmers. Indeed, the basic formula for a solution to hunger and rural poverty in Africa and other developing regions has not changed that much, although some new elements are clearly needed.

If the United States is to lead this effort, it must first clean up its own house. It should strengthen and coordinate its aid efforts at the executive-branch level through the National Security Council, giving much increased attention to agriculture, hunger, and malnutrition as part of an overall "soft power" approach. Aid must again play a bigger part in U.S. diplomacy, and State Department staffers must become more actively engaged.

Washington should also strengthen the leadership role of USAID. The administrator of USAID should head the Millennium Challenge Corporation and the President's Emergency Plan for AIDS Relief. And agriculture-focused staff at USAID and the U.S. Department of Agriculture should be increased, and the Peace Corps should create a special cadre devoted to agricultural development.

Congress should pass the 2008 Lugar-Casey Global Food Security Act as part of a drive to boost funds for agricultural research, education, and extension, with particular support for a second green revolution, this one in Africa. The inherently inefficient "monetization" of food aid,

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in which donated U.S. food is sold locally to generate development funds, should be scaled back. The Bumpers Amendment should also be scaled back, especially as it relates to developing countries, and the cost of cargo preference should be shifted within the government, thus freeing up resources for agricultural development and emergency food aid. The House Select Committee on Hunger should be reestablished, so that there is a focal point in Congress for debate and oversight over global hunger and malnutrition.

In the field, the United States needs to adopt different tactics in designing both agricultural-assistance projects and food-aid operations. It should strengthen research, training, and other links between the U.S. land-grant universities and historically black colleges in the United States and their counterparts in the developing world and encourage them to work on specific issues, especially communications technology in agricultural-extension work. It should better address the impact of drought and climate change on small farmers, with measures such as basic crop insurance and the innovative famine-insurance proposal based on rainfall indicators devised by the World Food Program and the World Bank. It should jettison preconceived ideological approaches to aid and show more flexibility on issues such as subsidies and GM foods. It should coordinate U.S. aid better at the country level, both internally and with international institutions and NGOs. And it should purchase more food locally to stimulate market development in sub-Saharan Africa and South Asia.

If the United States is to lead the effort, it must first clean up its own house.

Washington also needs to start listening better to the Africans and Asians in need. This means better engaging with rural communities, and especially women, in designing local agricultural projects; partnering with developing-country governments, NGOs, and the private sector to help shape agricultural strategies; and cooperating more with regional entities in Africa, such as the New Partnership for Africa's Development (NEPAD) and its Comprehensive Africa Agriculture Development Program, the Southern African Development Community, and the African Union. The Alliance for a Green Revolution in Africa is becoming a vehicle for agricultural development partnerships between donors, developed-country institutions, and African public and private institutions and is well placed to work with the United States in promoting agricultural education, adaptive research, and extension focused on smallholder agriculture. Above all, the United States must focus on the 400 million small farmers and their families in Africa who are most vulnerable to hunger, especially the women. Since eight out of ten farmers in Africa are women, and six out of ten in Asia are women, women's unique needs must be better addressed in all U.S. aid efforts.

There are other critical policy initiatives in agricultural development that the Obama administration is unlikely to be able to undertake on its own. Reform of the FAO is an obvious one, given the failure of reform efforts in the past. But the most essential one is reforming the global trade and subsidy policies that have unwittingly hurt poor farmers in the developing world. Any move in that direction, whether within the context of renewed World Trade Organization negotiations or not, will not be politically viable without the cooperation of the European Union, Japan, the Cairns Group of 19 agricultural exporting countries, and other major trading nations. Some unilateral trade and subsidy reforms are theoretically feasible, but U.S. farm groups will be reasonably skeptical of any concessions that are not balanced by greater market access abroad for their food exports.

THE NEXT GREEN REVOLUTION

There is a widespread tendency to despair about hunger in Africa. But despite the rise in malnutrition rates on much of the continent, many countries have managed to feed booming populations on their own. The United States is now spending billions on food aid, but the actual tonnage delivered is at the lowest level since the Kennedy administration and is increasingly used for emergency situations, such as in Darfur. However precariously, most Africans are largely being fed with their own local production and with commercial imports.

Egypt, for example, has given priority to agricultural development and has managed to wean itself from food aid, even as its population has more than doubled since the 1970s. Throughout Africa, some progress is, in fact, being made even where there is not adequate support for the agricultural sector. Accordingly, there is little doubt

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that a U.S. foreign-aid policy refocused on agricultural production could yield significant results, especially if African leaders follow through on the promises they have made in NEPAD to raise domestic investment in the farming sector and to allocate at least ten percent of their own budgets to that sector.

Is it realistic to expect the United States and other donor countries—which have just pledged over $3 trillion to prop up a teetering global financial structure—to suddenly pour even more funds into the task of ending global hunger? Will President Barack Obama be in a position to mount a massive aid campaign for the hungry poor in Africa and Asia when confronted with a huge, $664 billion current account deficit and declining household wealth? Official development assistance from members of the Organization for Economic Cooperation and Development had already begun to decline before the global financial crisis, slipping from $104 billion in 2006 to $102 billion in 2007. And much of the apparent gains in development assistance in recent years have been in the form of debt forgiveness, which does little for the hungriest and poorest countries (which were never rich enough to acquire much debt).

To a degree, private megadonors, such as the Bill & Melinda Gates Foundation, are stepping in and making up the funding shortfalls. The Gates Foundation has made agriculture a priority, with new funding for seed development, agricultural extension and education, and market development. Along with the Rockefeller Foundation, the Gates Foundation is the principal supporter of the Alliance for a Green Revolution in Africa, which holds great promise. But the collapse in the global stock exchanges has spared few foundations, private donors, or universities. Even those donors with the best of intentions cannot give away money they do not have.

The bottom line is that the Gates Foundation and others will no doubt have a positive impact on agricultural development—especially as efforts to promote a second green revolution bear fruit. But private donors will never be able to do enough on their own, especially since some of the obstacles to ending hunger stem from misguided economic policies, both international and domestic, rather than a lack of donor funding. Even with these historic opportunities for successful public-private partnerships, an effective response to global hunger will also require new political commitments by governments.

The global funding picture is, of course, not an encouraging one. But it is a mistake to think that the sheer size of the aid investment is the sole measure of success. Historically, by far the most effective U.S. initiative against world hunger, the promotion of the first green revolution, was a relatively inexpensive intervention, spurred at first by private donors, principally the Rockefeller and Ford Foundations. Progress is possible without investing all that much more in public funds.

The chance for the United States to help save millions of lives ought to be enough to justify giving top priority to food and agriculture in U.S. foreign aid, as well as enlisting the help of other G-8 members and new partners. But there are other clear benefits to the United States as well. The Bush administration's heavy funding of AIDS initiatives, such as the President's Emergency Plan for AIDS Relief, and its consistently taking the political lead on the issue of Darfur were seen by African leaders as a sign that the continent had finally found its rightful place on a U.S. president's agenda. Africa is one of the places that George W. Bush could visit today and still expect a hero's welcome. No doubt, even more will be expected of Obama.

Making foreign aid, especially to the hungry and poor, a central part of the National Security Council's mandate is logical for a new administration that seems to recognize the limits of force in global politics. Doing this would also mirror recent moves at the UN to break down the walls between debates on humanitarian issues and debates on political issues. Increasingly, in part because of the situation in Darfur, the UN Security Council has turned to humanitarian aid when confronting political problems.

A global initiative against hunger led by the United States would further enhance the United States' reputation in the developing world and be less likely to be seen as politically or ideologically motivated. Unlike a "war on terror," a "war on hunger" attracts few critics and can even help defuse domestic conflicts in areas that are already inherently unstable, such as the Democratic Republic of the Congo, Somalia, and Sudan. Meaningfully engaging the land-grant university system in the United States and the U.S. private sector as part of this initiative would no doubt strengthen them as well and even create export opportunities for U.S. goods and technology.

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Although there is the potential for conflict over a hunger initiative on the issue of introducing more GM crops, this conflict is more likely to be with Europeans than with Africans or Asians, both of whom are increasingly inclined to accept the technology. There will no doubt be NGOs, especially in Europe, that will see U.S. efforts on seed research and dissemination involving GM-crop technology as some secret plot to support Monsanto, but they are likely to be in the minority. The issue is not how such an initiative will be perceived in London but how it will be seen in Lusaka.

THE HAND THAT FEEDS

THE SPIKES in food prices last year brought down at least one government (in Haiti) and worried many others, prompting them to impose food-export restrictions and other counterproductive measures in order to support domestic agriculture. The link between food insecurity and politics is not always straightforward: widespread hunger does not inevitably have severe political consequences, and the modern state has shown a remarkable ability to suppress political dissent even under the most appalling economic conditions. Yet there is a connection.

The relationship between hunger and political instability is often subtler. For example, there is evidence that Islamic fundamentalists in Afghanistan and Pakistan are using free food to lure hungry students into madrasahs that preach hate and extremism. There is also evidence that the Taliban are successfully recruiting in areas of Afghanistan where agriculture is failing. Hunger can make the desperately poor willing to do the bidding of any hand that feeds them.

Most important, there is a compelling moral case for President Obama to move hunger and malnutrition to the top of his list of aid priorities. No mother anywhere should have to see hunger in the eyes of her child or trade away her future for a simple meal. Reaching out to those in need will do as much for the United States as for those it helps.

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The Key to Kiev

Ukraine's Security Means Europe's Stability

Adrian Karatnycky and Alexander J. Motyl

On January 7, 2009, after an unexpectedly severe disagreement between Russia and Ukraine, ostensibly over natural gas prices, Moscow cut off gas supplies to Ukraine. Then, Ukraine did the same to Europe. European reserves soon dwindled, and with neither Russia nor Ukraine willing to give in, it took intense European pressure to lead both parties to reach a compromise agreement, which they did on January 18. Russia got higher prices for its gas, and Ukraine got a modest price rise in 2009, relative price stability, and favorable terms for gas transit costs.

The crisis made clear—yet again—several lessons that Western policymakers routinely forget. First, although the feud apparently centered on prices, pipelines, and transit fees, it was driven primarily by geopolitics. Moscow cared less about economic disagreements than about undermining Ukraine's pro-Western president, Viktor Yushchenko; gaining control over Ukraine's energy pipeline system in exchange for forgiving Ukraine's mounting gas debts; and building support in the West for Russia's plans to bypass Ukraine's gas pipeline system with a new network by emphasizing that Ukraine was an unreliable transit country. Second, Ukraine is one of Europe's largest states, and with 20 percent of Europe's gas supplies flowing through

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Adrian Karatnycky is a Senior Fellow at the Atlantic Council of the United States and Managing Partner of the Myrmidon Group LLC. Alexander J. Motyl is Professor of Political Science at Rutgers University in Newark, New Jersey.

it, it is of great geoeconomic and geostrategic importance. Third, deteriorating Russian-Ukrainian relations could seriously undermine the interests of the European Union, and the United States, both by stoking instability in eastern Europe and by promoting authoritarianism and ultranationalism there. Fourth, Europe can make a big difference in managing Ukraine's relations with Russia. And fifth, securing Ukraine's future as a reliable strategic partner of the West will require just as much engagement as relations with Russia will.

AFTER THE ORANGE REVOLUTION

UKRAINE'S CURRENT troubles—a deepening economic crisis, a gas war with Russia, internal regional divisions, and a fractious political elite—suggest that the country may be headed toward a period of serious instability similar to its first years of independence, in the early 1990s. This is not what was expected in December 2004, after the triumph of the Orange Revolution—the nonviolent popular movement that reversed a fraudulent vote for president, ensured the free and fair election of Yushchenko, and helped liberate Ukraine's media from government intimidation. But hopes for fundamental reform were soon dashed by the aftereffects of Yushchenko's dioxin poisoning in 2004, which sapped his energy and limited his capacity to quickly consolidate power: he proved indecisive, and his administration seemed unable to move beyond its efforts to undermine the coalition headed by his former Orange Revolution partner Prime Minister Yulia Tymoshenko. Ukraine has had four different governments in four years.

Ukraine's Hobbesian politics have encouraged corruption, rent seeking, and the inordinate influence of special interests. These problems could be ignored while GDP growth averaged over 7.2 percent per year, as it did from 1998 through mid-2008, and personal incomes rose at an average of over 20 percent per year, which they did over the last five years. But the global economic crisis and Ukraine's economic reversals of the last few months have changed that. Industrial production has declined by 30 percent year on year amid the slowdown in global demand for steel and chemicals, two drivers of Ukraine's exports. Most analysts doubt that the state will default on its sovereign debt (which amounts to 20 percent of GDP). However, some Ukrainian banks are expected to fail, and Ukraine's combined corporate and government debt of $105 billion is considered by the international market to be among the most risky in the world: Ukrainian Eurobonds trade on the open market at interest rates exceeded only by those of bonds from Ecuador. The value of Ukraine's currency, the hryvnia, has fallen dramatically, dropping from 4.5 hryvnia to the dollar last summer to over 8 hryvnia to the dollar in March 2009. This decline is particularly devastating for Ukrainian consumers and businesses. Many flocked to lower-interest dollar- and euro-denominated loans in 2007–8, when the national currency was gaining strength against those currencies, and now must repay loans whose interest has nearly doubled in local-currency terms.

In an internal government memorandum issued January 6, 2009 (and published online by *Ekonomichna Pravda*), Ukraine's finance minister, Viktor Pynzenyk, a staunch adherent of fiscal discipline, warned that Ukraine's GDP could decline by well over five percent in 2009 and that state revenues would also decline sharply. He predicted that although there should be enough revenues to pay for state-sector wages and pensions, virtually all other government expenditures—funds for the maintenance or development of infrastructure, subsidies for home energy and electricity costs, contributions to local and regional budgets—would not be financed. Pynzenyk declared that government receipts from taxes, tariffs, and fees would be nearly 30 percent lower than the projections made in September 2008. Just over a month after his forecast, Pynzenyk resigned, citing his unwillingness to implement politically motivated economic policies.

Not all analysts make such dire predictions, but it is clear that Ukraine's economic trajectory is veering steeply downward and that the severity of the crisis will test the country's fragile internal balance. Unfortunately, Ukraine's squabbling elites are not up to the task of dealing with the crisis. Underlying their fractiousness are personality differences and competing political ambitions: Yushchenko and Tymoshenko, for example, appear to hate each other, and both want to be president.

Worse, Ukraine has significant institutional weaknesses. Its flawed constitution divides power between the president and the prime minister in a manner destined to produce conflict. (This dysfunctional

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system was a parting gift from the old regime, an arrangement negotiated in return for Yushchenko's victory in the Orange Revolution.) The presidency is strong, but the roles to be played by the president, the government, and the parliament over many state functions are not clearly delineated. The prime minister is responsible for economic policy and government performance, for example, but the president has the right to appoint key officials, including not only those associated with foreign policy, defense policy, and national security but also governors who are responsible for implementing economic policy at the local level.

The two leading pro-Western party alliances—the Yulia Tymoshenko Bloc and the formerly pro-Yushchenko Our Ukraine–People's Self-Defense Bloc—do not trust the leading opposition force, the Party of Regions, which still has a strong pro-Russia constituency that is suspicious of Europe and the United States. That distrust has precluded grand coalitions and unity governments. Although all three parties broadly agree on the desirability of democracy, a free market, and good relations with both the West and Russia, they function as accessories to rent-seeking interest groups, business oligarchs, political entrepreneurs, and ideological subgroups—meaning that they display little discipline and much incoherence. Regional differences in Ukraine between the largely Russian-speaking eastern and southern parts of the country and the largely Ukrainian-speaking central and western parts inject identity politics into everything, making compromise difficult. Unlike in other, equally fractious central and eastern European countries, the postcommunist elites in Ukraine have never been given a clear signal from Brussels regarding Euro-Atlantic integration. And without this, they have nothing around which to rally despite their differences.

A NEW COUNTRY

AGGRAVATING THESE already difficult circumstances is the fact that Ukraine faces yet another political transition: the 2010 presidential election looms. Just after the Orange Revolution, Yushchenko's approval ratings were well over 60 percent. Today, only between 2.4 percent and five percent of the public supports him. Although

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Yushchenko has been a strong defender of civil society and the freedom of the press and generally has reduced state interference in the economy, his record on combating corruption has been disappointing and his staff has sought to pressure the judiciary. He is a strong advocate of energy diversification and NATO integration (the latter a policy that only 28 percent of the Ukrainian public supports), but his efforts on both have yielded little result. He has even lost control of his own political movement, Our Ukraine–People's Self-Defense: last fall, a majority of his bloc's legislators ignored his calls to bring down the Tymoshenko government. As one high-ranking Ukrainian minister put it, "How can you manage a country when you can't even manage your own party?" As Yushchenko's political star has fallen, Tymoshenko's has risen. But with the Ukrainian economy in free fall, her recent victory over Yushchenko may prove pyrrhic. Charismatic, self-confident, and highly skilled, Tymoshenko has withstood the combined pressure of the president and a powerful opposition and has managed to consolidate power at a time of economic crisis. Tymoshenko is something of a political chameleon. She is both a populist who has sometimes called for nationalization and a frequent proponent of rapid privatization; she flirts with and then rejects social democracy. She argued in a 2007 article in these pages that Ukraine should be considered a bulwark of the West against an expansionist Russia, but just 18 months later she declared that Russian concerns about Ukraine's place in NATO needed to be taken into account.

Prime Minister Tymoshenko is something of a political chameleon.

Erstwhile allies during the Orange Revolution, the president and the prime minister now engage in endless mudslinging, and neither is willing to compromise. Yushchenko and his staff have accused Tymoshenko of "treason" because of her efforts to reach accommodation with Moscow. Last December, a top Yushchenko aide denounced Tymoshenko's ties to the American billionaire George Soros, whom he described as "an international currency speculator." In February, Yushchenko and his National Security and Defense Council directed the prosecutor general and the state security service to investigate the gas agreements that ended last winter's stalemate with Moscow, which

Tymoshenko helped broker. They were eager to show that she had made secret agreements that injured Ukraine's interests and endangered the country's control over energy pipelines. In early March, Yushchenko's security service appointees launched highly questionable operations against Tymoshenko, including raids of the State Customs Service and the state oil and gas company, Naftohaz Ukrainy, which are subordinate to the prime minister's office. Ostensibly investigations into criminal violations of customs procedures and property rights, these operations in fact seem to have been conducted on behalf of the shadowy business interests that back Yushchenko and seek to undermine Tymoshenko.

In reality, the gas deals that Tymoshenko helped broker may very well be in Ukraine's interest. Although Ukraine agreed to pay a high price for Russian gas in the first quarter of 2009—$360 per 1,000 cubic meters—it will have purchased only a little over ten percent of its annual import needs at this price. According to Ihor Didenko, first deputy chair of Naftohaz Ukrainy, in the second half of this year, when Ukraine will purchase over 60 percent of its annual gas from Russia, it will be paying around $200 per 1,000 cubic meters, only about 11 percent more than the below-market prices it paid in 2008.

Meanwhile, Tymoshenko has struck back at Yushchenko with equally loaded claims. She has accused the president—and the head of the central bank, whom he appointed—of conspiring to bring down the value of the hryvnia. She has also charged Yushchenko with being an agent of RosUkrEnergo, a secretive private gas-trading group that has made billions of dollars as an intermediary for transactions that require no intermediary. Since the new Russian-Ukrainian gas deal eliminated the company as the middleman, RosUkrEnergo has been making common cause with the president's key advisers and segments of the opposition Party of Regions in order to bring Tymoshenko down.

The Party of Regions, which derives most of its electoral support from Russian-speaking eastern and southern Ukraine, should be the primary beneficiary of the incessant infighting within the formerly united Orange camp. Instead, it has been incapable of serving as an effective opposition and has been beset by factionalism under the influence of different business lobbies. Some analysts suggest it may even be on the verge of a formal split. The party's leader, Viktor Yanukovych, is currently the presidential front-runner, according to most polls, but the level of support he enjoys, which hovers somewhere around 25 percent, is generally about ten percentage points lower than the share of the vote that his party has garnered in past elections. This is probably because the economic crisis has cost him some support from the party's traditional electorate, in Ukraine's eastern industrial heartland, which has been hit hard.

Unsurprisingly, polls indicate that most Ukrainians want new leaders. Arseniy Yatseniuk, another presidential contender, who is touted by some as the Ukrainian Obama, was removed as speaker of parliament in November 2008 with the help of his former patron, Yushchenko. An English speaker and someone who projects an image of a modern European politician, at 35, he has already served as an effective acting head of the central bank, economy minister, and foreign minister. A strong proponent of social liberalism and much admired by younger voters and entrepreneurs, Yatseniuk has injected a refreshing tone into Ukrainian politics by refraining from calumny and promoting competence and professionalism. Because he was jettisoned by the president and his allies, he has the reputation of an outsider—a highly valued commodity at a time when the public is likely to blame insiders for the economic downturn. His approval ratings have moved from several percentage points in the fall of 2008 to 12 percent last winter. If he maintains such support, he has a legitimate chance to make it to the runoff in the 2010 presidential election. And at least one poll, conducted in March 2009, showed that if he made it that far, he would then defeat either of his likely rivals, Tymoshenko or Yanukovych.

THE RUSSIA PROBLEM

Despite these weaknesses and political uncertainties, Ukraine will not collapse, as Russia's ultranationalists have predicted. Ukraine is now an established member of the international community, and if some internationally recognized states do fail, other than after a foreign invasion, they rarely disappear. In the years since independence, Ukraine has developed political and economic elites who identify with Ukrainian statehood, see immense economic benefits in the country's independence, and define themselves as Ukrainian. The allegiances of some may tilt toward Russia, and those of others, toward the West, but almost no member of these elites actually wants Ukraine to disappear as a state. The vast majority of Ukraine's population also regards Ukraine as its homeland. Although significant minorities identify with Russia, especially in eastern Ukraine and in the Crimea, the political and economic elites that rule these regions are generally loyal to Kiev, not Moscow. Ukraine's population is deeply divided along overlapping regional, linguistic, cultural, and political lines, but such divisions are common for almost all modern states and do not, in and of themselves, portend collapse.

Systemic weakness means both that Ukraine's flawed democracy is unlikely to fix itself in the short term and that the situation is equally unlikely to deteriorate. Ukraine is too fractured and too weak to have either a strong democracy or a strong dictatorship. Politically and economically, Ukraine will probably continue to muddle through, more or less as it has since 1991. The difference is that whereas muddling through may have been good enough in the 1990s, it no longer is today. Back then, Russia was weak and quiescent, its leadership was democratic, its relations with the West were generally good, and the world economy was growing. Today, Russia is standing tall after a long period of high growth, it is stronger and appears to be getting more aggressive, its leadership is authoritarian, its relations with the West are generally strained, and the world economy is in free fall. Just how Russia would respond to a further weakened and possibly brittle Ukraine is impossible to forecast with any accuracy, but given Russia's regime type and its power today, a nondemocratic Russia might well take advantage of Ukraine's increased weakness.

The Russian-Ukrainian gas war is not over; the current cease-fire will eventually break down.

The regime created by Russian Prime Minister Vladimir Putin has been called everything from a "managed democracy" to a "fascist-like state." Whatever the exact designation, it is surely nondemocratic, authoritarian, and assertively nationalist. Civil society and the media have been curbed, elections are neither free nor fair, the legislature is subordinate to the executive, and real power lies not in the hands of President Dmitry Medvedev but largely in those of Putin, the ex-president. Freedom House has labeled Russia "not free" since 2005.

According to polls conducted in January 2009, some 62 percent of Russians are negatively inclined toward Ukraine and 24 percent are positively inclined. (In contrast, the same polls showed that only 9 percent of Ukrainians have negative feelings toward Russia, whereas 71 percent have positive ones.) This is not surprising. During the recent gas crisis, the Russian media—now pliant government instruments—almost uniformly portrayed Ukraine as an aggressive and greedy state that wanted to ally with Russia's enemies and exploit cheap Russian gas. Anti-Ukrainian attitudes in Russia also derive from anger at Ukraine for having precipitated the Soviet Union's collapse by pressing for independence and for having thus deprived Russia of its historic and imperial legacy. Moreover, Ukraine's 2004 Orange Revolution challenged Putin's authoritarian model of government in Russia by suggesting that democracy was possible, even in post-Soviet conditions, in a neighboring Slavic state.

Ukraine's current weakness presents Putin's Russia with three targets of opportunity: energy, minority rights, and control over the Crimea. The current gas agreement between Russia and Ukraine is supposed to last for ten years, but that is unlikely to deter either side from attempting to renegotiate its terms. The Russian-Ukrainian gas war is not over; the current cease-fire will eventually break down.

Leading Russian politicians and Russia's lower house of parliament, the Duma, have repeatedly insisted that Ukraine is persecuting its Russian minority by depriving it of language and cultural rights. Russian language and culture actually dominate Ukraine's public sphere, but Moscow nonetheless portrays the Ukrainian government's desultory attempts to expand the use of Ukrainian in the media and schools in the traditionally Russian-speaking eastern and southern parts of the country and the more Ukrainian-oriented central and western parts as outrageous violations of human rights. Most Ukrainians generally manage to communicate in some combination of both languages, but charges of anti-Russian discrimination can serve as effective rallying cries for antigovernment opposition movements. More important, perhaps, they could easily become pretexts for Moscow's interference on behalf of Russia's supposedly oppressed ethnic brethren.

Then there is the disputed status of the Crimea. Russian nationalists decry Soviet leader Nikita Khrushchev's decision in 1954 to grant the Crimea to Ukraine. They also insist that the peninsula is of enormous importance to Russian identity—citing, among other things, the Crimean War and the World War II conference in Yalta—and point to the large Russian population there, as well as the long-standing presence of the Russian Black Sea Fleet in Sevastopol. A source of complication is a rapidly growing, disproportionately young, and largely Islamic Tatar population in the Crimea, which blames the Russians for seizing their property in the aftermath of Stalin's ethnic cleansing in 1944 and the Ukrainians for doing too little to redress past injustices. With its deep ethnic rifts, its hosting of a foreign military base, and its great economic potential (as a tourist area and as a zone for offshore drilling for gas and oil), the Crimea could easily become the target of Russia's expansionist policies or, at a minimum, remain the target of Russian nationalist agitation. Either way, it may be a source of major instability for Ukraine.

MANAGING MOSCOW

Russia's treatment of Ukraine carries risks for the West. Just as the West's relations with Russia require a stable Ukraine, so, too, do they require that the rest of Russia's "near abroad" be stable. Europe and Russia cannot be secure, and their relations cannot be stable and mutually beneficial, if the security of Russia's neighbors is neglected. Indeed, relations between Europe and Russia can be secure only if Russia's neighbors are secure, and those states can be secure only if the pivotal state of Ukraine is secure.

But Putin sees many of these states as Russian dependencies with a weak sense of their own identity, whereas western Europe, in particular France and Germany, see Ukraine, as well as Belarus, Moldova, and the Baltic states, as obstacles to its ability to acquire cheap Russian gas and preserve peace in its backyard. Hence, these states' interests are often neglected or even openly violated. On Moscow's orders, there was the August 2008 war against Georgia; Estonia was the target of a cyberwar; Belarus, Latvia, Lithuania, and Ukraine have been the objects of debilitating energy cutoffs; and Georgia, Moldova, and Ukraine have been punished through trade sanctions. In all these cases, the West has responded mildly, at best.

Yet states such as Georgia, Moldova, and Ukraine, or Azerbaijan and Kazakhstan, or even Russia-friendly Belarus, will not just roll over and accept a fait accompli crafted in Moscow, Berlin, Paris, or Brussels. More likely, they will seek radical solutions to perceived existential threats. At a minimum, this would mean substantially beefing up their defense expenditures, crafting anti-Russian alliances, and subordinating economic reform to the exigencies of security. The states that feel most threatened by Russia could eventually ask for shelter under the United States' nuclear umbrella or follow in Israel's footsteps and seek security guarantees from the United States.

If western Europe remains willing to subordinate Ukraine and the other states of Russia's near abroad to Russia's great-power aspirations, these states, predictably, will become increasingly indifferent to, say, Berlin's focus on ensuring reliable gas supplies or Paris' concern with developing counterweights to U.S. power. At some point, integration into Europe may well be abandoned as a policy goal, and democracy may be discarded for the same kind of authoritarianism and ultranationalism Russia has embraced. Soon thereafter, in the countries of the former Soviet Union, including some of the central and eastern European states that already belong to the EU, public opinion could easily drift toward anger, suspicion, and militarism and threaten the stability of all of Europe. Another risk for the West is that Russia might actively attempt to interfere in Ukraine or other countries in its near abroad. Under one plausible scenario, a strong Russia with a strong economy, a strong military, and a strong state would take military action and succeed in reasserting hegemony, perhaps by defending the rights of the Russians in the Crimea, fomenting secessionist tendencies in eastern Ukraine, or plunging Ukraine's economy into a depression by further raising prices on its gas sales to Ukraine and raising tariffs on its Ukrainian imports. Were a strong Russia to transform Ukraine into the equivalent of its vassal—taking control of Ukraine's oil and gas pipelines and of its foreign policy—it would be virtually impossible for Europe and the United States to establish a genuinely cooperative working relationship with Moscow.

Under another scenario, a weak Russia with a flagging economy, a decrepit military, and a brittle state would become aggressive either because it believed it was stronger than it really was or because it thought that a quick little crisis might enhance the government's popular legitimacy at home. Russia would then run the very serious risk of engaging in imperial overreach. Despite Putin's bluster and the Russian army's quick victory over tiny Georgia last summer, Russia is at root a flawed, corrupt, and potentially unstable petrostate. And with its propensity for belligerent and nationalist propaganda, such a Russia may continue to engage in militaristic adventurism and experience internal turmoil. Russia resembles more a Third World country that has a nuclear bomb and raw materials than a mature postindustrial state. The more it extends its reach, the more it will get embroiled in military adventures—and the greater the likelihood of economic, military, or political disaster. If nothing else, more adventurism on Russia's part would be an invitation to its own repressed minorities, such as the Chechens, to reactivate their struggles.

Thus, Ukraine's further weakening in the context of an aggressive Russia would be bad for both countries, their neighbors, and the West. Thankfully, the United States and Europe can help avert this dangerous drift. Although the global economic crisis has hit hard, both the United States and the EU remain strong and powerful political actors and are certain to recover. Both appear to be willing to work together to tackle the world's problems, especially with the recent election of a new U.S. president, who seems multilaterally inclined. Washington and Brussels were both alarmed, although to different degrees, by Russia's aggression against Georgia last summer. And both are looking cautiously to see if anything can be made of the small differences between the authoritarian and aggressive Putin and the more pragmatic-sounding Medvedev.

MUTUALLY ASSURED CONSTRUCTION

THE UNDERPINNINGS of an effective Western policy toward Ukraine are more clear-cut today than at any time since the Soviet Union's collapse in 1991. Were the EU, supported by the United States, simply to declare, "Ukraine is European, and once it is rich and fully democratic, it will enter the EU," Ukraine's squabbling elites would finally have a goal around which to unite. Such a statement would cost

Europe nothing, and it would entail no risk: it could not possibly be interpreted as being anti-Russian. More important, it could help Ukraine's president and prime minister find a modus vivendi and give the country's political elite an incentive to consolidate. Since the EU has not issued such a declaration in the 18 years of Ukraine's independence, there is little cause to think that it will anytime soon. Part of the reason is that the EU is deeply divided over its future course, but most of the reason is that Berlin and Paris seem to think that virtually unconditional support for an authoritarian Russia will create a benign geopolitical and economic environment in Europe.

The West may be ready to get serious about Ukraine precisely because it is hoping to get serious about Russia.

Since such a proactive statement appears unlikely at the moment, the next best step for the EU is to develop a Ukraine policy premised on two realities. First, Western leaders should appreciate that Ukraine is a permanent entity, a state with legitimate interests that will not let its security and stability be sacrificed to Russian, European, or U.S. interests. It might be easier to deal with Russia if Ukraine did not exist, but Ukraine does exist and will not go away. Russia and Ukraine are like India and Pakistan or Israel and Syria, and the West can never just craft a Russia policy; it must always craft a Russia policy and a Ukraine policy.

Europe and the United States must also understand that even with all its imperfections, Ukraine is not a failed state, nor is it likely to become one. Ukraine's citizens have courageously defended their basic rights and created a society with a high degree of pluralism, political competition, and democratic practice. Of course, theirs is a flawed market economy tainted by corruption and cronyism and dominated by a few large oligarchic groups, which are in fierce competition with one another. But although it is a dysfunctional democracy and an imperfect market economy at present, Ukraine has all the building blocs to become a mature European market democracy.

The recent years of indecision, halting progress, and endless political reconfigurations inside Ukraine have frustrated U.S. and European politicians and generated diplomatic fatigue. But now, paradoxically, despite the distressing and frustrating patterns of Ukraine's politics, may be an opportune moment for the United States and its European partners to reengage Ukraine, its people, and its elites. The recent gas war may have persuaded European leaders that Russia will defend its perceived interests ruthlessly and that Ukraine really does matter, and the new U.S. administration is hoping to improve relations with Russia without abandoning Ukraine. The West may therefore be ready to get serious about Ukraine precisely because it is hoping to get serious about Russia. The Charter on Strategic Partnership signed by the United States and Ukraine on December 19, 2008, calls for enhanced cooperation on trade, democratic development, and efforts to help prepare Ukraine for NATO membership. It could serve as a model for Western policymakers.

Ukraine may also be ripe for a Western initiative. With the waning of Yushchenko's power and signs that Tymoshenko's governing coalition will offer some continuity, Ukraine may be entering a year of relative political stability. The severity of the economic crisis may concentrate the minds of Ukraine's political leaders, who actually agree on such big-picture items as integration into Europe, market-based solutions, democracy, and equally good relations with the United States and Russia. It could also cause Ukraine's major parties, which adhere to democratic values, reject authoritarianism, and have strong, moderate, market-friendly business lobbies, to focus more on the real issues at stake for Ukraine.

Moreover, Ukraine's elite today consists of highly competent, well-educated, market-savvy, and generally pragmatic leaders and administrators, such as the Tymoshenko allies Hryhoriy Nemyria, the deputy prime minister for international cooperation, and Serhiy Tyhypko, a prominent private-sector banker; Iryna Akimova, of the opposition Party of Regions; and Petro Poroshenko, of Our Ukraine, who serves as chair of the supervisory board of the central bank. Ukraine's wealthiest oligarchs have also matured. Rinat Akhmetov and Viktor Pinchuk have become effective philanthropists and advocates of sound economic policies. That same pragmatism is evident in elite attitudes toward NATO. Most Ukrainian policymakers understand that NATO membership, a major irritant for Russia, is far less important than growing trade with Europe and North America, integration into the EU, and

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a strong bilateral relationship with the United States. And most are willing to wait for a more appropriate time, when the Ukrainian public is sufficiently rid of its Soviet-era image of the alliance, to make a case for joining NATO.

A WIN-WIN-WIN STRATEGY

Reengaging Ukraine economically would be a good place to start. The global economic crisis has hit Ukraine with special force. On the surface, Ukraine might not seem to matter to western Europe—after all, it is relatively far away, and its economy hardly is a powerhouse. Yet, European banks invest heavily in and overwhelmingly control Ukraine's banking sector. Were it to collapse, the aftershocks could be devastating for Europe. To help Ukrainian banks is therefore to help Europe. International financial institutions already recognize the need to shore up Ukraine: the International Monetary Fund has loaned a generous $16.5 billion to Kiev. The European Bank for Reconstruction and Development has pledged to finance over $3 billion in new investments. The World Bank's International Finance Corporation has pledged just under $1 billion. Europe's private banks have injected $2 billion to recapitalize and bolster their wobbly Ukraine holdings. Bilateral loans could also fill an important gap and, by directly causing individual EU member states to reengage with Ukraine, serve as a vote of confidence in Ukraine's future with the West.

In sum, the West—the United States and Europe—would serve its own interests by reengaging Ukraine. It is an indication of just how much Western policymakers have lost sight of Ukraine's importance that such a painfully obvious policy recommendation needs to be made. Ukraine must be placed back on the policy agenda, as a player in its own right, not as an afterthought to a policy toward Russia. Both the United States and Europe have to appreciate that their relations with Russia and Ukraine are not a zero-sum game. Strong relations with both countries are possible and, arguably, preconditions for each other. To favor one and neglect the other is a recipe for disaster. By producing a stronger, more secure, and more stable Ukraine, the West would effectively be laying the foundations for stronger, more secure, and more stable relations with Russia.

The King and Us

U.S.-Saudi Relations in the Wake of 9/11

David Ottaway

As World War II was drawing to a close in February 1945, U.S. President Franklin Roosevelt and Saudi King Abdul Aziz ibn Saud met aboard a U.S. battleship in the Suez Canal for the first time. For nearly six decades afterward, the United States and the Kingdom of Saudi Arabia enjoyed an unusually close relationship. U.S. companies, which had discovered black gold in the Saudi desert in the early 1930s, built the kingdom into the world's leading petroleum exporter and a major source of oil for the U.S. market. The Saudis, in turn, made their territory and military facilities available to U.S. forces in order to assure U.S. protection of the House of Saud.

That "special relationship" was buried in the ashes of the World Trade Center and the Pentagon. Fifteen of the 19 hijackers who participated in the 9/11 attacks were Saudi nationals, and the mastermind, Osama bin Laden, is the scion of one of the kingdom's most prestigious families—two facts that exposed Saudi Arabia to withering criticism in the U.S. Congress and the U.S. media. The largest contingent of "enemy combatants" picked up by U.S. forces in Afghanistan as they swept aside the Taliban regime in late 2001 turned out to be Saudi. And many of the suicide bombers who have killed U.S. troops in Iraq since Saddam Hussein was ousted in 2003 have been Saudis, too.

David Ottaway is a Senior Scholar at the Woodrow Wilson International Center for Scholars, in Washington, D.C., and the author of *The King's Messenger: Prince Bandar bin Sultan and America's Tangled Relationship With Saudi Arabia*.

Unlike many other Arab and Muslim countries—including Bahrain, Egypt, Jordan, Kuwait, and Pakistan—Saudi Arabia is today not even designated as a major non-NATO ally. Washington and Riyadh speak of a "strategic dialogue," a diplomatic term of art that obscures whether the two governments think of themselves as friends or foes.

After viewing the United States as its primary source of security for decades, the Saudi royal family regards it today as a major cause of insecurity. The Saudi government is struggling to determine how close to the United States it wants, or can afford, to be. Since 9/11, Riyadh has become increasingly distrustful of Washington and far more assertive in pursuing its own interests. Above all, it does not want to be branded Washington's moderate ally in the Arab world—a label that the Bush administration sought to apply in order to cast the kingdom as its close partner in a struggle against Iran. Saudi Arabia is seeking to forge partnerships with China, Europe, Russia, and regional powers such as Pakistan and Turkey and no longer grants Washington as much influence in determining its defense and foreign policies. It wants the U.S.-Saudi relationship to be normal, rather than special.

THE GREAT UNRAVELING

THE U.S.-SAUDI partnership began to unravel even before the shock of 9/11. Soon after George W. Bush took office, Crown Prince Abdullah—who became king in August 2005—grew angry with Washington for not paying serious attention to the Middle East peace process. In August 2001, he threatened to freeze Saudi political and military cooperation with the United States unless Bush took action to revive the faltering negotiations. In response, Secretary of State Colin Powell declared in November that the United States would pursue a new policy, supporting the Saudi goal of an independent Palestinian state alongside Israel—an idea that was later formalized in Abdullah's 2002 peace plan offering Israel normalization of relations with the Arab world in return for a withdrawal to the pre-1967 borders. But Bush did nothing to promote that objective until the November 2007 Annapolis conference, and even that belated initiative produced no concrete results.

The Saudis' frustration was compounded by the fallout from the U.S. invasion of Iraq, which had an enormous impact on Saudi Arabia.

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For centuries, Iraq had been a bastion of Sunni power and a bulwark against Persian penetration into the Sunni Arab world. The U.S. intervention installed a Shiite-dominated government in Baghdad, radically shifting the Sunni-Shiite balance of power in the Persian Gulf—in favor of Iran. As Prince Saud al-Faisal, the Saudi foreign minister, later told an audience at Rice University, the United States had handed Iraq to Iran "on a golden platter." Soon after Saddam was toppled, the Saudi government ejected the U.S. Air Force from the bases it had been using since the Persian Gulf War of 1990–91. In June 2003, Abdullah also gave up on stalled negotiations with U.S. oil companies and turned instead to Chinese, European, and Russian firms to join the kingdom's state-run oil company, Saudi Aramco—historically the embodiment of the U.S.-Saudi special relationship—in searching for new gas fields.

Saudi Arabia has become increasingly distrustful of the United States and far bolder in pursuing its own interests.

The Bush administration's drive to promote democracy in the Middle East further highlighted the fundamental philosophical and strategic differences between the United States and Saudi Arabia. Bush's "freedom agenda" infuriated Abdullah, who joined Egyptian President Hosni Mubarak in denouncing Washington's calls for political reform. To the Saudis, the outbreak of rampant ethnic violence in Iraq after the U.S. invasion exemplified the naiveté of Washington's democracy-promotion agenda. Even after the sectarian killing subsided, in mid-2007, Riyadh was hardly pleased with the fruits of Iraqi democracy.

Although Saudi Arabia shares the United States' goals of preventing civil war in Iraq and holding the country together, it has shown scant sympathy for Washington's man in Baghdad, Prime Minister Nouri al-Maliki. Abdullah views Maliki as an Iranian agent and has so far refused to receive him. The king has also dragged his heels on reopening the Saudi embassy in Baghdad, despite repeated entreaties from Washington. The Saudis believe that Maliki's Shiite-dominated government is not interested in sharing power with the Sunni minority, and they fear that civil war will resume in earnest once U.S. troops leave—a development that would force Riyadh to provide financial and military support to the Sunni minority in order to offset Iran's aid to Shiite groups.

Although the Saudis no longer support a U.S. presence on their own soil, they have quietly welcomed the continued deployment of U.S. forces to bases in other countries that are part of the Gulf Cooperation Council; they want Iran to see that U.S. military muscle has not gone flabby after Iraq. But Riyadh does not support outright confrontation with Tehran: it worries that U.S. or Israeli military attacks on Iranian nuclear facilities would provoke Iran to retaliate against GCC states hosting U.S. forces or strike Saudi oil facilities. Such a response by Iran would pose an agonizing dilemma for the Saudis: mount a military response and risk a full-scale war or do nothing and concede hegemony over the Persian Gulf to Iran.

This dilemma serves to highlight a basic U.S.-Saudi disagreement over how to construct a collective-security framework to protect the Arab states from Iran. Saudi Arabia constitutes the main military power in the six-nation GCC, which comprises all the Arab states in the Persian Gulf other than Iraq. U.S. efforts to increase military cooperation among the GCC's other members—currently aimed at integrating their air and antimissile defenses—are perennially stymied by petty political disputes, differing security strategies, resentment of Saudi domination, and suspicion of Iraq. When U.S. Defense Secretary Robert Gates told GCC defense ministers and senior officers at a conference in Bahrain in December 2008 that "Iraq wants to be your partner, and given the challenges in the Gulf, and the reality of Iran, you should wish to be theirs," their response was not enthusiastic.

Riyadh met this proposal with deafening silence. The Saudis already opposed Iraqi membership in the GCC during the Saddam era because they feared Saddam's hegemonic aspirations in regard to his oil-rich neighbors—a fear whose validity was confirmed by Iraq's invasion of Kuwait in 1990. Convincing them today that a Shiite-ruled Iraq is not an extension of Iran will not be easy.

VISCOSITY BREAKDOWN

THE ROLLER-COASTER ride of oil prices and Washington's efforts to diversify its hydrocarbon supplies have complicated the relationship further. The old quid pro quo—U.S. security for Saudi oil—that defined the relationship for years no longer works for either party. By mid-2004, Saudi Arabia had lost its ability to significantly influence oil prices. The turning point came at an emergency meeting of the Organization of the Petroleum Exporting Countries in May of that year, when the Saudi oil minister, Ali al-Naimi, tried, at the White House's request, to halt the breakaway from OPEC-fixed prices (then ranging from $22 to $28 a barrel). He proposed that OPEC producers collectively increase production by two million barrels a day in a bid to maintain those low prices. He failed, and an embarrassed Saudi Arabia responded by pumping an additional two million barrels a day on its own in an effort to reduce prices. That failed, too, because much of the Saudi excess capacity consisted of heavy crude oil that was expensive to refine or that existing refineries were not capable of processing.

Rather than quenching Washington's thirst for oil, these days Riyadh is increasingly focused on markets in China and India.

The price of crude oil rose from $40 a barrel in May to close to $50 a barrel by the time of the U.S. elections in November 2004. It continued its climb thereafter, skyrocketing to $147 a barrel in July 2008 despite Riyadh's increased production. Prices then crashed as the global economy deteriorated, and in November 2008, OPEC's members collectively cut production by 1.5 million barrels a day, with roughly a third of the reduction coming from Saudi Arabia. By February 2009, the kingdom had reduced its production to less than eight million barrels a day (from its July 2008 high of 9.5 million barrels a day) in a bid to meet a target of $75 per barrel, which Abdullah believes to be a "fair price." But Saudi Arabia was unable to influence prices: neither by increasing nor by cutting back its production. Saudi Arabia's much-vaunted excess production capacity, which was expected to reach 4.5 million barrels by mid-2009, proved to be largely useless.

Saudi Arabia nonetheless continues to expand its total oil production capacity based on the assumption that world demand will require all of this, and perhaps more, by 2020. Rather than quenching Washington's thirst for oil, these days Saudi Arabia is increasingly focused on markets in China, India, and other Asian countries. In August 2005, Abdullah made his first official visit to China to sign energy and military-cooperation agreements, and in April 2006 and

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then again this February, he welcomed Chinese President Hu Jintao to Riyadh with great fanfare.

Saudi Arabia is reaching out for new arms suppliers as well. In September 2007, it struck an agreement with the British company BAE Systems to purchase 72 Typhoon fighter jets, a deal worth approximately $40 billion, dwarfing recent arms purchases from Washington and promising to make the United Kingdom the Royal Saudi Air Force's top supplier of advanced warplanes for years to come. Saudi Arabia is also negotiating to purchase Russian tanks and helicopters for the first time. In early 2007, Abdullah invited then Russian President Vladimir Putin to Riyadh, marking the first time a Russian leader had set foot in the kingdom.

COMMON GROUND

DESPITE THE erosion of their special relationship, the United States and Saudi Arabia still have many common interests. The kingdom remains the world's largest reservoir and producer of oil, and the United States is its biggest consumer. Both states want to make sure that the flow of Saudi oil to the international market remains uninterrupted by Iran or terrorist groups; both face a serious threat from al Qaeda; both want to contain Iran's political ambitions in the region and thwart Tehran's nuclear weapons program; both look to each other to help resolve the current world financial crisis. The Saudis continued to support the dollar through thick and thin in early 2008, fending off pressures from their Arab allies in the Persian Gulf to delink their currency from the dollar and calculate oil payments in other denominations. Their faith in the dollar has been vindicated, as other countries, including China, have recently sought refuge from their own current economic crises by buying more U.S. Treasury bonds. The main Saudi interest now is to see a quick U.S. recovery, which would help revive a depressed world economy and stimulate demand for more oil.

Since al Qaeda began launching attacks inside Saudi Arabia in May 2003, the two governments have begun working closely together on counterterrorism, including through the exchange of real-time intelligence to track, thwart, and apprehend terrorists. The Saudis have also worked with the U.S. government to establish a 35,000-

member force to protect Saudi Arabia's oil facilities, which al Qaeda has already targeted twice.

Abdullah is also anxious to rebuild the kingdom's educational ties with the United States. In 2006, he launched a program to expand the number of Saudis studying at U.S. universities, providing scholarships for 17,000 students. Meanwhile, a number of U.S. universities are helping staff new Saudi academic centers, such as the innovative King Abdullah University of Science and Technology, near Jidda, which has broken with strict Saudi religious codes to allow men and women to study together. An agreement on reestablishing multiple-entry visas for Saudis, which were abruptly cut off after 9/11, has helped restore the flow of students, academics, and businesspeople between the two countries.

Although Saudi leaders are reluctant to allow an on-the-ground U.S. military presence in the kingdom, there is still a significant level of military cooperation. This includes joint exercises between the two countries' air forces and armies, the training of Saudi officers in the United States, and $3.7 billion worth of arms deals designed to modernize the Saudi Arabian National Guard and upgrade Riyadh's arsenal of U.S.-built AWACS and F-15 warplanes. Last May, the two countries even signed a memorandum of understanding on nuclear cooperation under which Washington agreed to assist Riyadh in developing "environmentally sustainable, safe, and secure civilian nuclear energy." The Bush administration regarded the agreement as a breakthrough in its efforts to curb uncontrolled nuclear proliferation by Arab nations in response to the Iranian program. Crucially, the Saudis have pledged to obtain nuclear fuel from the international market rather than developing their own capacity to enrich it, as Iran is doing.

The two countries also share an interest in resolving several of the Middle East's most vexing problems. Both Washington and Riyadh want to create an independent Palestinian state and to promote stability in Afghanistan, Pakistan, Lebanon, and the Palestinian territories. But common concerns do not mean shared strategy. On Afghanistan, the Saudis will likely demur: they regard the buildup of U.S. military forces and Washington's expanded commitment to building a strong central government as foolhardy. In December 2008, Prince Turki al-Faisal, the former Saudi ambassador to Washington, advised the Obama administration to "get bin Laden, get Zawahiri, and get out." The Saudis are far less concerned than the Americans about the prospect that the resurgent Taliban may secure a role in a newly reformulated Afghan central government. Saudi Arabia was one of only three countries to recognize the old Taliban regime in the 1990s, and the extreme strain of Wahhabism prevalent in the kingdom—which is intolerant of Christians, Jews, and other forms of Islam—is very similar to the Taliban's puritanical brand of Islam.

In Pakistan, Riyadh shares Washington's interest in stability but cares little about the fate of democracy. Like Bush, Abdullah was a strong supporter of former Pakistani President Pervez Musharraf's military regime. Saudi Arabia has invested heavily over the years in Pakistan's economic and financial well-being, mediated its internal political squabbles on more than one occasion, and helped finance Islamabad's military purchases from abroad. It is even believed to have substantially financed the Pakistani nuclear weapons program. With the democratically elected government of President Asif Ali Zardari now facing a threat from militant Islamist groups, the Saudis will have to decide whether their theological affinity with the Pakistani Taliban is more important than their support for a stable, secular central government.

In Pakistan, Riyadh shares Washington's interest in stability but cares little about the fate of democracy.

In Lebanon, both Washington and Riyadh have worked in tandem to contain and weaken the militant Shiite group Hezbollah, which is backed by Iran and Syria. Both governments have consistently supported Lebanese Prime Minister Fouad Siniora and his shaky coalition of Christian and Sunni groups. But the Saudis are also pursuing their own narrow interests there. They are pouring funds into fundamentalist Salafi groups, which are building militias to counter Hezbollah, whose forces went on a rampage through downtown Beirut last May and even sought to kill Saudi diplomats because of the kingdom's support for their enemies. The potential for a U.S.-Saudi clash over Lebanon became clear during the summer of 2007, when the Lebanese army struggled to quash a revolt by the Salafi group Fatah al-Islam, which was holed up inside a Palestinian refugee camp in northern

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Lebanon. While the Salafi fighters—including many Saudis—battled government forces, the United States was rushing weapons to the Lebanese army. The army eventually prevailed.

In the Palestinian territories, in contrast to the Bush administration's goal of isolating Hamas, Abdullah's objective has been to bring together Palestinian radicals and moderates. U.S. officials were dismayed when Abdullah invited feuding Palestinian factions to Mecca in January 2007 and pressured the moderate Fatah faction to accept a coalition government under Hamas' leadership. The so-called Mecca agreement undermined the Bush administration's efforts to promote direct peace talks between then Israeli Prime Minister Ehud Olmert and Palestinian Authority President Mahmoud Abbas. Since then, however, the Saudis have worked with the United States to bolster the embattled Palestinian Authority against Hamas, and they continue to support Palestinian negotiations with Israel, despite Hamas' growing popularity on the Arab street in the wake of Israel's failed attempt in January to break the group's hold over the Gaza Strip. The Gaza fighting led a frustrated Abdullah to condemn the Fatah-Hamas rift as "more dangerous than Israeli aggression" and to push harder for reconciliation between the two factions, a policy the Obama administration has not yet adopted.

> Obama should not expect that Saudi Arabia stands ready and willing to do the United States' bidding.

Abdullah's 2002 peace plan remains an intriguing possible basis for U.S.-Saudi cooperation on the Israeli-Palestinian issue. Abdullah's proposal was endorsed by the entire Arab League at its 2002 summit; Israeli President Shimon Peres and Olmert both referred to it favorably; and Barack Obama, who chose the Saudi-owned al Arabiya television station for his first interview after taking office, praised Abdullah for his "great courage" in making the peace proposal. However, the presumed new Israeli prime minister, Benjamin Netanyahu, has strongly opposed the Saudi plan, particularly the idea that East Jerusalem should be the capital of a Palestinian state. One of his right-wing coalition partners, Avigdor Lieberman, has gone further, proposing that the country's 1.3 million Arab citizens be forced to take an oath of allegiance before being allowed to vote in the future, creating a political atmosphere in which adoption of the Saudi plan seems increasingly unlikely.

AN AD HOC ALLIANCE

The Obama administration should prepare itself for an unpredictable relationship with Saudi Arabia, marked at times by a willingness to pursue common interests and at others by sharp disagreement or even openly conflicting objectives. It should not expect, as past U.S. administrations have, that Saudi Arabia stands ready and willing to do the United States' bidding.

In its effort to breathe new life into this old relationship, the Obama administration must put an end to its predecessor's clumsy efforts to promote the kingdom as a keystone of a grand alliance against Iran. The Saudis flatly rejected Bush's efforts to build a coalition of so-called moderate Sunni states—Egypt, Jordan, and the six GCC members—with the conspicuous backing of the United States and Israel. For all its intense distrust of Iran, Saudi Arabia has made clear that it is not going to take part in any U.S. scheme to promote regime change in Tehran, bomb Iranian nuclear facilities, or promote opposition groups in Iran. Riyadh's fear of retaliation, its keen awareness of Iran's ability to choke shipping lanes, and its natural penchant for accommodation all give it reason to keep away from U.S.-designed strategies for outright confrontation. But Abdullah will likely support Obama's recently announced plan to seek dialogue with Iran, even if it causes anxiety among those Saudis who fear that it might lead to a "grand bargain" in which the United States would accommodate Iran's civilian nuclear ambitions and acknowledge its hegemony over the Persian Gulf. The quid pro quo would involve Iran's renunciation of nuclear weapons and the ending of its support for terrorism. One proposal being discussed in Washington is for the Obama administration to extend the U.S. nuclear umbrella to the GCC states to reassure them of a continuing U.S. commitment to their security and to lessen their interest in developing independent nuclear weapons capabilities. The Saudis have not disclosed whether they would welcome this, which, if they did, would in essence mean publicly conceding their dependence on Washington for their security.

Complicating matters further, the kingdom's future leadership is uncertain. Although he is in relatively good health, Abdullah is 86 years old. Crown Prince Sultan, Abdullah's designated successor, is 85 years old himself and is suffering from colon and pancreatic cancer. The third-most-powerful figure in the kingdom, Interior Minister Prince Nayef, 75, is also sick. He is reported to be battling leukemia and is said to have abandoned his ambitions to the throne. Having ended the al Saud family tradition of selecting kings based on seniority among the sons of the late King Ibn Saud, Abdullah has established a council composed of Ibn Saud's 35 sons and grandsons to select the heir to the throne. This process may work smoothly, but it could easily lead to fighting among contending factions with differing views of how closely Riyadh should work together with Washington.

Internal family dynamics and the pace of domestic reform are likely to weigh even more heavily on the choice of the next king. Abdullah has initiated a crackdown on the oppressive Wahhabi religious establishment and a revamping of the education system. He recently fired the ministers of education and justice (both ministries were Wahhabi strongholds), as well as the heads of the religious police and the highest council of Wahhabi clerics, because of their repressive activities and rulings. He also named Noura al-Fayez as deputy minister of education—the first woman ever appointed to the cabinet.

In this atmosphere of uncertainty, the Obama administration should seek cooperation on a piecemeal basis rather than laboring to devise a grand strategic alliance, a Saudi-led coalition of Arab moderates, or a new special relationship. Successful cooperation on any one issue, particularly a settlement of the Israeli-Palestinian conflict, would go a long way toward restoring the trust and confidence that were lost on 9/11.

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The Perils of Apology

What Japan Shouldn't Learn From Germany

Jennifer Lind

More than 60 years after the end of World War II, chilly relations in East Asia stand in stark contrast to the thaw in western Europe. Germans have spent decades confronting and atoning for the crimes of the Nazi era. Today, Germany is welcomed as a leader in trade and diplomacy, and its military forces fight alongside those of its allies in UN and NATO operations. In 2004, the former Allies invited German Chancellor Gerhard Schröder to the 60th anniversary commemoration of the Normandy invasion. Standing beside the leaders of Germany's former adversaries, Schröder celebrated the day as the anniversary of Germany's liberation from fascism. French newspapers, featuring photos of the French and German leaders embracing, proclaimed it "the last day of World War II."

In Asia, by contrast, Japan's neighbors still keep a wary watch over the country that brutalized them in the early part of the twentieth century. Tokyo's official apologies for its past aggression and atrocities are dismissed as too little, too late. Worse, they often trigger denials and calls of revisionism in Japan, which anger and alarm the country's former victims. In 2005, when Japan's Education Ministry approved textbooks widely perceived as whitewashing Japan's past atrocities, violent protests erupted across China. Demonstrators overturned and

Jennifer Lind is Assistant Professor of Government at Dartmouth College. This article is adapted from her book *Sorry States: Apologies in International Politics* (Cornell University Press, 2008).

torched Japanese cars, vandalized Japanese-owned businesses, and threw rocks and bottles at Japan's embassy in Beijing. Chinese and South Koreans routinely express fear that Japan may return to militarism: even Tokyo's dispatch of peacekeepers abroad creates unease. In East Asia, the last day of World War II has yet to come.

Why do Japan's neighbors care so much about its repentance? Skeptics, after all, might dismiss political apologies and other such gestures as "cheap talk." But how countries remember their pasts conveys information about their future behavior. Historically, states that have sought to mobilize their populaces for war have crafted nationalist narratives of the past. They have emphasized their adversaries' prior violence and have justified (or simply forgotten) their own. On the other hand, a willingness to acknowledge past atrocities signals peaceful foreign policy intentions. It also shows a state's commitment to human rights and conveys respect for another people's suffering.

Many activists, scholars, and political leaders argue that in order for reconciliation to occur in East Asia, Japan needs to issue a clear apology and pay reparations to its former victims. They urge Japan to emulate the German model of "coming to terms with the past," the remarkable contrition that West Germany began in the mid-1960s. According to this model, Bonn built museums and memorials to the victims of German atrocities; West Germany taught its dark past to its youth in history textbooks; its leaders apologized to Germany's victims frequently, sincerely, and in unflinching detail.

But there is another German model—the one set by Chancellor Konrad Adenauer in the 1950s—and that one is more promising for Japan. Under Adenauer, West Germany acknowledged German atrocities yet emphasized the country's postwar achievements. This approach enabled West Germany and France to effect a dramatic reconciliation. To be sure, the latter German model has much to recommend it: atonement is far more satisfying for victims, and it impressed and reassured West Germany's neighbors. But the case of Japan and other cases show that apologies can be counterproductive because they can incite nationalist backlashes at home. Japan and other countries in a similar situation should follow the Adenauer model: it is a safer middle ground between denial and contrition.

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DON'T KNOW MUCH ABOUT HISTORY

Memories of Japanese aggression and atrocities remain vivid in East Asia. In the early twentieth century, Japan annexed, colonized, and plundered Korea and Manchuria, repressing and sometimes conscripting the local populations. Many Japanese policies were rapacious: girls and women throughout the Japanese empire were deceptively recruited or abducted to provide sex for Japanese soldiers (euphemized as "comfort women"). The Japanese not only starved and abused prisoners of war throughout the Asian theater; they also enslaved them in wartime factories back home, and in China, the notorious Unit 731 conducted horrific medical experiments on both Chinese prisoners of war and Chinese civilians. And Japan's imperial army fought a ruthless campaign against insurgents in Korea and China. In these countries, memories of Japan's counterinsurgency strategy of "kill all, burn all, loot all" have not dimmed.

Japanese remembrance of these events has evolved significantly over the past six decades. In the early years after the war, Japanese leaders glorified their colonialism as a force that modernized Asia and liberated it from the Europeans. They celebrated their economic development while whitewashing the repression that accompanied it. Early postwar memories emphasized the Pacific war—the maritime battles against the United States and other Allies. This narrative dodged Japan's atrocities on the Asian mainland and culminated in the ultimate example of Japanese victimhood: the atomic bombing of Hiroshima and Nagasaki. When it came to history education, conservatives worried that coverage of wartime atrocities would diminish the Japanese people's love of their country. Even the U.S. government endorsed their goal of inculcating patriotism; in the dawning of the Cold War, Washington adopted a policy of remilitarizing Japan and sought to build support for this effort among Japan's war-weary population.

Later, as Japan began normalizing relations with its former victims, it began to offer them token apologies. Japanese Foreign Minister Etsusaburo Shiina delivered an apology to Seoul on the normalization of relations between the two countries in 1965. Tepid though it was, South Koreans welcomed the gesture. In the wake of

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U.S. President Richard Nixon's opening toward China in the early 1970s, Tokyo offered a vague statement of remorse to China, which Beijing accepted as part of diplomatic normalization. Over the next few decades, as history continued to hang heavily over Japan's foreign relations, Tokyo sometimes made conciliatory gestures to mitigate the problem. For example, in the 1980s, when neighbors criticized Japanese history textbooks for their spotty coverage of Japanese colonization and the war, Prime Minister Yasuhiro Nakasone attempted to address their concerns.

Japan's real awakening came in the 1990s. Memories had been stirred by the death of Emperor Hirohito in 1989 and by the 50th anniversaries of various wartime events. Japanese leaders began to offer apologies—some of them remarkable. In 1993, Prime Minister Morihiro Hosokawa detailed Japan's violence against Koreans during the first half of the twentieth century, cited Japan as the aggressor, and expressed his "genuine contrition" and "deepest apologies." Prime Minister Tomiichi Murayama also offered an important sweeping apology after he took office in 1994, and he offered a landmark one in 1995, half a century to the day after Japan's surrender. Even former Prime Minister Junichiro Koizumi, who is reviled by many Asians because of his visits to the Yasukuni Shrine (which is controversial because it includes war criminals), apologized repeatedly. Koizumi also raised awareness about his country's past misdeeds by visiting a former Japanese prison in Seoul, where he apologized and laid a wreath at a monument for Korean independence fighters. Also in the 1990s, Japanese textbooks began to include more coverage of Japanese colonization and the war, and the government made some efforts to apologize to and compensate the comfort women.

South Koreans continue to rank Japan as one of the countries they like the least.

As Japanese leaders began expressing remorse for the country's past, however, other politicians and some intellectuals decried the trend. Nakasone's conciliation during the textbook controversy in the 1980s prompted the education minister, Masayuki Fujio, to say that Korea bore responsibility for its 1910 annexation by Japan. In 1988, another cabinet member, Seisuke Okuno, defended Japanese imperialism as "Asian liberation," declaring that "Caucasians" had been the real aggressors in Asia. Murayama's apologies in 1994 and 1995 caused conservatives—even those within his own cabinet—to defend Japan's past policies. When liberal parliamentarians proposed a landmark national apology in the form of a Diet resolution, prominent conservatives denied, justified, and sometimes even glorified Japan's past violence.

These reactions are just one feature of what the historian Alexis Dudden has called Japan's "multimillion-dollar denial industry." As Japanese textbooks began to include greater coverage of Japanese colonization and the war, conservative intellectuals wrote accounts emphasizing the more positive aspects of Japan's past and white-washing atrocities such as the Nanjing massacre or the treatment of the comfort women. Japan's liberal educators rarely choose to use revisionist textbooks, but feel-good narratives appeal to a large popular audience. Authors such as Yoshinori Kobayashi and Kanji Nishio, who reject what they call the "masochistic" telling of Japanese history, have a wide following. The controversial *New History Textbook*, the subject of an international dispute in 2001, was a bestseller. Many scholars, journalists, authors, and filmmakers find large and enthusiastic audiences for history that glosses over—or even denies—Japan's colonial and wartime atrocities.

LOATHE THY NEIGHBOR

Such denials have created what has become known as the "history problem" in Japan's foreign relations. South Korean leaders have long argued that the way Japan has chosen to remember the period of colonization and war so far has hindered trust and reconciliation between the two countries. "What we most need from Japan," South Korean President Syngman Rhee argued in 1951, "is . . . concrete and constructive evidence of repentance for past misdeeds and of a new determination to deal fairly with us now and in the future." President Park Chung Hee (who, unlike Rhee, is known as having been very pro-Japanese) shared this view, citing Japanese remorse as a precondition for South Korean cooperation. In his speech on the country's Liberation Day in 2001, President

Kim Dae Jung called on the Japanese to face their history. Otherwise, he asked, "how can we deal with them in the future with any degree of trust?"

The South Koreans have worried about a militarily resurgent Japan since the end of World War II. Early on, South Korean leaders implored U.S. officials not to rearm Japan for fear that it would again attempt to dominate the Korean Peninsula. The public shared this distrust, associating the Japanese with militarism and colonial abuse. In a 1982 poll, only ten percent of South Korean respondents viewed Japan as "a friendly country." Such sentiment has not faded: in contemporary surveys, South Koreans continue to rank Japan as one of the countries they like the least, and between 40 and 60 percent of respondents typically identify Japan as South Korea's next security threat. By contrast, South Koreans seem relatively unperturbed by the rapid rise of China, an authoritarian behemoth with whom they will someday share a land border.

Distrust of Japan in South Korea and elsewhere is fueled by Japan's war memory. In the 1980s, the inflammatory remarks of some Japanese cabinet ministers produced a torrent of accusations that Tokyo was moving toward a militaristic foreign policy. After Nakasone visited Yasukuni in 1985, the shrine emerged as a divisive symbol of Japan's past. Each official visit to the site—most recently by Koizumi—spurs Japan's neighbors to excoriate Tokyo in government statements and op-eds and sparks public protests. Education has emerged as another battleground: since the 1980s, each release of new Japanese textbooks has routinely triggered diplomatic disputes. Beijing and Seoul sharply condemn Tokyo's official approval of textbooks that omit or downplay Japanese atrocities or lay claim to the Takeshima/Tokdo islets, over which both Japan and South Korea declare sovereignty. Such controversy has obscured the contrition that Japan has sometimes shown. In 1995, op-eds published in Beijing and Seoul newspapers charged that the acrimonious debate surrounding the Diet's proposed apology only showed that Japanese attitudes had not changed. Japan's conservative history textbooks and Japanese leaders' visits to the Yasukuni Shrine, commented then South Korean President Roh Moo Hyun in 2005, "nullify all the reflection and apologies Japan has so far made."

Japan's history problem has very real effects on its foreign relations. The Chinese and the South Koreans are firmly opposed to the idea of giving Japan a permanent seat on the UN Security Council. In 2005, when he was South Korea's ambassador to the UN, Kim Sam Hoon argued that Japan was incapable of playing the role of a world leader because it lacked the trust of its neighbors. South Korea's Ministry of National Defense has identified Japan as a potential security threat, and it has called for increasing South Korea's maritime power. This wariness of Japan has also led South Koreans to see the U.S.-Japanese security alliance as essential for keeping a lid on Japanese ambition and stabilizing East Asia. Crises over textbooks or shrine visits have caused Japan's neighbors to recall their ambassadors from Tokyo and cancel summits even when these countries were negotiating with Japan about vital issues, such as North Korea's acquisition of nuclear weapons.

FROM ADENAUER TO ATONEMENT

IN ORDER to calm tensions in East Asia, many regional leaders and analysts have urged Tokyo to emulate the German model of atonement. What they overlook, however, is that in the years after the war, West Germany followed two very different approaches to remembering its violent past. (East Germany, which emphasized Nazi Germany's violence against communists, whitewashed the genocide of the Jews, and demonized Israel, pursued a third.) In the immediate postwar years, with Adenauer and his conservative Christian Democrats in power, West Germany acknowledged Germany's wartime aggression and atrocities. Adenauer spearheaded the effort to pay reparations to Israel. As he endorsed the policy before the Bundestag in 1951, he said that most Germans were "aware of the immeasurable suffering brought to the Jews in Germany and in the occupied territories in the era of National Socialism" and that "unspeakable crimes were committed which require moral and material restitution." In the late 1950s, Bonn expanded its reparations policy to Holocaust survivors living in other countries. During Adenauer's tenure, no prominent West German leader defended or denied German atrocities or aggression.

At the same time, the Adenauer model was a far cry from the contrition that would later distinguish West Germany. Textbooks mostly dodged contemporary history, and any discussion of the war pinned all culpability on Hitler. Even though the German army was heavily implicated in the Holocaust, the myth spread that only the SS, not ordinary soldiers, had been involved. The dominant narrative emphasized Germany's own suffering: the ethnic cleansing of Germans from Eastern Europe, the treatment of German prisoners of war in Soviet camps, and the brutality of the Soviet invasion. Wartime anniversaries slipped by—uncomfortably, unobserved.

During this period of partial German amnesia, West Germany and France nonetheless achieved a stunning reconciliation. The French scholar Alfred Grosser has argued that whereas in 1944 the French view had been "no enemy but Germany," by 1960 it had shifted to "no friend but Germany." In polls taken only 20 years after Germany's defeat, the French public identified West Germany as "the best friend of France." It is clear from the Allies' occupation policies that they valued German acknowledgment of past crimes. (Education reforms, for example, sought to prevent mythmaking and hypernationalism.) However, France and the other Allies were willing to reconcile at a time when Bonn was doing very little to come to terms with its past.

Unlike Germany's experience, Japan's attempt to confront the past has been fraught and counterproductive.

Only in the late 1960s did West Germans begin to explore their country's past atrocities in earnest. The Social Democrats' electoral victories ushered in the "social-liberal" period, during which the West German left pursued its long-advocated agenda of atonement for Nazi crimes. The country's preoccupation with its own victimhood gave way to *Vergangenheitsbewältigung*, or "coming to terms with the past." Bonn prosecuted Holocaust perpetrators and expanded its reparations policy, paying billions of dollars to Holocaust survivors all over the world. It started preserving and memorializing concentration camps and other sites, holding ceremonies that mourned victims of the Holocaust, building museums that detailed German aggression and atrocities, and encouraging students and community members to explore their local wartime histories.

This shift to a greater emphasis on Germany's shame did not occur without controversy. Chancellor Helmut Schmidt protested in 1975 that most Germans alive then had been born after Hitler's rise and so were not guilty of Nazi crimes. The minister-president of Bavaria, Franz Josef Strauss, said that Germans had to get off their knees and learn to "walk tall" once more. Another conservative politician, Alfred Dregger, urged Germans to "come out of Hitler's shadow" and "become normal."

After the conservatives regained power in 1983, they attempted to steer German remembrance back on the course that Adenauer had charted three decades earlier. Although Chancellor Helmut Kohl was candid about Germany's past violence and even offered notable gestures of contrition, he also commented that Germans of his generation enjoyed a "grace of late birth" that freed them from culpability. Kohl held joint commemorations at cemeteries with representatives from West Germany's NATO allies: with French President François Mitterrand in Verdun, France, and with U.S. President Ronald Reagan in Bitburg, Germany. These ceremonies emphasized the tragedy of war generally rather than German atrocities specifically. Conservatives often argued that West Germany's utmost responsibility was to create a stable democracy and cautioned that the German public would resent the obsession with war crimes and would shift its support to rightist leaders who offered them a prouder version of history. In other words, they warned about the political dangers of straying from the Adenauer model.

But their fears were not borne out. The public endorsed contrite statements, such as the stunning 1985 speech in which President Richard von Weizsäcker detailed German crimes, expressed remorse, and pledged that the nation would remember its dark past. And it rejected any semblance of revisionism. During the "historians' debate," over how to interpret the Holocaust, conservative scholars who justified fascism and genocide as defensive reactions to the Soviet threat were publicly condemned. Philipp Jenninger, president of the Bundestag, was forced to resign after he gave a speech intended to condemn Nazism that was so awkwardly written that it was interpreted as actually defending the Nazis. Rightist parties did not rise on a wave of public frustration, as conservatives had warned; they remained marginal.

Meanwhile, the rest of the world applauded West German atonement. The British praised West Germany's efforts to teach its youth about World War II and the Holocaust. As *The Economist* put it, "a sense of guilt has entered deeply into the West German character." Advisers told a nervous British Prime Minister Margaret Thatcher at the Chequers conference in 1990 that West Germany could now be trusted, and so its reunification with East Germany encouraged, in great part because of its exemplary record of confronting its past violence. After German reunification, the Germans began observing Holocaust Remembrance Day and—following a candid national debate—built the Memorial to the Murdered Jews of Europe in central Berlin. French media and elites lauded Germany's domestic struggles with the past as evidence of the fortitude of postwar German democracy. The *Vergangenheitsbewältigung* model was a resounding success for Germany and for Europe.

SORRY SEEMS TO BE THE HARDEST WORD

To THE EXTENT that Japan has tried to come to terms with its past, it has not enjoyed as much success as has Germany. Bonn's official apologies, reparations, and monuments were interwoven with wide debates in which the public rejected calls to move on and reaffirmed the nation's commitment to atonement. In Japan as well, many people have enthusiastically supported official apologies and pressured the government for a greater admission of responsibility; Japanese scholars such as Saburo Ienaga, who led a decades-long legal battle against censorship of history textbooks, and Yoshiaki Yoshimi, who gathered data and raised awareness about the comfort women, are prominent examples. However, Japanese attempts at contrition have also sparked a noticeable backlash. One leader's apology is often contradicted by other elites, sometimes from within the prime minister's own cabinet. Unlike the German experience, Japan's attempt to come to terms with the past has been fraught, polarizing, and diplomatically counterproductive.

Japan's dismal experience with contrition is neither surprising nor unique. In the aftermath of a terrible war in which many people have lost their families, their homes, and even their cities, apologies offered to victims far away are likely to be controversial. As people ache for the loved ones they have lost, they often support the leaders who call them heroes—not those who call them war criminals. Stripping veterans and civil servants of their pensions and sending scarce funds overseas as reparations are generally unpopular measures.

Indeed, all over the world, the exploration of a country's past violence tends to trigger polarizing domestic debates. In Austria, the late Jörg Haider's championing of the wartime generation propelled him to the leadership of the Freedom Party of Austria and later catapulted the party from the political fringe into national coalition governments. Austrians were responding to Haider's cry, "A people who does not honor earlier generations is a people condemned to ruin." In France, then President Jacques Chirac's 1995 apology for French complicity in the Holocaust—including the deportation of 75,000 Jews—was denounced by both rightists and Socialists. Conservatives in Belgium, Italy, and Switzerland also mobilized against attempts to confront their countries' past collaboration with the Nazis. There were national outcries in the United Kingdom after the archbishop of York suggested a national apology for the country's complicity in the slave trade and when then Prime Minister Tony Blair proposed making apologies to Ireland (for the potato famine and for the 1972 Bloody Sunday massacre). In the United States, a 1994 exhibit at the Smithsonian Institution that displayed the horrors of Hiroshima and questioned the necessity of the bombing prompted the U.S. Congress and veterans' groups to justify again the United States' decision to drop the bombs. The Senate voted unanimously to demand the exhibit's revision.

Given how divisive national apologies have been around the world, one wonders why the German experience has been so different. Most likely, in West Germany the backlash against contrition was so much more muted because of severe foreign policy constraints. During the Cold War, West German conservatives (those most likely to oppose apologies) had powerful reasons to keep quiet: both of their two main foreign policy goals—reunifying Germany and continuing to protect West Germany from the Soviet Union—required a clear denunciation of the Nazi past. West German leaders understood that in order for their allies to overcome serious reservations about German rearmament and reunification, they would need to see that Germany had truly broken with its past. Observers who consider how Germany and Japan have each dealt with the past frequently wonder, "What is wrong with Japan?" But the puzzle to be explained is not why Japan cannot apologize but why Germany could.

THE ADENAUER WAY FOR JAPAN

If it wants to repair its relations with its neighbors, Japan should draw on the Adenauer model and acknowledge its past violence while focusing on the future. Meanwhile, Japanese leaders should abstain, as they have recently, from visiting the controversial Yasukuni Shrine. As many Japanese moderates have already proposed, veterans could be honored at a new, secular memorial, or national ceremonies could be held at the Chidorigafuchi National Cemetery, Japan's tomb of the unknown soldier, which then Prime Minister Yasuo Fukuda visited last year.

Foreign leaders and the authors of scores of op-eds in newspapers in Asia and beyond have urged Japan to apologize once and for all. They have exhorted its prime ministers and emperor to kneel before Japan's victims, as did West German Chancellor Willy Brandt in Warsaw in 1970—perhaps the most famous and most profound symbol of German contrition. But in keeping with the Adenauer model, Tokyo should avoid gestures that risk polarizing the Japanese public, such as official apologies or resolutions by the Diet. This should reduce the outbursts of denials and justifications by Japanese conservatives, which have already declined since the cantankerous 1990s.

If some prominent Japanese leaders do deny or glorify past violence, their party's leadership should respond with dismissals or other reprimands. Tokyo must establish and defend its own boundaries for what is an acceptable discussion about the past. It must make impermissible what the human rights scholar Michael Ignatieff has called "permissible lies"—such as the lies about Japan's atrocities that for the past 60 years have hamstrung its foreign relations. If Japan's leaders and its people continue to tolerate such lies, the world will conclude that the country has not renounced the methods of its imperial era—invasions, massacres, mass rape, and colonization—as tools of statecraft in the twenty-first century.

Although many conservatives in Japan will argue that this approach will undermine Japanese patriotism, this need not be the case. The Adenauer model combined the acknowledgment of Germany's past violence with a future-oriented vision and with pride in West Germany's postwar achievements. Like Germany, Japan has much to be proud of. Despite its small size and limited natural resources, Japan was able to rise up from utter devastation and transform itself into one of the wealthiest, most stable, most technologically advanced, and most creative countries in the world. When some leaders and bureaucrats attempted to conceal past atrocities, Japan's pugnacious activists, scholars, and journalists yanked the cover away for the world to see—a victory not only for the victims but also for Japan's vibrant democracy. Just as West German conservatives argued for emphasizing their country's remarkable postwar success, Japanese leaders who wish to inculcate patriotism in their people have a great deal they can say.

Tokyo should avoid gestures that risk polarizing the Japanese public, such as official apologies or resolutions by the Diet.

Tokyo's adoption of the Adenauer model would go a long way toward repairing Japan's image in Asia. But just as Franco-German reconciliation could not have occurred without France's cooperation, Japan's neighbors, too, must be willing partners. In Europe, countries cooperated in multilateral commissions that set standards for textbooks to help negotiate memories of the wartime era. Leaders staged joint commemorations—at the Reims Cathedral in 1962 and in Verdun in 1984—to symbolize the new relationship between France and Germany.

Tokyo and Seoul could adopt similar strategies. This would likely be controversial: some South Koreans will protest against letting Japan off the hook too easily, just as some French protested against the tenor of the Franco-German commemorations. (In 1984, for example, the scholar Grosser argued that the French and West German leaders should have met not at the Verdun battlefield but at the Dachau concentration camp.) Some backlash from Japanese nationalists, too, will be inevitable. But efforts to improve relations between Japan and South Korea will appeal to moderates in both countries. Conditions are becoming increasingly promising for reconciliation. South Korea's leaders no longer need to flog Japan in order to bolster their legitimacy, and perhaps most important, their growing unease about China's rise could bring Seoul and Tokyo together.

The prospects for calming relations between Beijing and Tokyo are less hopeful. Not only do China and Japan not face a shared threat that could unite them, but Japan may someday be part of an effort to contain China. To make matters worse, the Chinese Communist Party, left ideologically adrift after the country's embrace of capitalism, has been known to stoke anti-Japanese sentiment to bolster its domestic political legitimacy. Many China watchers worry that the party will increasingly appeal to nationalism and xenophobia if the remaining sources of its legitimacy—economic growth and the claim to Taiwan—are jeopardized.

But China's deep-seated antagonism toward Japan is not in fact so deep. Immediately after World War II, the Chinese Communist Party expended its energy demonizing Taiwan; toward Japan, it was conciliatory, portraying the Chinese and Japanese people as common victims of a rogue militaristic regime. This conciliation was motivated by

Beijing's desire to draw Tokyo away from the United States' orbit and to woo its diplomatic recognition. Based on these interests, Beijing was willing to put the past behind, just as Paris had done with Bonn. It was only after several decades that the Chinese Communist Party began to stoke anti-Japanese nationalism.

Even now, the Chinese Communist Party can also be protective of its relations with Japan, China's third-largest trading partner. In 2005, after allowing the rock throwers to let off some steam in anti-Japanese protests, the Chinese government put an end to the demonstrations before they could seriously threaten relations with Tokyo (and, most important for the leadership, before they morphed into antigovernment riots). More generally, Beijing has sought to reassure its neighbors of its desire to rise peacefully. It has cooperated in international institutions, settled territorial disputes, pursued less reactionary policies toward Taiwan, and taken tougher stances against the dictatorships with which it does business. As part of its charm offensive, Beijing might also be willing to put the past behind, as it did just after the war. After all, haranguing Tokyo also draws attention to China's own egregious whitewashing of history and fuels fears of Chinese nationalism. Assuming Japan is willing to admit Japanese atrocities against the Chinese people—an acknowledgment Beijing justifiably requests—China might be willing to abandon its relatively recent politicization of memory.

Ideally, countries would offer their victims the contrition they deserve. Through public apologies, reparations, and trials, victims of terrible suffering receive some measure of justice. But in the real world, the backlash that such contrition engenders is counterproductive to reconciliation. A better approach is to acknowledge the harms done while looking forward. Japan would greatly improve its relations with its neighbors by following the prudent and promising model set by Adenauer rather than by mimicking the contrition that West Germany offered later. The sooner Japan does so, the sooner it will be able to assume the kind of leadership that would benefit not only Japan but also the rest of the world.

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Reviews & Responses

The ideologically ambitious aims of the second Iraq war proved to have catastrophic consequences.

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Review Essay

A Tale of Two Wars

The Right War in Iraq, and the Wrong One

Zbigniew Brzezinski

War of Necessity, War of Choice: A Memoir of Two Iraq Wars. BY RICHARD N. HAASS. Simon & Schuster, 2009, 336 pp. $27.00.

War of Necessity, War of Choice—part recent history, part wide-ranging personal memoir, part case study in decision-making—deserves to be read carefully. This is so not only because Richard Haass has impressive credentials—he was a top foreign policy official and is now president of the Council on Foreign Relations—or because he provides a perceptive insider's account of deliberations at the top of the U.S. government that, within a dozen years, resulted in U.S. engagement in two significant wars with Iraq. The book's additional significance is to be found in the wider lesson that a future U.S. secretary of state or U.S. national security adviser should draw for U.S. policy in the Middle East.

Haass took part in the decision to wage the 1991 war against Saddam Hussein's Iraq in his capacity as the senior National Security Council staffer for the Middle East. In that role, he helped the national security adviser, Brent Scowcroft, define Saddam's sudden seizure of Kuwait as an unacceptable act of aggression that threatened the stability of the Middle East and the survival of the pro-U.S. regime in Saudi Arabia. Haass makes it clear that President George H. W. Bush himself held this view from day one. Both Bush and Scowcroft are the heroes of the memoir.

Critical to the U.S. response, as Haass recounts, was the fact that Washington undertook a systematic diplomatic campaign to mobilize international support in order to prevail on Saddam to withdraw—and, eventually, to compel him by force to do so. In the end, when force was used,

ZBIGNIEW BRZEZINSKI was U.S. National Security Adviser from 1977 to 1981. His most recent book is *Second Chance: Three Presidents and the Crisis of American Superpower.*

the U.S.-led military campaign involved significant European and (geopolitically more important) Arab and Muslim military contingents. Even Syria took part.

The military campaign itself—the "war of necessity"—was focused on the clearly limited strategic objective of destroying Saddam's military capability and evicting Iraq from Kuwait. Both goals, it was clear in advance, were attainable, and they were attained. Neither objective was driven by extraneous motivations, and the policy itself reflected a cold calculus of the potentially grand costs of inaction versus the more limited costs of a clearly focused military reaction. It bears noting here that prior to the 1991 collision, the United States had quietly supported Iraq in its war against Iran; that, as Haass writes, the United States did not object to Iraq's using chemical weapons against Iran; and that Haass himself favored expanding the U.S. relationship with Iraq. U.S. policy, in brief, was guided by hard-nosed textbook realism.

JUST AND UNJUST WAR

Haass was—as he himself describes it—a "peripheral" player in the decisions that led to the second war, undertaken a little more than a decade later. By then, he was director of policy planning in the State Department, under Secretary of State Colin Powell. Over the years, the influence of the policy planning office had waned. By the time Haass took over, its responsibilities ranged from speechwriting for the secretary of state to occasionally recommending specific policy initiatives, but never again would it reach the hallowed status associated with actually shaping U.S. grand strategy, as it had done under the directorship of George Kennan, at the outset of the Cold War.

Powell himself was not the dominant figure in the small cluster of officials whom President George W. Bush consulted about his post-9/11 fixation on Saddam and his alleged weapons of mass destruction. Already by July 2002, according to Haass, the president—driven by the dynamics of a "war on terror" that he had declared—had decided to go to war against Saddam, come what may. Condoleezza Rice, then serving as the national security adviser (in the first Bush administration, she had been Haass' colleague and friend on the National Security Council), bristled when she dismissed Haass' misgivings about the rush to war. The issue of war or peace, she indicated firmly, was closed.

It is now abundantly clear—and Haass' account provides a powerful confirmation—that the "war of choice" was not the product of careful deliberation but a choice based on conviction. It was made by the great "Decider," who was prone to Manichaean oversimplifications, and it was passionately promoted within his administration by a cluster of neoconservative advocates. In Haass' telling, the antiheroes—in addition to the younger Bush—are Rice, Vice President Dick Cheney, Secretary of Defense Donald Rumsfeld, Deputy Secretary of Defense Paul Wolfowitz, and Paul Bremer, who headed the Coalition Provisional Authority in Baghdad.

Especially damning is Haass' account of the inadequacy of the decision-making process. Haass notes repeatedly that the State Department was marginalized (unlike when James Baker ran it during the first Iraq war), with Bush holding it in "low regard." In early 2003, Haass himself produced a memorandum for Powell in which possible alternatives to immediate military action were outlined. He reports, "I wanted Bush to know he retained a way out." But the memorandum went nowhere.

The credibility of Haass' account is heightened by his honest admission that initially he was open to considering the "war of choice." As he puts it, "I myself harbored no doubts" regarding Saddam's alleged possession of weapons of mass destruction. Although troubled by the arbitrary and one-sided character of the decision-making process, his uneasiness "was not fundamental."

This admirably frank admission is pertinent to the key distinction that Haass emphasizes and that he uses as the title of his book. As he puts it, a war of necessity (the first Iraq war) is one in which the United States reacts to external actions of other states and goes to war when it is judged that those actions threaten vital U.S. interests. A war of choice, in contrast, is one in which the United States seeks to alter the character of other states and justifies going to war with ambitious ideological and moral goals.

CHOICE AND NECESSITY

Herein lies the problem: any decision to go to war, unless it is in response to an attack on one's state, is the consequence of a judgment regarding the definition of "necessity" made in reaction to some ominous foreign event. Haass strongly supported the first war (because of the "necessity" resulting from Saddam's invasion of Kuwait) and did not oppose the second one (because of the threat allegedly posed by the weapons of mass destruction, which Haass initially believed Saddam actually had). Hence, in Haass' terminology, at that point in his thinking, both wars were driven less by choice than by perceived necessity.

Until the outcome of a war becomes known, the difference between necessity and choice is rather ambiguous. Short of a war imposed on the United States by a direct attack, policymakers always have to make a contingent judgment (a choice) whether to initiate military action. How they go about making that decision is therefore absolutely critical, and their intellectual and personal biases, as well as their ideological predispositions, influence their judgment.

Obviously, the less emotion there is in the process and the more reasoning applied to it, the better the outcome. A systematic weighing of options, deliberative analysis, and a careful examination of intelligence (including a sensitivity to what is not known or is uncertain)—not to mention a rigorous appraisal of the likely costs and international consequences of a decision to go to war—are all needed. Last but not least, a decision to go to war has to involve clarity in the definition of that war's aims: the ideologically ambitious aims of the second Iraq war, in contrast with the limited geopolitical ones of the first, proved to have catastrophic consequences.

Once a war's outcome is known, the difference between necessity and choice is brutally simple. The ex post facto verdict of history is inevitably derived from a simple maxim: nothing fails like failure, and nothing succeeds like success. Had the second Iraq war not only involved a quick military triumph but also been followed by the prompt emergence of a stable Iraqi democracy—with the "liberated" Iraqis gratefully embracing the American soldiers and eschewing the anti-American insurgency—the war in all likelihood would have been retroactively viewed as a justified necessity even if not a single weapon of mass destruction had been found. Conversely, if the first Iraq war had produced a prolonged insurgency in Iraq, preventing U.S. disengagement, drawing the United States into a five-year-long campaign of pacification, and provoking regional unrest, the liberation of Kuwait would certainly have been viewed retroactively as a misguided strategic choice. (Of course, the fact that neither of the above counterfactual outcomes actually did occur reinforces the presumption that the critical difference between the two wars was the degree to which the respective decision-making processes were based on deliberative rationality and critically tested realism.)

It is now evident that in the case of the second war, the national shock induced by 9/11—abetted (for whatever reason) by a campaign to stimulate public fear, fueled by demagogic and undiscriminating language about "Islamofascists," "jihadists," and "Muslim terrorism," not to mention apocalyptic references to "mushroom clouds" and "World War III"—created a toxic atmosphere. A democratic society was stampeded into endorsing (note the large number of Democratic senators who de facto voted for war) what initially only a few top decision-makers ardently desired. The president himself, as the national cheerleader, at one point even discussed with British Prime Minister Tony Blair the possibility of generating a casus belli for a war that he fervently believed was necessary.

THE ROAD FROM BAGHDAD

Haass' reflections give rise also to broader questions regarding the performance of the United States during the last several decades in shaping the geopolitics of the Middle East, especially with regard to the tragic Israeli-Palestinian conflict. The outcome of the first Iraq war could have been the point of departure for a more decisive and constructive U.S. policy regarding this troubled region. Coinciding with the fall of the Soviet Union, it stamped the United States as the winner in the prolonged but peacefully concluded global geopolitical and ideological conflict. The United States stood tall, basking in global admiration.

As Haass notes, there were signs at the time that the first President Bush was ready to assert U.S. leadership in order to end the historically bitter and regionally radicalizing Israeli-Palestinian conflict. The 1991 Madrid peace conference was the first tangible fruit of his evident determination. The United States pressured the Palestine Liberation Organization to moderate its stand regarding Israel's existence, and at the same time, Bush voiced strong objections to Israel's continued construction of settlements on Palestinian lands. His secretary of state, Baker, in a major statement to the American Israel Public Affairs Committee (known as AIPAC), had earlier urged Israel "to lay aside, once and for all, the unrealistic vision of a greater Israel." (The speech was drafted by Haass, along with Dennis Ross and Daniel Kurtzer.)

Shortly after the war, and in spite of congressional pressures, Bush stared down Israeli Prime Minister Yitzhak Shamir when the latter demanded substantial U.S. loan guarantees while insisting on the continued construction of settlements in the West Bank. The Israeli public soon thereafter rejected Shamir and elected the war hero Yitzhak Rabin as prime minister. The prospects for peace rose dramatically. But as Haass' account makes clear, Bush's electoral defeat in late 1992 took the steam out of the U.S. effort, and Rabin's assassination some time later deprived Washington of a serious and courageous Israeli partner in the quest for peace. The Clinton administration waffled, not making any determined effort again until the belated and rather improvised—and eventually inconclusive—Camp David II meeting near the end of Bill Clinton's second term.

Although he is circumspect on this, Haass does provide some hints as to what he would favor if he were to have a third crack at policymaking in the U.S. government. In his view, a genuine peace must provide security for the Israelis and fairness for the Palestinians. To that end, he argues, the U.S. president should explicitly define in a major speech the key elements of a genuine peace of compromise and eventual reconciliation. George W. Bush's failure to do so led a vague "roadmap" to peace to become a roadmap to an unknown destination; meanwhile, Bush's public endorsement of Israeli Prime Minister Ariel Sharon as "a man of peace" further alienated the Arabs. The result has been a fatalistic intransigence on the part of both the Israelis and the Palestinians. In Haass' frankly stated verdict, the United States has failed to act.

President Barack Obama should draw an important lesson from Haass' insightful memoir. If the new president is to avoid in the Middle East not only the gross errors of his immediate predecessor but also the much too long-lasting passivity of the Clinton years, he truly has to lead. Admittedly, making matters more difficult for him is the legacy of the last 16 years, when a subtle shift took place in the U.S. approach to the Israeli-Palestinian conflict: the United States moved from being a genuine mediator seeking to nudge both sides toward peace to holding a posture of thinly veiled partiality in favor of one of the parties to the conflict. The result has been detrimental to the prospects for peace—for without engaged and genuinely forthright U.S. mediation, the two parties to the conflict have shown themselves to be unable to reach a genuine compromise.

To make matters worse, Islamist extremism is gaining ground among a growing number of Palestinians, and Israeli politics are currently moving in an increasingly intransigent direction. In the months to come, the next Israeli prime minister may try to prod the United States to go to war with Iran, while arguing disingenuously that the Palestinians must first become economically more developed before an Israeli-Palestinian peace can be seriously considered. The argument regarding the Palestinian issue, in effect, will be for leaving things as they are, notwithstanding the danger that the prolonged stalemate (with its periodic violence and the relentless expansion of the settlements that it allows) is already poisoning the prospects for a two-state solution.

In these circumstances, continued U.S. passivity in the face of ugly necessity and painful choice will hurt the United States' own national interest, show disregard for the suffering of the Palestinians, and eventually threaten Israel's survival. In the Middle East, it is already quite late—although still not too late—for the United States to finally demonstrate the needed audacity of leadership.

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Review Essay

The Ways of Syria

Stasis in Damascus

Fouad Ajami

The View From Damascus: State, Political Community, and Foreign Relations in Twentieth-Century Syria. BY ITAMAR RABINOVICH. Vallentine Mitchell, 2008, 365 pp. $49.95.

In one of his sweeping insights, Henry Kissinger once captured the forces at play in Syrian history. "Damascus is at one and the same time the fount of modern Arab nationalism and the exhibit of its frustrations," he wrote. "Syrian history alternates achievement with catastrophe. . . . The injustice of foreigners is burned deep into the Syrian soul." A big and commanding new book of history and diplomacy by the Israeli scholar Itamar Rabinovich takes readers deep into the world of the Syrian state—and into that mix of pride and injury that has shaped its modern history. Rabinovich tracks the twists and turns of Syria's political journey in recent decades, its transformation from the plaything of outside powers into a player of consequence in the Levant. No other writer has dug as deep into such material as Rabinovich has in this book, a distillation of a lifetime of concern with the ways of Syria.

What the great historian Edward Gibbon once called "the most disgusting of pronouns"—the writer's "I"—hardly appears in this rich and luminous book of essays. Yet although it draws on historical material, including memoirs and archives, in Arabic, English, French, and Hebrew, it is also enriched by personal experience. In 1993, the late Israeli prime minister Yitzhak Rabin gave Rabinovich the opportunity of a lifetime: he pulled him out of the academy and appointed him ambassador to Washington and also (and more important for the purposes of this book) chief negotiator with Syria.

FOUAD AJAMI is Professor of Middle East Studies at Johns Hopkins University's School of Advanced International Studies and an Adjunct Research Fellow at the Hoover Institution.

To my knowledge, Rabinovich has not walked the streets of Damascus and Aleppo. But his passion for Syria's life runs through this volume. For Rabinovich, who wrote his doctoral dissertation on the Syrian Baath Party, Syria has always been achingly close yet a forbidden land across a hostile border. His four decades of scholarly and policy work, it could be said, have been a relentless quest to document and understand the puzzle of Syria.

FATHERS AND SONS

The rogues and coup makers whose conspiracies have wrecked Syria's history walk out of Rabinovich's pages. Rabinovich provides a full and vivid chronicle of the way the French mandate in the interwar period tried—and failed—to shape and order the Syrian state. Other writers may tell in the most general of ways how the Alawis, a community of heterodox, historically marginal mountaineers, emerged as the masters of this fragmented land. But Rabinovich carefully reconstructs their odyssey, as they rode on the coattails of France through service in its colonial troops, then made their way through the Baath Party and the military to the commanding heights of the political order.

In 1970, an Alawi peasant-soldier, Hafez al-Assad, emerged from a rapid succession of coups d'état. On the face of it, there was nothing to suggest that this coup maker would succeed where others before him had failed. But he was to rule for three decades and bequeath to his son Bashar a political kingdom. Rabinovich provides a subtle portrait of Assad senior, no doubt the last century's most consequential Syrian leader.

To most of Syria's proud urban Sunni community, the Alawis are a people of dissimulation and concealment, and Hafez al-Assad was thought to be an embodiment of his community's ways. He was "deliberate, patient, and cool-headed," Rabinovich observes. As a "grey, slow, somewhat awkward politician," he would tame his once-turbulent and difficult country—and put in a serious bid for hegemony over the Lebanese and the Palestinians as well. He built his authority "stone by stone," getting what he wanted "by stealth." Rivals were struck down, and many perished in Syria's notorious prisons.

Assad died in 2000, at a ripe old age, and was laid to rest in his ancestral village. The vast majority of his people had known no other ruler. They wept for him, and no doubt for themselves as well: he had given them stability.

But that stability was bought at a terrible price. A country of deep and rich traditions—Greco-Roman, Islamic, Mediterranean—had become a cultural and intellectual backwater. To rule Syria, Assad had broken its spirit, denied it the culture and possibilities of modernity. The Baathists had once been dreamers at war with the economic and political hierarchies of the Fertile Crescent. Yet the world that Assad left to his son Bashar was mired in sectarianism: a minority of Alawis ruling a resentful Sunni majority.

The very dynasticism of the succession was a rebuke to all that the Baathists had once thought about themselves. The succession would stick, but the son, a pampered child of privilege, lacked his father's touch. His coming-out, the defining act by which the outside world came to know him and his style, was the assassination of former Lebanese Prime Minister Rafiq Hariri, in February 2005. In the days leading up to Hariri's brazen murder, which happened in broad daylight, outside Beirut's seafront hotels, Bashar and his principal lieutenants had openly bullied and threatened Hariri. Bashar himself had warned that he would "break Lebanon" over Hariri's head if Hariri ran afoul of his wishes. The Syrians did not even bother with a convincing cover-up; an early United Nations investigation, led by a meticulous German prosecutor, Detlev Mehlis, made official and public the involvement of both the Syrian regime and its closest Lebanese satraps. (An unedited version of the report named Bashar's younger brother Maher, his brother-in-law, Assef Shawkat, and high functionaries of the Syrian intelligence services.) Hafez, it was understood, would have gotten his way without outright murder. The father had secured hegemony over Lebanon in a meticulous, deliberate drive that took well over a quarter century. The son lost that dominion in the blink of an eye. He had misjudged the world around him. Pax Americana was right next door, in Iraq, determined to punish the Syrian regime for its subversion of the Iraqi-Syrian border, and Hariri was a friend of powers beyond—France and Saudi Arabia.

Five years earlier, there had been hopes that the young man, who had had some exposure to the West, would open up his country: U.S. Secretary of State Madeleine Albright, who had turned up for the father's funeral, returned from Damascus with praise for Bashar—he was a "modernizing reformer," part of the Internet generation, she and her advisers said. The inquiries into Hariri's murder shone a floodlight on the workings of the Syrian regime. This was less an organized government than a huge criminal and financial enterprise held together by a security apparatus built around the children and in-laws of Hafez al-Assad and the intelligence barons. In Damascus, it is the rule of the Sopranos.

PRESENT AT THE CREATION

It is not just the style of the incumbent ruler that has put the Syrian state at odds with the order of nations. The flaw lies, Rabinovich notes, in the origins of the independent Syria that arose in 1946. It was born "weak and beleaguered" and has remained a brittle, uncertain state, oscillating between claims of grandeur and a feeling of being persecuted by mightier powers.

"Syria," Rabinovich points out, "has had adversarial relations with all its neighbors—Turkey, Iraq, Jordan, Lebanon, Israel and the Palestinians." The Syrian nationalists who secured the state out of the remains of the Ottoman Empire and the doings of an uncertain French colonial policy were never content with the hand that history had dealt them. They had irredentist claims in Lebanon, Palestine, and Turkey. A big idea of a "greater Syria" tugged at them, and the delusion of Damascus as the seat of a pan-Arab state was toxic.

There were also deep troubles within—restive minorities of Alawis, Druze, and Kurds to assimilate and a fault line between the Sunni urban population of the principal cities and the communities of the hinterland. Syria was an agrarian society outgrowing the land and pressed by explosive population growth: when the older Assad claimed power, Syria's population was six million; by the end of his reign, it was 18 million.

Syria's rulers escaped from these burdens into political fantasies and adventures. A Lebanese state had arisen on their western border, midwifed by French diplomacy in

1920, with the Christian Maronites as the principal bearers of its national ethos and no small role for the Sunnis. Lebanon was truly a land apart, with its geographic core of Mount Lebanon long accustomed to political independence from the plains below. But the Syrians began to ceaselessly war and intrigue against the sovereignty of this Lebanese state. Additionally, in the late 1930s, a region of mixed population of Arabs and Turks on the Turkish-Syrian frontier—Alexandretta, with Antioch as its principal city—had been annexed by Turkey, with French acquiescence. Its "restoration" would also become part of the heritage of Syrian nationalism.

Nor, of course, could the Syrian nationalists reconcile themselves to the triumph of the Zionists in the struggle for Palestine. There was a particularly Syrian refusal of Israel that went beyond the wider regional rejection of Israel's statehood. Israel's territory was "southern Syria," Hafez al-Assad once openly proclaimed in 1974. "Consequently," Rabinovich writes, "Syria's position in the Arab-Israeli conflict emanates not only out of pan-Arab solidarity, as in the case of Egypt or Iraq, but out of direct relationship of one part of Greater Syria to another part of the same entity."

But the Syrians, and Assad in particular, knew that the verdict of 1948 could not be reversed. They were no match for Israel, and their quest for parity was always hopeless. Soon, however, they would have a narrower claim of their own: the loss to Israel of the Golan Heights in the Six-Day War of 1967. Syrian diplomacy was now faced, as Rabinovich elegantly frames it, with a delicate challenge: how to separate the "problem of 1967" (the Golan Heights) from the "problem of 1948" (the bigger question of Palestine). Syria's leaders found a way, of sorts: ideological and rhetorical belligerence combined with exquisite, unsentimental diplomacy. And what better proof of that diplomacy than the peace that has held on the Israeli-Syrian frontier since the guns fell silent in October of 1973? The cease-fire that then Secretary of State Kissinger secured has not been breached. Syria can have it both ways.

Rabinovich is as subtle as the Syrians themselves in his depiction of Syria's motives and shifts of tactics. There has been little give on the Golan Heights: the diplomacy of three decades has not reversed the verdict of the Six-Day War. Everything on the Golan seems to preclude sweeping changes. There is no moral or political crisis there of the kind that has tormented Israel in the West Bank and Gaza. Nor are there vast expanses of territory that could be traded for peace, as was the case in the Sinai. There have been costs to maintaining the status quo, Rabinovich observes, but the costs—and the risks—of change would be greater for both protagonists. There was an opening in the early 1990s, the possibility of a deal between Rabin and Assad. But Assad was cautious to a fault. He would not countenance the public diplomacy of Egypt's Anwar al-Sadat, which changed Israel's opinion vis-à-vis Egypt. Assad thus could only watch as Egypt, Jordan, and the Palestinians stole a march on him and left his regime with the dubious mantle of Arab rejectionism.

Rabinovich is right in assigning the weight he does to Assad's minority background. The Alawi stepchild could not risk arousing the skepticism or the ire of the Sunni majority. The political tradition in Syria hemmed him in. As the preeminent Lebanese Druze chieftain of his era, Kamal Jumblatt, once put it, whoever rules Cairo is a pharaoh, and whoever rules Damascus is a *wali*, a provincial governor.

THE STEADY STATE

Nowadays, those who know Syria (and often those who do not) are full of certitude and suggestions about the kind of diplomacy that would "peel off" Syria from the Iranian theocracy and turn it into a normal nation at ease with the world. The new U.S. administration is full of optimism about remaking the world. The regime in Damascus has been identified as a target of opportunity, a brigand regime that was cast aside and needlessly thrown into Iran's orbit by the policies of George W. Bush. American liberals are invested in this view, and the French, with a sense of their special knowledge of Syria and Lebanon, have subscribed to the idea of the urgency of courting and "engaging" the Syrian regime. Rabinovich's inquiry is, on the whole, skeptical of major changes in the conduct of Syria.

To be sure, Rabinovich has a healthy regard for the ability of the Syrian regime to pull off sudden reversals of policy and yet still survive. After all, it is a cold-blooded dictatorship, indifferent to zeal and ideology. Thus it was able to back both the Shiite movement Hezbollah in Lebanon and a Sunni insurgency in Iraq. This is the quintessential "swing state," a regime of Alawi schismatics, secular to the core, yet allied for the last three decades with the Iranian theocrats. In the standoff between the conservative coalition of Egypt, Jordan, and Saudi Arabia on the one side and the Iranian state and its tributary movements on the other, Syria rides with Iran but always hints that it is open to a deal. Rabinovich provides an important insight into Syria's ride with Iran: whereas Assad senior was able to cultivate a relationship of great convenience to Damascus, the "less dexterous" son has not fared as well. Over the last decade, the alliance has begun to "resemble a patron-client relationship."

Sectarianism and the passions of the Sunni-Shiite struggle have not been the sole (or principal) drivers of this regional standoff. The Iranian-Syrian coalition has made ample room for Hamas and has winked, when necessary, at the most bigoted of Sunni jihadists. The men in control in Damascus know that the Sunni jihadists from Jordan, Saudi Arabia, and Yemen who land in Syria and then are "escorted" to the Iraqi border are sworn enemies of theirs who see the Alawis as godless heretics. But this kind of doctrinal purity does not detain the Syrian rulers. These are men without illusions: they know that Sunni urban society (both inside and outside Syria) disdains them, but they rule by guile and the sword. Brute military force, papered over by Baathist pretensions, brought them from crushing poverty to supreme political power in their land. The late Assad barely bothered to travel outside his country; he never journeyed to the United States, and successive U.S. presidents, from Richard Nixon to Bill Clinton, called on him in his capital city or met him halfway, in Geneva. He had no use for the world beyond. For the Alawi peasant-soldier, it had been enough to claim and subdue Damascus.

COURT POLITICS

A United Nations tribunal, now sitting in The Hague, is on Bashar al-Assad's trail for the murder of Hariri. Once an ally of Syria with an exquisite relationship with Assad senior, Hariri ran afoul of the son.

Lebanese critics of Syria have long had a habit of falling to assassins' bullets or massive car bombs, with little or no consequences. But Hariri's murder, in contrast, will not go away; it helped drive Syria out of Lebanon. A perfect storm blew apart the Syrian dominion. U.S. diplomats who had been willing to live with a Syrian sphere of influence in Lebanon and had seen it as the best of a bad lot were determined to make Syria pay for its mischief in Iraq. History here had irony: Syria's conquest of Lebanon occurred in the time of Hafez al-Assad and George H. W. Bush; it was reversed in the time of Bashar al-Assad and George W. Bush.

For Damascus, the road back to Lebanon is now blocked. True, Syrian assassins, and their Lebanese proxies, can still kill or maim those in Lebanon who believe in the sovereignty of their land and want nothing to do with Syria. And the regime in Damascus has a strategic partnership with Hezbollah, which has guns and followers aplenty. But the spell is broken, and the border between the two countries has been redrawn.

When the Syrian edifice in Lebanon came apart, there were speculations that the regime's authority would crack at home. Nothing of the sort happened. The regime rode out the crisis and the spectacle of its humiliation. The terror at home intensified. Now, for Syria, there is no way out. Before the time of Hafez al-Assad, 14 presidents came and went in the space of two decades. In the fashion of the time and the place, each announced the birth of a bright new world only to be sent into exile or to fall to new conspirators. That kind of instability is a thing of the past. There is only political sterility now: the rule of the Assads and the false and feeble challenge of the Muslim Brotherhood as an expression of Sunni resentments.

In his inaugural address, U.S. President Barack Obama said that he was ready to reach new diplomatic accommodations with regimes willing to "unclench" their fists. George W. Bush's "diplomacy of freedom"—which unnerved the autocrats—was thus given a decent burial. For Syria's rulers, however, calculations of power are theirs alone to make. For them, there are gains to be had from opening up their country. But the costs and the risks are substantial: open up the floodgates, and the realm could be swamped.

Rabinovich has not written a strategic cookbook for those eager to pronounce on Syria's choices and possibilities. But his knowing and authoritative historical account of the origins and the predicament of the Syrian state offers cause for caution—and for limited expectations on the part of those who turn up at Assad's doorstep. Assad has not been brilliant in the way he has handled the inheritance his father bequeathed to him, but the Assad dynasty and the intelligence barons and the brigade commanders who sustain the regime can be relied on to fight for what they usurped. After all, they stole it fair and square.

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Response

Comparing Crises

Is the Current Economic Collapse Like Japan's in the 1990s?

Worse and Worser

ROBERT MADSEN

In "The Japan Fallacy" (March/April 2009), Richard Katz argues that it is wrong to see the economic stagnation Japan suffered in the 1990s as a precedent for what is now happening in the United States. The U.S. crisis, he says, is smaller in scope and has elicited a more forceful government response; it will therefore prove significantly less damaging. But his focus on the U.S. economy is misplaced: it is not North America but rather the entire world that is on the verge of a Japanese-style disaster.

OF SAVINGS AND BUBBLES

Both Japan's "lost decade" and the current global debacle stem from a combination of excess savings and the deflation of immense asset bubbles. Japan's troubles began in the mid-1980s, when the baby-boom generation entered late middle age, the stage in life when people everywhere save a high proportion of their incomes in anticipation of retirement. The chronic elevation of the national savings rate that ensued was problematic inasmuch as savings are by definition foregone consumption, which implies weaker domestic demand and lower GDP growth. This problem was not immediately evident because a combination of loose monetary policy, innovations in financial technology (*zaitech*), and bad regulation led to the inflation of an asset bubble and a boom in corporate investment. Along with big trade surpluses, these developments sustained overall demand and rapid GDP growth through the end of the decade. But in 1989–91, the bubble collapsed, traumatizing the Japanese people and reinforcing their predilection to save even as corporations gradually started paying down their debts. The loss of investment caused by this deleveraging both revealed and exacerbated the underlying shortfall in consumption.

This insufficient demand was the key to Japan's lost decade. Textbook economic theory suggests that a country with too much savings should export that capital, essentially lending money to foreigners to buy the goods and services that cannot be sold in the home market. Countries such as Singapore and Switzerland have done this in the past, running current account surpluses nearing one-tenth of their GDPs for extended periods of time. But Japan was so massive a commercial power that the rest of the world could not absorb the requisite volume of funds: the country's external surplus was effectively limited to half the level necessary to keep GDP expanding at its potential growth rate. The other half of the capital stayed pooled up inside Japan, where the corresponding lack of demand undermined industrial output, prices, and interest rates. The country was in danger of succumbing to a full-scale depression.

A WORLD AWASH IN CAPITAL

The same pattern of excess savings, temporarily concealed by a bubble but then aggravated by its bursting, characterizes the world today. As recently as a year ago, the consensus was that the so-called global financial imbalances were caused by excessive spending in the United States and a few other profligate economies. To finance their overconsumption, these countries sucked copious funds out of more frugal economies. An equally valid explanation, however, focuses first on the parsimonious countries. Among these were China, Japan, and other aging nations, in which people saved much of their incomes in preparation for retirement; the states of the developing world, which emerged from the financial crises of the 1990s determined to accumulate huge piles of foreign reserves for use in the event of future turmoil; and those commodity exporters whose earnings grew dramatically during the boom of recent years. The upshot was much more money flowing into international capital markets than would otherwise have been the case.

These surplus savings posed the same threat to the world that they had previously represented for Japan: if not neutralized by countervailing demand from somewhere, they would produce intense deflationary momentum and a prolonged recession. It was in this sense fortunate that the United States and the other high-consuming countries persisted in running big current account deficits. The extra capital generated in East Asia and the developing world was amplified by largely unregulated financial innovation and increases in leverage—a pattern that recalls Japan's experience in the 1980s. The money poured into the most liberalized markets, including the real estate sectors in Australia, Spain, the United States, and the United Kingdom. Households in those countries then used the appreciation in the value of their homes to finance additional consumption, effectively absorbing the surplus liquidity and providing the demand necessary to propel global GDP growth.

In 2007–9, this ultimately unsustainable pattern started to unravel in a largely unanticipated way. Most observers had reckoned that investors would eventually lose faith in an ever more deeply indebted United States and withdraw their money from its markets, thereby triggering a dollar crash that would increase U.S. exports and curtail imports. The current account deficit would thus contract significantly. What actually happened, however, was a more harmful resolution of the imbalances, one affecting exclusively the import side of the ledger. The adjustment started when trouble manifested in the U.S. subprime market, revealing that a range of financial institutions in the United States, Europe, and elsewhere had assumed dangerously large volumes of debt. Like their counterparts in Japan in the 1990s, these firms reacted by selling assets and calling in loans. As the value of market securities began to erode, other lenders saw their balance sheets deteriorate and decided that they, too, needed to raise cash. The resulting wave of asset sales has so far wiped out close to $15 trillion in U.S. wealth alone, which has caused consumers to expand their savings severalfold. Because of this sudden reduction in demand, the U.S. current account deficit will decline from its 2006 peak of six percent of GDP to less than two percent of GDP in 2009 and will remain depressed for several years.

Since global exports of capital must mathematically equal global imports of capital, creditor countries will see their current account surpluses shrink. This is already evident. Japan's surplus will probably drop from a high of 4.8 percent of GDP in 2007 to just 1–2 percent of GDP this year. Beijing announced in March that China's exports fell by 26 percent between last February and the previous February. Comparable results should be expected for Germany and other major trading powers, as well as for the smaller economies that depend on these countries. This year, accordingly, promises to be the first since 1945 in which global GDP actually decreases.

THE JAPANESE RECOVERY

Given that the world today suffers from a shortage of demand similar to that which afflicted Japan in the 1990s, what lessons can be gleaned from Tokyo's attempts to recover? With consumption and investment decreasing and strong growth in net exports precluded by foreign opposition, the only source of new demand available to Japan at that time was the state. So the government budget swung inexorably from a slight surplus at the beginning of the decade to an ever-larger deficit. Tokyo recapitalized its banks in 1998, and a few years later the central bank lowered short-term interest rates to zero and embarked on a modest program of quantitative easing. But these measures only managed to stabilize the financial system, while enormous deficits—between 1989 and 2003, Japan's national debt rose by the equivalent of its 2003 GDP—filled the gap in demand and generated an average annual economic growth rate of about one percent.

Japan began a stronger recovery in late 2002. Domestic reforms contributed marginally to this improvement, but progress was primarily the doing of the surge in growth in China, the United States, and East Asia, which began buying more exports from Japan. The ensuing expansion in Japan's trade account produced roughly one-third of the country's GDP growth over the next several years, and corporate investment designed to meet future overseas demand also contributed significantly. Prime Minister Junichiro Koizumi and other Japanese leaders took credit for the commercial efflorescence, de-emphasizing the crucial dynamic from overseas and arguing that they had finally imposed the requisite structural reforms. But this was not true. When the collapse in U.S. consumption eviscerated global demand in late 2008, Japan's exports, industrial output, corporate profitability, and investment plummeted in sequence. The country is now poised for a 5–6 percent contraction in GDP this year, its worst performance since 1945 and a powerful rebuttal to the claim that sagacious policy was responsible for the 2002–7 recovery.

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A GLOBAL RECOVERY?

The world now stands roughly where Japan did in the early 1990s, when it had made some progress on its task of reducing leverage but was far from done. The question is whether the United States and other countries are doing enough today to stabilize the world economy and precipitate growth in similar circumstances. Largely ignoring the international aspects of the financial crisis, Katz focuses on Washington's policies, explains that they are more aggressive than Tokyo's were at first, and concludes that the United States will therefore recover more quickly. This analysis, however, rests on four dubious propositions.

The first is the belief—stated explicitly about the U.S. economy and implied about the world—that the present challenge is less grave than that which confronted Japan almost 20 years ago. The opposite may in fact be the case. In the United States, the investment banking industry has been decimated, hedge funds and private equity groups are faltering, the automobile industry is in deep trouble, financial fraud has proved widespread, and an estimated eight million homes are now worth less than the mortgage debts associated with them. These factors, and the popular anxiety they cause, partly explain the sudden rise in household savings. And there are other hidden dangers, as is suggested by the fact that the investor Warren Buffett, the insurance company AIG, and other significant market participants have sold insurance against further declines in securities prices—and then used the funds thus raised to make additional leveraged investments. Meanwhile, Washington is saddled with big deficits and major commitments in Afghanistan, Iraq, and elsewhere. In some respects, therefore, the United States' position today may be weaker than Japan's was in the early 1990s.

Furthermore, Japan's illness occurred in a relatively benign international environment. To be sure, the yen was strong and foreigners criticized the trade imbalance, but the world was growing and overseas demand was generally strengthening. The first decade of this century would in fact bring a prodigious expansion in the foreign appetite for Japanese exports.

Since the same is not true of the world today—there is little chance of a boom in exports to other planets—the only solution is an upturn in spending somewhere within the system. Ultimately, this means stronger consumption and more corporate investment in China, Japan, and the developing world. The likelihood is small, however, that such a change will materialize within the next several years now that the deleveraging process has destroyed, according to a March 2009 report by the Asian Development Bank, nearly 40 percent of the world's total wealth. Persistently weak consumption and investment, deflation, and protracted stagnation therefore remain likely.

The second problematic notion in Katz's article is that countries are still committed to free trade of the sort that so benefited Japan. The truth is more complicated. When they recapitalize their banks, governments understandably insist that those institutions maintain or expand their lending to domestic corporations and households. But since those lenders need to redress their balance sheets, they feel compelled to call in the credit that they have extended to foreign companies. The consequence is the fragmentation of the global financial system and the loss of credit for firms that borrow heavily from abroad. Hoping to protect their own citizens, governments also try to ensure that their fiscal stimulus is directed toward domestic actors rather than international ones. Unless they are interrupted soon, these politically logical but economically regrettable tendencies may eventually Balkanize the global trading system. Such a development would render recovery more difficult for both the United States and the world.

Third, Katz seems to believe that Tokyo's efforts at bank recapitalization, monetary easing, and fiscal spending were responsible for the 2002–7 recovery. That notion is belied both by the importance of exports and outward-oriented investment in that period and by the economic disaster that is now enveloping Japan.

Katz's fourth questionable argument is that U.S. authorities have acted more rapidly than the Japanese government did. This is superficially true. It took Tokyo a decade to arrive at an aggressive set of stimulus policies that ultimately proved inadequate, whereas the United States has achieved the same feat in just 18 months. Former President George W. Bush's small stimulus scheme; President Barack Obama's package, which delays most of its expenditures until after 2009; recapitalization programs whose details keep changing; and quantitative easing that has yet to stabilize asset markets or ameliorate disinflationary pressures—these hesitant policies cannot stop deleveraging within the United States, let alone interrupt the more damaging global process.

Early indications regarding Washington's emerging strategy are also ambiguous. On the one hand, the administration has said it wants to triple the International Monetary Fund's funding in order to support eastern Europe and other regions as well as to persuade the European Union to join a worldwide program of fiscal easing. This clearly makes sense. On the other hand, the White House's expectation that U.S. GDP will grow by 3.2 percent in 2010 and then rise to four percent in subsequent years is risible. Also curious was Treasury Secretary Timothy Geithner's statement to Congress in early March that the government must not spend too much lest it "crowd out" corporate investment. This erroneously presupposed that in two or three years there would be significant new private-sector demand to be displaced. Such groundless fears of overheating the economy and creating inflation merely confuse the public and complicate the formulation of appropriate stimulus policies. The United States' actions may at this point look bolder than those that Japan, Germany, and other industrialized economies are now taking, but they are by no means enough.

Although Katz is right that Washington's response has been faster than Tokyo's was in the 1990s, it would be a mistake to conclude that strong GDP growth will resume anytime soon. The ad hoc policymaking and official vacillation displayed by the Bush and Obama administrations resemble nothing so much as the behavior of Japan's leaders in the early 1990s, even as the scope of this tragedy and the nascent protectionism it has engendered invite comparisons with the early stages of the Great Depression. With its arsenal of modern fiscal and monetary weaponry, today's world should be able to avoid a reprise of that debacle. Nothing done so far, however, inspires much confidence.

ROBERT MADSEN *is a Senior Fellow at the MIT Center for International Studies.*

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Katz Replies

Robert Madsen presents the widely shared view that excess borrowing caused the current global economic crisis and that the crisis cannot end without a painful purging of much of this debt.

I certainly agree with him that strong GDP growth will not return anytime soon. Having refused to apply the needed ounce of prevention, the U.S. government will have to reach for pound after pound of the cure. I also agree that so far the Obama administration's actions have been insufficient, particularly in curing the financial gridlock. But I do not see how Madsen can simultaneously blame Barack Obama for not doing enough and argue that "Washington is saddled with big deficits and major commitments in Afghanistan, Iraq, and elsewhere." If the inference is that this somehow constrains Washington's ability to use fiscal stimulus, then this would perpetuate precisely the false idea that hamstrung Japan. Obama's substantial stimulus package would have been even more potent and front-loaded except that the search for a few Republican votes caused Obama to acquiesce to scaling back a planned expansion of unemployment compensation and aid to cities and states.

To claim that "the ad hoc policymaking and official vacillation displayed by the Bush and Obama administrations resemble nothing so much as the behavior of Japan's leaders in the early 1990s" simply ignores the fact that for years Tokyo denied that there was even a problem to be solved. The United States now has an activist president and an activist Federal Reserve chair, who, if one measure proves inadequate, will go on to another. Such activism is critical, and it was for Japan, too. I have long stressed that there was in Japan then a lot less real structural reform than advertised. As a result, the country's post-2002 recovery was inordinately dependent on exports and thus very vulnerable to a global downturn. Nonetheless, Madsen ignores a crucial point: Japan would have been hard-pressed to gain from global growth if the Koizumi administration had not resolved the country's decade-long bad-debt problem (see "How Able Is Abe?" March/April 2007).

Madsen cites an Asian Development Bank finding from a March 2009 report that 40 percent of global wealth has already been destroyed by the current crisis. The number is dubious. Nowhere does the ADB report say 40 percent. It does posit a global loss of $50 trillion; however, based on other figures in the report, that figure amounts to roughly a 20 percent loss. A substantial part of the $50 trillion comes from currency depreciation. Yet on a global basis, one country's depreciation is offset by another country's appreciation. Beyond that, as the ADB points out, what has been destroyed is not real physical wealth—buildings, equipment, infrastructure—but the grossly inflated prices of financial instruments and housing. In the United States' dot-com bust, the stock-market value lost equaled 90 percent of U.S. GDP, worse even than the crash of 1929. Yet the United States at the time suffered the mildest recession of the postwar era. What is most harmful today is not the crash of stock prices but the credit crunch.

Where is the evidence for Madsen's claim of "nascent protectionism" that "invite[s] comparisons with" the 1930s? Who in the U.S. Congress is blaming

Toyota or Honda for the woes of General Motors or calling for automobile import quotas, as some in Congress did in the 1980s? Toyota and Honda support a rescue for Detroit, partly because they all rely on the same parts suppliers. When Congress tried to insert a strong "Buy American" provision in the stimulus bill, Obama so watered it down that it is now just a little more forceful than the "Buy American" law that has existed for decades.

I completely disagree with Madsen's view that in seeking the source of the crisis, one must "first" look at the "threat" posed by excess saving in China, Japan, and the like, as well as his suggestion that these countries' excessive saving was somehow responsible for excessive borrowing and irresponsible financial machinations in the United States and elsewhere. Economists have long warned that excess saving was China's and Japan's Achilles' heel. But international imbalances in borrowing and saving were a secondary cause of the current crisis compared to the explosion of unregulated derivatives in the United States and globally and a U.S. housing bubble unconstrained by traditional lending rules. As the bubble expanded in 2003–7, the combined purchases of long-term U.S. securities by China and Japan averaged a mere 1.5 percent of U.S. GDP per year. By contrast, home construction and related expenditures accounted for as much as 25 percent of U.S. GDP growth.

Excess borrowing was a manageable problem. What turned that problem into a catastrophe was that so much of the borrowing was funneled into worse-than-useless projects by a broken financial system that gave financial executives incentives to act like buccaneers. *The New York Times* reported on December 27, 2008, for example, that top executives at Washington Mutual (WaMu) pressured loan officers to approve mortgage applications even when those officers warned of possible fraud. Pumping out lots of "liar loans" earned WaMu abundant fees, thereby generating high bonuses for its executives. Meanwhile, WaMu left others holding the bag by selling securitized mortgages to the pension funds of teachers and bank tellers. Both political parties share the blame, but this recklessness was openly endorsed by the Republican Party in its 2004 platform when it condemned down payments as "the most significant barrier to homeownership."

How do those who deny the pivotal role of financial deregulation explain the much lower rate of home foreclosures among cases in which traditional regulations were enforced? Among the loans guaranteed by Fannie Mae, most of which met traditional standards regarding down payments and proof of ability to pay, only 0.65 percent were in foreclosure as of the third quarter of 2008, compared with 21 percent for subprime adjustable-rate mortgages.

Is the United States' debt problem today really so severe that it might precipitate a Japanese-style "lost decade" or even a repeat of the 1930s? Aside from those in the automobile sector, most nonfinancial U.S. companies are in good shape. Whereas nonfinancial corporate debt increased at an annual rate of 6.3 percent between 2002 and the end of 2008, total assets (financial as well as land, buildings, and equipment) increased by 6.2 percent. At the end of 2008, these companies owned twice as much in financial assets alone as they owed in debt—a higher such ratio than during any postwar year prior to 2001. U.S. companies today are also in a far better position than were their Japanese counterparts on the eve of the lost decade. Back then, the ratio in Japan of corporate debt burden to total corporate net worth (financial and physical) was four times as high as in the United States today.

Household debt has increased faster than household income, but again, so have assets. Despite a 16 percent record drop in wealth between the peak in September 2007 and December 2008, U.S. households ended 2008 with an average net wealth (assets minus debt) that added up to 4.8 years' worth of income. That is close to the average net wealth of five years' worth of income that has prevailed in the United States for a half century. Today's wealth destruction is a correction of bubble levels. U.S. households can adjust to this correction just as they did to the correction during the less severe dot-com bust—so long, that is, as jobs stop disappearing.

For most U.S. firms and U.S. households, unpayable debt is not the cause of the U.S. crisis but its result. The credit crunch is depriving healthy firms and households of needed funding, leading to plunging car sales and millions of layoffs. In other words, the falling economy is transforming healthy firms into vulnerable enterprises that can survive only by slashing core costs in order to reduce debt, and it is making once-solvent households bankrupt. There is no reason to wait ten years to unfreeze the credit system or to underpin the economy through a massive stimulus.

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Recent Books on International Relations

Political and Legal

G. JOHN IKENBERRY

Catastrophic Consequences: Civil Wars and American Interests. BY STEVEN R. DAVID. Johns Hopkins University Press, 2008, 224 pp. $50.00.

In the post–Cold War world, war between states has been extraordinarily rare, but civil war and armed conflict within states has been widespread. Indeed, in the last two decades, fully one-third of all countries have endured some form of civil conflict. In this sobering study, David argues that domestic upheaval and state collapse are replacing rising states and great-power rivalry as the chief threats to U.S. interests and global security. In one sense, this book offers an eloquent statement of a widely shared view—namely, that in the age of terrorism and weapons of mass destruction, it is the weakness of states, rather than their strength, that is most threatening. What is distinctive about David's book is its focus on four critical states—China, Mexico, Pakistan, and Saudi Arabia—in which civil war or political upheaval could "unleash catastrophic harms that transform global politics and endanger vital American interests." In each case, David sketches a portrait of regime breakdown and ensuing chaos. Blazing oil fields, loose nuclear weapons, refugee floods, and great-power collapse are catastrophes that could upend global stability and bring peddlers of violence to the United States' doorstep. Provocatively, David argues that spreading democracy or intervening to build better states are not good options. Rather, civil war must be seen as a problem akin to natural disasters: you assume disasters will occur and prepare for the worst.

Reconsidering Woodrow Wilson: Progressivism, Internationalism, War, and Peace. EDITED BY JOHN MILTON COOPER, JR. Johns Hopkins University Press, 2008, 376 pp. $60.00.

For almost a hundred years, Woodrow Wilson's ideas have cast a shadow over U.S. foreign policy. As Henry Kissinger has observed, it is "to the drumbeat of Wilsonian idealism that American foreign policy has marched since his watershed presidency and continues to march to this day." This volume, a collection of essays to mark Wilson's 150th birthday in 2006, provides an assessment of his legacy in progressive politics and international affairs. Cooper, a leading Wilson scholar, argues that Wilson's greatest triumphs and greatest failings came in his dealings with Congress. He was "one of the greatest legislative leaders ever to sit in the White House," overseeing the passage of historic progressive legislation but also presiding over the defeat of his beloved League of Nations. Other scholars take up Wilson's achievements in the areas of economic reform, race, and free speech, with one author noting that Wilson was indeed the architect of modern liberalism but was also deeply unenlightened in regard to race relations or social justice. In foreign affairs, Lloyd Ambrosius explores how Wilson's racism shaped his approach to international relations, arguing that his idea of democracy did not affirm racial equality. Several authors, most directly Anne-Marie Slaughter, take up the thorny question of whether Wilson was at heart a liberal interventionist laying the intellectual groundwork for future imperial adventures. Most of the authors resist this view, stressing Wilson's vision of a world community of states organized around the rule of law. Cooper tries to settle the matter, arguing that Wilson's famous utterance in his war address—"The world must be made safe for democracy"—was expressed in the passive voice precisely to indicate that he was not advocating that democracy should be imposed.

Demagogue: The Fight to Save Democracy From Its Worst Enemies. BY MICHAEL SIGNER. Palgrave Macmillan, 2009, 272 pp. $26.95.

Democratic states have periodically been threatened by demagogues—political figures who fashion themselves as leaders of the people but in fact use the levers of government to establish autocratic rule. In this intriguing book, Signer explores the intellectual and historical aspects of this old and troubling danger. A political theorist by training, Signer frames his inquiry around the insights of thinkers—Aristotle, Thomas Jefferson, Alexis de Tocqueville, Leo Strauss, and Hannah Arendt—who grappled with the sources and the fragility of governance by the people. Along the way, the book offers portraits of some of history's most infamous tyrants, including Cleon, the ancient Greek general; Adolf Hitler; Benito Mussolini; and such petty demagogues as U.S. Senator Joseph McCarthy and U.S. General Douglas MacArthur. Signer argues that the ability of democracies to resist demagogues hinges not on economic conditions or the design of institutions but on "the people" and whether or not they possess "constitutional conscience." In this sense, the book echoes Tocqueville's contention that liberal mores and traditions within society are the bedrock of democracy. Signer ends with some sensible suggestions on how the United States might help cultivate constitutional values in countries undergoing democratic transitions—especially engaging civil-society groups and promoting education and development. But he does not really establish the claim that outside states can make a difference.

Complex Sovereignty: Reconstituting Political Authority in the Twenty-first Century. EDITED BY EDGAR GRANDE AND LOUIS W. PAULY. University of Toronto Press, 2007, 360 pp. $27.95.

This book is part of an ambitious undertaking by a group of Canadian scholars to map the ways globalization is altering political and social institutions. According to Grande and Pauly, the most fundamental struggle occurring across the world

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system—at all levels of political and social life—is between globalization and autonomy. Globalization ties together what people do and what they experience—and it transforms the way individuals operate in time and space. But it also threatens the autonomy of individuals or communities to decide their own fate. As depicted in this book, the world is engaged in a constant battle between these deep forces. Growing connectivity between societies brings with it modernizing possibilities but also threatens to undermine the self-governance of local communities and of nation-states. Globalization, in this collective portrait, is not making the world flat; it is making it more complex. Authority and sovereignty are being redistributed all up and down the global system. Grande and Pauly call for more concerted efforts to reform global institutions—but it is precisely the growing complexity of the system that makes a 1940s-style reorganization of multilateral governance so difficult.

Economic, Social, and Environmental

RICHARD N. COOPER

The Global Deal: Climate Change and the Creation of a New Era of Progress and Prosperity. BY NICHOLAS STERN. PublicAffairs, 2009, 256 pp. $26.95.

The British economist Stern, noted for his leadership of a major report on climate change for then Chancellor of the Exchequer (and now Prime Minister) Gordon Brown, draws on that and more recent material to argue for global action to avert severe and, in Stern's view, severely dangerous climate change and, in the process, lay the technological and economic foundations for new industries. The proposal calls for at least an 80 percent reduction in greenhouse gas emissions from 1990 levels by 2050, based on quantitative emissions targets applicable to developed countries right away and to developing countries by 2020. It would entail very large annual transfers ($75 billion is mentioned, illustratively) to developing countries, brought about partly through international trade in emissions permits (these transfers are, Stern argues, necessary to gain developing countries' cooperation, as well as desirable on grounds of equity). How favoritism and corruption in the allocation of valuable emissions permits and a massive diversion of entrepreneurial energy toward rent seeking are to be avoided in this ambitious proposal is, unhappily, not seriously addressed.

Protectors of Privacy: Regulating Personal Data in the Global Economy. BY ABRAHAM L. NEWMAN. Cornell University Press, 2008, 240 pp. $39.95.

France, Germany, and the United Kingdom were early to adopt comprehensive national policies to protect privacy in the age of computers and high-bandwidth communication. The European Union followed with a directive in 1995. Since then, many countries—and not just prospective EU members—have broadly adopted the EU's approach. The United States, in contrast, has followed a much more limited course in assuring, monitoring, and enforcing the protection of privacy. Transatlantic tensions arose in the 1990s as the EU insisted that U.S. firms operating in Europe impose European restrictions on the flow of information between and within firms. Tensions were greatly exacerbated after 9/11, as the U.S. government increased its demand for information, especially with respect to telecommunications and travel, in the interests of thwarting terrorist and criminal activities. This book traces the origins and evolution of privacy legislation in the computer era and argues that the presence of autonomous privacy agencies in Europe gave Europe an advantage in intergovernmental negotiations over the protection of privacy. The author finds that regulatory capability with enforcement powers is a separately identifiable source of "power" in influencing the shape of global rules. This story is well told, but readers looking for a thoughtful discussion of the proper boundary between "privacy" (good) and "secrecy" (often bad) will be disappointed.

The World Is Curved: Hidden Dangers to the Global Economy. BY DAVID M. SMICK. Portfolio, 2008, 320 pp. $26.95.

This book is a rambling and anecdotal but enjoyable account by a participant-observer of the vital role the financial system has played in the huge growth in global prosperity over the past 25 years. The account ends in the spring of 2008 and thus includes the early global ramifications of what now is quaintly known as the subprime mortgage crisis, but it does not cover the dramatic financial developments of the late summer and early fall, nor the subsequent slide into global recession. The book displays a great ambivalence. It offers a paean to financial innovation and vitality but also expresses deep concern over the incomprehensibility, vulnerability, and fragility of the global financial system, which is beyond the control of any central bank or even all of them acting together. Smick is unambiguous in holding private-sector players responsible for the emerging debacle, but he is concerned that political overreaction might stifle future innovation, which he sees as the key to future prosperity. He insists on the need for major reforms in the global financial system but, beyond greater emphasis on transparency, fails to tell his readers what they should be.

Foreign Investment and Domestic Development: Multinationals and the State. BY JENNY REBECCA KEHL. Lynne Rienner, 2008, 163 pp. $49.95.

Foreign direct investment (FDI) is now generally acknowledged to contribute to the growth and development of receiver countries, albeit with occasional egregious exceptions. The political scientist Kehl here examines the influence of political institutions on the flow of benefits, direct and indirect, to developing-country hosts. Although her reach is broader, the examination concentrates on six case studies: Chile, India, Kenya, Malaysia, Mexico, and Nigeria each warrant a chapter. Chile, Malaysia, Mexico, and, more recently, India have been very successful at attracting and retaining FDI, whereas Kenya and Nigeria (apart from their oil sectors) have experienced divestiture. General Motors operates plants in all six countries, and within Kehl's studies, special attention is given to this troubled global firm. Institutional capacity in the host country, not surprisingly, plays a key role both in enlarging the benefits of FDI to the host country and in attracting and retaining investment. Democracies do better, on average,

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than autocratic regimes at enhancing the benefits.

China's Rise: Challenges and Opportunities. BY C. FRED BERGSTEN, CHARLES FREEMAN, NICHOLAS R. LARDY, AND DEREK J. MITCHELL. Peterson Institute for International Economics, 2008, 256 pp. $26.95.

This book is the third report on China prepared jointly by staff members of the Peterson Institute for International Economics and the Center for Strategic and International Studies. There is no better place to find a compact overview of recent developments in China, through mid-2008, both with respect to economic developments and with respect to China's foreign and national security policy. The book includes chapters on the complex relations between the central government and local governments, on the evolving role of the Chinese Communist Party, and on corruption. Its focus is China, but it is attentive throughout to the implications for the wider world and especially for the United States—as well as to the actions the United States might take to solidify a constructive relationship between these two large countries (now first and third in the world in terms of economic output and population). The book contains an interesting discussion of the growing awareness among Chinese leaders of the importance of "soft power"—China's influence on other governments and peoples through channels other than economic or military. But notably missing is a discussion of China's policies and actions with respect to human rights and the influence they might have on others.

Military, Scientific, and Technological

LAWRENCE D. FREEDMAN

Wired for War: The Robotics Revolution and Conflict in the Twenty-first Century. BY P. W. SINGER. Penguin Press, 2009, 502 pp. $29.95.

In contrast to the recent past, when it was assumed that the future of warfare would be technologically determined, forecasters are now looking instead to social and ideological factors, demographic pressures, and the struggle for vital resources. Singer, who in his past books has shown a keen eye for new features in the strategic landscape, knows that technology has to be kept in context. He has, however, become fascinated by military robotics. Increasingly "dull, dirty and dangerous" battlefield tasks that once had to be done by people could soon be done by machines. If this means that humans may be able to stay clear of harm's way, it may have a significant impact on governments' readiness to fight, as well as on the form of combat that results. The role of unmanned aerial vehicles and devices for dealing with roadside bombs in Afghanistan and Iraq illustrate the potential, but Singer does not quite prove that the impact of these technologies will be transformational. Their role will always be limited by the extent to which conflicts require human contact (for example, as part of a counterinsurgency strategy). Nonetheless, as Singer explores the issues raised by military robotics—meeting with entrepreneurs, engineers and operators, ethicists, and pundits—his enthusiasm becomes infectious. With its informal style and cultural references, and because of its topic, *Wired for War* is a book of its time: this is strategy for the Facebook generation.

Nuclear Heuristics: Selected Writings of Albert and Roberta Wohlstetter. EDITED BY ROBERT ZARATE AND HENRY SOKOLSKI. Strategic Studies Institute, 2009, 679 pp. $29.99.
Thinking About Nuclear Weapons: Principles, Problems, Prospects. BY MICHAEL QUINLAN. Oxford University Press, 2009, 184 pp. $49.95.

In the world of U.S. strategic studies, the Wohlstetters have achieved almost legendary status, with due regard paid to Albert's achievement in recasting the entire nuclear debate by stressing the risks of first strikes and Roberta's seminal work on how background "noise" led U.S. intelligence agencies to miss what might have been critical signals of Japan's preparations for the bombing of Pearl Harbor. Apart from a sharp little piece by Roberta on India's nuclear program and a couple of papers co-authored with her husband, this first book is really a compendium of Albert's work. A series of essays by colleagues and admirers provide context and draw attention to the controversies in which he was engaged (and there were many). Although in many ways Albert Wohlstetter was an analyst's analyst, with a thorough, empirical, and imaginative approach to some of the most challenging issues ever faced in national policy, he came increasingly to contrast his methodological rigor with the sloppy or sentimental thinking found elsewhere. He found the latter to cause real and present dangers to be ignored and at times to be downright immoral, particularly in encouraging the mass targeting of civilians (as in the concept of mutual assured destruction). Thus, as time went on, the controlled prose of the systems analyst took on an increasingly polemic tone. Everything was written with a purpose; the aim was advocacy, and Wohlstetter was vigorous in marketing his ideas among policymakers.

Although the particular concerns being addressed can now seem dated, the forcefulness of the presentation still impresses. His argument that stable nuclear deterrence requires constant attention and hard work, reflected in his famous 1958 article "The Delicate Balance of Terror," shaped the approach of successive U.S. administrations, as did his early concerns about the dangers of nuclear proliferation. Although there are some post–Cold War reflections on Bosnia and Iraq, and the material on proliferation has sharp contemporary relevance, the bulk of the writings recall an earlier period in international history. Still, those with an interest in the development of strategy and the methodology of strategic studies will find this an invaluable resource.

Quinlan, who died just as his eloquent little book was being published, could also claim to have been a major influence on nuclear strategy. He was the architect of British nuclear doctrine and one of the architects of NATO's so-called dual-track decision of December 1979 on intermediate-range nuclear forces. He also wrestled with the tension between the willingness to commit genocide implied by deterrence and his strong Catholic faith. His prose is controlled and never polemic, as befitting a classically trained civil servant, but Quinlan is always rigorous when developing a case. This is as careful and persuasive a case for nuclear deterrence as there can be made, helped by Quinlan's readiness to engage with both critics and proponents of total abolition without dismissing either out of hand. Although he was the architect of the United Kingdom's nuclear doctrine, Quinlan accepts that in contemporary circumstances, the case for the country's remaining in the nuclear business is no longer "so plainly and unconditionally compelling" that it should not be challenged. The difficulties of managing nuclear relationships between two relatively new nuclear powers in an unstable political setting are also explored, in a thorough analysis of the tense situation between India and Pakistan.

World Politics Since 1945. 9th ed. BY PETER CALVOCORESSI. Longman, 2009, 856 pp. $60.00.

There are some things worth celebrating: *World Politics Since 1945* remains one of the best overviews of contemporary international history, full of elegant writing and shrewd judgement. Calvocoressi has just published the ninth edition at the age of 96.

The United States

WALTER RUSSELL MEAD

The Inheritance: The World Obama Confronts and the Challenges to American Power. BY DAVID E. SANGER. Harmony Books, 2009, 528 pp. $26.95.

Sanger, chief Washington correspondent for *The New York Times*, has written a brilliantly reported and researched account of the missteps and misfires in the Bush administration's war on terrorism and campaign against nuclear proliferation. The first four sections of the book, describing the Bush administration's efforts in Afghanistan, Iran, North Korea, and Pakistan, should be required reading for anyone seeking an understanding of where the United States is and how it got there over the last eight years. The hair-raising section "The Three Vulnerabilities"—describing continuing U.S. vulnerabilities to terrorism at the end of the Bush era—deserves the widest possible audience. Sanger is less successful when he shifts from describing particular policy problems to addressing the larger issues of the United States' place in the world. By leaving India out of his picture of a rising Asia, Sanger probably overstates both the rise of Chinese power and the potential for U.S.-Chinese competition. And Sanger's criticisms of the Bush administration do not give enough weight to the failure of past administrations. The Iranian and North Korean nuclear programs, the ominous combination in Pakistan of nuclear buildup and political decay—these developments frustrated better presidents than George W. Bush. For 30 years, U.S. presidents watched helplessly as these problems grew. President Barack Obama is the latest in a long line of U.S. leaders attempting to cope with problems that become more urgent and less tractable with every passing year.

Difficult Transitions: Foreign Policy Troubles at the Outset of Presidential Power. BY KURT M. CAMPBELL AND JAMES B. STEINBERG. Brookings Institution Press, 2008, 225 pp. $26.95.

The extended transition of power between presidential administrations is a unique feature of the U.S. political system—and, Campbell and Steinberg argue in this comprehensive and useful guide, a serious vulnerability. The period of transition begins during the long presidential campaign, as power ebbs away from a lame-duck incumbent, and it continues well past inauguration day, as the new administration struggles to make key appointments, get them confirmed, and get its policies and procedures in order. The authors attribute the length of the process to two features of the U.S. political system: the length of the campaign and the unusually large number of political policy jobs that change hands from one administration to the next. (In most democracies, turnover in foreign policy staff is restricted—perhaps the foreign minister and one or two top posts change when the government changes, but otherwise the bureaucracy carries on as before.) It is unlikely that this situation will change; Campbell and Steinberg offer suggestions on how incoming administrations can make it work better. Some of the suggestions seem utopian: make fewer dramatic campaign commitments in foreign policy, the authors urge, noting the degree to which such pledges often come back to haunt new presidents and their staffs. But others seem quite practical and helpful. One hopes that several copies of this book are circulating among senior Obama appointees—among whom both Campbell and Steinberg are now included.

In the Shadow of the Oval Office: Portraits of the National Security Advisers and the Presidents They Served—From JFK to George W. Bush. BY IVO H. DAALDER AND I. M. DESTLER. Simon and Schuster, 2009, 400 pp. $27.00.

In the Shadow of the Oval Office offers a timely retrospective on the role of national security adviser through 50 tumultuous years. The post is something of an anomaly: although originally created as a pure staff position and exempt from the requirement of Senate confirmation, under some presidents the national security adviser has eclipsed the constitutionally mandated cabinet officers to become, next to the president, the most powerful force in U.S. foreign policy. Commentators and policymakers frequently deplore the often intense rivalries between national security advisers and secretaries, yet the rivalries emerge over and over again. Daalder and Destler provide examples, such as the George H. W. Bush administration, in which the system worked well; they point to others, such as the Reagan administration, in which failures by the adviser left the president exposed to damaging political and policy failures. In recent years, a third force has begun to appear in the executive branch; a series of powerful vice presidents, including Al Gore, Dick Cheney, and now Joe Biden, have emerged, with varying results, as partners and, occasionally, rivals to both the secretary of state and the national security adviser. Overall, the growth in the complexity of the foreign policy machinery appears to reflect the continuing rise in the importance of foreign policy for U.S. presidents. The world is so large, its problems so complex, and the constitutional role of the president in foreign policy so powerful, that presidents have over time seemed inexorably driven to expand the group of powerful aides who help shape foreign policy. Coordination among these usually strong-willed, self-confident, and brilliant aides poses problems of its own; building an appropriate system and managing the inevitable rivalries is one of the key challenges facing a new president.

This Republic of Suffering: Death and the American Civil War. BY DREW GILPIN FAUST. Knopf, 2008, 368 pp. $27.95.

The sheer scale of the slaughter in the American Civil War—more than the total military deaths in all the rest of the United States' wars combined—still overwhelms almost 150 years after the fact. Faust's painstakingly researched account of the Civil War dead details how they died, what happened to their bodies, how families received the news, how they mourned, and how the North and the South memorialized the slain. Her careful recovery of detail contrasts with the bare statistics of mass death to startle readers over and over into a fuller recognition of the human dimension of this colossal and tragic conflict. Popular interest in U.S. history tends to shift between two stories: the relatively simple and triumphant narrative of the American Revolution and the establishment of the Constitution and the darker and more complex story of the Civil War. It may be that after a period in which the Revolution and the Founding Fathers spoke most directly to the nation, the country is entering a period in which the somber figures of Abraham Lincoln, Ulysses S. Grant, William Tecumseh Sherman, and Robert E. Lee best reflect the concerns and hopes of a troubled time. If so, the extraordinary success of Faust's unsparing account may end up marking the moment when Civil War historians began to recapture the attention of the reading public.

American Christians and Islam: Evangelical Culture and Muslims From the Colonial Period to the Age of Terrorism. BY THOMAS S. KIDD. Princeton University Press, 2008, 224 pp. $29.95.

This concise and well-organized study offers readers an excellent summary of American popular attitudes toward Islam from the eighteenth century onward. Americans encountered Islam with less baggage than, say, central Europeans, whose historical memories were haunted by the march of the Ottomans to the Danube and the sieges of Vienna. And for Americans, a relatively unhistorical people with little folk memory of, or religious sympathy for, the Crusades (seen by American Protestants as a Catholic aberration), Islam never occupied the position of "the ancient enemy," as it did in parts of Europe. Even so, as Kidd shows, Islam has cast a dark shadow over the American mind. Theologically, early American Christians saw Islam as "the Antichrist of the East," which they paired with "the Antichrist of the West" (Roman Catholicism), and they searched the Scriptures for prophecies of Islam's downfall. From the capture and enslavement of American sailors by the Barbary pirates, through the struggles among Christians, Jews, and Muslims in the declining decades of the Ottoman Empire, American Christians tended to view Islam and its followers in increasingly negative terms. An important exception to this trend is found among the American missionaries who lived in the Middle East; although the missionaries regretted the failure of the Muslims to embrace the call of Christ, they found themselves increasingly sympathetic to Islamic political aspirations and appreciative of the strengths of Islamic, as well as Arab and Persian, culture.

Western Hemisphere

RICHARD FEINBERG

The Life and Times of Raúl Prebisch, 1901–1986. BY EDGAR J. DOSMAN. McGill-Queen's University Press, 2008, 624 pp. $49.95.

A towering figure in twentieth-century international economics, Raúl Prebisch was a powerful theorist, world-class institution builder, and charismatic orator. He drove forward such transformative ideas as import-substitution industrialization, unequal terms of trade, and the 1970s rallying cry "the new international economic order." Exiled from his ungrateful Argentina, Prebisch became a lifelong leader of large UN agencies, launching the influential Latin American Economic Secretariat in Santiago, Chile, and the UN Conference on Trade and Development in Geneva. In this exhaustively researched, authoritative treatment, Dosman, a Canadian political scientist, finds Prebisch to be a sensible, centrist economist, opposing excessive industrial protectionism and seeking an effective balance between the state and the market. Similarly, in the raging North-South diplomatic debates, Prebisch was somewhere in the middle, searching for compromises based on mutual interests and frustrated by Latin America's perennial incapacity to implement effective economic integration. Prebisch (more, it seems, than Dosman) admired the United States, even as he resisted its heavy-handedness, and fervently criticized Latin American economic elites and political populists for blocking badly needed internal reforms; Argentine President Juan Perón brutally destroyed Prebisch's first great achievement, an independent Argentine central bank. Ultimately, Prebisch emerges as something of a tragic figure, unable to persuade his fellow Argentines or the international community to abandon their vanities and passions in favor of more rational governance. In dark and intimate interviews, Prebisch's two wives and other close associates insinuate that there were personal moral lapses. Overall, Dosman has given us a large, important book that not only immortalizes a great man but also starkly illuminates the repetitive patterns of inter-American relations.

The Canal Builders: Making America's Empire at the Panama Canal. BY JULIE GREENE. Penguin Press, 2009, 448 pp. $30.00.

The labor historian Greene focuses on the gritty working men and women who dug "the big ditch," the harsh conditions under which they labored, and their inventive schemes—some collective, some personal—to improve their lots. But Greene's real contribution is to describe the complex labor-management system that organized, segregated, disciplined, and motivated the thousands of American whites and West Indian blacks recruited for the massive undertaking. This system, she contends, was as critical to the venture's success as were the more conventionally recognized public health innovations that contained tropical diseases and the engineering technologies that drove the huge shovels and built the massive metal locks. Greene also reminds us that it was the U.S. government that directed the enterprise, imposing a quasi-military "benevolent autocracy" in the Canal Zone—an arrangement more efficient than democratic. So dominant was the government role that progressives

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imagined that it heralded a new scientific socialism wherein governments ran productive enterprises and guaranteed social services to workers and their communities. More the realist, Greene is chagrined, if not surprised, that the 1915 Panama-Pacific International Exposition in San Francisco, assembled to celebrate the glorious "kiss of the oceans," paid so little attention to the laborers who built it.

Haiti in the Balance: Why Foreign Aid Has Failed and What We Can Do About It. BY TERRY F. BUSS. Brookings Institution Press, 2008, 272 pp. $28.95.
Since 1990, the international community has allocated over $5 billion to this small country, yet Haiti remains a desperately impoverished "fragile" state. In a study based less on original field research than on self-critical evaluations by major donors, Buss points many fingers—at Haitian elites, U.S. domestic politics, the donor community, NGOs, and private contractors. The Haitian people are the victims, even as Buss recognizes a widespread culture of corruption, illegality, and political violence; he eschews the literature on social capital, in which a pervasive lack of trust and cooperation among citizens is shown to pulverize national development projects. Despite his recognition that Haiti has always been governed miserably, Buss does not give up. A public-administration specialist, he argues forcefully for prioritizing central public administration and financial management, for building capacity and implementing performance assessments, and for battling corruption; meanwhile, democratic elections, political decentralization, and privatization may have to wait. Donors must coordinate better among themselves, take a comprehensive "whole-of-government" approach, and fund sustainable projects that make a difference. These are all defensible recommendations—yet in presenting them as he does, Buss ignores the overwhelming crush of evidence that in fact donors have tried them all before only to confront the stubborn resistance of Haitian society.

The Threat Closer to Home: Hugo Chávez and the War Against America. BY DOUGLAS SCHOEN AND MICHAEL ROWAN. Free Press, 2009, 240 pp. $25.00.
The recession must be taking its toll at the Free Press, for this limp stab at political sensationalism by two U.S. political consultants is emasculated by its unsubstantiated assertions and careless logic. Their book largely a cut-and-paste job, Schoen and Rowan fail to shock with any fresh revelations. Certainly, Venezuelan President Hugo Chávez is a shrewd and dangerous demagogue, and his recent successful campaign to win a referendum allowing him indefinite reelection has established a new benchmark for the unabashed mobilization of state resources to turn out the pro-government yes vote. But does the "real threat" to the United States come from Chávez's links to Iran and Russia, as the authors allege, or rather more from the alluring ideological alternative he poses to a market-driven globalization that is self-imploding before our very eyes and his underreported but pervasive influence within many Latin American countries? Furthermore, Schoen and Rowan's proposals for a new Alliance for Progress–cum–Marshall Plan are utterly passé, and hard-pressed U.S. consumers are unlikely to applaud their suggested self-inflicted cutoff of the flow of Venezuelan oil. The authors are correct, however, to criticize the Bush administration for its

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surprising passivity in the face of the Chávez threat, even if they fail to offer actionable advice to the new administration.

Eastern Europe and Former Soviet Republics

ROBERT LEGVOLD

Persian Dreams: Moscow and Tehran Since the Fall of the Shah. BY JOHN W. PARKER. Potomac Books, 2008, 438 pp. $27.95.

Given the deep U.S. concern over the prospect of a nuclear Iran and the grief this generates in U.S.-Russian relations at a time when Moscow seems more a part of the problem than a part of any solution, how utterly timely to have a book that details the Iranian-Russian relationship in all its complexity. And, indeed, complex it is, from the intricacies of the two countries' evolving entanglement in the swath of trouble stretching from Tajikistan through Afghanistan and then Azerbaijan to their dueling stakes in Caspian Sea oil and gas. The relationship has a dozen sides, some historical, some distinctly expedient, all of them displaying a rich array of clashing and converging interests. The nuclear relationship serves as a central thread in the account, and it is a remarkably long one, stretching back to the Soviet period and then winding its circuitous way through the Clinton and Bush administrations—a "push-pull-but-don't-let-go dance."

The Great Gamble: The Soviet War in Afghanistan. BY GREGORY FEIFER. HarperCollins, 2009, 336 pp. $27.99.

Because the Soviet war in Afghanistan played a pivotal role both in the Cold War's endgame and in the Soviet Union's last gasps of life, its origins and conduct have been much studied. Feifer, however, adds remarkable and wrenching texture to the account. From his position as a correspondent living in Russia, he has interviewed a wide range of Russian and Afghan participants, from former senior KGB officials and military commanders to war veterans and former mujahideen. As a result, he creates virtual war reportage. The reader feels he or she is there for all the raw brutality, battlefield mistakes, heat, dust, and fear. The larger picture—the ebb and flow of the war itself, decisions made in Moscow, the role of the Pakistanis, the Saudis, and the Americans—serves as the frame, but within it, the canvas is of soldierly ingenuity and frailty, the sights of one side's vengeance on the other, the small deals done with the enemy, and the peccadilloes of the war's more flamboyant figures.

The Balkans in World History. BY ANDREW BARUCH WACHTEL. Oxford University Press, 2008, 176 pp. $19.95.

The natural reaction is, "Yet another short history of the Balkans?" This one, however, is different—first of all because it manages to be utterly limpid in the face of the most intricate and snarled of subjects. Few histories of this ancient region more deftly cut through the archaeology of layered civilizations—Greek, Roman, Byzantine, Ottoman, Slavic, European—that have left their imprints but not their full forms on the peoples of this area. Wachtel has an eye for the telling artifact, poem, ritual, linguistic feature, and custom, not simply the seminal event. He also has a fine sense of how much of the story has to be left out if a tight, fluent narrative is to be maintained. The book is part of the New Oxford World History series, which is aimed at showing how diverse parts of the world have contributed to world history. Since the Balkans are where much of world history meets, the region is a pretty fair test for the approach, and Wachtel's book passes that test smartly.

The Rise and Fall of Privatization in the Russian Oil Industry. BY LI-CHEN SIM. Palgrave Macmillan, 2008, 288 pp. $80.00.

There cannot be a better measure of the lavish and murky wheeling and dealing that characterized Russia's coarse path from public to private property than what happened in the oil sector. Anyone who thinks that 74 years of communism stifled the Russian capacity for ingenious, predatory, and unscrupulous capitalist scheming will be summarily corrected by this book. Sim sets out to explain why Russia's massive oil industry was broken up and privatized when the public gas, coal, and electric conglomerates were not—and then why more recently the process was reversed. Because so much is obscure, explanations abound, and Sim weighs each with care. In general, however, she sees the original outcome as the sum of three groups' aims (the "young reformers," the Soviet-era oil-industry managers, and the politicos around President Boris Yeltsin), not simply the conniving of oligarchs on the make. She then traces the story in detail by probing three revealing cases studies: Yukos, Slavneft, and Rosneft.

Terror by Quota: State Security From Lenin to Stalin. BY PAUL R. GREGORY. Yale University Press, 2008, 360 pp. $35.00.

To render rational something so seemingly irrational as the Stalinist terror goes against all natural instincts. Gregory, however, clinically (and by applying rational-choice models) does indeed argue that Joseph Stalin, as other tyrants before him, rationally calculated both the utility and the limits of terror as a means of buttressing his and his regime's power and furthering its agenda. He also explores the rationality in the way Stalin and his inner circle rejiggered the organization of the state security organs, the kinds of people they relied on to run them, and the incentive structures they created to ensure that the praetorians would obey and not turn on them. To this he adds an analysis of the difficult but rational matrix of choices the agents of terror had to face, along with the careful definition of the terror's victims as it was designed to stay within the bounds of what the rest of the country would find plausible. The data, a good deal of it made available only recently, are used well, and the case made makes the incomprehensible less so. Still, there remains that point at which terror "by quota" loses any sense.

Middle East

L. CARL BROWN

Kingdom Without Borders: Saudi Arabia's Political, Religious, and Media Frontiers. EDITED BY MADAWI AL-RASHEED. Columbia University Press, 2009, 320 pp. $40.00.

Religion and Politics in Saudi Arabia: Wahhabism and the State. EDITED BY MOHAMMED AYOOB AND HASAN KOSEBALABAN. Lynne Rienner, 2008, 189 pp. $49.95.

Those seeking a neat periodization in Middle Eastern diplomatic history could well single out the year 1979, which brought the unforgettable Islamic Revolution in Iran and also the less well-remembered storming of the Grand Mosque in Mecca by messianic religious radicals bent on overthrowing the Saudi regime. In the roughly three decades before 1979, a region dominated by secular nationalism (or, perhaps better, etatism) viewed Saudi Arabia as an anomaly and as far from dominant. Since 1979, both religion and Saudi Arabia have loomed ever larger in Middle Eastern politics (a development beginning even earlier, after the 1967 Arab-Israeli war discredited Nasserism). Now, 30 years after 1979, is a good time to take the measure of these developments.

The major themes in these two books are, first, the Saudi ties with the *ulama* (Islamic clergy, and in this case both the "establishment" Wahhabi clerics and those Salafis beyond Saudi reach) and, second, the transnational Saudi efforts in education and the media (quantitatively impressive but of more questionable influence). Of equal interest are the several short case studies treating the Saudi or the Wahhabi impact on such countries as Indonesia, Lebanon, and Yemen. Chapters in both books also address different aspects of U.S.-Saudi relations. Most of the contributors offer a tough appraisal of the Saudi dynasty and of Wahhabism. A few seem too charitable. The emerging picture is of a now-strong, now-weak regime (an "oiligarchy" with limited military clout) that is little loved and facing domestic and foreign opponents from both the left and the right.

Sowing Crisis: The Cold War and American Dominance in the Middle East. BY RASHID KHALIDI. Beacon Press, 2009, 320 pp. $25.95.

Sowing Crisis offers a compelling revisionist interpretation of the Cold War in the Middle East. Instead of telling the story in terms of an ultimately successful U.S. strategy of containing the Soviet Union, Khalidi depicts two superpowers jockeying for position in the Middle East, producing proxy wars and undermining the prospects for democracy. Both superpowers, by treating the different regional actors in terms of their ties to the other superpower, misread the regional reality. This bipolar organizing theme is not, however, pushed to the point of overlooking that regional reality in all its complexity. One of Khalidi's strengths is his understanding of that regional reality. Even so, *Sowing Crisis* may well not give the diverse regional actors their due agency in shaping or misshaping events. As for the Middle East after the United States "won" the Cold War, Khalidi views the George W. Bush administration, with its "unilateral and interventionist policies," as having substituted the "global war on terrorism" for the earlier call to arms against international communism. Although right on target in his criticism of the Bush administration, Khalidi depicts the Bush years as less an aberration than a sharp ratcheting up of a long-lived U.S. Middle East policy that has ever been too intrusive.

Iran's Long Reach: Iran as a Pivotal State in the Muslim World. BY SUZANNE MALONEY. U.S. Institute of Peace Press, 2008, 156 pp. $14.95.

The third in the U.S. Institute of Peace's series on "'pivotal' states in the Muslim world," this little book adds luster to that often unappreciated category—the short survey. After an introduction that really does introduce her subject with a fine summary history—from Khomeini to

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Khatami to Khamenei—Maloney moves on smartly to address Iran's "long reach" in regional politics, treating everything from Hamas and Hezbollah to Afghanistan and Iraq, plus the inevitable nuclear issue. The next chapter treats seamlessly such diverse matters as the economy, Iran's young population, the massive "brain drain," and the role of students and women. There is even a consideration of what might be dubbed the evolving politico-theological role of the supreme leader and the regional assets and liabilities of Iran as a Shiite polity. The concluding chapter provides surely the best nine pages written on the pressing subject of what should be U.S. foreign policy toward Iran. Partial disclosure: war and regime change will not work.

Hide and Seek: The Search for Truth in Iraq. BY CHARLES DUELFER. PublicAffairs, 2009, 480 pp. $27.95.

Duelfer served as deputy chair of the UN weapons inspection mission in Iraq from 1993 to 2000. Then, after the U.S.-led invasion of Iraq in 2003, he joined, and ultimately led, the Iraq Survey Group, a 1,400-person body charged with finally getting at the truth about Iraq's weapons of mass destruction. In *Hide and Seek*, Duelfer weaves into his detailed personal narrative an appraisal of U.S. policy and performance, the Iraqi officials he knew, and the hydra-headed UN. None escapes his stern judgment: Bill Clinton's "wait-until-he-drops-dead strategy" toward Saddam Hussein was inane. The Bush administration, after overthrowing Saddam (a policy that Duelfer favored), badly mishandled Iraq. UN inspections and sanctions are crude instruments with a limited shelf life. *Hide and Seek*, however, is better appreciated not as a book that fuels or foils any particular interpretation of the United States and Iraq since the early 1990s but as a reconstruction of those years from the perspective of an insider involved in a mission destined to fall short.

Winning Turkey: How America, Europe, and Turkey Can Revive a Fading Partnership. BY PHILIP H. GORDON AND OMER TASPINAR. Brookings Institution Press, 2008, 125 pp. $18.95.

This little book opens imagining a U.S. presidential debate in the fall of 2012 addressing the question, "Who lost Turkey?" The authors, having thus diverted the attention of foreign policy analysts from Afghanistan, Iran, Iraq, and that hearty perennial—Israel and the Arabs—move on to depict a Turkey cynical about its prospects for membership in the European Union, upset by U.S. actions in Iraq, and whiplashed by issues such as Armenia, Cyprus, and the Kurds, the last both at home and abroad. In Turkey itself, various die-hard secularists have already sought to oust the ruling Justice and Development Party (AKP) by dubious legal means, as well as by a foiled coup. Meanwhile, the AKP, with its Islamic roots, appears more concerned with furthering Turkey's ties with Europe than do those remnant Kemalist westernizers bent now on what one observer has labeled a "neo-Ottoman" orientation. The authors' five-point plan to keep the United States and Europe from "losing Turkey" boils down to "support[ing] liberalism and democracy in Turkey"; promoting a settlement with Armenia, Cyprus, and the Kurds; and renewing a commitment to Turkey's eventual membership in the EU.

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Asia and Pacific

ANDREW J. NATHAN

Democracy Is a Good Thing: Essays on Politics, Society, and Culture in Contemporary China. BY YU KEPING. Brookings Institution Press, 2008, 240 pp. $34.95.

What do China's leaders mean when they say that the Chinese system is democratic and getting more so? To help answer this question, the influential John L. Thornton China Center at the Brookings Institution offers a translated set of key writings by Yu, an adviser to Chinese President Hu Jintao. In the simple yet often elusive language of Chinese scholar-officials, Yu addresses such subjects as intraparty elections, legislative hearings, judicial independence, good governance, social welfare, and globalization. Especially meaty are his discussions of civil society, in which, he argues, the "actual space" exceeds the "institutional space" allowed by current, out-of-step regulations. Although he labels democracy a universal value, Yu rejects Western models. The puzzle is whether such arguments are intended to push for reform from within the system or to appropriate the label of democracy for practices that are anything but. A thoughtful introduction by the Brookings China expert Cheng Li nudges the reader toward the more optimistic interpretation; a line from Yu—"making democracy safe for China"—hints at the alternative interpretation.

Asia, America, and the Transformation of Geopolitics. BY WILLIAM H. OVERHOLT. Cambridge University Press, 2007, 366 pp. $85.00 (paper, $24.99).

The longtime Asia hand Overholt discusses what he thinks is right (especially in China) and wrong (especially in India and Japan) with Asian cultures, politics, elites, and economic and security policies. He mixes personal observation and informed intuition with hard data, often drawn from studies by his colleagues at RAND's Center for Asia Pacific Policy, to show how hawkish nationalists have shaped Japanese security policy and why their efforts will fail, why gradualism is the right path for China and China's rise is good for the United States, why Taiwan's drive for independence is finished, why South Koreans fear the United States more than they fear China, why India will challenge China in the area of security but not economically, and why the East Asian model of developing the economy first and democracy second makes more sense than the opposite path—the one wrongly championed by American policymakers and political scientists. Always challenging conventional thinking, Overholt zestfully bashes those who have disagreed with him in the past. He thinks Russia's policies are disastrous and that the United States is making a mistake by anchoring its position in Asia so heavily to its relationship with Japan. He would like to see a concert of open economies (China, the United States, and those of the Association of Southeast Asian Nations) replace Cold War alignments in Asia, but he sees several major obstacles—including ossified thinking in Washington—standing in the way of such a shift.

The Politics of Extremism in South Asia. BY DEEPA M. OLLAPALLY. Cambridge University Press, 2008, 256 pp. $85.00 (paper, $35.99).

Dissenting from the conventional view that extremism is caused by religious belief, poverty, or repression, Ollapally presents a

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series of concise yet probing historical analyses of how security concerns, both domestic and international, led South Asian states to foster extremist movements in their own backyards, where they had previously barely existed. Two of the stories she tells are relatively well known. In Afghanistan, Pakistan, along with Saudi Arabia and the United States, supported the rise of the Taliban to prosecute the struggle against the Soviet occupation. In Pakistan, the Pakistani military and intelligence authorities sponsored religious militancy in order to legitimize military rule, weaken civilian opponents, contain secessionism, exert influence in Afghanistan and Kashmir, and help spur terrorist incidents in India. Less well known are the cases of Sri Lanka and Bangladesh. In the former, Ollapally argues, the Sinhalese Buddhist majority felt insecure in the face of Tamil dominance in the wider region and gravitated toward a hard-line nationalism that generated an extremist Tamil response. In the latter—the case in which her causal argument is least clear—an existing Islamist movement gained strength in part because of concerns about Indian encirclement. Ollapally views India as a moderate, secularist island in the midst of regional identity storms, and she does not address the sources of Hindu militancy there.

Taiwan's Relations With Mainland China: A Tail Wagging Two Dogs. BY CHI SU. Taylor & Francis, 2008, 368 pp. $150.00.
Su was chair of Taiwan's Mainland Affairs Council in 1999 when Taiwan's president, Lee Teng-hui, shocked not only Beijing and Washington but also most of his own bureaucracy by declaring the existence across the Taiwan Strait of a "special state-to-state relationship." Connoisseurs of cross-strait discourse viewed the statement as tantamount to a declaration of independence. Su's detailed but fast-paced account dissects Beijing's and Taipei's secret contacts in the early 1990s, the history of the so-called 1992 consensus (a term Su coined), how Lee consolidated and used power, the origins and consequences of the 1999 crisis, and how electoral dynamics shaped the evolution of former Taiwanese President Chen Shui-bian's strategy. Su's views are partisan, thus giving insight into the thinking of Taiwan's new president, Ma Ying-jeou, whom Su currently serves as head of the Taiwanese National Security Council. His analysis of the forces that have shaped policy in all three capitals is nuanced, astute, and uniquely informed.

Political Change in China: Comparisons With Taiwan. EDITED BY BRUCE GILLEY AND LARRY DIAMOND. Lynne Rienner, 2008, 309 pp. $65.00 (paper, $24.50).
The contributors to this conference volume ask not whether China will democratize but how: by following the path of peaceful transition exemplified by Taiwan or in a way that involves more turbulence? The experts, a star cast, compare the two systems culturally, sociologically, and politically—and end up disagreeing. The co-editor Diamond and a majority of the contributors hold that Taiwan's social structure, political history, and geopolitical position are too distinctive to make its past a good guide to China's future. The other co-editor, Gilley, and several other contributors argue that China has a strong state facing strong social forces, a circumstance favorable to peaceful top-down democratization along the

same lines as Taiwan's democratization at some point in the future (the timetable is uncertain). Whoever is right, the book offers an informative look at Taiwan's past and China's present, with an illuminating application of social science theories.

Tearing Apart the Land: Islam and Legitimacy in Southern Thailand. BY DUNCAN MCCARGO. Cornell University Press, 2008, 264 pp. $59.95 (paper, $21.00).

McCargo's close study of the origins of militancy in three southern Thai provinces carries clues to the problem of state-minority relations all over Asia. Based on a year's fieldwork, interrogation records, and anonymous leaflets, among other sources, McCargo's book argues that Thailand's overcentralized state failed to give meaningful participation to ethnically Malay Muslim citizens. The resulting popular alienation led to the violence that has been going on in Thailand since 2001. Former Prime Minister Thaksin Shinawatra's regime, although popularly elected, was especially inept in relations with local minorities. The chapter on police and army action is a case study on how to make local insurgencies worse instead of better. In McCargo's account, Islamic identity provided a frame—but not the motive—for the militant movement. But if autonomy short of independence is the demand of many groups in Asia, it remains unclear to McCargo, and perhaps to the southern Thai militants themselves, how much local participation is enough to stem this kind of violence once it starts.

Africa

NICOLAS VAN DE WALLE

A Thousand Hills: Rwanda's Rebirth and the Man Who Dreamed It. BY STEPHEN KINZER. Wiley, 2008, 400 pp. $25.95.

Kinzer's account is part sympathetic portrait of Paul Kagame, Rwanda's current strongman president, and part journalistic account of recent Rwandan history, notably the 1994 genocide that ended with the victory of the Rwandan Patriotic Front (the Tutsi guerrilla army that Kagame led to power). The book's last couple of chapters provide a very positive assessment of the Rwandan government under Kagame, especially its excellent economic record. Kinzer is most compelling when he describes Kagame, who emerges as a personable, tough-minded, and extraordinarily disciplined realist. Kagame's family lived in exile in Uganda, and Kagame rose to become one of the Ugandan leader Yoweri Museveni's leading military intelligence officers while secretly plotting the overthrow of the Hutu dictatorship in his neighboring homeland. Kagame was undergoing intelligence training in the United States when the RPF invaded Rwanda, and his efforts to get back to East Africa were almost thwarted. Kinzer manages to avoid hagiography, but not by much. RPF violence against Hutu civilians is mentioned but down-played; the Kagame regime's authoritarian streak is discussed at much less length than its anticorruption rhetoric and economic policy ambitions are. Kinzer's implicit suggestion that Kagame's Rwanda constitutes the region's first developmental dictatorship, in the mold of South Korea or Singapore, is arresting, even if it does inevitably bump up against the reality that the Tutsis who control it constitute less than a fifth of the population of what remains a very divided country.

Becoming Somaliland. BY MARK BRADBURY. Indiana University Press, 2008, 200 pp. $60.00 (paper, $22.95).
Understanding Somalia and Somaliland. BY IOAN LEWIS. Columbia University Press, 2008, 208 pp. $45.00.

Somaliland provides a remarkable and mostly unreported contemporary example of nation building. A British colony that constituted an independent state for a week in 1960 before choosing to unite with a neighboring ex-Italian colony to form a single Somali state, it more recently took advantage of the collapse of that state to renew its claim to statehood, declaring independence in May 1991. Even as costly international efforts to rebuild Somalia have entirely failed, the northwest area claimed by Somaliland has emerged as peaceful and prosperous, and the new state has been legitimated by several reasonably democratic elections and relatively effective administration. This record has come even though Somaliland has received little aid from the international community, which continues to refuse to recognize its statehood. These two timely books offer useful introductions to Somaliland. Bradbury's account is the more comprehensive, providing both a history of the region and a fairly complete assessment of recent state-building efforts. Lewis, a longtime observer of Somalia, has written a shorter and more pointed account of recent events, grounded in his deep knowledge of Somali culture and history.

Both authors emphasize the clan-based logic of politics in Somalia and attribute the failure of the central Somali state to the attempt by westernized elites to impose ill-suited European systems of governance that did not encourage political collaboration among the main clans at the grass-roots level. Both also suggest that Somaliland's decision to recognize the centrality of clans and to rely on traditional clan elders to forge compromises represents a model for the reconstruction of Somalia. What will happen to Somaliland? Some in the international community appear to hold out the hope that a reconstructed Somalia will reintegrate it, perhaps in a confederal entity. Lewis concedes that possibility, but he is withering in his critique of the effectiveness of international efforts. Bradbury is far more explicit in presenting his view that Somaliland has proved it can be a viable state with real popular legitimacy and should now be recognized as such by the international community.

Ivory's Ghosts: The White Gold of History and the Fate of Elephants. BY JOHN FREDERICK WALKER. Atlantic Monthly Press, 2009, 320 pp. $25.00.

Walker's well-written and informative book tells two somewhat distinct stories. The first two-thirds of the book provide an entertaining history of man's fascination with ivory, from prehistoric amulets to the massive global trade in the nineteenth century, when tens of thousands of African elephants were butchered every year to generate raw material for the manufacture of billiard balls, piano keys, buttons, and combs. (In effect, ivory was the plastic of the nineteenth century.) The trade demonstrated a nineteenth-century version of globalization, with an ivory commodity chain that extended from colorful East African slave traders and warlords to piano and comb manufacturers in Connecticut. The last third of the book switches gears and discusses the impact of the international ban on the ivory trade that has been in effect since 1990. Walker argues that the ban has been inefficient and ineffectual. In Africa's broken-down parts, such as the Democratic Republic of the Congo, the slaughter of elephants continues unabated, feeding an illicit trade, mostly to Asia, while in the well-administered game parks of southern Africa, elephant overpopulation is posing substantial environmental and economic problems. The continuing trade ban has also led to huge ivory stockpiles—and thus foregone revenues for the parks.

Identity, Diversity, and Constitutionalism in Africa. BY FRANCIS M. DENG. U.S. Institute of Peace Press, 2008, 308 pp. $50.00 (paper, $19.95).

Given Africa's uneven governance record, the relative absence of constitutional debates was a puzzling feature of the decades after independence. The last decade, however, has witnessed both a growing understanding that the rules of governance can have a powerful impact on the quality of governance and many reformist agendas for the region's constitutions. Deng, a prominent Sudanese legal scholar, blames the adoption of European-inspired models of governance at the time of independence for the region's poor governance and poor record of managing ethnic diversity. He calls for constitutional reform based on African values and on the recognition of cultural diversity. He seems to have in mind various consociational models, which protect the rights of minority ethnic groups, but the book is frustratingly short on specific constitutional reforms for individual countries. Deng is at his best when he describes various systems of customary law and argues for their continuing relevance for resolving contemporary governance issues. Deeply grounded in a communitarian ethos, he makes numerous references to ethnic groups and African culture, largely downplaying the issue of universal individual rights, which he argues will be protected as long as the rights of minority groups are.

FOR THE RECORD

In "Cambodia's Curse" (March/April 2009), Ok Serei Sopheak is identified as "a prominent political consultant who became a senior adviser to the prime minister last fall." Ok Serei Sopheak is a political consultant but not an adviser to the Cambodian prime minister.

Foreign Affairs (ISSN 00157120), May/June 2009, Volume 88, Number 3. Published six times annually (January, March, May, July, September, November) at 58 East 68th Street, New York, NY 10065. Subscriptions: U.S., $44.95; Canada, $56.00; other countries via air, $79.00 per year. Canadian Publication Mail–Mail # 1572121. Periodicals postage paid in New York, NY, and at additional mailing offices. POSTMASTER: Send address changes to *Foreign Affairs,* P.O. Box 420235, Palm Coast, FL 32142-0235. From time to time, we permit certain carefully screened companies to send our subscribers information about products or services that we believe will be of interest. If you prefer not to receive such information, please contact us at the Palm Coast, FL, address indicated above.

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