



MARCH/APRIL 2011

FOREIGN AFFAIRS

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vs. Clay Shirky

The Post-Washington Consensus

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Germany's Immigration Problem—and Ours

Tamar Jacoby

Why India Has Outpaced Pakistan

Christophe Jaffrelot

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Walter Russell Mead

Will China's Rise Lead to War?

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The Coming Battles Over Currencies

Liaquat Ahamed, Raghuram Rajan,
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- * Return to the Table of Contents from the page header and footer.
- * Use the Table of Contents in the left-side navigation to jump to an article.
- * Click on advertisements and book titles to visit company and publisher Web sites.

Return To Table of Contents

FOREIGN AFFAIRS



MARCH / APRIL 2011
VOLUME 90, NUMBER 2

Comments

A G-Zero World *Ian Bremmer and Nouriel Roubini* 2
In the wake of the financial crisis, the United States is no longer the leader of the global economy, and no other nation has the political and economic leverage to replace it. Rather than a forum for compromise, the G-20 is likely to be an arena of conflict.

Germany's Immigration Dilemma *Tamar Jacoby* 8
Germany is in the throes of a national debate about immigration. But old questions of immigration miss the new reality for Germany, and most all developed countries, attracting highly skilled foreign workers is a matter of economic survival.

Getting China to Sanction Iran *Erica Downs and Suzanne Maloney* 15
China, which invests heavily in Iran's energy sector, is the linchpin of the sanctions regime against Iran. If Washington wants to prevent Tehran from acquiring nuclear weapons, it must transform Beijing from a silent, subordinate partner to a vigorous ally.

Arms Sales for India *Sunil Dasgupta and Stephen P. Cohen* 22
With India planning to buy \$60 billion worth of new weapons over the next ten years, arms sales may be the best way to revive Washington's relationship with New Delhi, its most important strategic partner in the region.

Essays

The Tea Party and American Foreign Policy *Walter Russell Mead* 28
The rise of the Tea Party movement has been the most dramatic development in U.S. politics in many years. What does it mean for U.S. foreign policy? Since today's populists have little interest in creating or overseeing a liberal and cosmopolitan world order, U.S. policymakers will have to find some way to satisfy their angry domestic constituencies while also working effectively in the international arena.

Click on each article to jump to that piece.

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Leah Farrall

Germany's Immigration Problem—and Ours

Tamar Jacoby

Why India Has Outpaced Pakistan

Christophe Jaffrelot

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MARCH / APRIL 2011
VOLUME 90, NUMBER 2

Comments

A G-Zero World *Ian Bremmer and Nouriel Roubini* 2

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Germany's Immigration Dilemma *Tamar Jacoby* 8

Germany is in the throes of a national debate about immigration. But old questions of integration miss the new reality: for Germany, and most all developed countries, attracting highly skilled foreign workers is a matter of economic survival.

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Erica Downs and Suzanne Maloney 15

China, which invests heavily in Iran's energy sector, is the linchpin of the sanctions regime against Iran. If Washington wants to prevent Tehran from acquiring nuclear weapons, it must transform Beijing from a silent, subordinate partner to a vigorous ally.

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With India planning to buy \$100 billion worth of new weapons over the next ten years, arms sales may be the best way to revive Washington's relationship with New Delhi, its most important strategic partner in the region.

Essays

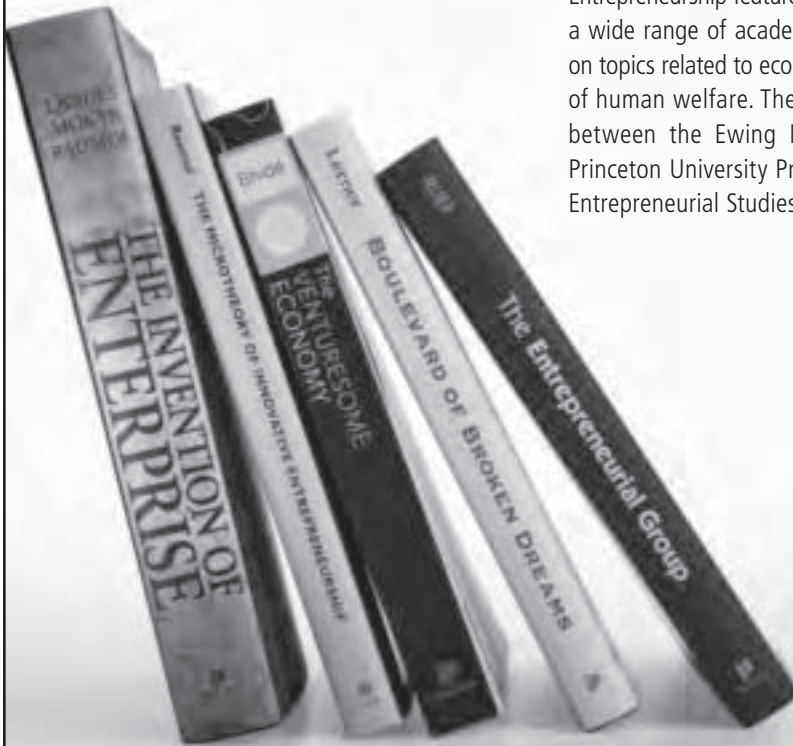
The Tea Party and American Foreign Policy *Walter Russell Mead* 28

The rise of the Tea Party movement has been the most dramatic development in U.S. politics in many years. What does it mean for U.S. foreign policy? Since today's populists have little interest in creating or overseeing a liberal and cosmopolitan world order, U.S. policymakers will have to find some way to satisfy their angry domestic constituencies while also working effectively in the international arena.

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Contents

- The Post-Washington Consensus
Nancy Birdsall and Francis Fukuyama 45
The American version of capitalism is no longer dominant around the world. In the next decade, developing countries are likely to continue to trade the flexibility and efficiency associated with the free-market model for domestic policies meant to ensure greater resilience in the face of competitive pressures and global economic trauma.
- The Advantages of an Assertive China *Thomas J. Christensen* 54
Over the past two years, China's foreign policy has become markedly more belligerent toward both its neighbors and the United States. But Washington should not wish for a weaker Beijing. In fact, on problems from nuclear proliferation to climate change, what the United States needs is a more confident and constructive China as a partner.
- China's Search for a Grand Strategy *Wang Jisi* 68
With China's clout growing, the international community needs to better understand China's strategic thinking. But China's core interests are to promote its sovereignty, security, and development simultaneously—a difficult basis for devising a foreign policy.
- Will China's Rise Lead to War? *Charles Glaser* 80
Realist international relations theorists usually would predict that the basic pressures of the international system will force the United States and China into conflict. But properly understood, realism offers grounds for optimism in this case, so long as Washington can avoid exaggerating the risks posed by China's growing power.
- Currency Wars, Then and Now *Liaquat Ahamed* 92
The aftermath of the Great Depression saw a burst of competitive currency devaluations and protectionism that undermined confidence in an open global economy. As countries recover from the financial crisis today, they need to heed the lessons of the past and avoid the beggar-thy-neighbor policies of the 1930s.
- Currencies Aren't the Problem *Raghuram Rajan* 104
The U.S. Federal Reserve's recent decision to ease the money supply set off a round of recriminations. What the ensuing debate has overlooked are the problematic underlying domestic economic strategies in both the developed and the developing world. Put simply, consumers in industrial economies buy too much, and those in developing ones, too little.
- Iraq, From Surge to Sovereignty *Emma Sky* 117
The surge of U.S. troops into Iraq helped decrease violence and set the stage for the eventual U.S. withdrawal. But the country still has a long way to go before it becomes sovereign and self-reliant. To stabilize itself and realize its democratic aspirations, Iraq needs Washington's continued support.
- How al Qaeda Works *Leah Farrall* 128
Al Qaeda is stronger today than when it carried out the 9/11 attacks. Accounts that contend that it is on the decline treat the central al Qaeda organization separately from its subsidiaries and overlook its success in expanding its power and influence through them.



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Reviews & Responses

The Indian–Pakistani Divide *Christophe Jaffrelot* 140

Many comparisons of India and Pakistan attribute India's democracy to Hinduism and Pakistan's autocracy to Islam. Philip Oldenburg's new book steers clear of this argument, focusing on historical, political, and external factors to explain how India came out ahead.

Fighting the Laws of War *Charli Carpenter* 146

Two recent books cast doubt on the value of the existing laws of war when it comes to safeguarding civilians in an age of unconventional conflict. But a closer look suggests that the current regulations constitute a firm foundation on which to better protect civilians.

From Innovation to Revolution

Malcolm Gladwell and Clay Shirky 153

Do the tools of social media make it possible for protesters to challenge their governments? Malcolm Gladwell argues that there is no evidence that they do; Clay Shirky disagrees.

The War Over Containing Iran

Dima Adamsky; Karim Sadjadpour and Diane de Gramont; Shahram Chubin; and Eric S. Edelman, Andrew F. Krepinevich, and Evan Braden Montgomery 155

How would the Israeli defense establishment respond if Iran went nuclear? Is Washington focusing too much on military containment at the expense of political containment? And is a grand bargain with Tehran possible?

Recent Books on International Relations 169

Including G. John Ikenberry on the resurgence of religion, Richard Cooper on for-profit microfinance, Richard Feinberg on Latin American trade negotiations, and Robert Legvold on Cold War spy exchanges.

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Return to Table of Contents

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Arms Sales for India *Sunil Dasgupta and Stephen P. Cohen* 22

A G-Zero World *Ian Bremmer and Nouriel Roubini* 2

Germany's Immigration Dilemma *Tamar Jacoby* 8

Getting China to Sanction Iran *Erica Downs and Suzanne Maloney* 15

A G-Zero World

The New Economic Club Will Produce Conflict, Not Cooperation

Ian Bremmer and Nouriel Roubini

This is not a G-20 world. Over the past several months, the expanded group of leading economies has gone from a would-be concert of nations to a cacophony of competing voices as the urgency of the financial crisis has waned and the diversity of political and economic values within the group has asserted itself. Nor is there a viable G-2—a U.S.-Chinese solution for pressing transnational problems—because Beijing has no interest in accepting the burdens that come with international leadership. Nor is there a G-3 alternative, a grouping of the United States, Europe, and Japan that might ride to the rescue.

Today, the United States lacks the resources to continue as the primary provider of global public goods. Europe is fully occupied for the moment with saving the eurozone. Japan is likewise tied down with complex political and economic problems at home. None of these powers' governments has the time, resources, or domestic political capital needed for a

new bout of international heavy lifting. Meanwhile, there are no credible answers to transnational challenges without the direct involvement of emerging powers such as Brazil, China, and India. Yet these countries are far too focused on domestic development to welcome the burdens that come with new responsibilities abroad.

We are now living in a G-Zero world, one in which no single country or bloc of countries has the political and economic leverage—or the will—to drive a truly international agenda. The result will be intensified conflict on the international stage over vitally important issues, such as international macroeconomic coordination, financial regulatory reform, trade policy, and climate change. This new order has far-reaching implications for the global economy, as companies around the world sit on enormous stockpiles of cash, waiting for the current era of political and economic uncertainty to pass. Many of them can expect an extended wait.

IAN BREMMER is President of Eurasia Group, the political risk consulting firm, and the author of *The End of the Free Market*. NOURIEL ROUBINI is Professor of Economics at New York University's Stern School of Business, Chair of Roubini Global Economics, and a co-author of *Crisis Economics*.

THE OLD BOYS' CLUB

Until the mid-1990s, the G-7 was the international bargaining table of greatest importance. Its members shared a common set of values and a faith that democracy and market-driven capitalism were the systems most likely to generate lasting peace and prosperity.

In 1997, the U.S.-dominated G-7 became the U.S.-dominated G-8, as U.S. and European policymakers pulled Russia into the club. This change did not reflect a shift in the world's balance of power. It was simply an effort to bolster Russia's fragile democracy and help prevent the country from sliding back into communism or nationalist militarism. The transition from the G-7 to the G-8 did not challenge assumptions about the virtues of representative government or the dangers of extensive state management of economic growth.

The recent financial crisis and global market meltdown have sent a much larger shock wave through the international system than anything that followed the collapse of the Soviet bloc. In September 2008, fears that the global economy stood on the brink of catastrophe hastened the inevitable transition to the G-20, an organization that includes the world's largest and most important emerging-market states. The first gatherings of the club—in Washington in November 2008 and London in April 2009—produced an agreement on joint monetary and fiscal expansion, increased funding for the International Monetary Fund (IMF), and new rules for financial institutions. These successes came mainly because all the members felt threatened by the same plagues at the same time.

But as the economic recovery began, the sense of crisis abated in some countries.

It became clear that China and other large developing economies had suffered less damage and would recover faster than the world's wealthiest countries. Chinese and Indian banks had been less exposed than Western ones to the contagion effects from the meltdown of U.S. and European banks. Moreover, China's foreign reserves had protected its government and banks from the liquidity panic that took hold in the West. Beijing's ability to direct state spending toward infrastructure projects quickly generated new jobs, easing fears that the decline in U.S. and European consumer demand might trigger large-scale unemployment and civil unrest in China.

As China and other emerging countries rebounded, the West's fear and frustration grew more intense. In the United States, stubbornly high unemployment and fears of a double-dip recession fueled a rise in antigovernment activism and shifted power to the Republicans. Governments fell out of favor in France and Germany—and lost elections in Japan and the United Kingdom. Fiscal crises provoked intense public anger from Greece to Ireland and the Baltic states to Spain.

Meanwhile, Brazil, China, India, Turkey, and other developing countries moved forward as the developed world remained stuck in an anemic recovery. (Ironically, the only major developing country that has struggled to recover is the petrostate Russia, the first state welcomed into the G-7 club.) As the wealthy and the developing states' needs and interests began to diverge, the G-20 and other international institutions lost the sense of urgency they needed to produce coordinated and coherent multi-lateral policy responses.

Politicians in Western countries, battered by criticism that they have failed to

Ian Bremmer and Nouriel Roubini

produce a robust recovery, have blamed scapegoats overseas. U.S.-Chinese political tensions have risen significantly over the past several months. China continues to defy calls from Washington to allow the value of its currency to rise substantially. Policymakers in Beijing insist that they must protect their country during a delicate moment in its development, as lawmakers in Washington become more serious about taking action against Chinese trade and currency policies that they say are unfair. In the past three years, there has been a sharp spike in the number of domestic trade and World Trade Organization cases that China and the United States have filed against each other. Meanwhile, the G-20 has gone from a modestly effective international institution to an active arena of conflict.

THE EMPTY DRIVER'S SEAT

There is nothing new about this bickering and inaction. Four decades after the Nuclear Nonproliferation Treaty, for example, the major powers still have not agreed on how to build and maintain an effective nonproliferation regime that can halt the spread of the world's most dangerous weapons and technologies. In fact, global defense policy has always been essentially a zero-sum game, as one country or bloc of countries works to maximize its defense capabilities in ways that (deliberately or indirectly) challenge the military preeminence of its rivals.

International commerce is a different game; trade can benefit all players. But the divergence of economic interests in the wake of the financial crisis has undermined global economic cooperation, throwing a wrench into the gears of globalization. In the past, the global economy has relied

on a hegemon—the United Kingdom in the eighteenth and nineteenth centuries and the United States in the twentieth century—to create the security framework necessary for free markets, free trade, and capital mobility. But the combination of Washington's declining international clout, on the one hand, and sharp policy disagreements, on the other—both between developed and developing states and between the United States and Europe—has created a vacuum of international leadership just at the moment when it is most needed.

For the past 20 years, whatever their differences on security issues, governments of the world's major developed and developing states have had common economic goals. The growth of China and India provided Western consumers with access to the world's fastest-growing markets and helped U.S. and European policymakers manage inflation through the import of inexpensively produced goods and services. The United States, Europe, and Japan have helped developing economies create jobs by buying huge volumes of their exports and by maintaining relative stability in international politics.

But for the next 20 years, negotiations on economic and trade issues are likely to be driven by competition just as much as recent debates over nuclear nonproliferation and climate change have. The Doha Round is as dead as the dodo, and the World Trade Organization cannot manage the surge of protectionist pressures that has emerged with the global slowdown.

Conflicts over trade liberalization have recently pitted the United States, the European Union, Brazil, China, India, and other emerging economies against one another as each government looks to

protect its own workers and industries, often at the expense of outsiders. Officials in many European countries have complained that Ireland's corporate tax rate is too low and last year pushed the Irish government to accept a bailout it needed but did not want. German voters are grouching about the need to bail out poorer European countries, and the citizens of southern European nations are attacking their governments' unwillingness to continue spending beyond their means.

Before last November's G-20 summit in Seoul, Brazilian and Indian officials joined their U.S. and European counterparts to complain that China manipulates the value of its currency. Yet when the Americans raised the issue during the forum itself, Brazil's finance minister complained that the U.S. policy of "quantitative easing" amounted to much the same unfair practice, and Germany's foreign minister described U.S. policy as "clueless."

Other intractable disagreements include debates over subsidies for farmers in the United States and Europe, the protection of intellectual property rights, and the imposition of antidumping measures and countervailing duties. Concerns over the behavior of sovereign wealth funds have restricted the ability of some of them to take controlling positions in Western companies, particularly in the United States. And China's rush to lock down reliable long-term access to natural resources—which has led Beijing to aggressively buy commodities in Africa, Latin America, and other emerging markets—is further stoking conflict with Washington.

Asset and financial protectionism are on the rise, too. A Chinese state-owned oil company attempted to purchase the U.S. energy firm Unocal in 2005, and a



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Ian Bremmer and Nouriel Roubini

year later, the state-owned Dubai Ports World tried to purchase a company that would allow it to operate several U.S. ports: both ignited a political furor in Washington. This was simply the precursor to similar acts of investment protectionism in Europe and Asia. In fact, there are few established international guidelines for foreign direct investment—defining what qualifies as “critical infrastructure,” for example—and this is precisely the sort of politically charged problem that will not be addressed successfully anytime soon on the international stage.

The most important source of international conflict may well come from debates over how best to ensure that an international economic meltdown never happens again. Future global monetary and financial stability will require much greater international coordination on the regulation and supervision of the financial system. Eventually, they may even require a global super-regulator, given that capital is mobile while regulatory policies remain national. But disagreements on these issues run deep. The governments of many developing countries fear that the creation of tighter international rules for financial firms would bind them more tightly to the financial systems of the very Western economies that they blame for creating the recent crisis. And there are significant disagreements even among advanced economies on how to reform the system of regulation and supervision of financial institutions.

Global trade imbalances remain wide and are getting even wider, increasing the risk of currency wars—not only between the United States and China but also among other emerging economies. There is nothing new about these sorts of dis-

agreements. But the still fragile state of the global economy makes the need to resolve them much more urgent, and the vacuum of international leadership will make their resolution profoundly difficult to achieve.

WHO NEEDS THE DOLLAR?

Following previous crises in emerging markets, such as the Asian financial meltdown of the late 1990s, policymakers in those economies committed themselves to maintaining weak currencies, running current account surpluses, and self-insuring against liquidity runs by accumulating huge foreign exchange reserves. This strategy grew in part from a mistrust that the IMF could be counted on to act as the lender of last resort. Deficit countries, such as the United States, see such accumulations of reserves as a form of trade mercantilism that prevents undervalued currencies from appreciating. Emerging-market economies, in turn, complain that U.S. fiscal and current account deficits could eventually cause the collapse of the U.S. dollar, even as these deficits help build up the dollar assets demanded by those countries accumulating reserves. This is a rerun of the old Triffin dilemma, an economic observation of what happens when the country that produces the reserve currency must run deficits to provide international liquidity, deficits that eventually debase the currency's value as a stable international reserve.

Meanwhile, debates over alternatives to the U.S. dollar, including that of giving a greater role to Special Drawing Rights (an international reserve asset based on a basket of five national currencies created by the IMF to supplement gold and dollar reserves), as China has recommended, are going nowhere, largely because

A G-Zero World

Washington has no interest in any move that would undermine the central role of the dollar. Nor is it likely that China's yuan will soon supplant the dollar as a major reserve currency, because for the yuan to do so, Beijing would have to allow its exchange rate to fluctuate, reduce its controls on capital inflows and outflows, liberalize its domestic capital markets, and create markets for yuan-denominated debt. That is a long-term process that would present many near-term threats to China's political and economic stability.

In addition, energy producers are resisting policies aimed at stabilizing price volatility through a more flexible energy supply. Meanwhile, net energy exporters, especially Russia, continue to use threats to halt the flow of gas as a primary foreign policy weapon against neighboring states. Net energy consumers, for their part, are resisting policies, such as carbon taxes, that would reduce their dependency on fossil fuels. Similar tensions derive from the sharply rising prices of food and other commodities. Conflicts over these issues come at a time when economic anxiety is high and no single country or bloc of countries has the clout to help drive a truly international approach to resolving them.

From 1945 until 1990, the global balance of power was defined primarily by relative differences in military capability. It was not market-moving innovation or cultural dynamism that bolstered the Soviet bloc's prominence within a bipolar international system. It was raw military power. Today, it is the centrality of China and other emerging powers to the future of the global economy, not the numbers of their citizens under arms or the weapons at their disposal, that make their choices crucial for the United States' future.

This is the core of the G-Zero dilemma. The phrase "collective security" conjures up NATO and its importance for peace and prosperity across Europe. But as the eurozone crisis vividly demonstrates, there is no collective economic security in a globalized economy. Whereas Europe's interest rates once converged based on the assumption that southern European countries were immune to default risks and eastern European states were lined up to join the euro, now there is fear of a contagion within the walls that might one day bring down the entire eurozone enterprise.

Beyond Europe, those who make policy, whether in a market-based democracy such as the United States or an authoritarian capitalist state such as China, must worry first and foremost about growth and jobs at home. Ambitions to bolster the global economy are a distant second. There is no longer a Washington consensus, but nor will there ever be a Beijing consensus, because Chinese-style state capitalism is designed to meet China's unique needs. It is that rare product that China has no interest in exporting.

Indeed, because each government must work to build domestic security and prosperity to fit its own unique political, economic, geographic, cultural, and historical circumstances, state capitalism is a system that must be unique to every country that practices it. This is why, despite pledges recorded in G-20 communiqués to "avoid the mistakes of the past," protectionism is alive and well. It is why the process of creating a new international financial architecture is unlikely to create a structure that complies with any credible building code. And it is why the G-Zero era is more likely to produce protracted conflict than anything resembling a new Bretton Woods. 🌐

The Time for Urge

Terrorism Trends and Looming Threats: Diversity, Yemen and the American Face of al Qaeda

The United States received yet another terrifying wake-up call on the evening of October 28, 2010, when two suspicious packages containing large amounts of explosives were discovered on cargo planes bound for the United States. The hidden bombs, which originated in Yemen and were intercepted while traveling through Britain and Dubai, were addressed to two synagogues in the Chicago area, though subsequent evidence suggests the explosives were intended to detonate in mid-air. Unbelievably — on October 27 — just one day prior to the cargo plane threats, an American-born man was arrested in Virginia for allegedly working with al Qaeda to plot multiple bombings at the Metrorail stations in the Washington, D.C. area.

The conclusion is ominous but obvious. Terrorism, as witnessed by the recent plots in Europe and the United States, is not only escalating, but is originating from unexpected sources. Khalid Sheik Mohammed, the architect of 9/11, revealed to his interrogators in Guantanamo that the onslaught of terrorist attacks against the West would continue. He has been proven right; **during the past 18 months, the number and pace of attempted attacks and successful major plots against the homeland has been the highest since 9/11.** This period also witnessed the first deaths of Americans since September 11 — in two separate incidents, there were 13 murdered at Fort Hood, Texas, and one in Little Rock, Arkansas. Although there is a tendency by some to downplay attempts by Lone Wolves, Sleepers and solo actors, they represent a growing trend that is just one of the new, dangerous facets of post-9/11 al Qaeda strategy — smaller-scale attacks by individual agents that are infinitely harder to discover and stop. Even more striking and potentially catastrophic, however, is the new “American face” that is emerging in the evolving terrorist landscape, as al Qaeda’s successful recruitment of American operatives continues to rise — creating a climate of diverse, hidden enemies who may be operating under the guise of acquaintances, neighbors, or even co-workers.

The war on terror is far from over — time and time again, al Qaeda and its affiliates have proven both resilient and resourceful. According to American intelligence, al Qaeda now enjoys a broader reach throughout the Muslim world, thanks to the development of affiliated groups in Somalia, Yemen, North Africa and Iraq. These affiliated groups are not trained or directed by al Qaeda, though they do share the group’s objectives and methods. Additionally, experts are certain that al Qaeda will continue to actively pursue smaller-scale attacks against softer targets, rather than the more difficult large attacks. A tempting option for smaller groups or individuals acting alone, the small-scale attack

involves fewer resources and less possibility of detection, but will still cause death and destruction and have a powerful media impact.

Undoubtedly, however, one of the most significant developments in terrorism in the recent past has been the Americanization of terrorism — not only as foot soldiers in the ranks of al Qaeda, but in positions of leadership. Three years ago, the intelligence community estimated that approximately 150 Americans had trained with al Qaeda in the tribal areas of Pakistan. In 2009, 43 American citizens and/or permanent resident aliens were charged and convicted of terrorist crimes, the highest number since 9/11. And in 2010 more than 20 Americans were charged, the latest being Farooque Ahmed, the 34-year-old Virginia man who allegedly plotted multiple bombings of Washington, D.C. area Metrorail stations, and Mohamed Osman Mohamud, who plotted to bomb the annual Christmas tree lighting in Portland, Oregon in late November.

Of the nearly 200 United States citizens arrested in the past nine years for terrorism-related activity, 25 percent have been converts to Islam. Many of these converts have been Caucasian teenagers and young adults from the suburbs of large cities, exemplifying the growing phenomenon in the United States: young people who find self-expression or an identity by embracing the most extreme interpretation of that religion.

Osama bin Laden predicted that 90 percent of al Qaeda’s battle would be waged with words and images. He was, unfortunately, correct — **terrorist online propaganda and its appeal to American citizens is a primary factor in the heightened recruitment of Americans as terrorist operatives.** The FBI estimates there are roughly 6,000 websites supporting terrorism, websites that are tailored to appeal to Westerners, especially American citizens. *Inspire Magazine* — a new, upscale, Western-style al Qaeda online magazine published in Yemen that encourages followers to commit individual acts of terrorism around the globe — is a powerful propaganda tool strategically targeted towards a Western audience, and contains lurid details such as bomb-making instructions and “inspirational” stories from active jihadists.

The adversary who declared war on the United States in 1993 with its first bombing of the World Trade Center remains a potent and mounting threat — evolving and mobilizing even as it is hunted by the United States and its allies. The latest terror plots are a grim reminder that the threat from al Qaeda is far from over, but may even now be entering a new phase characterized by diverse targets, threats from radicalized American “insiders,” the escalation of Lone Wolves and other solo operators, and an ongoing search for new vulnerabilities. While there have been few known attempts by al Qaeda to seek positions in the United States military, civil service or in key infrastructure employments — such as with the airlines — this is an area which needs to be watched closely. Insider information would give al Qaeda both the

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additional intelligence and access necessary to execute a frightening array of plots. **The more that Americans are drawn into the jihadist cause, the more this problem of an insider threat escalates.** Stringent personnel screening should remain a key priority, not just for the intelligence community, but in other important areas such as government service, infrastructure organizations and large corporations.

This complex, multi-layered environment is our new reality, one which we need to face head on and neutralize. The mounting number of foiled attacks in recent months is a resounding signal that our enemies are becoming more determined, active and resourceful — not less. To make matters worse, it is very likely that al Qaeda and its affiliates may be ramping up their activities in advance of the approaching 10th anniversary of the 9/11 attacks in September 2011. **We must remain continually aware of the distinct possibility that at any moment in a church, synagogue, mosque, office building, army barracks, movie theater, train, shopping mall, or any public or private institution anywhere in the country, someone we don't know may be a Lone Wolf with a bomb, gun or other weapon — ruthless in his or her determination to kill Americans on American soil. The questions we need to ask are: Who are they? Where are they? Are they about to commit a heinous act of destruction and violence? There is no longer a standard terrorist profile — in this ever-widening landscape of terrorist recruitment, we need to discard our former perceptions of where and in whom the danger might lie. Our safety lies in our relentless awareness and ongoing search for knowledge — we have to keep our eyes wide open to suspicious behavior, even from sources we may not expect. The new generation of threat emanates from diverse socioeconomic groups, educational and racial backgrounds, and all corners of the world — including from our own backyard.**

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Germany's Immigration Dilemma

How Can Germany Attract the Workers It Needs?

Tamar Jacoby

Months after its publication last August, Thilo Sarrazin's book, *Deutschland schafft sich ab* (Germany does away with itself), is still a runaway bestseller in his native country. The book makes an apocalyptic argument—that immigrants are destroying Germany. In Sarrazin's view, most of the country's large Arab and Turkish populations are not just unwilling but also unable to integrate, and the nation must take urgent steps, starting with a radical overhaul of its welfare system, to avoid a hastening demise.

The German political elite could hardly ignore the debate. Sarrazin is no uncredentialed radical: he has been an executive at Deutsche Bahn, the Berlin finance minister, and a member of the board of the Deutsche Bundesbank, Germany's central bank. Within days of the book's publication and an incendiary follow-on interview in which he mentioned a Jewish "gene" (an especially taboo subject in Germany), he was kicked out of the center-left Social Democratic Party.

Politicians on the center right were not sure whether to co-opt or criticize him.

Chancellor Angela Merkel denounced the book but registered her own concerns about immigration, declaring that multiculturalism had "utterly failed" in Germany. President Christian Wulff, who, like Merkel, hails from the Christian Democratic Union, tried to put some distance between the state and Sarrazin, claiming that Islam "belonged" in Germany. But Horst Seehofer, prime minister of Bavaria and leader of the CDU's sister party, the Christian Social Union (CSU), chose to side with Sarrazin, announcing that Germany did not need any more immigrants from "other" cultures and calling for a crackdown on "integration refusers."

The challenges of immigration are not a new topic in Germany. For decades, both native-born Germans and newcomers to the country clung to the myth that the *Gastarbeiter* (German for "guest workers"), a group of immigrant laborers who arrived in the 1960s and 1970s to drive the German economic miracle, were not going to stay permanently. Not surprisingly, as a consequence, many of those who did stay failed to integrate successfully. Over the

TAMAR JACOBY is President of ImmigrationWorks USA. She was a Bosch Public Policy Fellow at the American Academy in Berlin last fall.

Germany's Immigration Dilemma

decades, Germans have grown increasingly concerned over immigration, yet their anxieties often remain unexpressed—perfect fodder for someone such as Sarrazin. Still, even as the Sarrazin controversy dragged on through the fall, a parallel and more constructive debate about immigration began to emerge in Germany. In the ruling coalition, ministries, media, and civic forums, people were talking not just about the German Turkish population and its struggle with integration but also about what some identified as the “migrants we need”—highly skilled knowledge workers—and how to attract them to Germany.

BEST AND BRIGHTEST

It was just a decade ago, after years of denial, that Germans began to recognize that Germany was an “immigration country.” Legislation passed in 2000 opened the way to citizenship for the children of the *Gastarbeiter*. In 2001, a commission led by former Bundestag President Rita Süßmuth underlined the need to recruit immigrant workers and do more to integrate those foreigners already in Germany. A second law, which went into effect in 2005, established a national office of immigration and integration and created several new types of visas for labor immigrants. It also made government “integration courses,” including 600 hours of instruction in German, available to all newcomers. By the end of the decade, a vast national network of service providers had emerged to administer these courses and other services—at a cost of some 140 million euros (\$186 million) a year. (The U.S. government, in comparison, spent \$18 million last year to facilitate integration.)

The Süßmuth commission made the recruitment of a highly skilled work force the centerpiece of its proposal to overhaul the immigration system. Already in 2001, in Germany and around the world, advances in communications and transportation were eroding the walls that once defined national labor markets, and governments were starting to grasp that they were in a race for workplace talent. Just as in the nineteenth century, when powerful states fought one another for territory and natural resources, now they were competing for brain power: the scientists, engineers, entrepreneurs, and high-end business managers who fuel the dynamism of the international economy.

The global race for skilled workers raged through the economic boom years of the past decade. As many saw it, Australia and Canada had the most appealing and effective immigration policies: both rely on point systems to draw international talent, selecting for immigrants with language skills and higher-than-average educational levels. Other countries soon made their own efforts to attract the highly qualified. Between 1998 and 2000, the United States more than doubled its quota for skilled workers admitted on temporary H-1B visas. In 2001, Germany made an exception to its 1973 ban on labor immigration, introducing a much-heralded Green Card to attract information technology (IT) professionals. France, Ireland, the Netherlands, and the United Kingdom soon developed similar initiatives. And in 2007, the European Union announced its ambitious supranational version of outreach to global talent: the Blue Card, designed to lure workers by, among other things, making it easier for them to move from job to job on the continent. (Eu

Tamar Jacoby

member states must incorporate Blue Card requirements in domestic legislation by June 2011.)

But Germany's effort to attract the best and brightest has not worked out as planned. In some cases, policymakers got cold feet; in others, initiatives failed to produce the expected results. The Green Card attracted far fewer IT specialists than anticipated—less than 16,000 over three years. A push to create a German point system was derailed in 2004. The landmark immigration law that went into effect in 2005 created several new employment-based visas for highly qualified scientists, engineers, health professionals, university teachers, and managers (amendments passed in the years since have made entry easier for international students and investors). But the response has been underwhelming. Only a few hundred immigrants take up Germany's offer of permanent residence each year: in 2009, just 169 did. Another few thousand knowledge workers enter annually on temporary visas. University students find Germany more attractive: 60,000 are now arriving each year. But at the end of their studies, only some 6,000 of them choose to stay. And indeed, for several years now, more people have left Germany than have entered the country with an eye toward settling there.

Many Sarrazin supporters are undoubtedly heartened by such news, but the truth is that the German economy is booming—according to estimates, it expanded by 3.7 percent in 2010—and the skilled-worker shortage poses a serious threat to continued growth. According to one recent survey, by the Association of German Chambers of Industry and Commerce, 70 percent of German companies are having trouble finding master artisans,

technicians, and other skilled laborers. The Association of German Engineers reports that there are 36,000 unfilled engineering positions across the country, and an association of IT companies estimates that there are 43,000 openings in the information field. The labor problem is particularly acute among the smaller, often rural manufacturing companies known as the *Mittelstand*, which sustain Germany's exporting prowess and provide 70 percent of its private-sector jobs. According to an estimate by the German Institute for Economic Research, the skilled-worker shortage is costing the country 15 billion euros (\$20 billion) a year. If the problem is left unattended, these numbers are only going to get worse: the German fertility rate has fallen to a startling 1.38 children per woman, and the existing work force is aging rapidly—by 2020, the carmaker Daimler expects that more than half its workers will be over 50 years old.

SAYING GOODBYE

The German public is divided over how to address this skilled-labor shortage. Business advocates bristle with urgency and, at times, disbelief over the country's seeming lack of interest in attracting needed foreign workers. Even the broader public, so entranced by Sarrazin, seems to recognize that something is amiss: stories about able and attractive foreigners leaving Germany are a staple in the media, including on a Sunday reality television show, *Goodbye Deutschland! Die Auswanderer* (Goodbye Germany! The Emigrants). And yet there is no broad-based political will to tackle the problem. Many in the government cling to the illusion that it might be enough merely to retrain those unemployed workers, foreign and native-



REUTERS/CHRISTIAN CHARISIUS

German Chancellor Angela Merkel meeting with immigrant workers outside Hamburg, December 2010

born, already in the country—as if all that is needed to produce an engineer or a science Ph.D. is a few evening classes. Cognitive dissonance permeates the national debate, with skepticism and denial masking the country’s pressing labor needs. As one immigration policy expert put it, playing off the political slogans of two decades, “We’re a reluctant immigration country.” Still, even as the Sarrazin controversy raged in the media last fall, the ruling coalition was quietly considering a package of measures to attract more global talent from abroad.

Germany’s governing “black-yellow” coalition of CDU/CSU conservatives and Free Democratic Party economic liberals is aware of the need to modernize the country’s approach to high-skilled immigration. But divisions among the parties

hamstring the government. Every faction and related ministry has its own proposal. One would lower the minimum salary high-end workers must earn in order to qualify for permanent residence; another would allow employers seeking to hire skilled foreigners to bypass the requirement that they first try to fill the jobs with German nationals; still another would extend from one to two years the period that university students are permitted to stay in Germany after graduation. The most sweeping proposal would replace Germany’s existing admissions policy, which like the U.S. system is dependent on a job offer from an employer, with a point system modeled on the Canadian approach. In Germany, business groups generally favor a points-based policy: they believe it would signal that the

Tamar Jacoby

country is open for business and doing all it can to attract the best and brightest. (Employers in the United States strongly oppose a point system, preferring a policy that allows them to choose and sponsor individual employees.)

Part of the problem is that no one, in Germany or elsewhere, understands very much about what attracts high-end knowledge workers. Immigration policy plainly matters to potential immigrants, and the terms of a worker's visa—whether the worker has the option of staying permanently or whether his spouse can accompany him and also work—can make the difference between an appealing and an unappealing destination country. As it is now, the German visa process is notoriously cumbersome. Employers and immigrants alike complain about official nitpicking, long waits, and prolonged negotiations with authorities. Unfortunately, most of the changes under consideration in Berlin are small steps, and the governing coalition keeps putting off a decision. At most, insiders say, there may be minor adjustments made to the required minimum salary or to labor-market tests, but not enough, most business representatives believe, to make a difference in Germany's appeal to highly skilled immigrants.

Why else might a financial analyst from Beijing choose Frankfurt over Singapore? What are the respective advantages of Silicon Valley and Bangalore? Every academic discipline has its own answers to these questions: economists point to wage and income levels, social scientists cite social networks, and immigration policymakers argue for bureaucratic initiatives such as recruitment and welcome centers. The urban studies analyst Richard Florida theorizes that “the creative class” is attracted

primarily by what he calls the “three T's”: technology, talent (concentrations of other highly educated, productive people), and tolerance (as evidenced by not just racial and ethnic diversity but also the percentage of “high bohemians” and gay people in the population). Yet Florida's creative class is very broadly defined—by his account, one-third of U.S. workers, and perhaps an equal share worldwide, fall into the category. And it is unclear how the theory applies to an Indian engineering student leaving a closely knit, traditional family to make a life halfway around the world.

In some ways, it is surprising that Germany is not more appealing to skilled, educated immigrants. It has the most robust economy in Europe. It is the second-largest exporter in the world. Its firms are on the cutting edge of applied and industrial technology. German wages fall in the midrange of European salaries. German universities are solid, if not exceptional—and free. Although the language is difficult, many German companies have an international reach, with operations in emerging economies such as China—a fact not lost on young Chinese people making the choice about where to go. “I chose to come to Germany because the universities are free,” one Chinese financial analyst working in an international bank in Frankfurt told me. “And if I decide I don't want to stay, I hope to be able to go back to China with the company I'm working for.”

Even accounting for size, Germany still attracts far fewer international students than the United States. But the numbers arriving each year show that the country appeals more effectively to students than to adult workers. The challenge is convincing these young people to stay. And

Germany's Immigration Dilemma

as economic opportunities improve in China and India, that is getting harder and harder for all Western nations.

Germany's track record on immigration is also an obstacle to attracting and retaining talent. Germany is a very diverse country: its foreign-born population is the largest in Europe. Twenty percent of residents were either born abroad or have what Germans call a "migration background," meaning that they are the children of immigrants. And the country's World War II history has made many Germans intensely sensitive to even the appearance of intolerance. An academic study of discrimination has attracted considerable attention in recent months. Two economists at the University of Konstanz tracked employers' responses to identical resumés from applicants with German- and Turkish-sounding names and found that the callback rate was 14 percent higher for applications sent under the signature Tobias Hartmann than for those sent under Fatih Yildiz. These results were not as bad as they might have been: a similar study conducted in the United States in 2004 found that applicants with white-sounding names got 50 percent more callbacks from prospective employers than those whose names appeared to be African American. But the research has been much talked about in Germany, including among knowledge workers deciding whether or not to stay in the country.

The Sarrazin controversy has not helped matters. According to one survey carried out two months after the publication of the book, 36 percent of the public felt that Germany was being "overrun by foreigners"; 58 percent thought the nation's four million Muslims should have their religious practices "significantly curbed."

And the roiling national debate is opening old wounds. Even many highly successful immigrants with deep roots in Germany say that they feel they will never be fully accepted. As one rising young Berlin academic born in Turkey told me, "I'm a German citizen. I have a German child. I'm devoting my career to educating the young people who will run the country in the next generation. But I'm still seen as a foreigner."

The final variable in the calculus of would-be newcomers has to do with social conditions in the destination country. These factors are even harder to parse than tolerance, but they come up often in conversations with highly skilled immigrants. Newcomers know that German schools have not worked very well for the descendants of the *Gastarbeiter*. In 2009, just nine percent of young people with Turkish backgrounds passed the high school exit test required to attend university, compared to 19 percent of Germans. And in the country's vocational training programs, where two-thirds of young Germans qualify for future careers, only a quarter of youth with immigration backgrounds are enrolled. Although social scientists argue that these poor outcomes are due largely to the *Gastarbeiter's* limited educational backgrounds, many recently arrived knowledge workers still worry that German schools will fail their children, too, particularly if the children look foreign, with dark skin or Asian features. Foreign university graduates thinking about staying in Germany worry about the entrenched seniority systems that often make it hard to rise in German companies. Others are concerned that they will not be able to penetrate German social and professional networks, or that speaking anything short

Tamar Jacoby

of perfect German will stymie their careers. Still others worry about the myriad regulatory obstacles to starting their own businesses.

CHASING THE DEUTSCH DREAM

German policymakers are beginning to connect these dots. The one immigration initiative that seems to be gaining momentum in the government aims to speed integration by addressing some of the social and economic rigidity that so concerns many new arrivals. The law would streamline the process for recognizing the educational credentials foreigners bring with them to Germany. This alone will not transform the stratified social order: a study this fall by a German think tank confirmed previous research showing that it is harder to move up the social ladder in Germany than in any other country in Europe. But the proposed new law would be an important first step in a nation where careers depend on formal qualifications. It could help as many as 300,000 university-educated immigrants already in Germany and working below their skill levels—and it would send a positive signal to potential newcomers abroad.

Still, re-creating the American dream in Germany may not be the whole answer. Skilled immigrants considering whether to stay or go cite other German advantages, including the country's ample social safety net, the solidity of its economy, and, somewhat paradoxically, the predictability of its regulated labor market. "You can make a lot more money in America. You can rise a lot faster," one Chinese IT specialist told me. "But here in Germany, I and my family—we live a good life. The health care, the schools, the vacations; this isn't what drew me here, but it's why we are

going to stay." Few German employers looking for highly skilled workers are advertising in anything like these terms—but that just proves how little is known about what attracts global brain power.

In part, this lack of knowledge reflects public ambivalence. As much as developed countries need highly skilled workers, voters are not sure they want to deal with the cultural difference they bring—and it is no accident that Germany's ruling coalition was all but paralyzed last fall as it tried to address the issue. Germans are almost as reluctant about change as they are about immigration, and Germany will never be the world's number one destination for highly skilled immigrants. Still, the acute shortages looming in the years ahead are pushing people both inside and outside the German government to ask questions earlier than in some other countries—and perhaps that in itself will count for something with the next generation of knowledge workers considering where to move. 🌐



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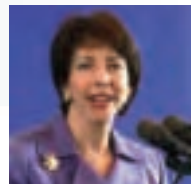


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Getting China to Sanction Iran

The Chinese-Iranian Oil Connection

Erica Downs and Suzanne Maloney

For more than three decades, the United States has tried to persuade the international community to counter the threat posed by Iran's Islamic regime. The results have often been underwhelming, with even Washington's closest allies resisting tough measures against Iran because of strategic considerations and commercial interests.

Recently, however, that landscape has changed. Last June, the United Nations Security Council penalized Tehran for failing to suspend its uranium-enrichment program by adopting strict new sanctions, including an arms embargo and tough restrictions on Iranian banks and the Revolutionary Guard Corps. Resolution 1929 also paved the way for individual states to adopt even more stringent penalties. Australia, Canada, Japan, Norway, South Korea, and the European Union implemented unprecedented curbs on investment in Iran. The U.S. Congress passed new sanctions against any company selling gasoline to Iran or investing in Iran's refining capacity. Collectively, these measures have squeezed Iran's economy.

Yet one uncertainty still looms large: China's commitment to such policies. Driven by economic interests, as well as sympathy for Iran's grievances, China is the only major player still active in the Iranian oil patch. Whereas firms from most other countries have retreated due to international pressure and Iran's unfavorable business climate, China and its companies adhere only to the letter of Resolution 1929, which contains no explicit restrictions on energy investment or trade. China has thus emerged as the linchpin of the international sanctions regime against Iran and, by extension, of the effort to forestall Iran from acquiring a nuclear capability.

This situation presents U.S. policy-makers with tough choices. Even as the U.S. political climate has turned more rancorous toward both Iran and China, the Obama administration will need to build a more positive partnership with China on the Iran issue while attempting to stabilize the broader bilateral relationship. One option is to exploit the underlying

ERICA DOWNS is a Fellow at the John L. Thornton China Center at the Brookings Institution. SUZANNE MALONEY is a Senior Fellow at the Saban Center for Middle East Policy at the Brookings Institution.

Erica Downs and Suzanne Maloney

fissures that exist between Beijing and Tehran despite their strong ideological and commercial links.

THE CHINESE EXCEPTION

The sanctions regime targeting Iran is now more muscular than ever, but the gap between the UN Security Council measures and the much harsher sanctions adopted by the United States and other countries has created an uneven playing field in Iran. In contrast to virtually all major Western governments, Beijing still allows its companies to do business there. However, some activities considered acceptable by Beijing are punishable under the new, extraterritorial U.S. sanctions.

Two likely flash points concern Chinese investments to recover and produce Iran's oil and natural gas (upstream activities) and China's sale of gasoline to Iran. First, Tehran is likely to continue to seek upstream investments from China's national oil companies (NOCs) to compensate for the departure of other firms. Chinese companies have moved carefully so far because of the tough operating environment and diplomatic sensitivities, but the prospect of gaining a larger position in Iran's upstream market will prove increasingly tempting: it is a rare opportunity to secure huge fields that might have gone to Western companies in the absence of sanctions. These NOCs, which are powerful political actors, may try to convince Beijing that gaining access to Iran's hydrocarbon reserves is worth the risk of U.S. sanctions against Chinese companies. Second, Chinese oil traders may want to continue supplying gasoline to Iran even as many European companies voluntarily stop selling in order to avoid new penalties on their business dealings in the United

States. The incentives of Chinese firms are both financial (Tehran reportedly buys the gasoline at a 25 percent premium above the market rate) and political (Beijing opposes U.S. sanctions as extraterritorial legislation that harms the Iranian people).

China's posture toward Iran and the U.S. response will have implications for both the global energy business and international diplomacy. If China refuses to stop its upstream investments or gasoline sales, the Obama administration will have to choose between applying U.S. sanctions to Chinese firms and waiving them. Either move would be costly, but the price of inaction might be higher. With Chinese companies expanding their stakes in Iran, competitors that have voluntarily pulled out might return, and others might start pressuring their governments to relax the sanctions or might skirt them altogether by creeping back into Iran.

Washington must balance persuasive and dissuasive tools in order to strengthen Beijing's cooperation on Iran and continue to work with it on other priorities, such as North Korea, climate change, and reforming the international economic order. Sanctioning Chinese companies would only complicate bilateral relations, heightening the tensions that grew during 2010. Like its predecessors, the Obama administration has thus far declined to enforce a 1996 measure penalizing third-country companies that invest in Iran's energy sector. However, this wink-and-nod approach might not satisfy congressional hawks seeking to raise the cost of defiance for Tehran. The Republican Party's resurgence in Congress in the November 2010 elections will put pressure on the White House to turn up the heat on both Iran and

China. Congress can make its preferences felt through tough rhetoric, hearings, investigations, and reporting requirements. Proposals for new penalties against Tehran, including sanctions against any company that purchases Iranian crude oil, are already circulating on Capitol Hill.

Ultimately, the Obama administration will have to find a middle ground. It must avoid slapping sanctions on U.S. allies and fragmenting the hard-won international coalition on Iran while maintaining robust economic pressure on Tehran and enhancing the credibility of U.S. policy. Outreach toward Beijing should thus reinforce the intrinsic limitations of Chinese-Iranian cooperation and reduce the chances of a confrontation between Washington and Beijing over Iran.

DANGEROUS LIAISONS

In order to secure Beijing’s cooperation, Washington must appreciate the full scope of the Chinese-Iranian relationship. China is the world’s second-largest oil importer. Iran’s oil and natural gas reserves rank among the world’s largest, making the country an attractive destination for China’s NOCs, which are increasingly looking for opportunities abroad. Already, Iran is China’s third-largest supplier of crude oil.

China’s interest in Iran’s reserves is matched by Tehran’s own exigencies. Oil production in Iran remains well below pre-1979 levels, massive offshore gas reserves remain underdeveloped, and vast subsidies on fuel products have sent domestic energy consumption skyrocketing, leaving the country reliant on gasoline imports. In the 1990s, Tehran began courting foreign oil companies, but constitutional limitations on foreign ownership, uncompetitive rates

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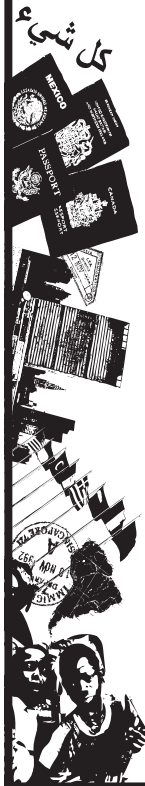
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of return, and a tendency to renegotiate agreements have eroded Iran's appeal as a destination for international capital. Sanctions have also precluded Iran from accessing the foreign technology needed to liquefy natural gas, limiting its gas exports. Chinese companies thus bring much-needed foreign capital to Iran's energy industry. China has also sold gasoline to Iran even as other suppliers have had to halt their sales.

Oil may grease the wheels, but the Chinese-Iranian relationship transcends energy. Robust activity in the arms trade, mining, transportation, power generation, and consumer goods markets—including those for electronics, auto parts, toys, and even Islamic headscarves—has helped make China one of Iran's leading trading partners, second only to the reexport hub of Dubai.

And Chinese-Iranian cooperation goes beyond mere economic expedience. It has political appeal for leaders in Tehran, validating their claims that sanctions do not affect Iran and that Iran does not need the West. Chinese and Iranian oil companies have signed agreements at politically opportune times for Tehran. For example, in late 2004, just as Washington was pressing for—and Beijing was opposing—referring the Iranian nuclear file to the UN Security Council, the Chinese oil company Sinopec and the National Iranian Oil Company drafted a memorandum of understanding for the development of the massive Yadavaran oil field.

More generally, the relationship is grounded in a shared worldview that transcends obvious ideological differences. Iran's leadership professes to admire China's rapid economic development and its disinclination to meddle in other

states' internal affairs. Meanwhile, Beijing recognizes Iran as a fellow heir to a great civilization and as the heavyweight of the Middle East. And it values Tehran's overall lack of interest in inciting the restive Muslim population of Xinjiang.

Both Beijing and Tehran distrust Washington and find the West arrogant. Tehran resents the economic sanctions and invokes them in its historical narrative of persecution; Beijing regards them as an ineffective diplomatic tool. Iranian leaders have expounded at length about the West's plot to subjugate China. This conspiracy theory resonates with some Chinese, who suspect that Washington wants to push China to assume greater international responsibility in order to entangle it in problems beyond its borders and thereby constrain its reemergence.

THE TIES THAT BIND

Yet ties between China and Iran are hardly ironclad. Beijing takes a more cautious approach to Iran than sensational press headlines and political rhetoric in the United States often imply. The amount of money that China's NOCs have committed to projects in Iran, let alone actually invested, is considerably smaller than the \$100–\$120 billion frequently cited. Chinese firms are not entirely immune to the checks that have hindered other companies. They have also been deliberately prudent in finalizing their investments. Their strategy is to negotiate agreements but delay major spending in the hope of securing access to Iran's resources over the long term while minimizing the immediate risks of taking on legal and financial commitments in an unpredictable environment.

Moreover, Beijing is wary of an outright breach with Washington, its most

important bilateral relationship. Circumspection toward Tehran partially offsets Beijing's mercantilist considerations. A case in point: Chinese crude oil imports from Iran dropped by 35 percent during the first half of 2010. Chinese oil traders blame pricing issues, but the decline notably coincided with Washington's efforts to get Beijing to support UN sanctions, which included pressuring the Saudi government to guarantee oil supplies to China.

Iranians, for their part, are much more ambivalent about China's economic activities in Iran than is often understood by outsiders. Tehran appreciates that Chinese investments bolster Iran's aging oil sector, and it trumpets them—frequently in exaggerated terms—as a way to undermine international opposition and attract other investors. Beyond the headlines, however, China has become an all-purpose scapegoat in Iran's fractious politics. Politicians and clerics have denounced the awarding of contracts to countries that backed the UN sanctions. To express its displeasure with China's support for the latest sanctions, the Iranian parliament's national security committee pledged to launch an inquiry into Chinese-Iranian relations. Soon after the UN Security Council resolution was passed last June, Tehran even briefly agitated about the plight of China's Muslim population.

Antipathy toward China's increasing market dominance is growing among Iran's influential merchant community. Iranians have long overindulged an appetite for imported goods, and Chinese exporters have been the primary beneficiaries of Iran's rising oil revenues over the last decade. The Iranian media regularly complain that China is price gouging, that its materials are inferior, and

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that cheap Chinese imports are driving Iran's small industries out of business. Such rhetoric could easily aggravate bilateral relations, particularly as Tehran tries to restrict import spending, including by banning 170 "low-quality" products, nearly all Chinese, that it claims are "beneath the dignity" of Iranian consumers.

THE INDISPENSABLE PARTNER

But the Obama administration cannot afford to rely on the self-limiting features of the Chinese-Iranian relationship. China and Iran have powerful incentives to further expand bilateral trade and investment, and partisan acrimony in Washington will almost surely produce greater scrutiny of China's economic ties to Iran. Without a strategy, the United States could fall into an unintended trade war with China or see relations between the two countries deteriorate.

Sensible steps can minimize the prospects for conflict. The first is to deepen cooperation with Beijing regarding Iran, especially on the nuclear issue. Washington has long treated Beijing as an ancillary dimension of its Iran diplomacy, subordinating China's views to the more immediate challenge of generating support for sanctions against Tehran from Europe and Russia. But with Beijing's support becoming more crucial to the efficacy of the sanctions, China must now move to center stage in the United States' diplomacy regarding Iran.

This will require elevating the bilateral diplomatic dialogue by creating a sustained high-level mechanism for coordinating the United States' and China's approaches to Iran. Washington needs to remind Beijing that actions to constrain Iran's nuclear program support China's own

interest in keeping oil supplies steady and prices stable. The Obama administration must also help Beijing appreciate that without an effective sanctions regime, the risks of a military strike by Israel against Iran would rise—another source of price volatility. One model for such an effort is Washington's handling of the Iran issue with Moscow. For more than a decade, Washington invested in a high-level dialogue, frequent bilateral consultations, and intelligence sharing. The payoff has been greater trust and cooperation and a shift in Russia's position on Iran from obstructionism to cordial collaboration.

Another step will be to ensure clear communication with Beijing about Washington's expectations regarding the sanctions. This should include both a quiet bilateral dialogue and public statements announcing the limits of Washington's forbearance. One obvious point to make is that penalties might be applied to firms that take over projects that other companies have abandoned because of the sanctions. The senior State Department official Robert Einhorn has already warned China's NOCs not to replace departing European and Japanese oil companies, as this could undermine international efforts to isolate Iran by prompting the companies that voluntarily pulled out of Iran to reinvest there.

Beijing might be willing to refrain from making new upstream investments in exchange for being allowed to maintain its existing ones. Forgoing new deals would be costly for China's NOCs, but the tradeoff would mean the recognition of China's energy interests in Iran, something Beijing has hoped to get from Washington. It would also be more palatable to China's NOCs than withdrawing from Iran altogether. And it would conserve Beijing's

Getting China to Sanction Iran

political capital with Iran's leaders, who care more about hyping their purported invulnerability to sanctions than wisely managing their country's national resources.

Washington should also encourage China to signal its willingness to get tough on Iran. Russia's recent announcement that it was suspending the planned sale of an air defense system to Tehran exposed the extent of Iran's international isolation both to its leaders and to its people. China should likewise signal to Iran's decision-makers that Beijing is prepared to make its investments contingent on Tehran's willingness to cooperate with the international community on its nuclear program.

Just as important as the diplomatic dimension will be the Obama administration's efforts at home. First, the White House should encourage China's NOCs to invest in the United States instead of Iran. Capitol Hill's furious reaction helped derail the 2005 bid by the Chinese energy giant CNOOC to buy the California-based Unocal. The Obama administration and Congress must work closely to prevent such a scenario from unfolding again, particularly since China is a convenient scapegoat for U.S. legislators. It is promising that CNOOC recently was able to purchase a 33.3 percent stake in the American gas company Chesapeake Energy's Eagle Ford Shale project in Texas. Ensuring that more such projects proceed without domestic backlash would emphasize to Beijing the potential benefits of cooperating with Washington on its Iran policy.

The White House must also play an active defense with Congress. China would likely interpret legislation penalizing countries that purchase crude oil from Iran—an initiative under consideration today—as a threat to the security of its

oil supply. And Congress' continued attacks on China's presence in Iran could hurt cooperation between Beijing and Washington. The executive branch must do more to persuade a skeptical Congress that pouncing on China does not help—and could easily impede—U.S. efforts to prevent Iran from achieving a nuclear capability.

Finally, the United States and its allies must maintain a united front in their dealings with Tehran. The UN sanctions passed last June proved that Beijing can be persuaded to support pressuring Tehran; China does not want to be isolated on major global issues. Building such a consensus is arguably more difficult today because of the deterioration in the U.S.-Chinese relationship that occurred in 2010. But it is also more important: Washington must fully appreciate the indispensable role that China will play on the Iran issue. Beijing's decisions will shape not only the long-term viability of the multilateral sanctions regime but also the interests and options of the increasingly isolated and paranoid Iranian leadership. If Washington wants to meet the challenges posed by Tehran, it must promote Beijing from a silent, subordinate partner to a vigorous ally. 🌐

Arms Sales for India

How Military Trade Could Energize U.S.-Indian Relations

Sunil Dasgupta and Stephen P. Cohen

Much has been made of U.S. President Barack Obama's pledge to support India's push for a permanent seat on the United Nations Security Council, which was offered during his November trip to India, but the real story from his visit was its implications for bilateral military trade. During the trip, Obama announced that the United States would sell \$5 billion worth of U.S. military equipment to India, including ten Boeing C-17 military transport aircraft and 100 General Electric F-414 fighter aircraft. Although the details are still being worked out, these and other contracts already in the works will propel the United States into the ranks of India's top three military suppliers, alongside Russia and Israel. With India planning to buy \$100 billion worth of new weapons over the next ten years, arms sales may be the best way for the United States to revive stagnating U.S.-Indian relations.

Even as nonmilitary trade and investment and social and cultural ties between India and the United States have advanced

in recent years, Washington remains of two minds about its relationship with New Delhi. In 2005, U.S. President George W. Bush granted India an unprecedented nuclear deal, offering to assist India's civilian nuclear program in contravention of the Nuclear Nonproliferation Treaty. The nuclear deal convinced many Indians that the United States could be a viable long-term partner. Bush's adamant resistance to Chinese and international nonproliferation advocates' pressure to abandon the deal cemented his status in India, as did his rebuffs of Pakistani demands for similar treatment.

Convinced that the domestic political price of friendship with the United States was worth paying, the Indian government began in 2005 to make concessions to U.S. foreign policy priorities. It sharply cut back its official assessments of terrorist activity in Kashmir and of infiltration from Pakistan. With tensions immediately lower between India and Pakistan, the United States was able to push Pakistan

SUNIL DASGUPTA teaches political science at the University of Maryland, Baltimore County. STEPHEN P. COHEN is a Senior Fellow at the Brookings Institution. They are the co-authors of *Arming Without Aiming: India's Military Modernization*.

Arms Sales for India

to focus on the Taliban. In particular, the Pakistani army moved more troops from its eastern border with India to its western border with Afghanistan. And the same year, the Indian government even entered into secret talks with Pakistan to work out a permanent settlement on Kashmir. (The talks failed, however, when Pakistani President Pervez Musharraf's government imploded in August 2008, and they never got back on track after the November 2008 terrorist attack on Mumbai.)

Since coming to power, the Obama administration has shifted course, partly on the grounds that Bush gave India too much, especially in regard to the nuclear deal. The Obama administration wants greater reciprocity—including Indian support for U.S. policies on global energy and trade, India's granting of more freedom of action in Afghanistan and Pakistan, and weapons contracts for U.S. firms. Obama also wants to develop ties more incrementally. One reason is that his administration's primary interest in the region is stabilizing Afghanistan and Pakistan.

The Obama administration has argued that the long-term U.S.-Indian alignment implied by the nuclear deal made Pakistan both more ambivalent about fighting the Taliban and more intent on building up its forces against India; after 2005, Pakistan increased its missile material production, fabricated more nuclear devices, and raised new missile forces. Still, in India's eyes, the Obama administration has seemingly rewarded Pakistan for its behavior. For example, the late Richard Holbrooke, who was U.S. special representative for Afghanistan and Pakistan, continually sought greater Pakistani involvement in finding a political solution in Afghanistan. For India, the more Pakistan

is involved in stabilizing Afghanistan, the likelier it is that the Afghan government will become a proxy of Pakistan. As a result, New Delhi has stepped up its own efforts to secure its interests in Afghanistan—which has only spurred on Pakistan.

Obama's two years of trying to bring Pakistan on board with Washington's plans has led only to frustration and has highlighted the importance of renewing cooperation with India in order to make progress on Afghanistan. Recently, the Obama administration started holding talks with India on counterterrorism and civilian space cooperation. But as long as Washington is unwilling to grant India special privileges, it will not be able to turn endless discussions into genuine cooperation.

WEAPONS OF MASS CONSTRUCTION

During the Cold War, India got most of its military equipment from Moscow, with which it enjoyed strong ties. But even after the Cold War, India has preferred Russian goods, and Moscow remains India's top military supplier. Equipment from Russia is generally cheaper than that from the West, especially the United States. Russia does not insist on end-use monitoring agreements, which the United States requires, nor has it asked for policy coordination. This suits India, a country that greatly values foreign policy autonomy and has been leery of political conditions on arms sales since 1965, when Washington cut off weapons supplies to India after war broke out between India and Pakistan. India's defense establishment has had a residual distrust of the United States ever since. Russia has also been generous with nuclear technology—it

Sunil Dasgupta and Stephen P. Cohen

even leased a nuclear submarine to India in 2010. And Russian military suppliers enjoy strong relationships with the Indian military establishment and its research agency, the Defense Research and Development Organization, relationships that were developed during the Cold War. In 2006, the DRDO and a Russian venture jointly developed the BrahMos cruise missile—a supersonic missile that combines Russian propulsion technology and new Indian guidance technology—one of India's most successful military research projects to date. Although the quality of Russia's equipment has lagged behind that of the West's, until recently, the savings were worth it to India.

But now, after a decade of rapid economic growth that fattened India's military budgets, the Indian armed forces have set their sights on buying a range of new weapons, from traditional machinery, such as tanks, ships, and aircraft, to the most advanced innovations, such as unmanned aerial vehicles and the technology for electronic warfare. And India is increasingly turning to Israeli and Western suppliers, especially since its ties with Russian sellers started souring in early 2010, when the Russians forced a repricing of the aircraft carrier *Admiral Gorshkov* from \$1 billion to \$2.3 billion.

Israel has satisfied some of India's thirst for newer items, especially electronic warfare technology and precision-guided munitions. The Indian-Israeli arms trade amounts to more than \$2 billion annually, and Israel has become India's number two military supplier. Like Russia, it offers India access to military equipment without imposing political conditions, and Israeli firms have also been able to woo the DRDO with offers of joint development of

high-tech weaponry. Western firms are also increasingly competing for Indian military contracts. In 2004, the British company BAE Systems won a deal to sell advanced jet trainers to the Indian Air Force. In 2007, India paid the United States \$50 million for the amphibious USS *Trenton*, and in 2009, Boeing won a \$2 billion order for eight P-8 maritime reconnaissance aircraft and Lockheed Martin won a \$1 billion contract for six C-130J transport aircraft. Together with Obama's recent offer to sell C-17 and F-414 aircraft, these deals have put the United States on the path to becoming one of India's most important suppliers.

The biggest prize on the Indian military market today is a \$10–\$12 billion contract for the 126 multirole combat aircraft India wants to buy. Currently, Boeing's F-18 Super Hornet and Lockheed Martin's F-16 are in the running, alongside the Eurofighter Typhoon (developed by three European companies), the French Rafale, the Swedish Gripen, and the Russian MiG-35. Just as the Soviet Union gained a long-term foothold in the Indian market by selling the first MiG fighters to New Delhi in the 1960s, the supplier who wins this contract will gain a major advantage because it will be responsible for maintaining and supporting the aircraft over their lifetimes. This deal presents a tremendous opportunity to solidify U.S.-Indian ties.

KINKS IN THE WORKS

The United States clearly has the technological edge to win Indian military contracts, but the U.S. law banning the transfer of technologies that have military uses is a major stumbling block. India's leaders have made it clear that if they

purchase machinery from the United States or U.S.-based firms, they expect to be granted access to the manufacturing processes and technology behind it. On the other side, the U.S. government would have to overcome significant legal hurdles to allow technology transfers to India. There are questions about whether technology transfers would actually motivate India to make the political concessions the United States seeks and worries that Washington would have to keep offering more and more to secure Indian friendship in the future. The Obama administration is apprehensive that getting too close to India would jeopardize U.S. objectives in Afghanistan and Pakistan, especially if the Indian military were to use equipment it received from the United States against Pakistan. Even U.S. companies, which hope to profit from India's military market, are reticent about sharing their prize technologies.

India and the United States have started to make the political concessions necessary to expand their military trade, but they will need to go further. In 2009, India's leaders signed an end-use monitoring agreement that would allow U.S. representatives to periodically inspect and inventory items transferred to India—and they did so despite criticism that the agreement's terms eroded India's sovereignty. During his visit to India in November, Obama promised to lift some export-control restrictions on India and to remove some restrictions on trade with India's space and military research agencies.

But some major obstacles remain. For one, India needs to fix its broken procurement system. Although the Indian Ministry of Defense has issued a series of new military procurement guidelines in

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the last few years, transparency, legitimacy, and corruption problems continue to plague the process. Indian law also requires foreign suppliers to source components and invest in research and development in India, while prohibiting them from creating wholly owned or majority-owned subsidiaries in the country. These two provisions are intended to ensure that the technology used by foreign suppliers will eventually be transferred to Indian companies. But the U.S. government and U.S. companies would not agree to this unless the U.S. law governing technology transfers were relaxed and India began to guarantee the protection of intellectual property rights.

The new nuclear liability bill that India passed in August will also have a chilling effect on U.S.-Indian military trade. It holds foreign suppliers responsible for accidents at nuclear power plants for up to 100 years after the plants' construction. The law applies to companies that supply equipment to the contractors building the reactors, even if these companies do not have a physical presence in India. Progress on the construction of any new reactors under the U.S.-Indian nuclear deal will almost certainly be slowed by this law, as U.S. companies seek to protect themselves from liability.

Given India's deep belief in the importance of technology for its national development and the conflicting need to manage Pakistan's concerns about India's growing military power, the United States should engage in joint efforts with India to develop new technologies but limit these efforts to projects that will bear fruit only in ten to 20 years. The United States can get around its own legal restrictions on technology transfers by pursuing

such ambitious long-term projects, because if a technology does not currently exist, U.S. law does not protect it. Winning the contract to supply 126 multirole aircraft would be another major opportunity. Not only would the United States gain a huge foothold in the Indian military market; it could also channel any offset money it is required to invest in India into joint development projects. Already, General Electric, Microsoft, and other U.S. firms run sophisticated research-and-development centers in India. Partnering with Indian firms to develop new technology is a logical next step.

So far, however, the Obama administration has not wanted to think big and seriously consider joint technology development. This is a mistake. Short-term differences between India and the United States caused their estrangement during the Cold War. A similar rift now would not be in the long-term interest of either country. 🌐

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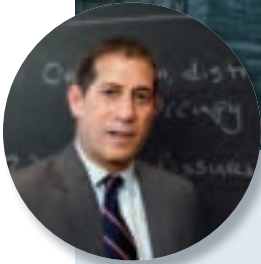
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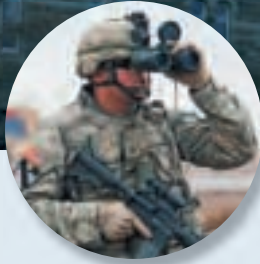


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Currency Wars, Then and Now *Liaquat Ahamed* 92
Currencies Aren't the Problem *Raghuram Rajan* 104

The Tea Party and American Foreign Policy *Walter Russell Mead* 28
The Post-Washington Consensus *Nancy Birdsall and Francis Fukuyama* 45
The Advantages of an Assertive China *Thomas J. Christensen* 54
China's Search for a Grand Strategy *Wang Jisi* 68
Will China's Rise Lead to War? *Charles Glaser* 80
Iraq, From Surge to Sovereignty *Emma Sky* 117
How al Qaeda Works *Leah Farrall* 128

The Tea Party and American Foreign Policy

What Populism Means for Globalism

Walter Russell Mead

DURING THE night of December 16, 1773, somewhere between 30 and 130 men, a few disguised as Mohawk Indians, boarded three merchant ships in Boston Harbor and destroyed 342 chests of tea to protest duties imposed by the British parliament. Samuel Adams was widely considered to be the ringleader of the demonstration. The historical record is ambiguous; he disclaimed all responsibility while doing everything possible to publicize the event. The next year, a more decorous tea party occurred in Edenton, North Carolina, when Mrs. Penelope Barker convened 51 women to support the colony's resistance to British taxation. Tea was neither destroyed nor consumed, but something even more momentous happened that day: Barker's gathering is believed to have been the first women's political meeting in British North America.

Both tea parties stirred British opinion. Although prominent Whigs, such as John Wilkes and Edmund Burke, supported the Americans against King George III and his handpicked government, the lawlessness of Boston and the unheard-of political activism of the women of Edenton seemed proof to many in the mother country that the colonials were violent and barbaric. The idea of a women's political meeting was shocking enough to merit coverage in the London press, where the resolutions taken by the Edenton activists were reprinted in full. The British

WALTER RUSSELL MEAD is James Clarke Chace Professor of Foreign Affairs and the Humanities at Bard College and Editor-at-Large of *The American Interest*.

The Tea Party and American Foreign Policy

writer Samuel Johnson published a pamphlet denouncing the colonials' tea parties and their arguments against imperial taxation, writing, "These antipatriotic prejudices are the abortions of folly impregnated by faction."

Today, tea parties have returned, and Johnson's objections still resonate. The modern Tea Party movement began in February 2009 as an on-air rant by a CNBC financial reporter who, from the floor of the Chicago Mercantile Exchange, called for a Chicago tea party to protest the taxpayer-financed bailout of mortgage defaulters. Objecting to what they saw as the undue growth of government spending and government power under President Barack Obama, Republicans and like-minded independents (backed by wealthy sympathizers) soon built a network of organizations across the United States. Energized to some degree by persistently favorable coverage on Fox News (and perhaps equally energized by less sympathetic treatment in what the Tea Party heroine Sarah Palin has dubbed "the lamestream media"), Tea Party activists rapidly shook up American politics and contributed to the wave of anti-big-government sentiment that made the 2010 elections a significant Democratic defeat.

The rise of the Tea Party movement has been the most controversial and dramatic development in U.S. politics in many years. Supporters have hailed it as a return to core American values; opponents have seen it as a racist, reactionary, and ultimately futile protest against the emerging reality of a multicultural, multiracial United States and a new era of government activism.

To some degree, this controversy is impossible to resolve. The Tea Party movement is an amorphous collection of individuals and groups that range from center right to the far fringes of American political life. It lacks a central hierarchy that can direct the movement or even declare who belongs to it and who does not. As the Tea Party label became better known, all kinds of people sought to hitch their wagons to this rising star. Affluent suburban libertarians, rural fundamentalists, ambitious pundits, unreconstructed racists, and fiscally conservative housewives all can and do claim to be Tea Party supporters.

The Fox News host Glenn Beck may be the most visible spokesperson for the Tea Party, but his religious views (extremely strong and very Mormon) hardly typify the movement, in which libertarians are often more active than social conservatives and Ayn Rand is a more influential prophet than Brigham Young. There is little evidence that



the reading lists and history lessons that Beck offers on his nightly program appeal to more than a small percentage of the movement's supporters. (In a March 2010 public opinion poll, 37 percent of respondents expressed support for the Tea Party, suggesting that about 115 million Americans sympathize at least partly with the movement; Beck's audience on Fox averages 2.6 million.)



Other prominent political figures associated with the Tea Party also send a contradictory mix of messages. The Texas congressman Ron Paul and his (somewhat less doctrinaire) son, the newly elected Kentucky senator Rand Paul, come close to resurrecting isolationism. The conservative commentator Pat Buchanan echoes criticisms of the U.S.-Israeli alliance made by such scholars as John Mearsheimer.

Walter Russell Mead

Palin, on the other hand, is a full-throated supporter of the “war on terror” and, as governor of Alaska, kept an Israeli flag in her office.

If the movement resists easy definition, its impact on the November 2010 midterm elections is also hard to state with precision. On the one hand, the excitement that Tea Party figures such as Palin brought to the Republican campaign clearly helped the party attract candidates, raise money, and get voters to the polls in an off-year election. The GOP victory in the House of Representatives, the largest gain by either major party since 1938, would likely have been much less dramatic without the energy generated by the Tea Party. On the other hand, public doubts about some Tea Party candidates, such as Delaware’s Christine O’Donnell, who felt it necessary to buy advertising time to tell voters, “I am not a witch,” probably cost Republicans between two and four seats in the Senate, ending any chance for a GOP takeover of that chamber.

In Alaska, Palin and the Tea Party leaders endorsed the senatorial candidate Joe Miller, who defeated the incumbent Lisa Murkowski in the Republican primary. Miller went on to lose the general election, however, after Murkowski organized the first successful write-in campaign for the U.S. Senate since Strom Thurmond was elected from South Carolina in 1954. If libertarian Alaska rejects a Palin-endorsed Tea Party candidate, then there are reasons to doubt the movement’s long-term ability to dominate politics across the rest of the country.

But with all its ambiguities and its uneven political record, the Tea Party movement has clearly struck a nerve in American politics, and students of American foreign policy need to think through the consequences of this populist and nationalist political insurgency. That is particularly true because the U.S. constitutional system allows minorities to block appointments and important legislation through filibusters and block the ratification of treaties with only one-third of the Senate. For a movement of “No!” like the Tea Party, those are powerful legislative tools. As is so often the case in the United States, to understand the present and future of American politics, one must begin by coming to grips with the past. The Tea Party movement taps deep roots in U.S. history, and past episodes of populist rebellion can help one think intelligently about the trajectory of the movement today.



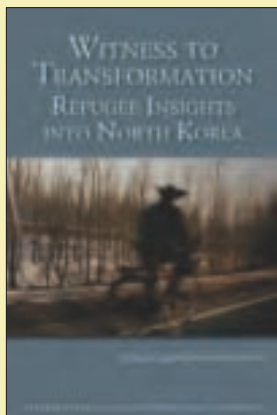
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A NEW AGE OF JACKSON?

THE HISTORIAN Jill Lepore's book *The Whites of Their Eyes* makes the point that many Tea Party activists have a crude understanding of the politics of the American Revolution. Yet however unsophisticated the Tea Party's reading of the past may be, the movement's appeal to Colonial history makes sense. From Colonial times, resentment of the well-bred, the well-connected, and the well-paid has merged with suspicion about the motives and methods of government insiders to produce populist rebellions against the established political order. This form of American populism is often called "Jacksonianism" after Andrew Jackson, the president who tapped this populist energy in the 1830s to remake the United States' party system and introduce mass electoral politics into the country for good.

Antiestablishment populism has been responsible for some of the brightest, as well as some of the darkest, moments in U.S. history. The populists who rallied to Jackson established universal white male suffrage in the United States—and saddled the country with a crash-prone financial system for 80 years by destroying the Second Bank of the United States. Later generations of populists would rein in monopolistic corporations and legislate basic protections for workers while opposing federal protection of minorities threatened with lynching. The demand of Jacksonian America for cheap or, better, free land in the nineteenth century led to the Homestead Act, which allowed millions of immigrants and urban workers to start family farms. It also led to the systematic and sometimes genocidal removal of Native Americans from their traditional hunting grounds and a massively subsidized "farm bubble" that helped bring about the Great Depression. Populist hunger for land in the twentieth century paved the way for an era of federally subsidized home mortgages and the devastating burst of the housing bubble.

Jacksonian populism does not always have a clear-cut program. In the nineteenth century, the Jacksonians combined a strong aversion to government debt with demands that the government's most valuable asset (title to the vast public lands of the West) be transferred to homesteaders at no cost. Today's Jacksonians want the budget balanced—but are much less enthusiastic about cutting middle-class entitlement programs such as Social Security and Medicare.

Walter Russell Mead

Intellectually, Jacksonian ideas are rooted in the commonsense tradition of the Scottish Enlightenment. This philosophy—that moral, scientific, political, and religious truths can be ascertained by the average person—is more than an intellectual conviction in the United States; it is a cultural force. Jacksonians regard supposed

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experts with suspicion, believing that the credentialed and the connected are trying to advance their own class agenda. These political, economic, scientific, or cultural elites often want to assert truths that run counter to the commonsense reasoning of Jacksonian America. That federal deficits produce economic growth and that free trade with low-wage countries raises Americans'

living standards are the kind of propositions that clash with the common sense of many Americans. In the not too distant past, so did the assertion that people of different races deserved equal treatment before the law.

Sometimes those elites are right, and sometimes they are wrong, but their ability to win voter approval for policies that seem counter-intuitive is a critical factor in the American political system. In times like the present, when a surge of populist political energy coincides with a significant loss of popular confidence in establishment institutions—ranging from the mainstream media and the foreign policy and intellectual establishments to the financial and corporate leadership and the government itself—Jacksonian sentiment diminishes the ability of elite institutions and their members to shape national debates and policy. The rejection of the scientific consensus on climate change is one of many examples of populist revolt against expert consensus in the United States today.

The Tea Party movement is best understood as a contemporary revolt of Jacksonian common sense against elites perceived as both misguided and corrupt. And although the movement itself may splinter and even disappear, the populist energy that powers it will not go away soon. Jacksonianism is always an important force in American politics; at times of social and economic stress and change, like the present, its importance tends to grow. Even though it is by no means likely that the new Jacksonians will gain full control of the

The Tea Party and American Foreign Policy

government anytime soon (or perhaps ever), the influence of the populist revolt against mainstream politics has become so significant that students of U.S. foreign policy must consider its consequences.

THE POPULISTS' COLD WAR

IN FOREIGN policy, Jacksonians embrace a set of strongly nationalist ideas. They combine a firm belief in American exceptionalism and an American world mission with deep skepticism about the United States' ability to create a liberal world order. They draw a sharp contrast between the Lockean political order that prevails at home with what they see as a Hobbesian international system: in a competitive world, each sovereign state must place its own interests first. They intuitively accept a Westphalian view of international relations: what states do domestically may earn one's contempt, but a country should only react when states violate their international obligations or attack it. When the United States is attacked, they believe in total war leading to the unconditional surrender of the enemy. They are prepared to support wholesale violence against enemy civilians in the interest of victory; they do not like limited wars for limited goals. Although they value allies and believe that the United States must honor its word, they do not believe in institutional constraints on the United States' freedom to act, unilaterally if necessary, in self-defense. Historically, Jacksonians have never liked international economic agreements or systems that limit the U.S. government's ability to pursue loose credit policies at home.

Finding populist support for U.S. foreign policy has been the central domestic challenge for policymakers ever since President Franklin Roosevelt struggled to build domestic support for an increasingly interventionist policy vis-à-vis the Axis powers. The Japanese solved Roosevelt's problem by attacking Pearl Harbor, but his sensitivity to Jacksonian opinion did not end with the United States' entry into World War II. From his embrace of unconditional surrender as a war objective to his internment of Japanese Americans, Roosevelt always had a careful eye out for the concerns of this constituency. If he had thought Jacksonian America would have accepted the indefinite stationing of hundreds of thousands of U.S. troops abroad, he might have taken a harder line with the Soviet Union on the future of Eastern Europe.

Walter Russell Mead

The need to attract and hold populist support also influenced Harry Truman's foreign policy, particularly his approach to Soviet expansionism and larger questions of world order. Key policymakers in the Truman administration, such as Secretary of State Dean Acheson, believed that the collapse of the United Kingdom as a world power had left a vacuum that the United States had no choice but to fill. The United Kingdom had historically served as the gyroscope of world order, managing the international economic system, keeping the sea-lanes open, and protecting the balance of power in the chief geostrategic theaters of the world. Truman administration officials agreed that the Great Depression and World War II could in large part be blamed on the United States' failure to take up the burden of global leadership as the United Kingdom declined. The Soviet disruption of the balance of power in Europe and the Middle East after World War II was, they believed, exactly the kind of challenge to world order that the United States now had to meet.

The problem, as policymakers saw it, was that Jacksonian opinion was not interested in assuming the mantle of the United Kingdom. The Jacksonians were ready to act against definite military threats and, after two world wars, were prepared to support a more active security policy overseas in the 1940s than they were in the 1920s. But to enlist their support for a far-reaching foreign policy, Truman and Acheson believed that it was necessary to define U.S. foreign policy in terms of opposing the Soviet Union and its communist ideology rather than as an effort to secure a liberal world order. Acheson's decision to be "clearer than truth" when discussing the threat of communism and Truman's decision to take Senator Arthur Vandenberg's advice and "scare [the] hell out of the country" ignited populist fears about the Soviet Union, which helped the administration get congressional support for aid to Greece and Turkey and the Marshall Plan. Political leaders at the time concluded that without such appeals, Congress would not have provided the requested support, and historians generally agree.

But having roused the sleeping dogs of anticommunism, the Truman administration would spend the rest of its time in office trying (and sometimes failing) to cope with the forces it had unleashed. Once convinced that communism was an immediate threat to national security, the Jacksonians wanted a more hawkish policy than Acheson and his planning chief, George Kennan, thought was wise. The success of



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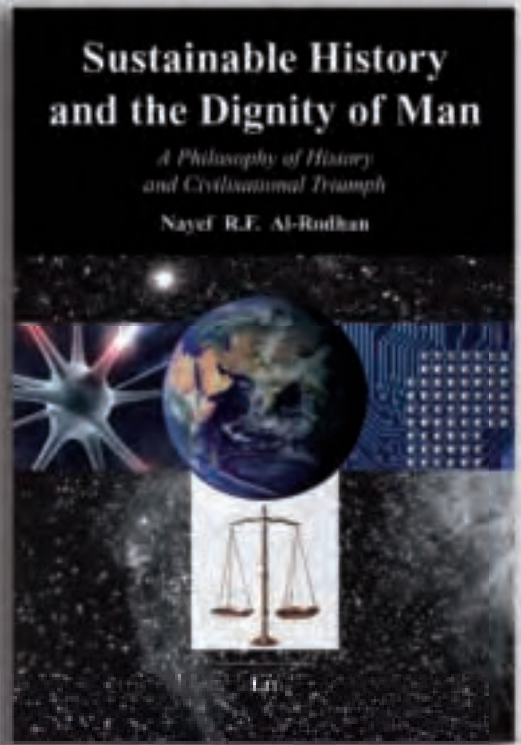
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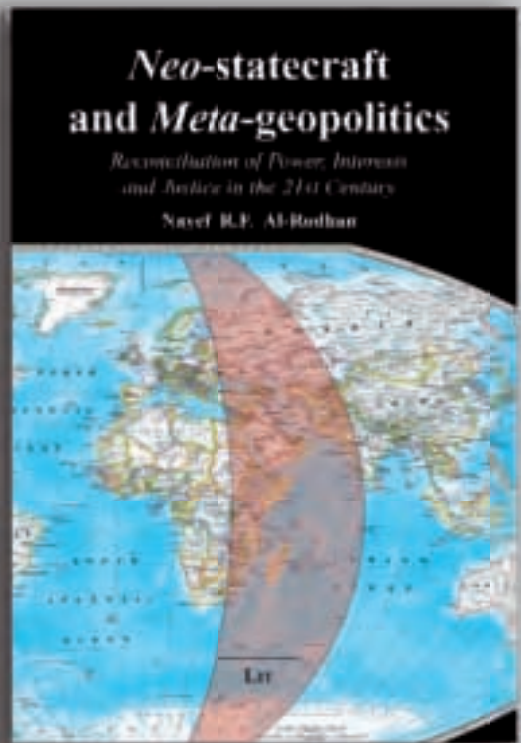
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“This book provides a carefully crafted description of how the international system is being transformed and defines the challenges facing contemporary statecraft in handling that transformation. Nayef Al-Rodhan has undertaken this enormous task by defining the concept of meta-geopolitics and addressing potential future problems while making full use of the analytical tools that he has developed. It is a unique and intellectually courageous undertaking that will help us gain deeper insights into the many dimensions of current and future security challenges.”

Ambassador Rolf Ekéus, Chairman of the Stockholm International Peace Research Institute (SIPRI), Stockholm, Sweden.



AUTHOR INFORMATION:

Dr. Nayef Al-Rodhan is a Philosopher, Neuroscientist and Geostrategist. He is Senior Member of St. Antony’s College at Oxford University, Oxford, United Kingdom and Senior Scholar in Geostrategy and Director of the Geopolitics of Globalisation and Transnational Security Programme at the Geneva Centre for Security Policy, Geneva, Switzerland.

The Tea Party and American Foreign Policy

Mao Zedong's revolution in China—and the seeming indifference of the Truman administration to the fate of the world's most populous country and its network of missionary institutions and Christian converts—inflamed Jacksonian opinion and set the stage for Senator Joseph McCarthy's politics of paranoia in the 1950s.

Communism was in many ways a perfect enemy for Jacksonian America, and for the next 40 years, public opinion sustained the high defense budgets and foreign military commitments required to fight it. The priorities of the Cold War from a Jacksonian perspective—above all, the military containment of communism wherever communists, or left-wing nationalists willing to ally with them, were active—did not always fit comfortably with the Hamiltonian (commercial and realist) and Wilsonian (idealist and generally multilateral) priorities held by many U.S. policymakers. But in general, the mix of policies necessary to promote a liberal world order was close enough to what was needed to wage a struggle against the Soviets that the liberal-world-order builders were able to attract enough Jacksonian support for their project. The need to compete with the Soviets provided a rationale for a whole series of U.S. initiatives—the development of a liberal trading system under the General Agreement on Tariffs and Trade, Marshall Plan aid tied to the promotion of European economic integration, development assistance in Africa, Asia, and Latin America—that also had the effect of building a new international system encompassing the noncommunist world.

This approach enabled the United States to win the Cold War and build a flexible, dynamic, and reasonably stable international system that, after 1989, gradually and for the most part peacefully absorbed the majority of the former communist states. It did, however, leave a political vulnerability at the core of the U.S. foreign policy debate, a vulnerability that threatens to become much more serious going forward: today's Jacksonians are ready and willing to do whatever it takes to defend the United States, but they do not believe that U.S. interests are best served by the creation of a liberal and cosmopolitan world order.

AFTER THE END OF HISTORY

AFTER THE Soviet Union disobligingly collapsed in 1991, the United States endeavored to maintain and extend its efforts to build a liberal

Walter Russell Mead

world order. On the one hand, these projects no longer faced the opposition of a single determined enemy; on the other hand, American leaders had to find domestic support for complex, risky, and expensive foreign initiatives without invoking the Soviet threat.

This did not look difficult at first. In the heady aftermath of the 1989 revolutions in Eastern Europe, it seemed to many as if the task would be so easy and so cheap that U.S. policymakers could cut defense and foreign aid budgets while a liberal world order largely constructed itself. No powerful states or ideologies opposed the principles of the American world order, and both the economic agenda of liberalizing trade and finance and the Wilsonian agenda of extending democracy were believed to be popular at home and abroad.

Clear domestic constraints on U.S. foreign policy began to appear during the 1990s. The Clinton administration devoted intense efforts to cultivating obstructionist legislators, such as Senator Jesse Helms of North Carolina, but it was increasingly unable to get the resources and support needed to carry out what it believed were important elements of the United States' agenda abroad. Congress balked at paying the country's UN dues in a timely fashion and, after the GOP congressional takeover in 1994, opposed a range of proposed and actual military interventions. The Senate recoiled from treaties such as the Kyoto Protocol and refused to join the International Criminal Court. The relentless decline in support for free trade after the bitter fights over the ratification of the North American Free Trade Agreement and U.S. entry into the new World Trade Organization in the early 1990s left U.S. diplomats negotiating within a tightening range of constraints, which soon led to a steady deceleration in the construction of a liberal global trading regime.

September 11, 2001, changed this. The high level of perceived threat after the attacks put U.S. foreign policy back to the position it had enjoyed in 1947–48: convinced that an external threat was immediate and real, the public was ready to support enormous expenditures of treasure and blood to counter it. Jacksonians cared about foreign policy again, and the George W. Bush administration had an opportunity to repeat the accomplishment of the Truman administration by using public concern about a genuine security threat to energize public support for a far-reaching program of building a liberal world order.

The Tea Party and American Foreign Policy

Historians will be discussing for years to come why the Bush administration missed this opportunity. It may be that in the years after 9/11, the administration was so determined to satisfy domestic Jacksonian opinion that it constructed a response to terrorism—the kind of no-holds-barred total war preferred by Jacksonians—that would inevitably undercut its ability to engage with key partners at home and abroad. In any case, by January 2009, the United States was engaged in two wars and a variety of counterterrorism activities around the world but lacked anything like a domestic consensus on even the broadest outlines of foreign policy.

The Obama administration came into office believing that the Bush administration had been too Jacksonian and that its resulting policy choices were chaotic, incoherent, and self-defeating. Uncritically pro-Israel, unilateralist, indifferent to the requirements of international law, too quick to respond with force, contemptuous of international institutions and norms, blind to the importance of non-terrorism-related threats such as climate change, and addicted to polarizing, us-against-them rhetoric, the Bush administration was, the incoming Democrats believed, a textbook case of Jacksonianism run wild. Recognizing the enduring power of Jacksonians in U.S. politics but convinced that their ideas were wrong-headed and outdated, the Obama administration decided that it would make what it believed were the minimum necessary concessions to Jacksonian sentiments while committing itself to a set of policies intended to build a world order on a largely Wilsonian basis. Rather than embracing the “global war on terror” as an overarching strategic umbrella under which it could position a range of aid, trade, and institution-building initiatives, it has repositioned the terrorism threat as one among many threats the United States faces and has separated its world-order-building activities from its vigorous work to combat terrorism.

It is much too early to predict how this will turn out, but it is already clear that the Obama administration faces serious challenges in building support for its foreign policy in a polarized, and to some degree traumatized, domestic environment. The administration is trying to

Ron Paul looks for ways to avoid contact with the world, whereas Sarah Palin would rather win than withdraw.

Walter Russell Mead

steer U.S. foreign policy away from Jacksonian approaches just as a confluence of foreign and domestic developments are creating a new Jacksonian moment in U.S. politics. The United States faces a continuing threat of terrorism involving domestic as well as foreign extremists, a threat from China that includes both international security challenges in Asia and a type of economic rivalry that Jacksonians associate with the economic woes of the middle class, and a looming federal debt crisis that endangers both the prosperity and the security of the country. The combination of these threats with the perceived cultural and social conflict between “arrogant” elites with counterintuitive ideas and “average” Americans relying on common sense creates the ideal conditions for a major Jacksonian storm in U.S. politics. The importance of the Jacksonian resurgence goes beyond the political problems of the Obama administration; the development of foreign policy strategies that can satisfy Jacksonian requirements at home while also working effectively in the international arena is likely to be the greatest single challenge facing U.S. administrations for some time to come.

THE TEA PARTY CHALLENGE

FORECASTING HOW this newly energized populist movement will influence foreign policy is difficult. Public opinion is responsive to events; a terrorist attack inside U.S. borders or a crisis in East Asia or the Middle East could transform the politics of U.S. foreign policy overnight. A further worsening of the global economic situation could further polarize the politics of both domestic and foreign policy in the United States.

Nevertheless, some trends seem clear. The first is that the contest in the Tea Party between what might be called its Palinite and its Paulite wings will likely end in a victory for the Palinites. Ron Paul represents an inward-looking, neo-isolationist approach to foreign policy that has more in common with classic Jeffersonian ideas than with assertive Jacksonian nationalism. Although both wings share, for example, a visceral hostility to anything that smacks of “world government,” Paul and his followers look for ways to avoid contact with the world, whereas such contemporary Jacksonians as Sarah Palin and the Fox News host Bill O’Reilly would rather win than withdraw. “We don’t need to be the world’s policeman,” says Paul. Palin might

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The Tea Party and American Foreign Policy

say something similar, but she would be quick to add that we also do not want to give the bad guys any room.

Similarly, the Palinite wing of the Tea Party wants a vigorous, proactive approach to the problem of terrorism in the Middle East, one that rests on a close alliance between the United States and Israel. The Paulite wing would rather distance the United States from Israel as part of a general reduction of the United States' profile in a part of the world from which little good can be expected. The Paulites are likely to lose this contest because the commonsense reasoning of the American people now generally takes as axiomatic something that seemed much more controversial in the 1930s: that security at home cannot be protected without substantial engagement overseas. The rise of China and the sullen presence of the threat of terrorism reinforce this perception, and the more dangerous the world feels, the more Jacksonian America sees a need to prepare, to seek reliable allies, and to act. A period like that between 1989 and 2001, when Jacksonian America did not identify any serious threats from abroad, is unlikely to arise anytime soon; the great mass of Tea Party America does not seem headed toward a new isolationism.

Jacksonian support for Israel will also be a factor. Sympathetic to Israel and concerned about both energy security and terrorism, Jacksonians are likely to accept and even demand continued U.S. diplomatic, political, and military engagement in the Middle East. Not all American Jacksonians back Israel, but in general, rising Jacksonian political influence in the United States will lead to stronger support in Washington for the Jewish state. This support does not proceed simply from evangelical Christian influence. Many Jacksonians are not particularly religious, and many of the pro-Jacksonian "Reagan Democrats" are Roman Catholics. But Jacksonians admire Israeli courage and self-reliance—and they do not believe that Arab governments are trustworthy or reliable allies. They are generally untroubled by Israeli responses to terrorist attacks, which many observers deem "disproportionate." Jacksonian common sense does not give much weight to the concept of disproportionate force, believing that if you are attacked, you have the right and even the duty to respond with overwhelming force until the enemy surrenders. That may or may not be a viable strategy in the modern Middle East,

Walter Russell Mead

but Jacksonians generally accept Israel's right to defend itself in whatever way it chooses. They are more likely to criticize Israel for failing to act firmly in Gaza and southern Lebanon than to criticize it for overreacting to terrorist attacks. Jacksonians still believe that the use of nuclear weapons against Japan in 1945 was justified; they argue that military strength is there to be used.

Any increase in Jacksonian political strength makes a military response to the Iranian nuclear program more likely. Although the public's reaction to the progress of North Korea's nuclear program has been relatively mild, recent polls show that up to 64 percent of the U.S. public favors military strikes to end the Iranian nuclear program. Deep public concerns over oil and Israel, combined with

Bobby Jindal is in every way a better governor of Louisiana than Huey Long.

memories of the 1979 Iranian hostage crisis among older Americans, put Iran's nuclear program in Jacksonians' cross hairs. Polls show that more than 50 percent of the public believes the United States should defend Israel against Iran—even if Israel sets off hostilities by launching the first strike.

Many U.S. presidents have been dragged into war reluctantly by aroused public opinion; to the degree that Congress and the public are influenced by Jacksonian ideas, a president who allows Iran to get nuclear weapons without using military action to try to prevent it would face political trouble. (Future presidents should, however, take care. Military engagements undertaken without a clear strategy for victory can backfire disastrously. Lyndon Johnson committed himself to war in Southeast Asia because he believed, probably correctly, that Jacksonian fury at a communist victory in Vietnam would undermine his domestic goals. The story did not end well.)

On other issues, Paulites and Palinites are united in their dislike for liberal internationalism—the attempt to conduct international relations through multilateral institutions under an ever-tightening web of international laws and treaties. From climate change to the International Criminal Court to the treatment of enemy combatants captured in unconventional conflicts, both wings of the Tea Party reject liberal internationalist ideas and will continue to do so. The U.S. Senate, in which each state is allotted two senators regardless of

The Tea Party and American Foreign Policy

the state's population, heavily favors the less populated states, where Jacksonian sentiment is often strongest. The United States is unlikely to ratify many new treaties written in the spirit of liberal internationalism for some time to come.

The new era in U.S. politics could see foreign policy elites struggling to receive a hearing for their ideas from a skeptical public. "The Council on Foreign Relations," the pundit Beck said in January 2010, "was a progressive idea of, let's take media and eggheads and figure out what the idea is, what the solution is, then teach it to the media, and they'll let the masses know what should be done." Tea Partiers intend to be vigilant to insure that elites with what the movement calls their "one-world government" ideas and bureaucratic agendas of class privilege do not dominate foreign policy debates. The United States may return to a time when prominent political leaders found it helpful to avoid too public an association with institutions and ideas perceived as distant from, and even hostile to, the interests and values of Jacksonian America.

Concern about China has been growing for some time in American opinion, and the Jacksonian surge makes it more likely that the simmering anger and resentment will come to a boil. Free trade is an issue that has historically divided populists in the United States (agrarians have tended to like it; manufacturing workers have not); even though Jacksonians like to buy cheap goods at Walmart, common sense largely leads them to believe that the first job of trade negotiators ought to be to preserve U.S. jobs rather than embrace visionary "win-win" global schemes.

POPULISM IN PERSPECTIVE

MORE BROADLY, across a range of issues, both wings of the Tea Party will seek to reopen the discussion about whether U.S. foreign policy should be nationalist or cosmopolitan. The Paulite wing would ideally like to end any kind of American participation in the construction of a liberal world order. The Palinite wing leans toward a more moderate position of wanting to ensure that what world-order building Washington does clearly proceeds from a consideration of specific national interests rather than the world's reliance on the United States as a kind of disinterested promoter of the global good.

Walter Russell Mead

Acheson, no friend of grandiose institutional schemes, might find something to sympathize with here; in any event, foreign-policy makers should welcome the opportunity to hold a serious discussion on the relationship of specific U.S. interests to the requirements of a liberal world order.

There is much in the Tea Party movement to give foreign policy thinkers pause, but effective foreign policy must always begin with a realistic assessment of the facts on the ground. Today's Jacksonians are unlikely to disappear. Americans should rejoice that in many ways the Tea Party movement, warts and all, is a significantly more capable and reliable partner for the United States' world-order-building tasks than were the isolationists of 60 years ago. Compared to the Jacksonians during the Truman administration, today's are less racist, less antifeminist, less homophobic, and more open to an appreciation of other cultures and worldviews. Their starting point, that national security requires international engagement, is considerably more auspicious than the knee-jerk isolationism that Truman and Acheson faced. Even in the immediate aftermath of 9/11, there was no public support for the equivalent of the internment of Japanese Americans after Pearl Harbor, nor has there been anything like the anticommunist hysteria of the McCarthy era. Today's southern Republican populists are far more sympathetic to core liberal capitalist concepts than were the populist supporters of William Jennings Bryan a century ago. Bobby Jindal is in every way a better governor of Louisiana than Huey Long was—and there is simply no comparison between Senator Jim DeMint, of South Carolina, and “Pitchfork Ben” Tillman.

Foreign policy mandarins often wish the public would leave them alone so that they can get on with the serious business of statecraft. That is not going to happen in the United States. If the Tea Party movement fades away, other voices of populist protest will take its place. American policymakers and their counterparts overseas simply cannot do their jobs well without a deep understanding of what is one of the principal forces in American political life. 🌐

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The Post-Washington Consensus

Development After the Crisis

Nancy Birdsall and Francis Fukuyama

THE LAST time a global depression originated in the United States, the impact was devastating not only for the world economy but for world politics as well. The Great Depression set the stage for a shift away from strict monetarism and laissez-faire policies toward Keynesian demand management. More important, for many it delegitimized the capitalist system itself, paving the way for the rise of radical and antiliberal movements around the world.

This time around, there has been no violent rejection of capitalism, even in the developing world. In early 2009, at the height of the global financial panic, China and Russia, two formerly noncapitalist states, made it clear to their domestic and foreign investors that they had no intention of abandoning the capitalist model. No leader of a major developing country has backed away from his or her commitment to free trade or the global capitalist system. Instead, the established Western democracies are the ones that have highlighted the risks of relying too much on market-led globalization and called for greater regulation of global finance.

Why has the reaction in developing countries been so much less extreme after this crisis than it was after the Great Depression? For one, they blame the United States for it. Many in the developing

NANCY BIRDSALL is President of the Center for Global Development. FRANCIS FUKUYAMA is Olivier Nomellini Senior Fellow at the Freeman Spogli Institute for International Studies at Stanford University. They are the editors of *New Ideas in Development After the Financial Crisis* (Johns Hopkins University Press, 2011), from which this essay is adapted.

Nancy Birdsall and Francis Fukuyama

world agreed with Brazilian President Luiz Inácio Lula da Silva when he said, “This is a crisis caused by people, white with blue eyes.” If the global financial crisis put any development model on trial, it was the free-market or neoliberal model, which emphasizes a small state, deregulation, private ownership, and low taxes. Few developing countries consider themselves to have fully adopted that model.

Indeed, for years before the crisis, they had been distancing themselves from it. The financial crises of the late 1990s in East Asia and Latin America discredited many of the ideas associated with the so-called Washington consensus, particularly that of unalloyed reliance on foreign capital. By 2008, most emerging-market countries had reduced their exposure to the foreign financial markets by accumulating large foreign currency reserves and maintaining regulatory control of their banking systems. These policies provided insulation from global economic volatility and were vindicated by the impressive rebounds in the wake of the recent crisis: the emerging markets have posted much better economic growth numbers than their counterparts in the developed world.

Thus, the American version of capitalism is, if not in full disrepute, then at least no longer dominant. In the next decade, emerging-market and low-income countries are likely to modify their approach to economic policy further, trading the flexibility and efficiency associated with the free-market model for domestic policies meant to ensure greater resilience in the face of competitive pressures and global economic trauma. They will become less focused on the free flow of capital, more concerned with minimizing social disruption through social safety net programs, and more active in supporting domestic industries. And they will be even less inclined than before to defer to the supposed expertise of the more developed countries, believing—correctly—that not only economic but also intellectual power are becoming increasingly evenly distributed.

THE FOREIGN FINANCE FETISH

ONE OF the central features of the old, pre-crisis economic consensus was the assumption that developing countries could benefit substantially from greater inflows of foreign capital—what the economist Arvind Subramanian has labeled “the foreign finance fetish.” The idea that the unimpeded flow of capital around the globe, like the free flow of goods and services, makes markets more efficient was more or less

taken for granted in policy circles. In the 1990s, the United States and international financial institutions such as the International Monetary Fund (IMF) pushed developing-country borrowers to open up their capital markets to foreign banks and dismantle exchange-rate controls.

Although the benefits of free trade have been well documented, the advantages of full capital mobility are much less clear. The reasons for this have to do with the fundamental differences between the financial sector and the “real” economy. Free capital markets can indeed allocate capital efficiently. But large interconnected financial institutions can also take risks that impose huge negative externalities on the rest of the economy in a way that large manufacturing firms cannot.

One of the paradoxical consequences of the 2008–9 financial crisis may thus be that Americans and Britons will finally learn what the East Asians figured out over a decade ago, namely, that open capital markets combined with unregulated financial sectors is a disaster in the waiting. At the conclusion of the Asian financial crisis, many U.S. policymakers and economists walked back their previous stress on quick liberalization and started promoting “sequencing,” that is, liberalization only after a strong regulatory system with adequate supervision of banks has been put in place. But they devoted little thought to whether certain developing countries were capable of enacting such regulation quickly or what an appropriate regulatory regime would look like. And they overlooked the relevance of their new message to their own case, failing to warn against the danger of the huge, unregulated, and overleveraged shadow financial sector that had emerged in the United States.

The first clear consequence of the crisis has thus been the end of the foreign finance fetish. The countries that pursued it the most enthusiastically, such as Iceland, Ireland, and those in eastern Europe, were the hardest hit and face the toughest recoveries. Just as for Wall Street, the strong growth records these countries amassed from 2002 to 2007 proved to be partly a mirage, reflecting the easy availability of credit and high leverage ratios rather than strong fundamentals.

CARING ABOUT CARING

THE SECOND consequence is a new respect among developing countries for the political and social benefits of a sensible social policy. Before the crisis, policymakers tended to downplay social insurance and safety net

Nancy Birdsall and Francis Fukuyama

programs in favor of strategies that emphasized economic efficiency. U.S. President Ronald Reagan and British Prime Minister Margaret Thatcher had come to power in the late 1970s and 1980s attacking the modern welfare state, and many of their critiques were well taken: state bureaucracies had become bloated and inefficient in many countries, and an entitlement mentality had taken hold. The Washington consensus did not necessarily reject the use of social policy, but its focus on efficiency and fiscal discipline often led to cuts in social spending.

What the crisis did, however, was to underscore the instability inherent in capitalist systems—even ones as developed and sophisticated as the United States. Capitalism is a dynamic process that regularly produces faultless victims who lose their jobs or see their livelihoods threatened. Throughout the crisis and its aftermath, citizens have expected their governments to provide some level of stability in the face of economic uncertainty. This is a lesson that politicians in developing-country democracies are not likely to forget; the consolidation and legitimacy of their fragile democratic systems will depend on their ability to deliver a greater measure of social protection.

Consider how continental Europe has reacted in comparison to the United States. Until now, with the eurozone crisis, western Europe experienced a far less painful recovery, thanks to its more developed system of automatic countercyclical social spending, including for unemployment insurance. In contrast, the jobless recovery in the United States makes the U.S. model even less attractive to policymakers in the developing world, particularly those who are increasingly subject to political pressure to attend to the needs of the middle class.

A good example of the new stress on social policy can be found in China. Reacting to the country's rapidly aging population, its leadership is struggling behind the scenes to build a modern pension system, something that represents a shift from the traditional tactic of concentrating solely on generating new jobs to maintain social and political stability. In Latin America, the same pressures are playing out differently. After experiencing fatigue in the wake of liberalizing reforms in the 1990s that did not seem to produce the growth that was expected, the region has moved to the left in this century, and the new governments have increased social spending to reduce poverty and inequality. Many countries have followed the successful example of Brazil and Mexico and instituted cash transfer schemes targeted to poor households



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The Post-Washington Consensus

(which require beneficiaries to keep their children in school or meet other conditions). In Brazil and Mexico, the approach has contributed to the first visible declines in income inequality in many years and helped shelter the poorest households from the recent crisis.

The question, of course, is whether programs like these that target the poor (and thus keep fiscal outlays surprisingly low) will have difficulty attracting long-term support from the region's growing middle class, and how these and other emerging economies, including China, will manage the fiscal costs of more universal health, pension, and other social insurance programs. Will they be better at handling the problems associated with these unfunded universal entitlement programs, the kinds of problems now facing Europe and the United States as their populations age?

THE VISIBLE HAND

THE THIRD consequence of the crisis has been the rise of a new round of discussions about industrial policy—a country's strategy to develop specific industrial sectors, traditionally through such support as cheap credit or outright subsidies or through state management of development banks. Such policies were written off as dangerous failures in the 1980s and 1990s for sustaining inefficient insider industries at high fiscal cost. But the crisis and the effective response to it by some countries are likely to bolster the notion that competent technocrats in developing countries are capable of efficiently managing state involvement in the productive sectors. Brazil, for example, used its government-sponsored development bank to direct credit to certain sectors quickly as part of its initial crisis-driven stimulus program, and China did the same thing with its state-run banks.

However, this new industrial policy is not about picking winners or bringing about large sectoral shifts in production. It is about addressing coordination problems and other barriers that discourage private investment in new industries and technologies, difficulties that market forces alone are unlikely to overcome. To promote an innovative clothing industry in West Africa, for example, governments might ensure a constant supply of textiles or subsidize the construction of ports to avoid export bottlenecks. The idea is that by bearing some of the initial financial or other risks and more systematically targeting public infrastructure,

Nancy Birdsall and Francis Fukuyama

governments can help private investors overcome the high costs of being the first movers and innovators in incipient sectors.

For the last three decades, Washington-based development institutions have taken the view that growth is threatened more by government incompetence and corruption than by market failures. Now that American-style capitalism has fallen from its pedestal, might this view begin to shift? Might the idea that the state can take a more active role get far more traction? The answer depends, for any single developing country, on an assessment of its state capacity and overall governance. This is because the most significant critique of industrial policy was never economic but political, contending that economic decision-making in developing countries could not be shielded from political pressure. Critics argued that policymakers would retain protectionist measures long after they had fulfilled their original purpose of jump-starting domestic industries. Industrial policies such as reducing dependency on imports and promoting infant industries, although later derided in Washington, did in fact produce impressive rates of economic growth in the 1950s and 1960s in East Asia and Latin America. The problem, however, was that governments in the latter region were politically unable to unwind that protection, and so their domestic industries failed to become globally competitive.

Therefore, technocrats in developing countries contemplating the use of industrial policies must consider the politics of doing so. Does a bureaucracy exist that is sufficiently capable and autonomous from political pressure? Is there enough money to sustain such an agenda? Will it be possible to make hard political decisions, such as eliminating the policies when they are no longer needed? Most of the successful uses of industrial policy have been in East Asia, which has a long tradition of strong technocratic bureaucracies. Countries without such a legacy need to be more careful.

MAKING BUREAUCRACY WORK

IF COUNTRIES are to promote industrial development and provide a social safety net, they will need to reform their public sectors; indeed, the fourth consequence of the crisis has been a painful reminder of the costs of not doing so. In the United States, regulatory agencies were un-

derfunded, had difficulty attracting high-quality personnel, and faced political opposition. This was not surprising: implicit in the Reagan-Thatcher doctrine was the belief that markets were an acceptable substitute for efficient government. The crisis demonstrated that unregulated or poorly regulated markets can produce extraordinary costs.

Leaders in both the developing world and the developed world have marveled at China's remarkable ability to bounce back after the crisis, a result of a tightly managed, top-down policymaking machine that could avoid the delays of a messy democratic process. In response, political leaders in the developing world now associate efficiency and capability with autocratic political systems. But there are plenty of incompetent autocratic regimes. What sets China apart is a bureaucracy that, at its upper levels at least, is capable of managing and coordinating sophisticated policies. Among low-income countries, that makes China an exception.

Promoting effective public sectors is one of the most daunting development challenges that the world faces. Development institutions such as the World Bank and the United Kingdom's Department for International Development have supported programs that strengthen public sectors, promote good governance, and combat corruption for the last 15 years with little to show for it. The fact that even financial regulators in the United States and the United Kingdom failed to use their existing powers or to keep pace with rapidly evolving markets is a humbling reminder that effective public sectors are a challenge to maintain in even the most developed countries.

Why has so little progress been made in improving developing countries' public sectors? The first problem is that their bureaucracies often serve governments that are rent-seeking coalitions acting according to self-interest, instead of an ideal of impersonal public service. Outside donors typically do not have the leverage to force them to change, with the partial exception of mechanisms such as the European Union's accession process. Second, effective institutions have to evolve indigenously, reflecting a country's own political, social, and cultural realities. The development of impersonal bureaucracies in the West was the product of a long and painful process, with factors exogenous to the economy (such as the need to mobilize for war) playing a large part in creating strong state institutions (such as Prussia's famously efficient bureaucracy). Institutions such as the rule of law will rarely work if they

Nancy Birdsall and Francis Fukuyama

are simply copied from abroad; societies must buy into their content. Finally, public-sector reform requires a parallel process of nation building. Unless a society has a clear sense of national identity and a shared public interest, individuals will show less loyalty to it than to their ethnic group, tribe, or patronage network.

MOVING TO MULTIPOLARITY

YEARS FROM now, historians may well point to the financial crisis as the end of American economic dominance in global affairs. But the trend toward a multipolar world began much earlier, and the implosion of Western financial markets and their weak recoveries have merely accelerated the process. Even before the crisis, the international institutions created after World War II to manage economic and security challenges were under strain and in need of reform. The IMF and the World Bank suffered from governance structures that reflected outdated economic realities. Starting in the 1990s and continuing into the new century, the Bretton Woods institutions have come under increasing pressure to grant more voting power to emerging-market countries such as Brazil and China. Meanwhile, the G-7, the elite group of the six most economically important Western democracies plus Japan, remained the world's informal steering committee when it came to issues of global economic coordination, even as other power centers emerged.

The financial crisis finally led to the demise of the G-7 as the primary locus of global economic policy coordination and its replacement by the G-20. In November 2008, heads of state from the G-20 gathered in Washington, D.C., to coordinate a global stimulus program—a meeting that has since grown into an established international institution. Since the G-20, unlike the G-7, includes emerging countries such as Brazil, China, and India, the expansion of economic coordination represents an overdue recognition of a new group of global economic players.

The crisis also breathed new life and legitimacy into the IMF and the World Bank. Beforehand, the IMF had looked like it was rapidly becoming obsolete. Private capital markets provided countries with financing on favorable terms without the conditions often attached to IMF loans. The organization was having trouble funding its own activities and was in the process of reducing its staff.

The Post-Washington Consensus

But the outlook changed in 2009, when the G-20 leaders agreed to ensure that the Bretton Woods institutions would have as much as \$1 trillion in additional resources to help countries better weather future financing shortfalls. Countries such as Brazil and China were among the contributors to the special funds, which have ended up supporting Greece, Hungary, Iceland, Ireland, Latvia, Pakistan, and Ukraine.

By requesting that emerging markets take on a bigger leadership role in global affairs, the Western democracies are implicitly admitting that they are no longer able to manage global economic affairs on their own. But what has been called “the rise of the rest” is not just about economic and political power; it also has to do with the global competition of ideas and models. The West, and in particular the United States, is no longer seen as the only center for innovative thinking about social policy. Conditional cash transfer schemes, for example, were first developed and implemented in Latin America. As for industrial policy, the West has contributed little innovative thinking in that realm in the last 30 years. One has to turn to emerging-market countries, rather than the developed world, to see successful models in practice. And when it comes to international organizations, the voices and ideas of the United States and Europe are becoming less dominant. Those of emerging-market countries—states that have become significant funders of the international financial institutions—are being given greater weight.

All this signals a clear shift in the development agenda. Traditionally, this was an agenda generated in the developed world that was implemented in—and, indeed, often imposed on—the developing world. The United States, Europe, and Japan will continue to be significant sources of economic resources and ideas, but the emerging markets are now entering this arena and will become significant players. Countries such as Brazil, China, India, and South Africa will be both donors and recipients of resources for development and of best practices for how to use them. A large portion of the world’s poor live within their borders, yet they have achieved new respect on the global scene in economic, political, and intellectual terms. In fact, development has never been something that the rich bestowed on the poor but rather something the poor achieved for themselves. It appears that the Western powers are finally waking up to this truth in light of a financial crisis that, for them, is by no means over. 🌐

The Advantages of an Assertive China

Responding to Beijing's Abrasive Diplomacy

Thomas J. Christensen

OVER THE past two years, in a departure from the policy of reassurance it adopted in the late 1990s, China has managed to damage relations with most of its neighbors and with the United States. Mistrust of Beijing throughout the region and in Washington is palpable. Observers claim that China has become more assertive, revising its grand strategy to reflect its own rise and the United States' decline since the financial crisis began in 2008. In fact, China's counterproductive policies toward its neighbors and the United States are better understood as reactive and conservative rather than assertive and innovative. Beijing's new, more truculent posture is rooted in an exaggerated sense of China's rise in global power and serious domestic political insecurity. As a result, Chinese policymakers are hypersensitive to nationalist criticism at home and more rigid—at times even arrogant—in response to perceived challenges abroad.

A series of recent standoffs and tough diplomatic gestures certainly seem a world apart from China's previous strategy, set in the 1990s, of a

THOMAS J. CHRISTENSEN is William P. Boswell Professor of World Politics of Peace and War at Princeton University. He is the author of *Worse Than a Monolith: Alliance Politics and Problems of Coercive Diplomacy in Asia*. From 2006 to 2008, he was U.S. Deputy Assistant Secretary of State with responsibility for policy toward China, Taiwan, and Mongolia. A version of this essay was originally presented as the 2010 Charles Neuhauser Memorial Lecture at Harvard University.

The Advantages of an Assertive China

“peaceful rise,” which emphasized regional economic integration and multilateral confidence building in an effort to assuage the fears of China’s neighbors during its ascendance to great-power status. Examples of China’s recent abrasiveness abound. In 2009, Chinese ships harassed the unarmed U.S. Navy ship *Impeccable* in international waters off the coast of China. At the ASEAN (Association of Southeast Asian Nations) Regional Forum in July 2010, Chinese Foreign Minister Yang Jiechi warned Southeast Asian states against coordinating with outside powers in managing territorial disputes with Beijing. Later that year, Beijing demanded an apology and compensation from Tokyo after Japan detained—and then released, under Chinese pressure—a Chinese fishing boat captain whose boat had collided with a Japanese coast guard vessel. Also in 2010, Chinese officials twice warned the United States and South Korea against conducting naval exercises in international waters near China—even after North Korea sank a South Korean naval vessel in March, revealed a well-developed uranium-enrichment program in November, and then shelled a South Korean island, Yeonpyeong, that same month.

Despite the image of a more powerful China seeking to drive events under the rubric of a new grand strategy, Beijing—with a few important exceptions—has been reacting, however abrasively, to unwelcome and unforeseen events that have often been initiated by others. In many ways, China’s foreign policy was more creative and proactive in the two years leading up to the financial crisis than it is today. Between 2006 and 2008, China adopted constructive and assertive policies toward North Korea, Sudan, and Somali piracy that were unprecedented in the history of the People’s Republic of China’s foreign relations. The United States and its diplomatic partners should promote the return of such an assertive China—without which Washington will face greater difficulty in addressing pressing global challenges such as nuclear proliferation, climate change, and global economic instability. China has become far too big to stand on the sidelines—let alone to stand in the way—while others attempt to resolve these issues.

THE GOOD OLD DAYS?

IN SEPTEMBER 2005, then U.S. Deputy Secretary of State Robert Zoellick called for China to become a “responsible stakeholder” on the international stage. The goal of this Bush administration ini-

Thomas J. Christensen

tiative was to move the U.S.-Chinese relationship beyond traditional bilateral issues—relations across the Taiwan Strait, human rights, and economic frictions—and toward cooperation on ensuring stability in places such as Northeast Asia, the Persian Gulf, and Africa.

In the following two years, the Chinese responded impressively, although only partially, to this shift in U.S. policy. Beijing not only continued to host the six-party talks on North Korea's nuclear program but also participated in the crafting of international sanctions against Pyongyang in the UN Security Council. Especially in late 2006 and early 2007, China also exerted bilateral economic pressure on North Korea, which led to the disablement of its nuclear facilities at Yongbyon, the only concrete progress made to date as part of the six-party talks.

Beijing also changed course on Sudan. It went from protecting Sudan's regime against international pressure over human rights abuses in Darfur to backing then UN Secretary-General Kofi Annan's three-phase plan for peace and stability in the region in late 2006. Chinese officials pressured Khartoum to accept the second phase of that plan, which called for the creation of a joint United Nations-African Union peacekeeping force. Then, in early 2007, after a dialogue about the region between the U.S. State Department and the Chinese Foreign Ministry, Beijing agreed to send more than 300 Chinese military engineers to Darfur, the first non-African peacekeepers committed to the UN operation. In late 2008, China also agreed to send a naval contingent to the Gulf of Aden to assist in the international effort to counter piracy off the coast of Somalia. Perhaps most significant, considering Beijing's traditional principle of noninterference in the internal affairs of sovereign states, the UN resolution enabling the mission allowed for the pursuit of pirates into Somalia's territorial waters.

To be sure, Washington and its diplomatic partners would have liked to have seen even more from Beijing in this period. But China's new policies represented more than a minor shift. Beijing was moving away from its traditional foreign policy relationships and softening, although not abolishing, its long-held and once rigid positions on sanctions and noninterference in the internal affairs of states.

By making clear to skeptical Chinese audiences that Washington does not view the relationship as a zero-sum game, the Bush administration's initiative was good for U.S.-Chinese bilateral relations. More important, U.S. policy underscored that addressing global problems, such as nuclear

The Advantages of an Assertive China

proliferation in North Korea and Iran, terrorism, transnational crime, global financial instability, environmental degradation, and piracy on the high seas, is in everyone's interest, including China's. Finally, the U.S. initiative reflected Washington's understanding that with China's rising clout comes increased responsibilities. Put simply, China has become too big to maintain its traditional policy of noninterference and its aversion to economic sanctions; too big to preserve friendly diplomacy toward international pariahs such as Pyongyang, Khartoum, and Tehran; and too big to fall back on its developing-country status as a way to resist making sacrifices to stabilize the world economy and mitigate environmental damage.

LOST MOMENTUM

UNFORTUNATELY, CHINA has failed to maintain this positive momentum in its foreign policy, damaging U.S.-Chinese relations in the process. The most dramatic change is in its North Korea policy: rather than pressuring Pyongyang after its nuclear and missile tests in the spring of 2009, Beijing seems to have doubled down on its economic and political ties with Kim Jong Il's regime. Knowledgeable observers believe that trade and investment relations between China and North Korea have deepened over the past three years. There has also been frequent high-level public diplomacy between Chinese and North Korean leaders, including two visits by Kim to China last year. Last October, Zhou Yongkang, a member of the Chinese Communist Party's Politburo Standing Committee, stood with top members of the Kim regime during the Korean Workers' Party's anniversary celebration. This attention was most welcome in Pyongyang during the regime's sensitive transition period, in which Kim has been grooming his youngest son, Kim Jong Un, to eventually take over.

Driven by the fear of a precipitous collapse of a neighboring communist regime and the reduction of Chinese influence on the Korean Peninsula, Beijing has fallen back on long-held conservative Communist Party foreign policy principles in backing North Korea. In particular, it stood by the Kim regime during the course of several crises sparked by Pyongyang last year. In May, an international commission determined that a North Korean submarine had indeed sunk the South Korean naval ship *Cheonan* in March; for its part, China refused to

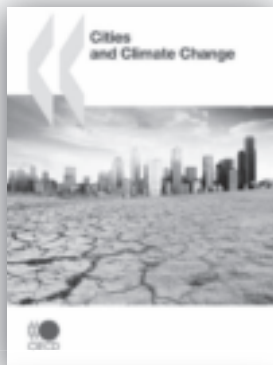
Thomas J. Christensen

review the evidence and protected North Korea from facing direct criticism in the UN Security Council. In so doing, Chinese leaders alienated many in the international community, especially South Korea, Japan, and the United States. Beijing similarly protected North Korea from international condemnation after Pyongyang revealed last fall that it had secretly developed a uranium-enrichment facility. And then, after North Korea shelled a South Korean island in November, Beijing once again adopted an agnostic pose, simply calling for calm and warning all sides against any further escalation. The only specific warning it could muster was its ultimately unsuccessful effort to dissuade U.S. warships involved in joint U.S.–South Korean naval exercises from entering the Yellow Sea, which overlaps with China’s exclusive economic zone.

The picture on Iran is more mixed, in part because the Bush administration and U.S. partners had made such limited progress on eliciting China’s cooperation before 2008. Beijing’s efforts to water down UN Security Council Resolution 1929—which imposed a fourth round of sanctions against Tehran in June 2010—therefore cannot be seen as retrograde behavior. In fact, the Obama administration deserves credit for managing to get any resolution passed at all. Optimists can point to the fact that these UN sanctions—which include an arms embargo and financial measures—might cause some real discomfort to influential figures in Iran. Still, the sanctions placed no direct pressure on Iran’s lucrative energy sector.

In what might be a sign of progress in China’s policy on Iran, media reports suggest that China slowed its pursuit of new energy deals with Iran in the months following the passage of the sanctions resolution. China’s continued pursuit of oil and gas agreements with Iran, even as new international sanctions have been leveled against the country, has long been a sore point for those worried about Iran’s nuclear ambitions. Many fear that as European and Japanese firms leave the Iranian market, Chinese firms will simply “backfill” that economic space.

It is too soon to judge the meaning of any alleged change in China’s policy toward Iran. Not much time has passed since the adoption of the latest UN resolution; moreover, the reasons behind the reported slowdown in new Chinese business activity in Iran remain unclear (purely economic issues may be the cause). It is also possible that any newfound Chinese restraint in Iran is less a symptom of a sudden acceptance of its role as a responsible stakeholder and



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The Advantages of an Assertive China

more a sign of its grudging, and potentially temporary, acquiescence to unilateral measures enacted by the United States and Europe that target third-country firms working in Iran. Beijing views such sanctions as illegitimate and unfair.

Last year was also marked by bilateral tension between the United States and China over such issues as Chinese Internet hacking and media restrictions, U.S. arms sales to Taiwan, and U.S. President Barack Obama's meeting with the Dalai Lama. Even though U.S. policies on these issues were not new, the reaction in Beijing was more strident than in the past. China was also rankled by U.S. Secretary of State Hillary Clinton's diplomacy regarding the management of sovereignty disputes in the South China Sea at the ASEAN Regional Forum meeting in Vietnam last July. China is the only nation in the region that claims all the disputed islands in the sea. Its expansive claims are also ambiguous, relying on maps that predate the People's Republic of China and sometimes on vague terms such as "historic waters," which carry no validity in international law. At the meeting, Clinton called for the peaceful settlement of differences, freedom of navigation, a legal basis for all claims rooted in customary international law, and multilateral confidence-building measures. Even though Clinton did not specifically name China and her comments did not change the United States' traditional neutrality on maritime sovereignty disputes, the U.S. initiative was unwelcome in Beijing. The Chinese foreign minister's harsh reaction at the conference—warning regional actors against collaborating with outside powers in dealing with the disputes—created tension between China and relevant ASEAN states and between China and Japan, which, like the United States, has no territorial claims in the South China Sea but is concerned about maintaining freedom of navigation there and regional security.

BEIJING'S CONFIDENT INSECURITY

WHAT EXPLAINS the acerbic turn in Beijing's foreign policy? Rather than a simple assertion of its newfound power, China's negative diplomacy seems rooted in a strange mix of confidence on the international stage and insecurity at home. Since the onset of the financial crisis in 2008, Chinese citizens, lower-level government officials, and nationalist commentators in the media have often exaggerated China's rise in influence and the declining power of the United States. According to

Thomas J. Christensen

some of my Chinese interlocutors, top officials in Beijing have a much more sober assessment of China's global position and of the development challenges ahead. Yet those domestic voices calling for a more muscular Chinese foreign policy have created a heated political environment. Popular nationalism, the growth in the number of media outlets through which Chinese citizens can express their views, and the increasing sensitivity of the government to public opinion in a period of perceived instability have provided the space for attacks on the United States and, by association, criticism of Beijing's U.S. policy as too soft. These are the views of not just those far from power, however: the authors of such critiques have notably included active-duty military officers and scholars at state-run think tanks and universities.

Apparently gone are the days when Chinese elites could ignore these voices. The government currently seems more nervous about maintaining long-term regime legitimacy and social stability than at any time since the period just after the 1989 Tiananmen massacre. Party leaders hope to avoid criticism along nationalist lines, a theme that has the potential to unify the many otherwise disparate local protests against Chinese officials. Moreover, individual officials need to foster their reputations as protectors of national pride and domestic stability during the leadership transition process, which will culminate in 2012 with the party's formal selection of a successor to President Hu Jintao. Such an environment does not lend itself to policies that might be seen as bowing to foreign pressure or being too solicitous of Washington.

Further complicating matters is the fact that an increasing number of bureaucracies have entered into the Chinese foreign-policy making process, including those of the military, energy companies, major exporters of manufactured goods, and regional party elites. This is a rather new phenomenon, and the top leadership seems unwilling or unable to meld the interests of these different groups into a coordinated grand strategy. Some of these domestic actors arguably benefit from China's cooperation with pariah states, expansive and rigid interpretations of sovereignty claims, and, in some cases, tension with the United States and its allies. They might benefit less—or even be hurt—by the sort of Chinese internationalism sought by the the European Union, Japan, South Korea, the United States, and others.

Therefore, nationalist pundits and bloggers in China find allies in high places, and top government officials are nervous about countering

The Advantages of an Assertive China

this trend directly. The result has been the creation of a dangerously stunted version of a free press, in which a Chinese commentator may more safely criticize government policy from a hawkish, nationalist direction than from a moderate, internationalist one.

According to my sources in China, these factors produce two deleterious effects on Chinese foreign policy. First, for domestic and bureaucratic reasons, Beijing elites need to react stridently to all perceived slights to national pride and sovereignty. When, for example, various Asian states sided with Clinton at the ASEAN meeting in Hanoi, Chinese Foreign Ministry officials felt compelled to respond in caustic terms that alienated several of China's southern neighbors. The negative Chinese reaction to Japan's jailing of the fishing boat captain on domestic legal grounds was predictable, but the Chinese government was especially bellicose in its response: Beijing cut off rare-earth shipments to Japan and, perhaps most important, demanded an official apology and reparations after the Japanese had already acceded to Chinese demands to release the ship's captain and crew. This may have impressed domestic audiences in China, but it deeply alienated the Japanese public, which, according to recent polls, now holds very negative views of China. All of this trouble is occurring while the Democratic Party of Japan—traditionally considered very accommodating to China—is Japan's ruling party. The timing of the tense state of Chinese-Japanese relations thus speaks volumes about the opportunity costs of China's diplomatic truculence.

Similarly, no one believes that China truly supports North Korea's military provocations or development of nuclear weapons. But Beijing's concerns about maintaining domestic stability in North Korea, peace on the Korean Peninsula, and social stability in China have prevented Chinese officials from criticizing North Korea publicly or allowing the UN Security Council to do so. What is more, these interests also keep Chinese officials from refuting conspiracy theories in the Chinese media and on the Internet that the United States and South Korea plotted to exacerbate tensions on the Korean Peninsula to create an excuse to carry out military exercises near China's borders. To the contrary, the Foreign Ministry only fed the fire in July and November 2010 by warning the United States not to place warships in waters near China without Beijing's permission. This move may have won some favor within the Chinese military and the Chinese public, but the diplomatic costs of

Thomas J. Christensen

being seen to pardon or even defend Pyongyang's actions were high in Seoul, Tokyo, and Washington. A truly assertive great power would not allow a small pariah state to hijack its foreign policy in such a fashion.

The second negative and important effect on China's foreign policy is that Beijing has become less likely to join the international community in tackling global problems. For example, a tough Chinese stand on North Korean or Iranian nuclear proliferation is now easily portrayed by nationalist elements as an accommodation to the United States. At the same time, domestic interest groups—such as energy companies and financial institutions in the case of sanctions against Iran and economic interests in northeastern China and the military in the case of North Korea—oppose policy innovations that would hurt their parochial interests. Such groups can express themselves directly in a more diversified policy process, and they can also use the media and the Internet to create a negative domestic political environment for policy changes.

WHAT BEIJING CAN GAIN

THROUGHOUT 2009, many Chinese both inside and outside the government believed that the new Obama administration was seeking to accommodate China, either as a matter of political orientation or based on a realistic assessment of the perceived global power transition. That year, U.S. officials discussed the need for mutual strategic reassurance, eschewed new arms sales to Taiwan, and kept the Dalai Lama from meeting with Obama in Washington prior to Obama's trip to China in November. On that visit, China and the United States issued a joint statement in which the two nations pledged to respect each other's "core national interests" and sovereignty. But then, in early 2010, as many in Beijing saw it, Washington appeared to reverse course. In this view, the Obama administration violated China's core interests by notifying Congress of the impending sale of defensive weapons to Taiwan, criticizing China's poor record on Internet freedom, and allowing for a private visit between Obama and the Dalai Lama. It is only logical, according to many Chinese observers, that Beijing should in turn refuse to assist the United States in pursuing what Beijing believes to be U.S. core national interests, such as preventing nuclear proliferation in Iran and North Korea or stabilizing the U.S. economy and the international financial system through the sale of U.S. Treasury bills.

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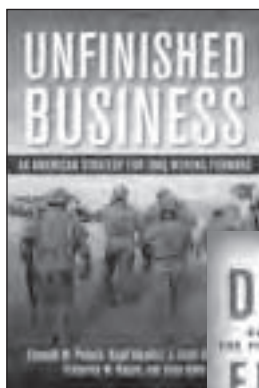


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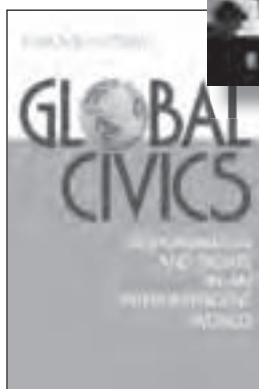


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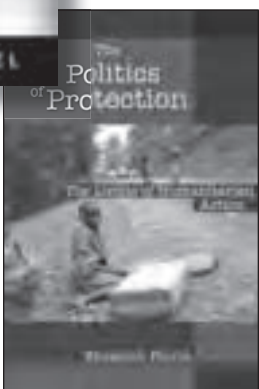
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The Advantages of an Assertive China

But understanding U.S.-Chinese relations as a horse trade over Chinese and U.S. core national interests is intellectually incorrect and politically unhelpful. The most basic problem is that almost everything the United States is asking of China falls directly in line with China's interests. In other words, curbing nuclear proliferation or policing international waters for pirates is not "assisting" the United States—it is serving China's own interests as well. Consequently, if China reduces its cooperation with the United States on such issues, it will harm its own foreign policy portfolio.

China's North Korea policy provides the clearest example. If the six-party talks were to fail permanently, the biggest loser—besides the North Korean people—would arguably be China. Beijing justifiably gained diplomatic prestige by becoming a leader in the six-party talks; the other parties were quick to credit China for taking an unexpectedly proactive stance. But just as China gained praise for the progress in the six-party talks in 2006 and 2007, it now suffers a loss of prestige when North Korea refuses to abide by the demands of the international community. How can China portray itself as a great power when it cannot even influence the behavior of its weak neighbor and ally, which is entirely dependent on its economic ties to China? Moreover, since China maintains basically normal economic and diplomatic relations with North Korea—despite the UN Security Council sanctions it helped create and the much stricter unilateral sanctions by Japan and South Korea—its relationship with North Korea raises suspicions in regional capitals about Beijing's long-term intentions.

North Korea's nuclear program is also likely to spur the buildup of new military hardware and the deepening of alliances in East Asia. Japan considers Pyongyang's development of deliverable nuclear weapons a real threat, for example. In the most dramatic, although arguably least likely, scenario, advancements in North Korea's nuclear program might cause Japan to scrap its nuclear taboo and develop its own nuclear weapons. What is less appreciated is how North Korean nuclear developments could affect Japan's conventional military programs in ways that would worry China. It is reasonable to expect increased Japanese participation in the ongoing U.S.-led program to develop a regional missile defense system in East Asia, an initiative that China considers a challenge to its own deterrent capabilities. Moreover, Japan seems likely to jettison its long-standing self-restraint

Thomas J. Christensen

on developing offensive conventional capabilities by investing in an arsenal of fast, conventionally tipped strike weapons that could destroy North Korean missiles on the ground before launch. These strike weapons would have multiple uses, and their development would have symbolic meaning for the future of Japan's overall military posture, making such an outcome undesirable from China's perspective.

If left unchecked, the further development of North Korean nuclear weapons would also lead to greater and more active cooperation between the United States and its regional allies. Many components of this effort would be unwelcome in Beijing. For example, South Korea might more readily join a regional missile defense program with Japan and the United States. More generally, since the international community is also concerned about the transfer of nuclear materials from North Korea to other states and nonstate groups, the United States and its regional allies are likely to enhance their naval cooperation and exercises, as well as active inspections of North Korean shipping vessels as part of the Proliferation Security Initiative. In a related way, North Korea's military provocations last year led to a series of U.S.–South Korean military exercises, including antisubmarine warfare training, and a tightening of security consultations among Seoul, Tokyo, and Washington. In the near term, Chinese leaders must consider the potential for instability or war on the neighboring Korean Peninsula in the event North Korea were to retaliate against these new measures. And over the long term, Beijing is likely to be concerned about the effects of this increased cooperation on its own military position in the region.

What is true for China's North Korea policy is also true for its policy toward Iran. China is a net importer of energy with a large export sector that would be greatly affected by sudden, sharp price increases in energy, which would raise the costs of both production and shipping. This reality should affect its calculus with Iran, a major destabilizing force in the energy-rich Middle East and Persian Gulf—and one that would likely become only more destabilizing if its regime gained the added confidence of a nuclear deterrent. Moreover, Israel considers the development of Iranian nuclear weapons an existential threat; it appears quite probable that if diplomacy fails to alter the current trajectory of Iran's nuclear ambitions, Israel will eventually take military action against Iran. Such a turn of events could lead to massive instability in the region, threatening the free flow of energy on which China and all other net importers rely.

The Advantages of an Assertive China

It is therefore in Beijing's interest to work more closely with Washington and its allies—all of which would like to see stable energy markets—to craft diplomatic approaches that might prevent such an outcome.

PERSUASION, NOT CONTAINMENT

THERE MAY be some cause for optimism, however restrained, regarding Beijing's recent turn toward a more conservative and reactive foreign policy. Fortunately for the United States and its allies, there is an active debate among elites in Beijing about the costs and benefits of the country's current policy line (according to my interlocutors, this debate is most heated about China's recent policies toward North Korea). Washington and other governments have an opportunity to shape the international environment in a way that can assist those Chinese elites who are espousing creative, constructive, and assertive policies while undercutting those who advocate reactive, conservative, and aggressive ones. The best way to do this is to consistently offer China an active role in multilateral cooperative efforts—and without displaying jealousy of the newfound influence China might gain by accepting this role. At the same time, the United States and its allies need to emphasize that they will react to the challenges posed by North Korea or Iran with or without Chinese cooperation; China's interests will suffer if it obstructs those efforts or even stands on the sidelines.

Such an approach has historically been successful. In the mid-1990s, Beijing similarly alienated many of its neighbors and the United States, by bullying Taiwan, adopting a muscular posture toward the Philippines in the South China Sea, and overreacting to enhanced U.S. security cooperation with Japan. But a combination of wise and firm policies by Washington and its partners (for example, the "Nye Initiative" to strengthen the U.S.-Japanese alliance and the dispatch of two aircraft carrier battle groups to the waters off Taiwan during a crisis in 1996) helped foster the ascendance of more moderate thinking in Beijing. By 1997, Chinese diplomacy was on a much more positive track.

There is no reason to believe that a similar process cannot occur today—but given the perceptions about China's increased power and potential domestic instability discussed above, the challenges now may be greater than they were in the 1990s. Although some in Washington and many in Beijing grossly exaggerate when they say that the

Thomas J. Christensen

United States has “returned to Asia” under Obama, there is no question that China and other regional players have noticed that Obama and his principal advisers—Secretary of State Clinton, Secretary of Defense Robert Gates, and National Security Adviser Thomas Donilon—have traveled often to the region, including in November 2010, when Obama and Clinton went on separate multination tours of Asia. More concretely, the U.S.–South Korean military exercises in the Yellow Sea following the November attack by North Korea and the trilateral meeting of Japanese, Korean, and U.S. security officials in Washington demonstrated that the United States and its partners have diplomatic and security options even without China’s active cooperation. Beijing does not like such initiatives—all the more reason for China to return to a more creative, assertive, and reassuring set of policies to solve the problems that caused the United States and its allies to react this way in the first place.

The Obama administration should continue to strengthen U.S. relationships in Asia. Such an agenda is a good idea under any circumstances. But especially when China’s policies are damaging to everyone’s interests—including its own—Washington should underscore that even though it would prefer to address problems with Beijing’s active cooperation, there are other, less attractive options available. This is persuasion and not containment; China is still being asked to play a larger, not smaller, role both regionally and globally. In addition, Washington should portray the prospect of cooperation not as a request based on U.S. national interests but as a means through which Beijing can pursue its own interests and, at the same time, reassure other actors. The fact that the term “core national interest” has not been used by a high-level U.S. official since the 2009 joint statement suggests that U.S. government officials already understand the counterproductive psychology that such terms foster in China’s strategic thinking. Instead, U.S. diplomacy toward China has appropriately emphasized the pursuit of mutual interests while recognizing areas of serious difference. Finally, as it has in the past, Washington should publicize and laud the examples of past and current Chinese cooperation with the international community in addressing global problems.

In 2010, the Obama administration’s policies in Asia had a positive, albeit limited, effect. Despite ongoing differences between China and the United States—over North Korea, Chinese currency valuation, and

The Advantages of an Assertive China

the U.S. Federal Reserve's "quantitative easing" policy—Beijing nonetheless sought to improve bilateral relations in the lead-up to President Hu's visit to the United States in January of this year. For example, Beijing allowed for the restoration of military-to-military dialogue in the fall of 2010 after a nine-month hiatus caused by China's disapproval of U.S. arms sales to Taiwan earlier in the year, and China's minister of defense, General Liang Guanglie, invited Defense Secretary Gates to visit China the same month Hu traveled to Washington. There are also signs that China is beginning to reach out to ASEAN member states to address ongoing security concerns that were exacerbated by Beijing's bullying at the last ASEAN Regional Forum. Finally, China may have played a constructive role in reining in North Korea after it threatened South Korea in response to a South Korean artillery exercise off Yeonpyeong Island in December 2010, just a month after North Korea's attack on the island: as of this writing, no retaliation had occurred.

That is the good news. What is less commonly noted, however, is that the same factors that have caused China's recent tensions with its neighbors and the United States have produced an arguably stickier and more consequential long-term problem: they have retarded, if not halted outright, what was a very positive and much-needed shift in Chinese foreign policy during the last two years of the Bush administration. During that period, Beijing showed a willingness to soften some of its traditional prohibitions on an assertive foreign policy so as to assist the international community in dealing with problems faced by all global actors, including China.

Even if U.S.-Chinese ties improve and China reverses the negative trends in its regional diplomacy, Washington may still be unsatisfied if the shift does not include enhanced Chinese participation in international efforts to tackle global problems, especially proliferation in North Korea and Iran. For the United States and its allies, securing this kind of Chinese cooperation may be the highest hurdle to clear. Obama has an impressive group of advisers on Asia, but the domestic political and psychological factors in China will create reasons for pessimism, at least until China's succession is complete in 2012. Unfortunately, without such a change in China's policies, solving problems from proliferation to climate change will be much more difficult for the United States and the rest of the international community. In this one important sense, the United States needs a more assertive China. 🌐

China's Search for a Grand Strategy

A Rising Great Power Finds Its Way

Wang Jisi

ANY COUNTRY'S grand strategy must answer at least three questions: What are the nation's core interests? What external forces threaten them? And what can the national leadership do to safeguard them? Whether China has any such strategy today is open to debate. On the one hand, over the last three decades or so, its foreign and defense policies have been remarkably consistent and reasonably well coordinated with the country's domestic priorities. On the other hand, the Chinese government has yet to disclose any document that comprehensively expounds the country's strategic goals and the ways to achieve them. For both policy analysts in China and China watchers abroad, China's grand strategy is a field still to be plowed.

In recent years, China's power and influence relative to those of other great states have outgrown the expectations of even its own leaders. Based on the country's enhanced position, China's international behavior has become increasingly assertive, as was shown by its strong reactions to a chain of events in 2010: for example, Washington's decision to sell arms to Taiwan, U.S.–South Korean military exercises in the Yellow Sea, and Japan's detention of a Chinese sailor found in disputed waters. It has become imperative for the international community to understand China's strategic thinking and

WANG JISI is Dean of the School of International Studies at Peking University, in Beijing.

try to forecast how it might evolve according to China's interests and its leaders' vision.

THE ENEMY WITHIN AND WITHOUT

A UNIQUE FEATURE of Chinese leaders' understanding of their country's history is their persistent sensitivity to domestic disorder caused by foreign threats. From ancient times, the ruling regime of the day has often been brought down by a combination of internal uprising and external invasion. The Ming dynasty collapsed in 1644 after rebelling peasants took the capital city of Beijing and the Manchu, with the collusion of Ming generals, invaded from the north. Some three centuries later, the Manchu's own Qing dynasty collapsed after a series of internal revolts coincided with invasions by Western and Japanese forces. The end of the Kuomintang's rule and the founding of the People's Republic in 1949 was caused by an indigenous revolution inspired and then bolstered by the Soviet Union and the international communist movement.

Since then, apprehensions about internal turbulences have lingered. Under Mao Zedong's leadership, from 1949 to 1976, the Chinese government never formally applied the concept of "national interest" to delineate its strategic aims, but its international strategies were clearly dominated by political and military security interests—themselves often framed by ideological principles such as "proletarian internationalism." Strategic thinking at the time followed the Leninist tradition of dividing the world into political camps: archenemies, secondary enemies, potential allies, revolutionary forces. Mao's "three worlds theory" pointed to the Soviet Union and the United States as China's main external threats, with corresponding internal threats coming from pro-Soviet "revisionists" and pro-American "class enemies." China's political life in those years was characterized by recurrent struggles against international and domestic schemes to topple the Chinese Communist Party (CCP) leadership or change its political coloring. Still, since Mao's foreign policy supposedly represented the interests of the "international proletariat" rather than China's own, and since China was economically and socially isolated from much of the world, Beijing had no comprehensive grand strategy to speak of.

Wang Jisi

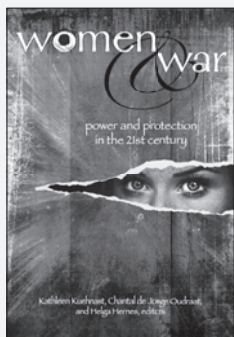
Then came the 1980s and Deng Xiaoping. As China embarked on reform and opened up, the CCP made economic development its top priority. Deng's foreign policy thinking departed appreciably from that of Mao. A major war with either the Soviet Union or the United States was no longer deemed inevitable. China made great efforts to develop friendly and cooperative relations with countries all over the world, regardless of their political or ideological orientation; it reasoned that a nonconfrontational posture would attract foreign investment to China and boost trade. A peaceful international environment, an enhanced position for China in the global arena, and China's steady integration into the existing economic order would also help consolidate the CCP's power at home.

But even as economic interests became a major driver of China's behavior on the international scene, traditional security concerns and the need to guard against Western political interference remained important. Most saliently, the Tiananmen Square incident of 1989 and, in its wake, the West's sanctions against Beijing served as an alarming reminder to China's leaders that internal and external troubles could easily intertwine. Over the next decade, Beijing responded to Western censure by contending that the state's sovereign rights trumped human rights. It resolutely refused to consider adopting Western-type democratic institutions. And it insisted that it would never give up the option of using force if Taiwan tried to secede.

Despite those concerns, however, by the beginning of the twenty-first century, China's strategic thinkers were depicting a generally favorable international situation. In his 2002 report to the CCP National Congress, General Secretary Jiang Zemin foresaw a "20 years' period of strategic opportunity," during which China could continue to concentrate on domestic tasks. Unrest has erupted at times—such as the violent riots in Tibet in March 2008 and in Xinjiang in July 2009, which the central government blamed on "foreign hostile forces" and responded to with harsh reprisals. And Beijing claims that the awarding of the 2010 Nobel Peace Prize to Liu Xiaobo, a political activist it deems to be a "criminal trying to sabotage the socialist system," has proved once again Westerners' "ill intentions." Still, the Chinese government has been perturbed by such episodes only occasionally, which has allowed it to focus on redressing domestic imbalances and the unsustainability of its development.



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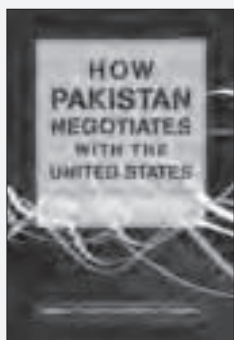
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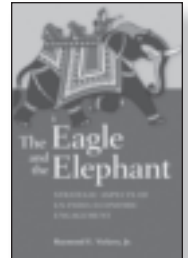
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China's Search for a Grand Strategy

Under President Hu Jintao, Beijing has in recent years formulated a new development and social policy geared toward continuing to promote fast economic growth while emphasizing good governance, improving the social safety net, protecting the environment, encouraging independent innovation, lessening social tensions, perfecting the financial system, and stimulating domestic consumption. As Chinese exports have suffered from the global economic crisis since 2008, the need for such economic and social transformations has become more urgent.

With that in mind, the Chinese leadership has redefined the purpose of China's foreign policy. As Hu announced in July 2009, China's diplomacy must "safeguard the interests of sovereignty, security, and development." Dai Bingguo, the state councilor for external relations, further defined those core interests in an article last December: first, China's political stability, namely, the stability of the CCP leadership and of the socialist system; second, sovereign security, territorial integrity, and national unification; and third, China's sustainable economic and social development.

Apart from the issue of Taiwan, which Beijing considers to be an integral part of China's territory, the Chinese government has never officially identified any single foreign policy issue as one of the country's core interests. Last year, some Chinese commentators reportedly referred to the South China Sea and North Korea as such, but these reckless statements, made with no official authorization, created a great deal of confusion. In fact, for the central government, sovereignty, security, and development all continue to be China's main goals. As long as no grave danger—for example, Taiwan's formal secession—threatens the CCP leadership or China's unity, Beijing will remain preoccupied with the country's economic and social development, including in its foreign policy.

THE PRINCIPLE'S PRINCIPLE

THE NEED to identify an organizing principle to guide Chinese foreign policy is widely recognized today in China's policy circles and scholarly community, as well as among international analysts. However, defining China's core interests according to the three prongs of sovereignty, security, and development, which sometimes are in tension, means that it is almost impossible to devise a straightforward organizing principle. And

Wang Jisi

the variety of views among Chinese political elites complicates efforts to devise any such grand strategy based on political consensus.

One popular proposal has been to focus on the United States as a major threat to China. Proponents of this view cite the ancient Chinese philosopher Mencius, who said, “A state without an enemy or external peril is absolutely doomed.” Or they reverse the political scientist Samuel Huntington’s argument that “the ideal enemy for America would be ideologically hostile, racially and culturally different, and militarily strong enough to pose a credible threat to American security” and cast the United States as an ideal enemy for China. This notion is based on the long-held conviction that the United States, along with other Western powers and Japan, is hostile to China’s political values and wants to contain its rise by supporting Taiwan’s separation from the mainland. Its proponents also point to U.S. politicians’ sympathy for the Dalai Lama and Uighur separatists, continued U.S. arms sales to Taiwan, U.S. military alliances and arrangements supposedly designed to encircle the Chinese mainland, the currency and trade wars waged by U.S. businesses and the U.S. Congress, and the West’s argument that China should slow down its economic growth in order to help stem climate change.

This view is reflected in many newspapers and on many Web sites in China (particularly those about military affairs and political security). Its proponents argue that China’s current approach to foreign relations is far too soft; Mao’s tit-for-tat manner is touted as a better model. As a corollary, it is said that China should try to find strategic allies among countries that seem defiant toward the West, such as Iran, North Korea, and Russia. Some also recommend that Beijing use its holdings of U.S. Treasury bonds as a policy instrument, standing ready to sell them if U.S. government actions undermine China’s interests.

This proposal is essentially misguided, for even though the United States does pose some strategic and security challenges to China, it would be impractical and risky to construct a grand strategy based on the view that the United States is China’s main adversary. Few countries, if any, would want to join China in an anti-U.S. alliance. And it would seriously hold back China’s economic development to antagonize the country’s largest trading partner and the world’s strongest economic and military power. Fortunately, the Chinese leadership is not about to carry out such a strategy. Premier Wen Jiabao was not just

being diplomatic last year when he said of China and the United States that “our common interests far outweigh our differences.”

Well aware of this, an alternative school of thought favors Deng’s teaching of *tao guang yang hui*, or keeping a low profile in international affairs. Members of this group, including prominent political figures, such as Tang Jiaxuan, former foreign minister, and General Xiong Guangkai, former deputy chief of staff of the People’s Liberation Army, argue that since China remains a developing country, it should concentrate on economic development. Without necessarily rebuffing the notion that the West, particularly the United States, is a long-term threat to China, they contend that China is not capable of challenging Western primacy for the time being—and some even caution against hastily concluding that the West is in decline. Meanwhile, they argue, keeping a low profile in the coming decades will allow China to concentrate on domestic priorities.

Although this view appears to be better received internationally than the other, it, too, elicits some concerns. Its adherents have had to take great pains to explain that *tao guang yang hui*, which is sometimes mistranslated as “hiding one’s capabilities and biding one’s time,” is not a calculated call for temporary moderation until China has enough material power and confidence to promote its hidden agenda. Domestically, the low-profile approach is vulnerable to the charge that it is too soft, especially when security issues become acute. As nationalist feelings surge in China, some Chinese are pressing for a more can-do foreign policy. Opponents also contend that this notion, which Deng put forward more than 20 years ago, may no longer be appropriate now that China is far more powerful.

Some thoughtful strategists appreciate that even if keeping a low profile could serve China’s political and security relations with the United States well, it might not apply to China’s relations with many other countries or to economic issues and those nontraditional security issues that have become essential in recent years, such as climate change, public health, and energy security. (Beijing can hardly keep a low profile when it actively participates in mechanisms such as BRIC, the informal group formed by Brazil, Russia, India, China, and the new member South Africa.) A foreign policy that insists merely on keeping China’s profile low cannot cope effectively with the multifaceted challenges facing the country today.

Wang Jisi

HOME IS WHERE THE HEART IS

A MORE SOPHISTICATED grand strategy is needed to serve China's domestic priorities. The government has issued no official written statement outlining such a vision, but some direction can be gleaned from the concepts of a "scientific outlook on development" and "building a harmonious society," which have been enunciated by Hu and have been recorded in all important CCP documents since 2003. In 2006, the Central Committee of the CCP announced that China's foreign policy "must maintain economic construction as its centerpiece, be closely integrated into domestic work, and be advanced by coordinating domestic and international situations." Moreover, four ongoing changes in China's strategic thinking may suggest the foundations for a new grand strategy.

The first transformation is the Chinese government's adoption of a comprehensive understanding of security, which incorporates economic and nontraditional concerns with traditional military and political interests. Chinese military planners have begun to take into consideration transnational problems such as terrorism and piracy, as well as cooperative activities such as participation in UN peacekeeping operations. Similarly, it is now clear that China must join other countries in stabilizing the global financial market in order to protect its own economic security. All this means that it is virtually impossible to distinguish China's friends from its foes. The United States might pose political and military threats, and Japan, a staunch U.S. ally, could be a geopolitical competitor of China's, but these two countries also happen to be two of China's greatest economic partners. Even though political difficulties appear to be on the rise with the European Union, it remains China's top economic partner. Russia, which some Chinese see as a potential security ally, is far less important economically and socially to China than is South Korea, another U.S. military ally. It will take painstaking efforts on Beijing's part to limit tensions between China's traditional political-military perspectives and its broadening socio-economic interests—efforts that effectively amount to reconciling the diverging legacies of Mao and Deng. The best Beijing can do is to strengthen its economic ties with great powers while minimizing the likelihood of a military and political confrontation with them.

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China's Search for a Grand Strategy

A second transformation is unfolding in Chinese diplomacy: it is becoming less country-oriented and more multilateral and issue-oriented. This shift toward functional focuses—counterterrorism, nuclear nonproliferation, environmental protection, energy security, food safety, post-disaster reconstruction—has complicated China's bilateral relationships, regardless of how friendly other states are toward it. For example, diverging geostrategic interests and territorial disputes have long come between China and India, but the two countries' common interest in fending off the West's pressure to reduce carbon emissions has drawn them closer. And now that Iran has become a key supplier of oil to China, its problems with the West over its nuclear program are testing China's stated commitment to the nuclear non-proliferation regime.

Changes in the mode of China's economic development account for a third transformation in the country's strategic thinking. Beijing's preoccupation with GDP growth is slowly giving way to concerns about economic efficiency, product quality, environmental protection, the creation of a social safety net, and technological innovation. Beijing's understanding of the core interest of development is expanding to include social dimensions. Correspondingly, China's leaders have decided to try to sustain the country's high growth rate by propping up domestic consumption and reducing over the long term the country's dependence on exports and foreign investment. They are now more concerned with global economic imbalances and financial fluctuations, even as international economic frictions are becoming more intense because of the global financial crisis. China's long-term interests will require some incremental appreciation of the yuan, but its desire to increase its exports in the short term will prevent its decision-makers from taking the quick measures urged by the United States and many other countries. Only the enhancement of China's domestic consumption and a steady opening of its capital markets will help it shake off these international pressures.

The fourth transformation has to do with China's values. So far, China's officials have said that although China has a distinctive political system and ideology, it can cooperate with other countries based on shared interests—although not, the suggestion seems to be, on shared values. But now that they strongly wish to enhance what they call the “cultural soft power of the nation” and improve China's international

Wang Jisi

image, it appears necessary to also seek common values in the global arena, such as good governance and transparency. Continuing trials and tribulations at home, such as pervasive corruption and ethnic and social unrest in some regions, could also reinforce a shift in values among China's political elite by demonstrating that their hold on power and the country's continued resurgence depend on greater transparency and accountability, as well as on a firmer commitment to the rule of law, democracy, and human rights, all values that are widely shared throughout the world today.

All four of these developments are unfolding haltingly and are by no means irreversible. Nonetheless, they do reveal fundamental trends that will likely shape China's grand strategy in the foreseeable future. When Hu and other leaders call for "coordinating domestic and international situations," they mean that efforts to meet international challenges must not undermine domestic reforms. And with external challenges now coming not only from foreign powers—especially the United States and Japan—but also, and increasingly, from functional issues, coping with them effectively will require engaging foreign countries cooperatively and emphasizing compatible values.

Thus, it would be imprudent of Beijing to identify any one country as a major threat and invoke the need to keep it at bay as an organizing principle of Chinese foreign policy—unless the United States, or another great power, truly did regard China as its main adversary and so forced China to respond in kind. On the other hand, if keeping a low profile is a necessary component of Beijing's foreign policy, it is also insufficient. A grand strategy needs to consider other long-term objectives as well. One that appeals to some Chinese is the notion of building China into the most powerful state in the world: Liu Mingfu, a senior colonel who teaches at the People's Liberation Army's National Defense University, has declared that replacing the United States as the world's top military power should be China's goal. Another idea is to cast China as an alternative model of development (the "Beijing consensus") that can challenge Western systems, values, and leadership. But the Chinese leadership does not dream of turning China into a hegemon or a standard-bearer. Faced with mounting pressures on both the domestic and the international fronts, it is sober in its objectives, be they short- or long-term ones. Its main concern is how best to protect

China's Search for a Grand Strategy

China's core interests—sovereignty, security, and development—against the messy cluster of threats that the country faces today. If an organizing principle must be established to guide China's grand strategy, it should be the improvement of the Chinese people's living standards, welfare, and happiness through social justice.

THE BIRTH OF A GREAT NATION

HAVING IDENTIFIED China's core interests and the external pressures that threaten them, the remaining question is, how can China's leadership safeguard the country's interests against those threats? China's continued success in modernizing its economy and lifting its people's standards of living depends heavily on global stability. Thus, it is in China's interest to contribute to a peaceful international environment. China should seek peaceful solutions to residual sovereignty and security issues, including the thorny territorial disputes between it and its neighbors. With the current leadership in Taiwan refraining from seeking formal independence from the mainland, Beijing is more confident that peace can be maintained across the Taiwan Strait. But it has yet to reach a political agreement with Taipei that would prevent renewed tensions in the future. The Chinese government also needs to find effective means to pacify Tibet and Xinjiang, as more unrest in those regions would likely elicit reactions from other countries.

Although the vast majority of people in China support a stronger Chinese military to defend the country's major interests, they should also recognize the dilemma that poses. As China builds its defense capabilities, especially its navy, it will have to convince others, including the United States and China's neighbors in Asia, that it is taking their concerns into consideration. It will have to make the plans of the People's Liberation Army more transparent and show a willingness to join efforts to establish security structures in the Asia-Pacific region and safeguard existing global security regimes, especially the nuclear nonproliferation regime. It must also continue to work with other states to prevent Iran and North Korea from obtaining nuclear weapons. China's national security will be well served if it makes more contributions to other countries' efforts to strengthen security in cyberspace and outer space. Of course, none of this excludes the possibility that

Wang Jisi

China might have to use force to protect its sovereignty or its security in some special circumstances, such as in the event of a terrorist attack.

China has been committed to almost all existing global economic regimes. But it will have to do much more before it is recognized as a full-fledged market economy. It has already gained an increasingly larger say in global economic mechanisms, such as the G-20, the World Bank, and the International Monetary Fund. Now, it needs to make specific policy proposals and adjustments to help rebalance the global economy and facilitate its plans to change its development pattern at home. Setting a good example by building a low-carbon economy is one major step that would benefit both China and the world.

A grand strategy requires defining a geostrategic focus, and China's geostrategic focus is Asia. When communication lines in Central Asia and South Asia were poor, China's development strategy and economic interests tilted toward its east coast and the Pacific Ocean. Today, East Asia is still of vital importance, but China should and will begin to pay more strategic attention to the west. The central government has been conducting the Grand Western Development Program in many western provinces and regions, notably Tibet and Xinjiang, for more than a decade. It is now more actively initiating and participating in new development projects in Afghanistan, India, Pakistan, Central Asia, and throughout the Caspian Sea region, all the way to Europe. This new western outlook may reshape China's geostrategic vision as well as the Eurasian landscape.

Still, relationships with great powers remain crucial to defending China's core interests. Notwithstanding the unprecedented economic interdependence of China, Japan, and the United States, strategic trust is still lacking between China and the United States and China and Japan. It is imperative that the Chinese-Japanese-U.S. trilateral interaction be stable and constructive, and a trilateral strategic dialogue is desirable. More generally, too, China will have to invest tremendous resources to promote a more benign image on the world stage. A China with good governance will be a likeable China. Even more important, it will have to learn that soft power cannot be artificially created: such influence originates more from a society than from a state.

Two daunting tasks lie ahead before a better-designed Chinese grand strategy can take shape and be implemented. The first is to

China's Search for a Grand Strategy

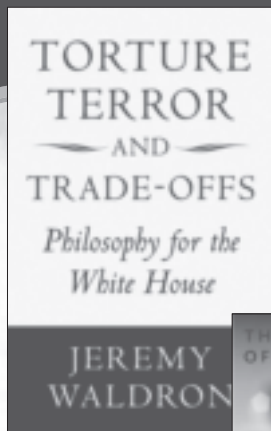
improve policy coordination among Chinese government agencies. Almost all institutions in the central leadership and local governments are involved in foreign relations to varying degrees, and it is virtually impossible for them to see China's national interest the same way or to speak with one voice. These differences confuse outsiders as well as the Chinese people.

The second challenge will be to manage the diversity of views among China's political elite and the general public, at a time when the value system in China is changing rapidly. Mobilizing public support for government policies is expected to strengthen Beijing's diplomatic bargaining power while also helping consolidate its domestic popularity. But excessive nationalism could breed more public frustration and create more pressure on the government if its policies fail to deliver immediately, which could hurt China's political order, as well as its foreign relations. Even as it allows different voices to be heard on foreign affairs, the central leadership should more vigorously inform the population of its own view, which is consistently more moderate and prudent than the inflammatory remarks found in the media and on Web sites.

No major power's interests can conform exactly to those of the international community; China is no exception. And with one-fifth of the world's population, it is more like a continent than a country. Yet despite the complexity of developing a grand strategy for China, the effort is at once consistent with China's internal priorities and generally positive for the international community. China will serve its interests better if it can provide more common goods to the international community and share more values with other states.

How other countries respond to the emergence of China as a global power will also have a great impact on China's internal development and external behavior. If the international community appears not to understand China's aspirations, its anxieties, and its difficulties in feeding itself and modernizing, the Chinese people may ask themselves why China should be bound by rules that were essentially established by the Western powers. China can rightfully be expected to take on more international responsibilities. But then the international community should take on the responsibility of helping the world's largest member support itself. 🌐

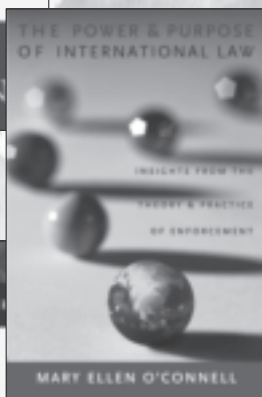
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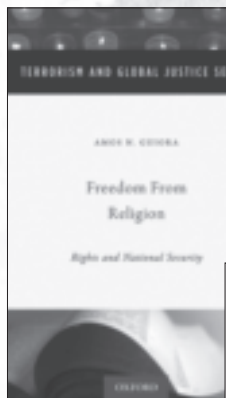
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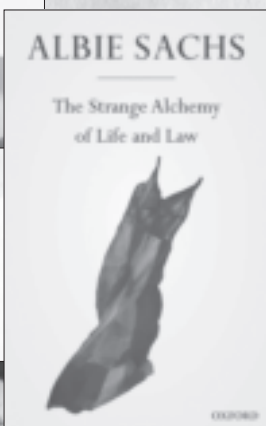
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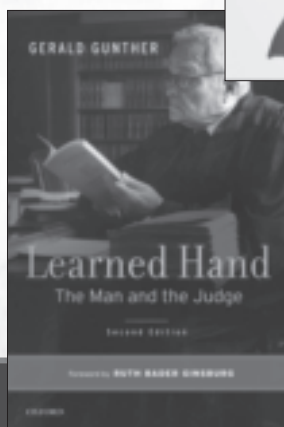
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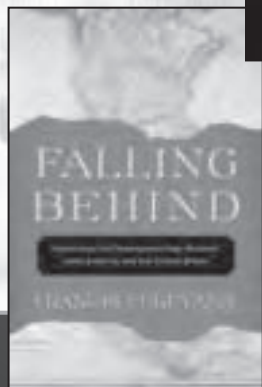
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Will China's Rise Lead to War?

Why Realism Does Not Mean Pessimism

Charles Glaser

THE RISE of China will likely be the most important international relations story of the twenty-first century, but it remains unclear whether that story will have a happy ending. Will China's ascent increase the probability of great-power war? Will an era of U.S.-Chinese tension be as dangerous as the Cold War? Will it be even worse, because China, unlike the Soviet Union, will prove a serious economic competitor as well as a geopolitical one?

These issues have been addressed by a wide range of experts—regionalists, historians, and economists—all of whom can claim insight into certain aspects of the situation. But China's unique qualities, past behavior, and economic trajectory may well turn out to be less important in driving future events than many assume—because how a country acts as a superpower and whether its actions and those of others will end in battle are shaped as much by general patterns of international politics as by idiosyncratic factors. Such broader questions about the conditions under which power transitions lead to conflict are precisely what international relations theorists study, so they, too, have something to add to the discussion.

CHARLES GLASER is Professor of Political Science and International Affairs and Director of the Institute for Security and Conflict Studies at the Elliott School of International Affairs at George Washington University. This essay draws on his recent book *Rational Theory of International Politics*.

Will China's Rise Lead to War?

So far, the China debate among international relations theorists has pitted optimistic liberals against pessimistic realists. The liberals argue that because the current international order is defined by economic and political openness, it can accommodate China's rise peacefully. The United States and other leading powers, this argument runs, can and will make clear that China is welcome to join the existing order and prosper within it, and China is likely to do so rather than launch a costly and dangerous struggle to overturn the system and establish an order more to its own liking.

The standard realist view, in contrast, predicts intense competition. China's growing strength, most realists argue, will lead it to pursue its interests more assertively, which will in turn lead the United States and other countries to balance against it. This cycle will generate at the least a parallel to the Cold War standoff between the United States and the Soviet Union, and perhaps even a hegemonic war. Adherents of this view point to China's recent harder line on its maritime claims in the East China and South China seas and to the increasingly close relations between the United States and India as signs that the cycle of assertiveness and balancing has already begun.

In fact, however, a more nuanced version of realism provides grounds for optimism. China's rise need not be nearly as competitive and dangerous as the standard realist argument suggests, because the structural forces driving major powers into conflict will be relatively weak. The dangers that do exist, moreover, are not the ones predicted by sweeping theories of the international system in general but instead stem from secondary disputes particular to Northeast Asia—and the security prevalent in the international system at large should make these disputes easier for the United States and China to manage. In the end, therefore, the outcome of China's rise will depend less on the pressures generated by the international system than on how well U.S. and Chinese leaders manage the situation. Conflict is not predetermined—and if the United States can adjust to the new international conditions, making some uncomfortable concessions and not exaggerating the dangers, a major clash might well be avoided.

Charles Glaser

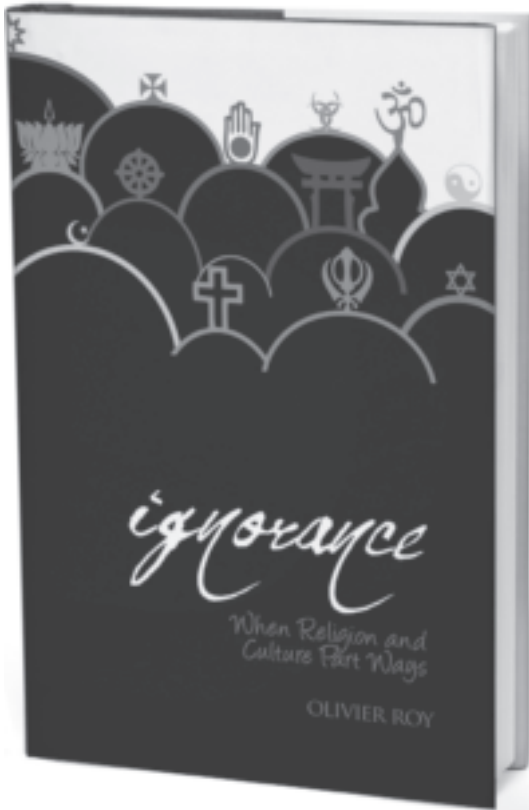
A GOOD KIND OF SECURITY DILEMMA

STRUCTURAL REALISM explains states' actions in terms of the pressures and opportunities created by the international system. One need not look to domestic factors to explain international conflict, in this view, because the routine actions of independent states trying to maintain their security in an anarchic world can result in war. This does not happen all the time, of course, and explaining how security-seeking states find themselves at war is actually something of a puzzle, since they might be expected to choose cooperation and the benefits of peace instead. The solution to the puzzle lies in the concept of the security dilemma—a situation in which one state's efforts to increase its own security reduce the security of others.

The intensity of the security dilemma depends, in part, on the ease of attack and coercion. When attacking is easy, even small increases in one state's forces will significantly decrease the security of others, fueling a spiral of fear and arming. When defending and deterring are easy, in contrast, changes in one state's military forces will not necessarily threaten others, and the possibility of maintaining good political relations among the players in the system will increase.

The intensity of the security dilemma also depends on states' beliefs about one another's motives and goals. For example, if a state believes that its adversary is driven only by a quest for security—rather than, say, an inherent desire to dominate the system—then it should find increases in the adversary's military forces less troubling and not feel the need to respond in kind, thus preventing the spiral of political and military escalation.

The possibility of variation in the intensity of the security dilemma has dramatic implications for structural realist theory, making its predictions less consistently bleak than often assumed. When the security dilemma is severe, competition will indeed be intense and war more likely. These are the classic behaviors predicted by realist pessimism. But when the security dilemma is mild, a structural realist will see that the international system creates opportunities for restraint and peace. Properly understood, moreover, the security dilemma suggests that a state will be more secure when its adversary is more secure—because insecurity can pressure an adversary to



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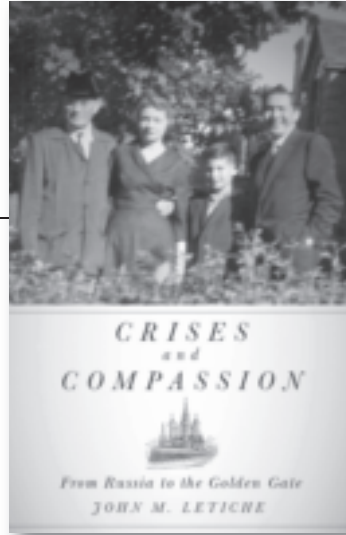
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Will China's Rise Lead to War?

adopt competitive and threatening policies. This dynamic creates incentives for restraint and cooperation. If an adversary can be persuaded that all one wants is security (as opposed to domination), the adversary may itself relax.

What does all this imply about the rise of China? At the broadest level, the news is good. Current international conditions should enable both the United States and China to protect their vital interests without posing large threats to each other. Nuclear weapons make it relatively easy for major powers to maintain highly effective deterrent forces. Even if Chinese power were to greatly exceed U.S. power somewhere down the road, the United States would still be able to maintain nuclear forces that could survive any Chinese attack and threaten massive damage in retaliation. Large-scale conventional attacks by China against the U.S. homeland, meanwhile, are virtually impossible because the United States and China are separated by the vast expanse of the Pacific Ocean, across which it would be difficult to attack. No foreseeable increase in China's power would be large enough to overcome these twin advantages of defense for the United States. The same defensive advantages, moreover, apply to China as well. Although China is currently much weaker than the United States militarily, it will soon be able to build a nuclear force that meets its requirements for deterrence. And China should not find the United States' massive conventional capabilities especially threatening, because the bulk of U.S. forces, logistics, and support lie across the Pacific.

The overall effect of these conditions is to greatly moderate the security dilemma. Both the United States and China will be able to maintain high levels of security now and through any potential rise of China to superpower status. This should help Washington and Beijing avoid truly strained geopolitical relations, which should in turn help ensure that the security dilemma stays moderate, thereby facilitating cooperation. The United States, for example, will have the option to forego responding to China's modernization of its nuclear force. This restraint will help reassure China that the United States does not want to threaten its security—and thus help head off a downward political spiral fueled by nuclear competition.

BUT WHAT ABOUT THE ALLIES?

THE PRECEDING analysis, of course, overlooks a key feature of U.S. foreign policy—the important security alliances the United States maintains with Japan and South Korea, as well as other U.S. security commitments in Northeast Asia. Yet although adding U.S. allies yields a more complex picture, it does not undercut the overall optimism about China's rise. Instead, it raises the question of just how essential regional alliances in the Pacific are to U.S. security.

The United States' alliance commitments have been remarkably stable since the beginning of the Cold War, but China's rise should lead to renewed debate over their costs and benefits. Arguing along lines similar to those mentioned above—that the United States can be secure simply by taking advantage of its power, geography, and nuclear arsenal—so-called neo-isolationists conclude that the United States should end its alliances in Europe and Asia because they are unnecessary and risky. If the United States can deter attacks against its homeland, they ask, why belong to alliances that promise to engage the United States in large wars on distant continents? Protecting U.S. allies in Asia might require the United States to engage in political skirmishes and military competition that will strain its political relations with China. According to neo-isolationists, in short, China's rise will not jeopardize U.S. security, but maintaining current U.S. alliances could.

Advocates of selective engagement, in contrast—an approach similar to existing U.S. policy—claim that their chosen strategy is also consistent with the broad outlines of structural realism. Whereas neo-isolationists want the United States to withdraw from forward positions in order to avoid being sucked into a regional conflict, those favoring selective engagement argue that preserving U.S. alliance commitments in Europe and Asia is the best way to prevent the eruption of a conflict in the first place.

Examining how existing U.S. alliance commitments are likely to interact with China's rise is thus a crucial issue, with implications for both regional policy and U.S. grand strategy more generally. If the United States maintains its key alliance commitments, as is likely, it will need to extend its deterrent to Japan and South Korea while facing significantly larger and more capable Chinese conventional military

forces. In many ways, this challenge will be analogous to the one the United States faced in extending its deterrent to Western Europe during the Cold War. Both superpowers had robust nuclear retaliatory capabilities, and the Soviet Union was widely believed to have superior conventional forces that were capable of invading Europe.

Back then, experts debated whether U.S. capabilities were sufficient to deter a massive Soviet conventional attack against Europe. They disagreed over whether NATO's doctrine of flexible response—which combined large conventional forces with an array of nuclear forces—enabled the United States to make nuclear threats credible enough to deter a Soviet conventional attack. Doubts about U.S. willingness to escalate reflected the clear danger that U.S. escalation would be met by Soviet nuclear retaliation. Nevertheless, the stronger argument in this debate held that U.S. strategy did provide an adequate deterrent to a Soviet conventional attack, because even a small probability of U.S. nuclear escalation presented the Soviets with overwhelming risks. The same logic should apply to a future Chinese superpower. The combination of clear alliance commitments, forward deployed conventional forces, and large survivable nuclear forces should enable the United States to deter a Chinese attack on either Japan or South Korea.

Confidence in the U.S. deterrent is likely to be reinforced by relatively good relations between the United States and China. Those who feared that the United States could not extend its deterrent to Western Europe believed that the Soviet Union was a highly revisionist state bent on radically overturning the status quo and willing to run enormous risks in the process. There is virtually no evidence suggesting that China has such ambitious goals, so extending the U.S. deterrent should be easier now than during the Cold War. And even in the unlikely event that China evolved into such a dangerous state, deterrence would still be possible, albeit more difficult.

Some realist pessimists argue that in order to be highly secure, China will find itself compelled to pursue regional hegemony, fueling

Current international conditions should enable both the United States and China to protect their vital interests without posing large threats to each other.

Charles Glaser

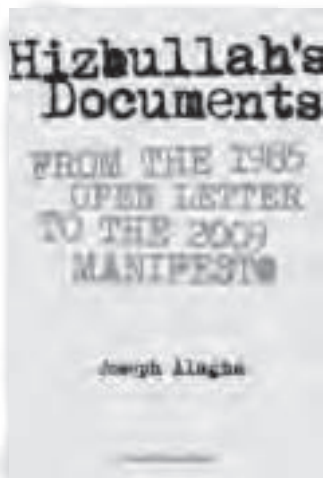
conflict along the way. However, China's size, power, location, and nuclear arsenal will make it very challenging to attack successfully. China will not need to push the United States out of its region in order to be secure, because a forward U.S. presence will not undermine China's core deterrent capabilities. A major U.S. withdrawal, moreover, would not automatically yield Chinese regional hegemony, because Japan and South Korea might then acquire stronger conventional military capabilities and nuclear capabilities of their own, greatly reducing China's coercive potential. A Chinese drive for regional hegemony, therefore, would be both unnecessary and infeasible.

The United States' forward military presence does enhance its power-projection capabilities, which threaten China's ability to protect its sea-lanes and coerce Taiwan. But the U.S. alliance with Japan also benefits China by enabling Japan to spend far less on defense. Although the United States' power far exceeds Japan's, China has seen the alliance as adding to regional stability, because it fears Japan more than the United States. As China grows more powerful, it may increasingly resent U.S. influence in Northeast Asia. But unless U.S.-Chinese relations become severely strained, China is likely to accept a continuing U.S. presence in the region, given the alternatives.

ACCOMMODATION ON TAIWAN?

THE PROSPECTS for avoiding intense military competition and war may be good, but growth in China's power may nevertheless require some changes in U.S. foreign policy that Washington will find disagreeable—particularly regarding Taiwan. Although it lost control of Taiwan during the Chinese Civil War more than six decades ago, China still considers Taiwan to be part of its homeland, and unification remains a key political goal for Beijing. China has made clear that it will use force if Taiwan declares independence, and much of China's conventional military buildup has been dedicated to increasing its ability to coerce Taiwan and reducing the United States' ability to intervene. Because China places such high value on Taiwan and because the United States and China—whatever they might formally agree to—have such different attitudes regarding the legitimacy of the status quo, the issue poses special dangers and challenges for the

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Will China's Rise Lead to War?

U.S.-Chinese relationship, placing it in a different category than Japan or South Korea.

A crisis over Taiwan could fairly easily escalate to nuclear war, because each step along the way might well seem rational to the actors involved. Current U.S. policy is designed to reduce the probability that Taiwan will declare independence and to make clear that the United States will not come to Taiwan's aid if it does. Nevertheless, the United States would find itself under pressure to protect Taiwan against any sort of attack, no matter how it originated. Given the different interests and perceptions of the various parties and the limited control Washington has over Taipei's behavior, a crisis could unfold in which the United States found itself following events rather than leading them.

Such dangers have been around for decades, but ongoing improvements in China's military capabilities may make Beijing more willing to escalate a Taiwan crisis. In addition to its improved conventional capabilities, China is modernizing its nuclear forces to increase their ability to survive and retaliate following a large-scale U.S. attack. Standard deterrence theory holds that Washington's current ability to destroy most or all of China's nuclear force enhances its bargaining position. China's nuclear modernization might remove that check on Chinese action, leading Beijing to behave more boldly in future crises than it has in past ones. A U.S. attempt to preserve its ability to defend Taiwan, meanwhile, could fuel a conventional and nuclear arms race. Enhancements to U.S. offensive targeting capabilities and strategic ballistic missile defenses might be interpreted by China as a signal of malign U.S. motives, leading to further Chinese military efforts and a general poisoning of U.S.-Chinese relations.

Given such risks, the United States should consider backing away from its commitment to Taiwan. This would remove the most obvious and contentious flash point between the United States and China and smooth the way for better relations between them in the decades to come. Critics of such a move argue that it would result in not only direct costs for the United States and Taiwan but indirect costs as well: Beijing would not be satisfied by such appeasement; instead, it would find its appetite whetted and make even greater demands afterward—spurred by Washington's lost credibility as a defender of

Charles Glaser

its allies. The critics are wrong, however, because territorial concessions are not always bound to fail. Not all adversaries are Hitler, and when they are not, accommodation can be an effective policy tool. When an adversary has limited territorial goals, granting them can lead not to further demands but rather to satisfaction with the new status quo and a reduction of tension.

The key question, then, is whether China has limited or unlimited goals. It is true that China has disagreements with several of its neighbors, but there is actually little reason to believe that it has or will develop grand territorial ambitions in its region or beyond. Concessions on Taiwan would thus risk encouraging China to pursue more demanding policies on those issues for which the status quo is currently disputed, including the status of the offshore islands and maritime borders in the East China and South China seas. But the risks of reduced U.S. credibility for protecting allies when the status quo is crystal clear—as is the case with Japan and South Korea—should be small, especially if any change in policy on Taiwan is accompanied by countervailing measures (such as a renewed declaration of the United States' other alliance commitments, a reinforcement of U.S. forward deployed troops, and an increase in joint military exercises and technological cooperation with U.S. allies).

Whether and how the United States should reduce its commitment to Taiwan is clearly a complex issue. If the United States does decide to change its policy, a gradual easing of its commitment is likely best, as opposed to a sharp, highly advertised break. And since relations between Taiwan and China have improved over the past few years, Washington will likely have both the time and the room to evaluate and adjust its policy as the regional and global situations evolve.

The broader point is that although China's rise is creating some dangers, the shifting distribution of power is not rendering vital U.S. and Chinese interests incompatible. The potential dangers do not add up to clashing great-power interests that can be resolved only by risking a major-power war. Rather, the difficulty of protecting some secondary, albeit not insignificant, U.S. interests is growing, requiring the United States to reevaluate its foreign policy commitments.

THE DANGERS OF EXAGGERATION

REALIST ANALYSES of how power transitions will play out are based on the assumption that states accurately perceive and respond to the international situations they face. Realist optimism in this case thus rests on the assumption that U.S. leaders appreciate, and will be able to act on, the unusually high degree of security that the United States actually enjoys. Should this assumption prove incorrect, and should the United States exaggerate the threat China poses, the risks of future conflict will be greater. Unfortunately, there are some reasons for worrying that the assumption might in fact be wrong.

For example, the popular belief that a rising China will severely threaten U.S. security could become a self-fulfilling prophecy. Should Washington fail to understand that China's growing military capabilities do not threaten vital U.S. interests, it may adopt overly competitive military and foreign policies, which may in turn signal to China that the United States has malign motives. Should China then feel less secure, it will be more likely to adopt competitive policies that the United States will see as more threatening. The result would be a negative spiral driven not by the international situation the states actually faced but by their exaggerated insecurities.

Moreover, states have often overestimated their insecurity by failing to appreciate the extent to which military capabilities favored defense. Before World War I, Germany exaggerated the ease of invasion and therefore believed that Russia's growing power threatened its survival. As a result, Germany launched an unnecessary preventive war. During the Cold War, the United States exaggerated the nuclear threat posed by the Soviet Union, failing to appreciate that large improvements in Soviet forces left the key aspect of the American deterrent—a massive retaliatory capability—entirely intact. This did not lead to war, thankfully, but it did increase the risks of one and led to much unnecessary tension and expenditure. Washington will have to guard against making similar errors down the road as China's conventional and nuclear forces grow and as clashes over secondary issues strain relations.

There has been no U.S. overreaction to the growth in China's military capabilities yet, but the potential for one certainly exists. The current U.S. National Security Strategy, for example, calls for the United

Charles Glaser

States to maintain its conventional military superiority, but it does not spell out why this superiority is required or what forces and capabilities this requires. For the foreseeable future, China will lack power-projection capabilities comparable to those of the United States, but its military buildup is already reducing the United States' ability to fight along China's periphery. This will soon raise questions such as precisely why the United States requires across-the-board conventional superiority, what specific missions the U.S. military will be unable to perform without it, and how much the inability to execute those missions would damage U.S. security. Without clear answers, the United States may well overestimate the implications of China's growing military forces.

The danger of an exaggerated security threat is even greater in the nuclear realm. The Obama administration's 2010 Nuclear Posture Review holds that "the United States and China's Asian neighbors remain concerned about China's current military modernization efforts, including its qualitative and quantitative modernization of its nuclear arsenal." The NPR, however, does not identify just what danger China's military modernization poses. There is no prospect that any conceivable nuclear modernization in the foreseeable future will enable China to destroy the bulk of U.S. nuclear forces and undermine the United States' ability to retaliate massively. The most such modernization might do is eliminate a significant U.S. nuclear advantage by providing China with a larger and more survivable force, thereby reducing the United States' ability to credibly threaten China with nuclear escalation during a severe crisis.

The NPR says that the United States "must continue to maintain stable strategic relationships with Russia and China," but China has always lacked the type of force that would provide stability according to U.S. standards. If the United States decides that its security requires preserving its nuclear advantage vis-à-vis China, it will have to invest in capabilities dedicated to destroying China's new nuclear forces. Such an effort would be in line with the United States' Cold War nuclear strategy, which placed great importance on being able to destroy Soviet nuclear forces. This kind of arms race would be even more unnecessary now than it was then. The United States can retain formidable deterrent capabilities even if China modernizes its arsenal,

Will China's Rise Lead to War?

and a competitive nuclear policy could well decrease U.S. security by signaling to China that the United States is hostile, thereby increasing Chinese insecurity and damaging U.S.-Chinese relations.

There is no question that China's conventional and nuclear buildups will reduce some U.S. capabilities that Washington would prefer to retain. But the United States should not rush to impute malign motives to those buildups and should instead be sensitive to the possibility that they simply reflect China's legitimate desire for security. When Donald Rumsfeld was U.S. secretary of defense, he said, apropos of China's increased defense spending, that "since no nation threatens China, one must wonder: Why this growing investment? Why these continuing large and expanding arms purchases?" The answer should have been obvious. If China were able to operate carrier battle groups near the U.S. coast and attack the U.S. homeland with long-range bombers, Washington would naturally want the ability to blunt such capabilities, and if the United States had a strategic nuclear force as vulnerable and comparatively small as China's (now somewhere between a tenth and a hundredth the size of the U.S. force), it would try to catch up as quickly as it had the resources to do so. Those actions would not have been driven by any nefarious plan to subjugate the world, and so far there are strong reasons to believe that the same holds true for China's course.

In sum, China's rise can be peaceful, but this outcome is far from guaranteed. Contrary to the standard realist argument, the basic pressures generated by the international system will not force the United States and China into conflict. Nuclear weapons, separation by the Pacific Ocean, and political relations that are currently relatively good should enable both countries to maintain high levels of security and avoid military policies that severely strain their relationship. The United States' need to protect its allies in Northeast Asia complicates matters somewhat, but there are strong grounds for believing that Washington can credibly extend its deterrent to Japan and South Korea, its most important regional partners. The challenge for the United States will come in making adjustments to its policies in situations in which less-than-vital interests (such as Taiwan) might cause problems and in making sure it does not exaggerate the risks posed by China's growing power and military capabilities. 🌐

Currency Wars, Then and Now

How Policymakers Can Avoid the Perils of the 1930s

Liaquat Ahamed

IN JUNE 1933, a thousand representatives from 66 countries gathered in London for the World Economic Conference—the grandest collection of world leaders since the Paris Peace Conference of 1919. Among those attending were a king, eight prime ministers, 20 foreign ministers, and 80 other cabinet ministers and heads of central banks.

The global economy was still mired in a depression that had begun more than three years earlier. In the two countries hardest hit, Germany and the United States, unemployment was above 30 percent. The United Kingdom, the nations of the British Empire, and a handful of other European countries with close commercial ties to London had abandoned the gold standard in late 1931, leaving exchange-rate arrangements in complete disarray. Meanwhile, Germany, after a banking crisis in the summer of 1931, had suspended payments on most of its international debts and imposed severe currency and capital controls.

The purpose of the conference, originally conceived in the last days of U.S. President Herbert Hoover's administration, was to spur a joint effort to repair the severely damaged international financial system. But the new U.S. president, Franklin Roosevelt, made it clear that his first priority was to get the U.S. economy back on its feet; international considerations would have to take second place. In the first month of his administration, after successfully stabilizing the domestic

LIAQUAT AHAMED is the author of *Lords of Finance: The Bankers Who Broke the World*, which won the 2010 Pulitzer Prize for History.

banking system, he had followed the British example by taking the United States off the gold standard. The London summit thus took place against the backdrop of a falling dollar and enormous turmoil in the currency markets.

It appeared as if policies in the two biggest economies in the world, the United States and the United Kingdom, were aimed at getting themselves moving at the expense of the economies in Europe. As the meeting began, European leaders were desperately trying to negotiate an arrangement to keep currencies stable.

In an ominous hint of his attitude toward the conference, Roosevelt stayed home—choosing instead to vacation in New England while staffing the U.S. delegation with a singularly unqualified group of isolationists and political hacks. Among them was Key Pittman, the colorful Democratic senator from Nevada, whose drunken carousing provided great fodder for the London tabloids—culminating one summer night when he shot out all the streetlamps on Upper Brook Street with his pistol. It was left to Roosevelt's key economic aides, who had accompanied the official delegation, to hammer out a pact on currencies with European financial officials and central bankers.

At the last moment, just as an agreement on stabilizing exchange rates seemed imminent, Roosevelt's attitude hardened. He became concerned that economic recovery at home would be stymied if the London agreement prevented the dollar from continuing to fall. Roosevelt dispatched a strongly worded cable for public release in which he torpedoed the agreement that his own advisers had hammered out with the Europeans, dismissing currency stabilization as just one of the "old fetishes of so-called international bankers." The telegram created a storm in London and was universally denounced by foreign leaders as cynical, selfish, and destabilizing. The conference limped to a sad close, leaving a legacy of mistrust and suspicion among the major participants.

Although Roosevelt was maligned at the time, his decision to devalue the dollar in 1933, by allowing the United States to ease credit conditions at home, turned out to be the single most important factor in bringing about the end of the Great Depression in the United States. The London conference has gone down in history as the moment when the United States abandoned any pretense of international cooperation and decided to generate a recovery on its own. The result was a disastrous backlash against globalization. And although the world economy revived

Liaquat Ahamed

during the 1930s, it did so only with countries hunkered down behind high tariff barriers, import controls, and restrictions on capital flows.

FROM LONDON TO SEOUL

AFTER THE 2010 G-20 meeting in Seoul came to a close, with overheated talk of a “currency war” in the air, it was hard not to think back to the London conference of 1933. Now, as then, countries are trading accusations of currency manipulation. In both 1933 and 2010, newspapers were full of quotes by foreign officials denouncing Washington for driving the dollar down at their expense, and conservatives in the United States fulminated against their own government for its policy of currency debasement. Now, as then, attempts by officials to find common ground and forge an agreement—in Seoul it was the initiative to shift the focus away from China’s exchange rate by setting limits on current account surpluses—have foundered under a barrage of recriminations.

Ever since the latest global economic crisis began in the fall of 2007, commentators have been drawing parallels between current events and those surrounding the Great Depression. In both cases, there was a preceding decade of easy credit, overborrowing, and excessive leverage, which eventually led to an asset bubble. Then, it was in the stock market; this time, real estate. In both cases, the bursting bubble and the ensuing economic downturn led to a series of banking and sovereign-debt crises.

At the root of many of the problems of the interwar years was a malfunctioning global financial system. Policymakers then had to contend with misaligned exchange rates, apparently intractable current account imbalances, and the growing threat of protectionism. As the Seoul G-20 meeting so vividly illustrated, their counterparts of today are struggling with very similar challenges.

The experience of the interwar years is therefore rich with lessons for today’s policymakers and can shed light on a number of crucial questions facing world leaders in 2011. Why have global imbalances been so intractable? What should be done about them, and in light of what happened in 1929, what should not be done? Is all the talk of currency wars overblown, or does it accurately reflect the increased risk of competitive devaluations? And does the recent escalation in tensions over exchange rates and monetary policy foreshadow a spiral of the sort of beggar-thy-neighbor policies that came out of the Great Depression?

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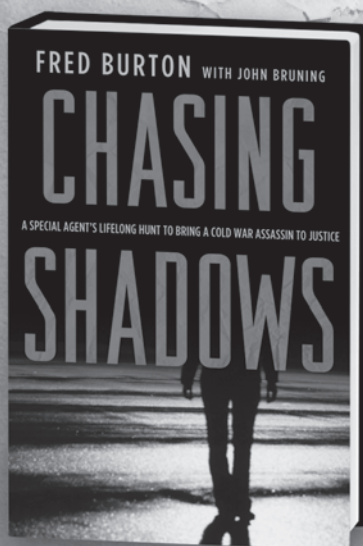
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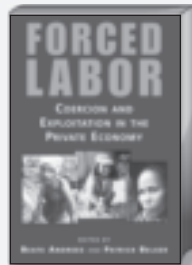
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A CROSS OF GOLD

WORLD WAR I caused a seismic shift in capital flows and trade patterns around the world. The major European nations, having spent some 50 percent of their GDPs on the war effort for four full years, were left saddled with gigantic debts and were able to recover only by borrowing from the United States. Washington, meanwhile, emerged from the conflict with a very strong external position, having accumulated over 50 percent of the world's gold reserves.

Prior to the war, under the classical gold standard, countries were supposed to operate according to certain "rules of the game" in dealing with trade imbalances. Because domestic money supplies were rigidly linked to gold reserves, those countries accumulating reserves would automatically experience easy credit, strong demand, and rising prices. Meanwhile, countries with diminishing reserves faced the converse: tight credit and falling prices. So even though currency rates were fixed against one another, trade imbalances were largely self-correcting, without the need for protracted negotiations between countries.

There was always an inherent asymmetry about the whole mechanism. Deficit countries had no choice—they had to contract credit; otherwise, they would run out of gold. By contrast, the pressure on surplus countries to expand credit was not as strong. Nevertheless, during the nineteenth century, because trade imbalances were small and temporary, the integrity of the system survived.

In the 1920s, the shifts and fluctuations in gold reserves were simply too great, and the system came under considerable strain. The problems created by this skewed distribution of reserves were compounded by the way European countries, which had broken the link with gold when war was declared, returned to the fixed exchange rates of the gold standard. The United Kingdom, in an effort to reclaim its prewar position as the linchpin of the world financial system, went back on gold at an overvalued exchange rate, whereas France very deliberately undervalued the franc. As a result, during the late 1920s, the French accumulated a further 30 percent of the world's gold reserves. The corollary was that Germany and the United Kingdom faced a chronic shortage of gold.

With all their gold, both France and the United States should have experienced an expansion of credit. Instead, both countries, concerned

Liaquat Ahamed

about inflation, chose to neutralize the monetary impact of their reserves by setting limits on domestic credit growth, in much the same way that China does today. As a result, the gold standard's automatic adjustment mechanism through the credit system was short-circuited.

The full burden fell on the deficit countries. During the 1920s, Germany managed to avoid, or at least postpone, the necessary austerity by borrowing large amounts from the United States—a policy that would come back to haunt it when the Depression hit. The United Kingdom, on the other hand, tried to confront its problems by forcing wages and prices down through a regimen of chronically tight credit. The ensuing deflation—roughly a five percent decline in prices every year—was achieved at the cost of stubbornly high unemployment, long and bitter industrial strikes, and constant social strife. While most other countries were booming during the Roaring Twenties, the British economy limped along.

After the onset of the Depression in 1929, as international financial markets progressively seized up, bankers stopped lending to Germany and the United Kingdom. Without adequate gold reserves to tide them over, the two countries, especially Germany, were forced to cut back their spending abruptly. There was, however, no counteracting force working on France and the United States, the two countries flush with reserves, to increase their spending. The result was a contractionary jolt to a global economy that was already spiraling downward.

In 1931, as fears about the stability of the pound spread, central banks around the world started dumping pounds in favor of gold. In the ensuing scramble for gold, central banks tightened credit by raising interest rates, even though unemployment was well into double digits. More than anything else, these moves turned what was already a severe depression into the Great Depression.

The example of the United Kingdom in the 1920s illustrates how difficult it is to cure external imbalances under fixed exchange rates. Finally, after six years of austerity, battered by the economic collapse, and still no closer to fixing its external imbalance, the United Kingdom abandoned its struggle to maintain a fixed exchange rate and left the gold standard in September 1931.

The process was made even more protracted and difficult because France and the United States, two of the United Kingdom's main trading partners, refused to play their part by loosening credit and allowing prices of general goods in their countries to rise. The failure to deal with global

trade and reserve imbalances during the boom times of the 1920s meant that they became fault lines and a major source of economic instability when the world was hit by the shock of the financial crises after 1929.

THE DOLLAR DILEMMA

THE INTERNATIONAL financial system today is very different and much more flexible. Most major currencies—the dollar, the euro, the pound, and the yen—as well as a host of other minor currencies, such as the Swiss franc, the Australian dollar, and the Canadian dollar, float against one another.

There are two exceptions. The economies within the eurozone have given up their national currencies. As a result, countries such as Greece, Ireland, Portugal, and Spain are encountering many of the same problems of adjustment faced by Germany and the United Kingdom during the early 1930s. They are, however, being given some temporary assistance through the European Central Bank and the European Financial Stability Facility to help them weather the storm.

The other major exception is the so-called dollar bloc. In the wake of the 1997–98 Asian financial crisis, some of the affected countries sought to build up dollar reserves as insurance against future domestic bank runs or downturns in the global economy. At about the same time, China embarked on a program of export-led growth, which depended on selling cheap products to U.S. consumers. To achieve their goals, many Asian countries chose to peg their currencies to the U.S. dollar at artificially low levels. By one estimate, these countries currently account for 40 percent of U.S. trade.

Like France in the 1920s, China has an undervalued exchange rate and to sustain its peg is forced to accumulate enormous quantities of dollar reserves. The country must then neutralize these reserves by limiting credit growth in order to prevent domestic inflation from undermining its competitive advantage. As a result, not only is the dollar prevented from falling against the Chinese currency, but manufactured goods from China continue to remain unusually cheap, disabling two critical mechanisms for reducing the trade imbalance between China and the United States.

Because of the dollar's status as the world's primary reserve asset, such trade imbalances are not as dangerous a source of instability as they were

Liaquat Ahamed

in the 1930s. Unlike Germany and the United Kingdom in 1931, the United States has no risk of running out of international reserves since it can print dollars at will—in effect, a license to issue international money. It therefore did not face the same pressure to deflate during the recent crisis. Moreover, the sort of global liquidity crunch that brought the world economy crashing down during the rush into gold in 1931 was avoided. When a scramble for dollars did develop in the fall of 2008, the U.S. Federal Reserve lent almost \$600 billion to foreign central banks to alleviate the shortage of liquidity. Thus, a major source of short-term instability was eliminated.

Even though two of the levers for curing the trade imbalance between China and the United States—an appreciation of China's currency and a rise in prices on Chinese goods—have been disabled, another mechanism is insidiously at work. China has been able to sustain its export push only because the United States has been willing to import Chinese goods and thus run large current account deficits. This, in turn, has required continued borrowing by American households, U.S. companies, and the federal government. However, there are limits, both economic and political, to how much added debt either consumers or the government can take on. At some point, domestic spending will be constrained, and the U.S. current account deficit will automatically decline.

When the recession first hit, it seemed that this mechanism was kicking in. U.S. consumers, drowning in debt, tightened their belts and sharply raised their savings rates. Chinese exports were particularly hard hit by the downturn. For a while, it looked as if China had begun to reconsider the wisdom of relying so much on exports to drive its growth and that it might restructure its economy, focusing more on domestic consumption. But with the recovery, global imbalances are once again emerging, perhaps because the impact of consumer retrenchment in the United States has been cushioned by government borrowing.

Going forward, if China does find it too difficult or politically costly to restructure its economy and, despite the changes in the global market, tries to keep its foot on the export accelerator, it is bound to encounter a shortage of buyers in the United States. By definition, unless the export ambitions of China and other countries can be reconciled with the import capabilities of the rest of the world, the global economy will experience a sharp slowdown in growth and potentially a cycle of trade wars as countries compete for contracting markets.

REEVALUATING DEVALUATION

THE LESSON of the 1920s is that rigidly fixed exchange rates are dangerous. Conventional wisdom holds that the lesson of the 1930s is the converse—that the fixed exchange rates of the gold standard were replaced by a disorderly system of floating exchange rates that led to competitive devaluations, which were in turn the catalyst for a disastrous move to protectionism. This narrative only captures part of the story.

It is true that during the 1930s, one country after another, faced with mass unemployment and excess capacity at home, adopted a deliberate policy of driving down its currency in an effort to make its goods more competitive so as to export its way out of depression. The spiral began in the fall of 1931, when the pound was forced off the gold standard, and gained its full momentum after the dollar devaluation of 1933. With everyone trying to devalue, no single country was able to gain a competitive advantage for very long, and the whole process became self-defeating. The devaluations occurred in such an uncoordinated and disruptive sequence that states lost confidence in the open global economy's ability to reconcile their conflicting interests and ambitions. Turmoil in the exchange markets continued until the end of 1936, when France, the United Kingdom, and the United States concluded a pact to halt further depreciations.

Despite the chaos of floating exchange rates, the disruptions and costs produced by competitive devaluations have been greatly exaggerated. The dollar devaluation of 1933 did give U.S. goods a competitive edge in world markets and helped the United States recover in part at the expense of other countries. But there were also spillover benefits for Washington's trading partners. By increasing the value of the gold held by the U.S. Treasury and the U.S. Federal Reserve, the devaluation gave U.S. government officials the room to inject liquidity into the banking system and thus loosen credit. The resulting rise in prices reversed the deflationary psychology of the slump and got American households and businesses spending again. As one country after another tried to leapfrog over one another by devaluing further, and as gold prices thus rose, the easing of monetary policy around the world and the resulting global expansion of credit gave the world economy an enormous boost.

Liaquat Ahamed

With the industrial world having largely moved to floating currencies, exchange rates are no longer a policy instrument under the direct control of governments. There are, however, some superficial resemblances between the intended effects of the “quantitative easing” undertaken in 2010 and those of the dollar’s fall in 1933. Both were designed to raise inflationary expectations, boost asset prices, and revive spending behavior. In addition, since any sort of monetary easing, quantitative or otherwise, generally increases the likelihood of a declining dollar, both policies potentially improved the competitiveness of the United States’ goods relative to those of its trading partners—hence the accusations of currency manipulation from other countries.

NONE OF US WERE KEYNESIANS THEN

FOR ALL the parallels, there are numerous reasons why the global economy is unlikely to see a spiral of competitive devaluations similar to that of the 1930s. First, the U.S. external position is now very different. When the dollar was devalued in 1933, the United States, although suffering from high unemployment, was running a large current account surplus and had immense gold reserves. Washington’s policy of encouraging its currency to fall at a time when the country had such a strong external position was viewed by other countries as an almost predatory move that instead of curing global imbalances only served to magnify them.

To understand the reaction in the 1930s to the decline of the dollar, imagine the international response if China, with its strong external position, had tried to increase its exports during the downturn in 2008 or 2009 by further devaluing its currency. There would have been an outcry from countries accusing Beijing of acting irresponsibly by trying to steal jobs at a time when employment everywhere was in free fall. By contrast, the United States now has a weak external position, a large current account deficit, and enormous external liabilities. The fact is that if its current account deficit is to be reduced, the United States will have to improve the competitiveness of its goods and gain market share. There is therefore a broad consensus, supported by economic logic, that a fall in the dollar is necessary.

Second, policymakers now have access to a greater number of tools to promote recovery. Even after the major economies had abandoned the

gold standard in the 1930s, most officials still continued to espouse the doctrine that budget deficits were always a bad thing. John Maynard Keynes' *General Theory of Employment, Interest, and Money*, which first articulated the benefits of temporary deficit spending, was not published until 1936, and it took many years for his ideas to be accepted. At the time, almost no country—Germany and Sweden were two exceptions—was willing to use fiscal policy as an instrument for stimulating demand. Devaluation, with all its attendant negative effects, seemed to be the only tool available for getting the economy moving. This time around, the attitude about the use of fiscal policy has been very different.

Third, unlike in the 1930s, the whole world is not mired in depression. Primarily because of the deft use of fiscal policy in 2008 and 2009, the emerging markets, particularly China and India, have recovered nicely and are now booming. As a result, the potential spillover effects on these countries from U.S. monetary easing are different. The fear is not so much that the United States is trying to steal jobs from them but that its policies will lead to large capital inflows, excessively easy credit conditions in their economies, higher stock and real estate prices, and financial bubbles. Emerging markets have dealt with these possible repercussions with a judicious combination of increases in reserves, capital controls, and currency appreciation—in effect, the precise opposite of competitive devaluations.

Even if there is no wave of competitive devaluations, will the current tensions over currencies and trade imbalances lead to more restrictions on trade? So far, increases in protection have been relatively minor. In part, that is because the structure and networks of world trade are so different today. Thanks to global supply chains, countries are far more integrated. Companies that produce for the domestic market and would normally be strong advocates of import restrictions are themselves dependent on imported inputs. Moreover, all the various General Agreement on Tariffs and Trade and World Trade Organization regulations impose severe limits on the trade restrictions permissible under international law.

Recent research by the economists Barry Eichengreen and Douglas Irwin has revealed that the biggest increases in import tariffs and controls in the 1930s did not take place in countries that had abandoned the gold standard early and devalued the most, such as the United Kingdom and the United States. They occurred in France and Germany,

Liaquat Ahamed

which initially refused to devalue because they had experienced high inflation after World War I and were terrified of having no anchor. The lesson of the 1930s, therefore, is that countries are most likely to resort to trade barriers when unemployment is high and all other alternatives for dealing with it—printing money, lowering exchange rates, or using fiscal stimulus—have failed or are not an option. Protectionism will become a real threat only if China's peg prevents the dollar from falling and the recent monetary and fiscal stimuli fail to make a sufficient dent in U.S. unemployment.

A LEADERLESS ECONOMY

THE ECONOMIC historian Charles Kindleberger, writing in the 1970s, argued that in a crisis, the centrifugal forces driving countries to adopt beggar-thy-neighbor policies are so strong that the global economy can remain open only if one country is willing to provide leadership—to be the supplier of capital when others are in a panic, to keep its markets open in the face of protectionist pressure, and to act countercyclically as an economic locomotive for the world. According to Kindleberger, this leader has to have such a stake in the stability of the whole system that it will be willing to do more than its fair share in a crisis, recognizing that smaller countries will freeload off its efforts.

Before World War I, the global economy operated smoothly only because it was in the interest of the United Kingdom—as the linchpin of the world financial system—to assume the role of leader. But after it was almost bankrupted by the war, it was no longer able to fulfill that function. The mantle of leadership should have passed to the United States in 1918. But the men then in charge in Washington were too parochial and insular to seize the opportunity. Thus, during the 1920s and 1930s, London was unable to lead and Washington was unwilling. The Great Depression occurred because of this vacuum of economic leadership on the world stage.

After 1945, the United States, acutely aware that it had failed to step up to the plate between the wars, vigorously embraced the position of the world's economic leader. Whenever a financial crisis hit or the world economy was about to falter, Washington acted as the lender of last resort, kept its markets open, and worked to sustain global aggregate demand.

Today, the global economy has arrived at a similar inflection point. The United States has been sufficiently weakened by its accumulated current account deficits, banking debacle, and foreign policy disasters that it is no longer able to single-handedly assume the role of global economic hegemon. Nor can any other single country take its place. China has the financial muscle to act as the global lender of last resort and has already begun to do so by assisting some of the European countries in trouble. But its mercantilist approach to trade—the emphasis on exports rather than imports—makes it an unlikely candidate to be the market of last resort for other countries in a downturn.

If no single country is in a position to be responsible for stabilizing the global economy when it suffers a shock, is there an alternative mechanism? The hope is that because of the G-20, nations can be goaded by their peers to act in concert to sustain demand and keep markets open without the sort of backsliding and freeloading that Kindleberger feared would occur. One year into the crisis, at the G-20 meeting in Washington in the fall of 2008, the process in fact seemed to be working. But the fractures that appeared at the last G-20 meeting, in Seoul, revealed its limits.

The world managed to avoid a repeat of the Great Depression this time because, in contrast to 80 years ago, countries pursued the right macroeconomic policies—protecting and recapitalizing their banking systems, cutting interest rates to the bone, and letting their budget deficits expand enough to absorb some of the slack in the economy. They were able to do all these things in part because they faced a much more flexible international financial system. In the 1920s, countries were constrained by the imperatives of the gold standard, which straitjacketed economic policies. But in part, countries today pursued the correct policies because they had the example of the Great Depression available to them as a case study of what not to do.

As the recovery has begun to take root, similarities between the period after 1933 and today have begun to surface. Despite the rebound, unemployment remains high, many sectors of manufacturing are suffering from excess capacity, and currency tensions are on the rise. Having so successfully averted the mistakes that made the slump of the 1930s so deep, it would be truly tragic if policymakers were now to repeat the beggar-thy-neighbor policies that made the 1930s a time of the worst sort of populism and nationalism. 🌐

Currencies Aren't the Problem

Fix Domestic Policy, Not Exchange Rates

Raghuram Rajan

LAST NOVEMBER, the U.S. Federal Reserve embarked on a second round of a type of monetary stimulus known as quantitative easing. The central bank declared that it would buy \$600 billion in long-term Treasury bonds in an attempt to push down long-term interest rates. Immediately after the move, the rest of the world accused the United States of deliberately attempting to depreciate the dollar.

However, Washington was not alone in apparently trying to influence its currency's value. China has continued to hold the yuan relatively stable against the dollar, even though many economists believe that the fair value of the Chinese currency is considerably higher. Last September, Japan intervened in the exchange markets to prevent the yen from rising too quickly, and many emerging-market countries have used a mix of similar interventions and capital controls to keep their own currencies from appreciating. Intervention is a zero-sum game: for one country's currency to depreciate, some other countries' currencies must appreciate. Are the same type of senseless beggar-thy-neighbor currency depreciations as those of the 1930s, when many countries tried to depreciate in a race to the bottom, just around the corner?

Thankfully, probably not. Today's jockeying over exchange rates has several important differences from that of the Great Depression years. Most countries today are not trying to gain a short-term advantage through currency actions; instead, they are following domestic

RAGHURAM RAJAN is Professor of Finance at the Booth School of Business at the University of Chicago and the author of *Fault Lines: How Hidden Fractures Still Threaten the World Economy*.

Currencies Aren't the Problem

economic policy strategies that have allowed them to grow easily in the past. For developed countries such as the United States, this has meant an emphasis on consumption; strategies in China and other emerging markets, meanwhile, have emphasized exports.

Taken together, these strategies have led to significant trade imbalances around the world, even before the recent crisis. Sustained trade imbalances, in turn, seem to lead to financial and political instability, making them quite dangerous in the long run. However, unless the domestic policy strategies change dramatically, these imbalances will likely persist. Global economic stability, therefore, is not dependent on some grand agreement among countries—if you allow your currency to appreciate, I will rein in my fiscal deficit—which unfortunately seems to be the focus of recent economic summits.

Instead, stability will emerge when governments move to more sustainable domestic policy agendas, which are typically in their long-term interest. The role of multilateral bodies, such as the G-20 and the International Monetary Fund (IMF), should therefore be not to coordinate policies among countries but to insert the international dimension into each country's domestic policy debate on reforms. It should also be to set reasonable rules of the game on financial regulation, cross-border capital flows, and international bailouts. Multilateral bodies conduct neither of these functions adequately today. But the silver lining in an otherwise dark cloud is that the rethinking prompted by the Great Recession is already altering policy agendas in some key countries. Given all this, with more effort and some luck, the global economy will not repeat the tragic history of the early twentieth century.

EASING AIN'T EASY

A COUNTRY'S EXCHANGE rate affects the international price of its goods. By keeping its currency undervalued (economists debate how easy, in fact, this is to do), a country can expand its market share and production by essentially stealing demand from other states. Exchange-rate manipulation can be particularly attractive in a recession, when preserving jobs is politically important. Governments often view this sort of direct manipulation as a particularly unfair form of competition.

Accusations of such unfairness are now being leveled against the U.S. Federal Reserve. Usually, when a central bank cuts interest rates, the

Raghuram Rajan

country's currency weakens as capital leaves for more attractive shores. However, lower interest rates also tend to increase domestic demand, as households and firms spend more. In the end, monetary easing does not simply take demand from other countries; it also creates demand overall. Monetary easing, of which quantitative easing is just an extreme form,

Although the Federal Reserve does not recognize it, it sets monetary policy not just for the United States but also for the world.

is therefore typically viewed as a perfectly legitimate economic policy. But the circumstances under which the Federal Reserve embarked on the second round of quantitative easing (the first round was the buying of long-term Treasury bonds and asset-backed securities starting in late 2008) made the move questionable. With short-term U.S. interest rates already near zero, and with large firms able to borrow at very low rates, it was unlikely that corporate investment was being held back

because firms thought interest rates were too high. Similarly, households were cautious about spending not because they thought interest rates were too high but because their balance sheets were in disarray. Quantitative easing, other countries alleged, would make dollar bonds unattractive, because long-term bond yields would fall below what investors wanted given their expectations of higher inflation. This, in turn, would cause capital to flee the United States, lower the value of the dollar, and expand U.S. exports at the expense of other countries.

After U.S. Federal Reserve Chair Ben Bernanke announced that he would undertake quantitative easing, U.S. long-term interest rates dropped and the dollar weakened. But worries about sovereign debt in the eurozone economies soon led the dollar to rebound. And better news about the U.S. economy, as well as worries about the United States' long-term fiscal health, led to a sharp increase in U.S. interest rates. In the end, quantitative easing may have had neither the effect the Federal Reserve predicted nor the one its critics feared.

Nevertheless, the recent debates over currency valuation revealed deeper concerns. The rest of the world worries that policy in the United States, with its two-year electoral cycle, is excessively focused on short-term growth and employment. U.S. politicians neglect the damage their policies do to the rest of the world and, in the long run, to the United States itself. Unlike other countries, whose wayward

Currencies Aren't the Problem

policies are quickly disciplined by financial markets, the United States is given a long rope because investors value its deep and liquid financial markets—what in the 1960s Valéry Giscard d'Estaing, then the French minister of finance, described as an “exorbitant privilege.”

On the other side, the United States worries that too many countries have become dependent on it to buy their exports and have relied too much on purchasing U.S. financial assets, such as government and corporate bonds, to keep their currencies stable. Although such asset purchases provide the financing the United States needs to fund its imports, they also prevent it from exporting and reducing its trade deficit—in other words, they encourage U.S. consumption rather than production. The exorbitant privilege may instead be an extraordinary disadvantage.

The symbiotic relationship between the United States and the rest of the world creates very real dangers. U.S. monetary policy is imitated around the world, which means that when the Federal Reserve cuts interest rates, it puts downward pressure on rates everywhere, because no country wants its currency to appreciate strongly against the dollar. Although the Federal Reserve does not recognize it, it sets monetary policy not just for the United States but also for the world. And what is appropriate for a U.S. economy that is recovering slowly from a recession may be overly aggressive for emerging markets that are near full employment, creating inflation and asset bubbles in those economies. Over the medium term, if the United States embraces its role as spender too readily, as it seems to have done in the recent past, it risks jeopardizing its creditworthiness—not even the United States can borrow forever to fund spending. If the rest of the world suddenly becomes reluctant to fund U.S. spending, the adjustment will be painful, and not just in the United States.

GOLD RUSH

IN THE years after World War II, the United States had the strongest economy in the world, deep financial markets, and immense reserves of gold. As a result, dollar assets were very liquid and the dollar was easily convertible to gold at the fixed rate of \$35 per ounce. Unsurprisingly, these same attributes made the dollar the reserve currency of choice for central banks looking to hold a buffer against bad times. Many countries also used foreign exchange reserves to back their domestic currency

Raghuram Rajan

issuances. As national economies around the world grew, their need for reserves increased, and so, therefore, did their demand for dollars.

In the early 1960s, the Belgian economist Robert Triffin warned that the United States would eventually be forced to supply those dollars by running large current account deficits (loosely speaking, the trade deficit, plus aid transfers, minus income earned on financial claims), financed by giving the world dollar-denominated IOUs. Such a scenario would lead to what came to be known as the Triffin dilemma: increased holdings of dollars around the world would erode the faith that the United States would be able to repay gold to anyone who cashed in those dollars. In other words, the willingness to satisfy the demand for a liquid asset—in this case, dollars—would eventually erode confidence in its worth.

Triffin was broadly right. The United States initially supplied dollars in the form of grants, loans, and foreign direct investment to capital-short Europe and Japan, which they sent right back by buying U.S. goods. But as U.S. spending on the war in Vietnam increased, its trade surplus shrank, and more dollar claims on the United States accumulated abroad. In the early 1970s, the overhang of dollars outside the United States became so large that the United States had to abandon convertibility and the fixed gold price of \$35 an ounce. This triggered the breakdown of the Bretton Woods system of fixed exchange rates.

Much of the language of those criticizing the United States then was similar to the heated rhetoric of today. Many balked at the United States' exorbitant privilege and what some called its "irresponsible" macroeconomic policies. The U.S. response was familiar, too. The United States suggested that French, German, and Japanese currency undervaluation led to shrinking U.S. trade surpluses. (Barry Eichengreen's recent book, *Exorbitant Privilege*, offers a compelling analysis of these debates.)

But unlike today, the United States was not then running a large trade deficit—in fact, its trade balance and its current account were in surplus throughout the 1960s, albeit shrinking. The world was not dependent on U.S. spending. Also, the fixed nominal exchange rate between the dollar and other currencies was not a choice but required by the Bretton Woods system. And although cross-border private capital flows were already growing at that time, they would be dwarfed by the size of such flows today. For all but the poorest countries, the financing for a country's current account deficit now comes not from other governments or multilateral institutions, such as the IMF or the

Currencies Aren't the Problem

World Bank, as it used to, but from private sources. These differences are central to understanding why the problem is different today and why, therefore, the solutions must also be different.

SICK WITH CONSUMPTION

TO SEE why the United States has come to run such a large trade deficit, it is necessary to understand why U.S. consumption increased so dramatically. In the years before the Great Recession, individual credit, especially for housing, was greatly expanded. Some of this push may have been political; politicians from both parties looked to homeownership as a palliative for people whose incomes had stagnated. Momentum also came from a financial sector running out of control. U.S. consumption increased from about 67 percent of GDP in the late 1990s to about 70 percent in 2007, financed largely with debt.

An equally important factor in increasing U.S. spending has been the tendency to implement aggressive stimulus policies in downturns. Job growth has been tepid in recent recoveries; it took 38 months, for example, to regain the jobs that were lost in the 2001 recession. Unfortunately, the United States is singularly unprepared for jobless recoveries. Unemployment benefits generally last only six months. Moreover, because health benefits are often tied to jobs, an unemployed worker also risks losing access to medical care. When recoveries are fast and jobs are plentiful, short-duration benefits provide a strong incentive to look for work. But when there are few jobs being created, a positive incentive becomes a source of great uncertainty and anxiety. The political pressure on successive presidential administrations and the Federal Reserve to bring back jobs has been enormous. And they have responded by expanding government spending and keeping interest rates ultralow, thus boosting asset prices and encouraging household spending. In other words, household spending before the Great Recession was fueled not just by expansionary credit policies but also by the aggressive stimulus implemented in response to the 2001 recession.

As the United States increased spending in the years before 2007, many other parts of the world reduced spending, becoming more dependent on the United States and other countries, such as the United Kingdom or Spain, to generate demand. Here again, there were two

Raghuram Rajan

elements at work: the playing out of long-term economic strategies and a short-term response to financial turmoil.

One of the most successful growth strategies in the second half of the twentieth century was that followed by Germany and Japan, which were looking to rebuild after having been bombed into rubble in World War II. This strategy was later imitated by China and South Korea, which were looking to grow out of abject poverty. In all of these cases, governments (and banks) intervened in the economy to create strong firms and competitive exporters, typically at the expense of household consumption. Such an approach made sense because domestic households were too poor to afford much spending anyway.

Over time, these countries created very efficient export-oriented manufacturing sectors. The need to be competitive in foreign markets kept exporters on their toes. But although global competition limited the deleterious effects of government intervention in the export sector, there were no such restraints on the domestic-oriented production sector. In Japan, for example, banks, retailers, restaurants, and construction companies have managed to limit domestic competition in their respective sectors through their influence over government policies. As a result, these sectors are very inefficient: there are no Japanese banks that rival HSBC in its global reach, no Japanese retailers that approach Walmart in size or cost competitiveness, and no Japanese restaurant chains that rival McDonald's in number of franchises. Domestic services, such as haircuts, are extraordinarily expensive. Low productivity and limited innovation—and the high prices that follow—dampen the demand for domestic-oriented production. As a result, economic growth is dependent on foreign, rather than domestic, demand.

This dependence has only been exacerbated by these countries' slowdowns in domestic investment in recent years. For Germany and Japan, the slowdowns were partly a consequence of growing rich again—after all, there is a limit to how much capital workers can profitably use—and partly a consequence of population aging, which has led to shrinking work forces. In addition, during Japan's ongoing two-decade-long economic crisis, Japanese corporations have cut back on their domestic investment so as to pay down their debt.

But perhaps the most dramatic shift in investment took place in the late 1990s among the Asian emerging markets, such as Malaysia, South Korea, and Thailand. With foreign money pouring in during the

Currencies Aren't the Problem

earlier part of that decade, these countries expanded their investment significantly, financing everything from new airports to state-of-the-art semiconductor plants. They did not, however, have transparent financial markets or strong regulation of corporate disclosure and transactions. Foreign investors who did not understand these countries' murky insider relationships tried to keep their money safe: they offered only short-term loans, denominated payments in foreign currency, and lent through local banks. This last measure gave foreign investors an implicit government guarantee, because governments would likely support domestic banks to avoid widespread economic damage. So although foreign lenders had entrusted their money to opaque domestic borrowers, they had little incentive to screen the quality of the ventures financed.

When boom turned to bust in the late 1990s, a number of Asian governments had to go to the IMF for emergency loans. Governments bailed out foreign creditors as well as domestic banks. The local taxpayer footed the bill, while also suffering a wrenching recession and high unemployment. The lesson was well learned: rather than borrow abroad to finance investment, East Asian governments and corporations decided to abandon grand investment projects and debt-fueled expansion. Moreover, a number of them decided to boost exports by keeping their currencies undervalued, which meant buying foreign currency. In doing so, they built large foreign exchange reserves, which could serve as rainy-day funds if foreign lenders ever panicked again. Thus, in the late 1990s, developing countries cut back on investment and turned from being net importers to becoming net exporters of both goods and capital, adding to the global supply glut.

OUTSOURCING DEMAND

TODAY, DEVELOPED countries, hobbled by high levels of household and government debt, are hoping that emerging markets will shoulder the burden of expanding global consumption and investment. Clearly, consumption in poorer countries, such as Brazil, China, and India, as well as in Africa and the Middle East, is far lower than average consumption levels in richer ones, and so is their average physical capital—houses, roads, sewerages, and so on. There is clearly room for growth here.

Shifting future growth in spending from industrial countries to emerging markets also has a corresponding environmental benefit: since

Raghuram Rajan

the production of physical goods, such as housing and cars, takes a toll on the environment, it is better for spending to go to moving the slum dweller in Cambodia into a brick house—a process that will happen sooner or later—than to moving the suburban American couple into a house with even bigger bedrooms that they will likely never use. Such an outcome may be the environmentally sustainable solution to both global trade imbalances and the incipient currency wars. So how to best bring about this necessary shift in global demand?

Some change is already happening. The lesson China seems to have learned from the Great Recession is that it needs to reduce its dependence on foreign demand. The Chinese know that they cannot continue growing at double-digit rates without encountering protectionist barriers. While much of the world has fixated on China's manipulation of the yuan's value to expand domestic demand, Beijing knows that it is as important to reduce the pro-producer bias in its domestic policy, so as to boost household incomes and consumption. In practice, this means increasing wages, raising interest rates for household bank deposits, and improving the delivery of health and educational services; at the same time, the government is raising corporate taxes and lowering corporate subsidies on inputs such as energy and land. The Chinese government is also encouraging investment in infrastructure to link the poorer, interior western provinces with the richer, coastal ones.

Of course, various economic sectors in China are opposed to change, from China's cash-rich state-owned corporations and banks to foreign firms with production facilities in China that benefit from the low exchange rate. They will fight any loss of their privilege. China will not reform overnight and begin demanding huge amounts of consumer goods. But this could happen over time—indeed, China's 12th five-year plan, to be implemented beginning in early 2011, emphasizes the expansion of domestic demand.

Other emerging markets, such as Brazil and India, which have historically not repressed consumption as severely as China, are already on a buying binge, buoyed by growing inflows of foreign capital. Trade among emerging-market countries is increasing rapidly. To facilitate this growth in demand, emerging countries will have to allow their real exchange rates to appreciate—either voluntarily, by accepting revaluations of their currencies, or involuntarily, by having higher inflation. All this, however, raises an important question: Can emerging

Currencies Aren't the Problem

markets manage to increase their domestic spending in a more stable way than in the past, or will they experience yet another credit boom followed by a bust?

To keep the past from repeating, regulators in both emerging markets and developed economies will have to be more assertive. To ensure that foreign capital inflows do not once again support nonviable investments and irresponsible lending, foreign investors need to be exposed to the full risk of losses. At the same time, domestic financial firms should not have the incentive to expand their balance sheets rapidly when money is cheap. Regulators in a country receiving capital should discourage short-term foreign-currency-denominated loans to their banking system. Instead, they should encourage foreign investors to make long-term direct loans to domestic nonfinancial firms, denominated in the local currency. Government regulators should increase capital requirements, tighten liquidity requirements, and limit leverage for domestic financial firms when credit expands rapidly. Finally, domestic regulators should also improve their national bankruptcy systems so that investors will take a quick and relatively predictable hit when projects fail.

At the same time, regulators in countries with outward capital flows should be careful that their major financial institutions are not overly exposed to any one region, country, or sector. Irish taxpayers should not have to bail out their banks' bondholders simply because these bonds are held by British and German banks. Large cross-border banking firms currently operate with impunity, knowing they are virtually impossible to shut down and will therefore be bailed out when in danger. Reaching an international accord on how to close these banks when they get into trouble will be difficult but important. Finally, multilateral institutions, such as the IMF, should force investors in a country's debt to take a significant loss if those institutions have to step in to bail the country out—or else taxpayers will end up having to pay both those institutions and the investors. How best to include clear and transparent triggers for write-downs in debt contracts is not an easy question—but not an impossible one, either.

All these measures will raise the direct costs to emerging markets of borrowing and will make foreign investors more careful about lending. Higher direct costs will be more than offset by the benefits of more productive and sensible investments, not to mention the decreased likelihood of future busts.

A TRIPLE MANDATE?

THE SLOWDOWN in spending by the industrial world will give emerging markets strong incentives to shift their growth strategies away from exports—stronger, in fact, than might emerge from any agreement produced by international summitry.

But will “the Great Spender,” the United States, cooperate and avoid yet again pumping up demand excessively? U.S. households have certainly increased their savings rates in response to the recession and are trying to pay down their debt. But what is worrying is that many of the efforts of the Federal Reserve and the Obama administration—whether to keep interest rates very low or offer new tax benefits and government-supported credit for home purchases—have been meant to encourage household spending. In the meantime, reduced government revenues and increased spending—the usual effects of a recession—have been coupled with repeated stimulus packages, which has led to a ballooning of public debt.

As in past recessions, Washington’s central concern is job creation. Unfortunately, many of the jobs that were lost at the onset of the latest downturn were tied to construction: not only construction workers themselves but many of the supporting workers, such as home improvement contractors or real estate brokers and lenders, lost their jobs, as did those people who worked in manufacturing construction materials. Given the extent of overbuilding during the last decade, it is unlikely that government spending or low interest rates will bring these jobs back. Instead, unemployed construction workers will have to gain new skills or relocate to areas that have jobs. In other words, the jobs recovery will require politicians to have new ideas, time, and patience—all of which are in short supply given the political pressure.

More generally, Washington must focus more on tailoring the skills and education of the U.S. work force to the jobs that are being created, rather than hankering after the old jobs eliminated by technology or overseas competition. In this light, the Obama administration’s focus on improving educational standards by measuring student performance, evaluating teachers’ abilities, and increasing competition between schools is appropriate; indeed, such reform efforts should be pushed with even greater urgency. The United States also needs a better social safety net,

Currencies Aren't the Problem

not only to reassure workers but also to ensure that slow recoveries do not result in frenetic, and ultimately excessive, stimulus spending.

Finally, a more stable and less aggressive U.S. monetary policy will not only lead to more sustainable U.S. growth; it will also reduce the volatility of capital flows coming into and out of emerging markets. Given the thin safety net, the political pressure on the Federal Reserve to be adventurous with monetary policy when unemployment is high is enormous. But such pressure can be counterproductive if the Fed's aggressive policies have little direct effect on employment but instead generate asset price bubbles and risky lending, which eventually impose high costs on the economy, including greater unemployment.

It is debatable whether Congress should force the Fed to take seriously its de facto role as the rate setter for the world and unlikely that Congress will ever expand the Fed's mandate to do so. At the very least, however, the Fed's mandate should be extended to include financial stability explicitly, on par with its current responsibilities to keep inflation low and maximize employment.

A CHANGE IS GONNA COME?

IN SUM, governments know what they need to do. Change, however, will not be easy because it involves short-term pain that is likely to be politically difficult. So what role should multilateral bodies, such as the G-20 and the IMF, play in all this? Thus far, they have been trying to broker grand agreements among countries, guided by the assumption that world growth will be more stable if, for example, the United States cuts its spending in exchange for China's expanding its domestic demand.

There are two problems with this assumption. First, even if a grand agreement could be reached and each country carried out its side of the bargain, there is no guarantee that the timing of the reforms and their effects on global demand could be synchronized. Most policy changes have consequences that kick in with variable and uncertain lags, making it a miracle if their effects actually offset one another and smooth growth. Second, it is not clear that policymakers, even heads of state, have the ability to commit their countries to any kind of economic agreement. For instance, the president of the United States can propose adhering to a path of fiscal contraction, but Congress is the final arbiter.

Raghuram Rajan

Moreover, it can be counterproductive to raise hopes before every international meeting that there is an agreement that could magically bring down trade imbalances quickly. Publics are disappointed with the same vague communiqués that end nearly all such summits. Politicians, meanwhile, blame other countries for failures. In trying circumstances, such finger-pointing can degenerate into protectionism. Of course, each country knows what actions are necessary. The key will be to give politicians incentives to take those actions despite domestic pressure to maintain the status quo and despite the short-term pain that invariably accompanies reform.

Multilateral organizations, such as the IMF, can help by communicating the international consequences of a country's policies to that country's elite. These organizations have to become more media savvy and should use the Internet, as well as social networking tools, to encourage countries to add their international responsibilities to their domestic policy agendas. Although multilateral organizations rightfully have no domestic vote, an agreement among countries to allow these institutions to speak freely within each country on the international ramifications of its domestic policies may help nudge these policies in the right direction.

The current tension over currencies reflects the unsustainable trade imbalances that developed thanks to long-standing domestic economic strategies. Many economists would place part of the blame for the Great Recession on these imbalances. Interestingly, the consequences of the Great Recession—the slow growth of industrial economies relative to emerging markets—may offer a strong impetus for countries to change those strategies.

For the developing countries, the imperative is to become less dependent on industrial-country spending and to spend more themselves; industrial countries such as the United States must start producing and exporting more, even while consuming less. To help these changes along, international capital flows must become less volatile and more risk sensitive. The United States, in particular, can play an important role in the transition, by focusing more on medium-term reforms that will preserve its competitiveness and less on short-term stimulus, which tends to delay change. There is no guarantee that governments will overcome the political pressure to be myopic, but if they do, the collective rewards will be considerable. 🌐

Iraq, From Surge to Sovereignty

Winding Down the War in Iraq

Emma Sky

BY SEPTEMBER 2008, when General Raymond Odierno replaced General David Petraeus as the top commander of the Multi-National Force–Iraq, there was a prevalent sense among Americans that the surge of additional U.S. forces into the country in 2007 had succeeded. With violence greatly reduced, the Iraq war seemed to be over. In July 2008, U.S. President George W. Bush had announced that violence in Iraq had decreased “to its lowest level since the spring of 2004” and that a significant reason for this sustained progress was “the success of the surge.”

The surge capitalized on intra-Shiite and intra-Sunni struggles to help decrease violence, which created the context for the withdrawal of U.S. forces from Iraq. With U.S. troops on pace to depart entirely by December 2011, Iraqis held successful national elections last March and, after nine months of wrangling, eventually formed a broadly inclusive government in December 2010. But Odierno—for whom I served as chief political adviser—understood that the surge had not eliminated the root causes of conflict in Iraq. As we realized then, the Iraqis must still develop the necessary institutions to manage competition for power and resources peacefully. Iraqi elites across the political spectrum felt that the Obama administration was focused more heavily on leaving Iraq than on supporting the country’s attempt to build a democratic system of government. The withdrawal of U.S. forces from Iraq should mark an evolution in the U.S.-Iraqi relationship, not Washington’s disengagement. Without continued U.S. support, there is a real danger

EMMA SKY served as Chief Political Adviser to General Raymond Odierno, Commanding General of the Multi-National Force–Iraq from 2008 to 2010.

Emma Sky

that Iraq may not succeed in using the opening provided by the surge to strengthen its stability and achieve its democratic aspirations.

ONE LAST TRY

BY THE end of 2006, Iraq appeared to be teetering on the edge of civil war. Tens of thousands of Iraqis had fled their homes, and Baghdad had degenerated into armed sectarian enclaves. Insurgent groups, criminal gangs, and militias of political parties used violence to achieve their particular objectives. Neighboring countries backed them with funding, paramilitary training, and weapons, further fomenting instability. Meanwhile, back in the United States, public support for the war was waning. The prevailing U.S. strategy of attempting to transfer responsibility for security to the Iraqi security forces (ISF) seemed, in the words of U.S. Army Colonel H. R. McMaster, “a rush to failure.”

The question became whether the United States would leave Iraq as quickly as possible or attempt to implement a new strategy to reduce the violence—raising U.S. troop levels and employing different tactics. Joe Biden, who was then a U.S. senator, adamantly opposed such a troop buildup, arguing in early 2007 that “a surge of up to 30,000 American troops cannot have any positive effect except for only temporary.” Yet Bush, U.S. Senator John McCain, and others believed that a troop surge could provide enough security against sectarian violence to allow for political reconciliation. They were convinced that a withdrawal of forces under such circumstances would cause an all-out civil war that could spread into neighboring countries, jeopardizing oil exports across the region. Proponents of a surge also believed that abandoning Iraq would gravely harm the global reputation of the United States, boost the morale of Islamic extremists, and crush the spirit of the U.S. military.

In a televised address in January 2007, Bush announced that the United States would implement a surge of U.S. forces “to help Iraqis carry out their campaign to put down sectarian violence.” Petraeus—who became commanding general of the Multi-National Force–Iraq in January 2007—and Odierno, who was his second-in-command, shared responsibility for developing the new strategy on the ground. Serving as operational commander, Odierno proposed sending U.S. troops out into Iraqi population centers to protect civilians. This marked a break from the previous U.S. approach, which had U.S. troops targeting insurgents from

Iraq, From Surge to Sovereignty

bases on the outskirts of Iraqi cities and then quickly withdrawing, leaving the unreliable ISF in their place. Additional U.S. forces were sent to the Sunni-dominated Anbar region—an erstwhile stronghold of al Qaeda whose tribes were beginning to abandon the terrorist group and ally with the United States—as well as to the outskirts of Baghdad, which insurgents sought to control in order to launch attacks into the city.

Petraeus and Odierno agreed that the essence of the struggle in Iraq was (and remains) a competition between communities for power and resources. By filling the power vacuum, the U.S. military sought to buy the time and space for the Iraqi government to move forward with national reconciliation and improve its delivery of public services. U.S. troops showed that they were willing to emerge from their bases and place the defense of the Iraqi people above all else, which sent a clear message to the Iraqi public that U.S. forces would not be defeated. Many Iraqis stopped providing passive sanctuary to armed groups and, assured that the United States would protect them from reprisal, offered intelligence that enabled U.S. troops to target insurgents more accurately. Meanwhile, the United States reached out to previously hostile tribal and factional leaders, coaxing them to turn against al Qaeda and participate in the political process.

The surge accompanied and fostered other crucial internal changes. It coincided with and benefited from tectonic shifts within the Sunni community, as the Sunni nationalist insurgency and al Qaeda began competing for dominance. Al Qaeda's efforts to impose a puritanical form of Islam angered the Sunni population, and the Sunni tribes, in a time-honored fashion, retaliated when their members were killed. At the same time, the Sunnis realized that they were losing ground to the Shiite militias and came to see Iran as a greater threat than the United States. These factors drove the Sunni tribes in Anbar to turn to the United States for support in a phenomenon known as the Sunni Awakening, which spread in similar ways to other parts of the country. When the Iraqi Shiites observed that the Sunnis were battling al Qaeda themselves and preventing insurgent attacks on the Shiite community, they became less tolerant of the Shiite death squads and militias, whose legitimacy rested on their defense of Shiites against Sunni aggression. This shift reached its climax in March 2008, when Iraqi Prime Minister Nouri al-Maliki felt that his government was being so undermined by the behavior of Jaish al-Mahdi, the Shiite militia led by the Iraqi cleric Muqtada al-Sadr,

Emma Sky

that he ordered military operations against it in Basra and Baghdad. The U.S.-supported operations decimated Jaish al-Mahdi, enhancing Maliki's standing and earning him the respect of Iraq's Sunnis as well.

In short, the surge succeeded in changing Iraq's political environment, encouraging the Shiites and the Sunnis to bring the civil war to an end. The improvement in the security situation convinced partisans on both sides that they could achieve their political goals only by joining the political process.

SECURING THE SURGE

THE UNEXPECTED drop in violence convinced many Americans that the war in Iraq had been won. The surge had undoubtedly met its stated aim of buying the time and space necessary for the Iraqi government to advance national reconciliation and, at least in theory, develop the capacity to provide adequate public services. Yet Iraq's parties did not take advantage of the opportunity to turn progress at the local level into national reconciliation. When Odierno replaced Petraeus in September 2008, the greatest threat to Iraq's stability had become the legitimacy and capability of the government, rather than insurgents. Research and opinion polls showed that as the violence dropped, jobs and public services replaced security as the number one concern, and the government was not able to meet the public's growing expectations. I advised Odierno that we needed to meet these new hopes by preserving the fragile security gains and, at the same time, ensuring that our actions did not infringe on Iraqi sovereignty.

To quicken the pace of national reconciliation, Odierno attempted to integrate the ISF, which until that time had been predominately Shiite. From my close relationship with Maliki's advisers, I understood that the government remained suspicious of the Sunni Awakening and feared that by supporting it, the United States was creating a Sunni army that would overthrow the country's Shiite leadership. We sought to allay these concerns by pressuring the Iraqi government to place Sunni Awakening soldiers on its payroll, legitimizing them as local police forces and improving the ISF's sectarian balance. U.S. troops closely trained and monitored ISF troops, reporting instances of misconduct to the Iraqi government. As the ISF became more diverse and professional, the country became more secure.

Iraq, From Surge to Sovereignty

Yet the annual United Nations Security Council resolution authorizing the presence of U.S. forces in Iraq was set to expire in December 2008, raising the possibility that the United States would have to depart the country immediately or remain there illegally, both of which would have threatened the gains made by the surge. To prevent either scenario, the U.S. and Iraqi governments entered negotiations over the U.S.-Iraq Status of Forces Agreement (SOFA), which would define the future of U.S. engagement in the country.

Iraqi officials bargained tenaciously during the SOFA negotiations and extracted significant concessions from the United States. They insisted on and won greater control over the actions of U.S. forces and secured a promise of their departure from population centers by the end of June 2009 and their total withdrawal by the end of 2011. The Bush administration even allowed Iraq the “primary right to exercise jurisdiction” over U.S. military members who committed “grave premeditated felonies,” such as rape, and agreed that all suspects arrested by U.S. troops would be detained under warrant and held in Iraqi facilities. To the Iraqis, this meant that U.S. forces would be operating under the rule of law rather than the rule of war, as they had been since 2003.

The U.S. military reacted apprehensively to these demands, uncomfortable with the idea of U.S. soldiers falling under foreign legal authority and worried that the announcement of concrete dates for the troop withdrawals would boost insurgent morale. Some Iraqis expressed discomfort with the deal, too. For some of them, the idea of a security agreement permitting continued foreign occupation recalled the bitter memory of a century of colonial intervention in the country’s affairs. The political elites, for their part, feared that Maliki was becoming increasingly authoritarian and was consolidating his power through higher oil revenues and the ISF’s growing capacity. They suspected that the SOFA would bring U.S. forces under Maliki’s control, preventing the United States from playing a brokering role or guarding against sectarian and undemocratic behavior.

As expected, politicians allied with Sadr voted against the agreement in the Iraqi parliament. Some Sunni leaders also opposed the SOFA, afraid that a U.S. pullout would increase Iran’s influence over

The surge succeeded in changing Iraq’s political environment but did not eliminate the root causes of conflict.

Emma Sky

Iraq and expose the Sunni community to further attacks from Shiite elements in the ISF. Despite doubts among both the U.S. military and Iraqi factions, Iraq's parliament reached a consensus to sign the agreement once its various parties felt they had achieved three important conditions: passing a resolution that demanded political reform, securing a commitment to hold a national referendum on the SOFA in July 2009, and receiving letters of assurance from the United States that repeated Washington's commitment to protect the democratic process. Meanwhile, Maliki boosted his reputation by taking a hard line in the negotiations, establishing U.S. forces as guests of the Iraqi government rather than occupiers under a UN resolution.

The SOFA was signed along with a strategic framework agreement, which provided a possible glimpse of the future of U.S.-Iraqi ties. It affirmed "the genuine desire of [Iraq and the United States] to establish a long-term relationship of cooperation and friendship" across a range of areas, including culture, health, trade, energy, communications, security, and diplomacy. Together with the SOFA, the Strategic Framework Agreement solidified the coming shift in the United States' relationship with Iraq, from one of patronship to one of partnership.

EMBRACING IRAQI SOVEREIGNTY

ON TAKING office, President Barack Obama followed his campaign pledge to end the Iraq war while honoring the SOFA signed with Iraq's government under the Bush administration. He engaged in an extensive policy review with Odierno, taking into consideration the opinions of those who thought that only a small residual force was necessary in Iraq as well as the ideas of those who argued that a defined pullout date would simply encourage the insurgents to lie low until U.S. forces departed. Obama chose the middle ground, ordering the end of combat operations and the reduction of U.S. troops to 50,000 by August 2010. The decision gave Odierno the flexibility he desired, within set deadlines, to determine the pace of the troop withdrawal so that he could respond to any military or political contingencies, such as parliamentary delays in holding elections or forming a government. Odierno implemented Obama's plan by shifting the mission of the remaining U.S. forces from counterinsurgency to stability operations, focusing on bolstering the ISF's capacity to protect the Iraqi people on their own.

Iraq, From Surge to Sovereignty

The U.S. military required significant physical and strategic restructuring to accomplish this transformation. As we discussed how to make those necessary adjustments, Odierno and I began with the premise that the struggle in Iraq was essentially political. We agreed that the U.S. military could assist by training the ISF and preventing conflict but that only the Iraqis themselves could solve the underlying issues plaguing their country: tensions between Arabs and Kurds, Shiites and Sunnis, and local provinces and the national government. Although security in Iraq had greatly improved, the country had merely gone from being a failed state to being a fragile state, still beset with poor public services and subject to the pervasive influence of armed groups and foreign powers. As a result, Odierno instructed his commanders that the troop drawdown should not become the overriding focus of their mission. The United States had to help the Iraqi government develop the necessary state institutions to function properly on its own. Brigades were reorganized to further that goal, enabling U.S. State Department–led transition teams to build administrative capacity in provincial and local governments throughout Iraq.

Odierno provided his subordinates with the flexibility to determine when conditions in their respective areas were ripe for the shift. U.S. troops had to embrace Iraqi assertions of sovereignty as a sign of progress, even when they sometimes conflicted with U.S. advice. They also had to accept that the ISF were never going to be as proficient as U.S. troops. Odierno explained that the United States sought a strategic partnership with Iraq and that the way in which U.S. forces left the country would influence the long-term relationship between the U.S. and the Iraqi governments.

Odierno traveled the country to obtain on-the-ground progress reports from his commanders, considering it a success when they showed an in-depth understanding of what could cause instability in their areas and when they reported on how they were working closely with their U.S. civilian colleagues to address those issues through reconstruction project funds and technical assistance. Odierno encouraged his commanders to describe progress being made by the ISF in terms of the forces' relations with the local population, the operations they conducted, the circumstances in which they had requested U.S. assistance, and what further training they required.

As I prepared to depart Iraq in August 2010, it was clear that the close partnership between the U.S. military and the ISF had paid

Emma Sky

dividends. Accompanying Odierno as he toured the country to review the progress, I witnessed U.S. and ISF soldiers celebrating each time the United States transferred one of its bases to Iraqi forces, conducting ceremonies in which U.S. commanders symbolically delivered the keys to their Iraqi counterparts. The strong individual and institutional relationships between the two forces contributed to a growing sense of security across the country.

CHANGING ROLES

U.S. FORCES surveyed their respective regions for disruptive elements that could undermine the calm. Communal struggles persisted between Arabs and Kurds and Shiites and Sunnis; state institutions remained weak, as the central government and the provinces negotiated power-sharing arrangements; foreign powers, especially Iran (as well as Syria and Turkey), continued to meddle in Iraqi politics; and extremist groups, such as the remnants of al Qaeda and lingering Shiite militias, continued to foment trouble. Odierno understood that the very presence of U.S. troops could fuel instability, as groups would attack them in an attempt to gain credit for the impending U.S. withdrawal.

By viewing post-surge Iraq through this prism, the U.S. military focused its actions to provide the necessary resources and advice to those Iraqis attempting to smooth the points of friction. In September 2008, for instance, tensions arose between Arabs and Kurds in the northern Iraqi region of Diyala, and followed several months later in Kirkuk and Ninewa. The two sides came close to armed conflict over control of disputed territories in northern Iraq, which the Kurdistan Regional Government was seeking to incorporate within its federal region. The ISF and the Kurdish Pesh Merga (security forces) viewed each other with increasing suspicion and focused their energies on each other, allowing al Qaeda to exploit the situation by attacking various religious minority groups, including Christians, Shabaks, and Yezidis. Only mediation by U.S. officers prevented fighting from breaking out between the ISF and the Pesh Merga. At the request of Maliki and Massoud Barzani, president of the Kurdistan Region, Odierno devised a system of cooperation among the ISF, the Pesh Merga, and U.S. troops in operational centers, at checkpoints, and during patrols. This helped establish relationships between the leaders of the various

Iraq, From Surge to Sovereignty

forces, building mutual trust and confidence and restoring stability to the disputed territories.

As the June 2009 deadline for U.S. soldiers to leave Iraqi cities approached, Odierno accompanied Iraq's minister of defense, Abdul-Kader al-Obeidi, and minister of the interior, Jawad al-Bolani, around the country to assess the security situation and the ISF's performance. It was clear that security was continuing to improve and that joint operations with U.S. forces were hastening the ISF's development. After some initial growing pains, communication and collaboration between the U.S. military and the ISF had allowed Iraqi soldiers to take the lead, with U.S. forces largely providing background support. Although conditions varied across the country—in Basra, the ISF had largely taken command, whereas in Ninewa, U.S. soldiers compensated for a lack of adequate

Iraqi forces by continuing their combat operations against al Qaeda—nearly all U.S. units had undertaken the transition from counterinsurgency to stability operations by early 2010, months ahead of schedule.

The implementation of the SOFA proceeded far more smoothly than either Iraqi or U.S. leaders had anticipated. In order to be ready to address potential violations of the agreement, the U.S. and Iraqi governments had established a number of joint committees covering a spectrum of security issues, including military operations, detainee affairs, and air-space control. There were only a few initial complaints issued by Iraqis about suspected U.S. violations of the agreement. Despite the initial fears of the U.S. military leadership, no U.S. soldier was ever arrested by the ISF and no issues of jurisdiction arose regarding U.S. soldiers. Meanwhile, the United States adhered strictly to the withdrawal timeline established by the SOFA, showing the Iraqis that the United States had no intention of occupying their country indefinitely. The deadline forced the U.S. military to relinquish power and allowed the Iraqis to assume command more quickly than might otherwise have happened. The United States demonstrated that it would leave with dignity, in partnership with the Iraqi government rather than under fire from insurgents.

The development of strong individual and institutional relationships between U.S. and Iraqi troops will likely continue as the two countries work to establish a long-term relationship. The rights and

Iraq could once again dissolve into violence without continued U.S. support.

Emma Sky

wrongs of the Iraq war will be debated for years to come. What will not be disputed, however, is the way in which the U.S. military learned from its initial blunders, adapted, retrained and reeducated its soldiers, transitioned seamlessly from counterinsurgency to stability operations, and strengthened the capacity of Iraqi forces.

THE STRUGGLE CONTINUES

DESPITE THE successful transition from the surge to sovereignty in Iraq, challenges remain on the horizon for internal Iraqi politics and the U.S.-Iraqi relationship. The fraught formation of a governing coalition following Iraq's March 2010 national elections revealed how fragile the country's political institutions remain. Although Iraq's 2009 provincial elections had brought the Sunnis into local government and promoted reconciliation, the 2010 contest saw friction once again. Maliki accused former elements of Saddam Hussein's Baath Party, along with Syria, of masterminding continued attacks in Iraq. Some Shiite politicians, supported by Iran, sought to weaken the nationalist, nonsectarian Iraqiya Party, led by Ayad Allawi, by attempting to disqualify its candidates as former Baath Party members.

The Iraqiya Party overcame these challenges and narrowly won the election, with 91 seats, gaining the votes of most Sunnis and of a sizable proportion of secular Shiites. Maliki's Dawa Party came in a close second, with 89 seats, and for the next nine months, the two factions left Iraq in political limbo, with each side seeking to secure a majority in parliament in order to form a coalition government. Ironically, both the United States and Iran supported Maliki's bid to remain prime minister; U.S. leaders sought to broker a power-sharing arrangement between the two parties to keep Sadr's followers out of the government and strengthen reconciliation, whereas Iran hoped for a Shiite-dominated coalition. Maliki and Allawi grudgingly came to terms this past December, with Maliki retaining his post as prime minister and Allawi becoming head of the newly created National Council for Higher Policies, the purview of which remains uncertain.

Although a government has been formed, Iraq's political factions sadly missed an opportunity to secure the public's belief in the democratic system. Instead of demonstrating a peaceful transition of power and unity, the process revealed the lingering mistrust within Iraqi

Iraq, From Surge to Sovereignty

society, particularly among the ruling elites, who appeared ready to elevate their personal interests above the national good. Meanwhile, Iraqis remain skeptical of the large and unwieldy coalition assembled by Maliki, which enjoys few points of agreement and will have difficulty grappling with politically sensitive issues, such as federalism, the sharing of oil revenues, and the demarcation of internal borders. True reconciliation among Iraq's ethnic and religious groups thus remains elusive, and what progress has been achieved so far could unravel.

Meanwhile, the Obama administration's rhetorical emphasis on the troop withdrawal—meant for a domestic audience—has largely overshadowed the quiet but burgeoning strategic partnership between Iraq and the United States. Washington needs to devote adequate attention and resources to furthering the Strategic Framework Agreement, which established the basis for possible long-term cooperation between the two countries. Iraqi politicians from all communities, save the Sadrists, have voiced concern that the United States is too focused on withdrawing from Iraq, placing stability before democracy and strengthening Maliki's ability to maintain control of the country through the ISF rather than through the consent of Iraq's politicians or public. They have also expressed concern about Iran's ambitions and aspirations in Iraq—an issue that will loom over the country for years to come.

Iraq still has a long way to go before it becomes a stable, sovereign, and self-reliant country. Continued engagement by the United States can help bring Iraq closer to the American vision of a nation that is at peace with itself, a participant in the global market of goods and ideas, and an ally against violent extremists. Under the terms of the Strategic Framework Agreement, the United States should continue to encourage reconciliation, help build professional civil service and non-sectarian institutions, promote the establishment of checks and balances between the country's parliament and its executive branch, and support the reintegration of displaced persons and refugees. U.S. assistance is also needed to bolster Iraq's civilian control over its security forces, invest in the country's police units, and remove the Iraqi army from the business of policing. Should Washington fail to provide such support, there is a risk that Iraq's different groups may revert to violence to achieve their goals and that the Iraqi government may become increasingly authoritarian rather than democratic—undermining the United States' enormous investment of blood and treasure. 🌐

How al Qaeda Works

What the Organization's Subsidiaries Say About Its Strength

Leah Farrall

DESPITE NEARLY a decade of war, al Qaeda is stronger today than when it carried out the 9/11 attacks. Before 2001, its history was checkered with mostly failed attempts to fulfill its most enduring goal: the unification of other militant Islamist groups under its strategic leadership. However, since fleeing Afghanistan to Pakistan's tribal areas in late 2001, al Qaeda has founded a regional branch in the Arabian Peninsula and acquired franchises in Iraq and the Maghreb. Today, it has more members, greater geographic reach, and a level of ideological sophistication and influence it lacked ten years ago.

Still, most accounts of the progress of the war against al Qaeda contend that the organization is on the decline, pointing to its degraded capacity to carry out terrorist operations and depleted senior leadership as evidence that the group is at its weakest since 9/11. But such accounts treat the central al Qaeda organization separately from its subsidiaries and overlook its success in expanding its power and influence through them. These groups should not be ignored. All have attacked Western interests in their regions of operation. Al Qaeda in the Arabian Peninsula (AQAP) has also long targeted the United

LEAH FARRALL is a former Senior Counterterrorism Intelligence Analyst with the Australian Federal Police and the author of the blog *All Things Counter Terrorism*.

How al Qaeda Works

States, but its efforts have moved beyond the execution stage only in the last two years, most recently with the foiled plot to bomb cargo planes in October 2010. And although al Qaeda in the Islamic Maghreb (AQIM) has not yet attacked outside its region, al Qaeda in Iraq (AQI) was reportedly involved in the June 2007 London and Glasgow bomb plots.

It is time for an updated conception of al Qaeda's organization that takes into account its relationships with its subsidiaries. A broader conceptual framework will allow for a greater understanding of how and to what degree it exercises command and control over its expanded structure, the goals driving its expansion strategy, and its tactics.

AL QAEDA'S LOST DECADE

ALTHOUGH AL QAEDA had tried to use other groups to further its agenda in the 1980s and early 1990s, Osama bin Laden's first serious attempts at unification began in the mid-1990s, when the organization was based in Sudan. Bin Laden sought to build an "Islamic Army" but failed. Al Qaeda had no ideology or *manhaj* (program) around which to build lasting unity, no open front of its own to attract new fighters, and many of its members, dissatisfied with "civilian work," had left to join the jihad elsewhere. Faced with such circumstances, bin Laden instead relied on doling out financial support to encourage militant groups to join his army. But the international community put pressure on Sudan to stop his activities, and so the Sudanese government expelled al Qaeda from the country in 1996. As a result, the group fled to Afghanistan.

By mid-1996, al Qaeda was a shell of an organization, reduced to some 30 members. Facing irrelevance and fearing that a movement of Islamist militants was rising outside of his control, bin Laden decided a "blessed jihad" was necessary. He declared war on the United States, hoping this would attract others to follow al Qaeda. It did not. A second effort followed in 1998, when bin Laden unsuccessfully used his newly created World Islamic Front for Jihad Against Jews and Crusaders to lobby other groups to join him. Later that year, al Qaeda launched its first large-scale attacks: the bombings of the U.S. embassies in Kenya and Tanzania, which it hoped would

Leah Farrall

boost its fortunes. But these, too, failed to attract other groups to join, with some instead criticizing al Qaeda for the attacks and its lack of a legitimate *manhaj*.

With no coherent ideology or *manhaj* to encourage unification under his leadership, bin Laden instead pursued a predatory approach. He endeavored to buy the allegiance of weaker groups or bully them into aligning with al Qaeda, and he attempted to divide and conquer the stronger groups. In the late 1990s, he tried and failed to gain control over the Khalden training camp, led by the militants Ibn al-Shaykh al-Libi and Abu Zubaydah, and over the activities of Abu Musab al-Suri and Abu Khabab al-Masri, senior militant figures who ran their own training programs. Bin Laden's attempts in 1997–98 to convince Ibn al-Khattab, a Saudi militant who led an international brigade in Chechnya, to come under al Qaeda's banner also failed. His efforts in 2000–2001 to gain control over a brigade of foreign fighters in Afghanistan met a similar fate: the Taliban leader Mullah Omar, who had supreme authority over the brigade, instead handed the leadership of it to the Islamic Movement of Uzbekistan, another group bin Laden was attempting to convince to align with al Qaeda. Around the same time, bin Laden also unsuccessfully lobbied the Egyptian Islamic Group and the Libyan Islamic Fighting Group to join al Qaeda's efforts. And although al Qaeda supported the militant Abu Musab al-Zarqawi in his establishment of an independent training camp in Afghanistan, bin Laden was unable to convince him to formally join the organization.

The only real success during this period was al Qaeda's mid-2001 merger with Egyptian Islamic Jihad, led by Ayman al-Zawahiri, now al Qaeda's second-in-command. The merger was possible thanks to Egyptian Islamic Jihad's weakened position and its reliance on bin Laden for money. The decision was nevertheless contentious within Egyptian Islamic Jihad, and several of its members left rather than join with al Qaeda. In the end, al Qaeda's only successful merger during its Afghanistan years added just five people to its core membership. Compared to this dismal record, the past decade has been highly successful.

By 2001, al Qaeda still had no formal branches or franchises. Its membership included a core of just under 200 people, a 122-person martyrdom brigade, and several dozen foot soldiers recruited from

How al Qaeda Works

the 700 or so graduates of its training camps. These numbers made al Qaeda among the strongest of the 14 foreign militant groups operating in Afghanistan, yet there was little unity among them. Relations were characterized by doctrinal debate on issues such as the legitimacy of fighting alongside the Taliban or recognizing Mullah Omar as “commander of the faithful.” The lack of unity further hampered bin Laden’s efforts to gain influence and control.

MERGERS AND ACQUISITIONS

HIS PREDATORY approach to unification having failed, bin Laden sowed the seeds of a new strategy. He concluded that al Qaeda could force unity among foreign militants and draw in new followers by carrying out “mass impact” attacks against the United States. The 9/11 attacks were designed to incite an armed retaliation that would get U.S. boots on Afghan soil, opening up a new front for jihad and—because the retaliation would confirm al Qaeda’s status as the “strong horse” among Islamist militants—causing smaller groups to come under al Qaeda’s leadership to fight against the invading Americans.

The strategy worked at first. The U.S. invasion began in October 2001, and in November, the leaders of the foreign militant groups remaining in Kandahar agreed to come under al Qaeda’s command in an effort to defend the city. But the organization’s control did not last long: in early December 2001, those foreign militants began to withdraw from Kandahar. Al Qaeda still lacked a cogent ideology and *manhaj*, which meant that bin Laden had nothing to convince these groups to fully commit to its cause.

After al Qaeda’s flight from Afghanistan in December 2001, the group’s Iran-based leadership and its members in the Arabian Peninsula sought to reverse the organization’s fortunes by building a solid ideological foundation and a clear *manhaj*. This effort was intended to support those already undertaking jihad in al Qaeda’s name and end senior Saudi religious figures’ criticisms of its lack of a *manhaj*. Around the same time, bin Laden also ordered that a new branch in the Arabian Peninsula—preparations for which had been undertaken in Kandahar before 9/11—be activated. AQAP is often referred to as an al Qaeda franchise, but it is better described as a branch. It was created by, and continues to operate under, the leadership of core

Leah Farrall

al Qaeda members. Unlike those of al Qaeda's franchises, the leaders of AQAP did not swear an oath of allegiance to bin Laden in order to bring their organization under al Qaeda's umbrella. They were

The past decade has been highly successful for al Qaeda.

already al Qaeda members and established the branch on bin Laden's direct orders. Although AQAP commanders answer directly to al Qaeda's leadership, they have regional autonomy. But the relationship has not been without issues. Senior figures responsible for establishing the branch and some members

in Iran had lobbied bin Laden to delay its opening and instead focus on developing an ideology and a *manhaj*. Bin Laden refused; nevertheless, between 2002 and 2004, AQAP's and al Qaeda's leaders intensified their efforts to consolidate the organization's ideological and tactical foundations to support the new branch and bolster al Qaeda's legitimacy.

They drew from *takfiri* thought, which justifies attacking corrupt regimes in Muslim lands, and on materials that outline the Muslim requirement to target the global enemy: in this case, the United States and the West. (This was framed in the context of defensive jihad, the need for which was reinforced by the 2003 U.S. invasion of Iraq.) The hybrid ideology and *manhaj* that emerged make little distinction between targeting local enemies and targeting global ones and have a one-size-fits-all solution—jihad. Partnering with al Qaeda does not, therefore, require a local group to abandon its own agenda, just broaden its focus. This helped assuage other groups' fears that merging with al Qaeda would mean a loss of autonomy to pursue their own local goals.

The inclusion of *takfiri* materials gave al Qaeda another advantage, because this literature stresses the need for militant groups to unify. There are two main streams of guidance on how this should be done. One focuses on seniority and holds that newer groups should merge with the oldest group, regardless of the capabilities of each. The other emphasizes capability. Al Qaeda seems to have favored the seniority argument, and after its merger with Egyptian Islamic Jihad, it could—rather dubiously—present itself as the senior militant group.

Newer groups were apparently willing to go along, even if they had greater capacity than al Qaeda. By late 2004, for example, Zarqawi's

How al Qaeda Works

group in Iraq, Jamaat al-Tawhid wal-Jihad, had eclipsed al Qaeda in terms of both resources and brand power. Even so, Zarqawi willingly merged his group with the weaker al Qaeda and swore an oath to bin Laden, creating AQI. Zarqawi's ties to al Qaeda's senior leadership, which had been consolidated during time he had spent in Afghanistan and Iran and had been further strengthened when al Qaeda members arrived in Iraq after the U.S. invasion, also played a role in his decision. Zarqawi was also instrumental in convincing the Salafist Group for Preaching and Combat (GSPC) to join, even though it had more members than al Qaeda. Significantly, the GSPC did not merge with Zarqawi's group, which was then the strongest Islamist militant group worldwide. Instead, in late 2006, after a lengthy negotiation process, the GSPC merged with the central al Qaeda organization, the most senior group, becoming its second branch, AQIM.

Although the development of a coherent ideology and *manhaj* helped al Qaeda acquire franchises, negotiations with most groups were nevertheless drawn out because it proved difficult to agree on the parameters of operational autonomy. Al Qaeda's focus was on integration, unity, growth, and gaining strategic leadership in the militant milieu. The group viewed external operations against the West; keeping the jihad going, no matter how incrementally; and strategic messaging as the way to achieve these objectives. So even as they pursued local agendas, the franchises were required to undertake some attacks against Western interests, and leaders of groups joining al Qaeda had to be willing to present a united front, stay on message, and be seen to fall under al Qaeda's authority—all crucial for demonstrating the organization's power and attracting others to its cause.

WHO'S THE BOSS?

AL QAEDA today is not a traditional hierarchical terrorist organization, with a pyramid-style organizational structure, and it does not exercise full command and control over its branch and franchises. But nor is its role limited to broad ideological influence. Due to its dispersed structure, al Qaeda operates as a devolved network hierarchy, in which levels of command authority are not always clear; personal ties between militants carry weight and, at times, transcend the command structure between core, branch, and franchises. For their part,

Leah Farrall

al Qaeda's core members focus on exercising strategic command and control to ensure the centralization of the organization's actions and message, rather than directly managing its branch and franchises. Such an approach reduces the command-and-control burden, because al Qaeda need only manage centralization on a broad level, which, with a solid *manhaj* already in place, can be achieved through strategic leadership rather than day-to-day oversight.

Al Qaeda exercises command and control mostly in relation to external operations. It requires its subsidiaries to seek approval before conducting attacks outside their assigned regions and specifies that its branch and franchises seek approval before assisting other militant groups with external operations. For the most part, they appear to follow these stipulations. While Zarqawi was at AQI's helm, he reportedly sought permission to expand his area of operation to include Jordan, but it is not known whether permission was granted.

In times of sustained pressure, al Qaeda has delegated significant responsibility for external operations against the United States to its branch, AQAP. The first such action came in late 2002, when al Qaeda had exhausted its existing supply of operatives for external operations and was in the process of rebuilding its capacity from its sanctuary in Pakistan. Al Qaeda asked AQAP to carry out an attack on U.S. interests; AQAP devised a plot against U.S. subways and got permission to use a chemical device. (In 2003, just before putting the plan into action, AQAP asked al Qaeda for final signoff but was denied.) When the pressure on al Qaeda eased between 2003 and 2006, because the United States was focusing less on Afghanistan, the group was able to regenerate its capacity and intensify its planning for global operations. But the U.S. drone campaign against al Qaeda in Pakistan's tribal areas has again put pressure on it, and the group has again tapped AQAP to undertake external operations. It has also made similar requests of its franchises, particularly AQI. In 2008, for example, it asked AQI to carry out attacks against Danish interests in retaliation for a Danish newspaper's publication of cartoons depicting the Prophet Muhammad.

When subsidiaries do carry out attacks outside their territories, al Qaeda requires that they be conducted within set parameters. For example, al Qaeda heavily encourages suicide attacks and repeated

How al Qaeda Works

strikes on preapproved classes of targets, such as public transportation, government buildings, and vital infrastructure. Once a location has been authorized, the branch and the franchises are free to pursue plots against it. But al Qaeda still emphasizes the need to consult the central leadership before undertaking large-scale plots, plots directed against a new location or a new class of targets, and plots utilizing a tactic that has not been previously sanctioned, such as the use of chemical, biological, or radiological devices.

Al Qaeda has put these requirements in place to ensure that attacks complement, not undermine, its strategic objectives. Whereas AQAP appears to honor al Qaeda's authority, at times the franchises have acted on their own; AQI's unapproved bombings of three hotels in Amman, Jordan, in 2005, for example, earned it a strong rebuke from headquarters. And a range of factors influence whether a franchise will attack an external target when al Qaeda asks it to. Chief among them is the franchise's capacity and whether the franchise is willing to dedicate resources to external operations instead of local activities. Another factor is the closeness of the ties between the subsidiary and the central organization; the tighter the ties, the more likely the request will be honored. AQI has a closer relationship with al Qaeda than AQIM. Still, AQIM has generally cooperated at least with requests to stay on message and present the image of a united and hierarchical organization. This emphasis on a unified appearance was clear when, in November 2010, AQIM's leader, Abu Musab Abdel Wadoud, announced that France would have to negotiate directly with bin Laden for the release of hostages held by AQIM. Although in recent times, the capacity of both franchises has been weakened by intensified counterterrorism efforts against them, neither has shown any signs of abandoning al Qaeda's global agenda in favor of purely local goals.

Communication and coordination among al Qaeda's core, branch, and franchises occur mostly through their respective information committees, which have access to senior leaders, distribution networks to assist in passing information, and close ties to the operations section of each group, which is responsible for planning attacks (since attacks must be publicized). Messages from the branch and the franchises to the core then generally go through al Qaeda's second-tier leadership,

Al Qaeda approaches
new mergers warily.

Leah Farrall

which briefs Zawahiri, bin Laden, or both if the issue is urgent—that is, involves gaining permission for external operations or resolving a conflict between or within the subsidiaries.

Because al Qaeda's second-tier leadership manages most of the group's interaction with its subsidiaries, the removal of either Zawahiri or bin Laden would not overly affect the unity among the organization's core, branch, and franchises, nor would it impede communication among them. So long as al Qaeda can continue to demonstrate its ability to lead and provide strategic direction, its organizational dynamics will likely remain unchanged. The emphasis on unity in al Qaeda's ideology and *manhaj* and a desire to maintain the status quo will likely allow the organization to hold together, even as it comes under more pressure from the West.

FUTURE OUTLOOK

ALTHOUGH OPENING a regional branch and acquiring franchises has reinforced the position of al Qaeda and its ability to present itself as both the senior and the most capable Islamist militant group, it approaches new mergers warily. Al Qaeda learned a lesson about overreach in 2006, when it attempted to bring splinter groups from the Egyptian Islamic Group and the Libyan Islamic Fighting Group under its umbrella. In an ill-calculated move, it portrayed the joining of the splinter factions as formal mergers with al Qaeda, which elicited heavy criticism from both groups' leaders, who opposed unification with al Qaeda. This criticism has, however, minimally impacted al Qaeda's appeal with its target audience—those already radicalized to its cause but not yet part of the organization—and other groups still seek to join under al Qaeda's banner. Al Qaeda is nonetheless wary of attracting criticism from other militants, so it is reticent to accept groups that have not demonstrated unified leadership within their areas of operation.

Al Shabab, a Somali militant group, has openly declared its allegiance to bin Laden in an effort to join al Qaeda as a franchise. But infighting between al Shabab and another group with historical ties to al Qaeda, Hizbul Islam, has thus far kept al Qaeda from accepting al Shabab. Recent reports that Hizbul Islam and al Shabab have unified may see a change in al Qaeda's position. Due to the significant

How al Qaeda Works

ties between AQAP and al Shabab, any future merger would likely be negotiated with AQAP's assistance.

Should al Shabab's popularity with foreign fighters continue to rise, and the group become more active in external operations planning, al Qaeda's hand may be forced. In 2009, a small group of Australian extremists (mostly of Somali descent) sought the permission of al Shabab leaders to carry out an attack in Australia. Although the plot was foiled, al Qaeda views this type of extraregional activity as potential brand competition. If al Shabab carries out a successful attack somewhere in the West, al Qaeda might more quickly move to bring the group under its umbrella, in order to control al Shabab's projection of power.

With the exception of al Shabab, al Qaeda is unlikely to acquire any new subsidiaries in the immediate future. It largely ignores Southeast Asia, despite the ongoing efforts of Islamist militants there to reach out to the organization. Al Qaeda was once linked to a splinter group of the Indonesian organization Jemaah Islamiyah, but Jemaah Islamiyah has since been decimated by Indonesian counterterrorism efforts. Should ties again be strengthened between al Qaeda and Indonesian militants—many of whom are now coalescing around a relatively new group, Jamaah Ansharut Tauhid—the relationship would likely be limited to material support. A training group dubbed “al Qaeda in Aceh,” which was linked to Jamaah Ansharut Tauhid, adopted the al Qaeda name without formal permission and probably as a means of attracting material support. Jamaah Ansharut Tauhid has its own robust and regionally focused *manhaj*, making a formal merger unlikely.

In Lebanon, meanwhile, after several failed attempts to gain influence over groups there and in the broader region, al Qaeda seems to have settled for working with a group active in the area. The Abdullah Azzam Brigades, which are led by Saleh al-Qarawi, a senior figure with links to AQAP, AQI, and al Qaeda's core, are reportedly based in Lebanon but have a wide operational ambit in the broader region. The group has regional autonomy but ultimately answers to the central al Qaeda organization for strategic direction. Given the inability of the group to gain dominance in the region, it is unlikely to become an official franchise.

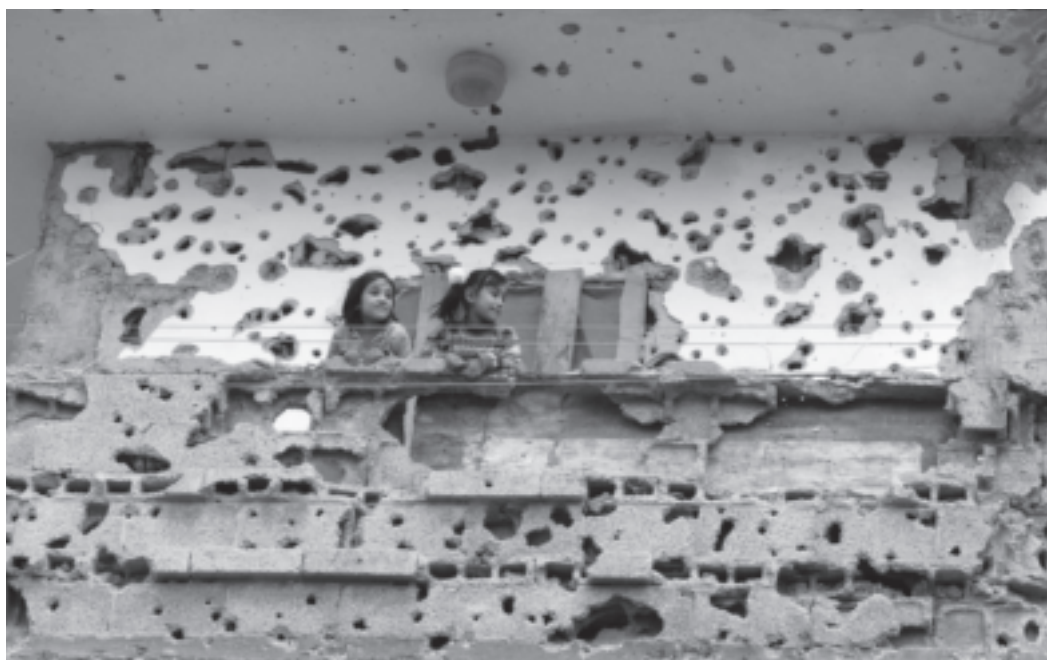
In the near term, aside from any efforts to bring al Shabab on board, al Qaeda is likely to focus on its existing subsidiaries. As it comes under continued pressure in Pakistan, al Qaeda will primarily focus on

Leah Farrall

making sure that the centralization of the organization's actions is maintained through the external operations carried out by its subsidiaries and that the subsidiaries stay on message. Doing so will ensure that in the event the central leadership suffers greater losses, al Qaeda will have alternative means to project power and maintain influence.

Because al Qaeda will continue to encourage its branch and franchises to carry out attacks and will continue to use the reactions they provoke to pursue its goals, it is important that the strategic picture of al Qaeda accurately reflect the organization's broad operating dynamics instead of wishful thinking about the central organization's degraded capacity. A large attack tomorrow orchestrated by the central leadership would prove wrong any assessments of diminished capabilities. Meanwhile, the enduring goals that drive al Qaeda's strategies and tactics, which have allowed the group to expand during the past decade of war, continue to be overlooked. Until al Qaeda's interaction with its branch and franchises is better comprehended and taken into consideration, assessments of its capacity and organizational health will continue to fall short. 🌐

Reviews & Responses



REUTERS/IBRAHEEM ABU MUSTAFA

*Palestinian girls looking out from the balcony
of their damaged home in Rafah, Gaza Strip, March 2009*

Many have interpreted the Goldstone report as yet another battle in the Israeli-Palestinian conflict, waged by other means. But the report addressed a more far-reaching issue—namely, the difficulty of distinguishing civilians from combatants in modern urban warfare.

Fighting the Laws of War *Charli Carpenter* 146

The Indian-Pakistani Divide *Christophe Jaffrelot* 140

From Innovation to Revolution *Malcolm Gladwell and Clay Shirky* 153

The War Over Containing Iran
*Dima Adamsky; Karim Sadjadpour and Diane de Gramont;
Shahram Chubin; and Eric S. Edelman,
Andrew F. Krepinevich, and Evan Braden Montgomery* 155

Recent Books on International Relations 169

Review Essay

The Indian-Pakistani Divide

Why India Is Democratic and Pakistan Is Not

Christophe Jaffrelot

India, Pakistan, and Democracy: Solving the Puzzle of Divergent Paths. BY PHILIP OLDENBURG. Routledge, 2010, 278 pp. \$39.95.

Since 1995, when the historian Ayesha Jalal's pathbreaking and controversial book *Democracy and Authoritarianism in South Asia* was published, there has been no serious study comparing the political trajectories of India and Pakistan. Those who have tried to fill this gap have succumbed to the temptation of attributing India's democracy to Hinduism and Pakistan's autocracy to Islam—a reductionist and not particularly productive approach, since religion is usually only secondary in explaining political trajectories, whether it is Indonesia's democratization or Sri Lanka's march to dictatorship. In the remarkable *India, Pakistan, and Democracy*, Philip Oldenburg, a research scholar at Columbia University, is wise enough not

to resort to such sociocultural explanations. Instead, he examines historical, political, sociological, cultural, and external factors to explain the reasons why India and Pakistan diverged.

Oldenburg is quick to dispel some common misunderstandings about India and Pakistan, the first being that they had similar experiences during the colonial era. In the late nineteenth and early twentieth centuries, the British began gradually devolving power to local authorities in several provinces across India. They did not pursue such reform very far in the North-West Frontier Province and Punjab, two provinces that would make up the bulk of Pakistan after the 1947 partition. Both territories were important military recruitment grounds for the Raj and were located along its restive western frontier, where devolution was considered a security threat. Whereas several of the provinces

CHRISTOPHE JAFFRELOT is a Senior Research Fellow at the Center for International Studies and Research at Sciences Po, in Paris.

The Indian-Pakistani Divide

India inherited from the Raj had experience with some democracy, Pakistan inherited two highly militarized provinces with no such background, laying the groundwork for the country's military-bureaucratic ethos. Even more, India was born with an intact bureaucratic apparatus in Delhi, whereas Pakistan had to build an entire government in 1947 under a state of emergency.

There was also more popular support for India at the time it was created than there was for Pakistan. The Indian National Congress, the torchbearer of India's nationalist movement, had enjoyed mass support since the 1920s, when Mohandas Gandhi became the party's leader. The Pakistani nationalist movement, the Muslim League, was not popular at all among Indian Muslims until the mid-1940s, just before partition. As a result, writes Oldenburg, referring to his famous 1985 *Journal of Asian Studies* article, one of the foremost on the 1971 breakup of East and West Pakistan, Pakistan was "a place insufficiently imagined" among those who would eventually live there. Feeling that lack of popular support, Muslim League leaders were hesitant to let other political parties develop once the country was created. Additionally, they feared that parties would divide an already weak nation. Since independence, the government has tried to limit Pakistan's political liberalization by introducing notions such as "controlled democracy," which has involved holding partyless elections at times. India's party system, on the other hand, is a venerable and robust arena for aggregating and articulating citizens' interests, and the field of parties is ever expanding.

Pakistan's need to forge a collective identity after 1947 was complicated by its ethnolinguistic arithmetic: the political

and military center of power was in West Pakistan, but 55 percent of the population lived in East Pakistan (now Bangladesh). Pakistan's elites in the west of the country could not uphold democracy without losing power to those in the east. Centralization and authoritarianism were the logical next steps. These were encouraged by the Punjabi-dominated army, which seized power for the first time in 1958. In one of the most interesting chapters of his book, Oldenburg writes about the attempt of Pakistan's founder, Muhammad Ali Jinnah, to impose Urdu—a language spoken by a minority of the population—as the national language, sparking protests among the Bengali-speaking majority in East Pakistan, which seceded during a violent war and became Bangladesh in 1971. In contrast, a 40 percent plurality of Indians spoke Hindi, and India tried to diffuse any ethnolinguistic tensions in the years after partition by recognizing several official languages—including English—and redrawing the federal map along linguistic lines to give each group its own administrative unit. Any account of the diverging paths of the two countries in the 1950s must start from this baseline.

FRATERNAL TWINS

Oldenburg does not ignore the similarities between India and Pakistan—and he acknowledges the possibility that they may be growing more similar. In fact, his narrative is divided into two parts—before 1977 and after 1977—for this very reason. In early 1977, India was two years into a state of emergency that Prime Minister Indira Gandhi had declared after the opposition took to the streets and the judiciary raised questions about the legitimacy of the election that had just

Christophe Jaffrelot

reelected her for the third time. She used the state of emergency to jail her opponents and reform the constitution, so that she could rule by decree. Meanwhile, Pakistan's president, Zulfikar Ali Bhutto, a strong politician, had just finished implementing a new constitution, with which he established a parliamentary system and devolved more power to the provinces. By the end of 1977, however, India had returned to democracy, a form of government it has maintained since; General Muhammad Zia-ul-Haq, meanwhile, had deposed Bhutto and returned Pakistan to absolute control of the military. What might have been an instance of the countries' paths crossing has been, so far, the point at which they started to diverge once and for all.

Still, the countries' trajectories share some common features, such as the increasing role of religion in the public sphere. Hinduism was never India's official religion, but the rise of Hindu nationalism, which culminated in the formation of a government led by the nationalist Bharatiya Janata Party (BJP) in 1998, has taken India down an increasingly ethno-religious path. BJP rule marginalized religious minorities and led to many anti-Muslim riots across India in the 1990s and communal violence in Gujarat in 2002. Oldenburg concludes that the Hindu nationalists "succeeded in putting Muslims 'in their place,' as second-class citizens."

Islam has always been Pakistan's official religion, but under the early civilian rulers and the first military dictator, Muhammad Ayub Khan, there were few provisions that discriminated against religious minorities. The situation started to change during the Bhutto administration.

Bhutto gave Islam a bigger role in the political arena and declared the Ahmadis, a small Islamic sect, to be non-Muslim. Zia went even further, introducing some aspects of Islamic law into the country's legal system. Today, Islamist groups have unprecedented influence in the country, not only because they are popular among some segments of the population but also because some of them have been convenient tools for the military to use against India. Now, they are threatening to turn Pakistan into an Islamic state, although that possibility is remote because of the strength of Pakistan's army—which is staunchly secular (or has been



The Indian–Pakistani Divide

so far)—and the resilience of its civil society and judiciary.

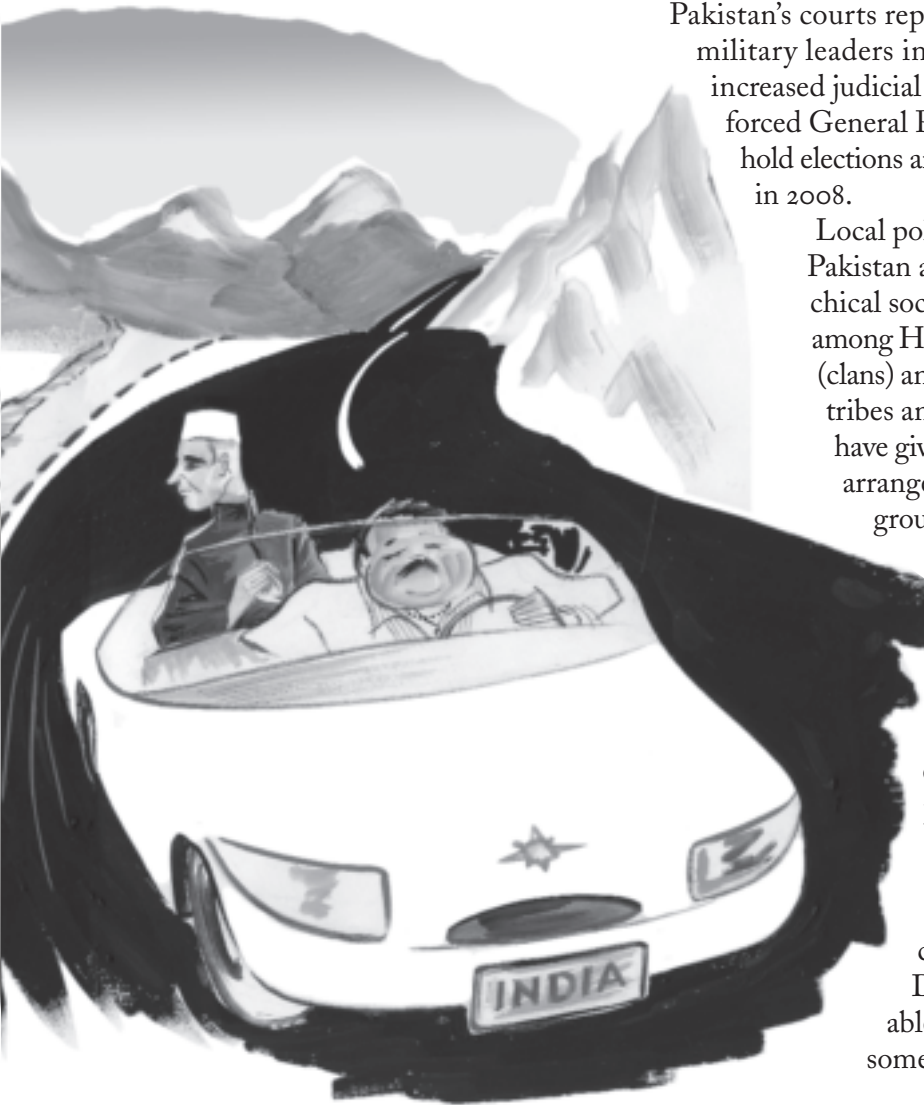
Corruption and the criminalization of the public sphere have started to undermine the foundations of both states. In India, voters realize they have little influence over some of the decisions made by corrupt politicians, undermining the very idea of democracy. If, as Lord Acton famously said, “power tends to corrupt and absolute power corrupts absolutely,” then the situation in Pakistan is even worse.

The most recent evidence came

during last year’s flooding, when politicians disassembled dams and risked putting entire towns under water in order to protect their own lands. There is a difference of degree in the corruption of the two countries, but the nature of the problem is the same in both. Yet even as the public spheres of both countries have become more corrupt, the judiciaries of both India and Pakistan are remarkably resilient. It was India’s courts that forced corrupt politicians—including ministers—to resign in the 1990s. And although Pakistan’s courts repeatedly bowed to military leaders in earlier decades, increased judicial activism eventually forced General Pervez Musharraf to hold elections and resign as president in 2008.

Local politics in India and Pakistan are based on hierarchical social orders—castes among Hindus, *biraderis* (clans) among Muslims, and tribes among both—which have given rise to clientelistic arrangements among local groups and parties. Yet social hierarchies

have relaxed as the power of landed elites has waned. But as Oldenburg rightly emphasizes, this process is more pronounced in India, where the so-called lower castes, including the Dalits (“untouchables”), have gained some political influence.



Christophe Jaffrelot

This is not to say that India has become egalitarian; Oldenburg acknowledges the growing gap between the rich and the poor. The situation of peasants in remote states such as Chhattisgarh and Jharkhand is critical. Just as some of Pakistan's desperately poor have turned to the Taliban because they claim to represent some form of social justice, peasants in Chhattisgarh and Jharkhand have turned to Maoist insurgents. Of course, even though the similarities between India and Pakistan are striking, these trends are not likely to result in a major convergence of the two countries anytime soon, as Oldenburg rightly concludes. Since 1977, the differences between them have grown, and they are now less a difference of degree than a difference of nature.

UNDER THE INFLUENCE

Oldenburg devotes a fascinating chapter to India and Pakistan's "foreign influences." His section on India is less than four pages, which is understandable considering that New Delhi was neutral during the Cold War and has made a point of staying aloof from any alliances in order to preserve its sovereignty since.

Pakistan, in contrast, has had no such luxury. Since partition, Pakistan has defined itself in opposition to India. Of course, one could argue that such a definition has even deeper roots: the founders of the Muslim League certainly defined the Pakistani project against Hindus. But the geopolitical dimension of this rivalry changed completely after partition. Since 1947, Pakistan has viewed India as an existential threat—a threat that was heightened during the Indian-Pakistani wars over Kashmir in 1947 and 1948; with the creation of Bangladesh in 1971, which

many Pakistanis would argue was under the aegis of New Delhi; and when India got the nuclear bomb in 1974 and moved closer to the Soviet Union, from which it received other sophisticated weapons.

If existential fear is the reason Pakistan turned to the United States for arms and money, fear of communism is the reason the United States provided them. In its obsessive quest to contain the spread of communism, the United States used Pakistan as a bulwark against China, the Soviet Union, and nonaligned India and later as a staging ground for aiding the anti-Soviet mujahideen in Afghanistan. By the 1980s, as Oldenburg rightly points out, Pakistan had become a rentier state, exploiting its strategic location at the crossroads of Central Asia, the Indian subcontinent, and the Middle East to receive arms and cash. While in office, U.S. President Ronald Reagan sent more than \$3 billion to the Pakistani mujahideen to fight in Afghanistan. After 9/11, U.S. support—which had dwindled in the 1990s because of Islamabad's nuclear proliferation and recognition of the Taliban as the official government of Afghanistan—resumed. The George W. Bush administration sent \$11 billion to Pakistan, including \$8 billion directly to the Pakistani army for "security." So far, the Obama administration has given much less and has committed more of the money to development—the 2009 Kerry-Lugar bill, for example, dedicated \$7.5 billion to development over five years.

Washington has rarely used its influence in Islamabad to promote democracy. President Dwight Eisenhower was fond of Ayub Khan and had no problem with his 1958 coup. Reagan had a good relationship with Zia and looked the other way when he tried to acquire nuclear material

The Indian-Pakistani Divide

from China in the late 1970s and early 1980s. The relationship did not deteriorate even as Zia embarked on a course of Islamization throughout Pakistan. President George W. Bush considered Musharraf to be one of his best allies, despite the fact that he was notoriously playing a double game: supporting Islamist insurgents in his own country while pledging to fight the Taliban in Afghanistan.

BEYOND COMPARISON

Pakistan's colonial legacy, weak political parties, social conservatism, and outside influences have given its army an increasingly strong influence over the state. Even when civilians are in charge—historically every ten years or so (1947–58, 1970–77, 1988–99, and since 2008)—many responsibilities that are supposedly in the government's portfolio actually belong to the army: Afghanistan policy, the Kashmir strategy, and the nuclear program have been the purview of the generals for decades. And now the generals have become a force to be reckoned with in economic policy as well, because of their huge land holdings and vast military foundations and enterprises. At the same time, the popularity of Pakistan's civilian government and its leader, President Asif Ali Zardari—in power since Musharraf was voted out in 2008—has fallen to dangerously low levels because of incompetence and corruption. According to the report by the State of Democracy in South Asia project, cited by Oldenburg, Pakistanis are now so disillusioned with democratic politics that they are much less averse to military rule than are Indians. This means, as Oldenburg suggests, that Pakistan will probably continue to be neither a democracy nor a dictatorship, but something in between.

To overcome this situation, the relationship between India and Pakistan—not just the comparison between them—must be addressed. India, a growing economic power, resents being grouped with a quasi-failed state. Indian leaders were quite happy, for example, when U.S. President Barack Obama visited India but not Pakistan during his last Asian tour. But decoupling is not only bad for U.S.-Pakistani relations—Pakistan longs to be recognized as on par with India and could be easier to work with if it is, even if only symbolically—it is not really in India's interest, either. China, India's real rival, could take advantage of a Pakistan alienated from the West. And if Pakistan falls apart, democracy in India might be affected as well. Already, routinized terrorist violence has taken its toll on Indian civil liberties. And communal harmony in India, which has always been tenuous, has become increasingly strained thanks to terrorist attacks and the BJP's Hindu nationalist policies. The best way forward will be for both countries, with the support of the international community, to launch a new round of dialogue. Without such attention to Indian-Pakistani relations, India's democracy will not prosper and Pakistan's generals will never unclench their fists. 🌐

Review Essay

Fighting the Laws of War

Protecting Civilians in Asymmetric Conflict

Charli Carpenter

Moral Dilemmas of Modern War: Torture, Assassination, and Blackmail in an Age of Asymmetric Conflict. BY MICHAEL L. GROSS. Cambridge University Press, 2009, 336 pp. \$29.99.

Inventing Collateral Damage: Civilian Casualties, War, and Empire. EDITED BY STEPHEN J. ROCKEL AND RICK HALPERN. Between the Lines, 2009, 372 pp. \$34.95.

In December 2008 and January 2009, Hamas and Israel waged a fierce three-week battle in the Gaza Strip. The Israel Defense Forces targeted urban infrastructure in Gaza, devastating populated areas as they attempted to end the barrage of Qassam rockets fired indiscriminately by Hamas toward southern Israeli cities. The war ended inconclusively in January, when Israel declared a unilateral cease-fire amid concerns about mounting civilian casualties. But the conflict shifted from Gaza to

Geneva in April, when the UN Human Rights Council appointed former South African judge Richard Goldstone—chief UN prosecutor in Yugoslavia and Rwanda during the 1990s—to lead a fact-finding mission to Gaza. In September, Goldstone's team announced its conclusion: both Hamas and Israel had violated the laws of war, and both had possibly committed crimes against humanity.

Many have interpreted the Goldstone report, as it has become known, as yet another battle in the Israeli-Palestinian conflict, waged by other means. But the report addressed a more far-reaching issue—namely, the difficulty of distinguishing civilians from combatants in modern urban warfare.

Two recent books explore that dilemma by examining the relationship between the laws of war and civilian protection during battle. In *Moral Dilemmas of Modern War*,

CHARLI CARPENTER is Associate Professor of International Affairs at the University of Massachusetts–Amherst.

Fighting the Laws of War

Michael Gross contends that the current safeguards against civilian casualties are too stringent to address the complexities of today's wars, barring states from adequately combating irregular forces. Meanwhile, Stephen Rockel and Rick Halpern argue in *Inventing Collateral Damage* that the current international regulations are too weak, permitting and even enabling states to harm civilians during combat.

From two widely different perspectives, the books cast doubt on the value of the existing international regulations presumably designed to mitigate war's impact on civilians. But a closer look suggests that these authors overstate the tensions between the laws of war and the modern battlefield and underestimate just how well the existing statutes are working. Although the laws of war require strengthening, they constitute a firm foundation on which to better protect civilians.

TOO MUCH OR TOO LITTLE?

The current laws of war regarding civilian protection resulted from a process of treaty development that included nineteenth-century agreements to safeguard the sick and wounded, which were gradually extended in the twentieth century to prisoners of war and then to civilians caught in conflict. A cardinal rule of the existing framework insists that civilians may not be deliberately targeted, unless they participate directly in hostilities. The laws stipulate that military forces must direct their operations toward combatants and military objectives only and must conduct themselves in a manner that allows their adversaries to distinguish them from civilians—by wearing uniforms, for example, or carrying arms openly. The drafters of the Geneva Conventions carefully delineated combatants

and civilians to assist militaries in distinguishing between them. In addition, the conventions state that when in doubt, military forces should assume the targets are civilians and that some number of combatants among a civilian population does not render that civilian population a legitimate target.

Gross argues that this legal structure unfairly favors insurgents on the modern battlefield. Many of today's wars are fought in dense urban environments, largely between uniformed state militaries and guerrillas in civilian clothing. The problem, he believes, is not that the rules inadequately protect civilians but that they provide too much protection for nonstate armed groups in this new type of war, on the mistaken assumption that civilians are always innocent bystanders. This hobbles Western militaries in their attempts to protect those considered by Gross to be "truly innocent" civilians—those who reside in democracies and are subject to guerrilla violence and terrorism.

Many civilians in modern wars are agents and not just bystanders, as Gross correctly points out: they aid and abet insurgents by storing their weapons, producing their propaganda, providing them with food and shelter, and even agreeing to act as civilian shields. It is no surprise to him, then, that powerful states such as Israel and the United States would expand the circle of "legitimate targets" to include civilians who assist insurgents, because it is otherwise difficult to see how they could successfully wage war at all. Gross justifies this expansion by arguing that it is vital for democracies to prevail in asymmetric conflicts. In such conflicts, he argues, democratic states are protecting their own civilians, and in some cases

Charli Carpenter

the citizens of other nations, from terrorist attacks.

By contrast, Rockel, Halpern, and other contributors to their volume are far more critical of powerful governments' records in war. Whereas Gross emphasizes moral asymmetry in modern war—highlighting the distinction between democratic armies defending their citizens and guerrillas who attack civilians using the cover of their own countries' populations—Rockel and Halpern focus on the asymmetry of force between powerful state militaries and their weaker guerrilla adversaries. They claim that the West's callous indifference to “unintended” civilian casualties in the developing world today is analogous to its historical record of atrocities in imperial wars, which often involved depredations against civilians. Just as colonial states in those wars used dehumanizing euphemisms, such as calling natives “savages,” to legitimize their actions, modern Western militaries unacceptably justify and sanitize civilian casualties by invoking the concept of “collateral damage”—a military term used to describe regrettable but unintended, and therefore lawful, casualties of war. The notion that civilian deaths are permissible if unintended, the authors argue, has allowed militaries to whitewash the destructiveness of their operations. In other words, the existing laws of war, which prohibit intentional civilian targeting but permit “accidental” civilian deaths, are part of the problem.

Marc Herold's chapter in *Inventing Collateral Damage* lends credence to the notion that modern technologies and legal statutes meant to protect civilians may in fact be used in ways that place them in greater danger. His data suggest that the ratio of civilian deaths to tons of ordnance dropped has actually increased in the past

20 years, as precision weapons have been introduced in greater numbers. Herold argues that Western militaries have become overconfident in their ability to safely deploy weapons such as smart bombs and drones in dense urban neighborhoods and at night. This may explain the high number of estimated civilian casualties from drone strikes in Pakistan; the New America Foundation calculates that approximately a third of drone-strike casualties are civilians. It troubles Rockel and Halpern that the laws of war permit such high levels of civilian casualties. In their view, the rules are designed to legitimize violence rather than restrain it.

Both books are thus skeptical about the ability of the existing laws of war to balance national security and the protection of civilians. As interpreted by the Goldstone report, international law appears to handicap states' ability to target insurgents who purposefully operate in civilian areas—revealing, according to Gross, the inability of the current system to adapt to new modes of war. Meanwhile, in their book, Rockel, Halpern, and the other contributors argue that the existing body of laws protecting civilians during wartime actually sanctions their deaths at the hands of states operating behind the shield of “collateral damage.” Do the laws of war, then, need to be adapted to the current era, and if so, how?

STRIKING A BALANCE

In outlining the limitations presented by the laws of war in addressing modern conflicts, Gross argues that the current legal framework for civilian protection must change to meet state interests. He is sympathetic to the new tendency among Western states to broaden the scope of acceptable military targets to include

civilians who assist insurgents. Yet this is a deviation from the existing norm by states seeking to pursue their interests outside the bounds of the law. Were this trend adopted as a new legal standard, it would be nothing less than an abandonment of the current rules, weakening civilian protection rather than strengthening it.

Moreover, underlying Gross' belief that the laws of war must change to meet states' needs is the historically flawed notion that modern combat presents unique challenges. The kinds of asymmetries in the warfare he writes about are hardly unprecedented. The laws of war have in fact already adapted to many of the questions that, according to Gross, have been raised for the first time by recent wars. The current framework distinguishes, for example, between civilians who support warring factions by providing food and shelter, who are not automatically rendered legitimate targets, and civilians who take up arms themselves, who do lose their immunity. Gross points out that these rules place critical restraints on the actions of state militaries. But he overstates the case when he suggests that the laws of war tie their hands completely. To Gross, there seem to be only two options for state forces engaged in asymmetric wars: bend the rules by fighting guerrillas with an expanded notion of legitimate targets, or prepare to lose.

Yet a third option exists: militaries can choose to place their uniformed men and women in harm's way rather than cede the moral high ground by placing civilians in greater danger. When Gross describes the fundamental dilemma of asymmetric war as "who do we bomb when there are no more accessible military targets?" he assumes that states must deploy aerial firepower to defeat their unconventional enemies. But this is not the only tool in the arsenals of

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Western states. To combat insurgents and protect civilians simultaneously, governments could choose to use ground troops, which are arguably better equipped to discriminate between innocent bystanders and insurgents and their accomplices. Although militaries risk significantly higher casualties by deploying their troops rather than dropping precision bombs, this sacrifice is precisely what the logic of just war requires: that civilians not become more expendable than a country's armed forces.

Gross is not alone in his undue cynicism about the existing principles. Rockel and Halpern argue that the very idea of "collateral damage," a tenet of the existing laws of war, increases military leaders' apathy toward the consequences of their operations and encourages crimes against civilians. But in making this claim, the authors conflate "collateral damage," which describes regrettable yet lawful casualties of war, and "war crimes," which result when governments deliberately target civilians. For example, many of their book's chapters detail atrocities to which the concept of "unintended casualties" does not apply, such as sexual violence. Moreover, nothing in the case studies shows even a correlation, much less a causal relationship, between the invention of the euphemism "collateral damage" during the Cold War and a purported rise in unintended civilian casualties. In fact, U.S. government documents disclosed by the whistleblower Web site WikiLeaks last October suggest the opposite: in those papers, U.S. troops appeared to invoke the risk of collateral damage to justify their failure to fire at legitimate military targets.

Inventing Collateral Damage does successfully document the brutalities of warfare before the 1949 Geneva Conventions. If

anything, however, this suggests that the treaties' norms may have reduced such horrors since World War II. In fact, according to Simon Fraser University's *Human Security Report 2005*, the overall plight of civilians in recent hostilities appears to have vastly improved relative to earlier times. However extensive the collateral damage in Afghanistan, for example, there is a world of difference between accidentally hitting civilians in Kandahar with not-so-smart bombs and firebombing Dresden to break the population's morale. The distinction between accidental and intentional killing—and the firm rule that military necessity does not excuse the intentional targeting of civilians—has saved countless civilian lives in the past half century.

But Rockel and Halpern are right to note that although the international community has worked to reduce intentional civilian targeting, it has been too complacent about reducing unintended civilian casualties. Protection for civilians against the effects of lawful military operations remains scant, and international discussion about increasing those safeguards has been minimal. Many of the contributors to *Inventing Collateral Damage* suggest that such complacency renders the entire effort to regulate war an exercise in hypocrisy. Yet as in the case of Gross' concerns, a more pragmatic approach would be to explore options for strengthening, expanding, and clarifying the existing rules.

STRENGTHENING CIVILIAN PROTECTION

Although *Moral Dilemmas of Modern War* and *Inventing Collateral Damage* suggest otherwise, the laws of war have never been static and have often improved to reflect changing times. Points of confusion in the

Fighting the Laws of War

law regarding civilians can be clarified today through the same process that has been used to ban land mines or protect displaced persons in recent years. Specific rules will need to be worked out by states, but nongovernmental organizations and legal experts are proposing many ideas about what these rules could look like.

First, any international effort to reduce and respond to the civilian costs of war will need a mechanism for measuring and categorizing casualties of war. The Geneva regime currently provides no formal means of tracking who dies and how in military operations worldwide, leaving states' humanitarian policies to be guided by wildly conflicting and ad hoc measures. The Oxford Research Group, a London-based nongovernmental organization dedicated to sustainable security, recently created the Recording Casualties of Armed Conflict project and, with several humanitarian organizations, has issued a memorandum calling on governments to establish rules standardizing this process. Such data, as Gross and Rockel and Halpern argue, are crucial in resolving moral debates over the proportionality of various methods of combat.

Governments should additionally reconsider whether certain weapons, such as high-yield explosives, can really be considered discriminate when deployed in urban areas. A 2010 report by Landmine Action demonstrates that civilian casualties caused by these devices—artillery shells, bombs, and mortars among them—are exceedingly high in populated areas, and especially so among children. The damage is even greater when the secondary impacts of urban warfare are considered, including disease, malnutrition, and economic ruin. If the goal is to better protect civilians from

the incidental effects of war, limits on the use of such weapons, at least in urban areas, may be required.

Yet even new regulations governing the deployment of explosives in populated areas would still likely leave some civilians in the crossfire. And in such cases, the Campaign for Innocent Victims in Conflict, a Washington-based nongovernmental organization, argues that governments should provide compensation to civilians accidentally harmed during legitimate combat operations, just as they sometimes pay reparations to victims of war crimes. The U.S. government has actually taken the lead on this issue, initiating a system of condolence payments for the families of civilian casualties of the wars in Afghanistan and Iraq. Several other countries, including Georgia, Germany, and Pakistan, are beginning to follow suit, and Israel has paid reparations in several limited cases. If widely adopted, this practice would not only provide some solace to civilians when disaster strikes but also, perhaps, incentivize militaries to take greater care to avoid causing such casualties in the first place.

Even if no new laws are developed in the near future, military planners, government officials, and lawyers could reduce civilian casualties by simply modifying their interpretations of the existing legal doctrines. To begin, clarifying the notion of what constitutes direct civilian participation in hostilities would help states more accurately judge when civilians remain protected and when they have lost their immunity. The International Committee of the Red Cross has already drafted language defining “direct participation” as acts that cause direct harm either to enemy forces or to the enemy's military operations and capacity, but states should develop a consensus

Charli Carpenter

around a definition so that they and others can be better held accountable for their actions.

Additional questions in need of resolution include how to determine whether, in the words of international treaties, a government has taken “all feasible precautions” to prevent civilian harm and whether it has inflicted “excessive” civilian casualties in relation to its military gains. The current laws of war leave these issues to states’ discretion, but governments could collaborate to limit the gray area between civilian deaths considered unfortunate and those deemed unlawful. New or clarified rules will need to balance humanitarian principles in war with the human security costs of doing too little in cases in which insurgents or terrorists prey intentionally on the innocent. Many militaries are already grappling not just with how to weigh civilian casualties against military necessity but also with how to balance the risk of civilian casualties during a given strike against the benefits that such a strike could provide to those civilians by neutralizing predatory militias.

Some might argue that further innovations in the laws of war are unlikely. But the international rules that are now taken for granted—say, the right of wounded soldiers to receive aid from neutral humanitarians on the battlefield—once seemed just as far-fetched. And reconsiderations of humanitarian law have often occurred in times of systemic crisis such as these, when the human costs of the mismatch between existing laws and changing times become clear. One such transformation took place in the 1970s, when the Additional Protocols to the Geneva Conventions were established. States recognized that the most recent Geneva regulations, passed in 1949

and designed to address the conditions of World War II, required updating to respond to the unconventional wars associated with decolonization. The Additional Protocols extended the definition of “lawful combatants” to nonstate parties fighting wars of national liberation and codified the existing rules against targeting civilians, whose protection had previously been instituted only in relation to civilian conditions in occupied territories. Similarly, the 1998 Rome Statute, which created the International Criminal Court, represented an effort to bolster the Geneva regime. The court was created in response to the atrocities in Bosnia and Herzegovina and Rwanda in the 1990s—horrors that underscored the need for an international judicial body to prosecute and punish war criminals. According to the *Human Security Report 2005*, the number of war crimes and genocides committed by government forces is dropping. This may well be in part because the original rules were augmented and are now influencing military doctrine worldwide.

Collateral damage in modern warfare, too, can be minimized by more clear-cut regulations. Governments should work to reduce both long-term and short-term civilian harm in war, atone for lawful as well as unlawful deaths, and cooperate to bring nonstate actors that target civilians to justice. But to achieve this, states must work together to strengthen the rules themselves. And assessments of the existing laws of war should be balanced and forward-looking rather than cynically pessimistic. It is well within the power of the international community to strengthen civilian protection in the twenty-first century. 🌐

Response

From Innovation to Revolution

Do Social Media Make Protests Possible?

An Absence of Evidence

MALCOLM GLADWELL

While reading Clay Shirky's "The Political Power of Social Media" (January/February 2010), I was reminded of a trip I took just over ten years ago, during the dot-com bubble. I went to the catalog clothier Lands' End in Wisconsin, determined to write about how the rise of the Internet and e-commerce was transforming retail. What I learned was that it was not. Having a Web site, I was told, was definitely an improvement over being dependent entirely on a paper catalog and a phone bank. But it was not a life-changing event. After all, taking someone's order over the phone is not that much harder than taking it over the Internet. The innovations that companies such as Lands' End really cared about were bar codes and overnight delivery, which utterly revolutionized the back ends of their businesses and which had happened a good ten to 15 years previously.

The lesson here is that just because innovations in communications technology

happen does not mean that they matter; or, to put it another way, in order for an innovation to make a real difference, it has to solve a problem that was actually a problem in the first place. This is the question that I kept wondering about throughout Shirky's essay—and that had motivated my *New Yorker* article on social media, to which Shirky refers: What evidence is there that social revolutions in the pre-Internet era suffered from a lack of cutting-edge communications and organizational tools? In other words, did social media solve a problem that actually needed solving? Shirky does a good job of showing how some recent protests have used the tools of social media. But for his argument to be anything close to persuasive, he has to convince readers that in the absence of social media, those uprisings would not have been possible.

MALCOLM GLADWELL *is a Staff Writer for The New Yorker.*

Shirky Replies

Malcolm Gladwell's commercial comparison is illustrative. If you look at the way the Internet has affected businesses such

Malcolm Gladwell and Clay Shirky

as Lands' End, you will indeed conclude that not much has changed, but that is because you are looking at the wrong thing. The effect of the Internet on traditional businesses is less about altering internal practices than about altering the competitive landscape: clothing firms now have to compete with Zappos, bookstores with Amazon, newspapers with Craigslist, and so on.

The competitive landscape gets altered because the Internet allows insurgents to play by different rules than incumbents. (Curiously, the importance of this difference is best explained by Gladwell himself, in his 2009 *New Yorker* essay "How David Beats Goliath.") So I would break Gladwell's question of whether social media solved a problem that actually needed solving into two parts: Do social media allow insurgents to adopt new strategies? And have those strategies ever been crucial? Here, the historical record of the last decade is unambiguous: yes, and yes.

Digital networks have acted as a massive positive supply shock to the cost and spread of information, to the ease and range of public speech by citizens, and to the speed and scale of group coordination. As Gladwell has noted elsewhere, these changes do not allow otherwise uncommitted groups to take effective political action. They do, however, allow committed groups to play by new rules.

It would be impossible to tell the story of Philippine President Joseph Estrada's 2000 downfall without talking about how texting allowed Filipinos to coordinate at a speed and on a scale not available with other media. Similarly, the supporters of Spanish Prime Minister José Luis Rodríguez Zapatero used text messaging to coordinate the 2004 ouster of the

People's Party in four days; anticommunist Moldovans used social media in 2009 to turn out 20,000 protesters in just 36 hours; the South Koreans who rallied against beef imports in 2008 took their grievances directly to the public, sharing text, photos, and video online, without needing permission from the state or help from professional media. Chinese anticorruption protesters use the instant-messaging service QQ the same way today. All these actions relied on the power of social media to synchronize the behavior of groups quickly, cheaply, and publicly, in ways that were unavailable as recently as a decade ago.

As I noted in my original essay, this does not mean insurgents always prevail. Both the Green Movement and the Red Shirt protesters used novel strategies to organize, but the willingness of the Iranian and Thai governments to kill their own citizens proved an adequate defense of the status quo. Given the increased vigor of state reaction in the world today, it is not clear what new equilibriums between states and their citizens will look like. (I believe that, as with the printing press, the current changes will result in a net improvement for democracy; the scholars Evgeny Morozov and Rebecca MacKinnon, among others, dispute this view.)

Even the increased sophistication and force of state reaction, however, underline the basic point: these tools alter the dynamics of the public sphere. Where the state prevails, it is only by reacting to citizens' ability to be more publicly vocal and to coordinate more rapidly and on a larger scale than before these tools existed. 🌐

Responses

The War Over Containing Iran

Can a Nuclear Iran Be Stopped?

The Morning After in Israel

DIMA ADAMSKY

“The Dangers of a Nuclear Iran” (January/February 2011) correctly notes that “the early stages of an Iranian-Israeli nuclear competition would be unstable,” prompting the question of just how Israeli military strategists would react if and when Iran goes nuclear.

The insecurity generated by a nuclear Iran might dwarf previous peaks of existential fear in Israel. A nuclear Iran would likely undermine the foundations of Israeli self-confidence by crossing two “redlines” in the Israeli strategic psyche. First, the arsenal of a single country would pose an existential threat, conjuring memories of Nazi Germany. Focusing on Iran’s ultimate destructive capability rather than its intentions, Israeli strategists might therefore view a nuclear Iran apocalyptically. Second, many Israelis might come to believe that the end of Israel’s nuclear monopoly has terminated the country’s ultimate insurance policy, fundamentally undermining Israel’s

general deterrence posture. These concerns, as Eric Edelman, Andrew Krepinevich, and Evan Montgomery assert, might lead Israeli strategists to reexamine nuclear policies and adjust their current deterrence models.

MAD MULLAHS?

Three schools of thought might emerge within the Israeli defense establishment the day after Iran crosses the nuclear threshold. The first school would likely see a nuclear Iran as a cold-mindedly pragmatic country, which represents the ultimate strategic challenge. The second school would likely perceive a nuclear Iran as a reckless, irrational regime, which constitutes a fully materialized existential threat. The third—and smallest—school would likely see an opportunity for reconciliation through mutual disarmament.

The proponents of the first school—those who subscribe to the Cold War notion of mutual assured destruction (MAD)—would reconcile themselves to the new strategic environment. For political and operational reasons, the MAD school would consider military action against Iran ineffective and impossible after Iran’s nuclearization.

Edelman, Krepinevich, and Montgomery and Their Critics

Assuming that Iranian leaders are radical but reasonable, MAD proponents would rely on Israel's ability to influence Iran's cost-benefit considerations. They would assume that nuclearization reduced Iran's sense of vulnerability, thus enabling more constructive dialogue and a higher degree of stability despite significant differences in strategic cultures and ideologies. They are likely to approximate the Iranian nuclear mentality to the Soviet one. Determined to construct a "balance of terror" model, the MAD school would favor termination of Israel's nuclear ambiguity policy. To them, revealing Israel's nuclear capabilities, outlining its nuclear posture, and communicating redlines and the prices for crossing them would to a certain extent bolster the credibility of Israeli deterrence.

The second school—those subscribing to the hard-nosed doctrine of former Israeli Prime Minister Menachem Begin—would not accept the new strategic environment, maintaining instead that there is still time to forcibly remove Iran from the nuclear club, in much the same way as Israel approached Iraq's nuclear program in 1981 and, reportedly, the Syrian reactor in 2007.

Many in this group would view Iranian leaders as reckless decision-makers, ready to commit collective martyrdom or transfer nuclear weapons to radical proxies, and therefore they would consider nuclear deterrence irrelevant. Others would argue that a stable MAD regime with Iran is impossible because Iranian decision-makers might misperceive Israel's strategic considerations. Appealing to the history of the Arab-Israeli wars, several of which were preceded by inaccurate Arab strategic estimates, the proponents of this view would emphasize the disproportionately higher price of miscalculation this time.

Advocates of this school might question the value of terminating the policy of ambiguity, arguing that even a "bomb in the basement" preserves sufficient deterrent power, whereas disclosure might expose Israel to international pressure and stimulate a regional nuclear arms race.

In light of the world's unwillingness to intervene, members of the Begin school would argue that Israel is alone responsible for preventing another Holocaust. They would seek to strike Iran's rudimentary nuclear infrastructure before Iran could expand its arsenal, diversify its delivery systems, and develop a second-strike capability. They would view this as the last window of opportunity to exploit Iranian vulnerability while the balance of power remained in Israeli favor.

Their optimism regarding the possible Iranian retaliation would be based on the history of Israeli resilience in the face of Iraq's scud attacks in 1991, and Hamas' and Hezbollah's rocket strikes. Also, they would take solace in the widespread belief in the inaccuracy of Iran's missiles and would place their trust in Israel's Arrow and PAC-3 missile defense capabilities.

The third school—a distinct minority—would challenge prevailing views in the Israeli security establishment and among the public by calling for Israeli nuclear disarmament. These nuclear abolitionists would suggest dismantling Israel's nuclear capabilities as part of a comprehensive regional peace agreement, which would presumably enable regional cooperation and the construction of an anti-Iranian security architecture. However, in order to verify their basic assumptions following Iran's nuclearization, many abolitionists might first gravitate toward the MAD school, which they would perceive as

The War Over Containing Iran

an intermediate stage on the path toward their final goal.

For political and operational reasons, the Israeli security establishment would likely be reluctant to strike Iran without U.S. support. The three schools would disagree on whether a nuclear Iran or a deteriorating relationship with the United States would pose a greater threat to Israel's security. The Begin school would likely argue that when its existence is at stake, Israel does not need permission from anyone to determine its own fate. The MAD group would likely oppose an attack, in light of Washington's reservations. After all, an Israeli strike might cause Iranian retaliation against U.S. regional targets, increase anti-Americanism worldwide, drag the United States into an undesired military confrontation, disturb the oil market and shipping lanes, and eventually sour the special relationship between Israel and the United States, thus ultimately eroding Israel's deterrence posture.

Many in the Israeli defense establishment would perceive Iran's nuclearization as evidence of the United States' diminishing ability to resolve global and regional security issues. In keeping with its basic instinct to remain under reliable great-power protection, Israel might abandon its exclusive reliance on the United States and focus more on strategic hedging. Although its preference for U.S. support would remain, Israel might be less inclined to follow directives from Washington.

MAD advocates might respond by seeking to situate Israel within the U.S. defense perimeter by means of a formal commitment, a bilateral security treaty, NATO membership, or the deployment of U.S. troops in Israel. Under such circumstances, an Iranian strike on Israel

would automatically constitute an attack against the United States.

The key issue for Israel would be the length and nature of U.S. extended deterrence. Even if Washington or NATO expressed interest in a formal defense pact, it is not clear how such security guarantees would be extended to conventional attacks on Israel by Iran or its proxies. And if the United States were to extend its defense guarantees to other states in the region by means of sophisticated arms transfers, Israel might feel that its qualitative military edge was threatened.

PROXY WARS

If Israeli decision-makers accept the view that those with their hands on the nuclear triggers in Tehran are reasonable, they will then focus on the following challenges: Iranian proxies acting under a nuclear umbrella, conventional conflict with Iran, and conventional attacks against Israeli strategic targets.

Even if Iran is unlikely to transfer nuclear weapons to its proxies, Iran's nuclearization would still oblige Israel to revise its strategic theory and practice. Israel would expect greater strategic aggressiveness from its adversaries, both with and without encouragement from Iran. Despite downplaying the risk of nuclear transfer, Israel is likely to expect Iranian proxies to act as if they are protected by Tehran's nuclear umbrella. Moreover, Tehran's allies might take the Iranian umbrella for granted and assume that it will constrain Israeli retaliation. These emboldened Iranian proxies would feel greater freedom of action and would be inclined to escalate minor conflicts.

In a scenario in which Iran communicated its readiness to intervene on behalf

Edelman, Krepinevich, and Montgomery and Their Critics

of its clients, Israeli strategists would likely assume that Tehran would not risk a nuclear confrontation to assist an embattled Hamas, Hezbollah, or Syria. Nevertheless, uncertainty about the Iranian nuclear posture is likely to force Israel to act with caution and restrict its actions when fighting Iranian allies.

The increasing range and accuracy of missiles held by Iranian proxies introduce a new kind of threat: disarming conventional strikes on Israel's military installations, strategic infrastructure, and the Dimona nuclear reactor in particular. Given the sophistication of Hamas' and Hezbollah's ballistic arsenals, these scenarios are already conceivable today. Such strikes would add a counterforce mode to the predominantly countervalue warfare waged against Israel in recent years.

Deterring Iran and its proxies from strikes on Dimona, or from other conventional counterforce strikes, would become a pressing concern. Even if revealed, Israel's ultimate deterrent might be marginal in preventing these attacks. The traditional Israeli logic of holding patrons accountable for their proxies' actions, applied for decades in Lebanon, would be much more problematic and dangerous if applied to a nuclear-armed Iran.

Developing a nuclear deterrence posture for nonexistential threats would run counter to Israel's long-standing view of the "bomb in the basement" as a last resort, to be used only when the country's survival is threatened. Alternatively, if Israel chooses to maintain this traditional position, then it will be forced to develop a new and credible deterrence posture based on its conventional capabilities.

Presumably, following Iran's nuclearization, other regional actors would seek to

develop their own nuclear capabilities. This development might generate a counter-intuitive meeting of interests between Iran and Israel. First, both Iran and Israel would be equally interested in preserving the regional exclusivity of the nuclear club. Second, both countries would be interested in avoiding internationally imposed nuclear disarmament. Finally, Iran and Israel would be equally concerned about the radicalization of regional Sunni regimes possessing nuclear or advanced ballistic capabilities.

Establishment of a communications channel between Iran and Israel, similar to that introduced by Moscow and Washington following the Berlin and Cuban crises, would be indispensable for developing a stable deterrence relationship and preventing deterioration due to miscalculations.

Uncertainty in the immediate aftermath of Iran's nuclearization could increase the level of caution among both Iranian and Israeli leaders, but it could also have the opposite effect—leading to even greater danger. As Edelman, Krepinevich, and Montgomery note, the standoff, whether with or without a communications channel, would be inherently unstable since both parties would be predisposed to launching a first strike: Iran would be tempted to "use them or lose them" by striking first and Israel would be determined to exploit its edge while it still had one. This dynamic would remain until Tehran acquired a second-strike capability. Moreover, during conventional conflicts, potential miscalculations might occur not only because reckless proxies could drag Iran into a direct clash but also because Iran and Israel would be in the midst of a nuclear learning period; intentional and unintentional nuclear

The War Over Containing Iran

signals might be misunderstood, and Iranian and Israeli inexperience, impulsiveness, and illiteracy when it comes to each other's strategic cultures could come into play.

NUCLEAR STABILITY

In order for Israel to live with a nuclear Iran, its strategic mentality would have to adjust and its leaders would have to grapple with several cognitive dissonances. First and foremost, the Israeli government would have to wrestle with the image of Iran that it has constructed. For years, Israeli leaders have appealed to popular fears by cultivating the specter of a second Holocaust in which Iranian President Mahmoud Ahmadinejad is equated with Hitler and the United States is equated with Neville Chamberlain's United Kingdom. The Iranian leadership has consistently been presented as fanatical and irrational.

If Iran crosses the nuclear threshold, the Israeli government will likely seek to assure its population that Israel possesses effective countermeasures and that a stable MAD regime is feasible. However, to make this explanation convincing, the Israeli establishment will have to spell out that Iran is a rational strategic player that can be deterred. Such a message would be confusing and disorienting for Israelis because it contradicts everything that the Israeli government has been preaching to itself, its citizens, and the world for decades.

Second, if the MAD school prevails and the balance of terror between Iran and Israel works, then Israel will enjoy a stable deterrence regime. However, Israeli strategists will be forced to adapt to a new reality that runs against their very nature. Israel has long seen military superiority as the cornerstone of its security and its deterrence posture. Now, Israel's security and

deterrence would be directly linked to living under the constant threat of total annihilation and mutual vulnerability.

Third, given the regional redistribution of power, Israel's military action would be relatively restricted and diplomatic channels might take on greater importance, upending the Israeli tradition of marginalizing diplomacy when it comes to matters of national security.

Fourth, Israel might have to project a new image of itself as a careful and composed actor rather than the "crazy when furious" reputation that the Israel Defense Forces have cultivated. In a nuclear standoff, this traditional image would not necessarily contribute to a stable deterrence regime.

Finally, Israeli strategists faced with a nuclear Iran are likely to inherit several old assumptions: that Tehran believes that Israel possesses a credible nuclear deterrent, that Tehran takes for granted the U.S. strategic commitment to Israel, that Tehran would expect Israeli nuclear retaliation only in response to an Iranian nuclear strike on Israel, and that an Israeli attack on Iran's nuclear infrastructure would not lead to Iranian retaliation with nuclear weapons, if any such weapons remained operational following an Israeli strike.

If these strategic beliefs are left untested and prove to be false, they could lead to catastrophic miscalculations on the part of Israeli decision-makers.

DIMA ADAMSKY is an Assistant Professor at the Lauder School of Government, Diplomacy, and Strategy at the Interdisciplinary Center Herzliya and the author of *The Culture of Military Innovation*. The scenarios discussed here are speculative and do not represent the views of any official in the Israeli government.

Reading Kennan in Tehran

KARIM SADJADPOUR AND
DIANE DE GRAMONT

Decades after his seminal “X” essay was published in these pages in 1947, the acclaimed U.S. diplomat George Kennan continued to lament the fact that his call for political containment of the Soviet Union had been interpreted primarily as a military strategy. “I found it easy to convince [my higher-ups] that this was a very dangerous group of men,” he recalled in 1996. “But I couldn’t persuade them that their aspirations were political. . . . And not military. They were not like Hitler.”

Today, U.S. policymakers are engaged in a similar debate about the nature of the dangers emanating from Iran, a theocracy that dabbles in millenarianism, Holocaust denial, and uranium enrichment. Faced with such a threat, it is worth reconsidering the wisdom of Kennan’s original philosophy of containment. In a 1987 *Foreign Affairs* essay, he wrote, “when I used the word ‘containment’ . . . , what I had in mind was not at all the averting of the sort of military threat people talk about today.” Rather, he saw Moscow as “an ideological-political threat.” For Kennan, containment meant the United States needed to improve its understanding of the Soviet Union and its ability to combat Soviet propaganda through savvy diplomacy and political operations, not force of arms.

POLITICAL CONTAINMENT

Eric Edelman, Andrew Krepinevich, and Evan Montgomery offer a strategy for deterring Iran that focuses heavily on military containment but ignores the internal and regional dynamics that have fostered Iran’s rise. Given that Tehran’s ascent in the Middle East is due chiefly to its political influence and support for client militias, not its military prowess, their strategy addresses only half the equation. The other, arguably more important half is a multifaceted political containment strategy that aims to dilute Tehran’s influence abroad and strengthen moderate forces within Iran.

Although its precise intentions remain unclear, Iran is by all accounts at least a few years away from being able to develop a nuclear weapon. Before that day comes, Edelman, Krepinevich, and Montgomery warn, the United States should not feel sanguine about the prospects of containing a nuclear-armed Iran. An “increasingly aggressive” Tehran, the authors argue, would likely intimidate its neighbors into accommodation, diminish U.S. influence and prestige in the Middle East, and cause a dangerous nuclear proliferation domino effect. To address this threat, they propose reverting to a three-pronged strategy that has more or less been the hallmark of U.S. policy toward Iran since 1979: diplomacy and sanctions, clandestine action, and an increased U.S. military presence in the Persian Gulf.

The first two strategies are already being applied, with greater than anticipated success. The Obama administration’s unreciprocated attempts at engagement have exposed Tehran’s intransigence, accentuated Iran’s deep internal divides,

The War Over Containing Iran

and created an unprecedented degree of international cooperation to counter its nuclear program. Although the combination of robust international sanctions and high-tech sabotage has not curtailed Iran's nuclear ambitions, it has delayed their realization.

The analysis provided by Edelman and his co-authors suggests that the third strategy—beefing up U.S. deterrence capacity in the Persian Gulf—is unlikely to be effective. They explain that Cold War-style military deterrence will probably not work with Iran because the balance of power in the region is less stable, Arab governments are unlikely to welcome more U.S. troops, and the United States' commitment to protecting the Middle East is weaker than its Cold War commitment to Europe.

Despite these reservations, they propose sending in more submarines, weapons, and bombers and worry that the United States has insufficient nuclear weapons and missile defenses to defend its allies against Iran and other threats. Considering Iran's overwhelming military inferiority, such concerns appear misguided.

The recently ratified New Strategic Arms Reduction Treaty, known as New START, still allows the United States to maintain an arsenal of over 1,500 nuclear weapons—"enough nuclear warheads," noted U.S. Senator Lamar Alexander (R-Tenn.), "to blow any attacker to kingdom come." Furthermore, Iran's military budget is less than two percent of the United States' and less than a quarter of that of its main regional rival, Saudi Arabia. In 2009, General David Petraeus, then the commander of the U.S. Central Command, matter-of-factly claimed that even the United Arab Emirates' much

smaller air force could swiftly "take out the entire Iranian Air Force," given the former's superior U.S.-made aircraft.

Recent experience also suggests that enhancing the U.S. military presence in the Persian Gulf is unlikely to rein in Iran. Not long ago, Tehran faced over 180,000 U.S. combat troops on its borders, two U.S. aircraft carriers looming in the Persian Gulf, and consistent threats of military action from senior officials in the George W. Bush administration. And it was during this period that Iran was at its most defiant and made its greatest nuclear strides.

As the authors themselves point out, the most likely danger from Iran is not a direct conventional or nuclear strike against its neighbors but rather its support for terrorism and subversion. Through its client militias and ideological sympathizers abroad, Iran can undermine governments with vastly superior armies, as evidenced by the United States' experience in Iraq. Iran's popular appeal in the Middle East is greatest in times of tumult, political disaffection, and economic marginalization, which Iranian leaders unfailingly attribute to U.S. and Israeli policies in the region.

The festering Israeli-Palestinian conflict, the Iraq war, and the 2006 Israeli bombing of Lebanon have created receptive audiences for Iran's ideology. These events, which have often been accompanied by increases in oil prices, have given Tehran prime opportunities to win political influence by providing petrodollar largess and reconstruction assistance to down-trodden communities.

A MIDDLE EAST MARSHALL PLAN

What is lacking in the Middle East is not an influx of high-tech weaponry but

Edelman, Krepinevich, and Montgomery and Their Critics

more effective measures to diminish Iran's appeal and financial potency. Kennan's lesson that the Cold War was more a political than a military battle is instructive. Despite their many differences, the Soviet Union and contemporary Iran display some similar traits. Like the Soviet Union was, Iran is a deeply dysfunctional authoritarian regime whose bankrupt ideology resonates far more abroad than it does at home. As was the case with the men who once ruled Moscow, the legitimacy of Iran's leaders hinges in part on their opposition to the United States. Although Iran's global power and influence are nowhere near those of the Soviet Union in its heyday, Tehran sees itself as engaged in a fierce competition with the United States for the future of the Middle East—in Iraq, the Palestinian territories, Lebanon, and the Persian Gulf.

At the beginning of the Cold War, Kennan believed that the greatest danger facing Europe was not the Red Army but rather the postwar economic and social deterioration, which created fertile ground for domestic communists. In response, he helped create the Marshall Plan.

Despite the profound differences in culture and context, a somewhat analogous situation can be found in today's Middle East, where economic marginalization, political alienation, and social malaise help fuel religious radicalism and enhance the appeal of both the Iranian regime and its clients. Although its precise implementation would differ from that of the original Marshall Plan, a Marshall Plan for the Middle East would be built on the same philosophy: the goal would be to more effectively contend with Iran's supply of ideological radicalism by attempting to mitigate popular demand for it. The most

obvious policy prescriptions for weakening Iran and diluting its regional appeal—an Israeli-Palestinian peace deal and a sharp reduction in oil prices—are long-standing challenges. Attempts to reduce Israeli-Palestinian tension and U.S. reliance on fossil fuels would undermine Iran's political standing in the Middle East in a way that military aid to autocratic Arab leaders cannot.

As was the case with the Soviet Union, the Iranian regime's international profile is rising just as the country's internal decay appears to be accelerating. The contested 2009 presidential election and subsequent large-scale protests revealed Iran's deep-seated popular discontent and internal divisions. Although Washington's ability to facilitate political reform in Iran is limited, there are important measures the U.S. government can take to constrain Tehran's ability to repress and censor its population and help Iranian moderates help themselves. Such measures should include dramatically improving the quality and reception of the Voice of America's Persian News Network (which is estimated to reach over 20 million Iranians), combating the regime's ability to control and block communications, and implementing further targeted sanctions—such as travel bans and asset freezes—against human rights abusers.

Although supporting domestic reform is a difficult and delicate game, there could arguably be no greater guarantor of U.S. security in the Middle East than a representative Iranian government that put national interests ahead of ideological ones. As Henry Kissinger has argued, if Iran were to follow its own national interests, "there are few nations in the world with whom the United States has

The War Over Containing Iran

more common interests and less reason to quarrel.”

This vision of political containment does not suggest that the United States should shun dialogue with Iran while it attempts to limit its influence. Talking to Iranian leaders will not resolve the real, serious differences between the two governments or convert Tehran into a U.S. ally. But given Iran’s influence on major U.S. foreign policy challenges—namely, Iraq, Afghanistan, Israeli-Palestinian peace, terrorism, energy security, and nuclear proliferation—ongoing channels of communication could help mitigate the risk of escalation and conflagrations.

The goal should be not to contain Iran ad infinitum but to limit its destructive influences while facilitating its transition to a nation that can begin to realize its potential to serve as a constructive force in the world. In the process, just as Kennan cautioned about the Soviet Union, the United States “should remain at all times cool and collected,” until the Iranian regime is forced to change under the weight of its own contradictions and economic malaise. “For no mystical, messianic movement,” Kennan wrote in 1947, “. . . can face frustration indefinitely without eventually adjusting itself in one way or another to the logic of that state of affairs.”

KARIM SADJADPOUR *is an Associate in the Middle East Program at the Carnegie Endowment for International Peace. He was previously based in Tehran with the International Crisis Group.* DIANE DE GRAMONT *is a Junior Fellow at the Carnegie Endowment for International Peace.*

A Grand Bargain With Iran

SHAHRAM CHUBIN

Despite the slowdown of the Iranian nuclear program, the United States is no closer to avoiding the fateful and unattractive choice between bombing Iran and an Iranian bomb. Eric Edelman, Andrew Krepinevich, and Evan Montgomery have usefully analyzed the dangers of both outcomes. Attacking Iran risks further proliferation, an Israeli strike, and wider regional hostilities. Containment and deterrence may not be as easy as they appear, given Iran’s growing missile program and its potential to test the limits of deterrence. Extending deterrence to U.S. allies in the region would also be problematic, since the U.S. Congress may not support it and U.S. allies may not feel fully reassured. The authors therefore call for a greater military presence in the region, which could be used for coercive diplomacy or, if need be, an eventual military strike.

If strategy is the alignment of means and ends, and if the situation outlined by the authors is indeed as dire as they suggest, then surely a renewed effort at diplomacy is called for. The United States has not done as much as it could to avoid the awful choice between accepting a nuclear Iran or bombing the country.

The aim of U.S. diplomacy should be to reconcile Iran’s nuclear ambitions with international concerns about proliferation and address the broader issues raised by Iran’s regional behavior. The nuclear issue is a symptom of Iran’s general antagonism

Edelman, Krepinevich, and Montgomery and Their Critics

with the West and its alienation from the international community. Since much of this is self-imposed, efforts at engagement have been met by suspicion and rejection in Tehran. Yet given the stakes, a serious, good-faith effort at reviving the moribund diplomatic track is necessary. At worst, a failed initiative would serve to demonstrate that the international community went the extra mile in pursuit of a peaceful accommodation.

At present, the international community does not know whether Iran seeks a latent nuclear capability or actual weapons, how Iran would behave with a nuclear capability short of operational weapons, how much popular support the regime enjoys for its confrontational policies, or how it defines what it considers to be its core rights, including “regime survival” and “legitimate security interests.”

Washington does know that under pressure, the regime is pragmatic and sensitive to relative power balances, that it has trouble making major strategic decisions without pressure, and that an increasingly divided Iran will find it more difficult to sell and implement major foreign policy initiatives. U.S. policymakers also know that the regime tends to overplay its hand, fixate on tactical victories, and misjudge the diplomatic terrain.

Current U.S. policy is based on three assumptions: that sanctions will lead to a reversal of Iran’s policy on uranium enrichment, that the cessation of enrichment must be a precondition for other negotiations, and that small confidence-building steps, such as the exchange of fissile material (for the Tehran Research Reactor), will buy time and lead to eventual movement in other areas. None of these assumptions is sustainable.

Iran has invested too much in its nuclear program to renounce enrichment altogether or suspend it indefinitely. A limited suspension in the context of an overall settlement, however, might be feasible. In that context, reconciling some Iranian enrichment with inspections to reassure the international community that Iran’s program is peaceful might be possible. The aim would be to keep Iran as far away from the nuclear threshold as possible. But to be durable, such a settlement would require not only technical measures but also an agreement addressing the motives driving the program. The current Western step-by-step approach is mistaken because it ignores the need for a broad political settlement.

A grand bargain would be consistent with Iran’s priorities in most international negotiations. Iran generally regards limited agreements as traps. It sees attempts to reach agreements on specific areas as dangerous and regards compromise as a sign of weakness that only invites further pressure, leading down a slippery slope toward regime extinction. It is difficult to induce Iran to make concessions unless it sees where these will lead and how a strong position in one area (such as the leverage it has in Afghanistan or Iraq) can translate into leverage or payoffs in another (such as the lifting of sanctions or the attainment of limited enrichment rights). What is needed is not necessarily more inducements but rather a road map that shows how the issues are linked and could be tackled sequentially in pursuit of a grand bargain.

Attempting such a difficult exercise requires accepting the prospect of some enrichment in Iran, which would mean that U.S. hard-liners would have to accept a

deal. Meanwhile, U.S. allies, particularly Israel, would have to be reassured by the terms of any deal that it would not lead to clandestine enrichment. This will require leadership of a high order.

TEHRAN'S WEAK SPOT

Seen from Tehran, the world today does not look as rosy as it did a few years ago. The United States has taken steps to offset and dilute any strategic benefits that Iran might gain from a nuclear capability. Crossing the nuclear threshold would create a more united Gulf Cooperation Council while solidifying and possibly increasing the U.S. military presence in the region. The status motivations for a nuclear capability seem questionable in light of North Korea's unenviable condition and its fellow failing nuclear state, Pakistan. The Iranian nuclear program itself is facing difficulties as a result of its patchwork sourcing, the tightening embargo on technology, and cyberattacks. Crossing the weaponization threshold would require a massive stock of indigenous fissile material, which in turn would spell the end of any future nuclear energy program, whereas stopping short of that threshold could still confer many of the assumed benefits of crossing it.

In the event of a strike on Iran's nuclear facilities, most of its potential avenues of retaliation would be either counterproductive (such as attacks on the Gulf states or the Strait of Hormuz) or difficult to carry out repeatedly (such as attacks by proxies). Meanwhile, Iran itself is in transition. The regime has swapped a degree of popular legitimacy for reliance on a more limited base and intensified repression. All political issues now revolve around succession struggles, namely, who will replace President

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Edelman, Krepinevich, and Montgomery and Their Critics

Mahmoud Ahmadinejad and Supreme Leader Ali Khamenei. The Iranian government understandably feels vulnerable domestically due to generational and demographic changes and schisms among the elite. Under these circumstances, Iran's revolutionary model of strategic defiance may have begun to lose its appeal in the region. In Iran itself, bombastic rhetoric has largely been discredited in the eyes of citizens who prefer a government that can perform and deliver—in short, Chinese-style performance-based legitimacy.

Iran is no longer riding a regional or domestic wave. This makes bold, confident, and politically courageous U.S. diplomacy even more necessary. To be sure, there are risks that Iran could use negotiations to string along the international community, seek to divide the United States and Europe with counterproposals, and deflect further sanctions. But a U.S. initiative could counter these Iranian moves. A generous offer that meets Iran's minimum demand—for some enrichment—would reassure the international community and transfer the responsibility for any failure to the Iranian regime itself. This would put an end to the narrative of a vengeful, arrogant U.S.-led coalition dictating terms as a substitute for forcing a regime change and put responsibility for the prolonged crisis and its consequences where it belongs, thereby signaling to the Iranian people that the nuclear dispute is about not Iran's rights but the regime's insistence on keeping control at home by ensuring continual crises abroad.

SHAHRAM CHUBIN *is a Senior Associate in the Nuclear Policy Program at the Carnegie Endowment for International Peace.*

Edelman, Krepinevich, and Montgomery Reply

Dima Adamsky's commentary reinforces many of the concerns that we raised in our article. Adamsky argues that Iran's acquisition of nuclear weapons would likely divide Israeli leaders into two main opposing camps, with some advocating a preventive attack before Iran could develop an assured second-strike capability and others concluding that a stable nuclear balance will emerge over time. No matter which point of view triumphs, however, the implications for Israeli security and U.S. policy will be significant.

The dangers of a preventive war against a nuclear-armed adversary are obvious. Despite Israel's overwhelming conventional and nuclear superiority, the possibility of Iran successfully retaliating with one or more nuclear weapons would remain. This could have a devastating impact on a small nation, such as Israel. Those Israelis who have faith in mutual assured destruction would seem to be more sober-minded. Adamsky believes that members of this group would advocate declaring Israel's nuclear arsenal to bolster its deterrent credibility, even though Israel's status as a nuclear weapons state is widely assumed already.

As we noted in our article, an Israeli declaration could be dangerous and make containing Iran much more difficult. Other nations in the region might recoil from cooperating publicly with the United States because it tolerates Israel's nuclear arsenal yet opposes further proliferation in the region. Similarly, secret cooperation between Israel and its neighbors may

The War Over Containing Iran

become more difficult despite their shared interest in limiting Iran's power and influence. Although these issues exist today, they would become far more significant if Israel publicized its nuclear arsenal. An Israeli declaration could also put added pressure on other nations in the region to pursue their own nuclear weapons programs.

Ultimately, if Tehran does cross the nuclear threshold and Israel chooses to live with a nuclear-armed Iran, one of the principal objectives of U.S. policy should be convincing Israel to maintain its policy of nuclear opacity for as long as possible. The benefit of a slightly more credible Israeli deterrent would not outweigh the added difficulties the United States would confront in seeking to limit a nuclear Iran's influence, preserve regional stability, and prevent additional proliferation.

A second important issue Adamsky raises is that Iran's acquisition of nuclear weapons would increase the threat that Israel faced from Iranian proxies such as Hamas and Hezbollah, either because Tehran would provide increased assistance and encouragement to these groups or because they would become more reckless once they had a nuclear-armed patron. A premeditated attack by Iran against Israel is not the only scenario that could lead to a nuclear exchange, or even the most plausible one. Instead, a limited conflict in southern Lebanon or the Gaza Strip might spiral out of control. Iranian proxies could escalate their attacks against Israel, assuming that it would be deterred by its fear of a nuclear Iran. Israel could then defy their expectations and conduct major reprisals to demonstrate its resolve, prompting Iran to make nuclear threats in defense of its clients. The results would

be unpredictable and potentially disastrous. Although debates over Iran's nuclear program often turn on the issue of Iranian "rationality," it is important to remember that there are many different paths to conflict, and the dynamics of Iranian-Israeli relations could be prone to miscalculation and escalation.

Karim Sadjadpour and Diane de Gramont take issue with our analysis, arguing that Iran is not susceptible to coercive military pressure. In fact, they contend, Iran "made its greatest nuclear strides" during the George W. Bush administration, when that pressure was at its peak—a debatable conclusion given that the December 2007 U.S. National Intelligence Estimate judged with "high confidence" that Tehran halted its nuclear weapons program in the fall of 2003. Invoking George Kennan, they argue instead that Iran can be countered most effectively through political, rather than military, containment.

Sadjadpour and de Gramont are certainly correct to note that Iran exploits local grievances to advance its interests. Nevertheless, their description of political containment is extremely problematic. First, they argue that because the populations of many Arab nations suffer from "economic marginalization, political alienation, and social malaise," the United States should pursue "a Marshall Plan for the Middle East." Second, they believe the United States should also resolve the Israeli-Palestinian conflict to remove an important source of propaganda for Tehran while seeking to reduce oil prices, encouraging domestic reform in Iran, and empowering moderate Iranian leaders.

None of these measures is plausible now or in the foreseeable future, and none

Edelman, Krepinevich, and Montgomery and Their Critics

directly addresses the challenges posed by Iran's nuclear program. For example, when the Marshall Plan was conceived in 1947, postwar Europe was suffering from a shortage of basic supplies and the U.S. dollars to purchase them, problems the United States could help resolve. Today, solving the various problems that Sadjadpour and de Gramont identify would not require foodstuffs, raw materials, and money. Instead, it would require Middle Eastern regimes to fundamentally alter their economic, political, and social policies. Although resolving the Israeli-Palestinian dispute is a laudable goal, the United States has struggled to do so for more than three decades, and a final-status agreement remains elusive. Moreover, lower oil prices might limit the resources available to Iran, but it is hardly clear why U.S. allies in the region would be willing to see their chief source of revenue disappear. An Iranian regime that is less hostile to the United States, its neighbors, and its own population is also desirable, yet the current regime has proved quite durable. Additional economic sanctions or better-quality programs on the Voice of America hardly seem likely to precipitate major changes within Iran.

Finally, Shahram Chubin argues that Washington should pursue "a broad political settlement" with Tehran rather than deal solely with the nuclear issue. Although he does not specify the precise contours of this bargain, it would leave Iran with some uranium-enrichment capability—an outcome that is unlikely to be accepted by the United States and a number of nations in the region, given Iran's history of deception with regard to its enrichment activities.

Chubin's prescription is not as ambitious as that of Sadjadpour and de Gramont. Nevertheless, it suffers from the same flaw: Chubin proposes solving one large problem, namely, the challenge of Iran's nuclear program, by first solving a series of even bigger problems, in this case the underlying grievances between the United States and Iran. Although Tehran may indeed be suspicious of limited agreements, it is unclear how both sides can make the leap from the current impasse over Iran's nuclear ambitions to "a grand bargain" that would also address a host of other issues and overcome decades of mistrust and hostility. In fact, the understandable difficulties of reaching a comprehensive accord would give Tehran an excellent opportunity to use negotiations as a stalling tactic, a possibility Chubin acknowledges.

In the end, the responses to our article highlight the unfortunate fact that there are no good alternatives when it comes to halting Iran's nuclear program. This may help explain why Cold War-style containment has emerged as the default option for the United States; because it worked against the Soviet Union, many simply assume that it will work against Iran. Before jumping to that conclusion, however, it is important to understand the many obstacles this strategy would have to overcome in order to succeed. 🌐

Recent Books on International Relations

Political and Legal

G. JOHN IKENBERRY

God's Century: Resurgent Religion and Global Politics. BY MONICA DUFFY TOFT, DANIEL PHILPOTT, AND TIMOTHY SAMUEL SHAH. Norton, 2011, 288 pp. \$25.95.

Since at least the 1950s, Western thinkers have tended to believe that secularism was a master trend in world politics associated with the spread of democracy and economic modernization. Yet as this groundbreaking book argues, religion has staged a comeback nearly everywhere—even in famously secular Europe. The book's intriguing thesis is that contrary to secularization theories, the resurgence of religion has been propelled by democracy and modernization rather than extinguished by it. Two great shifts have brought religion back into politics: the growth of the political independence of Christian, Hindu, Jewish, and Muslim groups from the institutions of government has allowed them to exercise greater leverage over the state, and the development of more activist "political theologies" has given the groups new messages about how to pursue God's will in politics. Meanwhile, thanks to television and the Internet, it has become

easier to transmit religiously inspired ideas across borders—as Hindu nationalists, Turkish Muslims, and the Christian right in the United States have discovered.

The Future of Power. BY JOSEPH S. NYE, JR. PublicAffairs, 2011, 320 pp. \$27.99.

Nye is the preeminent theorist of power in world affairs today, and this book is a grand synthesis of his ideas and an essential guide to the debate over the decline of the United States and the rise of China. Nye shows that economic and military capabilities still matter but that their uses in the modern era place a greater premium on information, communication, and legitimate authority. Power, Nye argues, must be understood in relational terms, disaggregated into its various dimensions, and viewed within specific geographic and historical contexts. These premises make him skeptical of the widely anticipated decline of the United States. It is true that China is growing rapidly, but observers often ignore the United States' durable military and soft-power advantages. In Nye's view, the diffusion of power may be as consequential as power transitions between major states. So the United States' soft power and open society may actually give the country new power advantages in the twenty-first century.

Recent Books

How to Run the World: Charting a Course to the Next Renaissance. BY PARAG KHANNA. Random House, 2011, 272 pp. \$26.00.

In Khanna's vision, the world is not becoming multipolar so much as it is becoming fractured and ungovernable. In this new age of chaotic transnational struggles, governments, international organizations, nongovernmental organizations, and corporations will all compete on a sprawling multidimensional playing field. Seeking to emphasize the revolutionary character of this global change, Khanna rolls out a long list of evocative terms—"fragmented world," "hyper-complex ecosystem," "post-industrial age," "islands of governance," "world of complexes," "neo-medieval world," and "post-modern Middle Ages." Since no superpower or group of states is in control, Khanna argues, the United Nations and other traditional institutions are outdated, and the world can be governed only by "mega-diplomacy." It is not entirely clear what this is, but apparently it entails new combinations of actors working together to coordinate actions and policies. The book provides journalistic portraits of various global trouble spots—failed states, terrorist enclaves, disputed territories—and the various states and international groups that have intervened. It also offers impressionistic renderings of modern-day world politics. What is missing is a worked-out theory of international order and change and a coherent account of the rise and fall of the modern state.

The Unfinished Global Revolution: The Pursuit of a New International Politics.

BY MARK MALLOCH-BROWN.

Penguin Press, 2011, 272 pp. \$27.95.

From his various perches at the United

Nations, at the World Bank, and in the British government, Malloch-Brown has seen global institutions struggle with terrorism, poverty, financial crises, and environmental threats. Part autobiography and part political treatise, his book journeys through the recent past, relating the highs and lows of global governance. At the United Nations, where Malloch-Brown started in the 1980s, the organization labored under its bureaucratic weight and political stalemate but began to find a successful role in peacekeeping and humanitarian operations. At the World Bank, he joined others in pushing for political reforms in addition to market reforms. Malloch-Brown argues that as global challenges mount, states will find it harder to deliver security and welfare for their citizens and so the demand for international cooperation will grow. Although he calls for a new "global social contract," the book's account of three decades of laboring within the halls of bureaucracies suggests that muddling through may be the most one can expect.

The Last Utopia: Human Rights in History.

BY SAMUEL MOYN. Belknap Press,

2010, 352 pp. \$27.95.

Most accounts of the human rights movement begin with the crystallization of ideas about "the rights of man" during the Enlightenment, ideas that were ushered onto the world stage during the American and French Revolutions in the eighteenth century, pushed forward by antislavery and anticolonial movements in the nineteenth century, and made universal in the 1940s with the establishment of the United Nations and the Universal Declaration of Human Rights. In this provocatively revisionist history, Moyn argues that the

Recent Books

decisive move occurred more recently. Until the 1970s, Moyn claims, human rights were still primarily secured by sovereign states. What was new and revolutionary in that decade was the notion that rights were entitlements that existed “above and outside” the sovereign state, a concept that served as a rallying call for human rights movements across Europe, Latin America, and the United States. But what Moyn fails to fully appreciate is that the deep subversiveness of ideas about “the rights of man” had existed since the Enlightenment, poised to unsettle more traditional notions of citizens and the state.

Economic, Social, and Environmental

RICHARD N. COOPER

Conquest, Tribute, and Trade: The Quest for Precious Metals and the Birth of Globalization. BY HOWARD J. ERLICHMAN. Prometheus Books, 2010, 500 pp. \$28.00.

At its heart a history of the sixteenth century, this account of imperial competition for minerals focuses on the superpower of the day, Spain under Charles V and Philip II. It underlines the importance of new sources of money, above all silver, in understanding the rises and falls of ambitious rulers and their dependence on lenders in Bavaria, Genoa, Antwerp, and, ultimately, Amsterdam to sustain their expensive enterprises. The biggest bonanza was the discovery of silver in Potosí (located in today’s Bolivia), whose large output was augmented by major improvements in extraction technology.

The silver traveled eastward to Europe (mainly to repay lenders and to pay troops, but also to build and replace the Spanish Armada) and westward to finance growing trade with China, whose demand for silver seemed unlimited. This period was similar to the present in two respects: it was marked by globalization (the spread of diseases and cultivable plants, including cacao, changed the world forever) and fiscal profligacy.

A Fistful of Rice: My Unexpected Quest to End Poverty Through Profitability. BY VIKRAM AKULA. Harvard Business Press, 2010, 224 pp. \$26.95.

This is an inspiring autobiographical story of an American of Indian origin who went to India to help the rural poor, first as a volunteer and then as the founder of a for-profit microfinance company, SKS (short for “self-help society” in Sanskrit). It is a personalized account of Akula’s motivations, his tribulations in dealing with India’s bureaucracies and extortionist gangsters, his gradual but ultimately outstanding success in raising capital to finance rural lending, and the rewards of seeing thousands of poor rural women take initial steps up the economic ladder. Microfinance has come under criticism for profiting from what some view as charitable work. Akula makes a vigorous defense of drawing in capital, largely on the grounds that it permits the much more rapid extension of credit to many more people who need it. He also defends the practice of charging an interest rate (28 percent) high enough to cover the actual costs of reaching remote villages and to provide a competitive return on the risk.

Recent Books

Privatizing Water: Governance Failure and the World's Urban Water Crisis. BY KAREN BAKKER. Cornell University Press, 2010, 320 pp. \$65.00 (paper, \$24.95). Bakker, a Canadian political scientist, tries to dissect the often emotional debate over whether urban water supplies should be publicly or privately owned. (Surprisingly, she does not analyze the related service of sewage disposal.) Twenty years ago, privatizing the supply of water was high on the agendas of some economists and development agencies. Reviewing experiences since then, Bakker concludes that either mode of ownership is quite capable of providing inadequate service, particularly to the urban poor, her principal interest. Publicly owned suppliers are too often viewed as sources of patronage jobs or contracts; private providers too often channel the efficiency gains they achieve to shareholders rather than to customers, which is perhaps unsurprising given the lack of competition in the sector. Bakker cautiously concludes that the best arrangement is a combination of the two approaches: public ownership with private management under contract.

Sovereign Wealth Funds: Threat or Salvation? BY EDWIN M. TRUMAN. Peterson Institute for International Economics, 2010, 216 pp. \$23.95. Sovereign wealth funds—investment portfolios owned by governments—exceeded \$5.9 trillion in value in mid-2009. Of this, \$3 trillion was invested outside the countries of ownership. The largest fund is the Japanese government's \$1.3 trillion pension fund, a quarter of which is invested abroad, and the second-largest fund belongs to Abu Dhabi. Americans may be surprised to learn that some sovereign wealth funds

are owned by U.S. state governments, the largest being California's public employee retirement system, followed by Alaska's permanent fund. In a period in which many financial institutions have been trying to replenish their capital, these patient investors are particularly welcome. But government ownership also raises concerns about the use of these large investments to pursue political objectives or manipulate financial markets. In this book, Truman, a former long-serving official of the U.S. Federal Reserve, usefully arrays what facts are known about sovereign wealth funds (some funds are much more secretive than others), analyzes the legitimate concerns about them, and evaluates them according to a scorecard of desirable behavior. Many funds have now subscribed to the IMF-sponsored Santiago Principles, a code of good behavior proposed in late 2008. Truman urges that these guidelines be made universal, stronger, and more formal and be better enforced.

Chocolate Wars: The 150-Year Rivalry Between the World's Greatest Chocolate Makers. BY DEBORAH CADBURY.

PublicAffairs, 2010, 384 pp. \$27.95. This is the story, initially set in the nineteenth century, of seven chocolate makers—three English, one Dutch, two Swiss, and one American—struggling to produce salable products. Eventually, determined entrepreneurs met the technical challenges of converting a bitter bean into the many delicious forms of chocolate familiar today. The three English firms—Fry, Cadbury, and Rowntree—were run by Quaker families, and the founder of the American one, Milton Hershey, had gone to a Quaker school. All the companies were imbued

Recent Books

with a strong sense of social responsibility, founding orphanages, creating model towns, and engaging in other good works as they prospered. The main focus of *Chocolate Wars* is Cadbury (sold to the American company Kraft Foods in 2009), whose managers found themselves, among other activities, combating slavery in Portuguese Africa in the early twentieth century and devising a code for good corporate governance more recently.

Military, Scientific, and Technological

LAWRENCE D. FREEDMAN

The Longest War: Inside the Enduring Conflict Between America and Al-Qaeda Since 9/11.

BY PETER L. BERGEN. Free Press, 2011, 496 pp. \$28.00 (paper, \$16.00).

Bergen is one of the most intelligent and informed chroniclers of al Qaeda, and in his latest book, he narrates the long-running conflict between that group and the West. One reason he suggests for the duration is that both sides have fought poorly, with the two main offensive operations—9/11 and the invasion of Iraq—calamitous strategic errors from which neither has fully recovered. Osama bin Laden could and should have been captured at Tora Bora as the Taliban retreated in Afghanistan in late 2001. His survival and continuing propaganda have given al Qaeda an endurance it might have otherwise lacked, although the group has been hampered by both its limited operational impact, as in Europe and North America, and the loss of would-be constituents who are turned off by its harsh methods, as in Iraq. So despite occasional tactical suc-

cesses, the organization's prognosis is poor. Even though much of the book covers familiar ground and there is too much of a focus on bin Laden, Bergen knows his subject, which makes reading *The Longest War* a helpful way to take stock of a difficult decade.

Beetle: The Life of General Walter Bedell Smith.

BY D. K. R. CROSSWELL. University Press of Kentucky, 2010, 1,088 pp. \$39.95.

Brute: The Life of Victor Krulak, U.S.

Marine. BY ROBERT CORAM. Little, Brown, 2010, 384 pp. \$27.99.

Without Hesitation: The Odyssey of an American Warrior. BY HUGH

SHELTON, WITH RONALD LEVINSON AND MALCOLM MCCONNELL. St.

Martin's Press, 2010, 576 pp. \$27.99.

These two biographies and one autobiography cover twentieth-century U.S. military history. Walter Bedell Smith, known as "Beetle," first saw action in World War I, rose to become General Dwight Eisenhower's chief of staff in World War II, and ended his career as the number two in the State Department during Eisenhower's presidency. Victor Krulak, known as "Brute," watched the rise of Japanese aggression as an intelligence officer in Shanghai in the 1930s and was active in the Pacific theater during World War II, leading a raid on the Solomon Islands and helping plan the invasion of Okinawa. He rose through the Marine Corps, making himself an expert on counterinsurgency, until he eventually fell out with President Lyndon Johnson over Vietnam. Shelton saw action in Vietnam and was involved in a series of later operations, from the U.S. invasion of Panama in 1989 through the 1991 Persian Gulf War. He became chairman of the Joint

Recent Books

Chiefs of Staff under President Bill Clinton, overseeing the Kosovo intervention, and retired just after 9/11, as the Afghanistan campaign was getting under way.

Shelton is the odd one out. Tall and square-jawed, he looked the part and made it right to the top. Smith and Krulak were both small, intense, driven characters eventually frustrated in their ambitions. Smith is described as “combative, inarticulate when expressing personal feelings, covetous and resentful of those better off; a secretive loner bordering on antisocial.” Krulak denied awkward aspects of his life (being Jewish and having an early failed marriage) and exaggerated his achievements. Despite their flaws, Smith and Krulak were talented staff officers, men with a knack at getting military machines to work. Their biographies demonstrate how much operational brilliance depends on the Smiths and Krulaks who can turn big ideas into workable plans.

Of the three books, *Beetle* is the weightiest in every sense, a major contribution to the history of World War II. Crosswell gets all the important things Smith did after the war out of the way in the opening chapters in order to concentrate on the Allied campaigns of 1944–45, the real meat of the book. From Smith’s vantage point, one sees the defeat of Germany in a new light, with Crosswell constructing a masterly account of how the larger-than-life personalities of the key Allied commanders, including George Patton and Bernard Montgomery, struggled to develop a coherent strategy against a surprisingly resilient foe.

Coram writes well, and Krulak is an interesting subject, especially when it comes to his distinctive position on Vietnam. But Coram seems to appreciate Krulak

largely for what he did to preserve the institutional independence of the Marine Corps. Shelton’s autobiography is a story of achievements and promotions, interspersed with passages about how he recovered from breaking his spine after falling off a ladder. His approach is more descriptive than analytic, but the book contains a warm portrayal of working with Clinton and is enlivened by the settling of old scores with figures such as General Wesley Clark and former Secretary of Defense Donald Rumsfeld.

Unwarranted Influence: Dwight D.

Eisenhower and the Military Industrial Complex. BY JAMES LEDBETTER. Yale University Press, 2011, 280 pp. \$26.00.

The Civilian and the Military: A History of the American Antimilitarist Tradition.

ARTHUR A. EKIRCH, JR. Independent Institute, 2010, 380 pp. \$19.95.

Once upon a time, Republican presidents worried about deficit spending and were reluctant to be talked into unnecessary defense expenditures by lobbyists inflating threats. Large peacetime military establishments were considered risks to American democracy and security. President Dwight Eisenhower shared these concerns sufficiently to warn in his valedictory address about the “unwarranted influence” of “the military-industrial complex”—a warning that reflected his background in industrial mobilization and his experience in office. He came under enormous pressure to authorize the purchase of expensive military systems, often by retired officers who had joined corporate boards. In *Unwarranted Influence*, Ledbetter traces how the speech came about and charts its later influences, refuting those who claimed it sank without trace.

Recent Books

A companion piece from the same period is a reprint of Ekirch's 1956 book *The Civilian and the Military*. Scholarly in its research and scope, the book also celebrates that antimilitaristic tradition, with its hostility to standing armies and conscription, warmongering by "merchants of death," distorted budgetary priorities, and the subversion of individual freedom in the name of national security. It reveals, often unintentionally, the problems with this tradition (notably, how to deal with states that are even more militaristic) while providing a compelling reminder of its historic influence.

The United States

WALTER RUSSELL MEAD

Decision Points. BY GEORGE W. BUSH.

Crown, 2010, 512 pp. \$35.00.

History will not remember Bush as a great prose stylist, and he does himself no favors by invoking the memoirs of Ulysses S. Grant as a model at the start of *Decision Points*. But despite the long stretches of flat and featureless writing, Bush's memoirs are nevertheless rewarding in their own way. When Bush comes to the critical moments of his presidency—9/11, the decision to invade Iraq, Hurricane Katrina, the troop surge in Iraq—a fierce urgency enters the book as the still raw emotions of those events bring out a more engaged and intense side of the normally laid-back former president. *Decision Points* is less than a full-throated defense of everything the Bush administration did. There are more apologies than complaints in the book; Bush acknowledges missteps and only rarely stoops to settle

scores with the congressional and journalistic critics who attacked his administration so bitterly. But the apologies are more often about style than substance. Bush deeply believes he did the right thing when the chips were down. History will be the judge of that. This book effectively presents him as a sincere man who did the best he could in the face of unprecedented challenges. It was clearly not always enough.

The Whites of Their Eyes: The Tea Party's Revolution and the Battle Over American History. BY JILL LEPORE. Princeton University Press, 2010, 224 pp. \$19.95.

Do Harvard professors of history have a more complex, nuanced, and grounded understanding of the American Revolution than rank-and-file Tea Party protesters? If anybody was in any doubt, *The Whites of Their Eyes* lays the question to rest. Lepore, a Harvard professor, Pulitzer Prize nominee, and *New Yorker* staff writer, brings to this book great erudition, along with a richly layered vision of the American Revolution and the uses to which it has been put by various generations since. Even though that vision lists mostly to port, readers of every political persuasion will learn about the Revolution and its place in American memory. But Lepore's point—that liberals really love and understand their country, while Tea Party conservatives just make noise—is undermined by her failure to engage more deeply with the convictions and perceptions of the Tea Party members she uses as foils for her views. She seems less interested in figuring out what these people really mean than in deriding the simplistic and ahistorical ideas they express. A historian who took this attitude toward her sources would produce superficial and unsatisfactory

Recent Books

work; Lepore enjoys herself perhaps a little too much as she contrasts the richness and humanity of her own views with the tawdry errors of the common herd.

Scorpions: The Battles and Triumphs of FDR's Great Supreme Court Justices. BY NOAH FELDMAN. Twelve, 2010, 528 pp. \$29.99. No U.S. president has appointed as many Supreme Court justices as Franklin Roosevelt did; hamstrung in his first term by the opposition of conservative justices, and frustrated by the failure of his notorious court-packing scheme, he ultimately remade the Court through his appointees. Four of them—Hugo Black, Felix Frankfurter, William Douglas, and Robert Jackson—are among the most influential justices in U.S. history. Feldman looks at how these men came to the Court, how their ideas developed there, and how their interplay and rivalries reshaped constitutional thought and the balance of power in the republic. Originally all liberal allies of the New Deal, the Roosevelt appointees only gradually came to understand just how radically different their judicial philosophies were. Feldman follows both the intellectual and the personal stories of their descent into enmity and traces many of the questions that perplex court watchers today back to the New Deal. The book climaxes with the story of how the judges were able to reach unanimity in *Brown v. Board of Education* and demonstrates Feldman's admirable ability to weave a compelling narrative out of a complicated and abstract plot.

American Grace: How Religion Divides and Unites Us. BY ROBERT D. PUTNAM AND DAVID E. CAMPBELL. Simon & Schuster, 2010, 688 pp. \$30.00. In this finely grained and judicious study,

sure to become a classic work of social analysis, two political scientists take the trouble to listen carefully to the religious and political views of ordinary Americans. Sifting through enormous amounts of data about American society, they come up with riveting and sometimes disconcerting insights into the ways religion shapes and is shaped by the political and social currents of American life. Sympathetic to many religious and nonreligious views but captured by none, Putnam and Campbell present a suitably complex and balanced view of the many changes taking place. "Anglo" Catholics (descendants of Irish, Italian, and Polish immigrants) are leaving a church that is rapidly becoming Hispanic; mainline Protestantism continues to decline; African Americans of all educational levels are among the most religious of Americans; the explosion of white evangelicalism appears to be over. The fastest-growing group consists of those who say they do not belong to any religion, but only a minority of these people identify as atheists. Americans change religions frequently, and most Americans have friends or family in religious groups other than their own, so the authors tentatively conclude that Americans remain religious while growing increasingly tolerant.

C Street: The Fundamentalist Threat to American Democracy. BY JEFF SHARLET. Little, Brown, 2010, 352 pp. \$26.99 (paper, \$15.99).

Sharlet believes that a well-organized and well-funded fundamentalist conspiracy poses a clear and present danger to American freedoms and institutions; his occasionally gripping but often incoherent book shows him grappling with this concern. *C Street* takes readers from the halls

Recent Books

of Congress to the battlefields of Iraq and Afghanistan and the hotels of Uganda to show the vast conspiracy at work. Sharlet puts his finger on some troubling phenomena, particularly evidence of religious intolerance and indoctrination in parts of the U.S. military. But a deeper reading of Christian (and especially evangelical) history would have spared him some angst. Ever since the religious revivals of the early nineteenth century, well-connected and pious Americans have been organizing themselves to proselytize. The United States is littered with organizations once dedicated to that purpose but now used for other things (the YMCA and Oberlin College, for example), and U.S. missionaries have been engaged in the politics of the developing world for two centuries. But somehow after all these generations, the United States is not a theocracy yet, and the pluralistic country of today is substantially less vulnerable to the imposition of evangelical orthodoxy than ever before.

Western Europe

ANDREW MORAVCSIK

Immigration and Conflict in Europe. BY RAFAELA M. DANCYGIER. Cambridge University Press, 2010, 368 pp. \$90.00 (paper, \$28.99).

Foreigners looking to Europe often see the stereotype of a strife-torn continent of intolerant secularists threatened by teeming masses of religious radicals. Yet scholars who study the politics of immigration in Europe find more complex and nuanced patterns. One of the best efforts to make sense of it all is this book by Dancygier on the sources of immigration politics in

Germany and the United Kingdom. She refutes the polemics of Islamophobes by showing that beliefs about ethnicity and religion on the ground have almost nothing to do with the patterns of discord. Instead, clashes tend to break out over scarce public resources, such as housing, schools, and state jobs. Where immigrants succeed in claiming their share of such resources, natives often signal their restlessness by voting for radical right parties or harassing their foreign-born neighbors. Where immigrants fail to gain these resources, they themselves are likely to protest violently against the state. Statistical data and insightful urban case studies confirm this, as does a concluding section extending the argument across Europe.

When the Luck of the Irish Ran Out: The World's Most Resilient Country and Its Struggle to Rise Again. BY DAVID J. LYNCH. Palgrave Macmillan, 2010, 256 pp. \$26.00.

The higher they rise, the harder they fall. In the 1980s and 1990s, Ireland, once an impoverished backwater from which generations fled, conjured an economic miracle. Fueled by foreign direct investment and real estate speculation, the “Celtic tiger” became a vibrant consumer society with high-tech industry and widespread homeownership, a place to which immigrants flocked. After 2007, the party ended in a morass of insolvent banks, bad mortgages, and unpaid public debt, ultimately sending the proudly independent country begging to the International Monetary Fund. As befits a Bloomberg reporter, Lynch peppers his account of these events with numbers and descriptions of boardroom antics and complex financial deals. As in any good

Recent Books

Irish yarn, however, more memorable are the larger-than-life personalities. Seán FitzPatrick turned the tiny Anglo Irish Bank into a financial giant, only to play golf while it collapsed, after which he retired on his wife's generous pension and stuck the government with a \$17 billion bill. Yet amid all the details, this well-reported narrative leaves one wondering exactly what crucial mistake Ireland made. Was it financial and political corruption, incompetent financial regulation, membership in the eurozone, a misguided faith in low-tax policies, an overreliance on foreign investment, fundamental imbalances in the economy, the guaranteeing of toxic assets, or Irish cultural beliefs—or all of the above?

Globalizing de Gaulle: International Perspectives on French Foreign Policies, 1958–1969. EDITED BY CHRISTIAN NUENLIST, ANNA LOCHER, AND GARRET MARTIN. Lexington Books, 2010, 326 pp. \$80.00.

More has been written about Charles de Gaulle than any other politician of the past half century. His story appeals especially to those who believe that a “great man” armed with a grand vision and traditional wisdom about statecraft can still make a mark in a chaotic world. No doubt, de Gaulle's policies revitalized France, domestically and internationally. In the 1960s, his assertion of an independent French nuclear capability, call for a new bargain with NATO, expansive notion of national sovereignty, support for the gold standard, pursuit of *dirigiste* economic planning, and sympathy for nonalignment triggered panic in other Western capitals but made France a prominent global player. In retrospect,

however, de Gaulle's greatest foreign policy achievements were unrelated to the concerns of his contemporary critics: a more supranational European Union, the definitive end of French colonialism, France's strengthened international economic status, and a stiffer Western resolve in Berlin. This book presents some of the best work from a new generation of historians seeking to understand the tensions between rhetoric and reality in this enigmatic statesman.

European Stories: Intellectual Debates on Europe in National Contexts. EDITED BY JUSTINE LACROIX AND KALYPSO NICOLAÏDIS. Oxford University Press, 2011, 432 pp. \$110.00.

The European Union ranks among the most extraordinary political achievements of modern times. It has abolished tariffs, established a common currency, and spread peace and prosperity to new democracies across Europe. Yet most observers agree that the basic motivations underlying European integration are banal: to facilitate business transactions, coordinate regulatory systems, and get rich quicker on an exceedingly interdependent continent. Few Europeans are true believers in a federal ideal, and their national political identities are not converging. Each of the 27 national debates among intellectuals and commentators about the meaning of Europe remains insular and idiosyncratic. This creative volume brings together a pan-European team to present these diverse discussions and reflect on the differences and similarities among them. Unlike traditional federalist supporters of Europe (and their nationalist critics), the authors assembled here do not view

Recent Books

the continent's ideological diversity as evidence of the EU's failure. The fact that one finds new ideas and approaches each time one crosses one of the (now invisible) borders within the EU is instead, they argue, a unique source of strength, resilience, and creativity.

Inside Austria: New Challenges, Old

Demons. BY PAUL LENDVAI. Columbia University Press, 2010, 320 pp. \$40.00. To most foreigners, Austria is an enigma. Measured by trade, immigration, or diplomacy, it is among the world's most open countries. Yet its politics and society, not to mention its unintelligible dialect of German, remain closed to outsiders. What most people know are traditional clichés. Austria markets itself with *The Sound of Music*, Mozart, and Alpine skiing. Critics attack it the same way: the recent success of a provincial right-wing party led many to view Austria as a land of incorrigible neofascists, for which it was sanctioned by the EU. Lendvai, a top journalist with 50 years of insider access to Viennese circles, offers a more sober perspective on Austrian political life. He unpacks the backroom deals, personal idiosyncrasies, and, above all, partisan maneuvering behind successive governments. This gossipy approach leaves one wishing to know more about social and cultural trends, rising immigration, economic globalization, European enlargement, and the other things that have transformed Austria into one of contemporary Europe's most successful countries. For understanding elite party politics, however, there is no better place to start.

Western Hemisphere

RICHARD FEINBERG

Latin America's Cold War. BY HAL BRANDS. Harvard University Press, 2010, 408 pp. \$29.95.

Brands takes aim at those mainstream historians writing on Western Hemisphere relations who have portrayed the United States as an overwhelmingly powerful hegemon whose destructive interventions are responsible for the region's sufferings. Delving into Latin American archives, Brands counters that Latin Americans have been active participants in their own history—in both their domestic politics and international diplomacy. During the Cold War, Washington and Moscow often had poor understandings of these local dynamics, so their ill-designed policies frequently failed; even those strategies that momentarily succeeded generated blowback and unintended consequences. As Brands persuasively argues, the true story of Latin America's role in the Cold War lies in the dynamic interactions between international forces and domestic actors. Tragically, both the United States and the Soviet Union exacerbated the region's already polarized politics, and the ensuing violent clashes rendered asunder fragile democracies. Fortunately, today many citizens in Latin America and many in Washington policy circles have drawn the right lessons from history, seeking to strengthen democratic institutions—and not overreacting to the provocations of the latest crop of neopopulists.

Recent Books

A New Trade Policy for the United States: Lessons From Latin America. EDITED BY MARIO ARANA, KEVIN P. GALLAGHER, PAOLO GIORDANO, ANABEL GONZÁLEZ, STEPHEN LANDE, ISABEL STUDER, AND JOSÉ RAÚL PERALES. Woodrow Wilson International Center for Scholars, 2010, 78 pp. Free online.

Building Transnational Networks: Civil Society Networks and the Politics of Trade in the Americas. BY MARISA VON BÜLOW. Cambridge University Press, 2010, 280 pp. \$80.00.

For the past two decades, inter-American relations have been dominated by a variety of vigorous debates over trade policy. In *A New Trade Policy for the United States*, a collection of six brief, sharp essays, Arana (a Nicaraguan) and González (a Costa Rican) separately reflect on the U.S.–Central American Free Trade Agreement. Despite their evident enthusiasm for the treaty, these two leading trade negotiators reveal some lingering resentment of the disruptive role played by aggressive U.S. interest groups and their congressional allies. Similarly, the Mexican academic Studer rips into U.S. labor organizations for pushing so hard to include labor standards in trade accords, only to ignore the institutions the accords created. From the perspective of Latin American countries, it is time to move beyond litigious sanctions regimes and build trade capacity, address the disruptive societal effects related to trade, and strengthen domestic safety nets. Arguably, the Obama administration has been doing just these things, albeit piecemeal, by supporting technical community colleges, promoting universal health care, and extending unemployment insurance.

Von Bülow, a Brazilian sociologist, surveyed 123 civil-society organizations in Brazil, Chile, Mexico, and the United States that have opposed various free-trade agreements. Her concerns are mainly theoretical, but her findings nevertheless hold important implications for inter-American relations. She did not uncover a new world of transnational civil-society organizations pursuing global welfare; on the contrary, the groups she studied were driven primarily by the domestic agendas of their home countries. Von Bülow also finds that the transnational movements withered as the official trade negotiations concluded or collapsed. Yet these intermittent social networks lie in wait for the next great trade debate; ambitious government officials would do well to consider their latent powers when designing new trade agendas.

From Social Innovation to Public Policy: Success Stories in Latin America and the Caribbean. EDITED BY NOHRA REY DE MARULANDA AND FRANCISCO B. TANCREDI. United Nations Economic Commission for Latin America and the Caribbean, 2010, 149 pp. Free online.

This inspiring collection of case studies of 25 award-winning grass-roots development projects leaves no doubt that Latin America is brimming with brilliant social entrepreneurship. Some of the featured projects involve the construction of low-cost housing in Chile, the production of processed cacti in Mexico, and the provision of health care to migrant coffee workers in Costa Rica. Such initiatives not only measurably improve the welfare of the poor but also enhance their capacity to exercise citizenship; it is this vibrant social capital as much as specific skills that

Recent Books

empowers them. The expert commission that selected the cases searched for the ability to replicate: the Chilean housing project, which involves university student volunteers and private-sector sponsors, has already spread quickly throughout Latin America. The final challenge is for governments to adopt these social innovations as their own and scale them up to the level of national policy.

Latin America and the United States: A Documentary History. 2nd ed. EDITED BY ROBERT H. HOLDEN AND ERIC ZOLOV. Oxford University Press, 2010, 440 pp. \$39.95.

This compilation is a welcome update to the 2000 edition that Kenneth Maxwell, an earlier reviewer in these pages, judged “a first-rate reference tool” with “stimulating and mischievous juxtapositions.” For those who are persuaded that reading original source documents is an indispensable methodology for grasping historical events in their proper context, the editors have again performed an invaluable service. Their selection of 138 excerpted documents underscores the hegemonic presumptions of many U.S. leaders over two centuries while giving some space to more contemporary U.S. initiatives to promote inter-American cooperation and democratic practices, from John F. Kennedy’s Alliance for Progress to Bill Clinton’s Summit of the Americas. Recurrent Latin American rebelliousness against U.S. power is amply, perhaps disproportionately, recorded; readers get the anti-imperialist poetry of the Nicaraguan modernist Rubén Darío and the contemporary Cuban folksinger Silvio Rodríguez and heated speeches by the neopopulists Hugo Chávez and Evo Morales, but they also hear from the

great Argentine economist Raúl Prebisch. Altogether, this handy collection should inspire students and experts alike to dig more deeply into the historical archives.

Eastern Europe and Former Soviet Republics

ROBERT LEGVOLD

Russia’s Cold War: From the October Revolution to the Fall of the Wall. BY JONATHAN HASLAM. Yale University Press, 2011, 544 pp. \$38.00.

This is both the first full-scale history of the Soviet Union’s role in the Cold War and a new history of Soviet foreign policy from 1917 to 1989. Many excellent studies have mined the archives to shed light on different aspects of the Cold War, but until this book, none has traced the history in such a seamless, comprehensive fashion. Haslam not only exploited familiar archives but also prowled through a prodigiously wide range of unexplored archival material, including the private papers of key participants. What he discovered in the previously untapped testimony of aides and subordinates to key Soviet officials offers the most interesting and surprising insights into Soviet decision-making. On the larger picture, he dissents from those who dismiss the impact of ideology and view Soviet behavior as primarily a function of either Stalin’s personality or a narrow but aggressive *raison d’état*. He also, however, has no patience for those who believe that Soviet ideology had more to do with fear and misperception than ambition, and who, therefore,

Recent Books

underestimate the aggressive side to the ideological impulse.

Bridge of Spies: A True Story of the Cold War.

BY GILES WHITTELL. Broadway

Books, 2010, 304 pp. \$24.99.

Whittell is a master storyteller, and the story here—of three men seized during the Cold War—is better than Hollywood’s best. The world knew one of them as Rudolf Abel, but he was actually a Briton named William Fisher, who was brought to the Soviet Union as a child by parents captivated by Lenin’s revolution, recruited into the KGB, and eventually made head of its operations in North America, until he was betrayed in 1957. Everyone knew Francis Gary Powers’ name after his U-2 spy plane was shot down high over the Soviet Union, an incident that spoiled the 1960 Paris summit. And no one knew of Frederic Pryor, an American graduate student in Berlin arrested by the East German Stasi in 1961 as a spy, which he was not. In 1962, in a carefully choreographed prisoner exchange on Berlin’s Glienicke Bridge and at Checkpoint Charlie, these three men were handed over to their respective countrymen. The story’s utterly fascinating elements are Fisher’s life as a spy and Powers’ part in the U-2 enterprise, recounted in meticulous detail by Whittell. The stakes in both instances may not have been as dramatic as he claims, but the events were emblematic of the Cold War’s more shadowy and adventurous aspects.

Courting Democracy in Bosnia and Herzegovina: The Hague Tribunal’s

Impact in a Postwar State. BY LARA J.

NETTELFIELD. Cambridge University Press, 2010, 352 pp. \$90.00.

With a soft yet firm voice, backed by

exceptionally thorough research, Nettelfield argues that the International Criminal Tribunal for the Former Yugoslavia (ICTY) has helped form attitudes and institutions essential to a democratic outcome in war-ravaged Bosnia. It is not an easy argument to make given the impediments to the tribunal’s success, its own deficiencies, and the headwind of skepticism coming from the analytic community over the effectiveness of such tribunals. All of this she accepts, but then—thanks to a carefully crafted superstructure drawing together different theoretical literatures and, in particular, ten years of exacting research, much of it conducted in the region—Nettelfield makes a compelling case for the ICTY’s larger positive effects. Whether directly, indirectly, or sometimes negatively, it has fostered new assumptions about “justice and accountability” among Bosnians, stirred the formation of civil-society groups determined to fight for these things, and helped create local court institutions capable of carrying on the work. It helps that she lays out the many parts of the argument in clear, jargon-free prose.

Oil Is Not a Curse: Ownership Structure and Institutions in Soviet Successor States.

BY PAULINE JONES LUONG AND

ERIKA WEINTHAL. Cambridge

University Press, 2010, 444 pp. \$90.00 (paper, \$29.99).

More often than not, so a popular theory goes, oil-rich countries are doomed to economic stagnation, growing inequities, and domination by self-aggrandizing authoritarian elites. Not so, argue Jones Luong and Weintal. A great deal of venerated theory, they claim, has erred by generalizing from trends during one

Recent Books

historical era (1970–90) and, in particular, by overlooking a critical intermediate factor—the nature of resource ownership. In the end, whether a well-endowed country has a government that pursues policies promoting fiscal integrity, long-term growth, and a more equitable distribution of economic benefits depends on who owns and manages the oil and gas. Of the four types of ownership the book identifies, that in which the bulk of the oil or gas is under private title and management does the best, and the type in which the state displaces both private and foreign investors does the worst. The other two types, those with either a dominant role for foreign firms or with a division between state ownership and private management, fall in between, the former being better than the latter. The authors use the five post-Soviet states blessed with hydrocarbons but having different ownership models (Azerbaijan, Kazakhstan, Russia, Turkmenistan, and Uzbekistan) to make their case—a case laid out in a rigorous yet lucid fashion.

Gulag Boss: A Soviet Memoir. BY FYODOR VASILEVICH MOCHULSKY. EDITED AND TRANSLATED BY DEBORAH KAPLE. Oxford University Press, 2010, 272 pp. \$29.95.

Mochulsky was 22 years old and had just graduated from engineering school when he was selected by the NKVD (the KGB's dreaded predecessor) to command prison laborers in Stalin's gulag in the frozen Arctic north. Much later, in his 70s, with his successful 40-year career in the Soviet diplomatic corps and the KGB behind him, Mochulsky told his story. It is both revealing and chilling precisely because he is neither a sadist nor a cynic, nor is he

unmindful of the awful enterprise of which he was a part from 1940 to 1946. But for him, the central issue was getting on with the task, building a railroad in inhumanly harsh conditions. What the memoir teaches is how cogs in the gulag machine, even when troubled by the cruelty and injustice around them, accepted the rationalizations given by the state. They went about their work and, without many questions, moved on to comfortable, prosaic careers. That is, unless the horror of the Gulag had driven them to suicide or out of their minds.

Uncertain Democracy: U.S. Foreign Policy and Georgia's Rose Revolution. BY LINCOLN A. MITCHELL. University of Pennsylvania Press, 2009, 192 pp. \$45.00.

As much as Western governments wanted Georgia, even before the 2003 Rose Revolution, to be the poster child for democracy in the post-Soviet region, reality fell short. Georgia under Eduard Shevardnadze, who led Georgia from 1993 to 2003, raised U.S. and European expectations and, with them, proportionately large sums of money to make them come true. But as Mitchell describes, although Georgia in that era was freer than most of its neighbors, it also slid into the ditch of corruption and economic incompetence. Eventually, Shevardnadze “tried to steal one too many elections.” The “accidental revolution” this fathered, although genuinely popular, was scarcely democratic. Those who led it, for all their indisputable success in fighting corruption, salvaging a badly decayed infrastructure, and rallying public support, have attended far more to strengthening and modernizing the state than building democracy—priorities Washington has mostly excused. So, Mitchell

Recent Books

argues, in its democracy-promotion efforts, the United States should be more critical of its perceived democratic allies, less focused on single benchmarks such as elections, and more attuned to the many elements needed to create an engaged citizenry.

Middle East

L. CARL BROWN

The Long Divergence: How Islamic Law Held Back the Middle East. BY TIMUR KURAN. Princeton University Press, 2010, 424 pp. \$29.95.

This is a book to be not just tasted but chewed and digested. Instead of facile claims that Islam is the solution or Islam is the problem, readers get a detailed history of economic institutions in the Middle East as compared to those in the West. Kuran shows that the Islamic law and practices underlying Middle Eastern commerce worked well for a long time and were much more flexible than usually assumed. In time, however, they were overtaken by Western corporations, banks, and trading companies, which could assemble greater capital and survive longer, unlike Islamic partnerships that dissolved after the death of a partner. Kuran also turns his attention to primogeniture in the West, comparing it to the sundering of estates prescribed by Islamic law; Western trade treaties with Middle Eastern powers; and the Middle East's efforts to catch up to the West beginning in the nineteenth century. Clearly presented quantitative data and illuminating anecdotes (such as one about the late-sixteenth-century Egyptian merchant who,

"anticipating Starbucks," opened a chain of coffeehouses) add up to a fine feast.

Sayyid Qutb and the Origins of Radical Islamism. BY JOHN CALVERT. Columbia University Press, 2010, 256 pp. \$29.50.

The best biographies balance the person, the person's achievements, and the environment in which that person worked. This one of Sayyid Qutb (1906–66), considered by both friends and foes to be a founding father of radical Sunni Islamic thought, does just that. Calvert presents a portrait of Qutb worthy of a psychobiography, without the excesses of the genre. He traces the evolution of Qutb's political thought from secular nationalism to religious fundamentalism and situates Qutb's Islamism within Islamic political thought, past and present. And he presents the Egyptian political scene—from the interwar years, to the 1952 Egyptian Revolution and the Nasser era it ushered in, up through the 1966 trial and execution of Qutb on the charge of planning a coup. Calvert, who in 2004 co-edited and co-translated Qutb's bildungsroman, *A Child From the Village*, has immersed himself in his chosen subject for years, and it shows. Throughout the book, Calvert engages with other commentators on Qutb. His conclusion shows how present-day Islamists read Qutb differently: moderates (such as mainstream Muslim Brothers) downplay his revolutionary religio-political message, and radicals (such as al Qaeda members) exaggerate it.

Let the Swords Encircle Me: Iran—a Journey Behind the Headlines. BY SCOTT PETERSON. Simon & Schuster, 2010, 752 pp. \$32.00 (paper, \$18.00).

Peterson draws on over 30 trips to

Recent Books

postrevolutionary Iran to paint a portrait of the country during the presidencies of Muhammad Khatami and Mahmoud Ahmadinejad. He introduces readers to a handful of representative Iranians, including fervent supporters of the “system” (*nizam*), reformers, rebellious youth, and one often-evoked anonymous source, dubbed “the sage.” Integrated into these accounts are fine aperçus distilled from sources free from control by the *nizam*—blogs, traditional media, political exiles, and scholars inside and outside Iran. Peterson even gets into such illuminating minutiae as hard-liners fighting the insidious cultural influence of Barbie dolls. A chapter on “the messiah hotline” offers a nuanced treatment of not just Ahmadinejad’s views but also the larger socioreligious import of Mahdist thinking in modern Iran. Peterson’s coverage of the 2009 election, meanwhile, may well rank as the most thorough and balanced available.

Desert Kingdom: How Oil and Water Forged Modern Saudi Arabia. BY TOBY CRAIG JONES. Harvard University Press, 2010, 320 pp. \$29.95.

For a desert kingdom to concern itself with the control of water would seem to be a given, but the subject has received slight attention in studies of Saudi Arabia. Although oil has always figured prominently in Saudi studies, this book is surely the first to trace Saudi policies concerning oil and water since the 1920s. Jones presents these policies as dictated by a Saudi drive to create not so much a nation-state as an empire in the Arabian Peninsula. Saudi Arabia is not all desert, but the agriculturally more advantaged Eastern Province, with its appreciable

Shiite population, has been the most disadvantaged when it comes to receiving a share of the government’s development projects. This explains the Shiite uprising there in 1979 and the halting Saudi efforts thereafter to address the issue. Woven into this book is a pessimistic view of technologically driven policies, environmentalist reflections, and a harsh portrayal of selfishness on the part of both the Saudi state and the oil company it owns, Saudi Aramco.

The Iran Primer: Power, Politics, and U.S. Policy. EDITED BY ROBIN WRIGHT. U.S. Institute of Peace Press, 2010, 300 pp. \$19.95.

The Iran Primer presents 50 articles on topics including governing institutions, the opposition, the military, the nuclear controversy, international sanctions, and the economy. It covers the tortuous diplomacy of every U.S. presidency from Jimmy Carter to Barack Obama (with the essay on each administration written by someone who served in it), as well as Iran’s relations with its neighbors and with China, Russia, and the EU. Fifty short biographies sketch the Iranian political elite, including those in power, those in opposition, and significant figures no longer living (such as the ayatollahs Ruhollah Khomeini and Hossein Ali Montazeri). Concise (almost every contributor was held to around three pages), comprehensive (it includes unexpected entries, such as one on bazaars), and well organized (with six separate thematic timelines), this is a beautifully wrought handbook. It is also an ongoing project, with its own Web site (iranprimer.usip.org), where new material is added.

Recent Books

Asia and Pacific

ANDREW J. NATHAN

The Party: The Secret World of China's Communist Rulers. BY RICHARD MCGREGOR. HarperCollins, 2010, 320 pp. \$27.99.

The secret to China's economic and diplomatic successes—as well as its problems with corruption and human rights—is the power of the country's small elite to manage all aspects of society, including itself. This straight-for-the-jugular account by the *Financial Times*' former Beijing bureau chief focuses on the Chinese Communist Party's control of businesses but also covers its methods of coordinating government operations, the military, and the media. The system is not seamless. McGregor analyzes factional disputes in the leadership, corruption in government and enterprises, and strains between commanders and commissars in the army. The secretive Organization Department, which manages cadres' careers, is key to the system's survival and, possibly, its eventual decay. At its best, the department vets rising officials based on performance across a range of indicators. At its worst, it promotes yes men and legacy brats. Its steady gaze motivates some local officials to excel and others to cover up their misdeeds. As long as the party remains the ultimate source of wealth and power, its ability to police itself will determine China's fate.

Great Soul: Mahatma Gandhi and His Struggle With India. BY JOSEPH LELYVELD. Knopf, 2011, 448 pp. \$28.95. Not a biography—Lelyveld says there are already more than enough—this is a

meditation on the interlinked puzzles of Mohandas “Mahatma” Gandhi's strange personal disciplines, the communalistic passions of the two societies where Gandhi worked (South Africa and India), his improbable achievements against vast odds, and the ultimate failure of his ideals. Here is an eccentric who achieved mass followings; a near-naked vegetarian and celibate who, by force of will, made masses of people temporarily abjure the primitive passion of communal enmity; and an icon who is worshiped globally while the hatreds he opposed flourish. Lelyveld, who worked in both South Africa and India as a *New York Times* reporter, focuses on Gandhi's opposition to race, class, and caste oppression in the two societies. He weaves a dense fabric of social analysis, biographical detail, and psychological speculation; zooms out for context and in for anecdotes; shifts between past and present tenses; and scrambles the chronology to find patterns across time. The book tries to recenter one's understanding of Gandhi away from the themes of Indian nationalism and nonviolent political action and toward the issue of social justice, which remains sorely unresolved in both countries where Gandhi worked.

China Boys: How U.S. Relations With the PRC Began and Grew. BY NICHOLAS PLATT. New Academia Publishing and Vellum Books, 2010, 372 pp. \$28.00.

This memoir deserves to be widely read, not just for its insights into diplomacy as a career and its views inside the sausage factory of U.S.-Chinese relations but also for its style and charm. A Chinese-language officer, Platt worked in the U.S. consulate general in Hong Kong, the National Security Council, and the Pentagon. Most dramatically, he served as part

Recent Books

of the select team that accompanied President Richard Nixon on his historic February 1972 trip to China and then as part of the small staff that set up the de facto U.S. embassy in Beijing, which was called the Liaison Office. Despite the well-reported bonhomie of Nixon's and Henry Kissinger's exchanges with Mao Zedong and Zhou Enlai, Platt's reminiscences bring out the suspicions between the two sides that still shadow relations today. The memoir contains some tragic passages, such as that describing an accidental traffic death caused by Platt in Beijing, but many that are laugh-out-loud funny. All ring true.

Global Security Watch: Japan. BY

ANDREW L. OROS AND YUKI

TATSUMI. Praeger, 2010, 198 pp. \$49.95.

Red Star Over the Pacific: China's Rise and the Challenge to U.S. Maritime Strategy.

BY TOSHI YOSHIHARA AND JAMES R.

HOLMES. Naval Institute Press, 2010, 304 pp. \$36.95.

China's naval expansion has riveted the world's attention, whereas Japan's capabilities are often underestimated. Tokyo's defense establishment keeps its strategies vague for political and diplomatic reasons. But Oros and Tatsumi provide a clear account of the relevant organizations, policies, politics, and deployments that is useful as an introduction for beginners or as a synthesis for experts. Since the fall of the Soviet Union, Japan's main defense worries have been China and North Korea, followed by the security of Japan's maritime supply lines, which run all along China's 2,000 miles of coastline. In the authors' judgment, Japan's navy and air force are among the most advanced in the world, the defense alliance with the United States has its tensions but remains robust, and the

twists and turns of Japan's domestic politics have not weakened its capabilities.

These capabilities, along with those of the United States, are a major concern for China. Yoshihara and Holmes analyze the lively debate among Chinese strategists over how much of the country's growing defense budget should go to naval expansion and what kind. Some argue that China should remain essentially a land power, but others make a strong case that it is at sea where China confronts its most powerful rivals. The options given by Chinese defense analysts range from the temporary control of nearby waters to more ambitious agendas, including shared dominance with other navies throughout the Pacific and Indian oceans. Every option faces the constraining geographic reality of the so-called first and second island chains—Japan, Taiwan, Guam, and the maritime states of Southeast Asia—which hem in China's navy in every direction. But Chinese strategists are optimistic that these chains can be breached, most decisively by taking control of Taiwan, and the navy is developing capabilities that could fend off U.S. intervention there. Taken together, the two studies serve as a reminder that the Asian seas contain three very large navies in very close quarters.

Tragedy in Crimson: How the Dalai Lama Conquered the World but Lost the Battle With China. BY TIM JOHNSON. Nation Books, 2011, 352 pp. \$26.99.

During his six years of service in China for the McClatchy newspapers, Johnson studied the Tibet issue at the human level. He traveled to the Tibetan areas of China (which extend far beyond the Tibet Autonomous Region), to the seat of the Tibetan exile government in India, and to the

Recent Books

headquarters of Tibetan organizations overseas. He interviewed the Dalai Lama; one of his possible successors, the Karmapa Lama; and other Tibetan figures in China and abroad. And he saw how strong the forces the Tibetan exile movement is up against are, not just because Beijing is committed to holding on to the strategic region but also because most members of China's ethnic Han majority lack sympathy for Tibetan complaints. Tibet is on lockdown. Foreign governments are less willing to support the overseas movement as China's influence grows, and Beijing's strategy to solve the Tibet problem with economic development, repression, and propaganda is failing.

Political Reform in Indonesia After Soeharto.

BY HAROLD CROUCH. Institute of Southeast Asian Studies, 2010, 404 pp. \$59.90.

Peaceful transitions to democracy are as rare as they are desirable. As one of the most striking success stories, Indonesia offers important lessons. Crouch, a longtime Indonesia observer, shows how unlikely reform seemed when the authoritarian president Suharto resigned during an economic crisis in 1998, given the entrenched interests built into his ironically named New Order and the turbulence of Indonesia's hyper-fragmented society. Crouch focuses on six domains: the electoral system, central-local relations, the military, the judiciary, communal conflict (with a case study of the Maluku Islands), and separatism (with a case study of the territory of Aceh). And he examines two puzzles: why reform was launched in the midst of an economic crisis, and how reform deepened. In Indonesia, the underlying socio-economic conditions, emphasized by some

democratization theorists, were permissive but not favorable. Crouch's clear and close-up account reveals the importance of the crisis itself, an event that forced elites to improvise on the fly or face widespread disorder, and of negotiations among major interest groups emerging from the old regime. The implications are a bit scary: there is no road map for democratization. And luck and leadership play large roles.

Africa

NICOLAS VAN DE WALLE

Zunami! The 2009 South African Elections.

EDITED BY ROGER SOUTHALL AND JOHN DANIEL. Jacana Media, 2010, 288 pp. \$23.00.

Mandela: A Biography. BY MARTIN

MEREDITH. PublicAffairs, 2010, 688 pp. \$29.95.

Contemporary South Africa. 2nd ed.

BY ANTHONY BUTLER. Palgrave Macmillan, 2009, 224 pp. \$90.00 (paper, \$29.95).

South Africa is now well into its second decade of postapartheid rule, and these three recent books by South African scholars reveal a good deal about the country. Southall and Daniel's collection of essays reviews the April 2009 general elections, which witnessed both the emergence of Jacob Zuma as leader of the African National Congress and president of the country and the first significant cracks in the electoral dominance of the ANC, with the creation of a new party, the Congress of the People (COPE). In the end, COPE received only a little over seven percent of the vote, less than half of what the mostly

Recent Books

white Democratic Alliance got. But Southall and Daniel's volume rates the emergence of COPE as the more significant event, since its support comes from core ANC voters. The book is deeply wary of Zuma, viewing his presidency as part of the ANC's drift into populist cronyism, and the authors bemoan what they view as the country's growing corruption. Only a stronger opposition with substantial support from the black majority, they argue, can bring about greater democratic accountability.

Meredith has updated his excellent 1997 biography of Nelson Mandela, and the new material expresses many of the same deep misgivings about the evolution of the country since Mandela's retirement from politics in 1999. At the same time, Mandela's story serves as a reminder of the incredible political distance the country has covered over the course of the last several decades. This edition retains the first edition's many qualities, such as the expertly drawn picture of Mandela's early forays into nationalist politics and his many years in prison, but the new material is quite compelling, too. The book's focus is decidedly biographical, with more pages devoted to Mandela's fraught relationship with his wife than to the details of the negotiations that brought about majority rule. Nonetheless, Meredith uses telling detail to deliver a troubling portrait of former President Thabo Mbeki and the ANC leadership's internal dynamics.

Butler's book is perhaps the best one-volume introduction to contemporary South Africa available. It starts with a succinct historical overview and several chapters on socioeconomic issues before focusing on present-day politics and challenges. Butler notes the country's extremely high levels of inequality; postapartheid

policies have appeared relatively successful at expanding services to the poor yet have failed to prevent the increase in income inequality. But he is even more concerned with the country's political evolution. A theme of his analysis is that the political supremacy of the ANC is both a blessing and a curse: on the one hand, a dominant political force was probably necessary to stabilize the country and push through much-needed structural reforms, yet on the other hand, the weakness of the opposition has allowed the ANC to escape accountability and avoid political sanction for its recent decline in self-discipline and civic spirit. One counterargument to the pessimism expressed in these three books is that South Africa's ability to produce such a high quality of political scholarship remains a cause for measured optimism about the country's prospects.

Atlas of the Transatlantic Slave Trade. BY DAVID ELTIS AND DAVID RICHARDSON. Yale University Press, 2010, 336 pp. \$50.00.

For nearly 20 years, the Trans-Atlantic Slave Trade Database project has been diligently tabulating all the slave ship crossings of the Atlantic Ocean, from 1500 to 1900. So far, it has recorded some 34,934 documented slave voyages—probably about 80 percent of the total during this period—which carried 12 and a half million Africans to the New World. With 189 informative and handsome maps, Eltis and Richardson relay and interpret the information contained in this rich database, mixing in beautiful historical illustrations and key passages from relevant texts. An accessible narrative, meanwhile, expands on the information in the maps. A history that remains poorly understood,

Recent Books

despite its impact on both Africa and the Americas, comes to life in these pages, which establish in painstaking detail where the slaves came from in Africa, where they ended up in the New World, and when their voyages actually took place. The book even tracks such details as the changing slave mortality rate onboard, the number of slave uprisings on the ships, and the locations where, after the United Kingdom outlawed slavery in 1807, the British navy intervened. This marvelous book will change how people think of the slave trade. It deserves every accolade it is likely to get.

Their account is generally sympathetic to the local nationalist movement, which they view as authentically popular, and critical of Morocco's claims, which they see as motivated by interests within the Moroccan security apparatus and the lure of the rich fishing grounds off the territory's coast and the phosphate reserves in its soil. They are particularly critical of long-standing French and U.S. support for the Moroccan government on this issue, despite diplomatic pressure from various multilateral forums. 🌐

Western Sahara: War, Nationalism, and

Conflict Irresolution. BY STEPHEN

ZUNES AND JACOB MUNDY. Syracuse

University Press, 2010, 424 pp. \$49.95.

The last remaining colonial conflict drags on in Western Sahara, on Africa's northeastern coast. The disputed territory—a mostly desert region roughly the size of the United Kingdom and with a population of only several hundred thousand—was a Spanish colony until the mid-1970s, when Spain ceded sovereignty to Morocco and Mauritania. This tripartite agreement ignored the 1975 International Court of Justice opinion in favor of self-determination and the claims made by the local nationalist movement, the Polisario Front, which soon turned to armed rebellion. Zunes and Mundy disentangle this complex history with skill, before turning to recent events.

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