



JANUARY / FEBRUARY 2009

# FOREIGN AFFAIRS

**A Balanced U.S. Military Strategy**

Robert Gates

**National Security and International Law**

Michael Chertoff

**The Myth of the Autocratic Revival**

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# Financial Fallout

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# Can Washington Midwife Middle East Peace?

**Richard Haass & Martin Indyk**  
**Walter Russell Mead • L. Carl Brown**

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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 \$400 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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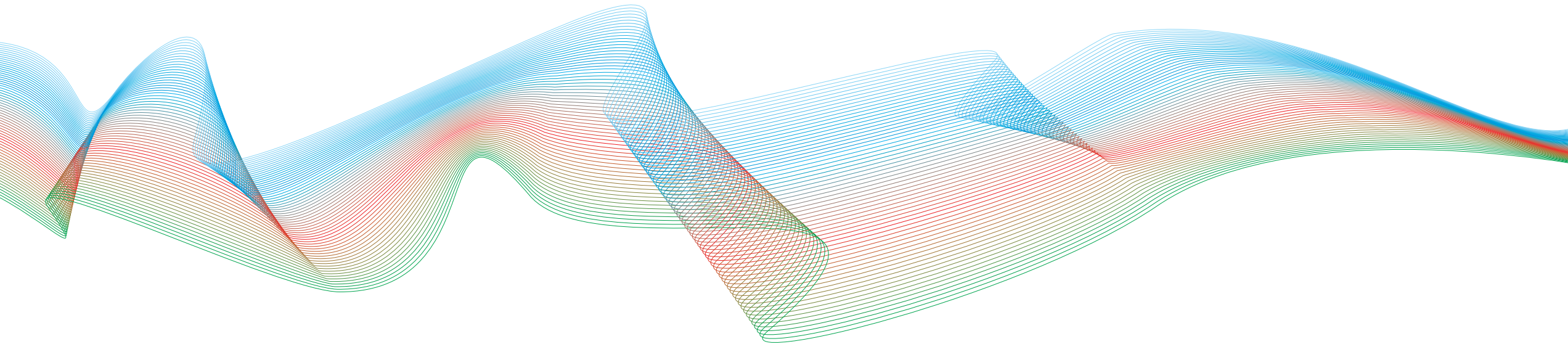
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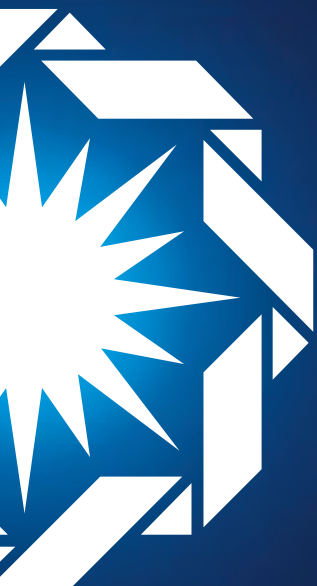


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JANUARY / FEBRUARY 2009  
VOLUME 88, NUMBER 1

---

## Financial Fallout

### The Great Crash, 2008 *Roger C. Altman* 2

The economic collapse of 2008, the worst in over 75 years, is a major geopolitical setback for the West. It has stripped Washington and European governments of the resources and credibility they need to maintain their roles in global affairs. These weaknesses will eventually be repaired, but in the meantime they will accelerate trends that are shifting the world's center of gravity away from the United States.

### From Doha to the Next Bretton Woods *Aaditya Mattoo and Arvind Subramanian* 15

World leaders may be tempted to revive the failed Doha Round of international trade talks. But Doha does not address the world's most urgent economic problems, including those that contributed to the current financial crisis. Instead, what is needed is a new conversation—a Bretton Woods II—that speaks to the needs of traditional and emerging powers alike.

## Essays

### A Balanced Strategy *Robert M. Gates* 28

The United States cannot expect to eliminate national security risks through higher defense budgets: to do everything and buy everything. The Pentagon must set priorities and consider tradeoffs. It must balance trying to prevail in today's conflicts and preparing for tomorrow's, institutionalizing counterinsurgency capabilities and maintaining its edge in conventional warfare.



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Beyond Iraq

*Richard N. Haass and Martin Indyk* 41

Iraq has dominated U.S. policy in the Middle East for the last six years, but this is no longer necessary. The Obama administration will be able to reduce the U.S. presence in Iraq while pursuing a grand bargain with Iran, forging peace between Jerusalem and Damascus, and promoting a final-status Israeli-Palestinian agreement.

Change They Can Believe In *Walter Russell Mead* 59

Much like Copernicus, who put the sun at the center of the universe, the Obama administration must put Palestinian politics and Palestinian public opinion at the center of its efforts to bring peace to the Middle East. But this need not mean turning away from Israel: such a refocusing would in fact offer Israel substantial long-term benefits.

The Myth of the Autocratic Revival

*Daniel Deudney and G. John Ikenberry* 77

After years of liberal triumphalism, recently fears have grown that autocracies have found new ways to prosper. In fact, the imperatives of liberal democracy are as strong as ever. The key to defanging autocracies is bringing them into the liberal order, not excluding them from it.

America's Edge *Anne-Marie Slaughter* 94

In the twenty-first-century world of networks, the measure of a state's power is its ability to turn connectivity into innovation and growth. Thanks to its demography, geography, and culture, the United States has the potential to make the networked century an American century.

In the Shadow of the Oval Office

*Ivo H. Daalder and I. M. Destler* 114

The national security adviser has become one of the key players in U.S. foreign policy. The successes and failures of past advisers, from Bundy, Kissinger, and Brzezinski to Scowcroft, Berger, and Rice, show the difficulty of balancing competing priorities—and the importance of getting the job right.

The Responsibility to Contain *Michael Chertoff* 130

A new framework of international law that confronts modern threats is long overdue. If it is to revive the legitimacy of international law, this order must be predicated on a new principle, under which individual states assume reciprocal obligations to contain transnational threats emerging from within their borders.

Where Are the Civilians? *J. Anthony Holmes* 148

The Bush administration has undermined U.S. diplomacy by starving the State Department and USAID of resources and politicizing the Foreign Service. For the Obama administration to achieve its ambitious foreign policy objectives, it must rebuild and expand the government's crucial civilian capacity.





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## Reviews & Responses

- The Making of a Mess *Harold James* 162  
The latest book by Martin Wolf, who predicted the collapse of the global financial system months before most others, is a helpful guide to the origins of the problems and to possible solutions. China's role will be decisive.
- Presumed Innocent *L. Carl Brown* 169  
Martin Indyk's well-crafted insider's account of U.S. Middle East policy during the 1990s offers important lessons—some intended, others not—that should help the next administration avoid the mistakes of presidents past.
- A Broader Agenda *Stephen R. Graubard* 176  
The next U.S. foreign affairs agenda is waiting to be formulated, and the great hazard is that it may prove parochial and too unimaginative about what the world is likely to value tomorrow.
- Recent Books on International Relations 182  
Including Nicolas van de Walle on Africa's oil; Philip Gordon on *Hitler's Empire*; Lawrence Freedman on the "surge"; and Richard Cooper on Goldman Sachs.
- Foreign Affairs* Bestsellers 204

---

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# Financial Fallout



For decades, much of the United States' influence and soft power reflected the intellectual strength of the Anglo-Saxon brand of market-based capitalism. But thanks to the current economic crisis, that model is now under a cloud.

The Great Crash, 2008    *Roger C. Altman*    2

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From Doha to the Next Bretton Woods  
*Aaditya Mattoo and Arvind Subramanian*    15



# The Great Crash, 2008

## A Geopolitical Setback for the West

*Roger C. Altman*

THE FINANCIAL and economic crash of 2008, the worst in over 75 years, is a major geopolitical setback for the United States and Europe. Over the medium term, Washington and European governments will have neither the resources nor the economic credibility to play the role in global affairs that they otherwise would have played. These weaknesses will eventually be repaired, but in the interim, they will accelerate trends that are shifting the world's center of gravity away from the United States.

A brutal recession is unfolding in the United States, Europe, and probably Japan—a recession likely to be more harmful than the slump of 1981–82. The current financial crisis has deeply frightened consumers and businesses, and in response they have sharply retrenched. In addition, the usual recovery tools used by governments—monetary and fiscal stimuli—will be relatively ineffective under the circumstances.

This damage has put the American model of free-market capitalism under a cloud. The financial system is seen as having collapsed; and the regulatory framework, as having spectacularly failed to curb widespread abuses and corruption. Now, searching for stability, the U.S. government and some European governments have nationalized their financial sectors to a degree that contradicts the tenets of modern capitalism. Much of the world is turning a historic corner and heading into a period in which the role of the state will be larger and that of

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ROGER C. ALTMAN is Chair and CEO of Evercore Partners. He was U.S. Deputy Treasury Secretary in 1993–94.

### *The Great Crash, 2008*

the private sector will be smaller. As it does, the United States' global power, as well as the appeal of U.S.-style democracy, is eroding. Although the United States is fortunate that this crisis coincides with the promise inherent in the election of Barack Obama as president, historical forces—and the crash of 2008—will carry the world away from a unipolar system regardless.

Indeed, rising economic powers are gaining new influence. No country will benefit economically from the financial crisis over the coming year, but a few states—most notably China—will achieve a stronger relative global position. China is experiencing its own real estate slowdown, its export markets are weak, and its overall growth rate is set to slow. But the country is still relatively insulated from the global crisis. Its foreign exchange reserves are approaching \$2 trillion, making it the world's strongest country in terms of liquidity. China's financial system is not exposed, and the country's growth, which is now driven by domestic activity, will continue at solid, if diminished, rates.

This relatively unscathed position gives China the opportunity to solidify its strategic advantages as the United States and Europe struggle to recover. Beijing will be in a position to assist other nations financially and make key investments in, for example, natural resources at a time when the West cannot. At the same time, this crisis may lead to a closer relationship between the United States and China. Trade-related flash-points are diminishing, which may soften protectionist stances in the U.S. Congress. And it is likely that, with Washington less distracted by the war in Iraq, the new administration of President Obama will see more clearly than its predecessor that the U.S.-Chinese relationship is becoming the United States' most important bilateral relationship. The Obama administration could lead efforts to bring China into the G-8 (the group of highly industrialized states) and expand China's shareholding position in the International Monetary Fund. China, in turn, could lead an effort to enlarge the capital base of the IMF.

#### AT BOTTOM

CONVENTIONAL WISDOM attributes the crisis to the collapse of housing prices and the subprime mortgage market in the United States. This is not correct; these were themselves the consequence of

*Roger C. Altman*

another problem. The crisis' underlying cause was the (invariably lethal) combination of very low interest rates and unprecedented levels of liquidity. The low interest rates reflected the U.S. government's overly accommodating monetary policy after 9/11. (The U.S. Federal Reserve lowered the federal funds rate to nearly one percent in late 2001 and maintained it near that very low level for three years.) The liquidity reflected, among other factors, what Federal Reserve Chair Ben Bernanke has called "the global savings glut": the enormous financial surpluses realized by certain countries, particularly China, Singapore, and the oil-producing states of the Persian Gulf. Until the mid-1990s, most emerging economies ran balance-of-payments deficits as they imported capital to finance their growth. But the Asian financial crisis of 1997–98, among other things, changed this in much of Asia. After that, surpluses grew throughout the region and then were consistently recycled back to the West in the form of portfolio investments.

Facing low yields, this mountain of liquidity naturally sought higher ones. One basic law of finance is that yields on loans are inversely proportional to credit quality: the stronger the borrower, the lower the yield, and vice versa. Huge amounts of capital thus flowed into the subprime mortgage sector and toward weak borrowers of all types in the United States, in Europe, and, to a lesser extent, around the world. For example, the annual volume of U.S. subprime and other securitized mortgages rose from a long-term average of approximately \$100 billion to over \$600 billion in 2005 and 2006. As with all financial bubbles, the lessons of history, including about long-term default rates on such poor credits, were ignored.

This flood of mortgage money caused residential and commercial real estate prices to rise at unprecedented rates. Whereas the average U.S. home had appreciated at 1.4 percent annually over the 30 years before 2000, the appreciation rate roared forward at 7.6 percent annually from 2000 through mid-2006. From mid-2005 to mid-2006, amid rampant speculation in the housing market, it was 11 percent.

But like most spikes in commodity prices, this one eventually reversed itself—and with a vengeance. Housing prices have been falling sharply for over two years, and so far there is no sign that they will bottom out. Futures markets are signaling that, from peak to trough, the drop in the value of the nation's housing stock could



reach 30–35 percent. This would be an astonishing fall for a pool of assets once valued at \$13 trillion.

This collapse in housing prices undermined the value of the multitrillion-dollar pool of lower-value mortgages that had been created over the 2003–6 period. In addition, countless subprime mortgages that were structured to be artificially cheap at the outset began to convert to more expensive terms. Innumerable borrowers could not afford the adjusted terms, and delinquencies became more frequent. Losses on these loans began to emerge in mid-2007 and quickly grew to staggering levels. And with prices in real estate and other asset values still dropping, the value of these loans is continuing to deteriorate. The larger financial institutions are reporting continuous losses. They mark down the value of a loan or similar asset in one quarter, only to mark it down again in the next. This self-reinforcing downward cycle has caused markets to plunge across the globe.

The damage is most visible at the household level. Americans have lost one-quarter of their net worth in just a year and a half, since June 30, 2007, and the trend continues. Americans' largest single asset is the equity in their homes. Total home equity in the United States, which was valued at \$13 trillion at its peak in 2006, had dropped to \$8.8 trillion by mid-2008 and was still falling in late 2008. Total retirement assets, Americans' second-largest household asset, dropped by 22 percent, from \$10.3 trillion in 2006 to \$8 trillion in mid-2008. During the same period, savings and investment assets (apart from retirement savings) lost \$1.2 trillion and pension assets lost \$1.3 trillion. Taken together, these losses total a staggering \$8.3 trillion.

Such large and sudden hits have shocked U.S. families. And because these have occurred amid headlines reporting failing financial institutions and huge bailouts, Americans' fears over the safety and accessibility of their deposits are now more pervasive than they have been since 1933. This is why Americans withdrew \$150 billion from money-market funds over a two-day period in September (average weekly outflows are just \$5 billion). It is also why the Federal Reserve

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The crisis' underlying cause was the combination of very low interest rates and unprecedented levels of liquidity.

*Roger C. Altman*

established a special \$540 billion facility to help these funds meet continuing redemptions.

### ROUGH-AND-TUMBLE

IT IS INCREASINGLY evident that the severe recession unfolding in the United States and Europe will be the deepest slump in the world economy since the 1930s. The United States' GDP fell in the third quarter of 2008 and was forecast to drop precipitously, by nearly four percent, in the fourth quarter. Of 52 economists surveyed by *The Wall Street Journal* throughout last year, a majority expected the U.S. economy to contract for at least three consecutive quarters, which it has not done in 50 years. At least for the medium term, the global roles of the United States and European states will shrink along with those countries' economies.

Stock markets in the United States and globally are signaling a brutal economic period ahead. By early November 2008, the broadest of the U.S. market indices, the S&P 500, was down 45 percent from its 2007 high. That is a considerably steeper fall than occurred in 1981–82, which, until now, was the worst recession period since the 1930s. The only logical explanation for the plunge is that the market is anticipating an even worse drop in corporate profits for 2009 than occurred almost three decades ago.

Such a major drop in corporate profits might occur because U.S. consumers are deeply frightened and have stopped spending on discretionary items. Shocked by the financial crisis, fearful about the security of their bank and money-market deposits, and rocked by the sense of doom pervading Washington and the U.S. media, they have quickly raised their savings by curtailing spending and paying down debt. The result last September was the biggest monthly drop ever recorded in the widely followed Conference Board Consumer Confidence Index. That month also saw the sharpest monthly drop in consumer spending since 1980—and the drop in October was even worse. The chief executive officer of Caterpillar and other business leaders have described these conditions as the worst they have ever seen and are cutting back severely on capital spending.

As former Treasury Secretary Lawrence Summers has observed, this recession will be prolonged partly because of the unusual nature

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of this downward financial spiral. As the value of financial assets fall, margin calls are triggered, forcing the sale of those and other assets, which further depresses their value. This means larger losses for households and financial institutions, and these in turn discourage spending and lending. The end result is an even weaker economy, characterized by less spending, lower incomes, and more unemployment.

This recession also will be prolonged because the usual government tools for stimulating recovery are either unavailable or unlikely to work. The most basic way to revitalize an ailing economy is to ease monetary policy, as the U.S. Federal Reserve did in the fall. But interest rates in the United States and Europe are already extremely low, and central banks have already injected unprecedented amounts of liquidity into the credit markets. Thus, the impact of any further easing will probably be small.

Another tool, fiscal stimulus, will also likely be used in the United States, Europe, and Japan—but to modest effect. Even the \$300 billion package of spending increases and tax rebates currently under discussion in the U.S. Congress would be small in relation to the United States' \$15 trillion economy. And judging from the past, another round of stimuli will be only partially effective: the \$168 billion package enacted last February improved the United States' GDP by only half that amount.

The slowdown in Europe is expected to be every bit as severe. European consumers are spending less for the same reasons American consumers are. The financial sectors of European countries, relative to those countries' GDPs, have suffered even more damage than that of the United States. The British government reported a contraction of its economy last fall, and the eurozone countries are now officially in recession.

The international financial system has also been devastated. The IMF estimates that loan losses for global financial institutions will eventually reach \$1.5 trillion. Some \$750 billion in such losses had been reported as of last November. These losses have wiped out much of the capital in the banking system and caused flows of credit to shut down. Starting in late 2007, institutions became so concerned about the creditworthiness of borrowers, including one another, that they would no longer lend. This was evidenced by the spread between three-month U.S. Treasury bills and the three-month LIBOR borrowing rate, the benchmark for interbank lending, which quadrupled within a month of the collapse of the investment bank Lehman Brothers in September 2008.

*Roger C. Altman*

This credit freeze has brought the global financial system to the brink of collapse. The IMF's managing director, Dominique Strauss-Kahn, spoke of an imminent "systemic meltdown" in October. As a result, the U.S. Federal Reserve, the European Central Bank, and other central banks injected a total of \$2.5 trillion of liquidity into the credit markets, by far the biggest monetary intervention in world history. And the U.S. government and European governments took the previously unthinkable step of committing another \$1.5 trillion to direct equity investments in their local financial institutions.

### THE ROAD TO RECOVERY

AS OF THIS writing, there has been a modest thaw in credit-market conditions. But a return to normalcy is not even on the distant horizon. The West's financial system is already a shadow of its former self. Given ongoing losses, Western financial institutions must reduce their leverage much more just to keep balance sheets stable. In other words, they will have to withdraw credit from the world for at least three or four years.

In a classic pattern of overshooting, markets are swinging from euphoria to despair. Now, the psychology of financial institutions has swung to a conservative extreme. They are overhauling their credit-approval and risk-management systems, as well as their leverage and liquidity ratios. Stricter lending standards will prevail for the foreseeable future.

These new lending patterns will be further constrained by sharply tightened regulation. It is widely acknowledged that this crisis reflects the greatest regulatory failure in modern history—a failure that extended from bank supervision to U.S. Securities and Exchange Commission disclosures to credit-rating oversight. The recriminations, let alone the criminal prosecutions, are just beginning. There is unanimity that broad regulatory reform is necessary. Obama and the new U.S. Congress will surely pursue legislation to implement reform this year. European authorities will undoubtedly take similar steps. Minimum capital and liquidity standards for regulated institutions will likely be tightened, among other measures.

If history is any guide, however, financial reform will go too far. The Sarbanes-Oxley legislation that followed the collapse of Enron and WorldCom is an example of such an overreaction. Should something

like this occur again, tighter restrictions on the U.S. and European banking systems could delay their return to robust financing activity.

The United States will be further constrained by gigantic budget deficits, the product of sudden government spending designed to fight the financial crisis and of the sharp drop in revenues caused by the recession. It now appears that the United States' deficit for the fiscal year that began in October 2008 will approach \$1 trillion, more than double the \$450 billion for the year before. This would be by far the largest nominal deficit ever incurred by any nation and would represent 7.5 percent of U.S. GDP, a level previously seen only during the world wars.

#### THE IMPACT

THERE COULD hardly be more constraining conditions for the United States and Europe. First, the severe recession will prompt governments there to focus inward as their citizens demand that national resources be concentrated on domestic recovery. The priorities of Obama, as expressed in his campaign, fit this mold. If the matter has not already been handled in the lame-duck session of Congress in late 2008, Obama's first major act as president will be to introduce economic-stimulus legislation. He is also likely to take steps to further alleviate the financial crisis, address the plight of U.S. automakers, and begin the complex task of reforming health care and energy policy.

European leaders will also be focusing on the home front. They, too, will be implementing stimulus programs and trying to manage the financial damage. This past fall, French President Nicolas Sarkozy and Italian Prime Minister Silvio Berlusconi were already making fiery speeches about protecting their domestic companies from being acquired by foreign interests—hardly a message consistent with modern economics.

Second, unprecedented fiscal deficits and difficulties in the financial systems will also preclude the West from embarking on major international initiatives. If Obama inherits a \$1 trillion deficit, and temporarily enlarges it to \$1.3 trillion with a stimulus program, there will not be much of a constituency calling for increased U.S. spending on endeavors abroad. Indeed, the country may be entering a period of forced restraint not seen since the 1930s. Should a crisis like the 1994 collapse of the Mexican economy present itself again, it is doubtful that the United



*Roger C. Altman*

States would intervene. And even in the event of economic crises in strategically important areas, such as Pakistan, major economic assistance from the United States or key European nations is unlikely. Instead, the IMF will have to be the primary intervenor.

On the private side, Western capital markets will not return to full health for years. For the indefinite future, large financial institutions

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The United States' deficit for the fiscal year that began in October 2008 will approach \$1 trillion—or 7.5 percent of U.S. GDP.

will shrink as losses continue and as they reduce their leverage further. The overshooting pattern that occurs after crises will also make markets averse to risk and leverage for the foreseeable future.

Historically, U.S. capital markets were far deeper and more liquid than any others in the world. They were in a league of their own for decades, until European markets also started developing rapidly over the past 10–15 years.

The rest of the world was dependent on them for capital, and this relationship reinforced the United States' global influence. They will now be supplying proportionately far less capital for years to come.

Third, the economic credibility of the West has been undermined by the crisis. This is important because for decades much of the United States' influence and soft power reflected the intellectual strength of the Anglo-Saxon brand of market-based capitalism. But now, the model that helped push back socialism and promoted deregulation over regulation—prompting the remaking of the British Labour Party, economic reforms in eastern Europe, and the opening up of Vietnam in the 1990s—is under a cloud. The U.S. financial system is seen as having failed.

Furthermore, the United States and countries in the eurozone have resorted to large-scale nationalist economic interventions that undermine free-market doctrines. The U.S. government has taken equity stakes in more than 20 large financial institutions and, according to Treasury Secretary Henry Paulson, may eventually invest in “thousands” of them. In addition, it has temporarily guaranteed the key debt of its entire banking system. France, Germany, and the United Kingdom have intervened even more extensively, each in a slightly different way, with Germany, for example, backing the full amount of all private deposits. The British govern-

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### *The Great Crash, 2008*

ment's banking interventions, when measured in relation to the country's GDP, are even larger than those of the U.S. government relative to U.S. GDP.

All these interventions will stop the global shift toward economic deregulation. As President Sarkozy put it, "Le laisser-faire, c'est fini." Or, as Chinese Vice Premier Wang Qishan said more diplomatically, "The teachers now have some problems." This coincides with the natural and very long-term movement away from the U.S.-centric world that started after the fall of the Berlin Wall two decades ago.

#### CHINA'S GAIN

THIS MOVEMENT also reflects the rapid rise of other economies, especially China and India. The U.S. share of world GDP had been declining for seven years before the financial crisis hit. And it looks increasingly likely that China's GDP will surpass the United States' at some point during the next 25–30 years. The rising nations' growing economic strength brings increased global influence and competition with it. The result, in the words of Richard Haass, president of the Council on Foreign Relations, is the emergence of a "nonpolar world."

China, for example, will suffer a lesser blow from the global crisis. It is experiencing some economic pain. Its export markets, led by the United States and Europe, are slowing dramatically. China is also suffering from price declines in certain urban real estate markets. Its growth slowed to nine percent during the third quarter of 2008—a rate that other nations would envy but was China's slowest in five years. These factors explain why the Chinese leadership is implementing a multiyear economic stimulus plan worth over \$500 billion, or approximately 15 percent of GDP. Still, the IMF is projecting that the country's economy will grow by 8.5 percent in 2009.

In financial terms, China is little affected by the crisis in the West. Its entire financial system plays a relatively small role in its economy, and it apparently has no exposure to the toxic assets that have brought the U.S. and European banking systems to their knees. China also runs a budget surplus and a very large current account surplus, and it carries little government debt. Chinese households save an astonishing 40 percent of their incomes. And China's \$2 trillion portfolio of foreign exchange reserves grew by \$700 billion last year, thanks to the country's current account surplus and foreign direct investment.



*Roger C. Altman*

This means that although China, too, has been hurt by the crisis, its economic and financial power have been strengthened relative to those of the West. China's global influence will thus increase, and Beijing will be able to undertake political and economic initiatives to increase it further. China and the Association of Southeast Asian Nations are just concluding an agreement that would create the world's largest free-trade area, and Beijing could take additional steps toward Asian interdependence and play a stronger leadership role within the region.

China could also expand its diplomatic presence in the developing world, in order to further its model of capitalism and, in places such as Angola, Kazakhstan, and Sudan, satisfy its thirst for natural resources. In the midst of this crisis, it might also help finance emergency loans, either directly, through bilateral financing arrangements, or indirectly, by creating an additional facility at the IMF that could expand the organization's available credit beyond what current quotas allow. China should also be expected to make strategic investments through its sovereign wealth funds. Given China's appetite for natural resources, this is one likely area of interest; its relatively underdeveloped financial-services infrastructure is another.

### THE FALL OF THE REST

INDIA MAY also survive the crisis relatively unhurt. There, as in China, the financial system plays a small role in the overall economy. India also remains a fairly closed economy in terms of foreign investment, and so it is less dependent on external capital. Close observers expect India's growth to continue, perhaps at an annual rate of 6.5–7 percent. But India does not have nearly the wealth or the internal cohesion of China. This past fall, the government of Prime Minister Manmohan Singh narrowly avoided losing a parliamentary vote of no confidence and having to dissolve itself over opposition to the nuclear agreement it signed with the United States in 2005. The overall result is that India is inwardly focused and not particularly equipped to advance its geopolitical standing.

Much of the rest of the world, however, has been hit hard by the crisis. The damaged Western banks, which had consistently supplied credit to businesses in the developing world, have abruptly stopped providing it. As

### *The Great Crash, 2008*

foreign capital has been withdrawn, currencies, local banking systems, and stock markets in already poor states have weakened sharply. Eastern European countries that had been running exceptionally large current account deficits and had built up substantial foreign debts are particularly hurting. Hungary, Latvia, and Ukraine are prominent examples, and Hungary and Ukraine have already secured emergency loans from the IMF.

In Russia, the plunge in oil and other commodity prices has caused a near collapse of the ruble and of local share prices. The government of President Dmitry Medvedev has been spending huge amounts, perhaps \$200 billion so far, to prop up the currency, Russia's financial system, and several highly leveraged state-controlled enterprises. With \$500 billion in foreign exchange reserves, Russia remains in a strong financial condition even after these rescue efforts. Yet these sobering events will make some of its renewed geopolitical ambitions harder to achieve. In theory, this could permit a thaw in U.S.-Russian relations if Obama were to make an overture. Before that happens, however, Moscow might try the "get tough" approach that Soviet Premier Nikita Khrushchev used with U.S. President John F. Kennedy in Vienna in 1961.

The outcome of the crisis will be more serious for Iran and Venezuela, which, like Russia, have suffered from the fall in oil prices but, unlike Russia, have limited foreign exchange reserves. Iran's economy was already rickety, and internal pressures are now likely to grow. Venezuela, which has been spending freely to advance President Hugo Chávez's international agenda, is facing an even more severe problem.

#### A SCALPEL, NOT A HATCHET

THIS HISTORIC crisis raises the question of whether a new global approach to controlling currencies and banking and financial systems is needed. Many economists and leaders are advocating such a reordering and calling for a Bretton Woods II. But creating a wholly new global financial order would be unworkable. Financial and currency markets are too large and too powerful to be contained; the days of managed exchange rates are over. Global financial regulation would probably cause more problems than it would solve, if only because the reforms needed in the West differ too much from those required elsewhere.

*Roger C. Altman*

A better approach is to focus on a few key measures. First, the crisis is an opportunity to strengthen and reshape the IMF. The organization has \$250 billion in unused lending capacity, but this capital base has not been adjusted since 1997 and may not be large enough to help the many developing nations currently suffering balance-of-payments and liquidity crises. (Hungary, Iceland, Pakistan, Ukraine, and six other countries have negotiated or are currently negotiating emergency-financing packages with the IMF.) This should be remedied. The IMF can also be made more flexible. Historically, it has conditioned its assistance to borrowing countries on their tightening their belts, by, for instance, reducing their budget deficits. Conditionality remains necessary over the long term, but with this crisis still unfolding, the IMF is rightly moving toward temporarily suspending it. Furthermore, high-surplus countries, such as China and the oil-producing states in the Persian Gulf, should be made larger shareholders in the IMF. It would be logical, for example, for these nations to lead any new and separate lending facility established by the IMF.

Second, the G-8 framework is increasingly obsolete. The economic power and wealth of China mandate that it, at a minimum, be included in the group. Because it is more representative, the G-20 framework (19 of the world's largest national economies plus the European Union) should be used more often, and the G-8 less so.

Third, the Basel II guidelines regulating the capitalization of banks should be revised. They proved severely inadequate at protecting banks against the balance-sheet crises that have befallen them. A better approach would be to build capital cushions for banks during prosperous times that could be depleted during crises.

The United States will remain the most powerful nation on earth for a while longer. Its military strength alone ensures this. But the crash of 2008 has inflicted profound damage on its financial system, its economy, and its standing in the world; the crisis is an important geopolitical setback. The international acclaim that greeted Obama's presidential victory may soften its effects, but even this enthusiasm cannot wipe those away. This is partly because the crisis has coincided with historical forces that were already shifting the world's focus away from the United States. Over the medium term, the United States will have to operate from a smaller global platform—while others, especially China, will have a chance to rise faster. 🌐



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# From Doha to the Next Bretton Woods

## A New Multilateral Trade Agenda

*Aaditya Mattoo and Arvind Subramanian*

WHEN THE Doha Round of multilateral trade negotiations was launched, in 2001, the price of oil was \$25 a barrel, a ton of rice cost \$170, China's current account surplus was two percent of the country's GDP, U.S. financial institutions were at the vanguard of globalization, and the term "sovereign wealth fund" could have been mistakenly thought to refer to the retirement kitty of an aging monarch.

As of November 10, 2008, oil was going for \$65 a barrel, and rice for \$515 a ton. China and the oil-producing states have trillions of dollars at their disposal. The U.S. financial system, in the midst of the worst financial crisis since the Great Depression, is teetering between socialization and oblivion. As all these changes have unfolded, the governments involved in the Doha talks have, Nero-like, spent too much time dwelling on minor issues while ignoring the burning questions. After the failure of the recent round of negotiations this past July in Geneva, the international community will be tempted to resuscitate the Doha process. Indeed, as part of calls to reshape the international financial system—under a proposed Bretton Woods II—British Prime Minister Gordon Brown has pushed for the completion of the Doha Round.

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*Aaditya Mattoo and Arvind Subramanian*

But this effort to revive Doha seems inadequate because the existing Doha agenda does not respond to the challenges posed by increasing global integration. Fluctuating commodity prices, threats to the economic security of middle-class workers, financial instability, and environmental insecurity have significant global implications that demand a multilateral response. Going forward, a new round of Bretton Woods talks is needed to develop a more ambitious agenda than Doha has and to involve a broader set of institutions than just the World Trade Organization (WTO).

### A STALLED CONVERSATION

SINCE THE mid-1990s, world trade has grown rapidly, at a pace of approximately six percent a year—twice as fast as global economic output. During that time, however, WTO members have not adjusted the maximum levels of tariffs and other barriers that they can maintain on goods and services. In other words, overall trade has flourished, but the multilateral process that governs trade has languished.

Trade has grown throughout the world because many governments have increasingly come to believe that openness promotes long-term development. Many unilaterally liberalized their regulations on goods and services. Tariffs on goods have declined from a worldwide average of over 25 percent in 1980 to less than ten percent today. Many states have drastically reduced barriers to foreign investment and international trade in various service sectors, including finance, telecommunications, transport, and retail. Much of this liberalization has taken place in the context of regional trade agreements, such as the North American Free Trade Agreement (NAFTA) and a series of agreements between the European Union and its eastern neighbors. Since the early 1990s, the number of such pacts has risen from under 90 to nearly 400.

These parallel unilateral and regional efforts at liberalization ended up robbing the multilateral process of some of its *raison d'être*. By the time the Doha talks resumed in Geneva last summer, little of consequence was even on the table. In richer developing countries—a group that includes Brazil, China, and India—the reforms proposed would have left average tariff rates for agricultural goods unchanged,

at about 13.5 percent, and would have reduced tariff rates for manufactured goods only slightly, from 6.4 percent to 5.6 percent.

Supporters of the Doha process concede that its goals when it comes to lowering trade barriers are modest but argue that its real purpose is to provide security for trading partners: legal commitments offer mutual assurances that trade policies will not be reversed. This argument would be compelling if the Doha talks actually contemplated guarantees against states suddenly resorting to punitively high import tariffs, such as those imposed by the Smoot-Hawley Tariff Act of 1930. In fact, the Doha proposals did not offer any meaningful guarantees of this kind. For example, under the proposals, the richer developing countries would still have had the leeway to adjust their agricultural tariffs by a margin of about 30 percentage points—and this is when their actual such tariffs are, on average, already 13.5 percent.

One sign of Doha's limited relevance is that the groups traditionally at the forefront of multilateral liberalization—private corporations in the intellectual-property, manufacturing, and service sectors—are now notable by their absence from the process. So modest were Doha's aims this past summer, that even the usual antiglobalization protesters did not bother to show up in Geneva.

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Overall trade has flourished, but the multilateral process that governs trade has languished.

### UNCERTAIN SUPPLY, UNCERTAIN MARKETS

FUELED BY increasing productivity and low inflation, the world economy enjoyed its most pronounced growth spurt ever between 2002 and 2007. But in the last year, abundant supplies have given way to widespread shortages. Rising commodity prices have endangered food and energy security. Over the last three years, the increase in food prices has threatened to push as many as 100 million people into poverty. The current recession has led to a sharp decline in agricultural prices, but food prices are likely to remain high in the medium to long term because many of the underlying factors that have pushed them up—greater demand in the developing world, high fuel prices, stagnant agricultural productivity, and pressure on agricultural supplies brought about by climate change—will last.



*Aaditya Mattoo and Arvind Subramanian*

The pressure on food prices has been exacerbated by restrictions on agricultural exports in a number of developing countries and by biofuel policies in industrial countries. Eighteen developing countries have imposed limitations on exports in order to maintain their domestic supplies. But as a result of such export controls, global food supplies have contracted and prices have risen, further aggravating global food insecurity.

The WTO has been of little help as the crisis has unfolded, because it permits taxes and quotas on agricultural exports. Under normal conditions, subsidies to farmers introduce huge distortions that encourage domestic production and exports. But under abnormal conditions, such as those prevailing now, the opposite occurs: countries tend to prevent exports and liberalize import regulations. If importers face such restrictions from producing countries during bad times, they are unlikely to think of international trade as a reliable means of maintaining food security and instead will be tempted to move toward more self-reliance. A vicious cycle results.

The second threat to food security has come from biofuel policies in the industrialized world. In the United States, the combination of ethanol mandates, tax credits for ethanol producers, and tariffs on imported Brazilian ethanol has meant that more land is being used to produce corn for biofuel and less is being devoted to wheat and soybean production. Other industrial countries have enacted similar policies, which, together with the United States' policies, account for as much as 70 percent of the increase in food prices worldwide, according to research conducted at the World Bank. And yet even as food prices soared and import barriers declined, the Doha talks continued to focus on traditional forms of agricultural protection, such as production subsidies, which have become less relevant. The trade agenda needs to be enlarged to include a discussion of all trade barriers—on imports and exports—and biofuel policies, including tariffs on imports.

### FUELING GROWTH

THE NEW trade agenda must also include a serious conversation about energy. There has been a dramatic rise in the price of oil since 2002, even though prices have declined from the peaks they reached last summer. Uncertainty about available supplies and increased demand

from emerging countries such as China and India have resuscitated fears about energy security and pushed prices up. But another factor is the cartelization of oil markets by oil exporters. The power wielded by the Organization of the Petroleum Exporting Countries (OPEC) tends to be high when demand is high, as it is now. Oil is the world's most important traded commodity, yet a striking gap in the global trading system is the absence of any formal rules to prevent collusion by oil-producing states.

Rising oil prices have prompted a number of unilateral responses. Many oil-importing states have attempted to cushion consumers against price increases by subsidizing gasoline and heating fuel, especially for poorer households. In the process, they have sustained high world prices by dampening incentives to reduce consumption. For example, because of government subsidies, consumer prices for energy in India last year rose very little despite sharp increases worldwide. At the same time, states have considered taking unilateral action against OPEC. For example, the U.S. House of Representatives has approved a "NOPEC" bill that would allow the Justice Department to prosecute anticompetitive conduct by OPEC members. Legislation introduced in the U.S. Senate would require action against OPEC member states in retaliation for their collusion on export quotas. But neither U.S. antitrust law nor international trade rules currently offer protection against such collusion, even though it is against the spirit of open multilateral trade.

New multilateral trade rules should target cartels. The best course of action, drawing on precedents set by the WTO (for example, commodity agreements), would be to bring together the world's oil producers (both OPEC members and nonmembers such as Russia) and its oil consumers (represented, for example, by an expanded International Energy Agency) to draft a new set of rules on the global energy trade. Ideally, collusion on supply quotas would be outlawed, but without impairing a state's ability to stabilize prices or conserve its natural resources.

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A striking gap in the global trading system is the absence of any formal rules to prevent collusion by oil-producing states.

### A FAIR EXCHANGE

ANOTHER MAJOR problem has been the persistent and substantial undervaluation of major currencies, especially the yuan (by about 20–60 percent) and those of some oil-exporting countries (by more than 100 percent). Undervalued currencies are in effect both an import tax and an export subsidy, and the countries that maintain them wind up hurting the profitability of industries in states with which they trade. To escape these adverse effects, capital in the ailing countries tends to relocate elsewhere, leaving immobile, generally low-skilled labor to bear the brunt of these states' declining competitiveness.

This issue increasingly resonates in domestic politics, especially in the United States, where it has prompted calls for action. The Nobel Prize laureates Paul Samuelson and Paul Krugman, among other prominent economists in the United States, have expressed concern about the impact of trade on the living standards of U.S. workers. Some American economists and lawmakers have called for imposing a duty on imports from countries with undervalued exchange rates. But any such unilateral action would be, by definition, partial and hence ineffective. Undervalued currencies affect more than just one country: China's cheap yuan, for example, has an impact not only on the United States and the European Union but also on emerging economies and African countries, whose products compete with China's on the world market.

A multilateral approach may prove more fruitful. Under the historical division of labor between the International Monetary Fund and the WTO, the IMF has jurisdiction over questions relating to exchange rates. But its oversight has been weak at best. Whereas the IMF has been able to influence member countries that have borrowed from it, it has not been successful in affecting economic policy in countries that do not need IMF money. Moreover, the IMF lacks an effective enforcement mechanism. Compounding these problems is the IMF's eroding legitimacy. It lost its status as a trusted interlocutor in emerging markets, particularly in Asia, after the Asian financial crisis of 1997–98. There, the IMF was seen as having failed to provide enough money to countries in need and as having attached unnecessarily tough conditions to its loans, which many believe aggravated the effects of the crisis. The IMF's governance structure is also outdated; it reflects

the receding realities of the Atlantic-centered world of 1945 rather than the rise of Asia in the twenty-first century.

One possibility going forward would be for the IMF and the WTO to cooperate on exchange-rate issues. The IMF would continue to provide technical expertise to assess the valuation of currencies. But because undervalued currencies have serious consequences for global trade, it would make sense to take advantage of the WTO's enforcement mechanism, which is credible and effective. The WTO would not displace the IMF; rather, this arrangement would harness the comparative advantages of each institution.

### NOUVEAUX RICHES

A GROWING CONCERN is the nationalization of finance in the hands of sovereign wealth funds (SWFs). Governments in the developing world are holding increasingly large amounts of wealth in the form of foreign exchange reserves. Estimates by Morgan Stanley suggest that SWFs hold a total of \$2.5 trillion today and that this number will grow to \$12 trillion by 2015. The majority of these funds will be held by oil-exporting states, as well as China and other countries in East Asia.

The growth of SWFs has provoked two major fears. The first concern, which is macroeconomic, is that state funds can too easily destabilize global currency and bond markets, by, for example, suddenly shifting their portfolios from one market or sector to another. The second concern, which is microeconomic, is that SWFs could end up controlling sensitive or strategic industries in other countries.

The United States is in the process of adopting legislation that would tighten scrutiny of investments by foreign governments that raise security concerns. Similarly, the European Commission is considering acting to prevent corporate takeovers by publicly controlled foreign investment funds. But such unilateral actions could easily be construed as defensive and protectionist, especially if they are justified in the name of national security—as was the case when the U.S. Congress scuttled the bid by the China National Offshore Oil Corporation, or CNOOC, for the U.S. oil giant UNOCAL in 2005 and blocked Dubai Ports World's efforts to acquire control of U.S. shipping facilities in 2006.



*Aaditya Mattoo and Arvind Subramanian*

The case for a multilateral approach to regulating SWFs is clear. Exporters of capital want secure access to investment opportunities in foreign markets, and importers of capital have legitimate concerns about the motivations of state investors and the consequences of such transactions. Mutually beneficial bargains are there for the making. The WTO is an appropriate forum for such deals because it already regulates private and government investments in key service sectors, such as finance, telecommunications, and transport. One way to manage such investments would be to require countries importing capital, such as the United States and EU member states, not to impose undue restrictions on investments. In return, SWFs would commit to following certain criteria—transparency, an arms-length relationship with their national governments, and the pursuit of purely commercial objectives—modeled after the voluntary code of conduct for SWFs negotiated under the auspices of the IMF in October 2008.

### WORKING OFF THAT GLUT

SEISMIC CHANGES shook the U.S. financial system in 2008. Many icons of capitalism disappeared or fell under government control in a matter of weeks. Whether or not one agrees with the *Financial Times* columnist Martin Wolf that these changes herald the end of an era of overly complex and underregulated finance, the crisis will certainly lead to a reexamination of national policies and international rules.

Better management of the imbalances that rocked the system must be a priority. Lax regulation, a bubble psychology, and perverse incentives for managers and rating agencies that profited from overestimating the value of assets underlying complex financial instruments were all factors. But one key macroeconomic cause was excess liquidity, which allowed for cheap loans and poor lending standards and kept afloat an unsustainably leveraged housing market. As Federal Reserve Chair Ben Bernanke has explained, this excess liquidity was itself the result of a “global savings glut,” by which he meant the large current account surpluses built up by China and the oil-producing states. Preventing the reemergence of such liquidity-fueled bubbles will require limiting such global imbalances in the future, and that calls for a multilateral approach. Cooperation on exchange rates and excessive commodity prices is a good way to start. But



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multilateral cooperation will also be necessary on the regulation of the financial sector. Although finance has become global, its regulation has remained national. If financial regulation is to remain a purely national question, then individual countries should have the freedom to determine the pace of the integration of their own financial systems into global economic institutions. Negotiations at the WTO or in the context of regional agreements should be more circumspect about pushing financial-sector liberalization and, especially, greater openness to short-term capital inflows.

Another option would be to move toward global regulation of finance. After last fall's crisis, any reconfiguration of the financial systems in the United States and the United Kingdom is likely to limit the leverage of banks and other financial institutions, such as hedge funds. But if other jurisdictions do not adopt similar rules, then national regulators will become concerned about a race to the bottom, with financial institutions fleeing to countries with fewer restrictions. Hence, some form of multilateral cooperation to coordinate national regulation seems necessary and desirable compared to uncoordinated national action. These efforts will require coordination between, on the one hand, the IMF and the WTO, which help guarantee states' financial openness, and, on the other hand, the Bank for International Settlements and the Financial Stability Forum (with expanded membership), which deal with financial regulation. A cooperative approach is necessary to make sure that when countries open themselves up to financial flows, they have the regulatory capacity to manage them, or, when they lack such capacity, they are able to restrict those flows.

#### ENVIRONMENTAL PROTECTIONS, NOT PROTECTIONISM

CLIMATE CHANGE, increasingly recognized as the gravest danger to humanity, will be the subject of international negotiations at the United Nations Climate Change Conference in Copenhagen later this year. As the momentum for acting decisively on the issue picks up, there is growing talk of using trade as an instrument for furthering environmental objectives. In the United States, the most prominent bill under discussion in Congress is on restricting imports from countries that do not act adequately to protect the environment. The European



*Aaditya Mattoo and Arvind Subramanian*

Union has been contemplating enacting similar rules. European and U.S. producers of energy-intensive products, such as chemicals, metals, and paper, are pushing for restrictions on imports coming from China and India, where environmental standards are especially lax.

The international community will have an opportunity to design a new regime to manage both climate change and trade at the Copenhagen summit, the most significant such meeting since the conference in Kyoto in 1997. The key objective of that regime should be to ensure the participation of all the major carbon-emitting countries, including developing nations. The negotiations should therefore exclude up-front the threat of trade sanctions as a tool to force cooperation, as these tend to alienate developing nations. Instead, as Nicholas Stern, former chief economist of the World Bank, has proposed, participation and compliance should be secured through transfers of finance and technology—particularly since most developing countries see climate change as a problem caused by emissions from the industrial world.

If all countries agree in Copenhagen to reduce carbon emissions across the board, then there will be little basis for trade restrictions in particular sectors. With economy-wide emissions targets, governments would retain the flexibility to mandate reductions across sectors of their economy as they see fit. Accordingly, they would be immune to punitive action from their trading partners in specific sectors. Of course, as under the Montreal Protocol, an international treaty that phases out substances that cause ozone depletion, whatever agreement emerges from Copenhagen could include a provision to allow for trade sanctions. But these trade sanctions should serve as enforcement mechanisms to be put in place only after cooperation is secured, not as sticks to induce cooperation in the first place.

### UPDATING THE GUEST LIST

IT IS AN old axiom of trade politics that the will of concentrated interests, typically those of producers and exporters, trumps the will of diffuse interests, usually those of consumers. The genius of the WTO's reciprocal framework was to harness exporters' interests in liberalization to overcome opposition from domestic producers fearful of foreign competition. Consumers were the incidental beneficiaries of reform.

## Return to Table of Contents

### *From Doha to the Next Bretton Woods*

Consumers and other actors with diffuse interests will need to play a more active role in driving the new trade agenda than they have in the past, because they now have more at stake. As evidence of their growing influence, governments in several developing countries have imposed agricultural export taxes, increased fuel subsidies, and tightened anti-inflationary policies. The natural next step is for governments to cooperate on furthering the security-minded interests of their constituents.

One challenge ahead, as the failure of the latest Doha meeting highlighted, will be to resolve differences between the world's traditional powers and its new powers, such as on the pace of liberalization. Although these states' divergent interests would seem to hinder chances for future cooperation in the WTO, the proposed new trade agenda would create more common interests and greater scope for give-and-take between existing and rising powers than have existed until now. All large oil consumers, be they traditional powers (the United States and Europe) or emerging ones (China and India) share an interest in an open energy market without artificial restrictions on supplies. If such a market were achieved, China and India would be less tempted to secure supply sources through costly bilateral deals. On exchange rates, large emerging economies, such as Brazil and South Korea, share an interest in ensuring that China and Middle Eastern states adopt less distortionary exchange-rate policies. Likewise, countries that import capital and those with SWFs all have a stake in keeping investment flowing, which means addressing the legitimate security concerns of host states.

Still, two questions remain: Which countries should participate in the negotiations, and what is the appropriate forum for the talks? It may not be necessary, or even desirable, to continue following the model of the Uruguay Round, in which all countries are invited to discuss all issues and are all bound by any resulting rules. With the failure of the Doha talks, such efforts to create rules that would apply uniformly to an increasingly diverse membership began to seem like dangerous overreaching. Some issues, such as investment by SWFs, would be best resolved by that subset of countries which are most directly involved. In some cases, the benefits of the agreements coming out of these limited talks could be extended to all of the WTO's members.

*Aaditya Mattoo and Arvind Subramanian*

At the moment, the WTO is the lone official forum for most negotiations on trade issues. That makes it an appropriate venue for discussing trade restrictions in the agricultural sector, but not necessarily for discussing the other major economic issues of the day. Cooperation is needed between the WTO and the IMF on questions involving exchange rates and SWFs. For energy issues, both organizations that represent oil exporters, such as OPEC, and those that represent importers, such as an expanded version of the International Energy Agency, need to be involved. On the environment, and specifically climate change, the WTO should be subordinate to forums such as the upcoming Copenhagen summit.

### FROM DOHA TO WASHINGTON

THE DOHA ROUND of trade negotiations was one of the more serious attempts at multilateral cooperation in recent years. It might be tempting, therefore, to exaggerate the consequences of its latest failure. But the issues now at stake in Doha are marginal, and, more important, Doha distracts attention from other matters of greater significance, such as the consequences for trade from misaligned exchange rates and environmental protection. Multilateral cooperation is needed to prevent any protectionist measures that these issues may provoke.

The outlook for multilateral cooperation has become cloudy. The United States, the world's acting hegemon, is facing economic disarray and finds itself distracted in Afghanistan and Iraq. Meanwhile, "the rise of the rest," as Fareed Zakaria, the editor of *Newsweek International*, has described what is happening to emerging powers, has dispersed power and complicated collective action. Despite these difficulties, however, it is time to start working on a new agenda that really matters, rather than trying to resuscitate an inconsequential enterprise. The interests of a more diverse group of actors are now at stake. This calls for a new approach to international cooperation and the reallocation of responsibilities among international institutions. A Bretton Woods II offers exactly this opportunity. 🌐



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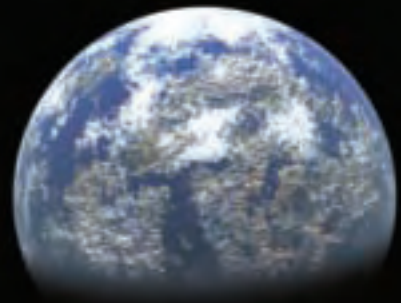
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# Essays



AP/WIDE WORLD PHOTOS

*A U.S. Black Hawk helicopter flying over the Green Zone, Baghdad, December 2006*

To truly achieve victory, the United States  
needs a military whose ability to kick  
down the door is matched by its ability to  
clean up the mess and even rebuild the  
house afterward.

A Balanced Strategy    *Robert M. Gates* 28

- 
- Beyond Iraq    *Richard N. Haass and Martin Indyk* 41
- Change They Can Believe In    *Walter Russell Mead* 59
- The Myth of the Autocratic Revival  
*Daniel Deudney and G. John Ikenberry* 77
- America's Edge    *Anne-Marie Slaughter* 94
- In the Shadow of the Oval Office  
*Ivo H. Daalder and I. M. Destler* 114
- The Responsibility to Contain    *Michael Chertoff* 130
- Where Are the Civilians?    *J. Anthony Holmes* 148

# A Balanced Strategy

## Reprogramming the Pentagon for a New Age

*Robert M. Gates*

THE DEFINING principle of the Pentagon's new National Defense Strategy is balance. The United States cannot expect to eliminate national security risks through higher defense budgets, to do everything and buy everything. The Department of Defense must set priorities and consider inescapable tradeoffs and opportunity costs.

The strategy strives for balance in three areas: between trying to prevail in current conflicts and preparing for other contingencies, between institutionalizing capabilities such as counterinsurgency and foreign military assistance and maintaining the United States' existing conventional and strategic technological edge against other military forces, and between retaining those cultural traits that have made the U.S. armed forces successful and shedding those that hamper their ability to do what needs to be done.

### UNCONVENTIONAL THINKING

THE UNITED STATES' ability to deal with future threats will depend on its performance in current conflicts. To be blunt, to fail—or to be seen to fail—in either Iraq or Afghanistan would be a disastrous blow to U.S. credibility, both among friends and allies and among potential adversaries.

In Iraq, the number of U.S. combat units there will decline over time—as it was going to do no matter who was elected president in

---

ROBERT M. GATES is U.S. Secretary of Defense.

### *A Balanced Strategy*

November. Still, there will continue to be some kind of U.S. advisory and counterterrorism effort in Iraq for years to come.

In Afghanistan, as President George W. Bush announced last September, U.S. troop levels are rising, with the likelihood of more increases in the year ahead. Given its terrain, poverty, neighborhood, and tragic history, Afghanistan in many ways poses an even more complex and difficult long-term challenge than Iraq—one that, despite a large international effort, will require a significant U.S. military and economic commitment for some time.

It would be irresponsible not to think about and prepare for the future, and the overwhelming majority of people in the Pentagon, the services, and the defense industry do just that. But we must not be so preoccupied with preparing for future conventional and strategic conflicts that we neglect to provide all the capabilities necessary to fight and win conflicts such as those the United States is in today.

Support for conventional modernization programs is deeply embedded in the Defense Department's budget, in its bureaucracy, in the defense industry, and in Congress. My fundamental concern is that there is not commensurate institutional support—including in the Pentagon—for the capabilities needed to win today's wars and some of their likely successors.

What is dubbed the war on terror is, in grim reality, a prolonged, worldwide irregular campaign—a struggle between the forces of violent extremism and those of moderation. Direct military force will continue to play a role in the long-term effort against terrorists and other extremists. But over the long term, the United States cannot kill or capture its way to victory. Where possible, what the military calls kinetic operations should be subordinated to measures aimed at promoting better governance, economic programs that spur development, and efforts to address the grievances among the discontented, from whom the terrorists recruit. It will take the patient accumulation of quiet successes over a long time to discredit and defeat extremist movements and their ideologies.

The United States is unlikely to repeat another Iraq or Afghanistan—that is, forced regime change followed by nation building under fire—anytime soon. But that does not mean it may not face similar challenges in a variety of locales. Where possible, U.S. strategy is to employ indirect



*Robert M. Gates*

approaches—primarily through building the capacity of partner governments and their security forces—to prevent festering problems from turning into crises that require costly and controversial direct military intervention. In this kind of effort, the capabilities of the United States’ allies and partners may be as important as its own, and building their capacity is arguably as important as, if not more so than, the fighting the United States does itself.

The recent past vividly demonstrated the consequences of failing to address adequately the dangers posed by insurgencies and failing

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Over the long term, the United States cannot kill or capture its way to victory.

states. Terrorist networks can find sanctuary within the borders of a weak nation and strength within the chaos of social breakdown. A nuclear-armed state could collapse into chaos and criminality. The most likely catastrophic threats to the U.S. homeland—for example, that of a U.S. city

being poisoned or reduced to rubble by a terrorist attack—are more likely to emanate from failing states than from aggressor states.

The kinds of capabilities needed to deal with these scenarios cannot be considered exotic distractions or temporary diversions. The United States does not have the luxury of opting out because these scenarios do not conform to preferred notions of the American way of war.

Furthermore, even the biggest of wars will require “small wars” capabilities. Ever since General Winfield Scott led his army into Mexico in the 1840s, nearly every major deployment of U.S. forces has led to a longer subsequent military presence to maintain stability. Whether in the midst of or in the aftermath of any major conflict, the requirement for the U.S. military to maintain security, provide aid and comfort, begin reconstruction, and prop up local governments and public services will not go away.

The military and civilian elements of the United States’ national security apparatus have responded unevenly and have grown increasingly out of balance. The problem is not will; it is capacity. In many ways, the country’s national security capabilities are still coping with the consequences of the 1990s, when, with the complicity of both ends of Pennsylvania Avenue, key instruments of U.S. power abroad were reduced or allowed to wither on the bureaucratic vine. The State Department froze the hiring of new Foreign Service officers. The

### *A Balanced Strategy*

U.S. Agency for International Development dropped from a high of having 15,000 permanent staff members during the Vietnam War to having less than 3,000 today. And then there was the U.S. Information Agency, whose directors once included the likes of Edward R. Murrow. It was split into pieces and folded into a corner of the State Department. Since 9/11, and through the efforts first of Secretary of State Colin Powell and now of Secretary of State Condoleezza Rice, the State Department has made a comeback.

Foreign Service officers are being hired again, and foreign affairs spending has about doubled since President Bush took office.

Yet even with a better-funded State Department and U.S. Agency for International Development, future military commanders will not be able to rid themselves of the tasks of maintaining security and stability. To truly achieve victory as Clausewitz defined it—to attain a political objective—the United States needs a military whose ability to kick down the door is matched by its ability to clean up the mess and even rebuild the house afterward.

Given these realities, the military has made some impressive strides in recent years. Special operations have received steep increases in funding and personnel. The air force has created a new air advisory program and a new career track for unmanned aerial operations. The navy has set up a new expeditionary combat command and brought back its riverine units. New counterinsurgency and army operations manuals, plus a new maritime strategy, have incorporated the lessons of recent years in service doctrine. “Train and equip” programs allow for quicker improvements in the security capacity of partner nations. And various initiatives are under way that will better integrate and coordinate U.S. military efforts with civilian agencies as well as engage the expertise of the private sector, including nongovernmental organizations and academia.

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The U.S. military’s ability to kick down the door must be matched by its ability to clean up the mess afterward.

#### CONVENTIONAL THREATS IN PERSPECTIVE

EVEN AS its military hones and institutionalizes new and unconventional skills, the United States still has to contend with the security challenges

*Robert M. Gates*

posed by the military forces of other countries. The images of Russian tanks rolling into Georgia last August were a reminder that nation-states and their militaries do still matter. Both Russia and China have increased their defense spending and modernization programs to include air defense and fighter capabilities that in some cases approach the United States' own. In addition, there is the potentially toxic mix of rogue nations, terrorist groups, and nuclear, chemical, or biological weapons. North Korea has built several bombs, and Iran seeks to join the nuclear club.

What all these potential adversaries—from terrorist cells to rogue nations to rising powers—have in common is that they have learned that it is unwise to confront the United States directly on conventional military terms. The United States cannot take its current dominance for granted and needs to invest in the programs, platforms, and personnel that will ensure that dominance's persistence.

But it is also important to keep some perspective. As much as the U.S. Navy has shrunk since the end of the Cold War, for example, in terms of tonnage, its battle fleet is still larger than the next 13 navies combined—and 11 of those 13 navies are U.S. allies or partners. Russian tanks and artillery may have crushed Georgia's tiny military. But before the United States begins rearming for another Cold War, it must remember that what is driving Russia is a desire to exorcise past humiliation and dominate its "near abroad"—not an ideologically driven campaign to dominate the globe. As someone who used to prepare estimates of Soviet military strength for several presidents, I can say that Russia's conventional military, although vastly improved since its nadir in the late 1990s, remains a shadow of its Soviet predecessor. And adverse demographic trends in Russia will likely keep those conventional forces in check.

All told, the 2008 National Defense Strategy concludes that although U.S. predominance in conventional warfare is not unchallenged, it is sustainable for the medium term given current trends. It is true that the United States would be hard-pressed to fight a major conventional ground war elsewhere on short notice, but as I have asked before, where on earth would we do that? U.S. air and sea forces have ample untapped striking power should the need arise to deter or punish aggression—whether on the Korean Peninsula, in the Persian Gulf, or across the Taiwan Strait. So although current strategy knowingly assumes some additional risk in this area, that risk is a prudent and manageable one.

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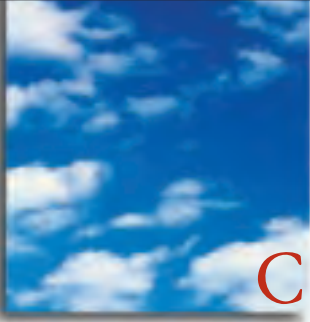
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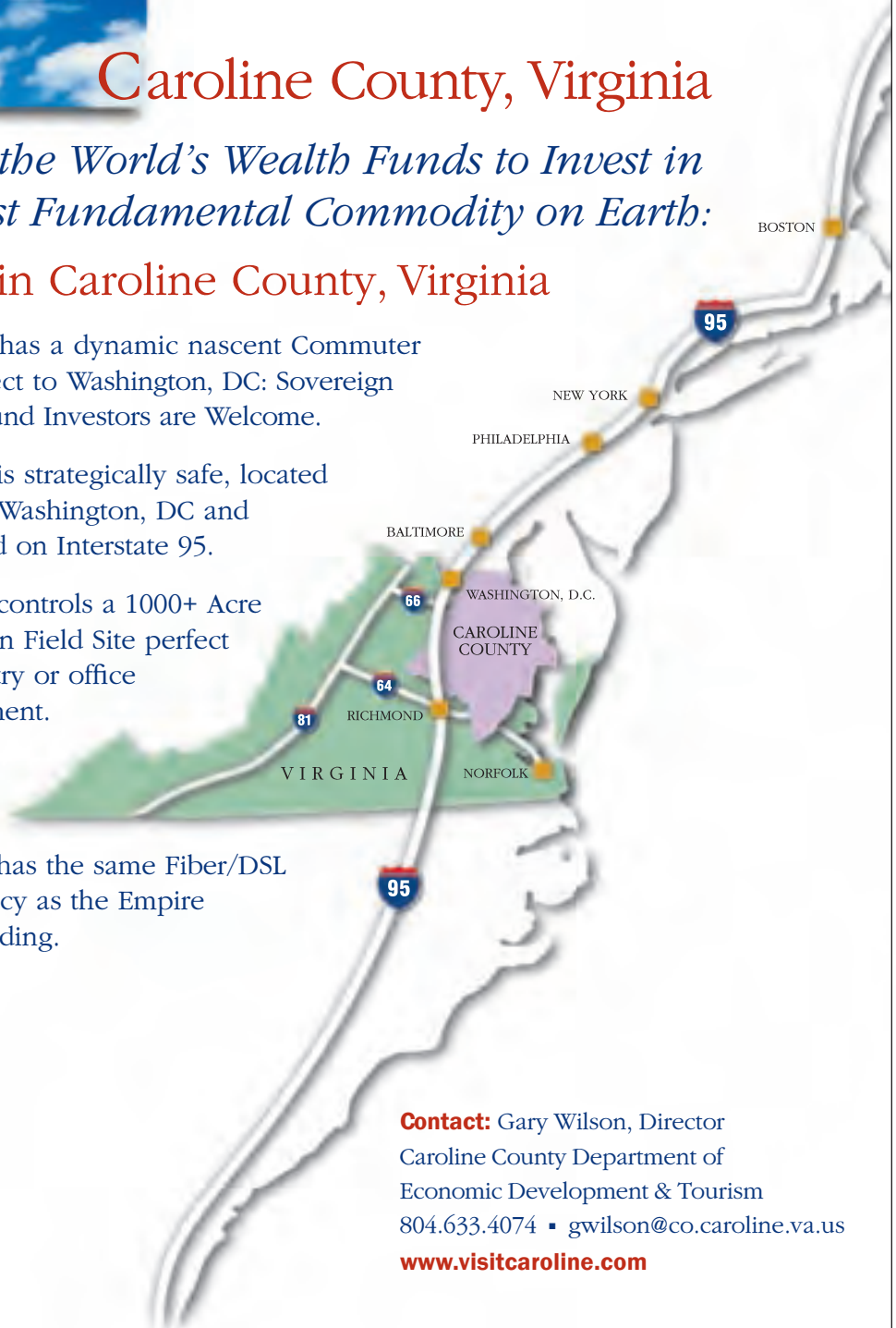


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*A Balanced Strategy*

Other nations may be unwilling to challenge the United States fighter to fighter, ship to ship, tank to tank. But they are developing the disruptive means to blunt the impact of U.S. power, narrow the United States' military options, and deny the U.S. military freedom of movement and action.

In the case of China, Beijing's investments in cyberwarfare, antisatellite warfare, anti-aircraft and antiship weaponry, submarines, and ballistic missiles could threaten the United States' primary means to project its power and help its allies in the Pacific:

bases, air and sea assets, and the networks that support them. This will put a premium on the United States' ability to strike from over the horizon and employ missile defenses and will require shifts from short-range to longer-range systems, such as the next-generation bomber.

And even though the days of hair-trigger superpower confrontation are over, as long as other nations possess the bomb and the means to deliver it, the United States must maintain a credible strategic deterrent. Toward this end, the Department of Defense and the air force have taken firm steps to return excellence and accountability to nuclear stewardship. Congress needs to do its part by funding the Reliable Replacement Warhead Program—for safety, for security, and for a more reliable deterrent.

When thinking about the range of threats, it is common to divide the "high end" from the "low end," the conventional from the irregular, armored divisions on one side, guerrillas toting AK-47s on the other. In reality, as the political scientist Colin Gray has noted, the categories of warfare are blurring and no longer fit into neat, tidy boxes. One can expect to see more tools and tactics of destruction—from the sophisticated to the simple—being employed simultaneously in hybrid and more complex forms of warfare.

Russia's relatively crude—although brutally effective—conventional offensive in Georgia was augmented with a sophisticated cyberattack and a well-coordinated propaganda campaign. The United States saw a different combination of tools during the invasion of Iraq, when

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As long as other nations possess the bomb and the means to deliver it, the United States must maintain a credible deterrent.

*Robert M. Gates*

Saddam Hussein dispatched his swarming Fedayeen paramilitary fighters along with the T-72 tanks of the Republican Guard.

Conversely, militias, insurgent groups, other nonstate actors, and developing-world militaries are increasingly acquiring more technology, lethality, and sophistication—as illustrated by the losses and propaganda victory that Hezbollah was able to inflict on Israel in 2006.

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For every heroic and resourceful innovation on the battlefield in Iraq, there was some institutional shortcoming at the Pentagon.

Hezbollah's restocked arsenal of rockets and missiles now dwarfs the inventory of many nation-states. Furthermore, Chinese and Russian arms sales are putting advanced capabilities, both offensive and defensive, in the hands of more countries and groups. As the defense scholar Frank Hoffman has noted, these hybrid scenarios combine "the lethality of state conflict with the fanatical and protracted fervor of irregular warfare," what another defense scholar, Michael Evans,

has described as "wars . . . in which Microsoft coexists with machetes and stealth technology is met by suicide bombers."

Just as one can expect a blended high-low mix of adversaries and types of conflict, so, too, should the United States seek a better balance in the portfolio of capabilities it has—the types of units fielded, the weapons bought, the training done.

When it comes to procurement, for the better part of five decades, the trend has gone toward lower numbers as technology gains have made each system more capable. In recent years, these platforms have grown ever more baroque, have become ever more costly, are taking longer to build, and are being fielded in ever-dwindling quantities. Given that resources are not unlimited, the dynamic of exchanging numbers for capability is perhaps reaching a point of diminishing returns. A given ship or aircraft, no matter how capable or well equipped, can be in only one place at one time.

For decades, meanwhile, the prevailing view has been that weapons and units designed for the so-called high end could also be used for the low end. And to some extent that has been true: Strategic bombers designed to obliterate cities have been used as close air support for riflemen on horseback. M-1 tanks originally designed to plug the Fulda

Gap during a Soviet attack on Western Europe routed Iraqi insurgents in Fallujah and Najaf. Billion-dollar ships are employed to track pirates and deliver humanitarian aid. And the U.S. Army is spinning out parts of the Future Combat Systems program, as they move from the drawing board to reality, so that they can be available and usable for troops in Afghanistan and Iraq.

Nevertheless, given the types of situations the United States is likely to face—and given, for example, the struggles to field up-armored Humvees, Mine Resistant Ambush Protected vehicles (MRAPs), and intelligence, surveillance, and reconnaissance (ISR) programs in Iraq—the time has come to consider whether the specialized, often relatively low-tech equipment well suited for stability and counterinsurgency missions is also needed. It is time to think hard about how to institutionalize the procurement of such capabilities and get them fielded quickly. Why was it necessary to go outside the normal bureaucratic process to develop technologies to counter improvised explosive devices, to build MRAPs, and to quickly expand the United States' ISR capability? In short, why was it necessary to bypass existing institutions and procedures to get the capabilities needed to protect U.S. troops and fight ongoing wars?

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## Return to Table of Contents

*Robert M. Gates*

The Department of Defense's conventional modernization programs seek a 99 percent solution over a period of years. Stability and counterinsurgency missions require 75 percent solutions over a period of months. The challenge is whether these two different paradigms can be made to coexist in the U.S. military's mindset and bureaucracy.

The Defense Department has to consider whether in situations in which the United States has total air dominance, it makes sense to employ lower-cost, lower-tech aircraft that can be employed in large quantities and used by U.S. partners. This is already happening now in the field with Task Force ODIN in Iraq, which has mated advanced sensors with turboprop aircraft to produce a massive increase in the amount of surveillance and reconnaissance coverage. The issue then becomes how to build this kind of innovative thinking and flexibility into the rigid procurement processes at home. The key is to make sure that the strategy and risk assessment drive the procurement, rather than the other way around.

### SUSTAINING THE INSTITUTION

THE ABILITY to fight and adapt to a diverse range of conflicts, sometimes simultaneously, fits squarely within the long history and the finest traditions of the American practice of arms. In the Revolutionary War, tight formations drilled by Baron Friedrich von Steuben fought redcoats in the North while guerrillas led by Francis Marion harassed them in the South. During the 1920s and 1930s, the Marine Corps conducted what would now be called stability operations in the Caribbean, wrote the *Small Wars Manual*, and at the same time developed the amphibious landing techniques that would help liberate Europe and the Pacific in the following decade. And consider General John "Black Jack" Pershing: before commanding the American Expeditionary Forces in Europe in World War I, Pershing led a platoon of Sioux scouts, rode with buffalo soldiers up San Juan Hill, won the respect of the Moro in the Philippines, and chased Pancho Villa in Mexico.

In Iraq, an army that was basically a smaller version of the United States' Cold War force over time became an effective instrument of counterinsurgency. But that transition came at a frightful human,

### *A Balanced Strategy*

financial, and political cost. For every heroic and resourceful innovation by troops and commanders on the battlefield, there was some institutional shortcoming at the Pentagon they had to overcome. There have to be institutional changes so that the next set of colonels, captains, and sergeants will not have to be quite so heroic or quite so resourceful.

One of the enduring issues the military struggles with is whether personnel and promotions systems designed to reward the command of American troops will be able to reflect the importance of advising, training, and equipping foreign troops—something still not considered a career-enhancing path for the best and brightest officers. Another is whether formations and units organized, trained, and equipped to destroy enemies can be adapted well enough and fast enough to dissuade or co-opt them—or, more significant, to build the capacity of local security forces to do the dissuading and destroying.

As secretary of defense, I have repeatedly made the argument in favor of institutionalizing counterinsurgency skills and the ability to conduct stability and support operations. I have done so not because I fail to appreciate the importance of maintaining the United States' current advantage in conventional war fighting but rather because conventional and strategic force modernization programs are already strongly supported in the services, in Congress, and by the defense industry. The base budget for fiscal year 2009, for example, contains more than \$180 billion for procurement, research, and development, the overwhelming preponderance of which is for conventional systems.

Apart from the Special Forces community and some dissident colonels, however, for decades there has been no strong, deeply rooted constituency inside the Pentagon or elsewhere for institutionalizing the capabilities necessary to wage asymmetric or irregular conflict—and to quickly meet the ever-changing needs of forces engaged in these conflicts.

Think of where U.S. forces have been sent and have been engaged over the last 40-plus years: Vietnam, Lebanon, Grenada, Panama, Somalia, Haiti, Bosnia, Kosovo, Afghanistan, Iraq, the Horn of Africa, and more. In fact, the first Gulf War stands alone in over two generations

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Not every outrage,  
every act of aggression,  
or every crisis can or  
should elicit a U.S.  
military response.



*Robert M. Gates*

of constant military engagement as a more or less traditional conventional conflict from beginning to end. As General Charles Krulak, then the Marine Corps commandant, predicted a decade ago, instead of the beloved “Son of Desert Storm,” Western militaries are confronted with the unwanted “Stepchild of Chechnya.”

There is no doubt in my mind that conventional modernization programs will continue to have, and deserve, strong institutional and congressional support. I just want to make sure that the capabilities needed for the complex conflicts the United States is actually in and most likely to face in the foreseeable future also have strong and sustained institutional support over the long term. And I want to see a defense establishment that can make and implement decisions quickly in support of those on the battlefield.

In the end, the military capabilities needed cannot be separated from the cultural traits and the reward structure of the institutions the United States has: the signals sent by what gets funded, who gets promoted, what is taught in the academies and staff colleges, and how personnel are trained.

Thirty-six years ago, my old CIA colleague Robert Komer, who led the pacification campaign in Vietnam, published his classic study of organizational behavior, *Bureaucracy Does Its Thing*. Looking at the performance of the U.S. national security apparatus during the conflict in Vietnam, both military and civilian, he identified a number of tendencies that prevented institutions from adapting long after problems had been identified and solutions proposed: a reluctance to change preferred ways of functioning, the attempt to run a war with a peacetime management structure and peacetime practices, a belief that the current set of problems either was an aberration or would soon be over, and the tendency for problems that did not fit organizations’ inherited structures and preferences to fall through the cracks.

I mention this study not to relitigate that war or slight the enormous strides the institutional military has made in recent years but simply as a reminder that these tendencies are always present in any large, hierarchical organization and that everyone must consistently strive to overcome them.

I have learned many things in my 42 years of service in the national security arena. Two of the most important are an appreciation of limits and

a sense of humility. The United States is the strongest and greatest nation on earth, but there are still limits on what it can do. The power and global reach of its military have been an indispensable contributor to world peace and must remain so. But not every outrage, every act of aggression, or every crisis can or should elicit a U.S. military response.

We should be modest about what military force can accomplish and what technology can accomplish. The advances in precision, sensor, information, and satellite technologies have led to extraordinary gains in what the U.S. military can do. The Taliban were dispatched within three months; Saddam's regime was toppled in three weeks. A button can be pushed in Nevada, and seconds later a pickup truck will explode in Mosul. A bomb dropped from the sky can destroy a targeted house while leaving the one next to it intact.

But no one should ever neglect the psychological, cultural, political, and human dimensions of warfare. War is inevitably tragic, inefficient, and uncertain, and it is important to be skeptical of systems analyses, computer models, game theories, or doctrines that suggest otherwise. We should look askance at idealistic, triumphalist,



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## Return to Table of Contents

*Robert M. Gates*

or ethnocentric notions of future conflict that aspire to transcend the immutable principles and ugly realities of war, that imagine it is possible to cow, shock, or awe an enemy into submission, instead of tracking enemies down hilltop by hilltop, house by house, block by bloody block. As General William Tecumseh Sherman said, “Every attempt to make war easy and safe will result in humiliation and disaster.”

Repeatedly over the last century, Americans averted their eyes in the belief that events in remote places around the world need not engage the United States. How could the assassination of an Austrian archduke in the unknown Bosnia and Herzegovina affect Americans, or the annexation of a little patch of ground called Sudetenland, or a French defeat in a place called Dien Bien Phu, or the return of an obscure cleric to Tehran, or the radicalization of a Saudi construction tycoon’s son?

In world affairs, “what seems to work best,” the historian Donald Kagan wrote in his book *On the Origins of War and the Preservation of Peace*, “. . . is the possession by those states who wish to preserve the peace of the preponderant power and of the will to accept the burdens and responsibilities required to achieve that purpose.” I believe the United States’ National Defense Strategy provides a balanced approach to meeting those responsibilities and preserving the United States’ freedom, prosperity, and security in the years ahead. 🌐



# A Giant Awakens Brazil

**As financial turmoil spreads throughout the globe, Brazil with the world's sixth-biggest economy is confident it can weather this latest challenge while remaining one of the most influential emerging economic powers of the twenty-first century.**



President  
Luiz Inacio Lula da Silva

■ Brazil's mighty oil production capacity will help President Luiz Inacio Lula da Silva stand strong

**B**razil, one of the four so-called BRIC countries (Brazil, Russia, India, and China) has around 190 million inhabitants, tens of millions of them coming out of poverty in the six years since Luiz Inacio Lula da Silva was elected president. Under Lula's leadership, the Brazilian economy has flourished. International reserves exceed \$200 billion, inflation is below this year's 6.5 percent target, and unemployment is at its lowest in ten years, with the September 2008 jobless rate at 7.6 percent compared to 9 percent in September 2007. Per capita GDP is now around \$10,000 and growing. "Brazil is still standing,

because we did what had to be done," Lula said recently.

In the first semester of 2008, the top 340 companies in the BM&F Bovespa reported a profit of \$30 billion; over 80 percent of publicly traded firms in Brazil are making money, with 2007 profits up an average 10 percent. Last year, GDP growth came to 5.3 percent, and although that kind of performance won't be repeated in 2008 due to the global economic situation, economists still expect Brazil to close the year with at least 4 percent growth.

"The great advantage of Brazil having adopted a conservative fiscal and financial policy is





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that we have enough resources and stability to face a crisis that is affecting everyone,” said Henrique Meirelles, president of Brazil’s Central Bank. Brazilian banks are solid and profitable, thanks to the stability created by Lula’s predecessor, Fernando Henrique Cardoso. From May 1993 to April 1994, FHC (as he’s known) was Brazil’s finance minister; as such, he introduced the Real Plan to end hyperinflation. Buoyed by the success of his plan, he was elected president in 1994 and reelected four years later. Cardoso was succeeded in 2003 by Lula, who has also been reelected; Lula’s current term will expire in 2011.

Dilma Rousseff, an economist and politician from Lula’s ruling Workers’ Party (PT), has been Lula’s chief of staff since 2005. “We are a stable country not because we have an apathetic population, but because so many people, who were excluded for centuries, are now incorporated into the national economy,” said



■ Henrique Meirelles

One of Brazil’s biggest industrial giants is Vale (formerly Companhia Vale do Rio Doce, or CVRD), a mining conglomerate in a country where iron ore is among the top export commodities. CVRD’s privatization in

in technology has been nothing short of explosive. Sales of personal computers jumped more than 120 percent between 2002 and 2007; some 29 million PCs are now in use throughout Brazil, with more PCs sold in the past two years than TV sets.

Internet use has skyrocketed as well, with 53 million Brazilians online today, or 26 percent of the population, according to the ITU. The number of broadband Internet users reached 10 million by mid-2008. Likewise, Brazil now has 133 million mobile phones in service, translating into a penetration exceeding 70 percent.

The focal point of the Lula government’s Economic Growth Acceleration Plan (PAC) is actually a policy of logistics, energy, and social and urban infrastructure. To that end, enormous investments are being made to upgrade roads, airports, and other transportation links. One of the most ambitious projects involves launching a high-speed railway linking Rio de Janeiro, São Paulo, and Campinas.

The Lula government will also spend \$500 million to upgrade a shipping port in the southern state of Rio Grande do Sul, as part of its program to dredge eighteen ports around the country and keep Brazil competitive for the shipping of cargo.

Another focus of the current government is its massive effort to develop renewable biofuels in the face of highly volatile global oil prices “I don’t think any Brazilian government has given such importance to ethanol as Lula has,” said Rousseff, who is also chairman of the board of directors of oil giant Petrobrás. “Even though we have much more petroleum than ever before” •

**“The great advantage of Brazil having adopted a conservative fiscal and financial policy is that we have enough resources and stability to face a crisis that is affecting everyone”**

Henrique Meirelles  
President of the Central Bank of Brazil

Rousseff. “We’ve managed to expand the middle class by twenty million and remove ten million people from poverty. So political stability in Brazil results from our strong policy of building citizenship by incorporating our population into the economic gains of growth. And among the BRICs, we have a quite diversified infrastructure.”

1997 brought the Brazilian government \$3.3 billion in revenue. “The state-owned companies that were privatized were very badly managed,” said Eliezer Batista, CVRD’s former CEO, though he cautioned that “privatization is not a magical key; it is one of the factors that let you increase productivity.”

Meanwhile, Brazil’s growth

“It is clear that Brazil is ready to overcome this world turmoil”

Armando Monteiro Filho, President of CNI

## AN EXPORT POWERHOUSE EMERGES

>> FROM SOYBEANS TO OIL EXPLORATION TECHNOLOGY, BRAZILIAN EXPORTS ARE WORLD CLASS

Mention Brazilian exports, and, for many people, coffee and orange juice still come to mind. But these days, “Made in Brazil” includes everything from Brahma beer and breast implants to Marco Polo buses and Embraer commuter jets.

In 2007, Brazil’s total exports came to \$159.2 billion an impressive figure but still relatively low compared to the country’s total potential. “We need to stop be-

ing only a raw-material exporter and become an exporter and importer of manufactured goods,” says Abraham Szajman, president of the Federation of Commerce of the State of São Paulo (Fecomercio). However, that doesn’t mean raw materials are still not crucial to the country’s success. “We are 6.5 billion people in the world, and everyone needs more minerals, steel, rice, soybeans, corn, petroleum, and ethanol,” Szajman said. “Therefore,

third-world countries are getting a chance, especially the better-structured countries such as Brazil. We are ready to help.”

For this reason Fecomercio, which groups together 151 business organizations representing 600,000 companies, is working with APEX the government’s export promotion arm to strengthen trading relationships with Brazil’s former colonizer, Portugal, as well as with the Czech Republic, Po-



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land, and other eastern European countries. Unlike China, Russia, and India, all of which are vast nations with serious internal ethnic and cultural differences, Szajman points out that “Brazil has only one culture, we speak only one language, there are no internal fights, and there is no separatism ... I have the option of investing in other countries, but I invest in Brazil because I believe in it.”

Along with Fecomercio, another organization lobbying to boost exports is the seventy-year-old Confederação Industrial do Brasil (CNI), which calls itself “the voice of Brazilian industry.” Among other things, CNI offers support to micro and small businesses, which account for 95 percent of Brazil’s manufacturing sector. CNI also promotes international missions and business roundtables with foreign companies all aimed at selling Brazilian products abroad.

“Our International Business Centers function as gateways to the world market for Brazilian companies,” says CNI’s president, Armando Monteiro Filho. “By utilizing advisory services supplied by professionals with proven experience in foreign trade, our companies can get to know the real business opportunities that await them in other countries.”

In that regard, two home-grown Brazilian companies stand out for their success in cracking the export market. The first is Silimed, Latin America’s only manufacturer of silicone breast implants, and the third-largest company of its kind in the world. Established in 1978, the company initially imported silicone implants from France, but in 1981 it began manufacturing at a factory in Rio de Janeiro. One year later, it was already exporting to Argentina, and today its products are exported to over sixty countries. “It’s

almost impossible to focus on the exterior and in Brazil at the same time. Brazil is very big and plastic surgery here is very dynamic,” says Silimed’s director, Margareth Figueiredo.

Using certified U.S. raw materials, Silimed makes breast implants along with facial, buttocks, and even testicular implants of silicone gel. Figueiredo said Silimed is the only silicone implant maker that stamps a serial number on each product, thus assuring 100 percent security in product traceability. It also uses the latest technology to ensure the reliability of its FDA-approved implants and a low rate of flaws in products that leave the factory even by international standards.

In 2007, the company exported around 160,000 implant units, equivalent to 65 percent of total production. This, combined with domestic sales, would indicate revenues of \$80-100 million. “We have a lot of competition,” says Figueiredo “so we need to be constantly changing in order to keep up.”

The second company is Coteminas, headed by CEO Josué Gomes da Silva. The company, which began life in 1967 as a textile fabric manufacturer, has become the largest spinning/weaving company in Brazil, converting raw cotton into yarn and fabrics for clothing and household items such as sheets, towels, and linen. Today, Coteminas oversees fifteen factories throughout Brazil, as well as one in Argentina.

In January 2006, Coteminas merged with South Carolina based Springs Industries, pushing revenues up from \$600 million to \$2.5 billion. Gomes da Silva, who took over the family business in 2000, said his company now has a 7.5 percent share of the world’s bedding and bath market. The Vanderbilt University business school graduate is also president of Brazil’s Association of Textile and Garment Industry (ABIT). As such, he recently convinced the Brazilian government to pass legislation forging a compromise with Chinese textile exporters that had flooded the domestic market. The measure, within the rules of the World Trade Organization, lasts only through 2009 and allows local companies a fighting chance to establish indigenous businesses without competition from Chinese imports.

“This is a bilateral agreement. It helps those sectors most endangered by huge increases in imports from China,” Gomes da Silva said recently. “It’s not permanent, but it gives the sectors of the Brazilian textile and clothing industry most affected by Chinese competition some time to grow.”





[Return to Table of Contents](#)



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## GETTING ENERGETIC

>>LEADING THE WORLD'S ENERGY OPTIONS

When it comes to energy, Brazil definitely has something to samba about: the discovery of a massive underwater oil field that could within a decade transform the country into a major petroleum exporter at the level of Nigeria or even Venezuela.

The Tupi deepwater oil field, discovered last year, contains an estimated five billion to eight billion barrels of light crude. It's so significant that President Luiz Inácio Lula da Silva recently called it proof that "God is Brazilian" and promised that within a few years, Brazil would seek OPEC membership. "We owe our self-sufficiency in petroleum to Petrobrás," said Edison Lobão, Brazil's minister of mines and energy. "We're proud of its international efficiency and competence."

Any way you slice it, Petrobrás is a giant. Profit surged from \$1.373 billion in 1997 to more than \$13 billion in 2007. Petroleum Intelligence Weekly ranks Petrobrás the eighth largest oil company in the world. In September 2008, the company produced an average 1.897 million barrels a day, up 7.3 percent from September 2007. The Rio de Janeiro-based conglomerate operates

109 production platforms and 15 refineries. It has nearly 5,973 service stations throughout Brazil and another 990 in 23 countries from Mexico to Mozambique.

But Dilma Rousseff, chief minister as well as chairwoman of Petrobrás, said oil alone subject to volatile price swings is not enough. "We've introduced in the energy matrix a stable source of thermal power based on natural gas, because there weren't sufficient gas pipelines in this country when we assumed the government. Today, there's a strong policy for gas pipelines and liquefied natural gas (LNG)."

Along with hydrocarbons, power generation is a cornerstone of Lula's Plan for Accelerated Growth (PAC), and 80 percent of Brazil's power is generated by hydroelectricity.

One of Brazil's largest electric energy transmission groups is Terna Participações. Launched in 2001, Terna has 3,731 kilometers of high-voltage (230 to 500 kV) transmission lines in operation. "Although most of the energy in Brazil is produced in the northeast, a major part of the country's demand comes from the south," said Terna's

director, Alessandro Flocco. "This is a very long distance, and therefore the role Terna plays in energy transmission is vital."

One key growth area for Brazil is biofuels. In fact, Brazil sits amid the most abundant farmland in the world. Integrated Biodiesel Industries Ltd. (IBI), an initiative of merchant banking firm Capitalcorp Finance Ltd., specializes in the production, marketing, and transportation stages, known in the industry as downstream operations.

"IBI is working to establish a significant presence in the biodiesel industry, with production resources located in different sites in South America," said CEO Marcelo Lopes. He predicts that "given the geopolitical and ecological realities of petroleum, IBI will grow steadily and sustainably" in coming years. It helps that the Lula administration is a strong proponent of biofuels. "I don't think a Brazilian government has ever given such importance to ethanol as Lula has," says Rousseff, a likely contender in the 2010 presidential elections, "even though we have much more petroleum than ever before in our country's history."

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“The challenge now is to persevere in the effort to turn Brazil into one of the three greatest technology centers in the world, on a par with India and China”

Antônio Gil,  
President of BRASSCOM

## SWITCHED ON

>>THE NEW IT POWER

After many years of boasting it would become a world leader in IT, Brazil has finally taken steps to make good on that claim. Among them: Provisional Decree 428, which slashes taxes on the IT sector like never before. The decree is largely the result of lobbying by São Paulo based Brasscom (Brazilian Association of Information Technology and Communication Companies).

“The challenge now for Brasscom and for the IT companies is to persevere in the effort to turn Brazil into one of the world’s three greatest technology centers, on par with India and China,” said Antônio Carlo Regis Gil, president of Brasscom.

At present, Brazil has the world’s eighth-largest internal IT market as well as the largest IT labor pool in Latin America. Yet it exports only

\$800 million a year in offshore outsourcing services barely 1 percent of the \$70 billion companies spend globally on such services. The world leader is currently India with \$50 billion of that total.

Enter Brasscom, created in 2004 with the aim of helping Brazil grab a bigger piece of the global IT pie. “It’s a matter of strategy,” says Gil. “In order to export IT services, no trucks, roads, or ports are needed. With current telecommunications, one needs only to press a computer key. But a simple key press is also needed for any other country to export its IT services to Brazil. The industry is undergoing such a profound transformation that exporting has become a vital necessity.” Gil says Brazil’s IT industry could reach the \$5 billion mark by 2011, assuming local and state governments provide

the necessary tax breaks and other incentives.

Brazil’s leading IT provider is Politec, with over 7,000 employees, 15 robust technology centers and 15 branch offices. Vice President Edenilson Fleischmann says his company’s experience and an extremely low turnover rate set it apart from the competition. “At Politec, we believe that the combination of technology, quality, cultural diversity, and our acute knowledge of our clients’ needs enable us to overcome any challenge,” he said.

“The automation of the Year 2000 Brazilian demographic census represents the type and scalability of solutions that Politec delivers to its clients,” he said, noting that Politec was able to slash data collection and input processes from three years to 100 days.

# RIO DE JANEIRO

>>SECOND TO NONE

**R**io de Janeiro, one of the world's most spectacular cities, has always been a great place to visit. But now, this metropolis famous for bossa nova music and bikini-clad beauties has also become a great place to do business. "Rio is the Brazilian calling card," says Sérgio Cabral, governor of the state of Rio de Janeiro, which in the nineteenth century was the country's richest. "When we say Brazil, we think of Rio. We have quality of life combined with a good business environment. It's an extraordinary combination."

Second in population to São Paulo but by far Brazil's top tourist draw, Rio de Janeiro attracts millions of visitors each year with its Carnival and New Year's Eve celebrations. Most of those tourists are blissfully unaware that the state is also Brazil's largest producer of offshore petroleum and natural gas, and that its hundreds of factories churn out processed foods, textiles, furniture, chemicals, metal products, and pharmaceuticals.

Rio de Janeiro, Brazil's capital until 1960, is today also a leading financial banking center, and home not only to Petrobrás but also the National Economic and Social Development Bank (BNDES) as well as the country's second-most-active stock market, the Bolsa da Valores do Brasil, and a growing number of insurance companies.

Between now and 2012, private companies ranging from industrial giant Thyssen Krupp to automakers Peugeot, Citroën, and Volkswagen will invest close to \$50 billion in Rio de Janeiro, says Cabral, noting that his state alone is home to 16 million people and accounts for 13 percent of Brazil's GDP. A big chunk of that money, he said, will go to improving Rio's infrastructure water, sewage systems, schools and hospitals as well as fighting crime and cleaning up the city's notorious favela shantytowns.

"It is considered a form of violence to leave these people with no attention, with no dignity," said the governor, who's vying to bring one of the world's biggest events of all to Rio: the 2016 Summer Olympic Games.

This special advertising feature was written by Larry Luxner

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# Brazil Beckons

## Embratur president Jeanine Pires talks business tourism

### What are Embratur's most important missions?

Embratur is a 42-year-old institution, but when President Lula took office in 2003, he created the Ministry of Tourism. Tourism was part of the Ministry of Sports and other areas of economic development. Today Embratur's mission is to promote Brazilian products, destinations, and tourist services abroad. Brazil is ranked 14th in the World Traveler Tourism Council's index. But since tourism efficiency cannot be measured by only asking how many tourists this country receives, we look at the economic impact of international tourism; permanence of visitors, the direct and indirect generation of jobs, public and private investments, both infrastructure and companies as well as services.

### When you talk about investments, are these local or also international?

All kinds of investments. A set of works on roads, airports and ports under the Program for Accelerated Growth (PAC) will directly influence tourism. Also, a new line of financing worth \$1 billion, Prodetur, is the third sustainable tourism development program with the Inter-American Development Bank. In 2005 we established the Plano Aquarela, our international marketing plan. We have carried out a series of studies and established a range of Brazilian products, destinations, and services divided into five large themes: sun and beach, ecotourism, culture, business and events, and sports. Each of these segments has its niches. At the same time we started the second phase of the plan to increase the presence of Brand Brazil in priority markets and distribution channels. For instance, we had a bilateral meeting with the United States which resulted in an increase of flight frequencies of both passengers and cargo. American Airlines and Delta have announced flights to Belo Horizonte, Manaus, Recife and Salvador. We already have several flights from Europe to the Northeast, so Brazil has other entrance gates besides Rio de Janeiro and Sao Paulo. One of the areas in which Brazil is very well positioned is business tourism, an area in which it is expected to grow most in the world, and become fifth in generating direct jobs in 2008.



• JEANINE PIRES

### Which are the advantages offered by Brazil for business tourism and as a potential target of investments?

Brazil is experiencing a new moment in the international scenario, not only in regards to its economy but also politics and what Brazil can offer in terms of new technologies, energy, biodiesel, petroleum and other sectors. This has contributed to and raised the number of foreign investments. Tourism has benefited a lot with this scenario. We established a relationship of trust and reliability with partners such as hotel groups, tour operators, and airlines. Brazil has a diverse nature and culture.

### What is the legacy you'd like to leave for Brazilian tourism?

It's teamwork. I think that the big legacy is that the President has created the Ministry, a state policy for tourism, and, specifically, the Plano Aquarela and the Brazil brand and is continuing and developing this work, because the image of Brazil as a tourist destination is not built in 2, 5 or 10 years. We have created a policy promoting a Brazil which is respected, professional, continuous, and responsible. Brazil is a country of great popular events, from carnival to corporate events. We have about 13 Brazilian cities that stand out in all regions on holding international gatherings. Businessmen who come for a congress stay an additional two or three days, getting to know a city, and it changes their image of the country. They want to come back with their families and see other places. And definitely for us, the Soccer World Cup in 2014 will be a milestone for the promotion and image of Brazil.

# Beyond Iraq

## A New U.S. Strategy for the Middle East

*Richard N. Haass and Martin Indyk*

ON TAKING office, U.S. President Barack Obama will face a series of critical, complex, and interrelated challenges in the Middle East demanding urgent attention: an Iraq experiencing a fragile lull in violence that is nonetheless straining the U.S. military, an Iran approaching the nuclear threshold, a faltering Israeli-Palestinian peace process, weak governments in Lebanon and the Palestinian territories challenged by strong militant Islamist groups, and a U.S. position weakened by years of failure and drift. He will also discover that time is working against him.

For six years, U.S. policy in the Middle East has been dominated by Iraq. This need not, and should not, continue. The Obama administration will be able to gradually reduce the number of U.S. troops in Iraq, limit their combat role, and increasingly shift responsibility to Iraqi forces. The drawdown will have to be executed carefully and deliberately, however, so as not to risk undoing recent progress.

The improved situation in Iraq will allow the new administration to shift its focus to Iran, where the clock is ticking on a dangerous and destabilizing nuclear program. Obama should offer direct official engagement with the Iranian government, without preconditions,

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*Richard N. Haass and Martin Indyk*

along with other incentives in an attempt to turn Tehran away from developing the capacity to rapidly produce substantial amounts of nuclear-weapons-grade fuel. At the same time, he should lay the groundwork for an international effort to impose harsher sanctions on Iran if it proves unwilling to change course.

Preventive military action against Iran by either the United States or Israel is an unattractive option, given its risks and costs. But it needs to be examined carefully as a last-ditch alternative to the dangers of living with an Iranian bomb. To increase Israel's tolerance for extended diplomatic engagement, the U.S. government should bolster Israel's deterrent capabilities by providing an enhanced anti-ballistic-missile defense capability and a nuclear guarantee.

The U.S. president should also spend capital trying to promote peace agreements between Israel and its Arab neighbors, in particular Syria. Damascus is currently allied with Tehran, and an Israeli-Syrian deal would weaken Iran's regional influence, reduce external support for Hamas and Hezbollah, and improve the prospects for stability in Lebanon. On the Israeli-Palestinian front, there is an urgent need for a diplomatic effort to achieve a two-state solution while it is still feasible. Although divisions on both sides and the questionable ability of the Palestinian Authority (PA) to control any newly acquired territory make a sustainable peace agreement unlikely for the moment, these factors argue not for abandoning the issue but rather for devoting substantial time and effort now to creating the conditions that would help diplomacy succeed later. What all these initiatives have in common is a renewed emphasis on diplomacy as a tool of U.S. national security policy, since the United States can no longer achieve its objectives without the backing of its regional allies as well as China, Europe, and Russia.

Some might argue that these efforts are not worth it, that the Bush administration paid too much attention to and invested too much American blood and treasure in an ill-advised attempt to transform the Middle East and that the Obama administration should focus its attention at home or elsewhere abroad. But such arguments underestimate the Middle East's ability to force itself onto the U.S. president's agenda regardless of other plans. Put simply, what happens in the Middle East will not stay in the Middle East.



### *Beyond Iraq*

From terrorism to nuclear proliferation to energy security, managing contemporary global challenges requires managing the Middle East.

#### INFLUENCE LOST, AND REGAINED?

SINCE THE collapse of the Soviet Union in 1991, the United States has been the dominant power in the Middle East. But in recent years, its influence there has diminished thanks to the failure to achieve a comprehensive settlement of the Arab-Israeli conflict, the protracted war in Iraq, and a lack of success in democratizing Arab authoritarian regimes. For almost a decade, the United States has done little to address the region's principal conflicts and concerns while developing a reputation for arrogance and double standards.

This reduced regional influence has been reinforced by a broader decline in the relative position of the United States in the world at large. The Bush administration has succeeded in raising serious doubts about U.S. competence and intentions, doubts that have been exacerbated by the global financial crisis. The United States seems unable to deliver on many of its promises and often to make matters worse when it tries.

Nevertheless, the vast majority of Middle Eastern states still look to the United States as the ultimate guarantor of their security and the power most able to help them achieve their objectives. Many people in the region still admire and identify with American values, and Obama's election victory will do much to remind them why. His ability to gain their respect will be vital to convincing the publics in the Arab and Muslim worlds to support their leaders in working with the United States.

The Obama administration should take advantage of the willingness of regional and global powers to work with the United States by renewing Washington's commitment to diplomacy. Such a renewed commitment was already noticeable during the last years of the Bush administration, when U.S. diplomats participated in a series of multilateral efforts to engage Iran and North Korea, rebuild the United States' transatlantic relationships, and promote Israeli-Palestinian peace. But for such efforts to be truly effective, the Obama administration's diplomats will need even more support.

They will also need a plan for reshaping the strategic context in the Middle East. Counterterrorism should be an integral part of U.S.

*Richard N. Haass and Martin Indyk*

Middle East strategy, but it no longer need be the driver of that policy. The Obama administration should focus on strengthening local capacities to fight terrorism, preventing the reemergence of al Qaeda in Iraq, and bolstering institutions in failing states where al Qaeda is trying to put down roots. The president himself should also send a clear message to the Muslim world that the United States is at war not with Islam but rather with small groups of violent extremists acting against the basic tenets of Islam.

The Bush administration gained some traction in the Arab world with the aggressive promotion of its “freedom agenda.” But its insistence

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Washington must  
find a way to address  
Tehran’s legitimate  
state interests while  
adamantly opposing its  
revolutionary impulses.

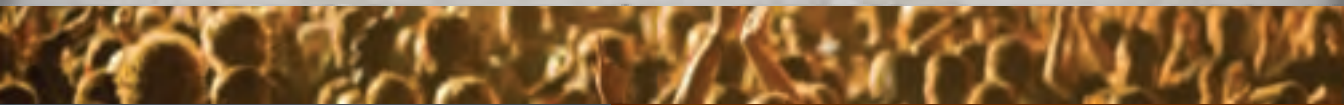
on elections in Lebanon, Iraq, and the Palestinian territories enabled Islamist parties with militias to enter the political process and then paralyze it in each place. The Bush administration’s boycotting of Hamas after it freely and fairly won the Palestinian elections enabled the United States’ opponents in the Arab and Muslim worlds to raise the banner of double standards. And President George W. Bush’s backing away from his public demands that the Egyptian and Saudi governments

open up their countries’ political spaces undermined the credibility of his democratization enterprise.

Rather than abandoning the effort entirely, the Obama administration should strike a more sustainable balance between U.S. interests and U.S. values. Authoritarian regimes that are repressive and largely unresponsive to their populations’ legitimate needs have set in motion a dynamic in which opposition has gathered primarily in the mosque. This trend needs to be reversed. The answer is not early elections, especially not when parties with militias contest them. Rather, a gradual, evolutionary process of liberalization should be promoted, one that emphasizes the building of civil society, the opening up of political space, and the strengthening of democratic values, including the rule of law, judicial independence, freedom of the press and association, women’s rights, and government transparency. Above all, the United States needs to focus on supporting efforts to provide a vast and growing young generation in the



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### *Beyond Iraq*

region with hope for the future and reason to resist the dark visions purveyed by religious extremists.

The dependence of the U.S. economy on oil is a key reason that the United States worries so much about the problems of the Middle East in the first place, and U.S. oil consumption also helps extremists in Iran and elsewhere. Had gasoline prices remained high, many Americans may well have changed their habits. But now that oil prices have declined dramatically, so will the perceived urgency of the problem; the Obama administration will therefore need to redouble efforts to increase energy efficiency, reduce consumption, and promote alternative energy sources. These policies would further diminish the demand for oil, slow the pace of climate change, and reduce the transfer of wealth to countries such as Iran, Russia, and Venezuela. It is no coincidence that when the price of oil was \$10 a barrel, in the 1990s, Iran's leaders were far more circumspect in their activities abroad than they have been in this decade of high prices. Now that oil prices have dropped again, President Mahmoud Ahmadinejad will no longer be able to fund foreign adventures while avoiding the domestic political consequences of his mismanagement of the Iranian economy. The lesson is clear: reducing oil consumption can alter the strategic environment in the Middle East; energy policy is foreign policy.

One of the most important steps the Obama administration can take is to extend Washington's vision beyond Iraq. The "surge" in U.S. troops, and arguably even more a change in U.S. tactics and the willingness of Sunni and Shiite leaders to establish and maintain order in their communities, has created an opening for the United States to devote attention to other regional issues. Sectarian violence in the country has been effectively suppressed, and al Qaeda in Iraq has been radically weakened. But the situation remains fragile, and the need to pursue a host of second-order tasks should preclude more than modest reductions in U.S. combat and support forces in Iraq through 2009. By mid-2010, however, the Obama administration should be able to reduce U.S. forces significantly, perhaps to half their pre-surge levels. This would be consistent with the accord governing the U.S. troop

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Sunni Arab states fear that their interests will be sacrificed on the altar of a U.S.-Iranian détente.



*Richard N. Haass and Martin Indyk*

presence that is currently being negotiated by U.S. and Iraqi officials. In the meantime, the highest political priorities will be ensuring communal reconciliation and an equitable sharing of oil revenues. Diplomatically, as reconciliation gains traction, Iraq's Sunni Arab neighbors will have to be persuaded to work with Baghdad's Shiite-led government.

The timing and pace of the drawdown will be critical: too rapid a reduction could regenerate instability and create opportunities for Iran and al Qaeda, whereas too slow a reduction would leave U.S. forces tied down in Iraq and unavailable for other tasks. Still, a well-executed drawdown of U.S. troops should enable Obama to make clear to Iraq's leaders and neighbors that he is shifting responsibility to their shoulders while demonstrating to the American people that their country's involvement in the Iraq war is coming to an end. Implemented gradually, a drawdown of U.S. troops should not raise questions about Washington's reliability given all that the United States has done over the past two years to bolster Iraq's stability and normalize life for its citizens.

### TACKLING TEHRAN

AT THE same time, the Obama administration needs to turn its attention toward Iran. The Bush administration succeeded in ousting the Taliban and Saddam Hussein, but in the process it removed Tehran's most threatening enemies and inadvertently opened the door to an Iranian bid for regional primacy. Arab governments feel they are seeing a historical replay of Persian efforts to dominate their region and fear that newly empowered Shiite communities in Iraq and Lebanon, backed by Iran, will inspire long-suppressed Shiite communities in other countries in the region, such as Bahrain and Saudi Arabia. Israel, Turkey, and Arab regional powers see Iran embarking on an aggressive effort to acquire a nuclear capability that the international community seems powerless to stop. And in the war of ideas, Iran and its proxies, Hamas and Hezbollah, have made some headway with the argument that violent radicalism is the way to liberate Palestine and achieve dignity and justice for Arabs and Muslims.

At the same time, Iran's challenge has led other actors in the region to begin to work together and look to the United States for help. Egypt and Saudi Arabia have grown deeply disillusioned with U.S.

### *Beyond Iraq*

leadership but would welcome an effective U.S. role. Even Syria, Iran's ally, has launched peace negotiations with Israel partly to improve its relations with Washington and partly to avoid being stuck on the Shiite side of the emerging Sunni-Shiite divide. If the Obama administration could show that there are real payoffs for moderation, reconciliation, negotiation, and political and economic reform, it would recoup considerable U.S. influence throughout the region.

Should Tehran's uranium-enrichment efforts proceed at their current pace, during Obama's first year in office or soon after, Iran may have stockpiled enough low-enriched uranium to produce weapons-grade material for at least one nuclear bomb. Iran would likely still be another year or two away from having a more extensive nuclear weapons capability. But once it has the potential to produce large amounts of weapons-grade fuel, it will essentially have crossed the nuclear threshold and forced all its neighbors, as well as the United States, to change their security calculations.

Israel, which has maintained a nuclear monopoly in the region through preventive military strikes on Iraq and Syria, will be sorely tempted to do the same with Iran. If Israel does strike, Iranian retaliation could spark a war in Lebanon, closure of the Strait of Hormuz, dramatic increases in the price of oil, and attacks on U.S. forces in Afghanistan and Iraq. If Israel does not strike, the two countries will be on hair-trigger alert with a high potential for miscalculation.

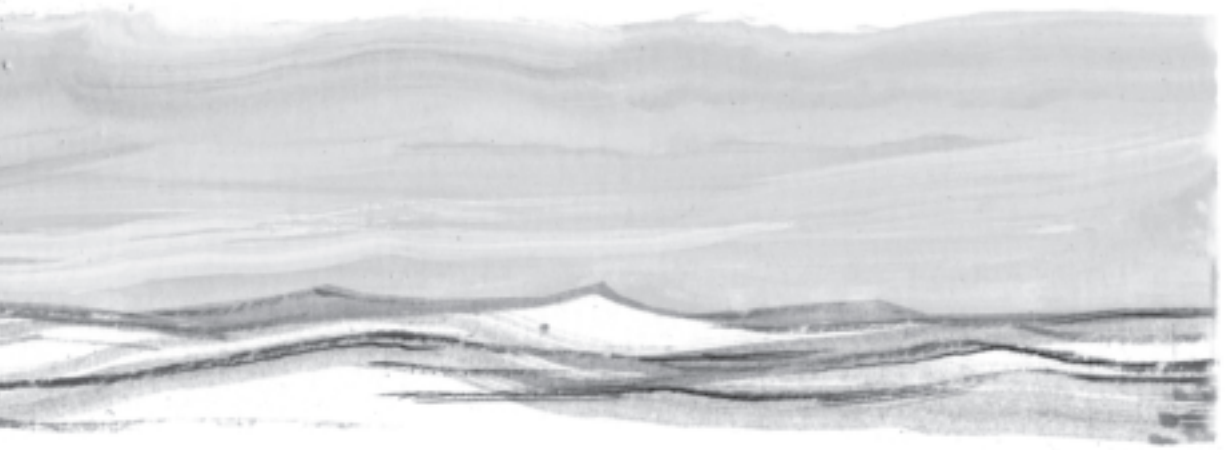
Meanwhile, other countries, such as Egypt, Saudi Arabia, and Turkey, will likely accelerate their own nuclear programs. Once it has a nuclear deterrent, Iran may feel emboldened to step up efforts at subversion across the region. Tehran would also have the potential to provide nuclear materials (to serve as the core of a "dirty bomb") or even a crude fission device to one of the terrorist organizations it supports.

These adverse consequences make it critical for the Obama administration to reach an early understanding with other leading powers about the need to cap Iran's nuclear advance. Unfortunately, recruiting Russia has become an even greater challenge since its use of force in Georgia in August 2008. Moscow may be tempted to revert to its Cold War approach of backing destabilizing actors in the Middle East with military support and diplomatic protection. It may not be possible to prevent Russia from playing such a spoiler role,



but it is at least worth testing whether Moscow is willing to act constructively in the Middle East.

Of course, getting Russia to support what the United States regards as its vital interests in the Middle East may require tradeoffs on issues that Moscow considers vital. The Obama administration will thus need to decide what its priorities are in the U.S.-Russian relationship. Although Washington cannot abandon treaty commitments it has made to eastern European states or sacrifice the independence of Georgia or Ukraine, it could offer various incentives to secure increased Russian cooperation on Iran—such as U.S. support for Russia's accession to the World Trade Organization, U.S. restraint on ballistic missile defense installations in Europe, a slowdown in the pace of



NATO enlargement, or financially lucrative arrangements such as a possible Russian nuclear fuel bank or Russian involvement in an international nuclear-fuel-enrichment consortium.

Enlisting Russia's support for a common approach toward Iran would, in turn, make it easier to bring China on board. Beijing will not want to be left outside an international consensus. China's interest in the free flow of oil from the Persian Gulf is growing alongside its energy requirements. Nevertheless, Beijing currently prefers to pursue its commercial interests with Iran rather than increase economic pressure on it. The challenge for the Obama administration will be to make Chinese leaders understand that a crisis with Iran will have adverse consequences for China's economy and, as a result, the country's political stability.

### A PRESSING ENGAGEMENT

TO ALTER Iran's behavior, particularly on the nuclear issue, the Obama administration should engage the Iranian government directly. Why? Because the alternatives are even less promising. Containment and sanctions have failed to change Iran's course. A preventive military strike on Iran's nuclear facilities would at best delay its nuclear program for a few years while exposing Israel and U.S. forces in Afghanistan and Iraq to retaliation. And there is no realistic prospect of toppling the Iranian regime, either through military action or through support of an internal uprising. There are no guarantees that trying to engage the Iranian government more constructively would yield better results than current policy has. But a sincere attempt that failed would at least reinforce the case for then resorting to more hard-line options, in the eyes of both the American public and the international community.

Any U.S. initiative toward Iran will be complicated, if only because of the wide range of interests involved. That challenge will be increased by the dysfunctional nature of Tehran's decision-making and the regime's desire to advance both Iran's national interests and the interests of its Islamic Revolution. The Iranian state is capable of realism and compromise, but the revolution views the United States as "the Great Satan." In the past, when forced to choose, Iran's leaders have been prepared to put the state above the revolution. The Obama administration should thus try to find a way to address Iran's legitimate state interests while adamantly opposing its revolutionary impulses.

An Iran initiative should aim at direct U.S.-Iranian negotiations focused on bringing Iran into a new regional order and persuading it to engage its neighbors responsibly while promoting its influence by peaceful means rather than through confrontation, subversion, and nuclear proliferation. Success will be extraordinarily difficult to achieve, and the United States will need leverage to make even modest progress. The carrots of reduced sanctions, security guarantees, and normalized relations with the United States and the international community will be important, as will be the stick of potentially increased sanctions (including more stringent financial sanctions and a ban on Iranian imports of gasoline).

Before the Obama administration embarks on such an effort, however, it will need to secure Arab, Israeli, and Turkish backing. Egypt,



### *Beyond Iraq*

Jordan, and the member states of the Gulf Cooperation Council fear that their interests will be sacrificed on the altar of a U.S.-Iranian *détente*. To allay these fears, Washington needs to treat these countries as full partners in its initiative, consulting with them regularly and offering them a nuclear guarantee in the event the attempt to limit Iran's nuclear programs does not succeed.

Israel is well aware of the drawbacks of a preventive military strike against Iran, especially if it has to act on its own. It prefers to support a diplomatic effort that would prevent Iran from crossing the nuclear threshold, even though it is wary of Iran's dilatory tactics. And it, too, sees the advantage of peacemaking, especially with Syria, as a means of acquiring leverage over Iran. Nevertheless, Jerusalem's tolerance for engagement is more limited than Washington's because it has a less robust deterrent and greater reason to fear Tehran's intentions. Israel has never been prepared to accept another nuclear power in its neighborhood, especially not one that directly threatens its existence: given Israel's small size and concentrated population, a first strike by Iran on any scale would have devastating consequences.

To allow more time for diplomatic engagement to work, therefore, the Obama administration will have to persuade Israel not to strike Iran's nuclear facilities while U.S.-led diplomatic efforts are unfolding. That will require enhancing Israel's deterrent and defensive capabilities by providing it with a nuclear guarantee as well as additional ballistic missile defenses and early warning systems. Simultaneously providing nuclear guarantees against Iran to both Arab and Israeli allies will be a serious undertaking for Washington, but it may be the only way of preventing Iran's nuclear program from triggering a regional arms race.

The first step of a new U.S. initiative toward Iran should be to lead U.S.-Iranian negotiations in a multilateral framework. The model should be the current six-party talks, in which several regional players participate and provide the umbrella for direct U.S.-North Korean engagement.

Second, Washington should abandon its demand that Iran suspend its enrichment program as a precondition for formal negotiations. If

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Syria will not abandon its strategic relations with Iran unless it knows that normalized ties with the United States are in the offing.

*Richard N. Haass and Martin Indyk*

Iran does suspend enrichment during the negotiations, the United Nations should suspend sanctions; if Iran does not, UN and multilateral sanctions should be intensified.

Third, Washington should be willing to discuss what Iran, as a signatory to the Nuclear Nonproliferation Treaty, claims is its “right” to enrich. In the end, it may be necessary to acknowledge this right, provided that Iran agrees to limit its enrichment program under enhanced safeguards to keep it from developing a “breakout capability”—the capacity to produce significant amounts of weapons-grade uranium.

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Israel once sought  
to trade the Golan  
Heights for peace.  
Now, it is interested  
in trading them for  
Syrian realignment.

However, this right must be earned by Iran, not conceded by the United States. Otherwise, Iran will pocket it and continue to insist on developing an industrial enrichment capacity, which would bring it unacceptably close to a bomb-making capability.

Finally, there should be parallel bilateral negotiations over the normalization of U.S.-Iranian relations, Iran’s sponsorship of Hamas and Hezbollah, its opposition to the Israeli-Palestinian peace process, and its role in Iraq. But the United States should not insist on linking these issues. Instead, some incentives should be tied only to Iran’s behavior in the nuclear realm; others could be made contingent on its overall behavior.

The details of these initiatives should be publicized so that Iranians and Americans are aware of them. Such transparency would require the Iranian government to defend its negotiating positions with domestic constituencies, and it would help the U.S. government mobilize support at home and abroad should more pressure become necessary.

The option of a military response—launched by either the United States or Israel—needs to remain in the background precisely because without one, Tehran might see a diplomatic initiative by a new, young U.S. president as an opportunity to play out the clock until Iran can cross the nuclear threshold. If the Iranian government proves unwilling to negotiate directly with the United States and suspend its uranium-enrichment program in the process, Obama will be faced with a difficult choice in his first term. Before making a decision on whether to attack Iran, the U.S. government should use private channels to

### *Beyond Iraq*

notify Iran's supreme leader, Ayatollah Ali Khamenei, of the dangers he will be courting for his country and his regime if he continues down the nuclear path in defiance of the international community. Likewise, the United States will need to issue a statement making absolutely clear that any use or transfer of nuclear weapons or nuclear materials by Iran will have devastating consequences.

Because time is of the essence, Obama should not delay this initiative until the June 2009 presidential election in Iran in the hope that a more reasonable leadership will emerge. Previous U.S. attempts to play on internal political dynamics in Iran have all proved counterproductive; the United States simply lacks the knowledge and the guile to do so effectively. The point of offering to engage directly with Tehran is to establish an effective channel of communication with the government of Iran, not with any particular faction within it.

### THE ROAD TO DAMASCUS

LAUNCHING AN Arab-Israeli peace initiative at the same time would also help get Iran's attention. Progress on peacemaking, especially on the Syrian track, would cause concern in Tehran that its bid for regional primacy was failing at the same time as the price of oil—that other indicator of its national strength—is rapidly declining.

Syria is the principal conduit for Iran's influence in Lebanon and the Palestinian territories. Israeli-Syrian negotiations threaten to sever these ties. Drawing Syria away from Iran would also deprive Tehran and its Hamas and Hezbollah proxies of a critical ally. Such a strategic realignment would weaken Iran's influence in the region, reduce external support for both Hamas and Hezbollah, and improve the prospects for stability in Lebanon.

In the past, Iran has seen progress in the Arab-Israeli arena as aimed at isolating it and has successfully used its proxies to provoke havoc and subvert reconciliation. It will probably try to do so again. But this time, the Iranian leadership would at least have the option of going along since the U.S. president would be pursuing peace at the same time as he was offering Tehran an alternative path, one that accommodated its legitimate national interests and security concerns if it chose to engage with the United States.

*Richard N. Haass and Martin Indyk*

Negotiating peace with Syria should be less complicated than resolving the Palestinian problem. The Israelis have little doubt that the Syrian government would be capable of fulfilling its part of a deal. The outgoing prime minister of Israel, Ehud Olmert, has reportedly offered Syrian President Bashar al-Assad full Israeli withdrawal from the Golan Heights, and the leaders of Israel's two other major parties—Benjamin Netanyahu and Ehud Barak—both made a similar offer to Assad's father when they led Israel during the 1990s. Indeed, most of the substantive issues between Israel and Syria were resolved by early 2000, under the Clinton administration.

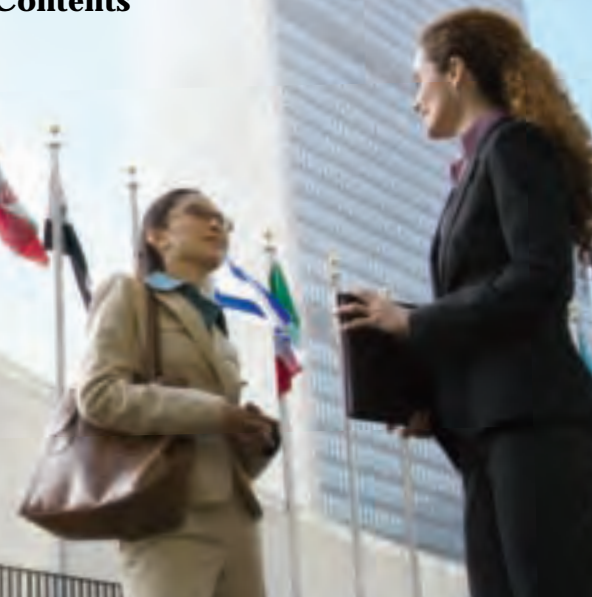
In the past, the Israelis sought to trade the Golan Heights for peace but doubted the depth of Syria's commitment to normalizing relations. Today the stakes are different: facing a serious threat from Iran, the Israelis are more interested in Syria's strategic realignment. If Assad proves willing to make that shift, it would deal a serious blow to Iran's interference on Israel's northern and southern borders, providing a strategic dividend to replace the devalued peace dividend that the Israelis used to hope for.

Turkey, a NATO ally that borders Iran, Iraq, and Syria and maintains a long-standing strategic relationship with Israel, can also play a central role in this process. Turkey's current government—led by the moderate Islamist Justice and Development Party—has earned Turkey greater credibility in the Arab world. The Turkish government has taken advantage of this to step into the breach left by the Bush administration's refusal to deal with Syria, successfully brokering indirect negotiations between Damascus and Jerusalem. It has also contributed to the international peacekeeping forces in Lebanon and is willing to participate if similar forces are required in Gaza or the West Bank. Obama should therefore offer to partner with Turkey in promoting Israeli-Syrian peace and dealing effectively with the challenge from Iran.

A U.S.-brokered peace between Israel and Syria would remove Damascus as an enemy and, in the process, likely cause the breakup of the Iranian-Syrian alliance. But that can happen only if the Obama administration is involved in the negotiations, since Syria will not abandon its strategic relationship with Iran unless it knows that normalized relations with the United States are in the offing. A willingness to turn a new page in U.S.-Syrian relations would give Obama greater



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### *Beyond Iraq*

ability to persuade Syria to respect Lebanon's independence and police its border with Iraq more effectively. A U.S.-sponsored Israeli-Syrian negotiation would also help alter the dynamics of the other major peacemaking effort Obama should undertake.

#### SALVAGING THE TWO-STATE SOLUTION

THE PLIGHT of the Palestinians remains a sensitive issue across the Arab and Muslim worlds. The situation has been exploited by the Iranians to advance their otherwise implausible claim to leadership in the broader Middle East and to bolster their argument that violence and terrorism are the way to liberate Palestine, a position that undermines those Arab leaders who would work with the United States to try to resolve the problem by engaging with Israel.

The Bush administration's neglect of this issue has cost the United States dearly in the region, something that President Bush himself belatedly recognized by launching the Annapolis peace process in 2007. Some still argue that it is a mistake to focus on this matter because few leaders in the region really care about it and a final-status agreement will not resolve the region's more pressing problems. But this argument ignores the opinions of a majority of Israelis who have come to see the occupation as a dangerous burden and of millions of Arabs and Muslims who see the Palestinian issue as a symbol of their own humiliation. Moreover, failure to resolve this issue allows Arab leaders to divert public scrutiny from their own failings.

Obama should take advantage of the framework created by the Annapolis process on four interrelated levels. First, the negotiations should be resumed and the understanding preserved that a final-status agreement should be reached as quickly as possible, while allowing its implementation to take place in phases. Although the gaps have been narrowed on several critical issues—borders, refugees, and Jerusalem—the United States will have to help bridge differences between the parties. Given how much time the two sides have already spent negotiating, U.S. solutions should be proposed—but not imposed—sooner rather than later. To encourage progress, it may also be necessary for Obama to outline in some detail his views of the principles underlying a final settlement.

*Richard N. Haass and Martin Indyk*

Second, the Obama administration should encourage the Palestinians to honor their commitment to fight terrorism and encourage the Israelis to honor their commitment to freeze settlement activity. Both

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Hamas advocates violence and rejects Israel's right to exist, but a peace process that excludes it could well fail.

sides took partial steps toward fulfilling these pledges under the road map for a two-state solution proposed by the Quartet (the European Union, the UN, the United States, and Russia). The PA has deployed Jordanian-trained police in West Bank cities to maintain order. But greater funding and accelerated training are required to give Palestinian forces the ability to act against terrorist groups and gangs that are still pursuing anti-Israeli violence.

Because this process will inevitably take time, the new president should also lay the groundwork for deploying international forces (preferably Arab, Muslim, or both) as part of a final-status agreement, to partner with the Palestinian forces until they can police their own territory.

When it comes to settlement activity, the Olmert government reduced new construction beyond the security barrier, but it also gave permission for the construction of thousands of new housing units inside existing settlement blocs and in greater Jerusalem, evoking an outcry from the Palestinians and Arab leaders. Obama will need to seek an understanding with the next Israeli prime minister that all settlement activity will be frozen for a certain time period (say, six to 12 months) while negotiators finalize the borders of a Palestinian state. Once an agreement on borders is reached, settlement activity could resume, but only in the agreed settlement blocs that would be formally annexed to Israel after the other final-status issues have been resolved.

Third, Obama should help improve conditions in the West Bank by providing increased aid and backing efforts to ease the flow of goods and people. Salam Fayyad, prime minister of the PA, and Tony Blair, the Quartet's special envoy, have begun to kick-start local economic projects and remove some strategic checkpoints. It is important that they receive cooperation from Israel and funding from the Arab states.

Fourth, Obama should seek the active involvement of Arab states in the process. Following in Saudi Arabia's footsteps, the 21 other members of the Arab League have offered to sign peace agreements and normalize

### *Beyond Iraq*

relations with Israel, provided that Israel withdraws to the pre-June 1967 borders and agrees to the creation of a Palestinian state. The lack of visible progress in the negotiations, however, combined with Israel's settlement activity, has soured them on the Annapolis process. Gaining the renewed involvement of the Arab states will be easier if they see that negotiations are progressing and that settlement activity is being halted. They need to be pressed to fulfill their financial pledges to the PA and to engage more visibly with Israel throughout the process, not just at the end.

Obama will have to decide what to do about the conundrum posed by Hamas, which won the Palestinian elections in January 2006 and then took control of Gaza through a military putsch in June 2007. Hamas rejects both Israel's right to exist and the agreements the Palestinians have already entered into with Israel. It also advocates and practices violence and terrorism (which it calls "resistance") against Israel. Nonetheless, given Hamas' control of Gaza and its support among at least one-third of Palestinians, a peace process that excludes it could well fail.

The way out of this dilemma is to make it clear that Hamas, and not the United States, is responsible for the Gazans' fate. As the governors of Gaza, Hamas' leaders should have to choose between launching rocket, mortar, and terrorist attacks on southern Israeli towns and meeting Palestinians' needs by establishing order and taking the steps necessary to attract aid (including ending the use of tunnels for arms smuggling and returning the Israeli hostage Gilad Shalit). The cease-fire agreement that Egypt negotiated is holding for the moment precisely because the Hamas leadership has effectively policed it, choosing to place the needs of Gazans ahead of Hamas' interest in "resistance."

The United States should encourage such developments but leave it to Egypt, Israel, and the PA to handle their relationships with Hamas. If the cease-fire between Israel and Hamas continues to hold and a Hamas-PA reconciliation emerges, the Obama administration should deal with the joint Palestinian leadership and authorize low-level contact between U.S. officials and Hamas in Gaza. If the cease-fire breaks down irreparably and the Israeli army reenters Gaza, the United States should then work with others to create and insert an Arab-led international force to restore PA control and bring about Israel's



*Richard N. Haass and Martin Indyk*

withdrawal. Obviously, it would be highly desirable to avoid such a scenario. One way to do this would be to ensure the kind of progress in the negotiations that would create a dynamic in which Hamas feels pressured by Gazans not to miss the peace train that is beginning to move in the West Bank.

### STAYING ON COURSE

FOR THESE initiatives to succeed, Obama must make them a personal priority. The secretary of state will have to take the lead in the diplomatic effort, but because this ambitious Middle East agenda will require intensive engagement with many parties, all conducted simultaneously, Obama should appoint special envoys to manage both the Iran and the Arab-Israeli initiatives, with each reporting to the president through the secretary of state.

The pace of the negotiations cannot be dictated by Washington, but in certain areas time is of the essence. The Iran initiative, for example, needs to be launched as soon as possible because of the urgent need to stop Iran's enrichment program before Iran achieves a breakout capability. Time is short for the Israeli-Palestinian initiative as well, because Israeli and Palestinian support for a two-state solution is evaporating. It will be difficult to reach an Israeli-Palestinian accord, and even if one is agreed on, it could only be implemented in phases. An Israeli-Syrian agreement, by contrast, could be achieved more quickly. All three efforts should be pursued simultaneously, in any case, because progress on one will help generate progress on the others.

Renewing diplomacy in the Middle East will be a tall order for Obama. That will be especially true because the Middle East is bound to have some unwelcome surprises in store for him. Only an integrated strategy—one that anticipates the consequences of action in one arena for what the United States is trying to achieve in others and that can be kept on course despite the inevitable distractions—stands a chance of success. 🌐



# Change They Can Believe In

To Make Israel Safe, Give Palestinians Their Due

*Walter Russell Mead*

REVIVING THE Middle East peace process is the worst kind of necessary evil for a U.S. administration: at once very necessary and very evil. It is necessary because the festering dispute between the Israelis and the Palestinians in a volatile, strategically vital region has broad implications for U.S. interests and because the security of Israel is one of the American public's most enduring international concerns. It is evil because it is costly and difficult. The price of engagement is high, the chances for a solution are mixed at best, and all of the available approaches carry significant political risks. A string of poor policy choices by the Bush administration made a bad situation significantly worse. It inflamed passions. It weakened the position of moderate Israelis and Palestinians alike. And it reduced the U.S. government's credibility as a broker.

Even without the damaging aftermath of eight misspent years, the Israeli-Palestinian dispute will not be easily settled. Many people have tried to end it; all have failed. Direct negotiations between Arabs and Jews after World War I foundered. The British tried to square the circle of competing Palestinian and Jewish aspirations from the time of the 1917 Balfour Declaration until the ignominious collapse of their mandate in 1948. Since then, the United Nations, the United States, and the international community have struggled with the problem without managing to solve it. No issue in international affairs has

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*Walter Russell Mead*

taxed the ingenuity of so many leaders or captured so much attention from around the world. Winston Churchill failed to solve it; the “wise men” who built NATO and the Marshall Plan handed it down, still festering, to future generations. Henry Kissinger had to content himself with incremental progress. The Soviet Union crumbled on Ronald Reagan’s watch, but the Israeli-Palestinian dispute survived him. Bill Clinton devoted much of his tenure to picking at this Gordian knot. He failed. George W. Bush failed at everything he tried. This is a dispute that deserves respect; old, inflamed, and complex, it does not suffer quick fixes.

As Kissinger has famously observed, academic politics are so bitter because the stakes are so small. In one sense, this is true of the Israeli-Palestinian dispute as well: little land is involved. The Palestine of the British mandate, today divided into Israel proper and the occupied territories of Gaza and the West Bank, was the size of New Jersey. In 1919, its total population was estimated at 651,000. Today, the territory counts about 5.4 million Jews and about 5.2 million Arabs. Two diasporas in other parts of the world—some 7.7 million Jews and 5.2 million Palestinians—believe that they, too, are entitled to live there.

But the conflict is about more than land; many people on both sides feel profoundly that a compromise would be morally wrong. A significant minority of Israelis not only retain a fervent attachment to the land that makes up the Eretz Yisrael of the Bible but also believe that to settle and possess it is to fulfill a divine decree. For these Jews, it is a sin to surrender land that God has given them. Although most Israelis do not share this belief with dogmatic rigor, they would be reluctant to obstruct the path of those seeking to redeem the Promised Land.

It may be difficult for outsiders to understand the Palestinians’ yearning for the villages and landscapes lost during the birth of Israel in 1948. The sentiment is much more than nostalgia. The Palestinians’ national identity took shape in the course of their struggle with Zionism, and the mass displacement of Palestinians resulting from Israel’s War of Independence, or the *nakba* (“catastrophe” in Arabic), was the fiery crucible out of which the modern Palestinian consciousness emerged. The dispossessed Palestinians, especially refugees living in camps, are seen as the bearers of the most authentic form of Palestinian identity. The unconditional right of Palestinians

### *Change They Can Believe In*

to return to the land and homes lost in the *nakba* is the nation's central demand. For many, although by no means all, Palestinians, to give up the right of return would be to betray their people. Even those who do not see this claim as an indispensable goal of the national movement are uneasy about giving it up.

#### A TALE OF TWO PEOPLES

THE CONFLICT is not just fiendishly hard to resolve; history and culture make it difficult for both the Israelis and the Palestinians to make the necessary choices. The two peoples had very different experiences in the twentieth century, but both have been left with a fractured national consciousness and institutions too weak to make or enforce political decisions.

For the Israelis, determining the relationship between religion, ethnicity, and citizenship is a perpetually difficult question. Is the return of the Jews to their ancestral home a basically secular objective with religious overtones, like the goals of other independence movements among minorities in the Ottoman Empire, including the Greeks and the Armenians? Or is it a fundamentally religious project? Other countries face similar questions, but the issue is particularly acute for Israel given its position as the world's only Jewish state.

Another complication is that although the Jews are an old people, the Israelis are a young one. Jews have come to Israel from very different societies and cultures and from all over the world, bringing very different expectations, and they have established a political society as varied and fragmented as their respective histories. Ashkenazim and Sephardim, Orthodox and ultra-Orthodox, secular socialists and secular liberals, post-Soviet Russians: this diversity—with the tensions it brings heightened by the pressure of Israel's existential anxieties—is reflected in the country's political landscape. A predictable combination of weak governments and explosive politics hinders decisive official action: more than most, Israel's leaders must keep looking over their shoulders to gauge public opinion.

Israeli society is also traumatized, both by the attempted extermination of Europe's Jews in the Holocaust and the phenomena associated with the Holocaust: the failure of Jewish assimilation, centuries of persecution

Walter Russell Mead

before the Enlightenment, the world's ghastly betrayal of desperate refugees from Nazi Germany seeking countries to take them in. Jews arriving in Israel from the Muslim world brought their own history of betrayal, discrimination, and victimization—culminating in what for many was a flight every bit as frightening and impoverishing as anything the Palestinians experienced. Having gotten to what seemed like the last

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History has left both the Israelis and the Palestinians with a fractured national consciousness and weak institutions.

refuge on earth, they then had to listen to calls for its destruction and endure wave after wave of attack. This is not a people that can easily trust. Nor is it one among which discussions of national security can always be conducted in tones of calm reason.

The situation among the Palestinians is surprisingly similar. From its inception, Palestinian nationalism has shifted uneasily between the religious and the secular. Are the Palestinians a distinct national society of

Muslims and Christians? Are they part of the worldwide *umma* (Muslim community)? Part of a broader Arab nation? Even though the traumatic experiences of the twentieth century gave Palestinians of all political and religious leanings a common identity and history—perhaps the strongest in the Arab world, outside Egypt—basic definitional questions continue to haunt their national consciousness.

Historically, Palestine was a complex region with many subcultures, and the gradual transformation of the Levant throughout the nineteenth century accentuated its diversity. Christians, Druze, and Jews amounted to about one-fifth of the population. The cities and the coastal plain were dominated by agriculture, European commercial interests, and the cultural and political ferment of the late Ottoman period. Jerusalem, where Muslims lived as a minority among Christians and Jews, followed its own direction, with notable Arab families—some of whose names remain prominent in Palestinian politics today—exercising important leadership in much of the area. Peasant communities were oriented toward smaller towns and regional centers such as Nablus. Everywhere, ancient tribal divisions and family rivalries complicated the picture further.

Palestinian history was turbulent in the twentieth century. The nationalist movement against the British culminated not in independence



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but in the uprooting of half of Palestine's Arab population. Some of the displaced settled in refugee camps; others moved in with relatives in the countryside, as earlier generations had done during previous periods of political tension or economic recession; others still became refugees within the borders of the new state of Israel. The numbers are disputed, but estimates suggest that about 276,000 refugees fled to the West Bank, between 160,000 and 190,000 went to Gaza, and about 100,000 crossed into Jordan. Another 175,000 or so, mostly from the northern Galilee, are estimated to have fled to Lebanon and Syria.

After this, Palestinian society grew even more complex. From 1948 to 1967, the majority of Palestinians lived under Jordanian rule in the West Bank or Jordan itself, and Gaza was under Egyptian administration. Their economic and social conditions in these areas, as well as in Lebanon and Syria, varied tremendously. In Gaza, virtually everyone was a refugee and impoverished. In the West Bank, refugees were scattered in camps among traditional communities of Palestinians still living on ancestral land. Many of the Jerusalem notables survived with their influence relatively intact, despite losing all their property on the Israeli side of the Green Line. In Jordan and to a lesser extent Syria, Palestinians integrated into their host societies. In Lebanon, they had their ups and downs and now live largely in ghettos with restricted educational opportunities, few economic prospects, and no chance at political participation. Two additional diasporas developed: one, of mostly well-educated Palestinians working as professionals in the Persian Gulf and elsewhere; the other, a smaller group of political and military leaders who later were driven out of Jordan (in 1971) and Lebanon (in 1982) and left Tunisia (in 1994, following the Oslo accords). Partly because of this history, Palestinian society has splintered into many different political, religious, and ideological factions.

In the absence of a state—or, rather, in the presence of so many different states, none run by Palestinians—Palestinian political life is chaotic. There is no common educational system and no effective institutions, parliamentary or otherwise, through which consensus can be built and enforced. The tragic division of the Palestinians into a “Hamastan” in Gaza and a “Fatahstan” in the West Bank is only one expression of the nation's splintered politics and institutional brittleness. Palestinians in Jordan, Lebanon, and Syria and in the broader diaspora

*Walter Russell Mead*

will be essential constituencies when the time comes to enforce the security guarantees Israel will need once a Palestinian state is created. Yet they have no say in the election of the representatives who will negotiate the peace deal on their behalf, and their interests are not necessarily the same as those of the Palestinians in Gaza or the West Bank.

Like the Jews, the Palestinians experienced the twentieth century as a time of betrayal by the international community. The League of Nations awarded Palestine as a mandate to the United Kingdom under terms that explicitly called for the establishment of a Jewish national home but required no consultation with the people of Palestine. The United Nations authorized the territory's partition in 1947—again making fundamental decisions about the future of Palestine over the heads of its inhabitants. Since then, the Palestinians have been exploited at virtually every turn, not least by various Arab leaders.

The twentieth century taught both the Jews and the Palestinians that the international community's grand moral claims are mostly hollow, that great powers are cynical and brutal, that international politics is a blood sport, and that, at the end of the day, a people can depend only on itself. And both survived thanks to dogged persistence, violent struggle, and a refusal to accept defeat. The Jews clawed their way out of the ruins of Europe to build a state and then turned it into a regional superpower despite repeated efforts by others to destroy it. The Palestinians created a national movement in the face of disaster, asserted themselves by armed struggle, defended their independence in the harsh world of Middle East power politics, and succeeded in placing their cause on the international community's agenda. Both peoples trust their own instincts much more than they do the promises of any single power or of all the world's powers together. They distrust each other because they know how tough and even how ruthless each of them had to be to survive. And they both understand, as no others can, the bitterness and the intimacy of the unique situation they share.

### WHAT IS TO BE DONE?

THE INCOMING U.S. administration of Barack Obama faces a daunting task. It needs to develop a Middle East peace strategy that makes a clear break with the past, that is politically sustainable at

### *Change They Can Believe In*

home and abroad, that offers real hope for a final resolution, and that in the meantime can bring benefits to the two peoples, the wider region, and the United States itself. But Washington will have only limited options. American public opinion strongly and consistently favors a pro-Israel orientation for U.S. foreign policy, and Israel's friends in the United States can mobilize broad support on short notice. Decades of intensive diplomacy and scholarship have already delineated the possible solutions to the dispute. The outlines of a settlement—regarding borders, security, refugees, and water rights—are reasonably well understood by all parties, and Obama cannot do much to change them. He cannot expand the Holy Land to give each people the territory it wants; he cannot create another Temple Mount, or Noble Sanctuary, to give each side its own holy site; he cannot move the al Aqsa Mosque away from the Western Wall.

Still, Washington can change the way that a peace deal is framed and thus make it more appealing to both sides. The Obama administration needs to accomplish a kind of Copernican shift in perception: looking at the same sun, moon, planets, and stars that others have seen, it must reconceptualize the relations among them. In the past, U.S. peacemakers have had an Israel-centric approach to the negotiating process; the Obama administration needs to put Palestinian politics and Palestinian public opinion at the center of its peacemaking efforts.

This will fall well short of a revolution. The United States' goals, and many of its policies, will not change. Its relationship with Israel will stay strong; if anything, it will deepen. But despite their military weakness and their political factiousness, the Palestinians hold the key to peace in the Middle East. And if the United States hopes to create a more secure and stable environment for Israel, it must sell peace to Israel's foes.

Only clear support for a peace treaty by a solid majority of Palestinians—in Gaza, the West Bank, and the diaspora—will bring Israel the security it craves and deserves. When, as will inevitably happen after a deal, armed gangs seek to disrupt the peace, much in the way that Irish ultranationalists continued to fight the British long after Ireland achieved independence, the Palestinian public will have to condemn the violence and support crackdowns by Palestinian authorities. U.S. negotiators during the Clinton administration, assuming that Yasir Arafat, then chair of the Palestine Liberation Organization, controlled

*Walter Russell Mead*

Palestinian public opinion, reduced the matter of clinching Palestinian support for peace to getting Arafat's signature on the dotted line. This was a very damaging mistake. Now, the United States must focus on swaying Palestinian public opinion in favor of peace—especially since current Palestinian leaders have none of Arafat's power or prestige.

This will take work. U.S. diplomacy has for too long overestimated the appeal of a two-state solution among Palestinians and in the broader Arab world. Some polls suggest that a majority of Palestinians in the occupied territories would accept such an outcome—or, rather, would have accepted it some years ago—but there has never been much enthusiasm for the proposal. A two-state solution has been even less popular with the diaspora, and today, even some of the proposal's most vocal Palestinian backers, such as the well-respected author and scholar Sari Nusseibeh, are moving away from it.

Not surprisingly, support for the proposal has been strongest in the West Bank and particularly among the relatively prosperous

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Washington needs to put Palestinian politics and Palestinian public opinion at the center of its peacemaking efforts.

West Bankers and Palestinian Jerusalemites who are not refugees. For such Palestinians, a two-state solution might be a wrenching compromise, but it has its attractions. For those in the camps, and especially those in Gaza, a territory virtually without resources and with few economic prospects under even the most favorable conditions, a two-state solution has fewer charms. The Israelis get security, the Palestinian elite gains power and resources, but impoverished refugees and the diaspora are left out in the cold as new flags fly over the same old camps.

Back in the 1990s, Israeli critics of the Oslo process were fortified by the Palestinians' only partial support for a two-state solution. Would the newly formed Palestinian National Authority have the moral authority, the political will, and the administrative capacity to provide Israel with adequate security against those hard-line rejectionist Palestinians who were sure to repudiate the agreement? In the absence of an effective Palestinian partner, might the agreement—which called for the withdrawal of Israeli forces and settlers from the West Bank—undermine Israel's security? Such doubts are still voiced





loudly in Israeli politics today, and they continue to complicate the task of any Israeli leader seeking serious negotiations.

But those doubts are not just an obstacle to peace; they indicate a way forward for the United States. To a very important degree, Israeli and Palestinian interests are linked. A peace agreement that does not address central Palestinian concerns will lack the legitimacy in Palestinian public opinion that is necessary to make peace real—that can give the Palestinian state the authority and support it needs to enforce the peace and protect Israel's security. Unless the Palestinians get enough of what they want from the settlement, the Israelis will not get enough of the security they seek.

*Walter Russell Mead*

This linkage offers a historic opportunity for the Obama administration to improve the chances for peace and to align the United States with key Palestinian aspirations without moving away from or against Israel. To address the Palestinians' concerns about a two-state solution does not mean favoring the Palestinians over the Israelis; it means addressing the justifiable concerns of both thoughtful

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Addressing the  
Palestinians' concerns  
does not mean favoring  
the Palestinians  
over the Israelis.

Palestinians and thoughtful Israelis about the future of their countries. No agreement can offer Israel perfect security—and neither could permanent occupation of the West Bank—but an agreement that does not command sustained support among the Palestinians cannot offer Israel much improvement over its current situation. This means that any deal must address the issues

of greatest concern to the dispossessed refugees, who best embody Palestinian nationalism and remain the ultimate source of political legitimacy in Palestinian politics. Although some of the most contentious issues dividing the two parties are zero-sum ones, in which any Israeli gain represents a Palestinian loss, and vice versa, significant elements of a compromise solution are not zero-sum. Indeed, by bringing new resources to the table, the United States can make peace more attractive to both parties and ease the path to compromise on even the zero-sum issues for both Israeli and Palestinian leaders.

When he reiterates the United States' support for an independent, viable Palestinian state with borders based on the Green Line, that is, the pre-1967 borders (with minor and mutually-agreed-on modifications), Obama must go further than his predecessors. He must overcome the skepticism created by the Bush administration's empty rhetorical support for a Palestinian state. He must declare that the United States is committed not only to an independent Palestine but also to acknowledging the wrongs the Palestinians have suffered, compensating them for those, and otherwise ensuring a dignified future for every Palestinian family.

To give substance to this pledge, the Obama administration should consult with a wide range of Palestinian groups and other interested parties in order to develop recommendations for concrete U.S. proposals that address key Palestinian issues. In consultation with U.S. allies in

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Europe (especially Germany and the United Kingdom, which have special historical interests and ties in the region) and elsewhere, the Obama administration should present an agenda that substantially enhances the value of a two-state solution to both the Israelis and the Palestinians and mount a determined diplomatic effort to reinvigorate direct negotiations between the parties.

### FINALLY

WHAT THE Palestinians want from peace is, first of all, an acknowledgment of the injustices they have suffered. Israeli and Palestinian scholars have documented many incidents during Israel's War of Independence in which massacres or threats of violence caused Palestinians to flee. Most Palestinians who left their homes and villages to protect themselves and their families were never allowed to return, and much of their property was confiscated by the new Israeli government. It is not a crime for civilians to flee combat, and international law recognizes the right of such people to return to their homes. Enforcing that right has been a centerpiece of U.S. policy in Bosnia, so why, the Palestinians ask, should they be treated any differently? This is a legitimate grievance, and the United States must lead the international community in reckoning with it fully and frankly. Any diplomatic effort hoping to build a secure peace with the Palestinians' support must address this issue.

That said, it would be as unfair to place all responsibility for the Palestinian refugee problem on Israel as it is to overlook the injustices the Palestinians suffered. The Israelis argue that the War of Independence was a fight for survival: here were survivors from Hitler's death camps suddenly facing not only the Palestinians but also the armies of five Arab states. Self-defense, the Israelis argue, justified their actions during and after the war. And although most Israelis acknowledge that wrongs were committed, almost all charge that, faced with similar choices, their critics would have done the same or worse. They are right. The responsibility for the *nakba* cannot simply be laid at Israel's door.

The United Nations' failure to provide elementary security for both the Arab and the Jewish inhabitants of Palestine as the British withdrew was the immediate cause of both communities' suffering in the

### *Change They Can Believe In*

late 1940s—of the initial clashes between them, of the accelerating spiral of violence, of the Arab armies' entry into the conflict, and then of the prolonged period of hostility. Modern Israel should acknowledge and account for its part in those tragic events, but the international community at large must accept the ultimate responsibility for the *nakba*, solemnly acknowledging the wrongs done and sincerely trying to compensate Palestinian refugees today.

#### PAYING ONE'S DUES

THE U.S. GOVERNMENT should build on this historical reality to craft an international body that can assume all claims arising from the Israeli-Palestinian conflict, adjudicate them in accordance with existing international precedents and law, and pay appropriate compensation to the claimants. Claims would include the losses suffered by Palestinians as well as those sustained by Jews forced to flee their homes in the region, but the system should be set up so that Jewish and Palestinian claimants do not compete for limited funds. This entity should be funded by the international community, with Israel making a substantial payment as part of whatever negotiated legal agreement creates the new body.

The expense will be significant; according to the Aix Group, an economic forum comprising Israeli, Palestinian, and international economists and policymakers, the total potential costs of compensation to Palestinian refugees can be estimated at \$55–\$85 billion. The Obama administration should work with U.S. allies and partners to fund the claims authority. The United States' contribution should be appropriately large, in order to demonstrate Washington's renewed determination to lead the effort to resolve the Israeli-Palestinian conflict. The exact U.S. contribution should be determined as part of Washington's diplomatic effort to establish and fund the claims organization, but one possible model might look to a division of responsibilities in which the United States, Europe, Israel, member states of the Organization of the Islamic Conference, and the rest of the world (principally Japan, other East Asian countries, and other countries with strong interests in resolving the conflict, such as Australia, Canada, and Norway) would each assume a roughly equal share of the financial cost involved in funding a combination of compensation and humanitarian programs



*Walter Russell Mead*

for the victims of the conflict. Under this program, the United States would make the largest contribution of any single country (with the possible exception of Israel), but the burden would also be widely shared among the many states that are concerned with stability and justice in this vital part of the world.

Although the certification and payment of claims will require complex procedures, and although the payment of compensation should be part of a multistage implementation of a final and comprehensive peace agreement between the Israelis and the Palestinians, the claims entity should begin to review and certify claims while negotiations are still under way. As quickly as the legal and institutional frameworks can be agreed on and established, refugees ought to be able to submit their claims, and those claims should be assessed and certified in a timely fashion. This will help assure the refugees that justice will be done and that the conclusion and implementation of a comprehensive peace agreement would result in tangible benefits.

### THE RIGHT OF RETURN

THE RIGHT of return is one of the tough zero-sum questions that will need to be settled in final-status negotiations between the Israelis and the Palestinians. Like the sensitive matter of the holy sites in Jerusalem, this issue is one of the most contentious; it has already been extensively tackled in various informal and “track-two” discussions, and neither side is likely to make an official final offer until very late in the process. Logically, Palestinian acceptance of a two-state solution would imply significant limits on the exercise of the right of Palestinian refugees (and their descendants and heirs) to move within the pre-1967 borders of Israel; if five million Palestinians entered Israel, the Jewish state would have an Arab majority. But it is one thing to draw logical conclusions and another for the Palestinian nation to make a deliberate and serious judgment that painful compromise on this point offers the best road to a just and humane future for the nation as a whole.

As the Palestinian nation grapples with these choices, the United States and the international community can take a number of steps to help the Palestinians make their decision. The key is to assure the Palestinians that the refugees and their heirs will be given several



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viable options. Palestinians who choose not to exercise their right of return or whose right is in some way restricted in the final Israeli-Palestinian agreement should be substantially compensated by the international community (including Israel) to acknowledge that the right to return is indeed a right and that its loss or restriction entitles the holder to just compensation.

Additionally, the United States and its partners around the world should take steps to ensure that at the end of the process, no Palestinian is stateless and all Palestinians enjoy full economic, social, and political rights. Programs need to be designed to integrate Palestinians in the diaspora into the communities in which they now live, allow them to emigrate within or from the Middle East, and ensure appropriate opportunities for them. Such programs should in no way prejudice negotiations on the right of return, but as Palestinians await the outcome of those talks, the world community must move decisively to create dignified choices for them.

The effort to provide a future for the Palestinians should not be restricted to Arab countries. The United States, Canada, Australia, and European countries, as well as other states around the world, should be prepared to offer immigration visas to Palestinians. Developing countries that agree to receive Palestinians should receive appropriate assistance from the international community; the citizens of poor countries should not feel that their governments are diverting resources in order to house newcomers. Countries such as Jordan and Syria, which have already set the example, should receive compensation as recognition for their past efforts.

#### THE ARCHITECTURE OF PEACE

THE OBAMA administration will also need to address the structural imbalance of the peace process. Negotiations are front-loaded in favor of the Israelis; by recognizing Israel from the outset, the Palestinians concede Israel's core demand and receive only the right to start talking. The Palestinians have to put the most valuable card in their hand on the table, while the Israelis can keep all their best cards to themselves. At the back end, however, the imbalance is reversed. Here, it is Israel that has to make key concessions: withdrawing from territory,

*Walter Russell Mead*

dismantling settlements and military posts, recognizing the Palestinian state. Now, it is Israel who must lay down the cards—and trust and hope that the Palestinians will reciprocate by providing Israel with the security it craves. (The Palestinians face unpleasant choices at the end also: negotiating over the right of return and agreeing on borders will inevitably disappoint many refugees. However, the Palestinians will reap the rewards of any concessions on these issues once the new state gains control of its territory; the Israelis will still be living in hope that the Palestinians will continue indefinitely to cooperate on security issues.)

This basic imbalance had a serious and negative impact on Middle East negotiations during the Clinton administration. Once Arafat played the recognition card, he needed quick progress on the negoti-

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A new approach could offer Israel substantial long-term benefits.

ations and concrete results on the ground to maintain his political position among the Palestinians; Israel, having already gained what it saw as the biggest benefit available, was reluctant to move on to a stage in which it would have to make painful concessions in return for uncertain results. The outcome,

amply detailed in Dennis Ross' painstaking and thoughtful memoir, was a relationship between the parties that led to progressively diminishing trust, weakened the political position of peace advocates among the Israelis and the Palestinians alike, and ultimately led to the collapse of the peace process and political victories for hard-liners in both camps.

As the Obama administration moves to rebuild the momentum for peace, it needs to address the imbalances that complicate what would under any circumstances be a tortuous process. It must bring the obligations of and the benefits accruing to the parties into better balance as the negotiations move forward. The Palestinians need from the outset some clearer commitments on both the duration of the talks and the benefits that would result from any agreement; the Israelis need greater assurance that a future Palestinian state would have both the necessary means and the incentives to deliver on security.

For both parties, solid commitments from the international community on many of the issues that matter most could give the process new credibility and help build the public support needed to make it possible. One goal of the Obama administration should be to develop



### *Change They Can Believe In*

a package along these lines that encourages Palestinian groups that now reject recognition of Israel to come under the tent; that way, in the next round of negotiations, the Palestinians could present a unified bargaining team broadly representative of key Palestinian political tendencies. Making a peace deal more attractive to the Palestinians and bringing rejectionist political groups into the process would help address Israel's concerns about future relations between the two states. Another goal should be to further assuage Israeli concerns by making payments and benefits to the Palestinians conditional on the Palestinians' full implementation of the agreement's terms. This means that a future Palestinian state would have to meet its security obligations in order to continue to benefit from the provisions of the accord.

The Obama administration should also take steps to build broad public support for a compromise peace in Israel. Once again, it will need support from friends and allies, especially in Europe.

#### BEING COPERNICUS

EVEN WHEN Copernicus put the sun at the center of the solar system, he did not forget that he was living on earth. In the same way, shifting Washington's attention toward the Palestinians' concerns would not—and should not—mean turning away from Israel. A refocusing of the United States' approach to the peace process would also offer Israel substantial long-term benefits. A decision by the international community to assume the ultimate moral and financial responsibility for the Palestinians' plight would give Israel an opportunity to close the book on Palestinian claims once and for all. Developing and helping fund a mechanism that would also compensate Israeli refugees from the Arab world would address the impression widely shared among Israelis that many states have a one-sided approach to refugee issues. And by making the Palestinians' commitment to peaceful coexistence a key test of the peace process, the Obama administration would be placing the focus where many Israelis think it belongs.

The Obama administration should engage with Israel seriously and candidly to determine what else the United States and its allies can do to help Israel take the risks and make the sacrifices required to give peace a chance. Support for Israel runs very deep among Americans,

*Walter Russell Mead*

and it is likely to increase as Israel moves closer to a settlement with the Palestinians. The Obama administration needs to harness that support to help the Israeli government take steps on the sensitive questions of the status of Jerusalem and the status of the territories, steps that an increasing number of Israeli politicians acknowledge must be taken.

The prospect of a just settlement for the Palestinians and an end to the occupation would also open the door to a new age in European-Israeli relations. The United States is not the only country with a stake in bringing this dispute to an end. Washington should work with its EU partners to come up with major new incentives that would convince Israel that the benefits of peace outweigh the costs. The United States should press its NATO allies for conditional assurances that an Israeli-Palestinian agreement would open the alliance's doors to the Jewish state. Closer coordination with and greater support for Israel on the part of key EU countries on Iran policy should also follow. The EU should work closely with the United States to ensure that a comprehensive Israeli-Palestinian agreement leads to the recognition of Israel by the members of the Arab League and the normalization of relations between them. Membership for Israel in the Western European and Others Group at the United Nations should also accompany the agreement. The EU should welcome both Israel and the Palestinian state into the European single market as quickly and as thoroughly as possible, providing assistance to both states as necessary.

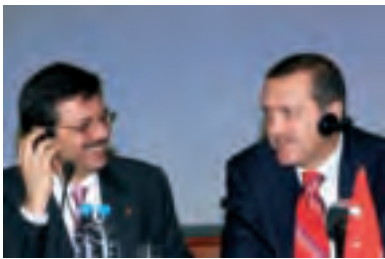
The Obama administration need not choose the Israelis over the Palestinians or the Palestinians over the Israelis. But it must engage with both sides more deeply than past U.S. administrations have done and use the full power of the U.S. presidency to develop a comprehensive peace strategy. This is one of the most difficult challenges the new president will face, but real progress is possible. At the very least, Obama can change the terms of the debate in the Middle East—which in itself would be no mean achievement. 🌐



# Turkey

ON TRACK FOR A TRILLION

## TURKEY REMAINS OPTIMISTIC IN GLOBAL ECONOMIC DOWNTURN



■ Pleased with their Progress:  
TOBB-DEİK President M. Rifat Hisarciklioğlu and Prime Minister Recep Tayyip Erdoğan

**A**s the world financial crisis deepens, Turkey is well-placed to weather the storm. It overcame its own financial turmoil in 2001 and emerged stronger and more resilient. It is now determined that in the future it will become a major economic power.

“The severity of the 2001 crisis persuaded everyone that the macroeconomic policies of the time could not be sustained,” says Arzuhan Doğan Yalçındağ, chairman of the Turkish Industrialists’ and Businessmen’s Association (TUSIAD). “Bold reforms were needed and

following the crisis Turkey started to implement a stability program as well as structural reforms.”

These reforms have cleaned up the domestic factors behind the previous boom-and-bust cycles, leaving behind the so-called lost years of the 1990s, says Mrs. Yalçındağ. “The Turkish economy has displayed significant growth performance between 2002 and 2006 and the average GDP growth rate for the same period was 7.5 percent higher than the average growth rate of the emerging economies of the European Union,” she says.

In addition, Turkey has attracted considerable levels of foreign direct investment \$22 billion in 2007. “Turkey is a country that is really attractive for investors. It is a country of opportunities,” says Finance Minister Kemal Unakitan. “We have taken a number of measures to provide research and development incentives and plan to make Turkey an R&D paradise so Turkey will continue to be in the spotlight for investors.”

According to M. Rifat Hisarciklioğlu,

“The aim of Turkey is to reach one trillion dollars gross domestic product and to be among the 10 largest economies of the world.”

M. Rifat Hisarciklioğlu  
President of TOBB – DEİK

President of the Foreign Economic Relations Board TOBB – DEİK, “the aim of Turkey is to reach one trillion dollars gross domestic product and to be among the 10 largest economies of the world.”

Turkey understands that it has endured real economic hardship before in a way that many other countries have not, and it remains optimistic about its prospects, thanks to its strategic location. “Money has no color and investors have no color either,” says Kemal Unakitan. “Our government is following a multidimensional foreign policy. On the one hand, Europe is of crucial importance for us, and on the other hand, our relationship with the Middle East and other parts of the world have further strengthened. We are sure this will yield positive results in the future.”

**“We have a strong value proposition. We must, however, show the world that this is not a temporary state. This positive change is here to stay.”**

Ferit F. Şahenk, Chairman of Doğuş Group.

## CONVERGENCE DIVIDENDS:

>>BUSINESS LEADERS DRIVE NATION'S GLOBAL AMBITIONS

**T**urkey's growing economic importance is due in no small part to the entrepreneurial spirit of its business leaders who overcame the economic meltdown of 2001, learned some important lessons about flexibility and adaptability, and have now successfully built strong partnerships around the world.

Ferit F. Şahenk, chairman of Doğuş Group, one of Turkey's most dynamic businesses, says, “I think the most important change in Turkey in the last five years is the mindset. Whether you look at the decision-making side or the public side, this mindset change has taken Turkey forward into the future. Turkey clearly knows that we have to be connected with the world.”

He adds that Turkey has an investment-friendly environment and that international investor confidence is strong. “We have a strong value proposition. We must, however, show the world that this is not a temporary state. This positive change is here to stay. The marketplace and all the investors who are on the lookout for investment possibilities must realize that we have kicked the old times out.”

Mr. Şahenk says that Turkey's future business success will be based on one of its biggest assets its people. “We have 71 million people in Turkey, of whom many are young, dynamic, and highly educated 60



percent of our population is under the age of thirty-five. They are helping the improvement of the economy. Considering that Europe is aging and China and India are catching up, then Turkey clearly creates an economic and cultural tie for all these markets and intellectual capital.”

Doğuş Group was founded in 1951 and is now one of Turkey's largest conglomerates. Since its foundation, the Group has involved itself in global business relationships and today it has a high degree of access to world markets. Doğuş Group is active in seven sectors: finance, automotive, construction, media, tourism, real estate, and energy. It has partnerships with global giants such as Volkswagen AG and GE. For instance, General Electric was brought in as a partner in Garantı, one of Turkey's largest banks, in 2005. And as Mr. Şahenk explains, “A partnership is like a puzzle one piece fills a place that the other cannot. They have experience in operational efficiency. We have the branding and a consumer-focused

approach. GE's global experience combined with our regional expertise, a partnership in which each part completes the other.”

“For Turkey, Pandora's Box has now been opened; Turkish conglomerates are now investing in other companies abroad and working with international partners. Young Turks are integrated with the world in every aspect. They follow the global economic and political agenda closely.”

Ali Koç, president of the corporate communications and information technology group at Koç Holdings, one of Turkey's leading companies, says, “The boom-and-bust cycles affected our infrastructure in such a way that the Turkish private sector learned to become flexible while at the same time looked abroad to diversify.”

Koç Holdings is the only Turkish company in the Fortune Global 500 and is ranked the 186th-largest company in the world and in the top 50 in Europe. It has very diverse interests ranging from the automotive industry to energy and retailing. Mr.

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**DOĞUŞ GROUP**



Koç says that Turkish companies designed their organisations to allow them to shrink in periods of crisis and to grow during boom cycles. "This know-how was very useful and as a result Turkish companies became very successful in Eastern Bloc countries where the environment is extremely unpredictable. Thanks to our experience I see an innate advantage for the Turkish private sector to cope in the current economic climate," he says.

For decades, Turkey remained very insular, but the economic collapse of 2001 meant that it had to adopt a more international outlook. In 2005 it attracted \$9 billion in foreign direct investment and by 2007 it had reached \$22 billion. "In the last three years, we have attracted around \$50 billion in FDI," says Ufuk Yılmaz, secretary general of Turkey's Foreign Economic Relations Board (DEİK). "This figure is higher than we had managed to attract in a century."

With higher levels of foreign direct investment, Turkish companies were able to adapt to interna-

tional standards, restructure their portfolios, and focus on expansion into new markets either alone or as part of joint ventures.

"I believe this trend will be sustained going forward as the Turkish market becomes increasingly attractive for international players," says Mr. Koç.

While some Turkish companies are forging partnerships with companies from abroad, others are buying them up. In 2007, Ulker Group, a major manufacturer of Turkish food products, bought Godiva, the luxury Belgian chocolate brand, from the Campbell Soup Company for \$850 million.

"Turkish private enterprises are the most active entrepreneurs in Europe," says Mr. Yılmaz of DEİK. "For example, Turkish contractors have more than \$100 billion in their portfolios. They are working in Sudan, Nigeria, Siberia, and are very active in the Gulf."

Part of that growing openness and willingness to work with companies abroad comes down to the hard

work and influence of Turkey's business councils, of which many of Turkey's leading entrepreneurs are members. There are eighty-two business councils under the umbrella of the Foreign Economic Relations Board (DEİK) including the Turkish-American Business Council and the Turkish-German Business Council. DEİK forges vital relationships around the globe and supports international business collaborations between Turkey and the world. "We're not merely interested in promoting investment in Turkey. We are also interested in making business and investments abroad. The members of our business councils are the engine of the Turkish economy," says Mr. Yılmaz.

Turkey's entrepreneurs have the ability to forge strong relationships with other businesses around the world because, says Mr. Koç, "We are not European. We are not Arab. Turkish businessmen stand in between different cultures. This gives us a leverage of understanding all parties, which is a blessing if you are to bridge the gap."

**DEİK : TURKEY'S GATE TO GLOBAL ECONOMY**

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## AN INTERVIEW WITH HALUK DINÇER

>>CHAIRMAN OF TURKISH-AMERICAN BUSINESS COUNCIL (TAİK) CALLS FOR GREATER CORPORATE INTEGRATION



### “The question is whether the nature of our relationship with the United States over the past forty years is sustainable for the next forty years?”

I believe the answer is no. It is too important to be based solely on security matters. It has to be diverse.”

**H**aluk Dinçer is president of the retail group of Sabancı Holding and chairman of the Turkish American Business Council (TAİK), which was formed in 1985 to enhance trade and investment between Turkey and the United States. Relations between the two countries have been strained since the invasion of Iraq, but TAİK is working hard to improve them, and the United States has expressed its confidence in Turkey with an influx of direct investment. In the following interview, Mr. Dinçer shares his thoughts on the potential for Turkey-U.S. business relations.

- **To what extent do you think Turkey-U.S. business relations need to improve?**

There is no point in mincing words. The last five years have put a strain on our diplomatic relations. But we have seen a marked rapprochement since November 2007 and this trend will continue with the new administration. The question is whether the nature of our relationship with the

United States over the past forty years is sustainable for the next forty years. The answer is no. It is too important to be based solely on security matters. It has to be diverse. We have to enhance bilateral trade, we have to step up partnerships between our firms, and we have to improve economic cooperation between our countries.

- **What evidence is there that Turkey is a destination of choice for American businesses?**

In the last two years we've seen a record-setting inflow of U.S. direct investment. In 2007, the U.S. invested almost \$4.2 billion in Turkey and the total trade volume between our countries exceeded \$12.3 billion. Many U.S. companies have already made apparent their confidence in Turkey. Ford uses Turkey as a production hub. GE, Pfizer, Texas-Pacific Group, Procter & Gamble, Altria, and International Paper are just a handful of examples of a vast number of U.S.

corporations that operate in Turkey.

- **Given the current economic climate, do you think that Turkey can continue to attract American investment?**

Let me make this absolutely clear: Turkey presents an excellent opportunity for investment during these troubled times. Our financial institutions are fundamentally sound, we have a young population and a vibrant private sector. Along with BRIC countries, Korea, and Mexico, Turkey presents the highest opportunity for growth. I sincerely believe that investing in Turkey is an extraordinary business opportunity in the current economic environment.

- **What are your hopes for the future of Turkey-U.S. business relations?**

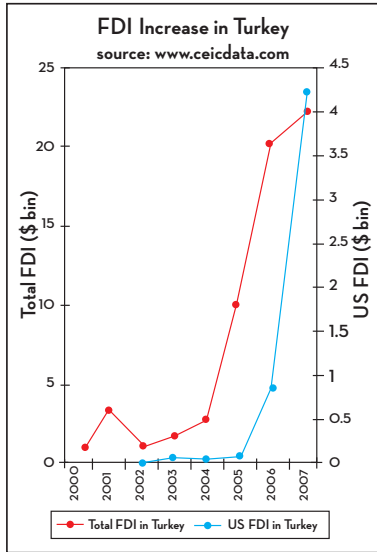
I believe we can do better. I believe our relationships can go further. I believe our two great countries can only grow stronger and more prosperous when we work together.

# FDI REACHES RECORD LEVELS

Turkey is enjoying record levels of foreign direct investment (FDI) thanks to its geographical location, its young, educated workforce, and its commitment to business-friendly policies.

In 2002, Turkish FDI was below \$1 billion a year, but by 2007, it had reached \$22 billion. Turkey is ranked the fifteenth-best country in the world in which to invest, and it plans to become number five by 2013.

“One of the main reasons for this rapid increase is the deep structural reform process which has been pursued by the government,” says Alpaslan Korkmaz, president of Turkey’s Investment Support and Promotion Agency (ISPAT), which provides a one-stop-shop for foreign companies wishing to do business in the country. “Business is now much more transparent. It’s not the Turkey of five years ago. Today Turkey is a completely different country.”



Turkey has also invested heavily in educating its young people. The teaching of English is mandatory in schools, and last year 400,000 new university graduates entered the job market.

Among Turkey’s investors are the French energy group Areva and

the U.S. company GE Healthcare. “In addition, Coca-Cola manages ninety-four country operations from Turkey and Microsoft manages eighty its largest operation outside Seattle,” says Mr. Korkmaz.

The majority of Turkey’s FDI comes from the EU, but it is also attracting investors from the United States. Ufuk Yilmaz, secretary general of Turkey’s Foreign Economic Relations Board (DEIK), says, “In 2007, 22 percent of FDI came from the United States. We are actively targeting companies in specific sectors such as energy, healthcare, banking, automobile manufacturing, and real estate.”

As the world economic climate worsens, Mr. Korkmaz says, “FDI will slow this year, however that’s the case worldwide. What we have to do is remain competitive, keep our ranking as one of the best countries in which to invest, and improve our position so that we can reach our goal to be the fifth in the world by 2013.”

**Over 20,000 international companies have already invested in Turkey. How about you?**

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- 15<sup>th</sup> among the most attractive FDI countries in 2006 (UNCTAD).
- Annual average real GDP growth of approx. 1% per year since 2002 (IM-WEI).

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**“It is very important for the future of Turkey that the technology sector becomes the economy’s engine and it is very important that we unleash this potential.”**

Süreyya Ciliz, CEO of Turkcell

## PREPARING FOR THE NEXT GENERATION

>> ICT SET TO BECOME A MAJOR DRIVER OF THE TURKISH ECONOMY

**T**urkey has a highly competitive and growing ICT sector that will play an increasingly important part in the country’s future. A number of homegrown companies have introduced innovative ways of using new technology and are expanding internationally.

Among the most successful is mobile phone operator Turkcell, the only Turkish company listed on the New York Stock Exchange. Turkcell is ranked number 25 on the BusinessWeek InfoTech 100 list, ahead of companies such as Cisco, Intel, and Hewlett Packard. It currently dominates the Turkish market with a 56 percent share, way ahead of the international telecom group, Vodafone, and of Avea, which is owned in part by the state giant Turk Telekom.

Süreyya Ciliz is one of the coun-

try’s most highly regarded businessmen and was previously president of Microsoft Turkey before taking up the reins as CEO of Turkcell. He says that the company’s dominance is due to a number of factors: “The three companies are very different. Our company has a significantly larger network infrastructure, we offer much better coverage because we have invested a total of \$7.8 billion in infrastructure, and, because we manage this network better, customers are getting superior service, in most cases, at lower cost. As a result, customers are choosing our service and customer loyalty is very high.”

Mobile phone usage in Turkey is booming. The number of people using mobile phones in Turkey has grown by over 208 percent over the past six years according to the

market research firm Euromonitor International. Sarah Boumphrey, countries and consumers manager for Euromonitor, explains: “Turkey has the highest birth rate in western Europe, and, as a result, the youngest population. This growing market of young consumers is ideal for consumer business as young people spend more, particularly on goods such as mobile phones and the Internet.” She adds, “Turkey currently has the sixth-largest young mobile subscriber base in the world, with more than 11 million subscribers under the age of twenty-five, providing a very lucrative market for mobile phone companies.”

However, despite having a technologically savvy young population, Turkey’s infrastructure lags behind and it has been slow to introduce



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a 3G network. "In some areas we are world-class," says Mr. Ciliz. "In Turkey I believe we have better mobile phone coverage than the UK and definitely better than the United States, but in certain areas we are lagging such as third-generation mobile internet broadband but it's going to happen." He adds, "There are tremendous technology opportunities ahead of us. A revolution is going to happen in the ICT sector in the next couple of years."

Turkcell is developing innovative new ways for its customers to use mobile technology; for example, if you have a Turkcell mobile signature service, you can go to any ATM in Turkey and conduct a banking transaction through the ATM using your phone rather than a bankcard. "No other country offers this," says Mr. Ciliz.

Turkcell is expanding internationally and now has operations in eight other countries including Georgia, Kazakhstan, Moldova, and Ukraine. Its rival, Turk Telekom, is also exploring potential abroad. Dr. Paul Doany, CEO of Turk Telekom, was quoted on Securities.com as saying that "although the investment climate is tougher compared with the past, Turk Telekom's debt is only one tenth of European operators and because of low debts, the current economic environment may create new acquisition opportunities."

Another company enjoying success in Turkey and expanding abroad is Airties, which was formed by Bülent Çelebi, a Turkish-American entrepreneur. The company has a 70 percent share of the Turkish market for Wi-Fi routers despite intense competition from major brands such as USRobotics, Siemens, and Philips and from cheaper Chinese imports. It has also built up operations in Ukraine, Greece, Russia, and Germany.

Mr Çelebi says that Turkey is ideally placed to become an important centre for ICT. "I think what is important with technology is that seven out of the top ten fastest-growing broadband markets are within a two hour flight of Istanbul. If you are an American technology company and you need to set up a regional headquarters, this is the place to do it. There are government R&D incentives and the business ethics and culture are far more advanced than any of the other countries [in the region]."

It's a view shared by Turkcell's Mr. Ciliz, who believes that the ICT sector is hugely important to the country. "I think this sector is not only important for its rapid growth, which is almost five and half times larger than our economy's growth, but also because it is a catalyst for other industries. It is very important for the future of Turkey that the technology sector becomes the economy's engine and it is very important that we unleash this potential," he says.

There is an old saying in Turkey. A unique opportunity that shouldn't be missed is said to be "like a Turkish delight". In this country of 71 million, there is a communication and technology leader.

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## 'BOOM AND BUST' NO MORE

>>LEARNING FROM THE PAST, TURKEY'S REFORMED FINANCIAL MARKETS MAY PROVE RESILIENT IN TIMES OF CRISIS

In 2001, Turkey was in economic turmoil. Reckless government lending and a poor financial regulatory framework resulted in a deep recession. Inflation reached 80 percent, the value of the lira halved, interbank interest rates rocketed to 2,000 percent, and hundreds of thousands of people lost their jobs.

But it is this experience that will help Turkey weather the current global financial storm, says Mehmet Şimşek, minister of state responsible for economics, trade, and the treasury. "I think the challenges are massive but I believe that the reforms of the past five or six years have made Turkey a lot more resilient," he says.

In a statement, the World Bank says that a diversified economy and proximity to and integration with European markets, together with "a lengthy track record of solid economic management and structural reforms are the drivers of Turkey's long-term prospects." However, it adds, "Nonetheless, the economy continues to run a current account deficit in excess of 6 percent of GDP the main source of vulnerability in the Turkish economy."

The Turkish business community is bullish about the future. Arzuhan Doğan Yalçındağ, chairman of the

Turkish Industrialists' and Businessmen's Association (TUSIAD), says, "The strong crisis management ca-

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capacity in Turkey, both in the companies, in the banking sector, and in the economy will help to overcome the adverse effects of a deteriorating world economy.”

After the 2001 meltdown, Turkey fixed a number of its structural problems gross public debt came below 39 percent of GDP in 2007, satisfying EU Maastricht criteria. It also tightened banking regulations and formed the Banking and Regulation Supervision Agency (BRSA). Suzan Sabancı Dinçer, chairman of Akbank, one of Turkey’s leading private banks, says, “The solid base of the banking sector was the major driver of the high growth era.”

With the restructuring and reinvigoration of the banking sector, Turkish banks have become increasingly attractive to international players keen to get into an underbanked and underpenetrated market. Among the large number of foreign banks that have moved into Turkey are GE, which bought a stake

in Garanti; ING, which has a stake in Oyak Bank; and BNP Paribas, which has bought into TEB.

“This international capital reflected positively on the Turkish economy and brought more efficient technology, the sharing of managerial skills and best practices, and better market access for Turkish firms,” says Mrs. Sabancı Dinçer.

The creation of strong, well-regulated capital market intermediaries such as investment banks and brokerages has also had a major impact on the Turkish financial climate. “The development of investment banking and a dealer-brokerage system in Turkey is crucial for capital markets,” says Dr. Turan Erol, chairman of the Capital Markets Board (CMB). “Turkey has reached a very critical point. If one looks at other markets such as Russia, eastern Europe, or the Gulf, I think Turkey is very advantageous,” he says.

Oyak Securities is one of Turkey’s leading investment banks and has a

highly regarded research team. It specializes in corporate finance, covering public offerings and advising on M&A activities and privatization projects, including one of Turkey’s biggest IPOs, the \$1.3 billion flotation of state-owned VakıfBank. Its general manager, Meltem Ağci says, that following the introduction of new regulations by the CMB, Oyak will launch two hedge funds in Turkey. “These products give more opportu-

nity for everybody in the market, for investors and issuers.” She adds, “We are introducing companies to capital market products IPOs, pre-IPOs, derivatives, and M&A deals. We are trying to educate people because we believe that there is potential there and we want to encourage people to use capital market products bravely.”

Privatization has also played a major role in the revival of the Turkish economy and “has been a huge success,” says Metin Ar, CEO of Garanti Securities, which has been involved in a number of leading Turkish IPOs, including Turk Telekom and TAV Airports. “While the privatization movement is currently frozen given the global economic climate, it will drive the economy in the future,” he says.

Moreover, increasing competition between Turkish banks has led them to invest heavily in technology and the country is now recognized as having one of the most technologically advanced banking sectors in the world. “As far as IT in banking is concerned, Turkey can be an example to European banks,” says Ferit F. Şahenk, chairman of Doğu Group, parent company of Garanti Bank. “If you look at the investment in technology and at the types of service that we provide to our customers, I believe you will see we have reached a better level than many foreign banks.”

The banks have also introduced new products to the market. Türkiye Finans, for example, a private bank, is offering Islamic finance to Turkish customers. Though a major sector in the Middle East, Islamic banking (or participation banking as it’s known in Turkey) is a relatively new sector for the country so far it accounts for only 5 percent of the market. It is targeting SME customers and Aydın Gündoğdu, executive vice president of Türkiye Finans, says, “Our goal is to increase our market share to 10

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percent in the next five years.” Interest-free Islamic finance is structurally immune to the pitfalls currently besetting Western banking, and so may be a growth area in Turkey in coming years.

VakifBank, one of Turkey’s remaining state-owned banks, has demonstrated that a bank in its position can be as competitive and innovative as any in the private sector. It has gone through a major restructuring pro-

cess. “We are also responding to the borrowing needs of newly developing consumers in Turkey with housing loans, auto loans, and occasional loans,” says Tanju Yüksel, assistant general manager. “We have recently announced an agricultural loan package for SMEs and a consumer loan package, where consumers can apply through our ATM network, through our Web, and through their mobile phones,” he says.

ratio is around 16 percent. The private banks are healthy and we also have three state banks, which are all healthy. The penetration levels are quite low in Turkey, so there is great growth potential. Consumer loans to GDP ratio is around 12 percent. Total loans to GDP are over 30 percent. The system is underleveraged, which is very helpful in the current economic climate. Turkey could be one of the least affected countries if we manage the situation well.”

Durmuş Yılmaz, governor of Turkey’s Central Bank, remains optimistic about the financial sector and the country’s ability to cope with the global economic downturn. “My message is that Turkey is a strategically located country, it has a very dynamic population, has undertaken very radical economic reforms, and offers huge opportunities for investors.”

Meltem Ağci of Oyak Securities believes that Turkey has benefited from its past experiences. “We have passed through big crises in the past and in all of these, Turkey came out strongly. We have a sound banking system at the moment. I’m sure we can endure future crises. People should believe in Turkey,” she says. •

### “Turkey could be one of the least affected countries if we manage the situation well.”

Zafer Kurtul, CEO of Akbank

cess and is now regarded as one of the most efficient banks in Turkey.

Tanju Yüksel, assistant general manager says, “I think there is a lot more untapped potential. Turkish banks have discovered the consumer and consumers have discovered the banks, but the country is still very under-branched.” VakifBank plans to open 350 new branches in the next three years in addition to the 419 it currently operates.

It has introduced a range of thirty-five different loans catering to small- and medium-sized enterpris-

es. Due to their more cautious lending policies, Turkish banks have avoided some of the mistakes that have brought about the collapse of American and European banks, says Zafer Kurtul, CEO of Akbank. “In the U.S., the credit process, procedures, and policies weren’t sound and prudent enough. I can’t say this applies to Turkey. We do traditional banking. Our credit process is traditional and we are not involved in credit derivatives.”

He adds, “We are in a very good position. Akbank’s capital adequacy

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# BUILDING A NATION

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**T**urkey has a rapidly growing population, over-crowded urban centers, and an acute shortage of affordable, quality housing, but the skylines of its major cities are dotted with cranes and the air is full of the sound of jackhammers as the country focuses on building new homes for its people.

The provision of new housing is enshrined in the Turkish constitution, which states that everyone has the right to a decent home. These new homes are being built by the Housing Development Administration of Turkey (TOKI), which was formed twenty-five years ago.



“My colleagues and I are trying to accomplish two dreams,” says Erdoğan Bayraktar, TOKI’s president. “The first is a dream that is shared by the government: to make housing available to everyone. The second is to make housing affordable, especially for middle- and low-income households.”

TOKI works in partnership with Emlak Real Estate Investment Company to develop low-cost homes on publicly owned land. These are financed in part by luxury developments that are sold at market value. “TOKI is a public corporation generating its own funds without a claim on the national budget. With this model, the land that belongs to the public is being put to its best use, funds are being generated, and high-quality communities are being established,” says Mr. Bayraktar.

**“My colleagues and I are trying to accomplish two dreams - to make housing that is available to everyone and to make housing affordable.”**

Erdoğan Bayraktar, President of TOKI

By September 2008, TOKI had built 330,000 housing units and it plans to have a further 170,000 housing units by 2011. It is the leading player in the government’s “planned urbanization” campaign. By creating decent, modern houses and apartments, it reduces illegal building a problem across Turkey’s cities. “We are aware of the problems regarding the rapid and unplanned urban development in the bigger cities,” he says. “As well as building new homes, which are available at low cost, we are renovating problematic areas in cities to make sure they conform with building guidelines. We have already reformed over 150,000 shantytown dwellings in 73 regions and are also building schools, hospitals, clinics, libraries, and business centers,” he says.

TOKI’s achievements have been recognized internationally and it has become a model for other countries that want to develop their own affordable housing. “It’s motivating to see that what TOKI is doing is appreciated and respected abroad,” says Mr. Bayraktar. But he adds, “The biggest reward for us will be to solve the long-lasting problem of housing and city planning in Turkey.”

## THE GREAT TURKISH ENERGY RACE

**T**urkey, with its rapid economic development, rising population, and increasing urbanization, has some of the fastest-growing demand for energy in the world. More than half of its energy needs are supplied by imports, and the country is having to adopt long-term strategies to ensure diverse, reliable, and cost-effective future supplies.

In 2001, the Turkish government liberalized the energy market, and since then many of Turkey's leading companies have invested in the sector. Industrial and financial conglomerate Sabancı, for example, formed Enerjisa, a multibillion-dollar venture with Austria's leading electricity company, Verbund. Meanwhile, Koç, which has interests ranging from the automotive industry to retailing, has invested in capacity generation, refinery, and LPG distribution operations.

However, major investment is still needed in the energy sector. Mehmet Ali Berkman, CEO of Akkök Group, which has interests in energy, chemicals, textiles, and real estate, says, "Turkey's energy generation and consumption figures almost reached break-even level in 2007. According to forecasts from the Turkish Electricity Transmission Company, there will be an annual 8 percent increase in electricity demand until 2016. We barely cover our consumption. We will definitely have supply shortages unless Turkey invests large amounts in the energy sector urgently."

Akkök Group was set up by the Turkish entrepreneur Raif Dinçkok and in recent years has become best known for its chemical division AKSA, but in 1989 it set up an energy arm called Akenerji the first private electricity company in the country.

"Up until now, AKSA has been the flagship of the group, but Akenerji will take the flag in the near future," says Mr. Berkman. It has an installed capacity of 496 MW and is investing in new hydro and wind power plants that will bring an additional 390 MW of energy-generating capacity. These projects, when completed, will enable Akenerji to register emission reduction certificates for up to 1 million tons of CO<sub>2</sub> annually.

Recently, the Czech energy giant CEZ took a 37.4 percent stake in Akenerji. As Mr. Berkman explains, "There is a mutual benefit from foreign partnerships. Akkök together with CEZ won the SEDAŞ tender with an offer of \$600 million in July 2008. From this point on, we will resolutely proceed with our partner in the business of production, distribution, and wholesale and retail



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trade of electricity energy in Turkey. Our target in energy is to reach 3,000 megawatts in 2013. The investment we planned for such a growth is about \$3 billion. At Aken-erji, we will combine our experiences and knowledge in energy sector in Turkey, with the experiences of CEZ in distribution on the international platforms and distribute through SEDAŞ a total of 8 TWh (Terawatt/hour) electricity a year to 1.3 million customers.”

Another Turkish company investing heavily in energy is Zorlu Group. It began life as a textile company but has expanded to become one of the biggest players in the Turkish energy market. Zorlu initially invested in energy to provide the electricity and steam needed for its textile factories. Murat Sungur Bursa, CEO of Zorlu Energy, says, “We entered the sector to cater to our needs but then we gradually began to increase capacity. We won the first privatization for power generation in Turkey for \$510 million and have won tenders for gas distribution.”

Zorlu is now taking its expertise abroad. It has partnerships in Russia and Israel and recently set up a wind farm in Pakistan. “If you ask yourself, ‘Which country will we be entering next?’, you can make a guess by looking at a risk map,” says Mr. Bursa. “There are risks, but at the same time, we have found opportunities.”

The group is also investing in renewable energy. Ahmet Zorlu, chairman of Zorlu Group, says, “Unfortunately, sources of water, wind, and minerals have not been utilized optimally, so today 50 percent of Turkey’s electricity is derived from imported natural gas. But Turkey will be exporting energy ten years from now.”

Zorlu is running a number of pilot schemes using solar energy and hopes to develop them further and commercialize the technology. “We’re investing heavily in renewables,” says Mr. Zorlu. “We have several hydroelectric projects and are building our first wind plant in the Adana region. Another item in our portfolio is geothermal energy and we are proceeding strongly in that area. Turkey has the leading potential in Europe for geothermal energy but the country is not currently using it.”

Turkey is one of seven countries that are geothermal-rich. More than 1,000 hot water and mineral springs have been discovered so far. It is a clean, inexpensive, and renewable form of energy that can be used in various ways, including heating and hot water supply, industrial processes, and electricity generation.

Turkey’s General Directorate of Mineral Research and Exploration (MTA) has offered the rights to exploit sixty-five sites with geothermal potential. The country plans to channel \$2.65 billion into geothermal investments in the next five years to take advantage of this natural resource that may reduce its reliance on energy imports.



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**“Being selected as a European Capital of Culture will give a boost to the city’s economic and political relations with Europe.”**

Nuri olakglu

Executive Chairman of Istanbul 2010

## REVITALIZING THE GRANDEUR OF ISTANBUL

Istanbul, with its historic sights and culture, great shopping, and vibrant nightlife, attracts a growing number of tourists but still remains something of an undiscovered treasure. However, that is all set to change when Istanbul becomes a European Capital of Culture in 2010.

Following in the steps of previous Capitals of Culture such as Glasgow, UK, and Lille, France, Istanbul hopes that the prestigious title will breathe new life into the city and attract more tourists it is expecting between ten and twelve million visitors in 2010.

The title will also foster closer links with the EU and will serve as the platform for the regeneration of this great city. “Being selected as a European Capital of Culture will give a boost to the city’s economic and political relations with

Europe as well as contributing to its cultural relations,” says Nuri olakglu, executive chairman of Istanbul 2010, the agency that is overseeing the project.

Being a Capital of Culture will provide a showcase for Istanbul’s remarkable history as well as create a legacy for the future. “We are spending 950 million euros on this project, about 750 million euros of which will be used for the restoration and renovation of world heritage sites, including the restoration of the world famous Topkapi Palace Museum,” says Mr. olakglu. But there will also be an emphasis on new venues, Mr. olakglu explains: “Istanbul is one of the most important cities in the world in terms of cultural heritage, but it doesn’t have enough artistic and cultural spaces, so we will create new ones.”

New museums will be established to protect and display cultural assets, and historical buildings will be renovated, given new roles, and opened to the public. The Istanbul Metropolitan Municipality is converting the historic slaughterhouse on the Golden Horn (Hali) into a performing arts and conference center and the Ayazaa Cultural Center, under construction since 1995, is set to be the biggest arts venue in Turkey by 2010.

Mr. olakglu says that Capital of Culture status won’t just benefit tourists but all the people of Istanbul. “This is a city where twelve and a half million people live. Unfortunately only a small number of them are involved in the arts and culture, so we want to reach out to the underprivileged people living in and around the city through artistic and cultural programs,” he says.



## ISTANBUL TAKES THE STAGE

Istanbul, long one of the world's most spectacular metropolises, has been declared the European Capital of Culture for 2010. And despite her proud heritage across the millennia, Istanbul, whose embrace unites Asia and Europe, is not resting on her laurels. Instead she is busily preparing an unforgettable artistic and cultural program for her visitors, a program set to showcase the greatest attributes of East and West. In short, a golden opportunity to celebrate the very best of both worlds!

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Sir Jeremy Isaacs, chairman of the EU panel that selected Istanbul, says that the city's bid "made a very considerable impression" on the jury and was judged "advanced, innovative, and forward-looking."

Being a Capital of Culture is also expected to create employment. In the British city of Liverpool, which was a Capital of Culture in 2008, it's estimated that there was a 138 percent rise in jobs in architecture and engineering. In addition, jobs in the city's tourist infrastructure, such as in hotels and bars, rose by 29 percent, and jobs in the creative industries rose by 50 percent, says research by the University of Liverpool. Jobs will be created in Istanbul for a large number of people, ranging from communications to organization, education, design, management, and creative fields.

Being a Capital of Culture will not only bring Istanbul's heritage to global attention but also its sense of style and its cosmopolitan atmosphere. Ahu Kerimoğlu Aysal, owner of the luxurious Hôtel Les Ottomans, which is located on the shores of the Bosphorus and is a favorite with the international jet set, says, "When I was living abroad, I was able to see what Istanbul needed a hotel that represents our Ottoman ancestors. We send a Rolls Royce to the airport to pick up our guests and then they are transported to a boat and brought to the hotel. Then they go back home and tell everyone they stayed in a beautiful Ottoman palace."

And as the world's gaze turns to Istanbul in 2010, it will bring long-term effects making the city a year-round destination, drawing in more business conventions, and attracting the cruise market.

Raul Salcido, manager of the Ritz-Carlton hotel, one of Istanbul's top luxury hotels, says that more conferences, delegations, and high-profile meetings are already taking place in the city. He adds, "I always tell our guests that there are many fascinating sides of Istanbul waiting to be discovered. It is a blissful city of contrasts, where you find history, exotic arts and music, wonderful food, an amazing culture, and, of course, the strategic location."

This special advertising feature was written by Helen Jones

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# The Myth of the Autocratic Revival

Why Liberal Democracy Will Prevail

*Daniel Deudney and G. John Ikenberry*

AFTER TWO decades of post–Cold War liberal triumph, U.S. foreign policy is being challenged by the return of an old antiliberal vision. According to this vision, the world is not marching toward universal liberal democracy and “the end of history.” Rather, it is polarizing into different camps and entering an era of rivalry between Western liberal states and dangerous autocracies, most notably China and Russia. Unlike the autocracies that failed so spectacularly in the twentieth century, today’s autocracies are said to be not only compatible with capitalist success but also representative of a rival form of capitalism. And their presence in the international system supposedly foreshadows growing competition and conflict and is dangerously undermining the prospect of global cooperation.

Several recent developments seem to support this emerging view. Democratic transitions have stalled and reversed. In China, the Communist Party dictatorship has weathered domestic challenges while

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*Daniel Deudney and G. John Ikenberry*

presiding over decades of rapid economic growth and capitalist modernization. Rising oil prices have empowered autocratic regimes. In Russia, Vladimir Putin's government rolled back democratic gains and became increasingly autocratic. At the same time, relations between Russia and the West have deteriorated from the near amity of the early post-Cold War era, and China and the West remain divided over Taiwan, human rights, and oil access. Meanwhile, much less powerful autocratic states, such as Venezuela and Iran, are destabilizing their regions. There even appear to be signs that these autocratic states are making common cause against the liberal Western states, with nascent alliances such as the Shanghai Cooperation Organization. The United Nations, and particularly the Security Council, has returned to the paralysis of the Cold War. In this view, the liberal West faces a bleak future.

The new prophets of autocratic revival draw important foreign policy implications from their thesis. One of the most forceful exponents of this new view, Robert Kagan, insists that it is time for the United States and the other liberal democracies to abandon their expectations of global convergence and cooperation. Instead, they should strengthen ties among themselves, perhaps even through a formal "league of democracies," and gird themselves for increasing rivalry and conflict with the resurgent autocracies. Containment rather than engagement, military rivalry rather than arms control, balance of power rather than concert of power—these should be, according to such theorists, the guideposts for U.S. foreign policy.

Fortunately, this new conventional wisdom about autocratic revival is as much an exaggeration of a few years of headlines as was the proclamation of the end of history at the end of the Cold War. The proposition that autocracies have achieved a new lease on life and are emerging today as a viable alternative within the global capitalist system is wrong. Just as important, the policies promoted by the autocratic revivalists are unlikely to be successful and, if anything, would be counterproductive—driving autocracies away from the liberal system and thereby creating a self-fulfilling prophecy. Although today's autocracies may be more competent and more adept at accommodating capitalism than their predecessors were, they are nonetheless fundamentally constrained by deep-seated incapacities that promise to limit their viability over the



### *The Myth of the Autocratic Revival*

long run. Ultimately, autocracies will move toward liberalism. The success of regimes such as those in China and Russia is not a refutation of the liberal vision; the recent success of autocratic states has depended on their access to the international liberal order, and they remain dependent on its success. Furthermore, the relentless imperatives of rising global interdependence create powerful and growing incentives for states to engage in international cooperation regardless of regime type.

The resilience of autocracies calls not for abandoning or retreating from liberal internationalism but rather for refining and strengthening it. If liberal democratic states react to revived autocracies solely with policies of containment, arms competition, and exclusive bloc building, as neoconservatives advise, the result is likely to be a strengthening and encouragement of illiberal tendencies in these countries. In contrast, cooperatively tackling common global problems—such as climate change, energy security, and disease—will increase the stakes that autocratic regimes have in the liberal order. Western states must also find ways to accommodate rising states—whether autocratic or democratic—and integrate them into the governance of international institutions. Given the powerful logic that connects modernization and liberalization, autocratic regimes face strong incentives to liberalize. The more accommodating and appealing the liberal path is, the more quickly and easily the world's current illiberal powers will choose the path of political reform.

#### RECALLING THE GREAT DEBATE

THE RECENT prophecies of autocratic revival mark a new stage in the debate over the prospects for liberal democratic capitalism. This debate began with the Industrial Revolution. The question then was whether there were multiple modernities or only one path to progress—and, if the latter, what that path was. Leading theorists, most notably Adam Smith, Karl Marx, and Max Weber, offered alternative claims about which socioeconomic and political systems would prove most viable given the constraints and opportunities of the Industrial Revolution. In these grand debates, the question of who was on “the right side of history” was contested and unresolved. It is often forgotten that as late as the 1940s, the authoritarian alternative was not only embodied in such states as Nazi Germany but also seriously advanced by some social

*Daniel Deudney and G. John Ikenberry*

theorists as the best model for industrial modernity. Indeed, when the American theorist James Burnham claimed in 1941 that “capitalism is not going to continue much longer,” this was hardly an outlandish sentiment. Even with the defeat of the Axis states, the theoretical question of whether communism and socialism offered a fundamental alternative to liberal capitalism persisted through much of the Cold War.

Two decades ago, the unexpected collapse of the Soviet Union and the international communist bloc seemed to resolve this debate in

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There remain deep contradictions between authoritarian political systems and capitalist economic systems.

favor of the liberal side once and for all. The ability of the Western states to generate wealth and power seemed to prove that liberal democracy represented the sole pathway to sustained modernization; there was but one successful model, pioneered and embodied in the West. It was at this juncture that heady proclamations of the end of history seemed so plausible. The near-universal eagerness of

peoples and states to join the expanding capitalist international system gave further credibility to this liberal vision.

The debate was not simply about rival socioeconomic systems within states but also about rival ways of ordering international politics. Just as the Nazis envisioned a “new order” for Europe and the Soviet Union designed an interstate economic and political order, so, too, did the liberal West. Beginning in the late 1940s, responding to the crisis of industrial capitalism of the Great Depression in the 1930s and taking advantage of U.S. geopolitical dominance in the wake of World War II, the United States spearheaded the creation of a set of international rules and institutions, most notably the Bretton Woods system, the UN, and various security partnerships. Taken together, U.S. hegemony and this liberal international order gave liberal democratic states a greater presence in world politics than they had ever experienced before; they also provided a structure that other states could engage with and join, one that could reorient those states in a liberal direction.

It is against this backdrop that the recent claims of autocratic viability are being advanced. The spectacular rates of capitalist growth in autocratic China and the reassertion of a tsarist central state in a growing Russia have reopened the great debate. These developments have led

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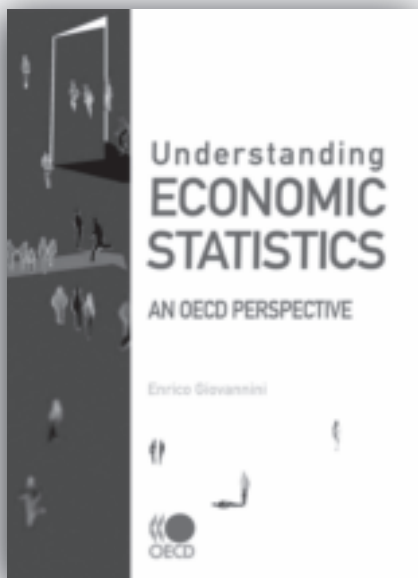


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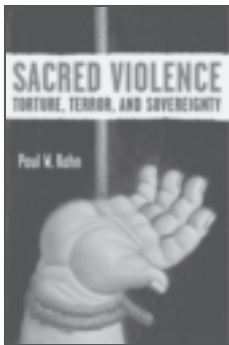
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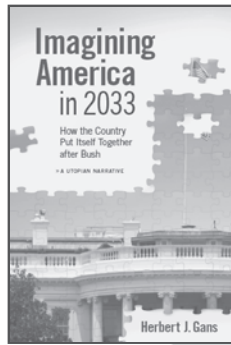
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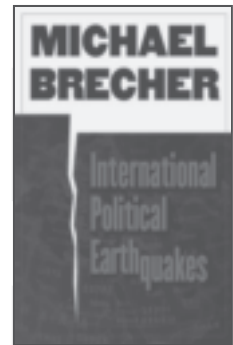
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### *The Myth of the Autocratic Revival*

many observers to conclude that there are multiple paths to capitalist modernity and that authoritarianism is quite compatible with capitalism. The historian Azar Gat has argued in these pages (“The Return of Authoritarian Great Powers,” July/August 2007) that China and Russia mark “a return of economically successful authoritarian capitalist powers” and “may represent a viable alternative path to modernity.” This implies that there is no inevitable connection between the economic liberalization associated with capitalism and economic globalization, on the one hand, and the political liberalization associated with liberal democracy and limited-government constitutionalism, on the other. Within the two centuries of the debate over industrial modernity, the autocratic revival thesis represents a broadening from the “end of history” position but, importantly, accepts that it is capitalism, not socialism, that is the sole viable economic system. Kagan acknowledges that “in the long run, rising prosperity may well produce political liberalism,” but he holds that the long run “may be too long to have any strategic or geopolitical relevance.”

The supposed autocratic revival has also triggered a reassessment of why earlier autocratic states failed. Gat, for example, contends that the earlier failure of authoritarian capitalist states was a product of contingent factors rather than some deep misfit between industrial capitalism and closed authoritarian political systems. He argues that the failure of Nazi Germany and imperial Japan—both of which were capitalist states—resulted from their insufficient territorial size and industrial bases rather than some more essential flaw. Conversely, the U.S.-British victory derived not from the advantages of liberal democratic political institutions but rather from advantages in territory, population, and economic output. In short, the selection out of these earlier authoritarian capitalist states was inappropriately attributed by the liberal narrative to intrinsic weaknesses of the model rather than to contingent circumstances.

This historical revisionism fails, however, to acknowledge the ways in which the relative war performance of the Axis and Allied powers in World War II was profoundly affected by their radically different political systems. First, the formation of grand strategy by Hitler’s Germany, Stalin’s Russia, and Tojo’s Japan was marked by colossal blunders in assessing adversaries and initiating military campaigns.



*Daniel Deudney and G. John Ikenberry*

Hitler's attack on the Soviet Union and declaration of war against the United States not only doomed his regime but also were intimate manifestations of his particular worldview, which was given complete reign by the regime's closed and dictatorial rule. Second, the way in which the authoritarian and totalitarian states mobilized for war was haphazard and often grossly inefficient—again reflecting unaccountable decision-making. Despite its extraordinarily ambitious grand strategic goals, Germany did not fully mobilize its industrial economy until late in the war because Hitler was afraid of popular discontent; the imperial Japanese army and navy not only did not communicate or coordinate strategy but also maintained separate and incompatible industrial production systems. And finally, the alliance coordination between the United States and the United Kingdom, although marked by constant petty frictions, was vastly superior to that of the Axis states, who were allies more in name than in fact. In short, the relative performance of democratic and autocratic regimes in World War II was profoundly shaped by the features of their political systems, giving heavy advantages to the Allies.

### A WEAK REVIVAL

HOW COMPATIBLE are authoritarian political systems with private-property-based capitalist economies today? The autocratic revivalists claim that the combination of authoritarian political systems and capitalism in major countries such as China and Russia is not a fleeting stage of transition but a durable alternative to the Western combination of political democracy and capitalism. If this is true, then the prospects for liberal democracy are far less bright than the liberal narrative stretching from the Enlightenment to the 1990s allows. The autocratic revival thesis holds that deep political incompatibilities between states will persist alongside the ongoing spread of capitalism, dashing hopes for the transformation of international politics into a universal liberal peace. This thesis, however, has several profound weaknesses.

Proponents of the autocratic viability argument set up something of a straw man in their insistence that the absence of political liberalization in China and Russia refutes the liberal vision. The spectacular end of the Cold War and the rush of political and economic change in

### *The Myth of the Autocratic Revival*

its wake produced unrealistic expectations. And their inevitable disappointment has provided the opening for the larger claims of autocratic revival. On the U.S. political scene, the debate during the Clinton era about the pros and cons of Chinese ascension to the World Trade Organization (WTO) was accompanied by assertions that China's opening up to international capitalism would soon bear fruits of political liberalization. These expectations for rapid political opening, however, had little basis in the theories connecting capitalist modernization with political liberalization. (The theories did not claim that the political consequences would be immediate and acknowledged that there would be uneven and lagging transitions.) Also, there are compelling explanations for the short-term persistence of autocracy in China and Russia, related to their historical experience as multiethnic states subject to fragmentation and foreign great-power encroachment. These external and historical factors slowing liberalization were long in the making, but they can be ameliorated by the engagement and accommodation of the Western powers.

Contrary to the autocratic revival thesis, there are in fact deep contradictions between authoritarian political systems and capitalist economic systems. These contradictions exist in today's capitalist autocracies, and the resolution of these contradictions is likely to lead to political liberalization. There are many ways in which capitalism connects to political democracy, but three are most important. First, rising levels of wealth and education create demands for political participation and accountability. The basic logic behind this link is that rising living standards made possible because of capitalism over time generate a socioeconomic strata—loosely, the middle class—whose interests come to challenge closed political decision-making. Second is the relationship between capitalist property systems and the rule of law. In a capitalist economic system, by definition, the means of production are held as private property and economic transactions occur through contracts. For capitalism to function, the enforcement of contracts and the adjudication of business disputes require court systems and the rule of law. The practice of independent rights in the economic sphere and the institutions they require are an intrinsic limitation on state power and, over time, create demands for wider political rights. Third, the economic development propelled by capitalism leads to a divergence of

*Daniel Deudney and G. John Ikenberry*

interests. Modern industrial societies are marked by an explosion of complexity and the emergence of specialized activities and occupations, thus producing a plural polity rather than a mass polity. The increasing diversity of socioeconomic interests leads to demands for competitive elections between multiple parties.

Looking at the Chinese experience through this lens suggests two important flaws in the autocratic revival case. First, the foundations for sustainable political liberalization are just now beginning to reach a critical mass in China. Despite rapid rates of growth, China remains a very poor country overall, with a very large population that has only partially tasted the fruits of capitalist modernization. A Chinese middle class is emerging, and there are already ample indicators that it has a growing interest in accountable political institutions. As capitalist modernization deepens, the complexity of interdependence rises in society, creating new stakeholders whose interests, when infringed on, stimulate demands for accountability. For example, in the ongoing tainted-milk scandal, it has become clear that the modernization of China's food production and distribution system has outstripped traditional forms of accountability, a mismatch that is now creating pressures for political regulatory reform.

Second, there is nothing in the liberal vision that specifies the exact timing of political opening as a part of the socioeconomic transformation. Capitalism creates the conditions for liberal democracy, but the trigger for actual political change is utterly unpredictable. If the experience of the emergence of liberal democracy in Western countries is any guide, the process of transformation can take decades and be interrupted by unpredictable stops and starts. In Germany, for example, capitalist modernization arrived early, but liberal democracy emerged only after the dislocations of two world wars. Even without war, the pathway to political change in China is not likely to be straightforward or quick.

The autocratic revival thesis fails because the classic indictment of illiberal government is essentially correct. The liberal argument is that deeply rooted incapacities and dysfunctions are inherent in the structure of autocratic hierarchies. First is the problem of corruption. The abusive use of state authority for the aggrandizement of government officials is a tendency in every political system, but it is much harder to check in autocratic regimes. In earlier centuries, before the capitalist era,

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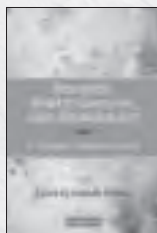
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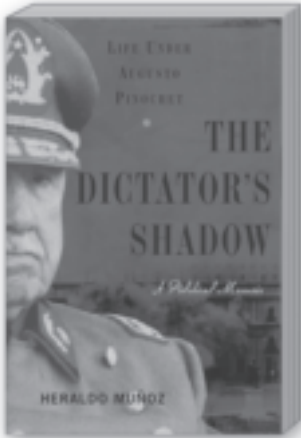


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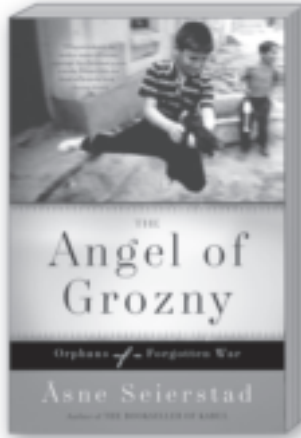


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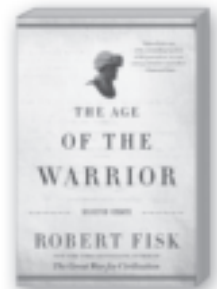
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### *The Myth of the Autocratic Revival*

autocratic regimes were straightforwardly predatory, and taxation was essentially confiscatory. As a consequence, merchant wealth was chronically insecure. It is not by accident that capitalism first emerged in places such as England, Holland, and Venice, where government had come to be restrained in various ways by nascent constitutional checks. In the new hybrid of autocracy and capitalism, government officials are in continuous transactions with capitalist firms and face myriad opportunities to demand bribes for the fulfillment of their official duties. Despite periodic campaigns for the rectitude of officialdom and episodic prosecutions, curbing corruption is difficult without institutional checks on state power. Russian President Dmitry Medvedev's recent denunciations of "legal nihilism" are likely to remain impotent so long as Russia remains a single-party autocracy.

Second, autocratic capitalist regimes face deep contradictions related to inequality. In capitalist societies, inequality has been a significant force for political change. Inequality is historically endemic. Premodern autocratic states were highly stratified predatory systems in which the ruling class was essentially parasitic on the vast, politically repressed peasant base. But with the advent of capitalism, particularly industrial capitalism, class stratification and economic inequality became fundamental political challenges and the triggers for long political struggles. These conflicts were only resolved by the achievement of universal-franchise democracy, the rise of political parties responsive to working-class needs and interests, and the establishment of the welfare state. The presence of acute inequality in contemporary autocratic capitalist regimes suggests that the other shoe has not dropped in their political evolution. A major source of political democratization in China is likely to be the large numbers of dispossessed peasants, marginalized migrants, and underpaid workers.

Third, autocratic hierarchies have to contend with limitations on their performance because of weak accountability and insufficient flows of information. Their top-down, closed structure chokes off information from outside sources and distorts it, due to the imperatives of political control. Closed political systems are prone to policy mistakes

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largely obsolete.

*Daniel Deudney and G. John Ikenberry*

arising from bad information. The historical record of tyrannies, despotisms, and dictatorships bears this out. Contemporary autocratic capitalist regimes show much greater capacities than their precapitalist predecessors, but they are still intrinsically impeded by censorship and the absence of open debate on policy alternatives. The SARS outbreak in China in 2003 vividly illustrated both the presence of closed decision-making and its severe consequences for public welfare and political legitimacy. Even faced with something as apolitical as the emergence of a dangerous new disease, Chinese officialdom's routine penchant for secrecy and unquestioned decision-making turned what should have been a manageable problem into an international public health crisis.

Looking at the overall situations in China and Russia, there is little evidence for the emergence of a stable equilibrium between capitalism and autocracy such that this combination could be dignified as a new model of modernity. Compared to where these countries were several decades ago, they have made remarkable progress in throwing off centuries of accumulated economic and political backwardness, and by the yardstick of world historical change, they have moved and are moving in directions consistent with the liberal modernization narrative. China and Russia are not liberal democracies, but they are much more liberal and democratic than they have ever been—and many of the crucial foundations for sustainable liberal democracy are emerging. To be sure, for Russia, the cushion of plentiful oil and gas has delayed political liberalization; high energy prices and exports help subsidize bad government. But China has no such luxury, as it faces an array of developmental restraints, most notably overpopulation, environmental decay, and energy dependence. Autocracy's deep intrinsic flaws remain an impediment to the realization of the full modern development sought by the people of these countries. The problems of corruption, inequality, and unaccountability will continue to drive political change in China, Russia, and the rest of the world's autocracies.

At the same time, Americans should always acknowledge that there will be variation in the preferred liberal democratic model and that the United States is not always the best or the fullest embodiment of liberal democracy. In particular, the tendency to equate Western liberal democracy with the Reagan-era antigovernment ideology and

### *The Myth of the Autocratic Revival*

the minimalist “Washington consensus” version of state regulation does injustice to the protean character of the liberal model and the often important ways in which appropriately crafted state interventions are essential for its success. The Western liberal model has flourished because of its capacity to creatively mutate in the face of new problems and challenges—and its next adaptations to problems such as the current financial meltdown may well produce a new balance between the state and the private sector. As the world becomes increasingly liberal and democratic, there are growing opportunities for even the most successful liberal states—such as the United States—to learn from their partners.

#### AUTOCRATS ABROAD

NOT ONLY do the autocratic revival theorists posit an alternative form of capitalism, but they also envision renewed international rivalries. According to Kagan’s version of the argument, the twenty-first century will look much like the nineteenth century. There will be a combination of great-power rivalries and a growing ideological and geopolitical divide between autocracies and democracies. Rivalry among great powers, independent of regime type, will be an increasingly salient feature of world politics, according to this view. Rising powers—most notably China, India, Japan, and Russia—will aspire to improve their international positions and establish hegemony within their regions. As the power of these states grows, their definition of their national interest will expand, placing them on a collision course with one another. Because their envisioned spheres of influence overlap, these rising states will come into increasing conflict and competition. In East Asia, China’s rise will come at Japan’s expense; China and India will be rivals for leadership in Southeast Asia; and Russia’s attempt to reestablish its imperial sphere of influence will put it on a collision course with both China and Europe.

In Kagan’s view, this emerging great-power struggle will be exacerbated by several factors. All of the rising great powers have well-developed senses of grievance based on their historical experiences over the last two centuries of decline in the face of encroachment by European imperialism and by one another. China’s aspirations and view of itself

*Daniel Deudney and G. John Ikenberry*

are heavily shaped by the historical experience of its decline from the Middle Kingdom's hegemony in East Asia to the "century of humiliation," defined by predation by the Europeans and then by Japan in the 1930s and 1940s. Russia's narrative of grievance centers on the sudden loss of its centuries-old domination of eastern Europe, Ukraine, and Central Asia with the end of the Cold War. Another factor that will exacerbate the supposed coming great-power competition is the prospect of a nineteenth-century-style scramble for raw materials and markets. Tightening global oil supplies and voraciously rising demand presage a future of cutthroat mercantilist competition among the great powers.

It is in combination with these factors that the regime divergence between autocracies and democracies will become increasingly dangerous. If all the states in the world were democracies, there would still be competition, but a world riven by a democratic-autocratic divergence promises to be even more conflictual. There are even signs of the emergence of an "autocrats international" in the Shanghai Cooperation Organization, made up of China, Russia, and the poorer and weaker Central Asian dictatorships. Overall, the autocratic revivalists paint the picture of an international system marked by rising levels of conflict and competition, a picture quite unlike the "end of history" vision of growing convergence and cooperation.

This bleak outlook is based on an exaggeration of recent developments and ignores powerful countervailing factors and forces. Indeed, contrary to what the revivalists describe, the most striking features of the contemporary international landscape are the intensification of economic globalization, thickening institutions, and shared problems of interdependence. The overall structure of the international system today is quite unlike that of the nineteenth century. Compared to older orders, the contemporary liberal-centered international order provides a set of constraints and opportunities—of pushes and pulls—that reduce the likelihood of severe conflict while creating strong imperatives for cooperative problem solving.

Those invoking the nineteenth century as a model for the twenty-first also fail to acknowledge the extent to which war as a path to conflict resolution and great-power expansion has become largely obsolete. Most important, nuclear weapons have transformed great-power war

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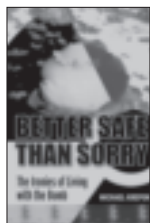
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### *The Myth of the Autocratic Revival*

from a routine feature of international politics into an exercise in national suicide. With all of the great powers possessing nuclear weapons and ample means to rapidly expand their deterrent forces, warfare among these states has truly become an option of last resort. The prospect of such great losses has instilled in the great powers a level of caution and restraint that effectively precludes major revisionist efforts. Furthermore, the diffusion of small arms and the near universality of nationalism have severely limited the ability of great powers to conquer and occupy territory inhabited by resisting populations (as Algeria, Vietnam, Afghanistan, and now Iraq have demonstrated). Unlike during the days of empire building in the nineteenth century, states today cannot translate great asymmetries of power into effective territorial control; at most, they can hope for loose hegemonic relationships that require them to give something in return. Also unlike in the nineteenth century, today the density of trade, investment, and production networks across international borders raises even more the costs of war. A Chinese invasion of Taiwan, to take one of the most plausible cases of a future interstate war, would pose for the Chinese communist regime daunting economic costs, both domestic and international. Taken together, these changes in the economy of violence mean that the international system is far more primed for peace than the autocratic revivalists acknowledge.

The autocratic revival thesis neglects other key features of the international system as well. In the nineteenth century, rising states faced an international environment in which they could reasonably expect to translate their growing clout into geopolitical changes that would benefit themselves. But in the twenty-first century, the status quo is much more difficult to overturn. Simple comparisons between China and the United States with regard to aggregate economic size and capability do not reflect the fact that the United States does not stand alone but rather is the head of a coalition of liberal capitalist states in Europe and East Asia whose aggregate assets far exceed those of China or even of a coalition of autocratic states. Moreover, potentially revisionist autocratic states, most notably China and Russia, are already substantial players and stakeholders in an ensemble of global institutions that make up the status quo, not least the UN Security Council (in which they have permanent seats and veto power). Many

*Daniel Deudney and G. John Ikenberry*

other global institutions, such as the International Monetary Fund and the World Bank, are configured in such a way that rising states can increase their voice only by buying into the institutions. The pathway to modernity for rising states is not outside and against the status quo but rather inside and through the flexible and accommodating institutions of the liberal international order.

The fact that these autocracies are capitalist has profound implications for the nature of their international interests that point toward integration and accommodation in the future. The domestic viability of these regimes hinges on their ability to sustain high economic growth

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Emerging global problems will create common interests across states regardless of regime type.

rates, which in turn is crucially dependent on international trade and investment; today's autocracies may be illiberal, but they remain fundamentally dependent on a liberal international capitalist system. It is not surprising that China made major domestic changes in order to join the WTO or that Russia is seeking to do so now. The dependence of autocratic capitalist states on foreign trade and invest-

ment means that they have a fundamental interest in maintaining an open, rule-based economic system. (Although these autocratic states do pursue bilateral trade and investment deals, particularly in energy and raw materials, this does not obviate their more basic dependence on and commitment to the WTO order.) In the case of China, because of its extensive dependence on industrial exports, the WTO may act as a vital bulwark against protectionist tendencies in importing states. Given their position in this system, which so serves their interests, the autocratic states are unlikely to become champions of an alternative global or regional economic order, let alone spoilers intent on seriously damaging the existing one.

The prospects for revisionist behavior on the part of the capitalist autocracies are further reduced by the large and growing social networks across international borders. Not only have these states joined the world economy, but their people—particularly upwardly mobile and educated elites—have increasingly joined the world community. In large and growing numbers, citizens of autocratic capitalist states are participating in a sprawling array of transnational educational,

### *The Myth of the Autocratic Revival*

business, and avocational networks. As individuals are socialized into the values and orientations of these networks, stark “us versus them” cleavages become more difficult to generate and sustain. As the Harvard political scientist Alastair Iain Johnston has argued, China’s ruling elite has also been socialized, as its foreign policy establishment has internalized the norms and practices of the international diplomatic community. China, far from cultivating causes for territorial dispute with its neighbors, has instead sought to resolve numerous historically inherited border conflicts, acting like a satisfied status quo state. These social and diplomatic processes and developments suggest that there are strong tendencies toward normalization operating here.

Finally, there is an emerging set of global problems stemming from industrialism and economic globalization that will create common interests across states regardless of regime type. Autocratic China is as dependent on imported oil as are democratic Europe, India, Japan, and the United States, suggesting an alignment of interests against petroleum-exporting autocracies, such as Iran and Russia. These states share a common interest in price stability and supply security that could form the basis for a revitalization of the International Energy Agency, the consumer association created during the oil turmoil of the 1970s. The emergence of global warming and climate change as significant problems also suggests possibilities for alignments and cooperative ventures cutting across the autocratic-democratic divide. Like the United States, China is not only a major contributor to greenhouse gas accumulation but also likely to be a major victim of climate-induced desertification and coastal flooding. Its rapid industrialization and consequent pollution means that China, like other developed countries, will increasingly need to import technologies and innovative solutions for environmental management. Resource scarcity and environmental deterioration pose global threats that no state will be able to solve alone, thus placing a further premium on political integration and cooperative institution building.

Analogies between the nineteenth century and the twenty-first are based on a severe mischaracterization of the actual conditions of the new era. The declining utility of war, the thickening of international transactions and institutions, and emerging resource and environmental interdependencies together undercut scenarios of international conflict and instability based on autocratic-democratic rivalry and autocratic

*Daniel Deudney and G. John Ikenberry*

revisionism. In fact, the conditions of the twenty-first century point to the renewed value of international integration and cooperation.

### THE LIBERAL DEMOCRATIC PROJECT

THE PROPHETS of autocratic revival propose a foreign policy for the United States and the other liberal democracies organized around the assumption that great-power rivalry and the autocratic-democratic divide will dominate in the coming decades. They advocate a foreign policy of confrontation, containment, and exclusion, and they advise liberal states to diminish their support for global cooperation and institution building. This foreign policy, were it to be implemented, would be a recipe for retreat and would risk creating a self-fulfilling prophecy. Instead, the underlying realities of the new era—and the incentives that all states face—underscore the need for a retooled and reinvigorated liberal internationalist program. A new liberal internationalism of consensus building and problem solving must take into account the circumstances and sensitivities of rising states while affirming the record of success and continuing relevance of the liberal democratic project.

A successful foreign policy must start with an acknowledgment of the historically inherited vulnerabilities and grievances of the rising great powers and autocratic states. Autocratic government is partially appealing because it addresses the problems of ethnic separatism and territorial fragmentation that confront many contemporary states. For China, emerging from a long period of national humiliation and foreign encroachment, the territorial viability of the state hinges on the successful maintenance of control over the outlying regions of Manchuria, Taiwan, Tibet, and Xinjiang, which are occupied by restive ethnic groups seeking independence or autonomy. Similarly, Russia, shorn of much of its historical empire by the breakaway of the non-Russian republics at the end of the Cold War, presides over a vast territorial domain whose outlying areas are also inhabited by potentially secessionist peoples. For both China and Russia, nationalism and an ironhanded central state are appealing solutions to these centrifugal forces and important sources of legitimacy for the current regimes. As long as China and Russia view democratic opening and the norms of the liberal international system as threats to their territorial integrity,



### *The Myth of the Autocratic Revival*

there will be severe upper limits on their willingness to be accommodating or to integrate themselves further into this system. In these circumstances, the foreign policy of the United States and the liberal democracies should be not to exacerbate these grievances and vulnerabilities but rather to mollify and ameliorate them.

A successful foreign policy should also seek to integrate, rather than exclude, autocratic and rising great powers. Proposals to “draw up the gates” of the democratic world and exclude nondemocratic states—with measures such as the expulsion of Russia from the G-8 (the group of highly industrialized states)—promise to worsen relations and reinforce authoritarian rule. Instead, the United States and the other liberal democracies should seek to further integrate these states into existing international institutions by increasing their stakeholder roles within them. Proposals such as a “concert of democracies” should be configured to deepen cooperation among democratic states and reinforce global institutions rather than to confront nondemocratic states. The United States and the other democratic nations should take the initiative in solving global resource and environmental problems and produce global frameworks for problem solving that draw in nondemocratic states along the way. The democratic states should orient themselves to pragmatically address real and shared problems rather than focusing on ideological differences. Looking for alignments based on interests rather than regime type will further foreclose the unlikely coalescence of an antiliberal autocratic bloc.

The foreign policy of the liberal states should continue to be based on the broad assumption that there is ultimately one path to modernity—and that it is essentially liberal in character. The liberal vision allows for considerable diversity based on historical experience and national difference. But autocratic capitalism is not an alternative model; it is only a way station on this path. How long states take in traversing this path will be shaped by many factors, some beyond the control of the liberal states. But a foreign policy appropriately calibrated to the real constraints and opportunities of the twenty-first century will facilitate this progression. Liberal states should not assume that history has ended, but they can still be certain that it is on their side. 🌐

# America's Edge

## Power in the Networked Century

*Anne-Marie Slaughter*

WE LIVE in a networked world. War is networked: the power of terrorists and the militaries that would defeat them depend on small, mobile groups of warriors connected to one another and to intelligence, communications, and support networks. Diplomacy is networked: managing international crises—from SARS to climate change—requires mobilizing international networks of public and private actors. Business is networked: every CEO advice manual published in the past decade has focused on the shift from the vertical world of hierarchy to the horizontal world of networks. Media are networked: online blogs and other forms of participatory media depend on contributions from readers to create a vast, networked conversation. Society is networked: the world of MySpace is creating a global world of “OurSpace,” linking hundreds of millions of individuals across continents. Even religion is networked: as the pastor Rick Warren has argued, “The only thing big enough to solve the problems of spiritual emptiness, selfish leadership, poverty, disease, and ignorance is the network of millions of churches all around the world.”

In this world, the measure of power is connectedness. Almost 30 years ago, the psychologist Carol Gilligan wrote about differences between the genders in their modes of thinking. She observed that men tend to see the world as made up of hierarchies of power and seek

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### *America's Edge*

to get to the top, whereas women tend to see the world as containing webs of relationships and seek to move to the center. Gilligan's observations may be a function of nurture rather than nature; regardless, the two lenses she identified capture the differences between the twentieth-century and the twenty-first-century worlds.

The twentieth-century world was, at least in terms of geopolitics, a billiard-ball world, described by the political scientist Arnold Wolfers as a system of self-contained states colliding with one another. The results of these collisions were determined by military and economic power. This world still exists today: Russia invades Georgia, Iran seeks nuclear weapons, the United States strengthens its ties with India as a hedge against a rising China. This is what Fareed Zakaria, the editor of *Newsweek International*, has dubbed "the post-American world," in which the rise of new global powers inevitably means the relative decline of U.S. influence.

The emerging networked world of the twenty-first century, however, exists above the state, below the state, and through the state. In this world, the state with the most connections will be the central player, able to set the global agenda and unlock innovation and sustainable growth. Here, the United States has a clear and sustainable edge.

#### THE HORIZON OF HOPE

THE UNITED STATES' advantage is rooted in demography, geography, and culture. The United States has a relatively small population, only 20–30 percent of the size of China's or India's. Having fewer people will make it much easier for the United States to develop and profit from new energy technologies. At the same time, the heterogeneity of the U.S. population will allow Washington to extend its global reach. To this end, the United States should see its immigrants as living links back to their home countries and encourage a two-way flow of people, products, and ideas.

The United States is the anchor of the Atlantic hemisphere, a broadly defined area that includes Africa, the Americas, and Europe. The leading countries in the Atlantic hemisphere are more peaceful, stable, and economically diversified than those in the Asian hemisphere. At the same time, however, the United States is a pivotal power, able

*Anne-Marie Slaughter*

to profit simultaneously from its position in the Atlantic hemisphere and from its deep ties to the Asian hemisphere. The Atlantic and Pacific Oceans have long protected the United States from invasion and political interference. Soon, they will shield it from conflicts brought about by climate change, just as they are already reducing the amount of pollutants that head its way. The United States has a relatively horizontal social structure—albeit one that has become more hierarchical with the growth of income inequality—as well as a culture of entrepreneurship and innovation. These traits are great advantages in a global economy increasingly driven by networked clusters of the world’s most creative people.

On January 20, 2009, Barack Obama will set about restoring the moral authority of the United States. The networked world provides a hopeful horizon. In this world, with the right policies, immigrants can be a source of jobs rather than a drain on resources, able to link their new home with markets and suppliers in their old homes. Businesses in the United States can orchestrate global networks of producers and suppliers. Consumers can buy locally, from revived local agricultural and customized small-business economies, and at the same time globally, from anywhere that can advertise online. The United States has the potential to be the most innovative and dynamic society anywhere in the world.

### LIFE IN A NETWORKED WORLD

IN 2000, Procter & Gamble made a decision that reinvented how the company would do business in the twenty-first century. Instead of closely guarding its secret recipes for everything from soaps to potato chips, Procter & Gamble chose to open up its patent portfolio, making virtually all its formulas available to anyone willing to pay a licensing fee. At the same time, it asked its top managers to bring in half of their ideas for new products and services from outside the company. They now look to far-flung groups of inventors around the world and online, where innovators gather at sites such as InnoCentive, an auction Web site for ideas. Don Tapscott and Anthony Williams, the authors of *Wikinomics: How Mass Collaboration Changes Everything*, call businesses like InnoCentive “ideagoras,” modern-day public squares

### *America's Edge*

that join people looking to sell their ideas with businesses seeking to buy them. In 2006, Samuel Palmisano, the head of IBM, predicted in these pages that corporations would move from being multinational, with small, self-replicated versions of themselves in every market, to being what he calls “globally integrated enterprises.” Today, IBM funnels tasks to wherever they will be done best.

Consider the experience of Li & Fung, the world’s largest and most successful export sourcing company. Its clients are retailers of virtually every kind of product known to man, or at least made by man. The job of Li & Fung is to identify suppliers from over 40 countries around the world and connect them in order to fill specific orders. The resulting networks must be fast, flexible, and able to work to a common high standard. According to William and Victor Fung, two of the current owners of the family business, the secret of sourcing is “orchestrating networks.” It is the managerial equivalent of creating a system in which one can select a destination on a Paris metro map and see a possible route light up with a connecting web of differently colored lines—except, of course, that riders at each station might have their own ideas about how best to travel.

At first, these global webs may seem to be just the next generation of outsourcing. But something much deeper is going on. Outsourcing requires a central command that specifies precisely what and how much should be produced and then, through an established hierarchy, communicates those decisions to producers in multiple nations. In contrast, under a system of peer production, supply chains become “value webs,” in which suppliers become partners and, instead of just supplying products, actually collaborate on their design. Boeing is a particularly striking example, given how it could be seen as the heart of old-style manufacturing. It has shifted from being simply an airplane manufacturer to being a “systems integrator,” relying on a horizontal network of partners collaborating in real time. They share both risk and knowledge in order to achieve a higher level of performance. It is not simply a change in form but a change in culture. Hierarchy and control lose out to community, collaboration, and self-organization. At its core, a company can be quite small, often no more than a central node of leaders and manager-integrators. But with the right networks, it can reach anywhere innovators, factories, and service providers



*Anne-Marie Slaughter*

can be found. In this world, as Tapscott and Williams write, “only the connected will survive.”

Nongovernmental organizations (NGOs), too, have realized the power of connections. An early example was the International Campaign to Ban Landmines, which began in 1991 as a coalition of six NGOs from North America and Europe. It eventually grew to include over 1,100 groups in some 60 countries, and with this breadth came clout. After it won the Nobel Peace Prize in 1997, the network successfully pushed for a global treaty banning the use of land mines (although China,

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In the twenty-first century, “only the connected will survive.”

Russia, and the United States, among others, have refused to sign it). NGOs pursuing other causes have followed suit. In 1995, a small group of human rights organizations began calling for the creation of an international criminal court to try war criminals. They suc-

ceeded in convincing governments to establish a permanent court in 1998. Today, the Coalition for the International Criminal Court includes over 2,000 organizations from every corner of the world, which are now working to expand the court’s jurisdiction. More recently, a global alliance of NGOs has been instrumental in pushing for action to stop the ongoing violence in Darfur.

In each of these cases, NGOs gained leverage over otherwise reluctant states. They formed transnational networks that multiplied their lobbying power and put their message on the agendas of international institutions. As Francis Sejersted, then chair of the Nobel Committee, noted when he recognized the land-mine campaign, “The mobilisation and focusing of broad popular involvement which we have witnessed bears promise that goes beyond the present issue. It appears to have established a pattern for how to realise political aims at the global level.”

Governments have been slower to understand twenty-first-century challenges and to reform themselves accordingly, but they, too, are gradually moving toward a more networked structure. A report entitled *The Embassy of the Future*, issued by the Center for Strategic and International Studies in 2007, calls for U.S. diplomats to be “decentralized, flexible, and mobile,” as well as “connected, responsive, and informed.” U.S. embassy staff would have a more “distributed presence,” both

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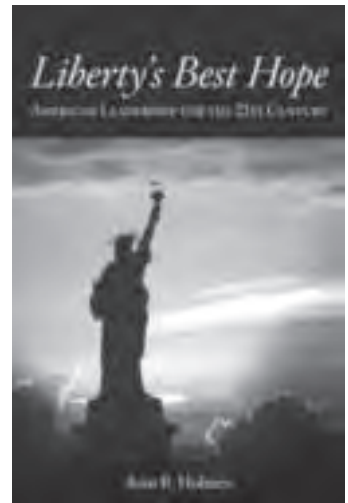
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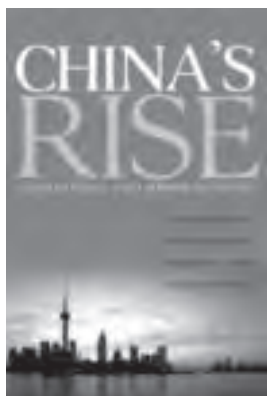
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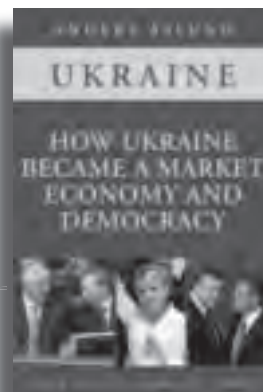
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### *America's Edge*

virtually and physically, if they worked at multiple locations and with a wide range of different groups in their host countries.

Similarly, Julie Gerberding, director of the Centers for Disease Control, realized after the anthrax scare in 2001 and the SARS crisis in 2002 that the CDC needed to create a network of public and private actors from around the world. Managing this network would, in turn, require a much more flexible and horizontal organization at the CDC's headquarters, in Atlanta. Gerberding was expected to get results but lacked the authority necessary to produce them. For Gerberding, the solution was to find partners around the world and to connect them in ways that would allow for the creation and sharing of knowledge during a crisis. Many judges and government regulators have had a similar insight. Bankruptcy judges, for example, now communicate with one another around the world, signing agreements to manage together the bankruptcies of multinational corporations. The current financial crisis could have been even worse if the world's central bankers had not already been connected and able to coordinate their actions.

Power can also flow from connections across different sectors. In his book *Superclass: The Global Power Elite and the World They Are Making*, David Rothkopf explains how leaders connect across different power structures, from the worlds of business and finance to those of politics and the arts. "In fact," he writes, "such linkages are as distinguishing a characteristic of the superclass as wealth or individual position." In other words, it is connectivity, more than money or stature, that determines individual power. This dynamic can even extend to terrorist groups such as al Qaeda. John Robb, a former air force colonel and military strategist, has observed that Mohamed Atta was the leader of the 9/11 hijackers because, although no formal hierarchy existed in the group, "Atta had twenty-two connections to other people in the network, much more than any other, which gave him control of the operation."

The power that flows from this type of connectivity is not the power to impose outcomes. Networks are not directed and controlled as much as they are managed and orchestrated. Multiple players are integrated into a whole that is greater than the sum of its parts—an

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It is connectivity, more than money or stature, that determines individual power.

*Anne-Marie Slaughter*

orchestra that plays differently according to the vision of its conductor and the talent of individual musicians. Obama's team-based campaign, with its relatively flat structure and emphasis on individual organizers, is a model of the twenty-first century's management style.

Most important, networked power flows from the ability to make the maximum number of valuable connections. The next requirement is to have the knowledge and skills to harness that power to achieve a common purpose. The United States is already following this model in a few specific ways. In combating terrorism, it has been able to stop planned attacks thanks to a dense global network of law enforcement officers, counterterrorism officials, and intelligence agencies. The U.S. government dramatically improved its standing in the Muslim world due to its swift and effective relief effort in Asia following the December 2004 tsunami. It coordinated an emergency-response strategy among government agencies and aid workers in Australia, India, Japan, and the United States itself. More recently, when the global financial crisis hit this past fall, the United States first reached out to central banks around the world to coordinate a monetary response and then reached out to central banks in key emerging markets to make sure their foreign currency needs were being met.

From this vantage point, predictions of an Asian century—such as those made by Kishore Mahbubani, a foreign policy scholar and dean of the Lee Kwan Yew School of Public Policy, in Singapore—seem premature. Even Zakaria's argument about "the rise of the rest" takes on a different significance. If, in a networked world, the issue is no longer relative power but centrality in an increasingly dense global web, then the explosion of innovation and entrepreneurship occurring today will provide that many more points of possible connection. The twenty-first century looks increasingly like another American century—although it will likely be a century of the Americas rather than of just America.

### MORE PEOPLE, MORE PROBLEMS

DEMOGRAPHY IS often cited as the chief factor behind the relative decline of the West. China and India make up over a third of the world's population, while Europe and Japan are actually shrinking and the United States is suddenly a relatively small nation of 300 million.



### *America's Edge*

This argument, however, rests largely on assumptions formed in the nineteenth and twentieth centuries. Throughout most of human history, territory and population translated into military and economic power. Military power depended on the number of soldiers a state could put into the field, the amount of territory an enemy had to cross to conquer it, and the economy's ability to supply the state's army. Population size mattered for economic power because without trade a state needed a domestic market large enough for manufacturers and merchants to thrive. With trade, however, small mercantile nations such as the Netherlands and Portugal were able to punch far above their weight. In the nineteenth century, to increase their power, small countries expanded their territory through colonization. But by the twentieth century, as political unrest in the colonial world grew, the advantages of trading rather than ruling became increasingly clear. Although the United States and the Soviet Union, two great continental powers, dominated the second half of the twentieth century, the countries that grew the richest were often the smallest. In 2007, the ten countries with the highest per capita GDPs all had populations smaller than that of New York City, with one notable exception: the United States.

In the twenty-first century, less is more. Domestic markets must be big enough to allow national firms to obtain a foothold so as to withstand international competition (although such markets can be obtained through free-trade areas and economic unions). But beyond this minimum, if trade barriers are low and transportation and communication are cheap, then size will be more of a burden than a benefit. When both markets and production are global, then productive members of every society will generate income across multiple societies. Business managers in one country can generate value by orchestrating a global and disparate network of researchers, designers, manufacturers, marketers, and distributors. It will remain the responsibility of government, however, to provide for the less productive members of society, namely, the elderly, the young, the disabled, and the unemployed—think of them as national overhead costs. From this perspective, the 300 million citizens in the United States look much more manageable than the more than a billion in China or India.

A shrinking population can actually act as a catalyst for innovation. In China, the answer to many problems is simply to throw people at

*Anne-Marie Slaughter*

them—both because people are the most available commodity and because the Chinese government needs to provide as many jobs as possible. In Japan, by contrast, the answer is to innovate. Nintendo, the Kyoto-based gaming giant, is bringing much of its manufacturing back to Japan from China and other parts of Asia. How can it possibly compete using high-cost Japanese labor? It will not have to—its new factories are almost entirely automated, with only a handful of highly skilled employees needed to run them. This approach uses less energy, costs less, and guarantees a higher standard of living for the Japanese population. As the priority shifts from economic growth to sustainable growth, the formula of fewer people plus better and greener technology will look increasingly attractive.

Finally, size carries its own set of political challenges. Over the past four centuries, the arrow of history has pointed in the direction of national self-determination. Empires and multiethnic countries have steadily divided and subdivided into smaller units so that nations, or dominant ethnic groups, could govern themselves. Ninety years after Woodrow Wilson laid out his vision of self-determination for the Balkan states, the process continues in Kosovo. In many ways, the breakup of the Soviet Union was another round of the decolonization and self-determination movement that began in the 1940s. It continues today with the conflicts over Abkhazia and South Ossetia, as well as with the potential for conflict on the Crimean Peninsula and in eastern Ukraine. Much of China's 5,000-year history has been a saga of the country's splitting apart and being welded back together. The Chinese government, like the Indian government, legitimately fears that current pockets of instability could quickly translate into multiple secessionist movements.

The United States faces no threats to its essential unity, which has been forged by a political and cultural ideology of unity amid diversity. The principal alternative to this ideology is the solution employed by the European Union and the Association of Southeast Asian Nations (ASEAN), in which individual states come together as larger economic and, gradually, quasi-political units. The most promising dimension of recent Chinese politics has been its adoption of a version of this solution with regard to Hong Kong and Macao—and one day Beijing may apply this model to Taiwan.

# Return to Table of Contents



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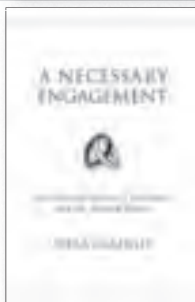
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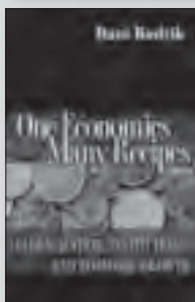
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### *America's Edge*

The United States benefits not only from its limited population but also from who makes up that population. It has long attracted the world's most entrepreneurial, creative, and determined individuals. A vast mixing of cultures has created an atmosphere for a fruitful cross-fertilization and innovation. These arguments still hold. In San Francisco, for instance, a new municipal telephone help line advertises that it can talk with callers in over 150 languages. This diversity, and the creativity that it produces, is visible everywhere: in Hollywood movies, in American music, and at U.S. universities. At Princeton University this past fall, five of the six student award winners for the highest grade point averages had come from abroad: from China, Germany, Moldova, Slovenia, and Turkey.

In the nineteenth- and twentieth-century era of nation-states, the United States absorbed its immigrants and molded them into Americans, thereby creating the national cohesion necessary to build military and economic strength. Today, diversity in the United States means something more. Immigrant communities flourish not only in large cities but also in smaller towns and rural areas. A mosaic has replaced the melting pot, and, more than ever, immigrants connect their new communities to their countries of origin. Along the southern border of the United States, for instance, immigration experts talk about "transnational communities," about clusters of families in the United States linked with the villages of Mexico and Central America. Now, where you are from means where you can, and do, go back to—and whom you know and trust enough to network with.

Consider, for example, how valuable the overseas Chinese community has been to China. Alan Wang, a former student of mine, was born in China, moved to Australia with his family at the age of 12, and went to college and law school there. He later came to the United States to pursue a graduate degree at Harvard. For a while, he practiced law with a large British firm in London, and then moved to its Shanghai office. When I asked him how he identified himself, he replied, "overseas Chinese." Millions of people similar to Wang have spread out from China throughout Southeast Asia, Australia, the United States, and Canada, creating trading and networking opportunities for people in all those places. Similarly, the United States must learn to think of its ethnic communities as the source of future generations of



*Anne-Marie Slaughter*

“overseas Americans.” Already, young Chinese Americans and Indian Americans are heading back to their parents’ homelands to seek opportunity and make their fortunes. Soon, the children of U.S. immigrants from Africa, Asia, Latin America, and the Middle East will follow a similar path and return to their ethnic homelands, at least for a time. The key to succeeding in a networked economy is being able to harvest the best ideas and innovations from the widest array of sources. In this regard, the United States is plugged into all corners of the global brain.

Beyond its immigrant communities, the United States can also depend on a new generation to forge connections around the world. John Zogby, the influential pollster, calls Americans between the ages of 18 and 29 “the First Globals,” a group he describes as “more networked and globally engaged than members of any similar age cohort in American history.” More than half of the respondents aged 18 to 29

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The United States is plugged into all corners of the global brain.

in a poll conducted in the United States in June 2007 by Zogby International said that they had friends or family living outside the United States, vastly more than any other U.S. age group. Other Zogby polls have shown that this generation holds passports in roughly the same proportion as other age groups but uses them far more frequently. A quarter of this group, according to Zogby’s data, believes that they will “end up living for some significant period in a country other than America.”

These young people spreading out around the world will be a huge asset to the United States. Children born abroad who acquire U.S. citizenship as a result of their parents’ heritage or life decisions will add to this number. A college classmate of mine was born to Hungarian immigrants in Canada and later acquired U.S. citizenship. After graduation, he moved to China and then Japan, where he gained a Japanese residency permit while also applying for Hungarian citizenship. He now lives with his Chinese wife in Beijing, where his daughter was born. Not long after her birth, he took her to Tokyo so that she could register as a U.S. citizen and reenter China on a U.S. passport. These stories are legion in any large global city—couples from two different countries who are raising their children in a third or fourth or even fifth country. For many people who orbit in this

### *America's Edge*

floating cloud of nationalities, a U.S. passport, particularly now that the United States has relaxed its rules on dual citizenship, has become a new kind of reserve currency. With one, even the most venturesome and peripatetic have the guarantee of the political and cultural stability of the West. The United States must devise the incentives and conditions that will allow it to both encourage this phenomenon and profit from it.

#### THE WORLD IS ROUND AGAIN

FOR MOST of modern history, the Eurocentric view of the world has placed North and South America in a hemisphere of their own—the Western Hemisphere. Today, the world is mapped in the round, with Asia in the East and Africa, the Americas, and Europe in the West. That, at least, is how some Asians increasingly think of themselves. In his recently published book, *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East*, Mahbubani argues that the era of “Western domination of world history is over” and that the world is witnessing an “Asian march to modernity.”

But if half of the world is now “the East,” defined as the Asian hemisphere, then the other half is the Atlantic hemisphere, made up of Africa, the Americas, and Europe. It is quite a promising neighborhood, home to a wealth of human, economic, material, and natural resources. Politically, Europe and North America constitute a spreading community of liberal democracies that accounts for one-sixth of the world’s population, almost 60 percent of global GDP, and the two primary global reserve currencies. More trade and direct investment pass over the Atlantic Ocean than any other part of the world—over \$2 trillion in cumulative foreign direct investment alone. The potential for further integration of the hemisphere is enormous.

Even more important is the potential for deeper economic integration within the Americas. On energy questions, Canadian oil sands and Brazilian sugar cane are more promising than depending on Russian pipelines or Sudanese oil. Markets for renewable energy—such as from biomass, wind, geothermal technology, and other sources—are growing in Latin America. Miami is already a financial center for Latin America, and the steady growth of the Latino population in the United States will only deepen intra-American investment. The rise

*Anne-Marie Slaughter*

of Brazil and, to a somewhat lesser extent, Mexico will create an emerging counterbalance to the United States south of its border. But any initiative for strengthening economic ties must come from the United States itself. It first must address its immigration policy and then, similar to the economic and political assistance it provided to the European Union, offer support for an economic union in Central and South America. The result could be an integrated market and trading bloc of 800 million people, with tremendous natural resources, enormous opportunities for development and sustainable growth, and deep ties to Africa, Asia, and Europe.

That market would still have the protection of two wide oceans, and even in a networked world, there are benefits in being disconnected. Those oceans protect the United States against massive refugee flows, against other threats to security from civil and interstate wars, and, increasingly, from the effects of climate change. Researchers at Princeton University have found that rain over the Pacific Ocean washes out of the air substantial amounts of ozone and some other gases emitted in Asia before the air can ever get to the Americas. Most climate-change projections forecast rising waters overflowing the deltas of South and Southeast Asia, potentially threatening millions of lives in countries such as Bangladesh. Increasing desertification in northern Africa will force emigrants across the Mediterranean and into Europe; a similar process in northern China could push even greater numbers into Russia. Conflict is likely to follow these displaced peoples. New democracies, such as Indonesia, and one-party states, such as China and Vietnam, will find themselves economically and politically vulnerable. Of course, the Americas will not be fully protected from rising oceans, flooding, desertification, or the other nasty consequences of climate change. Still, both geography and demography—and the absence of hundreds of millions of people on the move—will insulate the New World from the afflictions of the Old.

### A CULTURE OF CREATION

A NATION'S ECONOMIC fate depends on its being able to maintain and nurture innovation. This past year, all the U.S. presidential candidates made repeated calls for a renewal of the conditions that had long



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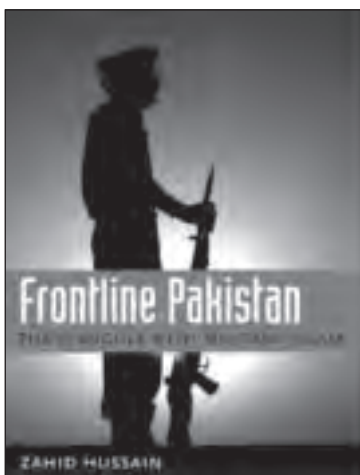
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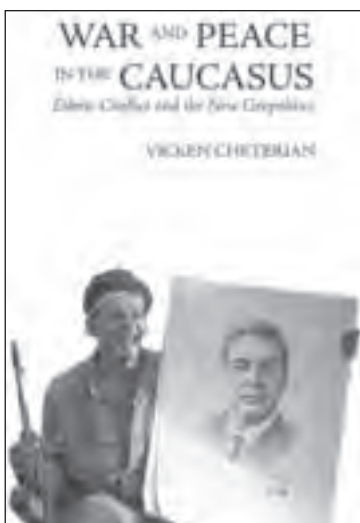
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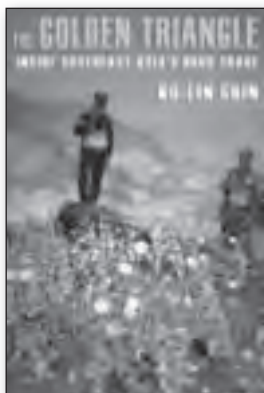


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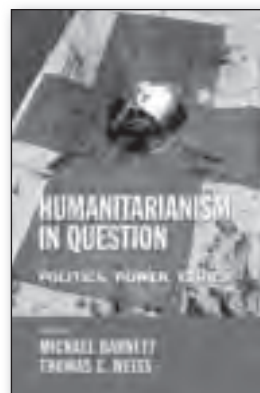
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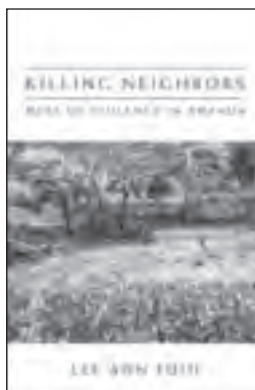
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—Stephen Saideman,  
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### *America's Edge*

made the United States the world leader in innovative technology. In the twenty-first century, corporations, civic organizations, and government agencies will increasingly operate by collecting the best ideas from around the globe. In such an environment, it is critical not only to stimulate domestic innovation but also to foster networks that can produce collaborative innovations across the globe.

To this end, the United States needs to improve education and increase government investment in science and technology. But the most important U.S. edge in innovation is cultural. Fundamental flaws in China's political and economic systems will make it very difficult for China to move from being the world's factory to being the world's designer. The Chinese government is determined to develop innovation as if it were developing a fancy variety of soybeans, relying on industrial parks that mix equal parts technology, education, research, and recreation in self-described "talent highlands." The results can be extraordinary, as I saw last year at the Shanghai Zizhu Science-Based Industrial Park. The park, built in just five years, has enormous university campuses, research headquarters for over 20 Asian and Western firms, and a residential complex. The aim is to inspire innovation through a balance of nature, science, and ecology, or, as its planners suggest, to create the "building blocks" for a future Chinese society, just like the building blocks for a new generation of skyscrapers.

The park is awe-inspiring. "In China," our guide told us, "anything is possible." Looking at the pace, scale, and quality of the construction, it was quite possible to believe it. In the end, however, the Zizhu industrial park struck me as being similar to an aquacultural facility for manufacturing cultured pearls. But as all pearl lovers know, the richest innovations are created through unexpected and irregular irritations, not tightly controlled conditions. In 2003, the University of California alone generated more patents than either China or India. That same year, IBM generated five times as many patents as both countries combined. The problem is certainly not a lack of creativity on the part of Chinese or Indians; Silicon Valley is full of entrepreneurs from both groups. The issue is the surrounding culture, or what the urban studies theorist Richard Florida calls an "innovation ecosystem."

At the same time that China is seeking to maintain political tranquility, it depends on continued growth powered by innovation, which

*Anne-Marie Slaughter*

requires conflict—not violent conflict but positive, or constructive, conflict, the kind of conflict that produces non-zero-sum solutions. This is the kind of conflict found on American playing fields, in American courtrooms, and in the American political system. It is the conflict of structured competition, in which losers have a chance to win another day and everyone has a stake in continually improving the game. It is also the conflict of creative destruction, the process of destroying old business models to make way for new ones.

Most important, a culture of constructive conflict rewards challenging authority in every domain. Perhaps the best example is Google, a company in which hierarchy is almost nonexistent. Individuals are encouraged to go their own way, come up with their own ideas, and counter orthodoxies at every turn. In the United States, educational institutions have long emphasized critical thinking in ways that China and other countries are now trying to emulate. But a culture of innovation requires more than the ability to critique. It requires saying what you think, rather than what you believe your boss wants to hear, something many Western managers struggle fruitlessly to encourage in China. A culture that requires a constant willingness to reimagine the world is not one that the Chinese Communist Party is likely to embrace. Indeed, a culture of innovation requires the encouragement of conflict within a larger culture of transparency and trust, placing a premium on cross-cultural competence. It is a culture for which Americans are ideally suited by both temperament and history.

### THE WORLD OF WIKIS

STARTING WITH Alexis de Tocqueville, nearly every observer of American culture has noted that Americans are inveterate joiners, volunteers, and debaters. Today, however, instead of sewing circles, debating societies, and charity bake sales, Americans have MySpace, blogs, and the Clinton Global Initiative. These qualities are evident in a growing number of collaborative enterprises, both online and off. In the world of wikis, perhaps best exemplified by Wikipedia, ideas are challenged, edited, and challenged again. The final product is the result of a different and gentler kind of adversarial process than that found in the U.S. legal system. But the premise is the same: multiple

### *America's Edge*

minds clashing and correcting one another in pursuit of the truth. The work of one contributor is open and available for others to use. Participants in this process are trusted to not take advantage of that openness but instead add their own contributions.

In a world that favors decentralization and positive conflict, the United States has an edge. Although trust and transparency are not unique to the United States, it is still one of the most open societies in the world. The Internet world, the wiki world, and the networked world all began in the United States and radiated outward. The characteristics of those worlds are the keys to innovation and problem solving in the twenty-first century.

In his book *Nonzero: The Logic of Human Destiny*, Robert Wright, a senior fellow at the New America Foundation, writes of human history as a steady process of increased exposure to complexity and the resulting ability to turn zero-sum problems into non-zero-sum solutions. The barbarian invasions that swept across Asia and Europe, for instance, were disastrous for many individual societies. Yet by adding new ideas and practices to the sum of human knowledge, the invaders spurred the process of innovation and problem solving. In other words, they brought progress. Today, the invaders are online rather than on horseback, and interaction is considerably more voluntary. The benefits will flow to those individuals and states that are most comfortable reaching across cultures. It will become increasingly necessary to appreciate and absorb contributions in any language and from any context.

Here, however, the conventional wisdom depicts Americans as woefully ignorant of foreign geography, languages, and cultures. Many Americans may still fit this description. But many others—immigrants and their children especially—negotiate cultural differences every day in their schools, in their workplaces, and on the street. From Boston to Los Angeles, recently immigrated Africans, Arabs, East Asians, Latinos, South Asians, and Southeast Asians all rub shoulders with members of more established communities, both black and white. At the elite level, the top graduate schools in the United States offer a similar education in multicultural competence; many of the cross-cultural couples who are changing the face of global cities met at places such as Harvard and Stanford. Obama's parents may have been ahead of their time, but today far more young Americans

*Anne-Marie Slaughter*

than ever before are following their example. They are truly, as Zogby calls them, “the First Globals.”

### HOW TO GET THERE FROM HERE

AT THE MOMENT, the United States’ edge in this new world is more potential than actual. The country will face a vast amount of work in digging itself out of the many holes it has gotten itself into, both at home and abroad. In the process, the United States must adopt five policies and postures that will seize on its edge and sharpen it.

First, the United States must adopt comprehensive immigration reform that will make it easier for immigrants and guest workers to move across borders, regularize the status of the millions of illegal immigrants currently in the United States, and increase the number of visas for the world’s most talented individuals. Part of changing U.S. attitudes toward immigration must include a recognition that because of their ties to their home countries, immigrants are potential engines of economic growth. New economic policies could offer subsidies or tax incentives to immigrants who create businesses based on connections they have cultivated to markets and talent in their home countries. Instead of a one-way, outgoing flow of remittances, the United States needs a two-way flow of goods, services, and people.

Second, as part of overhauling its educational system, the United States must come to see overseas study as an essential asset for all Americans. Indeed, organizations such as the BrownBell Foundation promote opportunities to study abroad for students at historically black colleges and universities, where such programs have traditionally been lacking. Just as important, the United States must see the children of immigrants who grow up learning Arabic, Hindi, Mandarin, Spanish, and other foreign languages as huge assets. Government programs and private initiatives should encourage them to study abroad in the countries of their parents or grandparents and, assuming they keep their U.S. passports, to gain dual citizenship.

A networked world requires a genuinely networked society, which means fostering economic and social equality. The United States has never been as egalitarian as it imagines itself to be, but this divide has worsened in the past decade, as the rich have become the superrich.

### *America's Edge*

Between the late 1950s and 2005, the income share of the wealthiest one percent of the U.S. population more than doubled. Even the Democratic Party is not immune: on the night that Obama accepted the nomination to be the Democratic presidential candidate, at Invesco Field in Denver, Colorado, his campaign blocked off an entire section of the stadium for big donors, stopping everyone else at the door. For a time, a culture in which money could buy status was a radically democratic and egalitarian idea. Instead of the European class system, in which breeding always trumped money, Americans could rely on education and employment for self-advancement. But this same culture becomes radically inegalitarian if only a relatively few have the chance to prosper financially. As the political scientist Larry Bartels argues, rising economic inequality is a political choice: Republican presidents have generally allowed inequality to expand, whereas Democratic presidents have not. If so, then the United States can choose to decrease inequality by making its society more horizontal, more democratic, and more integrated by class and race—and this is the third reform it should adopt. Doing so would add more potential circuits to the network.

Fourth, in foreign policy, the United States should put more effort toward engaging Latin America—not at the expense of its ties with Asia but in addition to the strong history of transpacific relations. Brazil, for example, defines its foreign policy in terms of concentric circles. It starts with Mercosur, the South American trading bloc, then continues to Latin America, the Americas, and then the rest of the world. Similarly, the United States should think in terms of the North American Free Trade Agreement and the Americas before turning to the rest of the world. The potential for growth and development in the Americas is enormous. Population links between the United States and Latin America are strong and growing stronger. Spanish is now taught in virtually every American public school from the early grades. Strengthening ties with Latin America also means cultivating links across the South Atlantic to Mediterranean countries such as Spain and Portugal, and also to France and Italy. Lastly, African blood runs in the veins of many North, Central, and South Americans. This fact is the legacy of a ghastly institution, but it means that many Americans have an African heritage that can allow them to reconnect with Africa today.



*Anne-Marie Slaughter*

More generally, the United States must learn to see both itself and the world differently. If power is derived from connectivity, then the focus of leadership should be on making connections to solve shared problems. This approach is not only a different leadership style than that which has prevailed in the United States in recent years but also a fundamentally different concept of leadership. In contrast to the way it is in a hierarchy, in this concept of leadership a single leader cannot be directly in charge of everyone else. Different countries can mobilize diverse coalitions for specific purposes. Regional powers, for example, can address crises in their particular parts of the world: consider Australia's role in promoting stability in East Timor, ASEAN's ability to convince the Myanmar government to accept foreign aid after Cyclone Nargis, or Turkey's work in pushing for talks between Syria and Israel. The range and complexity of foreign policy challenges—and the speed with which a crisis can escalate—mean that knowing the right people to call and the right levers to pull in any corner of the world must be a key element of U.S. diplomacy.

Finally, the United States must recognize the necessity of orchestrating networks of public, private, and civic actors to address global problems. The era of government formulating and executing policy entirely on its own is over, even with a revitalized U.S. government that has a greater social and economic mandate. Outsourcing government functions to private and civic contractors is not the answer, however; government officials must instead learn to orchestrate networks of these actors and guide them toward collaborative solutions.

### SHARPENING THE EDGE

IN THIS CENTURY, global power will increasingly be defined by connections—who is connected to whom and for what purposes. Of course, the world will still contain conflict. Networks can be as malign and deadly as they can be productive and beneficial. In addition, the gap between those who are connected to global networks and those who are excluded from them will sharply multiply existing inequities.

But on the whole, the positive effects of networks will greatly outweigh the negative. Imagine, for example, a U.S. economy powered by green technology and green infrastructure. Communities of American

### *America's Edge*

immigrants from Africa, Asia, Europe, Latin America, and the Middle East will share this new generation of products and services with villages and cities in their home countries. Innovation will flow in both directions. In the United States, universities will be able to offer courses in truly global classrooms, relying on their international students and faculty to connect with educational institutions abroad through travel, the Internet, and videoconferencing. Artists of all kinds will sit at the intersection of culture, learning, and creative energy. U.S. diplomats and other U.S. government officials will receive instant updates on events occurring around the world. They will be connected to their counterparts abroad, able to quickly coordinate preventive and problem-solving actions with a range of private and civic actors. The global landscape will resemble that of the Obama campaign, in which a vast network brought in millions of dollars in donations, motivated millions of volunteers, and mobilized millions of voters.

In a networked world, the United States has the potential to be the most connected country; it will also be connected to other power centers that are themselves widely connected. If it pursues the right policies, the United States has the capacity and the cultural capital to reinvent itself. It need not see itself as locked in a global struggle with other great powers; rather, it should view itself as a central player in an integrated world. In the twenty-first century, the United States' exceptional capacity for connection, rather than splendid isolation or hegemonic domination, will renew its power and restore its global purpose. 🌐

# In the Shadow of the Oval Office

## The Next National Security Adviser

*Ivo H. Daalder and I. M. Destler*

NOWHERE IN U.S. law is there a provision establishing the position of the assistant to the president for national security affairs. The job is the creation of presidents, and its occupants are responsible to them alone. The position gained prominence after John F. Kennedy's election nearly half a century ago and since then has become central to presidential conduct of foreign policy. Fifteen people have held the job during this time. Some proved successful, others less so. But the post of national security adviser is now an institutional fact. By all odds, it will remain so.

National security advisers have a tough job. They must serve the president yet balance this primary allegiance with a commitment to managing an effective and efficient policy process. They must be forceful in driving that process forward to decisions yet represent other agencies' views fully and faithfully. They must be simultaneously strong and collegial, able to enforce discipline across the government while engaging senior officials and their agencies rather than excluding them. They must provide confidential advice to the president yet estab-

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### *In the Shadow of the Oval Office*

lish a reputation as an honest broker between the conflicting officials and interests across the government. They must be indispensable to the process and the president yet operate in the shadows as much as possible. They must do the heavy lifting yet allow others to receive the glory. Above all, they must ensure that the president and his senior advisers give thorough and careful consideration to the handful of critical issues that will make or break the administration. And they must handle all issues, large and small, in a manner that establishes and retains the trust of their senior administration colleagues.

The failures of many previous national security advisers show the importance of getting the job right. Their successes show that it can be done. If the next national security adviser can learn from these failures and these successes, the nation will benefit greatly.

#### PRESENT AT THE CREATION

IT ALL STARTED with Kennedy and McGeorge Bundy in 1961. Previous presidents had aides who managed the National Security Council (NSC), established under President Harry Truman in 1947 and given greater prominence by President Dwight Eisenhower in the 1950s. Eisenhower, in fact, created the position of special assistant for national security affairs, as it was then called. But he did so for the sake of policy planning, not day-to-day action. Kennedy was skeptical of long-term planning and wanted to handle foreign policy directly, hands-on. So he and Bundy converted the job into one of managing the president's current policy business and connecting the broader national security bureaucracy to presidential purposes.

Bundy came from outside government—he had been a professor and then a dean at Harvard—as would most of his successors. Within a few months, he emerged as Kennedy's most important aide on national security affairs. He moved his office to the West Wing. He recruited a small staff, soon dubbed Bundy's "little State Department," which provided independent advice and analysis to the president and watched over the broader government. And for the first time, the president, the national security adviser, and his staff gained direct access to information, including cable traffic and intelligence assessments, that would enable them to reach independent judgments on what needed to be done. Together,

these innovations created within the White House an independent staff and analytic capability to help the president manage and execute the nation's business abroad. No previous president had had such a capability, but it was one that no subsequent president would do without.

Kennedy and Bundy were compatible individuals, and they worked well together during the 1,000 days that Kennedy was president. Kennedy wanted lots of information. He thrived on debate and disagreement. A speed-reader, he devoured books and documents and sought out information from all and sundry. The unusually bright Bundy was very much in his element within this intellectual environment. He was happy to feed Kennedy more and more information, drawn from a wide range of government and outside sources. Especially after the Bay of Pigs fiasco, Bundy knew that he needed to look at problems from all angles, even switching positions if necessary, in order to assure the diversity of views and perspectives Kennedy so clearly needed and wanted. He did exactly that during the Cuban missile crisis, which turned out to be Kennedy's finest hour. And as the deliberations during the crisis exemplified, Bundy ran an internally open process. He came to be trusted as an honest broker and communicator by the principal cabinet secretaries and their subordinates.

But what works with one president does not necessarily work with another. Bundy's uncomfortable relations with Kennedy's successor underscore that there is no single formula for being an effective national security adviser. It depends very much on what the president wants and needs. Lyndon Johnson was a domestic policy man, an extraordinary wheeler-dealer focused on pushing new legislation through Congress. He was responsible for many of the great initiatives—on civil rights, social justice, health care, poverty—that helped make the United States what it is today. But he was not much of a foreign policy man. He was uncertain about the direction the United States needed to take in the world, especially when it came to the Vietnam War. He feared being seen as weak or responsible for a prominent geostrategic loss, but he was unclear about how to win. Perhaps because of this basic insecurity, he relied on his most senior advisers—particularly the secretaries of state and defense—to help him chart his course. Unlike Kennedy, Johnson did not seek out the more junior staffers who might have real expertise. He did not want or need a mass of background





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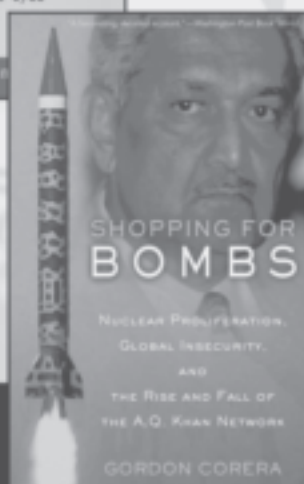
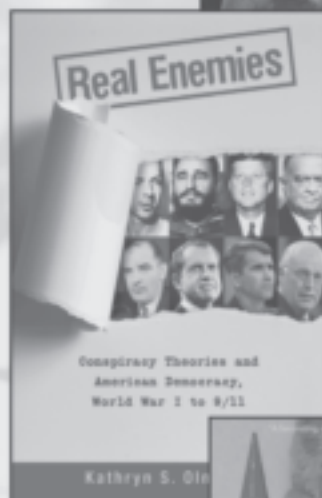
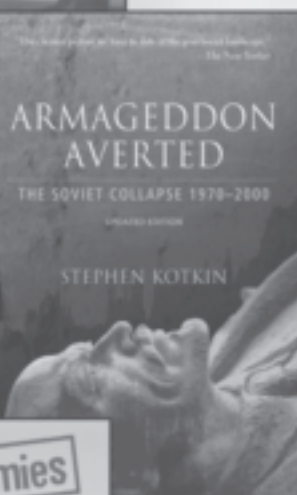
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information to make his decisions. Instead, he trusted Secretary of State Dean Rusk and Secretary of Defense Robert McNamara—and later his senior military commanders—to advise him well.

Bundy was uncertain about how to operate within this environment. He did not have the same personal relationship with Johnson that he had had with Kennedy, nor, frankly, did he regard Johnson in the same light. He realized that he had to change in order to do his job well. Johnson did not want mountains of information, nor did he like to debate options or analyze the alternatives. He was a man of action, uncomfortable with dissent—which he feared could leak out and undercut him. Bundy responded by becoming less of a channel for alternative views and more of an advocate—particularly on Vietnam, the issue that dominated the times. Johnson may not have needed another advocate for escalation in Vietnam, but that is what he got. Bundy also came to differ sharply with Johnson on the manner of his wartime leadership. He believed that the chief executive should tell the nation the full magnitude of the commitment, whereas the president sought to downplay the war in order not to undermine his domestic programs. The breach grew, and Johnson was happy to see Bundy go in early 1966.

Walt Rostow, Bundy's successor, was far more compatible with Johnson. But Rostow, an unquestioning booster of the Vietnam War, was not nearly so effective with the rest of the administration. He was not trusted to reflect the views of other officials in his conversations with the president, and Johnson never really put him in charge of managing the overall policymaking process. This highlights a fundamental dilemma: Bundy was a superb process manager but ultimately failed with Johnson because of their shaky and deteriorating personal relationship. Rostow, on the other hand, had a good relationship with the president but failed as a process manager. The trick, as Kennedy had demonstrated, was to find someone who could both manage the process in the way the president needed and relate to the president in ways he wanted.

### WHITE HOUSE DOMINANCE

RICHARD NIXON and Henry Kissinger built on what Kennedy and Bundy had begun. Both were foreign policy aficionados, eager to put their stamp on the world. They had a similar realist view of how the

world operated—one in which power and its balance among states were of primary importance. They used the institutions established by Kennedy to establish a strong, White House-centered system of foreign-policy making. And at the beginning, they seemed to have the balance right, creating a policy process that engaged officials across the government yet protected the president's power to choose. Under Kissinger's direction, interagency groups drafted study memorandums on a wide range of issues, lengthy documents that tried to consider all possible angles of the matter in question and present the president with all the realistic options. The issues would then be discussed at the NSC, with all the senior advisers weighing in. Nixon would examine the analyses, listen to the arguments, and then make his decisions.

Yet Nixon found the system not to his liking. He was determined to impose his will, but he had a deep aversion to overruling his advisers face-to-face. And he hated the press leaks that came from an internally open process. So, within six months, the well-calibrated analytic system crafted by Kissinger to Nixon's specifications was abandoned. Increasingly, the president and his national security adviser decided what they wanted to do and set about doing it, with little regard for the perspectives or prerogatives of other key players, including Nixon's own secretary of state. Kissinger became the implementer of Nixon's most important foreign policies—on Vietnam, the Soviet Union and arms control, and China. They would make policy in secret and then execute it in secret. Kissinger negotiated with Hanoi, keeping the talks secret for well over two years. Kissinger employed a secret back channel with the Soviet ambassador to the United States, Anatoly Dobrynin, and negotiated through it many of the key arms control agreements. Kissinger went on the first trip by a U.S. official to China since 1949—secretly, of course—and opened the way to establishing relations with the communist government. All of this was done with Nixon's authority, and in important instances it led to extraordinary results.

Nixon and Kissinger demonstrated the great potential for power that inheres in the position of national security adviser. But their tenure also demonstrated the great potential for the abuse of that power. Secrecy feeds on itself, and under Nixon and Kissinger, it became a dangerous obsession. It was made worse, in this case, by each man's insecurities and the resulting fragility of their trust in each other. To

protect himself from blame for leaks, Kissinger authorized the wire-tapping of even his own staff. And the inability of both to share power marginalized people who had the knowledge and expertise that often is necessary to make the right decisions (as became clear, for example, in technical discussions on arms control or the conflict in South Asia). This undermined the cohesion of the government as a whole, since the distrust secrecy engendered among other top officials led them, in turn, to work around Kissinger and sometimes even the president.

After Kissinger, no national security adviser would ever again dominate all major foreign negotiations. Nor would any of his successors systematically keep other key government players in the dark about what he and his president were doing in the areas of those officials' responsibility. There would be occasional abuses, but most national security advisers came to realize that information is a key to power, that sharing it is a key to building trust, and that trust among the top officials is a key to effective policymaking. This was well understood by Brent Scowcroft, Kissinger's immediate successor under Gerald Ford. Another clear lesson from the Kissinger experience is that the national security adviser should not be the primary negotiator on a complex set of issues. The adviser can help open doors or try to clinch the deal. But to be the negotiator is to replace the secretary of state. On that road lies certain conflict, growing distrust, and an increasing likelihood of flawed outcomes.

### CONFLICT AND DISARRAY

ZBIGNIEW BRZEZINSKI realized the pitfalls of Kissinger's approach when Jimmy Carter tapped him to be national security adviser. But he also realized the glory awaiting those who succeeded in the policy field. So even as he worked to craft an open policy process, one in which information would flow freely and the positions of top players would be accurately conveyed to the president, his real interest was in moving policy in a certain direction. Unfortunately, Brzezinski's views on key issues—notably on how to deal with a Soviet Union that appeared to be becoming more powerful and menacing—clashed with those of other top people in the administration, especially Secretary of State Cyrus Vance, and often with the president himself. The ongoing battles that followed led those who opposed Brzezinski on policy to



*Ivo H. Daalder and I. M. Destler*

perceive him, more and more, as an unfair manager of the policy process, someone who was trying to tilt it in his preferred direction. Trust broke down and, with it, an effective process.

Carter aggravated the situation. On the one hand, Carter wanted foreign policy to be run out of the White House—a desire that naturally gave his top aide tremendous power and influence. On the other hand, Carter's policy instincts were, at least initially, closer to those of Vance and the other doves in the administration than to his hawkish national security adviser. As a result, Brzezinski was empowered from a process perspective even when the president was more comfortable with the other side in debates over policy. The only way Brzezinski could have reconciled these conflicting pressures was by focusing on managing the process and downplaying his own views—or else by convincing the president that his views were indeed the right ones.

After the Soviet invasion of Afghanistan in 1979, Carter came around to supporting his national security adviser's view of the Soviet threat. But by then it was too late. Vance would soon resign (over a policy difference with Carter relating to the hostages in Tehran). U.S. standing in the world and the president's standing at home had been tarnished by the uncertain leadership Carter had shown in the wake of the Islamic Revolution in Iran. And Brzezinski was widely seen as someone who had distorted the process and failed to protect the president from his own mistakes. Brzezinski's tenure in the job delegitimized it in the eyes of many. There were calls to make it necessary for the national security adviser to be confirmed by—and thus accountable to—the Senate (a call Brzezinski initially supported). Some even proposed abolishing the position altogether, arguing that its very existence generated policy conflict within an administration.

### FOUR WHO FELL SHORT

RONALD REAGAN came to Washington sharing the view that the national security adviser had become too powerful a player in the previous decade and that the power of the secretary of state and other cabinet officials had to be restored. But he overreacted to the Kissinger and Brzezinski experiences, thereby creating new problems. Richard Allen, his first national security adviser, was essentially relegated to



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the bureaucratic standing of NSC executive secretaries in the Truman and Eisenhower administrations. His office was moved back down to the West Wing basement, away from the action on the first floor, where the Oval Office is located. And his direct access to the president was blocked.

Allen's successors were able to restore some of the perks and procedures that had put national security advisers closer to the power of the presidency. But each of the next three of Reagan's national security advisers—William Clark, Robert McFarlane, and John Poindexter—proved inadequate to the task. Clark, although personally close to Reagan, lacked the knowledge and experience necessary to lead an effective process. McFarlane, affable and hard working, lacked the stature to go up against his gigantic cabinet counterparts, especially Secretary of State George Shultz and Secretary of Defense Caspar Weinberger. And Poindexter was living proof of the Peter Principle: eventually, everyone gets promoted to the level of their incompetence. The nation, unfortunately, cannot afford incompetence in its national security advisers. The consequences can be catastrophic—as the Iran-contra scandal demonstrated, nearly destroying the Reagan presidency in the process.

Reagan himself did not help. Uninterested in the details of policy, he too often proved unwilling to decide between the positions staked out by his headstrong secretaries of state and defense. He tried to split the difference between them when he could, even though Shultz and Weinberger frequently disagreed on fundamentals, not merely tactics. Decisions were often postponed, to be debated another day. Nor did Reagan ever agree to get rid of one or the other of his advisers in order to overcome the differences that way. "They are my friends," he would explain. "You work it out," he would tell his hapless national security adviser, who, without the president's backing, really was in no position to do so. The only way he could work it out and get things done was to subvert the process, which hardly served the president's or the nation's interests.

The shock of Iran-contra induced a much-needed shakeup. Strong advisers were brought in to help the president run his White House. Former Senate Majority Leader Howard Baker became chief of staff, and former NATO Ambassador David Abshire came in to ensure an honest administration response to the Iran-contra investigations.

## Return to Table of Contents

*Ivo H. Daalder and I. M. Destler*

Frank Carlucci, a former deputy secretary of defense, became Reagan's fifth national security adviser. He revamped the foreign policy process and helped restore trust across the government.

Reagan's successes in his last two years in office owe much to these personnel changes, but they would not have been possible without two other major developments. One was the emergence of Soviet leader Mikhail Gorbachev, who offered Reagan the opportunity to jointly find a way out of the Cold War confrontation. The other, partly a result of this first development, was the decision by Weinberger to leave his post at the Pentagon, thus ending the debilitating feud with Shultz that had paralyzed the administration. In the final year of Reagan's term, Carlucci took over at the Defense Department, and Colin Powell took over at the NSC. Cooperation replaced confrontation—both in Washington's relations with Moscow and within Reagan's own administration.

### THE SCOWCROFT FORMULA

THE SUCCESSFUL end of the Reagan presidency provided a perfect situation for George H. W. Bush. The NSC had been relegitimized through the changes that had been instituted in the wake of the Iran-contra scandal. Those responsible for the excesses had been punished, through forced resignation and, in some cases, prosecution. The world itself stood at the brink of major positive change. Even before Bush ascended to the presidency, Gorbachev had announced the unilateral withdrawal of hundreds of thousands of Soviet troops and thousands of tanks from Eastern Europe, long the focal point of the Cold War confrontation.

Bush was in many ways the perfect president for this situation. He was intensely interested in foreign policy. More than any president before or since, he understood both the importance of a well-run policy process and the role of the national security adviser in managing it. And he appointed the perfect national security adviser to help him succeed. Although Bush's best friend, James Baker, would be in charge of the new diplomacy as secretary of state, the president would rely on Scowcroft (who had served in the same position under Ford) to keep his policy team moving in the same direction. Scowcroft had a winning formula. He built a relationship of great trust with the other key players in the administration. He then ran an open and fair but



determined interagency process—both at the level of the principals and below, especially among the deputies. And he became the president's most trusted adviser by providing a sounding board and pushing his own ideas when he thought they best served the president's—and the nation's—interests.

The processes and practices Bush and Scowcroft instituted proved their worth during the administration's tumultuous first years in office. The fall of the Berlin Wall, the liberation of Eastern Europe, the collapse of the Soviet Union—all of it happened on their watch. With Baker, they managed the change brilliantly. The Cold War ended without a shot being fired. Then came the challenge of Saddam Hussein, who in August 1990 invaded Kuwait. Again, Bush and Scowcroft met the test, pulling together a large international coalition to force Iraq out of its neighbor's territory and restore the status quo. Not everything went well: the aftermath of the Gulf War, the breakup of Yugoslavia, and the disintegration of Somalia all posed great challenges at high human cost, which Bush and Scowcroft tended to downplay. But those cases represented failures to adapt old worldviews to new realities, not failures of process. The process Scowcroft put in place, the way he balanced his responsibilities as presidential adviser and honest broker, the manner in which he structured interagency deliberations by emphasizing trust and transparency—these made Scowcroft the national security adviser that each of his successors sought to emulate.

For Scowcroft, the 1980s provided an object lesson in how not to manage the national security process. For Anthony Lake, Bill Clinton's first national security adviser, that lesson was provided by the 1970s. Lake did not want to be like the domineering Kissinger (whom he had served as an executive aide), nor did he want to repeat the feuding of Brzezinski and Vance (which he had witnessed from the seventh floor of the State Department, where he had run the policy planning staff). He wanted to be like Scowcroft under Ford: a quiet, unassuming, behind-the-scenes honest broker who managed the policy process efficiently and without conflict. Lake also sought to keep his distance

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Deference to the Oval Office is essential, but so is challenging the judgment of its occupant.

from Clinton; he wanted to keep the national security process insulated from politics. That, too, was a lesson Lake had learned from the 1970s. There were clear risks in being too close to the president.

Lake's model of what a national security adviser should be might have worked with another president and another secretary of state: a Ford and a Kissinger or a Bush and a Baker. But this administration was different. Unlike Ford and Bush, Clinton was a Washington novice, much more passionate about domestic policy than foreign affairs. He needed someone not just to manage the policy process but also to push it forward. A Kissinger or a Baker could have done that, but, for all his strengths, Secretary of State Warren Christopher was no Kissinger or Baker. He was content to have foreign policy take a back seat at the White House, to not push difficult choices on the president, and to defer actions when not doing so might have diverted attention and political capital from domestic concerns.

After the debacles of the first year—over Bosnia, Somalia, and Haiti—Lake realized that the way he had approached his job from the outset did not serve the administration. So he changed. He would not only manage the process but drive it along, by trying to resolve old problems and better anticipate new ones. If that meant pushing actions (such as threatening the use of force in Bosnia, Haiti, or North Korea), then he would push them. If that meant differing significantly with others within the administration, then differ he would. The president, too, came to understand that he needed to be more actively engaged in foreign policy. The new approach paid off. The democratically elected leader of Haiti was restored to power. The Bosnian war, Europe's most bloody since 1945, was ended. A new relationship was forged with China. Relations with Moscow were solidified. By the end of Clinton's first term, many of the issues that had piled up in the foreign policy in box at the outset had been successfully transferred to the out box.

A more confident Clinton could try to use his second term to mold a more stable and peaceful world. Sandy Berger was the perfect partner for that effort. Close to the president in both personal and political terms, Berger would help Clinton steer foreign policy during the next four years. Although the execution of policy would remain the purview of the cabinet officers, the initiative would come from an energized White House. Clinton and his second national security adviser were



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### CHANNELING THE PRESIDENT

GEORGE W. BUSH came to the presidency very much determined to do things differently from his predecessor, although in one important respect he was very similar. Like Clinton's, his presidency would be focused on problems at home rather than those abroad. The terrorist attacks of September 11, 2001, came as a huge surprise to the new president and his young national security adviser, and they reordered his priorities. His national security adviser, Condoleezza Rice, was to be a key part in this reordering. Yet none of the titanic figures in Bush's cabinet was inclined to defer to her on matters of policy or process. Vice President Dick Cheney, Secretary of Defense Donald Rumsfeld, and even Secretary of State Colin Powell did not make things easy for Rice. Cheney tried to take away her major responsibilities (such as chairing the Principals Committee) and went around her (on detainee matters). Rumsfeld refused to share information (on war planning).

Rice's power lay with the president, who trusted her and liked her more than he did any of his other advisers. To maintain that power in the face of the giants surrounding her, Rice decided that she needed to channel Bush—to focus on his instincts and translate them into policy. After 9/11, Bush was increasingly certain about what he wanted to do and how he wanted to do it. Rice's job was to get it done. In the process, she decided not to put Bush's instincts and desires to the analytic test—not to probe his assumptions, look for alternative courses of action, or even examine the likely consequences. She asked, What does the president want, and how can it be done? She did not ask, What if the president is wrong? How else can we achieve his objectives? Who among those who disagree with him should he hear out?



## Return to Table of Contents

*Ivo H. Daalder and I. M. Destler*

This was a serious failing. It is fair to wonder, however, whether the kinds of questions Rice should have posed were ones Bush was at all interested in considering. There is reason to believe that, particularly after 9/11, Bush would not have reacted positively to such an analytic effort and that he would have objected to Rice's trying to engage him in it. Early in his administration, people meeting with the president felt that, especially on foreign policy matters, Bush was very much in receiving mode. He did not know all that much and realized he needed to know more. But later, those meeting with him saw someone much more in broadcasting mode—telling them what he thought and what he was going to do and far less interested in hearing what they thought. Bush had no self-doubt; he was “the Decider.” Given this, it is doubtful that he would have been interested in reexamining his assumptions, taking another look at alternatives, and working out what to do if the policy he was advocating did not succeed. And so Rice never suggested that he do any of these things. Ultimately, the successes and failures of this presidency, Rice realized, would be the successes and failures of the president. Once again, what the national security adviser could do was constrained by the predilections of the president.

Of course, on those (rare) occasions when Bush did realize that his policy was failing, having an adviser in the White House willing and able to push consideration of alternatives could have helped. Stephen Hadley, the successor to Rice when she became secretary of state in 2005, has been such an adviser, and he did push such an analytic effort when Bush finally recognized in 2006 that his Iraq policy was failing. Hadley urged a reexamination of the assumptions underlying the Iraq strategy. He had the president meet with analysts who favored different strategies. And he pushed a policy review that would give the president clear choices. By the end of that year, these efforts produced a new Iraq policy—the “surge”—which provided the president and his administration with a new basis for hope that the disaster in Iraq might turn out better than many people, including most Americans, had come to believe it would.

Hadley, of course, has worked in a very different environment from the one Rice worked in. Most important, on the issue of Iraq, the president himself had come to believe that his policy was not working and therefore was open to considering alternatives. Hadley has also

### *In the Shadow of the Oval Office*

operated within a different team. The new secretary of state, Rice, was, unlike Powell, a close and trusted confidante of the president, someone Bush felt comfortable handing the reins of policy to. The failure of the original Iraq strategy had undermined Rumsfeld's power; his replacement, Robert Gates, was much more of a team player. And although the vice president remained extremely influential, he no longer had many allies within the rest of the government. All of this has enabled Hadley to play the more traditional role of a national security adviser, in a way that Rice could not, which goes to show: national security advisers can only be as effective and successful as presidents enable them to be.

#### STRIKING THE RIGHT BALANCES

DURING THE course of an administration, the typical national security adviser spends more time with the president than does anyone else responsible for the nation's business overseas. He or she sits a few paces away from the Oval Office, briefs the president first thing in the morning, and is often the last person to see him before he retires in the evening. Now more than ever, making effective policy to cope with an increasingly complex and interconnected world requires integrating varied dimensions—defense and diplomacy, finance and trade, the environment and homeland security, science and social policy—into a coherent foreign policy. It is at the White House and, within it, at the NSC that such integration occurs—which is why, aside from the president himself, the national security adviser is potentially the most important person in government today.

The person who sits in the large corner office of the West Wing must strike a number of difficult balances. One is to realize that although the president is boss, he is not always right. Maybe after the September 11 attacks it made sense to consider the risks posed by Saddam and his apparent determination to obtain weapons of mass destruction to be unacceptably grave. But that was the kind of judgment call that should not have been accepted uncritically by anyone—least of all the national security adviser. Such a conclusion demanded probing analysis and detailed discussion of the assumptions and alternative conclusions, as well as of the possible consequences. No president is

## Return to Table of Contents

*Ivo H. Daalder and I. M. Destler*

omniscient; all of them need advisers who can protect them from themselves. Deference to the office is vital, but so is challenging the judgment of its occupant, particularly when the stakes are high—which, when it comes to war, they always are.

Another balance the national security adviser needs to strike is between being assertive and not intruding on the roles of others. There are some tasks that the national security adviser and his or her staff are uniquely placed to undertake, and it is their responsibility to make sure that they do so. They must staff the president's daily foreign policy activities, manage the process of making decisions on major foreign and national security issues, drive the policymaking process to make real choices, and oversee implementation of the decisions the president has made. At the same time, there is a natural temptation for national security advisers to think that they can be as good a secretary of state or secretary of defense or CIA director as the actual people who occupy those positions. At times, Kissinger, Brzezinski, Poindexter, and Lake all gave in to this temptation. Sometimes, it worked out well—for example, in Kissinger's opening to China and in Lake's marshaling of European support to end the Bosnian war. But often it did not, with Iran-contra being only the most obvious example. People are generally better positioned to do their own jobs.

The key ingredient to getting these balances right is trust. The president must trust the national security adviser to present him with his or her best and unvarnished advice. The other senior players in the national security field must trust the national security adviser to convey their views fairly and openly to the president when they are not there—as will often be the case on fast-moving issues. They must also be confident that they know what the adviser is telling the president about his or her own views and advice. And they must be sure that they will be involved in any issue or decision that falls within their purview. In helping Reagan survive Iran-contra, Abshire, then special counselor to the president, insisted that (quoting the former presidential adviser Bryce Harlow) “trust is the coin of the realm.” Not every national security adviser has taken this maxim to heart. Iran-contra, of course, resulted from secrecy at the core of the NSC, when even the president was kept in the dark about the diversion of funds. But there have been less egregious instances in which national security advisers

have forgotten the importance of trust. Kissinger, for example, regularly ignored other senior officials by conducting back-channel negotiations in their areas of responsibility without their knowledge. Brzezinski carried his policy advocacy to the point where other policy players did not believe he was playing straight with them.

What is most important, in the end, is to make sure that the president makes the right decisions, that he does so in a timely manner, and that they are implemented effectively. There is a model of how to manage this decision-making process well, and it dates back to the beginning of the Nixon administration. The new president was steeped in foreign affairs like few others; it was the abiding interest of his presidency. As a result, he did not want to be confronted with consensus recommendations emanating from the bureaucracy; he wanted clear options backed up by good analyses of the underlying assumptions, possible actions, and likely consequences. Kissinger accordingly instituted comprehensive reviews of all the major policy issues—ranging from Vietnam to strategic weapons policy to arms control to China. He put together a deliberative process that presented the president with a clear set of alternative policies, each based on a careful review and analysis. The process eschewed consensus recommendations and produced options that were not limited to the preferences of the different agencies and that included other choices that might plausibly work. Unfortunately, Kissinger and his president essentially abandoned this process a few months into their administration.

It is the national security adviser's overriding responsibility to manage policymaking in such a way as to give the president the best chance of getting it right. The adviser needs to make sure that all those with strong stakes in the issues are involved in the process of deciding them, that all realistic options (including those not favored by any agency) are considered and fully analyzed, that the underlying assumptions are fully tested, and that the possible consequences of every action are clearly understood by everyone before the president is asked to make a decision. The importance of an effective policy process cannot be underestimated. Its absence, history shows, can be truly disastrous. 🌐

# The Responsibility to Contain

## Protecting Sovereignty Under International Law

*Michael Chertoff*

AS ECONOMIES, societies, and cultures have become increasingly interconnected, the traditional conception of threats to security as stemming from identifiable sources in individual countries has become antiquated. Today, many threats are stateless in origin and transnational in scope. Terrorist groups such as Hezbollah and al Qaeda have cells in multiple countries, often operating without the active support of any government but still capable of committing attacks with global impact. Both 9/11 and the unsuccessful plot to blow up airliners over the Atlantic Ocean in 2006 were aimed at disrupting the global air-transportation network. Potentially crippling attacks on the power grid or financial institutions could come from a computer anywhere in the world.

Fighting elusive and transnational enemies that do not respect the traditional conventions of warfare requires international cooperation. Terrorists are unlike the United States' past enemies. Whereas the Soviet Union had a defined territory with infrastructure and resources that could be targeted in retaliation for any aggression committed against the United States, terrorist groups have no established boundaries. A strategy of deterrence through threats of retaliation would prove ineffective against terrorists, since so many are willing to die for their cause. Moreover, they often strike at global or transnational targets,

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MICHAEL CHERTOFF is U.S. Secretary of Homeland Security. The views expressed here are his own.



### *The Responsibility to Contain*

seeking to exploit the seams between national jurisdictions, where enforcement may be shared, ambiguous, or inconsistent.

In light of these developments, the field of international law is taking on greater relevance. Since 9/11, it has been central to discussions about the “war on terror,” on issues ranging from the treatment of enemy combatants to the standards of security that should apply to global trade and travel. Unfortunately, just as international law is becoming more relevant, its objectivity is becoming more questionable. Some in the international legal community see international law as a means for advancing political agendas against the United States rather than as a valuable tool for addressing increasingly global concerns. Employing the rhetoric of international law, critics of the United States have challenged everything from its foreign and homeland security policies to its enforcement of purely domestic laws. In recent years, international lawyers and scholars have sought to subordinate established U.S. laws and even U.S. constitutional provisions to international legal mandates and “customary” international law—in which “custom” is not traditionally interpreted, as being based on the actual practices of states, but instead is dictated by the policy preferences of foreign judges or, worse yet, international scholars and academics.

The concept of a global legal order—launched by sober-minded leaders such as Woodrow Wilson, Franklin Roosevelt, and Winston Churchill—is often exploited by ideologues and antagonists of the United States who are bent on waging “lawfare” against U.S. interests. As a result, some critics have argued that the most prudent course for the United States is to opt out of international legal institutions whenever possible. Yet a wholesale rejection of international law would mean surrendering the field of intellectual combat to those who see international law mainly as an instrument to constrain the United States. And more important, it would risk sacrificing real opportunities to move international law in a direction that promotes the many interests that the United States shares with the rest of the world.

Building a better international legal regime is a task U.S. legal thinkers and policymakers should embrace. To do so, they must first define the proper scope of international law. This modern international legal order must be predicated on a new principle, under which individual states assume reciprocal obligations to contain transnational threats emerging

*Michael Chertoff*

from within their borders so as to prevent them from infringing on the peace and safety of fellow states around the world. This framework will be successful only if the sovereign consent of individual nations remains the bedrock of international law and only if it resists the trend within international legal circles to forcibly impose broad and abstract legal norms through nondemocratic means.

### THE CENTRALITY OF CONSENT

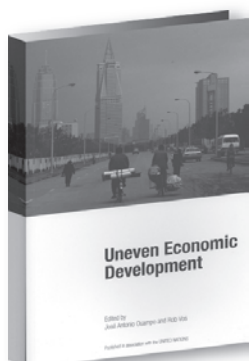
THE TYPICAL strategy of international legal activists today is to challenge the idea of national sovereignty. This is a revolutionary tactic, particularly because sovereignty has played an important role in the development of the international system for over three centuries. Under the Westphalian model of sovereignty—which dates back to 1648—an independent state is not subject to external control over its internal affairs without its consent. For democratic nations in today's world, consent has added significance. Democracy is based on the principle that the people are sovereign and that only with their consent may a government rule with legitimacy. Democratic national sovereignty therefore reflects the ideal that citizens should be governed only by laws to which they have assented.

Imposing international legal mandates on a nation without its consent undermines this traditional concept of sovereignty and conflicts with the democratic will. For this reason, international law has often been based on the consent of nations by way of treaties, in which nations voluntarily agree to abide by certain rules, or through customary international law, which infers tacit consent through widespread state practice. To be sure, not all sources of international law are explicitly based on sovereign consent. So-called peremptory norms, or *jus cogens* norms, are rules—such as those forbidding slavery or genocide—considered to be so deeply embedded in international law that they bind all nations, even absent national consent.

An international legal framework founded on a consent-based model of sovereignty is advantageous for several reasons. By requiring the explicit or implicit consent of nations before a particular international standard binds them, this approach gains the legitimacy that democratic legal traditions and processes provide. Consent-based international

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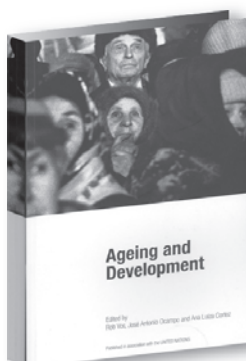
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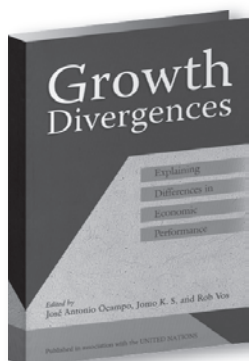
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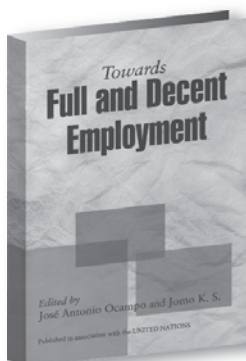
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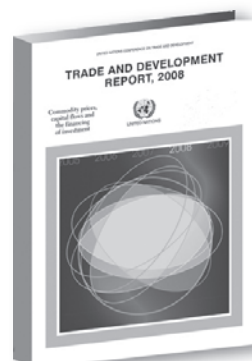
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### *The Responsibility to Contain*

law also allows states to protect their own critical interests by bargaining for or withholding consent from certain provisions of a treaty. Finally, grounding international law in consent acknowledges national differences in culture and legal philosophy by ensuring that international rules fit within an international consensus—one shared by real governments, not merely endorsed by intellectual elites.

Academics, lawyers, and judges who challenge the continued relevance of consent in international law often treat “sovereignty” as a pejorative term or an antiquated concept. Many of these critics depart from the traditional view of international law as consisting primarily of reciprocal obligations among nations. For example, some have argued in particular cases that international agreements automatically confer legal rights on individuals that may be enforced directly without state support or even against the laws of the individuals’ own countries. And some further argue that international law is not limited to what is agreed on by nations in treaties or accepted through widespread practice; they claim it also encompasses a set of standards based on highly general and “evolving” universal principles.

For example, the international legal scholar Philippe Sands argues that “to claim that states are as sovereign today as they were fifty years ago is to ignore reality.” Sands describes international law as a set of obligations that “take on a logic and a life of their own” and that “do not stay within the neat boundaries that states thought they were creating when they were negotiated.” The late Harvard Law School professor Louis Sohn went even further in unmooring international law from consent, positing, “States really never make international law on the subject of human rights. It is made by the people that care; the professors, the writers of textbooks and casebooks, and the authors of articles in leading international law journals.” Even the conservative commentator Robert Kagan has called on U.S. policymakers to “welcome a world of pooled and diminished national sovereignty,” arguing that the United States “has little to fear and much to gain in a world of expanding laws and norms based on liberal ideals and designed to protect them.”

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Those who challenge the relevance of consent often treat “sovereignty” as a pejorative term or an antiquated concept.



*Michael Chertoff*

Of course, not all who seek to diminish the role of sovereignty in the development of international law are so explicit. International legal jurists and scholars often purport to recognize sovereign consent as the foundation of international obligations but then proceed to “identify” and apply norms or principles of customary international law that are not evidenced by actual state practice. For example, a court may proclaim that there is a rule that prohibits particular government actions without considering whether most nations indeed adhere to that rule. Alarmingly, some jurists rely for support on academics and commentators who do not merely catalog international law but rather seek to influence its development according to their own policy preferences. It makes no practical difference that these jurists may pay lip service to the importance of sovereignty; the effect of their efforts is to undermine nations’ prerogative to choose their own laws.

Whether invoked explicitly or implicitly, the most common justifications for rejecting sovereign consent as the foundation of international law are flawed. One argument is that the growing global activity among nations creates the need for more comprehensive systems of international law to govern global conduct. This need, however, does not justify eliminating sovereign consent as the basis for imposing international obligations. Indeed, requiring the consent of nations has not prevented the international community from addressing a host of substantive issues, ranging from trade to arms control to endangered species protection. Moreover, individuals still principally identify themselves as part of a particular national community and resist decisions imposed on them by foreign actors and institutions without their consent. A visible case in point was the rejection of the European Constitution by voters in France and the Netherlands in 2005 and the more recent rejection of the Lisbon Treaty by voters in Ireland in 2008.

Another objection to sovereign consent holds that all humans possess certain fundamental rights that cannot be denied, even by the consent of the majority. But the recognition of fundamental human rights raises the harder and more particular question of how those rights should be defined and applied, and by whom. Bodies such as the United Nations include member states that often do not share a common position and whose values often clash with those of the United States and other democratic states. For example, the UN Human

### *The Responsibility to Contain*

Rights Council has passed resolutions urging states to adopt laws combating the “defamation of religions,” which would prohibit the type of open discussion about religious and political matters that is protected under the First Amendment to the U.S. Constitution. The UN has also held a conference to examine gun-control provisions, ones that would be at odds with the Second Amendment. And the UN recently passed a resolution calling for a moratorium on capital punishment with “a view to abolishing the death penalty,” even though the U.S. Supreme Court has repeatedly upheld it. Ironically, many of the states supporting such initiatives have a poor record when it comes to respecting the rights of their own citizens.

In short, absent an express treaty or convention, giving international bodies the power to decide what are new and expanded fundamental rights would allow countries to advance nationalist or bloc political agendas under the guise of human rights. It would also empower an often self-perpetuating international legal establishment—courts, advocates, academics, and activists—to “discover” international human rights by relying selectively on transnational agreements that may express only regional consensus or by drawing on philosophical or academic texts that reflect particular intellectual fashions. Such amorphous sources provide questionable grounds for mandatory international obligations.

Nevertheless, international courts have been receptive to arguments based on abstract principles that serve to erode the consensual foundation of international rules. One such example is the 1986 decision of the International Court of Justice in the case *Nicaragua v. United States*. In that case, Nicaragua filed suit against the United States under several multilateral treaties. The United States, however, had explicitly limited its consent to ICJ jurisdiction to when all signatories that would be affected by the court’s decision were parties to the case in question. It therefore asserted that the ICJ lacked jurisdiction over this case, in part because of the absence of other signatories. Although the ICJ recognized that it lacked jurisdiction to resolve the dispute under the relevant

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If the United States withdraws from international legal institutions to protect its national interests, everyone will lose.

*Michael Chertoff*

treaty provisions, it avoided these limitations entirely by finding that such obligations “retain a separate existence” as part of customary international law. The ICJ found the United States liable under these international norms.

Another example of the emerging tendency of international jurists to subordinate national sovereignty to subjective and sometimes ill-fitting principles of international law is the ICJ’s 2004 advisory

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The most serious threats to sovereignty today do not necessarily come from the official acts of other states.

opinion that questioned the legality of a barrier constructed by Israel to prevent terrorists from entering its territory. In support of the barrier, Israel invoked Article 51 of the UN Charter, which allows countries to defend themselves against armed attacks. The ICJ, however, concluded that Article 51 recognizes an inherent right of self-defense only in the event of an attack “by one State

against another State.” Even though it recognized that “Israel has to face numerous indiscriminate and deadly acts of violence against its civilian population,” the ICJ relied on a narrow reading of the UN Charter to reject a fundamental attribute of state sovereignty—a country’s right to protect its citizens. September 11 and subsequent terrorist attacks make a narrow reading of Article 51 seem out of date.

Fortunately, the U.S. Supreme Court has been less receptive than the ICJ to the argument that international law creates enforceable legal obligations without consent. In recent cases, the Court has held that the United States’ treaty obligations may not always take precedence over domestic legal rules and procedures and that international treaty obligations are diplomatic commitments that generally do not become binding domestic law without the explicit consent of Congress.

In the past, U.S. policymakers have reacted to the shift away from consent-based international law by limiting U.S. involvement in international legal institutions. Notably, the U.S. government responded to the establishment of the International Criminal Court by prohibiting military and financial aid to countries that recognized its jurisdiction. It did so out of concern that such recognition could subject U.S. military personnel to prosecution before international judges.



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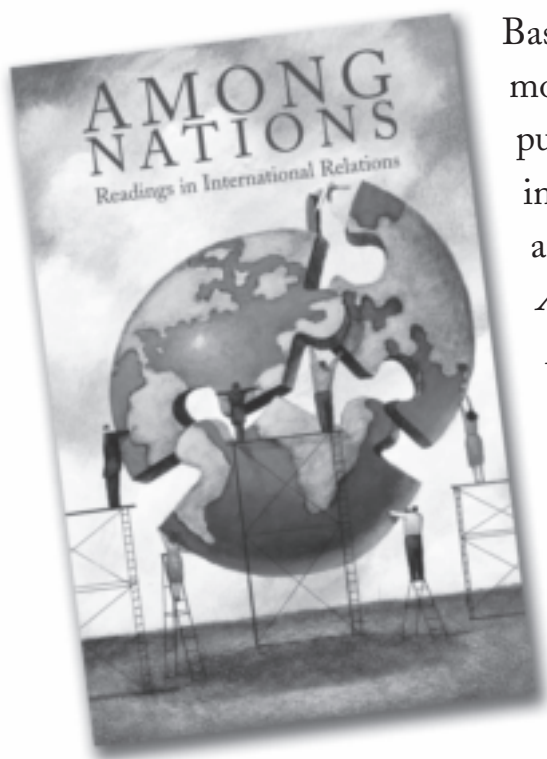
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#### IN DEFENSE OF INTERNATIONAL LAW

AMERICANS ARE understandably troubled when international law is misused as a tool to target the United States. But if the United States responds by withdrawing from international legal institutions in order to protect its national interests, everyone will lose. The international community will lose the cooperation of a global superpower, whose resources are often necessary for any meaningful enforcement of global standards, and the United States will lose the support of other nations. Moreover, if the United States responds to flawed international rulings by abandoning the idea of international law, it will undermine its efforts to project “soft power,” an important tool of U.S. foreign policy.

Given that international law is an inescapable fixture in today’s global political landscape, there is a better way to address modern legal activism. International law should be neither a political tool used to undermine the sovereignty of individual states nor an instrument used by those who seek shelter behind the sovereignty of one country to launch attacks against another.

A modern, consent-based system of international law will be most effective and widely accepted if it is predicated on a clear set of twenty-first-century containment principles that reflect modern obligations of reciprocal sovereignty. These principles would recognize that each state has the inherent autonomy to regulate its own internal security affairs. At the same time, each sovereign nation must respect the sovereignty of other nations, so that all nations are obliged to contain the external consequences of any security threats emerging from within their own borders. This is similar to the legal principle of nuisance: that a property owner has an obligation to stop any activity on his or her property that substantially infringes on the well-being of his or her neighbors. In particular, individual states must take reasonable measures to contain the potentially destructive consequences of these security threats to prevent them from spreading and interfering with other states’ sovereign right to exclusive authority over their territories. And when countries fail to live up to this responsibility, international law should recognize—and indeed authorize—mechanisms that would allow protective action on the part of the world community

*Michael Chertoff*

and, if necessary, the injured or threatened states. Such a framework would reflect the libertarian notion that the prerogative of a state not to provide security extends only so far as its choices do not actively threaten the security of other states.

Implicit in this new reciprocal containment principle are three fundamental ideas. The first is that under long-applied Westphalian principles of sovereignty, the methods by which a nation chooses to protect its own citizens from internal, nonstate threats, such as terrorism or crime, are primarily a domestic matter that falls largely outside the purview of international law. This is so because governments—and especially democratic governments—are accountable and responsive to their own citizens, as opposed to the citizens or governments of other states.

Second, international law can play a central role in establishing mechanisms to secure global or transnational institutions and activities, such as international travel, finance, and trade. In these areas, national law lacks the jurisdictional reach to address threats to the integrity of global systems—for example, piracy in international waters or attacks on international flights. Only international rules that synchronize enforcement efforts across nations can prevent terrorists from exploiting vulnerabilities in the seams between nations' legal systems.

Third, when one country harbors terrorists or other dangerous actors, international law must acknowledge that such a nation has an obligation to avoid becoming a platform for attacks on other sovereign nations. Today, the security of the international system is increasingly characterized by interdependence. On matters from nuclear terrorism to cybersecurity to bioterrorism, the failure to secure a single node of the global security network can threaten to undermine the entire system. Unlike during past eras, the most serious threats to sovereignty today do not necessarily come from the official acts of other states; rather, they come from other states' unwillingness or inability to act to contain deadly nonstate threats that develop within their borders. It would be misguided to view such decisions merely as exercises of inviolable "sovereign authority." Instead, they should be viewed as imperiling the sovereignty of those nations that find themselves at the receiving end of dangerous nonstate threats.

A new international legal framework that confronts modern threats is long overdue. Despite the novel legal challenges raised by the spread

of terrorism, the tendency has been to debate global security issues within the confines of existing, and largely outdated, international legal frameworks. Implementing an international order that advances U.S. security interests will require difficult decisions and sustained work for at least a generation. To begin, the United States and its partners must ground the reciprocal responsibility to contain threats on three core principles: nonsubordination, collaborative security, and reciprocal sovereignty.

A NONSUBORDINATE DOMAIN

FIRST AND foremost, a containment framework for international law must avoid subordinating consent-based domestic security measures to foreign norms. The ability of a state to control its internal affairs, including its domestic laws, is a core aspect of national sovereignty. Nations' legal systems—even those of established democracies—differ markedly from one another in how they deal with domestic crime and terrorism. For example, the United States and European countries differ on the permissibility of the death penalty, the ability of prosecutors to seek plea bargains, the requirements for judicial authorization to conduct surveillance,

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International law has no business interfering with the U.S. domestic system of justice.

sovereign territories, they are not appropriate subjects for international lawmaking. International law has no business interfering with the U.S. domestic system of justice; by the same token, the United States should respect fundamentally fair domestic systems of law that may yet differ from its own. Accordingly, the United States should be particularly averse

to efforts that invoke vague or untested foreign principles to override measures adopted democratically by sovereign governments.

Indeed, abandoning consent-based domestic rules in favor of transnational norms is especially unjustified when the particular norm involved would imperil a state's ability to protect the security of its own citizens. Liberty-respecting democracies will inevitably strike different balances when they weigh important security objectives against competing considerations such as privacy or economic development. International law will undermine its own legitimacy if it forces individual countries to adopt risks that they have specifically sought to avoid through reasonable, democratically enacted policies.

Consider, for example, the invocation of *jus cogens*. Traditionally, such peremptory norms have prohibited only truly egregious domestic acts. But international activists and legal advocates are increasingly seeking the recognition of new peremptory norms that would invalidate domestic laws and policies. For example, lawyers have argued in past federal litigation that *jus cogens* norms forbid imposing the death penalty and that they limit immigration officials' authority to detain deportable criminal aliens whose home countries will not accept them. Several scholars have gone even further, concluding that peremptory norms should confer additional rights, including the "right to unionize." Although such rights may be worthy of protection and may even be recognized under U.S. law, invoking international law in this way is troubling because it circumvents democratic domestic laws, safeguards, and processes. And the more that courts and scholars recognize new peremptory norms

### *The Responsibility to Contain*

that forbid merely debatable (but not egregious) domestic conduct, the less those norms will retain their legitimacy as measures reserved for exceptional cases.

#### COLLABORATE AND ACT

THE UNITED STATES and its partners should be less hesitant to employ international law when addressing genuinely transnational concerns and threats. Indeed, the formal instruments of international law must be updated to handle modern threats to state sovereignty. Over the long run, containing security threats will require drafting and updating reciprocal, consent-based legal instruments—such as treaties, conventions, and charters—to recognize modern threats to sovereignty that do not fall neatly into existing categories. Because of the stateless and transnational nature of terrorism, the United States must collaborate with its partners to construct an international regime that prevents nations from exporting their security risks.

Such a legal framework will apply most readily to activities that are inherently transnational and thus properly subject to the development of international standards. Take, for example, activities involving the transport of goods, people, or money from one country to another—such as air travel, cargo transportation, and cross-border financial transactions. International law is particularly appropriate for regulating such activities due to their quintessentially international character. No single country has either the capacity or the jurisdictional reach to control all global threats.

In many cases, the United States will be best able to address these fundamentally transnational security issues through bilateral agreements that synchronize U.S. security policies with those of other nations—as did the recent agreement between the European Union and the United States on sharing airline passengers' personal data. However, as more countries realize the security benefits of such bilateral arrangements, it may be appropriate to enlist all of the United States' international partners in drafting multilateral frameworks that more widely synchronize states' security practices. These agreements would create minimum baselines of acceptable security



*Michael Chertoff*

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States can no longer hide behind seventeenth-century concepts of sovereignty in a world of twenty-first-century dangers.

measures aimed at activities originating in one country but directly affecting others. A group of nations could agree, for instance, to add provisions to the Convention on International Civil Aviation requiring that governments collect and share basic information about passengers. Similarly, they could draft a convention that establishes minimum screening procedures for cargo transported internationally. The fundamental goal of these new agreements would be to achieve containment through reciprocity. By agreeing to screen for outgoing threats originating within their own borders, individual countries would gain assurance that similar measures would be taken against incoming threats originating outside their borders.

Under this revised framework, both domestic and international institutions would play an important role in advancing security objectives by enforcing new conventions on cargo security, transportation security, and other issues. International law would fill the legal gaps exploited by globally mobile terrorists and other such criminals.

To be sure, devising a truly collaborative and enforceable set of consent-based security obligations will take time. But there is reason for optimism. The international community has already begun tackling some classically transnational problems; recognition of the need for reciprocal security obligations is emerging in international criminal law. A UN convention adopted in 1988, for example, established a legal mechanism for delivering piracy offenders to signatory coastal nations and required that those nations prosecute or extradite such offenders. And in August 2006, the U.S. Senate approved the Convention on Cybercrime, which sets forth a comprehensive framework for international cooperation against computer crimes and requires member states to outlaw specific activities. These international agreements recognize that the unbounded nature of many illicit activities obliges individual states to cooperate to contain emerging threats and that the agreements themselves will only be successful if they are adopted with the consent of those states.

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#### SOVEREIGNTY RECIPROCATED

WHAT SHOULD the international community do when global threats originate entirely within a state that does not consent to reciprocal international security obligations? This can occur when, for example, a nation fails to enact adequate domestic security measures or is simply unable to control terrorists or other criminals within a particular region. These situations present truly hard cases because they place the international community's security interests in conflict with a nation's right to control its internal matters. But states can no longer refuse to act by hiding behind seventeenth-century concepts of sovereignty in a world of twenty-first-century dangers. International law should not be powerless to prevent deadly nonstate threats from spreading from one state to others. If it is, the sovereignty of all nations will be sacrificed to preserve the sovereignty of one.

Therefore, international law must be updated to reflect the reciprocal nature of sovereignty in the modern era. As one example of the need for a new legal framework, consider the Charter of the UN, born from the experience of World War II. The charter does not contemplate complex threats to sovereignty posed by transnational terrorist organizations, providing only that "all Members shall refrain . . . from the threat or use of force against the territorial integrity or political independence of any state." And although Article 51 of the charter recognizes states' "inherent right of individual or collective self-defence" if attacked, some—as did the ICJ in the Israeli barrier case—narrowly interpret this self-defense exception to mean that a state can only exercise its right to self-defense if an imminent or actual attack on its territory comes from another nation-state, not a nonstate actor.

Such a narrow conception of self-defense misses the mark. As a practical matter, it ignores the increasing danger posed by nonstate actors, particularly in an age when they can obtain weapons of real destructive force. Moreover, it leaves nations helpless when an attack is threatened by a group that has created a haven within another state. Since the government of the host state is not itself launching an attack, Article 51 does not seem to come into play under the ICJ's and others' reading. Yet from the standpoint of the targeted state, there is no meaningful difference between an attack launched by a government

*Michael Chertoff*

and an attack launched by terrorists whom a government has failed to control. NATO recognized this very fact when, after 9/11, it invoked the collective defense provision of its charter for the first time in its history. There remains, however, considerable ambiguity and disagreement concerning whether that provision and other international self-defense provisions apply to terrorists, and in what circumstances. The interior ministers of the six most populous EU member states recently concluded that it is “important to explore the issue of self defence fighting against terrorist targets in order to determine to what extent further tools, procedures and international legal cooperation is required.”

The reality of modern threats supports the need for an international legal framework that would require states to contain the negative global consequences of domestically originating security threats. The UN Security Council has only just begun the difficult work of constructing such a framework. In the immediate aftermath of 9/11, it passed Resolution 1373, which directed all member states to prevent and criminalize terrorism and to “refrain from providing any form of support, active or passive,” to terrorists. As the resolution itself acknowledged, however, nations need to go further: to “cooperate . . . through bilateral and multilateral arrangements and agreements, to prevent and suppress terrorist attacks and take action against perpetrators of such acts.” The development of such a new legal framework is still in its infancy. Indeed, it was despite the passage of Resolution 1373 that the ICJ later embraced its narrow interpretation of the self-defense exception.

It is not enough for a group of nations, such as the Security Council, to pass resolutions that prohibit states from supporting terrorists. If states fail to contain transnational threats, there must be an international legal regime that subjects them to potential sanctions or even, if necessary, military intervention aimed at neutralizing those threats. Far from signaling a retreat to unilateralism, this approach would require cooperation in building a new legal framework. The mechanisms and limits of such an international legal regime will require time and effort to construct; the alternative, however, is an ad hoc regime that either encourages a go-it-alone approach or results in international paralysis. Embracing this new framework would not amount to abandoning



consent-based international law; rather, it would enhance it. By recognizing that modern technology, transport, and trade often propel the destructive consequences of one state's action or inaction far beyond its own territory, the new framework would help states defend their sovereignty against new security threats.

This is not to deny that there is a tension between the argument that international law should require states to implement reasonable measures to contain international security threats originating within their borders and the argument that international law should defer to domestic policies aimed at bolstering international security. The critical distinction here, however, is between fundamentally domestic security concerns affecting a single nation and truly global threats that affect other states and their citizens. Whether a nation is taking sufficient measures to contain international security threats originating within its borders is an international matter, but as long as a state is successful in containing such threats, how it chooses to do so is a domestic issue.

In recognition of this distinction, the new reciprocal containment principle would afford governments maximum discretion to implement

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*Michael Chertoff*

domestic security policies, provided that they are consistent with that nation's obligations to respect the sovereignty of other nations. Of course, this discretion need not be absolute, even in purely domestic affairs. One can imagine situations that would demand the flexibility to confront truly draconian measures implemented by nondemocratic means—situations involving, for example, violations of long-established *jus cogens* norms. But international law will be more widely accepted when it strives to preserve the autonomy and mutual consent of nations in achieving international goals. Conversely, those who seek to forcibly impose abstract concepts of universal values on purely domestic decisions are placing the legitimacy of international law at risk.

### FOR THE MOMENT, CAUTION

SUCH A SET of reciprocal security obligations is unlikely to be crafted in the near future, and the task should not be rushed. In the meantime, the United States and its partners should employ more narrowly sculpted agreements and partnerships to address immediate security challenges. The United States and its allies would be wise in the short run to embrace a cautious approach, one that allows international rules to emerge gradually through the observation of the actual practices of states (and their consequences) and one that supplements these rules with voluntary, nonbinding agreements and principles. As the legal scholar and U.S. Court of Appeals judge José Cabranes has noted, “It is precisely *because* the United States takes the law seriously, and takes seriously the international legal obligations that it assumes, that its leaders are cautious and careful in their approach to new and complicated arrangements” (emphasis in the original).

In the immediate future, the United States can best secure itself by building international law from the bottom up. One example of that strategy in action is the Proliferation Security Initiative, a voluntary arrangement spearheaded by the United States to promote the interdiction of banned nuclear, chemical, and biological weapons and weapons technology. The PSI, whose adherents consist of over 90 countries, outlines cooperative measures that these countries work to implement and establishes a set of interdiction principles that they agree to support. The PSI and similar initiatives provide reason for hope that even in

### *The Responsibility to Contain*

the absence of new, formal legal obligations, containment policies can indeed be based on consent. In fact, relying on informal commitments and actual state practice in the short term may offer an advantage: it will allow for a new, legitimate body of customary international law to emerge in an area in which little established custom or state practice currently exists.

The time has come to dispense with two prevailing, and contradictory, myths about international law: that it is necessarily antagonistic to U.S. interests, and that it is an inherently superior enterprise whose rules should trump policies adopted by democratically elected representatives. If the vitality of democratic principles is to be preserved, the United States must reject both of these extreme views and encourage its partners to help build a modern and sustainable international security framework—one based on the reciprocal responsibility to contain. Such a framework will fail if it overreaches by imposing binding rules prematurely or by subordinating cherished democratic principles to the prevailing normative winds. It will be more likely to succeed if it squarely addresses the new and dangerous threats to sovereignty that have emerged. In the end, only if the United States and its partners take a balanced and measured approach to these challenges will the legitimacy of the international legal system flourish. 🌐

# Where Are the Civilians?

## How to Rebuild the U.S. Foreign Service

*J. Anthony Holmes*

WHEN THE State Department threatened to forcibly assign U.S. Foreign Service personnel to Iraq in late 2007, many diplomats read about it in the press before hearing about it from their superiors. The rank and file were irate. On October 30, 2007, the director general of the Foreign Service, several hundred employees, and union representatives held a meeting that quickly degenerated into a shouting match. A journalist's surreptitious recording of the gathering was widely publicized soon afterward, conjuring up an image of disloyal, cowardly diplomats, which stood in stark contrast to that of brave soldiers protecting the United States abroad. By stripping away the complex and highly political context surrounding the presence of civilian government officials in Iraq, the media made Foreign Service officers (FSOs) appear unreasonable and unwilling to serve.

In fact, the Bush administration had effectively engineered the dispute in an effort to publicly embarrass the diplomatic corps. By demanding that FSOs take on the unprecedented, open-ended, and fundamentally impossible challenge of nation building under fire without adequate training or funding, the White House was continuing a myopic tradition of shortchanging the civilian institutions of foreign policy while lavishing resources on the military. Furthermore, the Bush administration's

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### *Where Are the Civilians?*

general efforts to stifle dissent and to reward those serving in Iraq with promotions and choice assignments has led to the unmistakable politicization of the Foreign Service.

Before the Iraq war, Washington's priority was to get diplomats out of war zones on the understanding that diplomats had to be protected and preserved for when the fighting was over. (Pentagon veterans such as former Secretary of State Colin Powell and former Deputy Secretary of State Richard Armitage felt particularly strongly about this when they ran the State Department from 2001 to 2004.) During the Bush administration's second term, however, the imperative to protect was trumped by domestic political considerations. In late 2005 and early 2006, an ugly "Who lost Iraq?" game played out inside the administration. In an effort to escape blame, the Pentagon argued that it had won the war but that the State Department was losing the peace. Secretary of State Condoleezza Rice, determined to avoid the charge that the State Department had not "stepped up," responded by ramping up staffing both at the embassy in Baghdad and on the newly created Provincial Reconstruction Teams deployed throughout the country. Abandoning traditional State Department practice, she dramatically increased the number of U.S. diplomatic positions in Iraq when the level of violence was at its worst. The U.S. government began carrying out a largely unnoticed and little analyzed shift in policy, assigning large and growing numbers of unarmed diplomats and aid workers to Afghanistan and Iraq, despite security conditions that often made it impossible for them to do their jobs.

The controversy over mandatory assignments to Iraq—which quickly dissipated as volunteers stepped forward to fill all 327 State Department positions there—was merely one episode in a broader pattern of neglect and mismanagement of the United States' civilian foreign policy institutions. During the Bush administration's eight years in power, the military has come to dominate U.S. foreign policy, while other arms of the U.S. government operating abroad—such as the State Department and the U.S. Agency for International Development (USAID)—have been ignored, underfunded, and gravely weakened. Neglect of these critical civilian national security institutions will haunt the new administration as it tries to resurrect diplomacy and repair the United States' image across the globe.



## Return to Table of Contents

*J. Anthony Holmes*

### YOU GET WHAT YOU PAY FOR

THE CHRONIC underfunding of diplomacy and foreign assistance has had a major impact on how the United States wields power abroad. Over the past decade, U.S. military missions have expanded from providing humanitarian relief and training foreign militaries to running economic and social development programs and leading multilateral nation-building efforts. Thanks to massive amounts of reconstruction funding for Afghanistan and Iraq, the Defense Department received 26 percent of the U.S. foreign assistance budget in 2008. Because the military has the funding and the personnel, it dutifully takes the lead. But the Pentagon has no comparative advantage or particular expertise in postconflict stabilization and reconstruction, and its nation-building attempts often fail. Many people both inside and outside the military have begun to wonder why the U.S. government continues to burden the armed forces with nondefense responsibilities and ask, “Where are the civilians?” The answer is: they do not exist.

The number of lawyers at the Defense Department is larger than the entire U.S. diplomatic corps, there are more musicians in the military bands than there are U.S. diplomats, and the Defense Department’s 2008 budget was over 24 times as large as the combined budgets of the State Department and USAID (\$750 billion compared with \$31 billion). A mere \$7.5 billion went to the State Department’s diplomatic and consular programs, including its large operations in Afghanistan and Iraq as well as the 265 other diplomatic posts around the world. In fact, the Pentagon spends more on health care for military personnel than the U.S. government allocates to diplomacy and foreign assistance. When defense-related programs from other U.S. government agencies, such as the Energy Department and NASA, are factored in, defense and intelligence account for 99 cents of every dollar Washington spends on national security and foreign affairs; just a penny goes to diplomacy and foreign aid.

The U.S. Foreign Service—the civilian professionals who staff State Department and USAID missions abroad and those agencies’ headquarters in Washington—is simply not able to do its job. It has nowhere near the number of people it needs to carry out its traditional duties, much less the new demands the Bush administration has imposed

### *Where Are the Civilians?*

on it. Many FSOS simply lack the skills and training they need to do their work. The Foreign Service has been starved of the resources it needs to have the impact abroad that both political parties want it to have. And apart from a minimal last-minute increase in the 2008 fiscal year supplemental appropriation for the wars in Afghanistan and Iraq, it has not received the major new investments that would allow it to engage in the sort of nation-building activities that many believe are fundamental to protecting the United States in the twenty-first century.

Diplomacy is not capital intensive; its primary resource is the people who carry it out. In June 2008, there were only 6,636 FSOS and 4,919 support staff in the State Department—

just ten percent more than 25 years ago, when there were 24 fewer countries in the world and U.S. national interests were far more concentrated in Europe and Northeast Asia. By comparison, in mid-2008, there were 1.6 million active-duty military personnel, nearly 1.6 million members of the Reserves and the National Guard, and 673,000 civilian employees in the Defense Department.

Unlike the U.S. military, which presently bases only 21 percent of its personnel abroad, 68 percent of the Foreign Service is “forward deployed” overseas. As a result, it has no surge capacity at all. The personnel situation is so tight that FSOS receive little training because providing it would mean leaving a position empty in the interim. Given that regional expertise and knowledge of obscure languages are among the service’s core strengths, the lack of funding has a pernicious long-term impact. Presently, the vacancy rate overseas is 21 percent; in Africa, it is 30 percent. With such shortages, a lot of work must simply be ignored. The staffing situation is even worse at USAID, which houses the government’s few experts in postconflict reconstruction; the number of FSOS in the agency’s ranks has declined by 75 percent since the 1970s.

To do what is expected of it, the Foreign Service needs two to three times as many people as the 11,555 it currently has. Defense Secretary Robert Gates has repeatedly called for increased funding for the State Department and USAID. He has testified to Congress that “the State

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Condoleezza Rice’s  
signature initiative  
to transform U.S.  
diplomacy has failed.

*J. Anthony Holmes*

Department is the proper place to oversee all of the elements of American foreign policy” but that “Congress has not been willing, decade in and decade out, to provide the kind of resources, people and authority that it needs to play its proper role in American foreign policy.” Diplomacy is, as the old adage goes, a nation’s first line of defense. The U.S. government is shortsightedly neglecting this basic and inexpensive tool of national security at its peril.

As bipartisan groups of experts call for greater use of “soft power,” the United States’ capacity to meet traditional diplomatic responsibilities—such as engaging with Iran and guiding Russia back toward the international mainstream—is rapidly deteriorating. And despite the Bush administration’s ambitious pledge to transform U.S. diplomacy, Foggy Bottom continues to suffer from a lack of people, programs, and training.

### CONDI’S FALSE HOPE

WHEN RICE became secretary of state in early 2005, she set out to make fundamental changes at the State Department. President Bush had just given his second inaugural address, and democracy promotion quickly became the cornerstone of U.S. foreign policy. Rice immediately began using the term “transformational diplomacy” as code for a new State Department modus operandi. This caused considerable confusion because she did not define the term for almost a year; meanwhile, earnest functionaries scurried about trying to give it meaning beyond the simple promotion of democracy. Eventually, in a speech at Georgetown University on January 18, 2006, Rice spelled out what she had in mind. She contrasted her activist vision of a “bold diplomacy . . . that seeks to change the world” with what she viewed as the passive status quo: writing analytic reports and delivering polite *démarches* to foreign governments. The United States, she stated, needed a diplomatic approach that integrated “our security interests, our development efforts and our democratic ideals” in an effort “to build and sustain democratic, well-governed states that respond to the needs of their people and conduct themselves responsibly in the international system.” Mainly, she wanted her diplomats to be “administrators of programs” that promoted U.S. values rather than the passive observers she believed them to be.

# Return to Table of Contents

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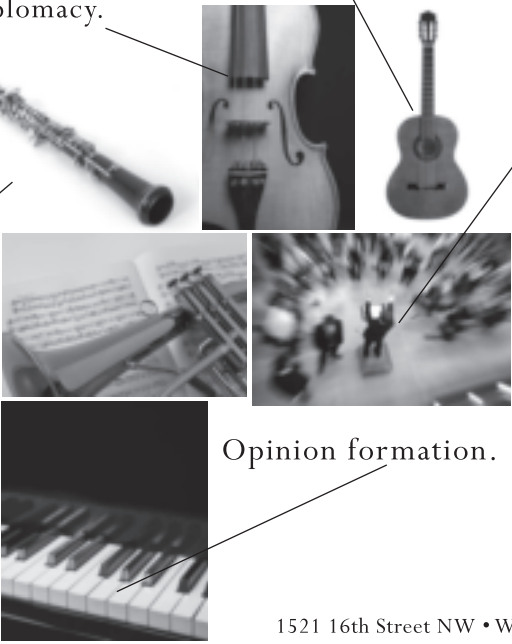
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## Return to Table of Contents

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### *Where Are the Civilians?*

To set the stage for the new “transformational” mission, Rice announced several significant changes at the State Department. There would be a major shift of personnel from Washington and Europe to important countries in the developing world; she would create regional teams rather than having diplomats operate only in individual countries; and she would “localize [the United States’] diplomatic posture” by getting U.S. diplomats out of embassies in national capitals, where they tended to focus on government officials and national elites, and base more of them in large noncapital cities. Rice also called for an expansion of public diplomacy in an effort to increase U.S. influence and advocated a closer partnership between the Foreign Service and the U.S. military.

Rice’s initiative was well received by the Foreign Service. Shifting people from Washington and Europe to understaffed embassies in important developing countries made sense. The idea of having diplomats spend more time outside of capitals sounded fine, too, even if in many cities where she now wanted to put them, U.S. consulates had been closed in recent decades for budgetary reasons.

But Rice’s plan had two serious shortcomings. First, she provided no additional funding for her ambitious new agenda. State Department veterans were well aware that changing the world could not be done on the cheap by an already woefully underfunded agency. And second, adding insult to injury, Rice seemed to have no idea that the Foreign Service had been focusing ever since the end of the Cold War on many of the “transformational” activities she was proposing. Rice’s false image of a Foreign Service devoted to passive report writing instead of active engagement made many FSOS wonder if the secretary of state, already a year into the job after serving four years as the president’s national security adviser, understood what her people overseas were actually doing and if she was simply creating a straw man for political purposes.

Today, almost three years after its formal unveiling and despite a high-profile rollout and a generally favorable reception, Rice’s signature initiative to transform U.S. diplomacy has failed. Missing from Rice’s

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Officers who dared to give unvarnished analysis of policy options have been ignored, penalized, or banished.

vision was the recognition that to transform bilateral relationships, diplomats must have the means to engage with the governments and citizens of their host countries. Whether the objective is immediate postconflict stabilization and reconstruction, democracy promotion, advancing the rule of law, fighting infectious disease, facilitating economic development, countering the proliferation of weapons of mass destruction, or deterring human trafficking, diplomats need well-funded programs in order to have more than a symbolic impact. These programs do not exist. They were never requested, and the almost 300 people reassigned to strategically important developing countries over the past three years have had virtu-

ally no new resources to work with. For example, the 15 new FSOS assigned to Beijing with considerable fanfare in the summer of 2006 did not receive any new funding to undertake the activities Rice advocated. They have still not received funding. Ironically, these FSOS have been largely relegated to the reporting-and-analysis role that Rice derided in her Georgetown speech. Only those parts of Rice's initiative that involve negligible costs, such as internal bureaucratic tinkering, have advanced; efforts to implement the crucial elements of her agenda have foundered.





The much-vaunted Office of the Coordinator for Reconstruction and Stabilization, which was created in 2004 to manage postconflict situations around the world, had fewer than ten employees in mid-2008 to accomplish what Rice described as a vital component of her vision of a new diplomacy. Only a few of the tiny diplomatic posts planned for key noncapital cities have been set up. Many embassies have sought instead to use technology to fill the gaps by creating a virtual presence on the Internet, with limited results.

*J. Anthony Holmes*

Rice's idea of creating a more expeditionary Foreign Service has met a similar fate. She has noted that some of the support systems that the U.S. military provides to soldiers and their families during overseas deployments—such as housing, medical care, and employment services for spouses—should be extended to the Foreign Service. However, Rice will leave office without having made any effort to provide Foreign Service personnel with the support systems that are indispensable for any military deployment overseas. U.S. military and civilian personnel sent to the same combat zones are treated completely differently. For example, soldiers are automatically granted \$500,000 of life insurance, whereas civilians assigned to the same areas receive none at all. Civilians' preexisting life-insurance policies are immediately canceled if the underwriters discover that they are living in a war zone; if injured or wounded, they are on their own when it comes to health insurance. When military service members are assigned to Afghanistan, Iraq, or other combat areas, they receive additional "combat pay," but Foreign Service members in the same countries, or at any other overseas mission, actually earn 21 percent less than those working in Washington. Danger-pay bonuses are then added to this reduced base salary. Such a pay differential, much less one of this magnitude, discourages employees from serving abroad and creates a huge morale problem.

No one in the Foreign Service would contend that working in embassies in Baghdad or Kabul, or even on a Provincial Reconstruction Team headquartered at a forward operating base, is equivalent to the dangerous service undertaken by the 15–20 percent of U.S. military personnel in combat units. Many do believe, however, that the job of unarmed and negligibly trained diplomats working in combat zones is basically akin to the service of the other 80–85 percent of U.S. military personnel, who have noncombat functions, and that these diplomats should therefore be treated similarly by the U.S. government.

If the United States wants an expeditionary Foreign Service that can perform both traditional diplomatic functions and the type of nation-building tasks last undertaken by the British colonial service, it will have to pay for it. But the Bush administration has shortchanged the Foreign Service and has thus directly undermined its own key foreign policy initiative.

### *Where Are the Civilians?*

#### GREEN-ZONE BLUES

THE WORLD in which U.S. diplomats work has become steadily more dangerous, and this has affected every aspect of their lives abroad. The threat of terrorism long predates 9/11 and the war in Iraq. The Iran hostage crisis of 1979–81, the related sacking and burning of the U.S. embassy in Pakistan in 1979, the Hezbollah bombings of the U.S. embassy and the Marine Corps barracks in Beirut in 1983, and the al Qaeda bombings of the U.S. embassies in Nairobi and Dar es Salaam in 1998 all had a profound effect on U.S. missions abroad. As early as 1983, U.S. embassies were forced to assume increasingly isolated and defensive postures. Today, the Foreign Service has largely retreated into fortress embassies located far from city centers. For local populations, these buildings are difficult to access and daunting to approach. The inevitable result of this security-driven isolation is that diplomats and other embassy employees spend less time cultivating relationships with the host countries' populations. In war zones, where diplomats must hunker down much of the time to survive, contact with locals has been even more limited.

Nearly 25 percent of the vacancies that the Foreign Service must fill each year are for one-year tours to places so dangerous that employees cannot bring their families with them. Thirty years ago, there were only two danger-pay posts; today, there are 28. Many FSOS face serious barriers to volunteering in these countries. Some are single parents; others have limited medical clearances, spouses with their own careers, or families they cannot leave behind. Iraq is the most dangerous of these posts. Potential volunteers have few illusions about the nature of the work there. They understand, for example, the futility of promoting economic development in the middle of a civil war; instead, they tend to focus on ephemeral micro-objectives, such as digging wells in villages and improving local governance. FSOS in Baghdad are required to notify the embassy's security team 48 hours before holding meetings with Iraqis outside the Green Zone, and permission is often denied or revoked at the last minute for security reasons. During the worst of the violence, from 2004 to 2007, many diplomats realized that showing up in an armored convoy could jeopardize the lives of the Iraqi officials they were meeting with, which



*J. Anthony Holmes*

further discouraged such contact. Building relationships with locals is the reason diplomats are sent abroad in the first place, and such contact was meant to be the foundation of the Bush administration's transformational diplomacy. In reality, by placing poorly trained and underfunded diplomats in war zones where they cannot do their work properly, the initiative has become largely an exercise in symbolism.

The Bush administration has tried to recruit more volunteers for Iraq by continuously changing the Foreign Service's reward system. There were many volunteers during the first two years of the Iraq war, but Rice sharply increased staffing in Baghdad just as the conflict was degenerating into a bloody civil war. Faced with a shortage of willing FSOS, she turned to the two main incentives in the personnel system: future assignments and promotions. Rice insisted that Iraq volunteers be awarded with automatic promotions, but that proved legally impossible. However, she was able to ensure that the most desirable positions would go to FSOS departing Iraq (and, to a lesser extent, to those leaving Afghanistan), while those not volunteering are overlooked. This preferential treatment, coupled with the disproportionate number of ambassadorial posts awarded to senior FSOS in Iraq, has eroded the meritocratic culture of the Foreign Service. The best and the brightest no longer necessarily move ahead. Instead, those willing and able to volunteer in war zones are now more likely to be promoted, regardless of how relevant that experience is for their future responsibilities or for future U.S. foreign policy.

In a particularly blatant effort to politicize the Foreign Service, the Bush administration sought in 2006 to implement a "pay for performance" personnel system. This proposed reform would have replaced the decades-old system of peer evaluation with an undefined new system permitting political appointees to reward subordinates based on subjective political considerations and personal loyalty. Congress rejected the proposal, but the implications were clear: President Bush and Secretary Rice wanted a Foreign Service that saluted and obeyed, deployed to war zones without a fuss, and held its tongue about policy decrees from above.

This favoritism has led to a marked decline in constructive dissent in the Foreign Service. Officers who have dared to offer unvarnished analysis of policy options have been ignored, penalized, or banished. In

### *Where Are the Civilians?*

some bureaus, the number of politically appointed “special advisers”—who in effect function as political commissars by enforcing policy discipline regardless of events on the ground—has increased dramatically. There is a palpable and widespread fear that expressing dissenting views or offering negative appraisals of current U.S. policies might jeopardize one’s career prospects. The State Department has quietly permitted its once-proud, four-decades-old Open Forum system, which promoted vigorous internal policy debate, to atrophy and disappear. Likewise, it has become increasingly difficult for the American Foreign Service Association, the exclusive representative of the entire Foreign Service, to elicit nominations for its annual Constructive Dissent awards, because voicing criticism of U.S. policy is now so rare.

### REBUILDING STATE

IN ORDER to revitalize the Foreign Service and make it a powerful tool of U.S. foreign policy, the Obama administration will have to make major long-term investments in expanding and training its staff. Although a number of independent, bipartisan groups have called for more funding and personnel for the State Department and USAID, they have limited themselves to recommending what they regard as politically feasible under perennially tight budget conditions. Recent recommendations from the American Academy of Diplomacy and the Foreign Affairs Council, for example, were conceived to fill only what the Bush administration, with its disdain for diplomacy, already views as basic personnel shortfalls. The expansion these organizations call for would cost about \$2.5 billion annually, amounting to a 33 percent increase over the 2008 budget for diplomatic operations. But such spending would hardly begin to provide what the State Department needs in order to advance U.S. interests.

As president, Barack Obama must not subject himself to the budgetary constraints and the status quo of the Bush years. The White House should instead apply zero-based budgeting by drawing up its list of diplomatic objectives and then working with Congress to allocate the funds and hire the people necessary to achieve them. Obama will inherit a State Department and a USAID so underfunded and understaffed that he will not be able to undertake even some basic diplomatic

*J. Anthony Holmes*

tasks, let alone engage in nation building, without reinvigorating these debilitated institutions. Thus, he should double the number of FSOs, increase the number of specialists at the State Department by 50 percent, and boost USAID's Foreign Service staff by 150 percent. All of this would cost approximately \$5–\$6 billion annually—or little more than two weeks' worth of what the government currently spends on the war in Iraq. Although this would represent a sizable increase over current spending on diplomacy, it is a negligible sum in the context of the total U.S. national security budget.

The Obama administration faces a stark choice: either continue on the same path of the past eight years and rely almost exclusively on the military or invest in the government's traditional diplomatic capacity and build the bureaucratic infrastructure needed to deal with postconflict stabilization, reconstruction, and nation building. Even if Obama moves boldly in this direction, results will not come immediately; the extent of degradation in the U.S. diplomatic corps means that hiring and training FSOs and rebuilding capacity will take many years. But the investment is well worth it. In order to reverse the decline of U.S. influence in the world, the new administration will have to address the profound systemic weaknesses that currently impede U.S. diplomacy. If the United States is to remain a superpower, it must rebuild the once-robust civilian diplomatic and development capacity that has since disappeared. 🌐

# Hong Kong

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## HONG KONG UNIVERSITIES OFFER STUDENTS A TRULY INTERNATIONAL EDUCATION WHILST HELPING TO INCREASE THEIR CAPACITY TO TAKE ON REAL-WORLD CHALLENGES

**H**ong Kong is best known as a global business hub, an autonomous economy within China that has in recent years benefitted from a direct link to the world’s most prolific industrial region on the mainland. But where China reigns in manpower, Hong Kong is aiming to enhance its academic capacity.

“With the world getting more and more globalized, there has also been increasing recognition that our higher education cannot continue to look inwards, it must look outwards,” says Michael Wong, deputy secretary of Hong Kong’s Education Bureau. In order to posi-

tion Hong Kong as a prime education hub in Asia-Pacific, the Special Administrative Region’s government recently widened its stride by accepting a larger quota of foreign students to its prestigious academic institutions.

“We also introduced a number of supportive measures,” Wong continues, “one of which is the setting up of a HK\$1 billion scholarship fund. It actually allows our universities to grant 150 to 300 scholarships, which give HK\$80,000 (around US\$10,000) for non-locals or HK\$40,000 (around US\$5,000) for locals per academic year.”

In addition, following a non-cumbersome application procedure administered by the Immigration Department, any non-local student graduating from a recognized Hong Kong institution is now allowed to reside and work in Hong Kong for an ensuing 12 months on a non-permanent basis.

“Within that one year,” explains the Immigration Department’s director, Simon Peh, “they can find a job and attend interviews, and from what we have heard it gives students much more convenience and thus facilitates them to remain and work in Hong Kong. Since May 2008, more than 2,500 graduates, including

those graduating in previous years, have been allowed to stay in Hong Kong pursuant to the new, simplified procedure.” Peh adds that Hong Kong also operates a highly liberal visa policy for casual travelers and business people: “About 170 nationalities can come to Hong Kong without a visa to visit for 7 to 180 days, depending on the country of origin.”

The framework allows Hong Kong’s eight institutions funded by the University Grants Committee (UGC) to compete on an equal footing with each other and with private schools. Funded universities are asked to come up with academic development proposals, which the UGC then considers on a merit basis. As an additional

boost to complement Hong Kong’s world-class university faculties with a wide variety of specializations, the government intends to set aside HK\$18 billion (US\$2.3 billion) for an endowment fund devoted to supporting research. Every single measure is geared toward fostering the innovative talent to secure Hong Kong’s future. •

## ACADEMIC DEVELOPMENTS

Hong Kong sets itself apart by being an amalgamation of modern and traditional, combining the best of East and West. One of the pioneering institutes to support this vision is the Chinese University of Hong Kong (CUHK). For over forty years, the university has been bringing China closer to the West. Upon his arrival from the United States four years ago, CUHK president and vice-chancellor Professor Lawrence Lau introduced the Edu-

cation Without Borders concept to further enhance the institution’s bilingual and international standing. “Today we have about 1,200 full-time non-local undergraduates, and another 1,000 exchange students from all over the world, 50 percent from North America, 25 percent from Europe, and 25 percent from Asia and Australasia. Hong Kong has some tremendous advantages,” notes Lau. “Internet is never blocked, libraries have

everything, and there is total academic freedom at our universities, so many foreigners eager to learn about China come to do their research here.”

Professor Lawrence Lau is also the convener of the Heads of Universities Committee (HUCOM). The consortium represents Hong Kong’s eight public universities: City University; Baptist University; Lingnan University; the Chinese



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University of Hong Kong (CUHK); Hong Kong Institute of Education; Hong Kong Polytechnic University; Hong Kong University of Science and Technology; and the University of Hong Kong (HKU). HUCOM seeks to facilitate the excellence of each one of its affiliates, and Lau doesn't rule out the possibility that Hong Kong institutions may reach global university status, as MIT, Stanford, and USC have managed to do. "If you put enough energy, resources, and effort it is possible within twenty to thirty years to achieve greatness," says Lau.

There have indeed been some significant research breakthroughs emerging from Hong Kong's universities. CUHK scholars Dennis Lo and Samuel Sun pioneered noninvasive Down's Syndrome testing and the development of rice and grass grown with seawater, respectively. The former will enable pregnant women of around age thirty-five to conduct a test merely by analyzing their blood, and the latter may well lead to agricultural and leisure developments in arid areas such as Saudi Arabia and the United Arab Emirates. In addition, crucial studies conducted by HKU

society. The government is giving us 800 more research postgraduate places, 17 percent more than we have now, which will help our universities attract good academicians."

So far, the unity of these diverse institutions has been highly beneficial not only in enhancing Hong Kong's educational reputation but, more importantly in helping to formulate and adopt common policies, in close cooperation with the government. Recently, after a five-year debate period, Hong Kong is switching from the British-inherited three-year undergraduate system to a four-year system. According to Education Bureau deputy secretary Michael Wong, the current consensus is that this extra year will be devoted to broadening the education of the city's university students. "Because of the additional year, and also because we are revamping the entire curriculum, the new senior secondary curriculum (NSS) will be much broader than what it is now. It will also cater for the needs of those students who may not excel academically, but who can adopt our applied-learning component," he says. •

**"Today we have about 1,200 full-time non-local undergraduates, and another 1,000 exchange students from all over the world."**

**Professor Lawrence Lau**, president and vice chancellor of CUHK

That approach is already bearing fruit: the London Times Higher Education-QS World University Rankings 2008, published in October, placed HKU, CUHK, and HKUST in the world's top 50 educational institutions.

have led to the ground-breaking discovery of the cause of the SARS epidemic. "It is very important to have a vibrant higher education sector," says Michael Stone, secretary-general of the University Grants Committee. "It makes for a more well-rounded

## EDUCATION AND INTERNATIONAL UNDERSTANDING

What do these recent developments mean for U.S.-Hong Kong relations? In a recent speech, the U.S. Deputy Secretary of State John Negroponte estimated that American companies have invested over US\$68 billion in Hong Kong, home to 55,000 U.S. citizens. Dr. Glenn Shive of the Hong Kong-America Center says foreign students coming to Hong Kong will have an additional advantage in comprehending the Chinese market. "There is growing interest in Hong Kong's

high-quality, English-medium, and open academic environment," he says. "Flexibility exists for students to take various courses without being put in a bubble. If an American student comes here, the mainlander next door will be a highly selected person, so if you want to rub shoulders with the next leaders of mainland China, a lot of them are here."

A survey of local and international academics, opinion leaders,

businesspersons, and professionals concluded that Hong Kong is synonymous with five core values: progressiveness, freedom, stability, opportunity, and high quality. "That makes up our most important DNA," observes Mary Leung, assistant director of the HKSARG Information Services Department, who oversees Brand Hong Kong. "It is cosmopolitan because of its international community, foreign students, mainland Chinese students, and entrepreneurs. It has



## “Education promotes mutual understanding and reduces conflict.”

**Professor Lap-Chee Tsui**

vice chancellor and president of HKU

connectivity due to its transport and telecommunications infrastructure and unique strategic location in East Asia and southern China. There is an enterprising spirit, which means a lot of creation and innovation, and all of this makes Hong Kong a leader with great achievements in many areas.” Senior Brand Hong Kong Officer Evani Au-Yeung says this colorful correlation is a prime reason for students and businesses to travel to and invest and settle in Hong Kong: “We hope people will agree that we are a world city located in Asia, a gateway to China and China’s window to the world.”

Hong Kong University’s internationalized student profile alone speaks of the city’s attractiveness. There are more than 4,000 non-local students from

54 countries on campus, constituting 18 percent of the total student population. The vice chancellor and president of HKU, Professor Lap-Chee Tsui, remarks: “Education promotes mutual understanding and reduces conflict.” Where U.S.-Chinese and U.S.-Hong Kong relations will be headed in the coming years depends highly on today’s students, and with U.S. president Barack Obama’s commitment to improving U.S. education across the board, the future looks bright on all fronts.

Michael Wong of the Education Bureau concludes by highlighting Hong Kong’s vision, which is not limited to education alone; it transcends into all walks of life in this unique metropolis. “We think that by looking outward we can achieve a win-win situation, whereby it’s not just our economy that will benefit, or not just our culture, but our students will also benefit from the opportunity to broaden their horizons, to meet more people from the outside world, and actually to understand the world better. We are very diversified, very professional, and we welcome international talent, whether they want to come to study or to live. Once they come I hope they will find it difficult to leave.”

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# Reviews & Responses



A crisis with global origins cannot be adequately tackled in purely national settings, even in a country as large as the United States.

The Making of a Mess *Harold James* 162

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Presumed Innocent *L. Carl Brown* 169

A Broader Agenda *Stephen R. Graubard* 176

Recent Books on International Relations 182

*Foreign Affairs* Bestsellers 204

Review Essay

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# The Making of a Mess

Who Broke Global Finance, and Who Should Pay for It?

*Harold James*

*Fixing Global Finance.* BY MARTIN WOLF. Johns Hopkins University Press, 2008, 230 pp. \$24.95.

The current financial crisis poses a fundamental challenge to globalization and to its many analysts. All are now considering what the recent meltdown means—the euphoric globalizers, few of whom are left; the tragic globalizers, who see the benefits of interdependence but worry about a great crash ahead; the managerial globalizers, who would like a better way of controlling the process; the critical globalizers, who are pushing for radical reform; and, of course, the antiglobalizers. Which global institutions might manage the international economy, and how? they all wonder. European leaders, for example, have called for a new Bretton Woods Conference to reconsider the architecture of the international financial and trading systems.

What kind of crisis is this, and what are its likely implications? Some crises are cathartic and push policymakers to take corrective measures; others, like the Great Depression, are radically destructive. Over recent decades, there have been blowouts at the financial center and storms at the periphery. After the meltdown in Latin America in the 1980s came a decade of stock-market and housing booms in the United States that eventually went bust. The Asian financial crisis of 1997–98 was also followed by a run on U.S. assets, causing a bubble (and the dot-com boom) that then burst. Is the latest financial collapse a first step on the road to a profound backlash against globalization? A decade ago, after the Asian financial crisis, Washington and various international financial institutions held up the U.S. system as a model to Asian

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### *The Making of a Mess*

governments. Today, it is Asia, especially China, that may be entitled to give Americans a lecture.

#### **MASSIVE FAILURES**

Martin Wolf, the *Financial Times*' chief economics commentator, has been a persistently insightful analyst. He has not forecast that financial globalization will necessarily end in disaster, but he has warned of its dangers and tried to address its shortfalls. Most recently, he has done so in *Fixing Global Finance*, an extremely helpful guide to the origins of today's problems and to possible solutions.

The book was completed before the financial turmoil hit this past fall but was released in its midst, and in some respects this awkward timing makes for peculiar reading. Wolf seems to have been offering an eloquent defense of financial globalization even as it was being execrated—not only by the usual church leaders and moralists, the French president, and the German finance minister but also by the candidates in the U.S. presidential election, who were calling for less greed from investors and more regulation by the state. Mostly, however, the book's timing is an advantage. Written before the crisis, it is unhindered by minutiae about the crescendo of ad hoc measures that several governments took throughout the fall: injecting liquidity, purchasing toxic assets, capitalizing banks, and, finally, nationalizing entire banking systems.

*Fixing Global Finance* begins by surveying the achievements of finance-driven economic integration over the past two decades and the vulnerabilities caused by the system's periodic crises. In a previous book, *Why Globalization Works*, Wolf devoted a great deal of attention to the

benefits of globalization. He argued then that it was "on balance highly desirable" and that it reduced poverty, enhanced prosperity, and promoted peace and democracy. There has been no fundamental change in his main argument. In this new work, Wolf expertly relays the debates that followed the Asian financial crisis of 1997–98 and the extraordinary ballooning of the U.S. current account deficit in the first years of this century—debates that asked whether the global imbalances that had prompted these crises were extraordinary threats or permanent features of the world economy. For Wolf, these imbalances are extraordinary, and it is they, rather than globalization itself, that threaten the stability of both mature and emerging markets.

In a move that may seem odd today, given the current talk about the end of capitalism, Wolf's book casts the American model of financial liberalization as a hero and Chinese mercantilism as a villain. Wolf argues, for instance, that China's "inordinately mercantilist currency policies" have caused dangerous imbalances. In order to maintain its exports' competitiveness on the world market and keep a vast (and potentially restive) work force occupied, Beijing prevented the Chinese currency from appreciating against the dollar and thus from driving up the price of China's exports. The result was a vast trade surplus. A byproduct, largely unintended, was the piling up of reserves of U.S. dollars, which Beijing then placed mostly in U.S. government securities. (It also invested in quasi-state institutions, such as Fannie Mae and Freddie Mac, thereby indirectly enabling their recklessly aggressive lending.) This is Wolf's international spin on Alaskan Governor Sarah



*Harold James*

Palin's explanation for the crisis—"Darn right, it was the predatory lenders"—only his predators are the Chinese.

As it happens, Beijing's decisions have also turned out to be more of a mixed blessing for China than is generally understood. Since 2000, Chinese assets abroad have earned very poor returns—and with the depreciation of the dollar, by some measures they have even performed negatively. As Wolf points out, because the U.S. government was—as it still is—at liberty to print as many dollar bills as it wanted, it could always in effect expropriate assets denominated in its currency. The rapidity of U.S. monetary expansion in the era of Federal Reserve Chair Alan Greenspan made this more than a theoretical risk. China, or rather its citizens, paid a high price for Beijing's mercantilism.

Wolf's narrative blaming China may seem remarkable now that everyone is excoriating the U.S. financial system, the U.S. Federal Reserve, and Greenspan in particular. With the Federal Reserve effectively acting as the Chinese central bank, one argument goes, an overly lax U.S. monetary policy was threatening the world with inflation. But Wolf contests this view, arguing that the Federal Reserve did roughly what central banks are supposed to do, namely, keep inflation in check. In his opinion, growth in the U.S. money supply in the early years of this decade was "not unreasonably high." At the time, the Federal Reserve insisted that its job was to look at price levels generally, not to puncture bubbles in some asset prices. For Wolf, "The United States is at least as much the victim of decisions made by others as the author of its own misfortunes." It was only natural, perhaps even inevitable, in Wolf's view, that the United

States would emerge as the borrower of last resort, with its perceived reliability as a debtor fueling global growth.

But instead of quietly expropriating assets held by the Chinese by gradually devaluing the dollar, the borrower of last resort got into trouble itself. Even though the global financial system melted down after Wolf completed his book, his first chapter already warned that the world of finance was "a jungle inhabited by wild beasts." As the subprime mortgage crisis of 2007 mushroomed in 2008, a profound flaw at the core of the U.S. financial system was revealed. Partly due to a glut in global savings, assets had been repackaged so thoroughly and resold so often that it became impossible to clearly connect the thing being traded to its underlying value.

The \$700 billion bailout announced by the U.S. Department of the Treasury in late September was designed to remove from banks' balance sheets mortgages and other securities that in some way corresponded to real houses. But it is still unclear today how these assets are to be valued or how that valuation might wind up benefiting or hurting their new owners. In the United States and in Europe, the hope is that governments will assume many of the risks inherent in this uncertain valuation—and tame the wild beasts of the financial jungle through state-backed and state-run banking systems. To some, this is profoundly ironic. As Russian President Dmitry Medvedev put it in September, the experience shows that "the move from self-regulating capitalism to financial socialism is only one step." American free-market capitalism was not supposed to look like this.

### *The Making of a Mess*

#### FREE FALL

Wolf himself predicted the dramatic turn of events months before the worst of the crisis. In a *Financial Times* column last March, when U.S. government efforts to rescue the investment and brokerage firm Bear Stearns seemed to indicate that everything would soon be all right again, Wolf wrote, referring to the day of the bailout, “Remember Friday March 14 2008: it was the day the dream of global free-market capitalism died.” Just six months later—and a decade after it lectured Asian governments—Washington seemed to adopt a Chinese-style solution to its escalating financial problems: greater state intervention to restrict the movement of capital.

But there are dangers and limitations inherent in this approach, too, especially given that, as Wolf warns, instability and vulnerability will not be confined to the United States and that “financial crises are most significant when they are international.” This crisis may have originated in the United States, but it has rapidly become global.

Some emerging markets are highly vulnerable to financial implosion. Collapses have begun to happen in Brazil, Hungary, Iceland, Indonesia, Pakistan, Russia, the Baltic republics, and Central Asia, as investors stampede away from risky assets. And with these failures comes the risk of major geopolitical instability, because many of these vulnerable countries and regions lie on political fault lines. Such crises help promote anti-Western reactions, including militant forms of Islamic fundamentalism. These threats should be taken very seriously.

The possibility of geopolitical turmoil is all the greater because so far the bailouts

have been handled in a purely national context, while international institutions have been nervous and hesitant. The discussion has been entirely domestic in the United States and, more surprising, in Europe, too. In fact, the failure to find a supranational mechanism for dealing with Europe’s large and internationally active banks is rapidly developing into the Achilles’ heel of the continent’s ambitious project to build a monetary union. The European Union’s governing bodies can only leave bank bailouts and their fiscal implications to national authorities. Germany and Ireland each tried to create what the German finance minister, Peer Steinbrück, has called an “umbrella” over their national banking systems. But in these days of high capital mobility, this appears to be a very poor solution. It is likely only to prompt a wild rush of fund transfers as governments try, in their own idiosyncratic ways, to prop up their banking systems and as depositors move their assets away from countries at risk of needing bailouts. Every state for itself, and every depositor for him- or herself.

Meanwhile, international financial institutions have largely stood on the sidelines of the meltdown. Since the end of World War II, there has been a belief that international cooperation can tackle major problems. But that faith is now being tested. The current financial collapse is the first international financial crisis since the 1944 Bretton Woods Conference in which the International Monetary Fund has played no role at all in tackling the causes of the problem and only a secondary part in managing its consequences. In addition, the current financial crisis threatens to trigger trade protectionism precisely at a time when the sputtering of the Doha

*Harold James*

Round of multilateral trade negotiations has weakened the World Trade Organization. Institutions such as the IMF and the WTO have become largely ineffective and irrelevant because of a general shift away from the belief in a rule-based international order and toward a Machiavellian view of the world in which power is all-important. Critical decisions about an international response to the financial crisis have been left largely to the G-7 (the group of highly industrialized states), a patently unrepresentative body that excludes major new centers of global savings and trade surpluses, such as China.

### **A NEW BRETTON WOODS**

It is thus both bold and constructive for Wolf to see current financial problems as global issues requiring global answers. In a late chapter, "Toward Global Reform," he calls for the big emerging markets, especially those, such as China, with large savings ratios, to abandon capital controls, allow their exchange rates to float, and begin borrowing mostly or entirely in their own currencies. There have been substantial steps in this direction. Several major emerging countries, including Brazil, China, and Mexico, have already developed their own capital markets and thereby overcome what the economists Barry Eichengreen and Ricardo Hausmann term the "original sin" of dependence on foreign currency borrowing (which tends to increase vulnerability to crises by creating a dangerous mismatch between liabilities in a foreign currency and assets in the domestic currency).

But Wolf rightly argues that international action is also required. In his view, the IMF should better represent the new centers of global growth: its voting rules

should be altered accordingly, and its managing director should no longer be a European appointment. Wolf also proposes that the IMF more actively manage currency reserves. He advocates greater pooling of assets in order to establish funds that could be tapped promptly in times of crisis.

The logic of these proposals is sound, but they should be extended: as the economist Michael Bordo and I argued in an article for VoxEU.org last June, under the present circumstances, the IMF should take on the role of asset manager. The conditions that created the global savings glut—especially insecurity in emerging markets—still exist, and so an important question for the future is, Who should manage these assets? Are governments and existing international institutions doing a good job? If the IMF were to manage some part of the vast global savings pool, it could act much more effectively as a crisis manager. If it oversaw a significant part of the reserves of countries with surpluses, it would be in a strong position to take bets against speculators or stabilize markets when prices moved in a disorderly way.

When the IMF was created, in 1944, there were few major private capital flows in the world; states dominated international transactions. Today, private flows play a preponderant role, and extending the IMF's mission would be a way of responding to that reality. And the need to do so has become much more urgent since Wolf finished writing his book, in the very early stages of the current crisis.

Stabilizing action by the IMF would benefit both the global economy and the reserves' owners, which, simply by virtue of their accumulated surpluses, share an interest in the world's financial and economic

### *The Making of a Mess*

stability. Many previous financial crises have been resolved only by the actions of massively powerful financial players, sometimes private ones (such as J. P. Morgan in 1907) but more frequently states (such as the U.S. government with the New Deal in the 1930s and the Swedish government in the 1990s). Financial giants can make bets on stabilization and recovery and reverse the momentum of the global market.

There is a further advantage to IMF action. Bringing reserve assets under the management of an internationally controlled entity would also remove suspicions about governments' use of assets for strategic political purposes. Such concerns were bedeviling discussions before the outbreak of the financial crisis; in fact, the geopolitical use of finance was one of the ills that the Bretton Woods Conference was supposed to remedy over half a century ago. The current meltdown has only magnified these fears. In October, Russia sprang in with money to assist Iceland—a move that was interpreted as an attempt to buy greater influence over the Arctic—and China has been gaining influence across the world through strategic investments in poor countries.

In the course of developing new functions for the IMF, it would be important to distinguish between day-to-day transactions and crisis management, much as central banks and national regulators do. Placing large stocks of assets under the routine management of the IMF could stave off speculative attacks and stem irrational panics: with the IMF in a situation to intervene preemptively, possibly at the request of targets of speculation, speculation itself would become more costly. The IMF's enhanced asset base would also enable the fund to switch into crisis mode

without long discussions and formal negotiations. It could respond quickly and, like other asset managers, without setting off a geopolitical debate about the strategic implications of the investment.

Given widespread suspicion in emerging markets about the IMF's motives and standards, expanding the IMF's power would require reforming governance at the organization. Wolf's suggestions for new voting and appointment rules are steps in the right direction, but they do not go far enough. Industrial states, especially European ones, are overrepresented; the United States has too much influence; and new centers of wealth, which have accumulated massive savings, are underrepresented. If the IMF were to become a reserve manager, it might be possible to substantially reform the organization's voting rules: for example, a country's voting clout on the IMF's executive board could be partly determined by the amount of convertible currency it voluntarily deposited at the IMF. A new mechanism for calculating votes along these lines would immediately give greater voice to emerging-market economies. It would make the IMF both more representative of the real balance of economic power in the world and more legitimate.

In this new role, the IMF could directly provide crisis-stricken countries with a lot of support. In situations in which the fund's managers believed a crisis was entirely or predominantly caused by speculation rather than fundamental problems, it might also be able to intervene directly in currency markets. A decision to do so would be made not by governments or the IMF's executive board, but by the IMF's managers, who would ultimately be accountable to the board and to the

*Harold James*

governments that fund the IMF. Some might object to giving the organization such an activist role. The best way to address their concerns would be to set strict criteria for long-term performance, including regular benchmarking, and ensure oversight by the IMF's executive board.

### **A BEIJING CONSENSUS**

A crisis with global origins cannot be adequately tackled in purely national settings, even in a country as large as the United States. An effective international financial system is needed, as well as strong incentives for powerful states to act within it. Without such an international order, countries are left to act on their own. Big countries might do a better job of this than smaller countries with more open and more vulnerable economies. But since even geopolitical giants are likely to resort to the solutions that appeal most to their domestic constituencies, they will tend to insulate themselves from the rest of the world. And that protectionist reflex could return the world to the misery of the 1930s.

The need for managed international action raises the question of which country should be its main driver. Like the United Kingdom during the Great Depression, the United States today is unwilling, and probably unable, to act as the world's stabilizer. Meanwhile, China, the preeminent holder of global savings, may now be in a position comparable to that of the United States in the 1930s, when isolationism at home stymied any chance that Washington would take action abroad. Like the United States back then, China today cannot hope to stabilize the world on its own. It would need to work through an institutional framework. But Beijing is

unlikely to take on a key role in reconstructing the global financial system without guarantees that its interests would be recognized in the new order.

The response to the Asian crisis of 1997–98 was the reinforcement of the American model of financial capitalism, the so-called Washington consensus. The response to the contagion caused by the U.S. subprime crisis of 2007–8 will be the elaboration of a Chinese model. One can only hope that this new approach will not reflect an autarkic or nationalist policy, whereby the Chinese stand by and continue to save (and suffer) while the world's financial order collapses. That would really spell the end of globalization—and of the prospects for a peaceful world order. 🌐



Review Essay

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# Presumed Innocent

## Lessons of the Past for the New Middle East

*L. Carl Brown*

*Innocent Abroad: An Intimate History of American Peace Diplomacy in the Middle East.* BY MARTIN INDYK. Simon & Schuster, 2009, 528 pp. \$30.00.

*Innocent Abroad* treats the United States' Middle East policy and performance in the region during the eight years of Bill Clinton's presidency. It is an "intimate"—or, better, an insider's—account written by a former senior official. And rather than a history of "peace diplomacy," it is a history of agreements made, agreements missed, the aftermath of a war that left in its wake an untidy resolution, and covert actions gone awry—all within the context of the sole post-Cold War superpower's defining its role in the Middle East.

Rather than titling this book *Innocent Abroad*, it would perhaps have been better to evoke directly Mark Twain's plural—*The Innocents Abroad*. Americans, Martin

Indyk asserts, are the innocents, seeking to "make the Middle East over in America's image." This generates "a troubling naivete in the American approach to the Middle East that is part innocence, part ignorance, and part arrogance."

Yet Indyk's account does not in fact exhibit the dominance of innocence or ignorance, and arrogance is simply the usual attitude of great powers in dealing with lesser states. There are, however, different lessons to be learned from *Innocent Abroad*, some asserted by the author and others to be gleaned from a careful reading of the book.

### AN INSIDER'S ACCOUNT

Indyk, born in London and raised and educated in Australia, where he earned a Ph.D. in international relations, came to the United States in the early 1980s. For a time,

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*L. Carl Brown*

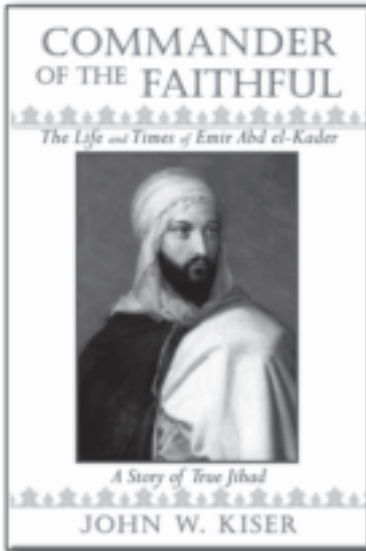
he worked as a researcher at the American Israel Public Affairs Committee, which calls itself “America’s Pro-Israel Lobby.” He left AIPAC to found the Washington Institute for Near East Policy (WINEP), a think tank that he directed for some seven years. From there, he was recruited into the Clinton administration, where he served first as a senior official concerned with Middle East policy on the National Security Council and then twice as U.S. ambassador to Israel (April 1995 to September 1997 and January 2000 to July 2001), filling in the intervening years as assistant secretary for Near East affairs in the State Department.

Given Indyk’s background in WINEP—which is generally viewed as pro-Israel and thus anti-Arab (the former is fair enough, the latter not necessarily)—was his an inappropriate appointment? This much can be said (although it will satisfy no one): a research organization, or think tank, is not a lobby. Think tanks come in all political hues; consider the Brookings Institution (where Indyk is now) or the American Enterprise Institute. And Indyk was in no way a stealth candidate for an appointment. The Clinton administration must have liked his resumé—the White House even hastened the process of getting him U.S. citizenship—and his take on the issues. One could argue that a more neutral candidate might have come from the career foreign or intelligence services, but career officials can be equally politicized, deliberately or in spite of themselves. (Think of “those Arabists in the State Department,” “Arabist” being a misleading label but one that at one time had gained considerable traction.) Choosing outside specialists, especially from universities and think tanks, to fill high government

positions has long been an accepted practice of presidential administrations. Such an appointment was as appropriate as, say, recruiting an Arab American specialist in Middle Eastern studies from an Ivy League university might be. And Indyk, in any case, is quite up-front about his attachment to Israel—an attachment that he sees as consistent with U.S. policy. He supported the Clinton administration’s efforts to bring about a negotiated and just settlement between Israel and its neighbors.

*Innocent Abroad* tackles the key developments in U.S. Middle East policy during Clinton’s presidency. It discusses the inauguration and subsequent fate of the “dual containment” policy, which was announced in May 1993 by Indyk himself in a WINEP meeting. This policy statement, which rejected balance-of-power politics, proclaimed that the United States would contain both Iran and Iraq, adding that Saddam Hussein’s regime was “irredeemable.” Indyk also recounts the first try at a “Syria first” policy—giving priority to seeking an Israeli settlement with Syria rather than with the Palestinians. This was derailed by the Oslo agreement between Israel and the Palestinians, which reversed the priority. He goes on to address the frustrating U.S. efforts to hem in Saddam, with the ultimate goal of his removal, which included an ill-fated covert action in 1995 and then Operation Desert Fox in December 1998. The latter brought four days of U.S. aerial attacks against Iraq after Saddam had yet again stymied the United Nations inspectors seeking to carry out their weapons-monitoring duties. Meanwhile, efforts to achieve a breakthrough in U.S. relations with Iran (before and during the presidency of the reformer Muhammad Khatami) proved

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*Complete Report of 2007 Hoover Institution Conference*

Edited by

**George P. Shultz, Steven P. Andreasen, Sidney D. Drell, and James E. Goodby**

Drawn from presentations made at the Hoover Institution's October 2007 conference, this collection of essays examines the practical steps necessary to address the current security challenges of nuclear weapons and to move toward the Reykjavik goal of eliminating all nuclear weapons. The distinguished group of contributors includes former officials of the past six administrations, Republican and Democratic, along with senior scholars and scientific experts on nuclear issues.

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### *Presumed Innocent*

fruitless, roiled by such actions as those by U.S. Representative Newt Gingrich (R-Ga.), who led the fight to get passage of the 1996 Iran-Libya Sanctions Act (ILSA). Finally, Indyk addresses the second effort to orchestrate an Israeli-Syrian settlement, which also came to naught, in early 2000, and then the dramatic negotiations, pushed by Clinton through the last half of 2000, that came so close to achieving a grand bargain between Israel and the Palestinians at Camp David.

Indyk follows the events of these eight years through the activities of the handful of individuals who were designing the United States' Middle East policy. His narrative serves as a reminder that the hammering out of policy is never without a clash of ideas. Two examples: the Syria-first policy emerged from a bureaucratic battle lost by those who favored a policy of putting the Palestinians first, and the Joint Chiefs of Staff, soon after the Gulf War, proposed considering some kind of accommodation with the defeated Saddam. Indyk is also well aware of the part played by contingency in history—when events that could not have been anticipated transform the diplomatic landscape. In this case, these include the February 1994 massacre of Muslims at prayer in Hebron by the Israeli settler Baruch Goldstein, the flight to Jordan of Saddam's son-in-law Hussein Kamel in August 1995, and the assassination in November of that same year of Israeli Prime Minister Yitzhak Rabin.

*Innocent Abroad* even has its comic touches. Before the September 1993 White House meeting between Rabin and Yasir Arafat, Clinton and his team went through frenzied efforts to make sure that Arafat did not kiss the president at the public ceremony to inaugurate the Oslo peace process.

### **CLINTONIAN DIPLOMACY**

Throughout the book, Indyk offers maxims about what works in diplomacy and what does not. Persistence is critical. When the United States demonstrates serious intent in addressing Arab-Israeli problems, and works hard toward that end, it reaps advantages even if the immediate issue is not resolved. Indyk also argues that pushing for multiple Arab-Israeli negotiations (put crudely, playing off one Arab state against another) can be effective. Much is made of the way the timing of King Hussein's opting for a peace treaty with Israel was pegged to his desire not to be at the end of the queue, as he was hearing peace rumblings from Syria and the Palestinians.

Some of Indyk's maxims seem a bit off target. He maintains, for example, that "American presidents can be more successful when they put their arms around Israeli prime ministers and encourage them to move forward, rather than attempt to browbeat them into submission." Would an embrace have worked wonders with that hard-edged realist Rabin? Would a little tough talk not have been useful with the slippery Benjamin Netanyahu?

Overall, Indyk comes across as a team player, offering the most positive possible appraisal of Clinton's Middle East policy. At the same time, he does criticize aspects of the Clinton administration's performance, including that of Clinton himself. The most telling example concerns Clinton's behavior following the breakdown of the negotiations between Arafat and Israeli Prime Minister Ehud Barak in the last days of his presidency. Clinton openly blamed Arafat and told the incoming U.S. president, George W. Bush, that negotiating with Arafat was useless. If Clinton had



*L. Carl Brown*

instead abstained from blaming Arafat and let his own celebrated parameters (included in the book in an appendix) stand as a possible basis for later negotiations, Bush might have attempted to revive the talks. Instead, Bush concluded—as he told Indyk when, as outgoing U.S. ambassador to Israel, Indyk accompanied Ariel Sharon, who had just been newly installed as Israel's prime minister, to the White House—“There's no Nobel Peace Prize to be had here.”

That Indyk manages to get in a jab at Bush even in the context of criticizing Clinton illustrates a rhetorical touch used throughout the book: burnish the Clinton record by holding it up against the eight years of the Bush administration. It is surely easier to make the Clinton administration look good in a book written in 2008 than it would have been eight years earlier.

### **BOXED IN**

Rather than follow Indyk's lead of contrasting the Clinton years with the Bush years, it may be more useful to ask whether the Clinton administration's policies and performance made the missteps of the Bush administration more likely. At the time of the 2000 presidential election, the Clinton administration's record in the Middle East was seen as a failure. Yes, an Israeli-Jordanian treaty had been achieved, but that had been early on. Of more recent memory was the bleak reality that there had been no progress with Iran or Syria and that, devastatingly, no Israeli-Palestinian settlement had been reached. (The many informed appraisals of the failed Israeli-Palestinian negotiations throughout the last months of the Clinton administration may be roughly broken down into a majority view that places ultimate responsibility for the failure on Arafat and a

minority view that faults Barak and Clinton in varying degrees. Indyk's account fits into the majority view, but he does detail many mistakes by Barak and Clinton.) And Saddam, nine years after Desert Storm, remained in power—weakened by sanctions and restrictions on his control of the Kurdish north and the Shiite south but still defiant and apparently dangerous. Nothing that the Clinton administration had tried during its eight years seemed to have worked.

How all this factored into the public mood and U.S. political dynamics at the time is evident in the party platforms for the 2000 U.S. presidential race. This is from the Republican platform:

The anti-Iraq coalition assembled to oppose Saddam Hussein has disintegrated. The administration has pretended to support the removal of Saddam Hussein from power, but did nothing . . . and failed to champion the international inspectors. . . . When, in late 1998, the administration decided to take military action, it did too little, too late. . . . We support the full implementation of the Iraq Liberation Act, which should be regarded as a starting point in a comprehensive plan for the removal of Saddam Hussein.

The Democratic Party platform, more laconic and reserved, offered this:

We are committed to working with our international partners to keep Saddam Hussein boxed in, and we will work to see him out of power. . . . As President, Al Gore will not hesitate to use America's military might against Iraq when and where it is necessary.

By 2000, in short, Saddam was not the only one “boxed in.” Both U.S. political parties were boxed into a Saddam-must-go policy. Dual containment posited that both Iran and Iraq were to be contained, but whereas

Iran was offered the prospect of a changed U.S. policy in exchange for a change in its own behavior, Saddam faced no such incentive. “Iraq,” Indyk had said in his dual-containment speech, “is a criminal regime, beyond the pale of international society and, in our judgment, irredeemable.” As Indyk explained, Clinton would try a mix of carrots and sticks in seeking to change the behavior of other rogue regimes, but “there would be no carrots for Saddam Hussein—only sticks designed to debilitate him to the point where he could eventually be toppled.” Indyk notes that there were only two occasions when the idea of offering carrots to Saddam was even raised. The first was when Clinton, before being sworn in, stated in an interview that he did not rule out a “deathbed conversion” by Saddam, which could prompt changes in U.S. policy. The second was in January 1998, when the State Department’s chief spokesperson, James Rubin, mentioned possibly offering Saddam “a little carrot” in exchange for compliance. “In both cases,” Indyk sardonically adds, “the remarks were immediately corrected.”

Why was the doctrine of dual containment adopted? It was intended, Indyk points out, to block trouble from both Iran and Iraq that might frustrate efforts to achieve negotiated settlements in the Arab-Israeli arena. (Other sources have suggested a linkage between dual containment and the emerging thinking in Israel that Iran now loomed as Israel’s principal threat.) In any case, diplomacy by unilateral pronouncements, however mixed the results, was hardly unprecedented in U.S. policy toward the Middle East: witness the Truman, Eisenhower, and Carter doctrines.



### DUAL CONTAINMENT IN PRACTICE

Indyk reports that Tehran interpreted dual containment as “a declaration of hostile intent” and that that interpretation, on top of Iran’s typical “paranoia and mistrust,” left the Iranians inclined to believe that Clinton

*L. Carl Brown*

sought regime change in Iran. It seems fair to conclude that dual containment, which was announced in the early months of the Clinton administration, cast a dark shadow over the later efforts by the United States to pursue détente with Iran.

Another effect of proclaiming policies publicly and unilaterally is that they then shape the thinking of the domestic, as well as the foreign, audience. Indyk argues that the pressure from Senator Alfonse D'Amato (R-N.Y.) and AIPAC to pass ILSA in 1996 surely set back any efforts to achieve a possible opening between the United States and Iran. The forces advocating ILSA might well have gotten this legislation passed in any case, but being able to point out that ILSA was consistent with the United States' stated policy, that is, dual containment, surely eased matters.

If dual containment vis-à-vis Iran contributed to the derailment of whatever chance there might have been for détente with Iran, the consequences in the case of Iraq were even more serious. There, a policy positing regime change offered Saddam no inducement to do anything other than dig in his heels. Any wiggle room that might have been read into the dual-containment statement was removed by the 1998 Iraq Liberation Act, which made it official U.S. policy to seek to remove Saddam from power.

That said, it must be noted that U.S. relations with Iraq throughout the Clinton era were caught up in the actions of another "regime" with its own problems with change. This was the United Nations Special Commission (UNSCOM), which was charged with overseeing the destruction of Iraqi weapons of mass destruction. Set up in the immediate aftermath of the Gulf War, UNSCOM had a mandate that involved

an elaborate and, to the United States, frustrating exercise of multilateral diplomacy, which is captured well in Indyk's chapter "Saddam Resurgent." Washington found itself being manipulated by the cat-and-mouse game Saddam played with the UNSCOM inspectors, and both international and domestic support for continued inspections and sanctions seemed to falter as it became clear that neither threats nor limited force (such as Operation Desert Fox in 1998) was having much effect on Saddam.

Concurrent with these policies were inept and failed covert actions to topple Saddam. A covert action is a *deus ex machina* invoked by a government when overt pressures have not worked against the target and outright military action is ruled out as being too expensive and too unpopular. Covert actions are supposed to be secret, with no trace of the hand involved (thus allowing for "plausible deniability"). In the past, such U.S. actions were often kept secret from the American people, but they were almost never kept secret from those being targeted. In the case of Iraq, one enters an Orwellian world in which proposals for funding covert actions were overtly aired in the media and approved in Congress. These abortive covert actions, together with the frustrating results of overt actions against Saddam, created the impression that no option was left save war.

Sustaining this interpretation is Indyk's observation that "President Clinton and most of his senior advisers supported President Bush's decision to use force to topple Saddam Hussein." Admittedly, Indyk goes on to insist that they "did not believe Saddam posed an imminent threat. . . . This meant that Bush had time: time to finish the job in Afghanistan, time to put the Israeli-Palestinian peace process back

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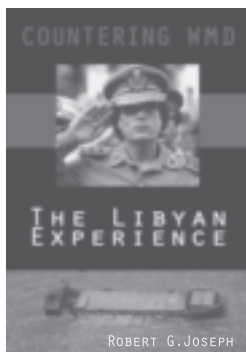


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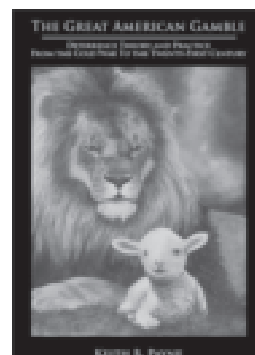
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Dr. Robert Joseph is a Senior Scholar at the National Institute for Public Policy. Previously, he was Under Secretary of State for Arms Control and International Security and Special Envoy for Nuclear Nonproliferation.

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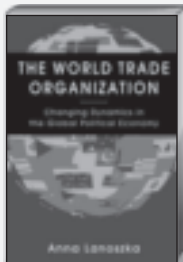




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### *Presumed Innocent*

on track, time to plan properly for overthrow's aftermath, and time to secure international approval before he launched the necessary ground invasion of Iraq." This amounts to an argument over timing, and that argument was largely overcome by the (inaccurate) reports of Saddam's weapons-of-mass-destruction capabilities. The Clinton team had long since conceded the basic premise that only war would work, and its own record of struggling with Iraq had led to a policy of regime change. Even without the shock of 9/11, the Bush administration might have opted to invade Iraq—and the record of the Clinton administration would have eased Bush's task of persuading Congress.

#### **A LESSON IN DIPLOMACY**

What can be learned from the eight years of the United States' Middle East diplomacy described and interpreted in *Innocent Abroad*? First, policy positions presented unilaterally, such as dual containment and its successors, are more likely to provoke resistance than concessions. This is especially the case when a superpower is confronting regional powers such as Iran and Iraq, states with a long history of seeing themselves as pawns in great-power politics. Second, strong unilateral foreign policy statements can be red meat to domestic political forces seeking to lock in even more hostile policies. Third, if you are not prepared to get rid of opponents immediately, then it is prudent to leave them some prospect of escaping your wrath. And finally, covert actions have a high rate of failure. Even successful attempts usually prove detrimental in the long run. (Consider the 1953 coup against Iran's Mohammad Mosaddeq.) Washington would be wise to get out of the business

of covert regime change altogether. The resources saved could be used to make the CIA the world's best at gathering and analyzing intelligence and engaging in counterintelligence (for the sake of, among other things, taking on terrorist networks).

Would a policy embracing these lessons have produced satisfactory solutions for U.S. relations with Iran or Iraq during the Clinton years? I suggest a cautious likely in the case of Iran and a bleak unlikely in the case of Iraq: not all stories have a happy ending. Still, such a policy just might have nudged the Bush administration away from its more aggressive policies. Indeed, an alternative title for Indyk's book might have been *From Dual Containment to Axis of Evil*.

*Innocent Abroad* is a well-constructed insider's account, one sure to be mined by historians (my working copy is dog-eared and heavily annotated), of the United States' Middle East policy during the Clinton years, with important lessons—some explicit, others implicit—for U.S. Middle East policy going forward. Now, with another presidential transition under way, is a good time to consider these lessons—with the hope that this time, they may be more likely to be followed. In a sense, the transition from the Clinton administration to the Bush administration offers a mirror image of that from Bush to Barack Obama. In the former, the prevailing sense was that there was a need to take more aggressive action to remedy the poor performance of the past. This time, the situation is reversed, with a perceived need to take more prudent action to repair the damage caused by the missteps of the Bush years. 🌐

Response

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# A Broader Agenda

## Beyond Bush-Era Foreign Policy

*Stephen R. Graubard*

Decades from now, when historians are tempted to examine American opinion at the time of the United States' 2008 presidential election—which has been hyped by some as the most important in over a century—old *Foreign Affairs* articles are likely to prove instructive. They will confirm that the United States appeared to suffer from what may best be described as a “democratic deficit.” It will seem that political sages were an endangered species, with imagination and boldness scarcely evident in an excessively timid and puerile political oratory, but the more serious condition may have been the poverty of discussion on what were expected to be the crucial foreign policy issues of the future. In the political palaver of the day, the foreign affairs agenda invented almost eight years before by a strutting but feckless president still held sway to a surprising extent.

This shortsightedness is evident in Richard Holbrooke's essay on the “daunting agenda” likely to confront the next president (“The Next President,” September/October 2008). One can only be surprised at Holbrooke's assertion that “the next president will inherit a more difficult opening-day set of international problems than any of his predecessors have since at least the end of World War II.” This, a dubious proposition at best, ignores the more serious foreign policy challenges confronted by Harry Truman, Dwight Eisenhower, John F. Kennedy, Lyndon Johnson, and Richard Nixon when they entered the White House. Holbrooke, in so greatly exaggerating contemporary hazards, unwittingly gives credence to the argument made by President George W. Bush and his advisers that there has been no time more dangerous than the present. Holbrooke differs from these

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### *A Broader Agenda*

Republican alarmists principally in his argument that the Bush administration failed to address the problems in what he terms “the center of the arc of crisis”—Afghanistan, Iran, Iraq, Pakistan, and Turkey—raging fires he thinks call for an emergency response. Meanwhile, he does not suggest that the next administration might do well to concentrate its prime efforts on foreign policy issues that are less obviously pressing but offer greater opportunities for a fundamental transformation of the international system.

Holbrooke’s partiality is scarcely less evident than that of Robert Kagan, Holbrooke’s putative ideological and political adversary, whose neoconservative credentials are manifest in his more nuanced but no less partisan essay, “The September 12 Paradigm” (September/October 2008). A friendly critic might be tempted to summarize Kagan’s argument as “everything is going well,” although this, as Kagan knows, was not always so. Renowned for his disillusion with Europe, Kagan represents its policies in the years following the demise of the Soviet Union as selfish and shortsighted. Luxuriating in their unprecedented prosperity with no obvious foe in sight, Europeans, Kagan argues, seemed content to characterize their longtime U.S. protector as, in his words, “crass and brutal” rather than as a political, social, or economic model. The tragedy of 9/11 changed all this, but only for a moment. Europe’s sympathy and support for the distressed giant, so cruelly attacked, was very quickly replaced by new suspicions when Bush made unmistakable his resolve to have the United States resume its role in “the business of global leadership.” The country, considered by its critics to be, in Kagan’s words, an

“angry Leviathan,” received scant commendation for the risks it took in waging its so-called war on terror, a war that Kagan calls “Bush’s greatest success.” Today, the situation in Iraq is changing again, thanks largely to the United States’ military successes following the surge in U.S. troop levels. In Kagan’s eyes, all appears to be going well again. Believing that the prospects for success in Iraq are greater today than what seemed possible two years ago, Kagan ends his essay with the somewhat pallid plea that the next administration learn from both the mistakes and the successes of the Bush years.

#### **NEW TIMES, NEW THINKING**

Neither Holbrooke nor Kagan shows great originality or boldness in what he proposes. Both essentially accept many of the foreign policy priorities established by Bush, and neither recommends a fundamentally new agenda. The question, inevitably, is whether such innovation is conceivable today and whether the stale discussions of yesterday can be set aside.

Might a more novel U.S. foreign policy start with the simple proposition that the United States’ alliance with the democracies of western Europe, which has been greatly impaired of late, requires more than modest repair? Europe is not today what it was when Bush took office, and it scarcely resembles the Europe that President Bill Clinton claimed to know. The great expectations that U.S. policymakers once had for the nascent European Union have been greatly compromised, and hardly anyone has such expectations today. What, if anything, can the United States do to restore the hope that once existed? And is it, indeed, in its national interest to do so? Can the U.S.-British alliance, for example,

*Stephen R. Graubard*

be made more vital, replicating in new dimensions the kinds of collaboration that were so effective in the past? Where do France and Germany fit into the new European political mosaic now forming, and will economically struggling Italy be left outside of it? What policies ought to shape the United States' relations with states as different as Bulgaria, the Czech Republic, Hungary, Poland, and Serbia, which were liberated from communist rule only two decades ago? Can Europe be restored to a more prominent place on the U.S. foreign policy agenda, and what benefits would such a change bring? Is the time for "benign neglect" over, and what new joint diplomatic and political efforts are possible and indeed conceivable in areas European countries once occupied, in Africa and the Middle East, for example? Can the collaboration of Europeans be relied on in resolving seemingly intractable international problems?

A second fundamental change, more difficult to achieve, would start with the rarely mentioned proposition that U.S. policy vis-à-vis Russia in recent years has been benighted and excessively belligerent. Although no good purpose is served by dwelling on the responsibility of both Russia and the United States for the tragic imbroglio in Georgia last August, their differences need to be placed in a more global perspective. The United States needs Russia as an ally in dealing with radical Islam, which poses a threat to both countries. If Russian Prime Minister Vladimir Putin and Bush have been excessively contemptuous of each other lately, with neither wholly appreciating the hazards created by their growing suspicions and mutual disdain, a new effort must be made to recognize that these adversarial

relations serve the interests of neither country. Although some neoconservatives seem to irrationally crave a new Cold War with Russia, this would never be in the U.S. national interest. The greatest need today is for a more acute understanding of how Russia has changed since the time of President Boris Yeltsin, of why the United States is no longer living in the age of Ronald Reagan, and of the fact that neither state is a "revolutionary" society intent on disrupting the world order. Each craves stability for its own domestic reasons, and although both are still strong militarily, neither is wholly confident that the world sees it for what it is, a society intent on enriching itself while also concerned with improving the condition of millions of its less advantaged citizens.

With China, the third of the great powers that call out for new attention by the United States, the scales are less evenly balanced. One can reasonably argue that China needs the United States more than the United States needs China. This is particularly evident in the field of education, where the United States is well placed to accommodate young Chinese men and women anxious to secure better training in the natural and social sciences. The Chinese people's readiness to seek educational opportunities abroad encourages the kind of temporary emigration from China that is becoming increasingly common. Indeed, the growing phenomenon of mass Asian tourism can only benefit the United States commercially and politically. The United States has not begun to realize its potential as either an educational or a tourist Mecca. The incomparable continent of North America, with its magnificent cities and natural wonders, remains largely unexplored by foreigners, and the early

evidence of incipient Asian interest in seeing and knowing the New World suggests that international travel, from China as much as from Japan and India, offers a foreign policy opportunity scarcely recognized by those who look only at what those in the White House imagine foreign policy to consist of. Washington must resist the temptation to worry excessively about what China may aspire to be in the twenty-first century, as its economic power continues to grow. Just as the United Kingdom accepted the rise of the United States in the last decades of the nineteenth century, rarely fearing its consequences, the United States must show comparable equanimity as it observes Asia's industrial and commercial development.

### **A POLICY OF PEACE**

The United States, today in many ways a less provincial society than it was during the Cold War, must be prepared to recognize the serious deficiencies in its understanding of the Middle East. Despite the hazards posed by radical Islam, the Muslim world remains largely terra incognita for most Americans, including those who imagine that their command of English provides them with all the access they need to do profitable business in Kuwait and Saudi Arabia. Purportedly friendly Arab states, such as Egypt, are committed to never disturbing the peace or challenging Israel. As a result, Egypt has been one of the two major beneficiaries of U.S. foreign aid. Israel, crucial to the United States in large part for domestic political reasons, can be expected not to stray too far from its patron even when Iran or others threaten it. Although Americans continue to debate how long they will have to maintain forces in the region in order to stabilize

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Afghanistan and Iraq, few are prepared to admit that Israel's disputes with the Palestinians and its northern neighbors are unlikely to be settled for decades. Those issues resemble what Ireland proved to be for the British: an unresolved problem demanding constant attention.

Although there is no Muslim (or Arab) lobby in the United States with influence comparable to that of the pro-Israel lobby, the same reticence shown by U.S. politicians in treating Israeli issues ought to govern their public declarations about the Islamic world. Muslims feel as much pride about Islam as the Chinese do about their civilization and history—or Americans do about their own democracy and values. It serves no purpose to challenge such views. Washington would do well to show greater discipline in its habit of lecturing other governments, including those that are obviously unfriendly but pose no threat to the United States, at least compared to that posed by Hitler's Germany or Stalin's Soviet Union.

U.S. policymakers must also resist the tendency to dwell only on present dangers, scarcely conceiving what future crises may arise or what others may be able to do to help the United States. More than ever, Washington needs allies and must search in many places for them. This is particularly evident regarding Iran. There can be no excuse for a military attack by the United States or Israel on Iran. The United States, if confronted by a hostile Iran intent on developing nuclear weapons, must be prepared to use any international forum and, with its allies, every kind of economic and political pressure to prevent that from happening. A calculated diplomatic offensive is likely to achieve more positive results than the hectoring so

common during the Bush years. It is a national blessing that the Bush-Cheney era is coming to an end, but it would be foolish to be excessively sanguine.

Major new initiatives in U.S. foreign policy are unlikely so long as there is no new generation of U.S. leaders able to see the world not as Johnson, Reagan, Clinton, or George W. Bush conceived it but as Franklin Roosevelt and Truman did, leaders who were more sorely tested and yet were able to perceive and design new policies suited to new conditions. Intellectuals of the stature of Theodore Roosevelt and Woodrow Wilson will always be rare in politics and cannot be expected to emerge very often on the American scene. Given the struggle to make the United States a society less dominated by a privileged WASP elite, there is hope that one day those who have benefited most from the changes that have given them their opportunity to be heard will emerge with ideas and programs substantially different from the very modest ones that now vie for public attention.

### **INCLUDING THE REST**

Climate change is one challenge in need of such leadership. Although progressive opinion in the West today accepts the reality of global warming, the remedies are greatly disputed. It would not even be enough for Americans and Europeans to agree on the remedies; the views of Chinese and Indians must also be considered. And neither China nor India accepts that the present plans for controlling global warming take into sufficient account its interests as a major industrializing society. How these differences can be negotiated, and indeed resolved, is a matter that will test the intelligence of many. Like world poverty, recently exacerbated by the

### *A Broader Agenda*

increases in food and oil prices, the conditions that obtain today can only be alleviated by an international effort comparable to the one that created an effective system of arms control and thereby helped bring the Cold War to an end. More than is commonly realized, this success was achieved largely through collaboration between the United States and other countries and was informed by a novel scholarship. The proliferation of weapons of mass destruction will not be stopped by exhortation, nor will terrorism be ended by the incarceration of the few perpetrators who are apprehended. In both instances, more will be required, and pleas to reach the hearts and minds of millions can be expected to result in only limited success.

What, then, is needed? Respect for difference. In an age when many imagine that the world is losing much that once made for distinctiveness, it is useful to recall that Canada is not Mexico, China is not India, and the United States is not France. The impulse to praise the familiar over the foreign needs to be resisted. The United States today is threatened less by its mass culture than by all manner of traditional prejudices, created in substantial part by self-regarding attitudes that brook no critical comparison with the accomplishments, concerns, or interests of others.

The next U.S. foreign affairs agenda is waiting to be formulated, and the great hazard is that it may prove parochial and too unimaginative about what the world is likely to value tomorrow. Walter Bagehot, the famed nineteenth-century editor of *The Economist*, praised “a polity of discussion.” It is not always apparent that the noise that emanates from too many television sets conveys informed discussion or

that other media are sufficiently committed to dialogue on matters of consequence. This, then, is the problem of our day, reflected in an impoverished political and foreign policy dialogue that is unlikely to be remedied by an excess of good manners. The failure to acknowledge how much damage has been done in recent years to a democracy that was once less partial to bombast and myth may be the most serious public issue of the day. 🌐

# Recent Books on International Relations

## Political and Legal

G. JOHN IKENBERRY

*World Out of Balance: International Relations and the Challenge of American Primacy.* BY STEPHEN G. BROOKS AND WILLIAM C. WOHLFORTH. Princeton University Press, 2008, 226 pp. \$65.00 (paper, \$22.95).

Even as pundits are proclaiming the end of the United States' unipolar moment, scholars are still trying to understand the exact nature of U.S. primacy. If the United States is the most powerful state the world has seen, what constrains or disciplines its security pursuits? In this important book, Brooks and Wohlforth survey the leading schools of thought looking for answers. Their controversial argument is that none of the traditional constraints on powerful states seems to hold under conditions of unipolarity. The balance-of-power mechanism stressed by realists is nowhere to be found. Nor, in their view, do multilateral institutions or concerns about legitimacy act as brakes on U.S. security policy. In a sort of lawyer's brief, Brooks and Wohlforth find each of the prevailing perspectives on international relations inadequate as a guide to a one-superpower world. Many, however, will dispute their claim that the

United States is not constrained by the felt costs of a diminished reputation or lost legitimacy. After all, if leaders feel these costs, it is hard for Brooks and Wohlforth to say they do not exist. But the authors are surely correct that scholars should pay more attention to other sorts of constraints—such as nationalism, insurgency, nuclear proliferation and deterrence, and imperial overstretch. The book's implicit message is that the United States is not so encumbered today that it cannot step forward to reshape world politics. Doing so, however, will ultimately require taking seriously the realist and liberal theories that Brooks and Wohlforth have called into question.

*Appeasing Bankers: Financial Caution on the Road to War.* BY JONATHAN KIRSHNER. Princeton University Press, 2007, 248 pp. \$65.00 (paper, \$24.95).

Scholars have long debated the role of bankers and businesspeople in matters of war and peace. Some claim that states frequently go to war in search of markets and profits, whereas others see economic interests as the great constituency for peace. In this richly historical and wonderfully written book, Kirshner provides the definitive account of the policy preferences of the financial community in countries on the brink of hostilities. He finds that the

### *Recent Books*

financial sector—banks, insurance companies, investment groups, exchange traders—has an almost universal aversion to war, consistently favoring cautious national security strategies. This opposition to armed conflict is not ideological or driven by attitudes toward particular international controversies. Rather, it is the economic consequences of war—and the palpable costs of macroeconomic instability—that generate this orientation. Kirshner uses case studies of the Spanish-American War, interwar Japan and France, and the United States during the Cold War and draws on copious primary sources. He finds that even during the Korean War, American financiers thought that “inflation posed a greater threat to America than did Stalin.” Interestingly, the study does not see a similar aversion to war on the part of international business and trading interests.

*The Freedom Agenda: Why America Must Spread Democracy (Just Not the Way George Bush Did)*. BY JAMES TRAUB. Farrar, Straus & Giroux, 2008, 272 pp. \$25.00.

The Bush administration’s “freedom agenda” linked U.S. national security to the spread of democracy worldwide. After years of controversy and policy failure, democracy promotion is now greeted with sober skepticism. Realists are again cautioning against ideological crusades. This spirited book argues that the United States should not abandon the democracy agenda, even as it needs to radically rethink its strategy and tactics. As Traub sees it, the post-September 11 embrace of democracy promotion is now seen in the Middle East and elsewhere as a tool of hegemony and domination, pursued by a fearful superpower that has relaxed its own standards of openness and the rule of law at home.

Despite this, he argues that the new administration will need to untangle support for democracy from the war on terrorism and take steps to restore the United States’ reputation as the great benign benefactor of liberal democracy. Most of the book is a fast-paced historical survey of the United States’ long and conflicted record of championing liberal democracy abroad, beginning with the Philippines in 1898 and continuing with the creation of democracy in Germany and Japan and then the Cold War-era embrace of despots and democrats in Latin America, Asia, and the Middle East. According to Traub, a policy that rehabilitates the democracy agenda must begin with an end to grand theological statements about “the march of liberty” and “making freedom manifest” in popular elections and move to a quiet focus on policies that support long-term transitions to the rule of law, limited government, and the upholding of individual rights.

*Crafting Cooperation: Regional International Institutions in Comparative Perspective*.

EDITED BY AMITAV ACHARYA AND ALASTAIR IAIN JOHNSTON.

Cambridge University Press, 2007, 330 pp. \$34.99.

It is often argued that regional groupings of states are becoming more important in world politics, but it remains puzzling why regions have taken shape in such different ways around the world and how these differences matter. In this pathbreaking book on the logic and diversity of regional cooperation, Acharya and Johnston provide the best available answers yet to these puzzles. They supply a framework for comparing regions, focusing on “institutional design.” Discrete chapters present a rich array of insights about institutional

### *Recent Books*

variation and cooperation in Europe, Southeast Asia, Latin America, Africa, and the Middle East. Acharya and Johnston offer fascinating discussions of the different “ideologies” of regionalism, noting that developing countries are more intent on using regional cooperation to safeguard state sovereignty than advanced countries, which tend to pursue more integrative regional strategies. The book makes clear that the world’s regions are not all following a single, Western-style trajectory; instead, they are evolving in unique ways to cope with distinct geographic, cultural, and geopolitical realities.

*The Global Commonwealth of Citizens:*

*Toward Cosmopolitan Democracy.* BY

DANIELE ARCHIBUGI. Princeton

University Press, 2008, 320 pp. \$29.95.

Globalization and the human rights revolution have sparked debates about new forms of a global democratic community. In a world in which citizens are sovereign and their lives are increasingly interdependent, who is to say that democracy should stop at the water’s edge? Archibugi has been a leading proponent of new forms of cosmopolitan political community in which citizens have opportunities to participate directly in making global choices. In this book, he provides a grand summation of a decade of thinking about cosmopolitan democracy. Part of the book is a theoretical treatise on democracy and global governance. Archibugi notes that the virtues of democracy might be best realized within a national polity but that the intrusions of modernity have created an ungoverned global society that shapes and constrains people’s lives. Increasingly, democracy at home requires some measure of democratic governance abroad to preserve the ideals

of popular sovereignty and self-governance. Archibugi’s claim that democracy must be reinvented for a global era leads to extended discussions of the ways in which transnational democracy might operate. It is easy for such discussions to become abstract statements of political dreams, but Archibugi, to his credit, rolls up his sleeves and grapples with the specific ways in which citizen groups can get directly involved.

## Economic, Social, and Environmental

RICHARD N. COOPER

*The Partnership: The Making of Goldman*

*Sachs.* BY CHARLES D. ELLIS. Penguin

Press, 2008, 752 pp. \$37.95.

Goldman Sachs rose from a specialized trader in commercial paper a century ago to arguably the leading investment bank in the world by 2007—before converting itself into a bank holding company in 2008, after this book went to press. Ellis provides a fascinating and detailed account of the rise of Goldman Sachs over the decades, with strong emphasis on its leading partners, its internal culture of competence and loyalty, and its concentration on the recruitment of high-quality people. Like most institutions, Goldman Sachs has had its tribulations over the years, including the failure of the Penn Central Railroad, a Goldman Sachs client; the financial shenanigans of the media mogul Robert Maxwell, another client; the insolvency of Long-Term Capital Management, with whom Goldman’s managing partner was closely involved; and the aftermath of the recent subprime mortgage crisis. It has also occasionally



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### *Recent Books*

seen strong disagreements among its 200-odd partners, such as the one over taking the partnership public in 1999. The firm survived them all, and often emerged stronger. It is a testimony to the quality of recruitment and promotion that many senior partners went into positions of public service, but this book focuses on the firm, not the subsequent accomplishments of its members.

*The Politics of Global Health Governance: United by Contagion.* BY MARK W. ZACHER AND TANIA J. KEEFE. Palgrave Macmillan, 2008, 256 pp. \$79.95.

The emergence and spread in recent years of Ebola, West Nile encephalitis, SARS, and avian flu have raised questions about how well prepared the world is to deal with new or newly virulent infectious diseases in an era of extensive travel. Two Canadian scholars here usefully review the history of international cooperation with respect to contagious diseases (cholera, the plague, and yellow fever were the chief concerns in the nineteenth and early twentieth centuries) and the increased activities and rapid enlargement of the World Health Organization and its various associated bodies. The arrival of the Internet and the growing importance of nongovernmental organizations have greatly improved the speed and accuracy of reports of new outbreaks. Previously, reporting relied on governments, which sometimes were not promptly aware of such outbreaks and on other occasions suppressed vital information. The WHO has come to play an active coordinating role in identifying and containing local epidemics. The book includes a fine chapter on the contentious issue of the production

and use of life-saving proprietary drugs in poor countries.

*The White House and the World: A Global Development Agenda for the Next U.S. President.* EDITED BY NANCY BIRDSALL. Center for Global Development, 2008, 372 pp. \$22.95.

The next U.S. administration will have many high-priority issues on its agenda: the financial crisis and the economic recession, the war in Iraq, the proliferation of nuclear weapons, would-be terrorists, energy dependence, and climate change. Policies toward poor countries and global poverty risk being lost in the clutter. This book aims at avoiding that by laying out a broad but coherent agenda that, in the views of its 16 contributors, the United States should adopt. It covers policies toward trade, investment, immigration, climate change, intellectual property related to drugs, health, education, corruption, fragile states, and, of course, foreign aid. Some of the proposals would be expensive, others surprisingly cheap. The proposals reflect the thoughtful analysis and considered judgment of the senior staff of the Center for Global Development. They offer a worthy agenda that one hopes will not get lost in the press of other business.

*Diasporas and Development: Exploring the Potential.* EDITED BY JENNIFER M. BRINKERHOFF. Lynne Rienner, 2008, 270 pp. \$57.00.

Extensive emigration today produces diasporas whose members, with modern technology, can readily communicate with one another and with their home regions. Some emigrants leave home because of a distaste for the governing elites, others

### *Recent Books*

because of the superior economic opportunities elsewhere. Some wish to sever their contacts with their countries of birth, some long to return, and most wish to maintain contact with relatives and friends. Increasingly, diasporas are organizing to help economic and even political development in their countries of origin—through philanthropy, through business investment, and even (particularly in postconflict settings) by returning to take up positions in government. This book usefully explores this trend. It draws mainly on the experiences of emigrants from Afghanistan, Armenia, Dominica, Iraq, Liberia, and Morocco, but it also draws on a modest but rapidly growing literature on other emigrant groups. It offers a much richer view of the possibilities than the more traditional emphasis on brain drains versus remittances.

*The WTO: Governance, Dispute Settlement, and Developing Countries.*

EDITED BY MERIT E. JANOW, VICTORIA DONALDSON, AND ALAN YANOVICH. Juris Publishing, 2008, 1,100 pp. \$125.00.

This capacious volume is the product of a conference at Columbia University of lawyers, economists, former officials, and others interested in the fine detail of the law and its practice at the World Trade Organization. Although the WTO has received most of its public attention as the host for the now-stalled and possibly failed Doha Round of multilateral trade negotiations, in fact it is constantly at work adjudicating and attempting to resolve trade disputes among its 150 member states. Some of this book is of course devoted to the Doha Round and to the interests of developing countries in the world trading system, but two-thirds is devoted to a

discussion of the crucial issue of trade-dispute settlement: how it works, how much disputants comply with the WTO's rulings, the current deficiencies in the process, and proposals for improvement—most of which topics generate reasoned disagreement. This compendium is a useful introduction and reference for anyone interested in world trade law. An appendix lists all of the General Agreement on Tariffs and Trade's and the WTO's dispute-settlement cases and reports through mid-2007.

## Military, Scientific, and Technological

LAWRENCE D. FREEDMAN

*The War Within: A Secret White House History, 2006–2008.* BY BOB

WOODWARD. Simon & Schuster, 2008, 512 pp. \$32.00.

*The Strongest Tribe: War, Politics, and the Endgame in Iraq.* BY BING WEST.

Random House, 2008, 464 pp. \$28.00.

*Tell Me How This Ends: General David Petraeus and the Search for a Way Out of Iraq.* BY LINDA ROBINSON.

PublicAffairs, 2008, 432 pp. \$27.95.

The final episode of Woodward's chronicle of George W. Bush's journey from 9/11 through the Iraq war starts with the situation in Iraq deteriorating and describes the six-month-long effort first to get the president to pay attention to the possibility of having to write off Iraq as a catastrophic failure of policy and then to decide on a new strategy. This volume lacks the revelations of the earlier episodes, and Woodward is coy when it comes to some of the most

### *Recent Books*

sensitive operations, which seem to have had something to do with targeted assassinations. With Secretary of Defense Donald Rumsfeld deflated and eventually departing, there is less drama. Yet *The War Within*, with its more coherent and focused story, is the best of Woodward's quartet. During 2006, with a civil war taking root in Iraq, the betting might have been on the administration's finding a way to escape from the chaos, whatever the loss of face. But Bush had invested so much in the war that once he was offered a plausible alternative promising something closer to victory, it was irresistible. The access Woodward had to top players gave him his unique advantage, although Bush must have wondered why he kept talking to a reporter who has done him few favors. The indictment of the insouciant Bush's alarming reliance on his gut instincts has now become familiar, but what is striking here is how much the case for the "surge" developed independently of the military chain of command.

As he does not really spend much time examining the conditions in Iraq, Woodward does not dwell on the factors that have left the country with a more optimistic prognosis. Improvement was not so much the result of extra troops or of the intelligence with which they were deployed, although these were undoubtedly important. It had more to do with the extent to which the Iraqis turned away from the logic of civil war, notably because of a strong reaction among the Sunnis to the brutality of al Qaeda and a recognition among senior Shiite figures that Muqtada al-Sadr was acquiring, through his militia, too much control over the political agenda. These developments necessitated a much more subtle approach to Iraqi politics than

the established U.S. policy of handing responsibility back to the Iraqi government as soon as possible, whether or not it was able to cope.

West, a Vietnam veteran who has made numerous visits to Iraq, provides a full account of how the war has appeared to those doing the fighting. He complains of strategies that ask the military to do too much with too little while misrepresenting the scale of the problem and the ease of the available solutions. His first two chapters, "How to Create a Mess" and "Descent Into Chaos," open his scathing critique of a political and military leadership that put soldiers in impossible situations. Only as the troops were able to pick up on and work with the changing character of local politics did they make real progress. Then they could take advantage of being, as one Iraqi colonel put it, "the strongest tribe."

The basic themes of both these accounts are confirmed by Robinson. Her focus is on General David Petraeus, the former top commander of U.S. forces in Iraq, who now gets most of the credit for turning around the situation on the ground. Petraeus had worked effectively in the Mosul area in the immediate aftermath of the 2003 invasion and was known both for his frustration at the cavalier alienation of the Sunnis by the Coalition Provisional Authority and for his championing of sophisticated thinking about counterinsurgency. Although her attention is set on the high-achieving general and his steely focus on the task at hand, Robinson also does a good job of setting the scene and explaining the many factors that let the first glimmers of light into what had been unremitting gloom.



### *Recent Books*

#### *Technology and the American Way of War*

*Since 1945.* BY THOMAS G. MAHNKEN.  
Columbia University Press, 2008,  
256 pp. \$29.50.

Through an account of the major technological innovations in U.S. defense procurement since World War II, Mahnken challenges the deterministic view that such innovations drive changes in military organization and strategy. Instead, he argues that choices about which technologies to pursue reflect the cultural and organizational preferences of the individual branches of the armed services. After a brisk journey through the highlights of the early days of the nuclear arms race, when procurement battles tended to show the services at their most parochial, the author hits his stride, with some astute observations on the interaction between the new information technologies and the conduct of the “war on terror.” As the Iraq case demonstrates, although it is possible to fit new technologies into established service preferences at times of relative peace, there is nothing like the frustrations of a failing campaign to get military and political leaders to look at potential innovations with fresh eyes.

#### *The Atomic Bomb and the Origins of the Cold War.*

BY CAMPBELL CRAIG AND  
SERGEY RADCHENKO. Yale University  
Press, 2008, 232 pp. \$27.00.

This book provides a helpful and accessible stocktaking of the position reached in the long-running debates on the relationship between the development and detonation of the first nuclear weapons and the onset of the Cold War. It is particularly good on the less familiar Russian material, including Stalin’s determination not to let the West have the satisfaction of superior

strength. The authors argue that without the bomb, it might have been possible for the United States and the Soviet Union to pursue a cooperative relationship; their nuclear programs, and the associated features of spies being unmasked and futile negotiations on international control, created additional mistrust between the two powers. Unfortunately, the evidence for this in the book is less than compelling, especially from the Soviet side. More time spent on what was going in Germany and Poland from 1945 on would have demonstrated the implausibility of the book’s thesis. And it is at least worth examining the orthodox proposition that, since conflict was always in the cards, the bomb helped prevent the Cold War from getting too hot.

## The United States

WALTER RUSSELL MEAD

*Empires of Trust: How Rome Built—and America Is Building—a New World.* BY  
THOMAS F. MADDEN. Dutton, 2008,  
352 pp. \$25.95.

Since the birth of the American republic, writers and commentators have been drawing foreboding analogies between the state of the United States and the fall of Rome. Madden has taken this tired old chestnut and done something fresh with it. Pointing out that Roman power rose very high and lasted thousands of years (Constantinople fell to the Ottomans more than 2,100 years after the founding of Rome), Madden asks what analogies with the rise of Rome, rather than its fall, can teach about the future of U.S. power. The core similarity between the two states, he argues, is the degree to which

### *Recent Books*

their power flowed from a mix of factors: strong legal and military cultures, a distaste for foreign engagements, fidelity to allies, and a craving for security. The result in both cases was a slow and hesitant expansion and the creation of increasingly strong alliances. Although anti-Romanism was as common among Rome's allies and clients as anti-Americanism is today among the United States', in the last analysis, Rome's neighbors generally preferred to influence Rome's policies as allies rather than to fight Rome on the open field. The value of historical analogies over the millennia is necessarily limited; still, Madden's fresh take on the United States and Rome is provocative and stimulating and will give readers interested in both ancient and modern history much food for thought.

*Religion and American Foreign Policy, 1945–1960: The Soul of Containment.*

BY WILLIAM INBODEN. Cambridge University Press, 2008, 368 pp. \$80.00.

The American academy has been rediscovering the importance of religion in politics and foreign policy; Inboden's new book makes a vital contribution to this ongoing project by examining the ways in which both politicians and religious leaders grappled with the challenges of Cold War diplomacy. Presidents Harry Truman and Dwight Eisenhower, in Inboden's view, instinctively grasped the global and domestic importance of casting the Cold War as a struggle between religion and atheism. This focus put them at loggerheads with important currents in American Protestantism; one of the few convictions that liberal and conservative Protestants shared in the pre-Vatican II era was a deep suspicion of the Roman

Catholic Church at home and abroad. Ultimately, the politicians prevailed over the theologians; the ecumenical civil-religious culture of Eisenhower's America represented a flattening out of theological differences in the interest of a common political vision. Ranging over subjects as diverse as the missionary influence in the China lobby and the political impact of the once-formidable Moral Rearmament movement, Inboden produces a stimulating and compelling picture of American religious and political life.

*Evangelicals and Israel: The Story of American Christian Zionism.* BY STEPHEN SPECTOR. Oxford

University Press, 2008, 352 pp. \$29.95. Christian Zionism and its relationship to U.S. politics and the American Jewish community have seldom received as sensitive and sound a treatment as in Spector's helpful new book. Based on extensive reporting and interviews with many leading personalities in the world of Christian Zionism, *Evangelicals and Israel* does a remarkable job of helping nonevangelicals and non-Christians come to grips with the nature and the importance of Christian Zionism today. Spector is particularly good at helping outsiders understand how many Christian Zionists combine a sincere devotion to Israel and its security as a Jewish state with a zeal to bring individual Jews to the Christian faith. Spector is also very successful at delineating the theological roots of various positions within the Christian Zionist movement and at debunking the common stereotype that Christian Zionists support Israel as part of a plan to force the return of Jesus and the coming of the Last Judgment. The improved ability of Democrats to engage

### *Recent Books*

with people of faith has contributed to Democratic success in the last two election cycles; Democrats seeking to extend that winning streak could do much worse than to consult this book as a reliable field guide to an important constituency.

*The Rebellion of Ronald Reagan: A History of the End of the Cold War.* BY JAMES MANN. Viking, 2009, 432 pp. \$27.95. Mann, one of the leading students of contemporary U.S. foreign policy, whose *Rise of the Vulcans* is the best study yet of the Bush-Cheney foreign policy team, has written an extraordinary account of Ronald Reagan's approach to the Soviet Union that sheds considerable light on the end of the Cold War. The Reagan Mann shows the reader is as disengaged and as ideological as his critics have frequently charged; yet time and again, he overruled his advisers as he followed his own vision and intuition. Driving Mikhail Gorbachev and his advisers to distraction with endlessly recycled platitudes and stale jokes about Soviet life—and allowing Nancy Reagan's astrologer to set the time for the signing of the 1987 Intermediate-Range Nuclear Forces Treaty—Reagan nevertheless imposed a consistent vision of his own on U.S.-Soviet relations. In his first term, he defied liberals and realists to put the ideological conflict between the United States and the Soviet Union back at the center of international politics; in his second, he defied conservatives and realists to push toward a new relationship with a Soviet regime that was steadily changing. Next to Reagan, Secretary of State George Shultz is the figure who emerges from this well-researched and well-constructed book as the American who best understood what was happening in the Soviet Union at this time.

*The Irish Americans: A History.* BY JAY P. DOLAN. Bloomsbury Press, 2008, 368 pp. \$30.00.

It is difficult to overstate the importance of Irish Americans in U.S. history. This is not only because of the significant contributions they have made in their own right but also because as the first mass immigrants from a culture viewed as alien and threatening by “native” Americans, the Irish led the way for subsequent immigrants to the United States from all over the world. Holding on to a Catholic, anti-English identity and politics of their own, Irish Americans nevertheless found ways to express that identity in the context of a Protestant American culture rooted in English history and values. The Roman Catholic Church that the Irish helped make the United States' largest and most formidable religious organization has sheltered immigrants from many other parts of the world and continues to help new waves of immigrants find a place in the United States today. The Irish American political machines helped shape the American party system, and Irish Americans were largely responsible for the rise of the American labor movement as well. Irish Americans were the first Americans who learned to be loyal Americans while holding on to values and identities rooted in their country of origin. Dolan has described the full range of the extraordinary Irish contribution to American culture and life.

*The Closing of the American Border: Terrorism, Immigration, and Security Since 9/11.* BY EDWARD ALDEN.

HarperCollins, 2008, 368 pp. \$27.95. In this revealing and richly researched account, Alden describes how the Bush administration came to rely on the blunt

### *Recent Books*

instrument of immigration enforcement to carry out its counterterrorism strategy after 9/11. He shows how that approach exacerbated the dysfunction in long-neglected border-control systems, so that it is now somewhat more difficult for terrorists to enter the country—and vastly more difficult for countless good guys whom the United States should welcome. Soon after the attacks, Attorney General John Ashcroft and his team, lacking intelligence on the movements of foreign terrorists, opted for a “spit on the sidewalk” plan of apprehending suspects for minor violations of immigration law. Over time, pragmatists such as Secretary of State Colin Powell and Homeland Security Secretary Tom Ridge, keen to preserve the economic and diplomatic benefits of smooth-flowing trade and travel, lost round after round to Justice Department and immigration officials who favored the prolonged detention of suspects, increased visa scrutiny, the registration of Muslim immigrants, and border fences. Alden tells of surgeons, AIDS researchers, physicists, and other world-class minds from places such as China and Pakistan who were humiliated, detained, or rejected by U.S. authorities. He offers a detailed, evenhanded narrative of the fall of Ambassador Mary Ryan, a loyal diplomat who was sacrificed by the State Department after a number of 9/11 visa debacles came to light. Although he praises some post-9/11 measures, such as improved terrorist watch lists and the advanced screening of airline passengers, Alden argues that counterterrorism is a fine intelligence task that should be separated from the broad strokes of border and immigration control. He does not emphasize the problem of the 11.9 million illegal immigrants living

in the United States, but it is hard to see how security can be achieved while so many dwell in the shadows.

JULIA PRESTON

## Western Europe

PHILIP H. GORDON

*Hitler's Empire: How the Nazis Ruled Europe.* BY MARK MAZOWER.

Penguin Press, 2008, 768 pp. \$39.95. The Nazis are rightly better remembered for their capacity to wage war than for their ability to consolidate peace. In this impressive work, Mazower demonstrates just how incompetent they were at the latter task. Indeed, for a party so obsessed with the virtue of order, the Nazis were surprisingly disorganized and inefficient when it came to trying to govern those whose armies they had so efficiently defeated. It was not just that the brutal tactics of mass execution (including of many of the most talented members of society), forced labor, and the inhumane treatment of local populations turned those populations against them and made governance more difficult. It was also that the Nazis do not seem even to have given much serious thought to the imperial role they were so determined to acquire. The Nazi occupation was improvised and disorganized, and it vastly underestimated the political, logistical, and demographic challenges it would face. There were not enough ethnic Germans to rule the vast conquered regions by an iron fist alone, yet the Nazis' tactics made any alternative to such rule impossible. “Germany,” Mazower points out, “could have racial purity or imperial domination, but it could not have both.”

### *Recent Books*

*Transatlantic Trends 2008*. BY THE GERMAN MARSHALL FUND OF THE UNITED STATES AND THE COMPAGNIA DI SAN PAOLO. German Marshall Fund of the United States, 2008, 24 pp. Free.

Every year since 2002, the German Marshall Fund of the United States has been publishing *Transatlantic Trends*, an invaluable survey of opinion on both sides of the Atlantic. This year's edition paints a portrait of a transatlantic relationship on the road to improvement but still marked by deep divisions as the Bush era comes to a close. Whereas in 2002, 64 percent of Europeans surveyed saw U.S. global leadership as "desirable" and only 31 percent viewed it as "undesirable," today those figures are 36 percent "desirable" and 59 percent "undesirable"—levels that have changed little since 2004. Similarly, only 31 percent of Europeans surveyed said they believed that the European Union should form a closer partnership with the United States, a figure only a few points higher than the one found in 2006. What is a more hopeful finding is that on most of the major international issues of the day—terrorism, the global economy, nuclear proliferation, Afghanistan, and Russia—Americans and Europeans have largely similar priorities and views. A notable exception is climate change, which 41 percent of respondents from key European countries said they believed should be a priority for the next U.S. president (compared with just 18 percent of Americans surveyed). Europeans also seem hopeful about the future of relations with the United States, with 47 percent surveyed saying they would improve if Barack Obama was elected, 29 percent

saying they would stay the same, and only 5 percent saying they would worsen. The bar has been set high for the Obama administration.

*Left in Dark Times: A Stand Against the New Barbarism*. BY BERNARD-HENRI LÉVY. Random House, 2008, 256 pp. \$25.00.

Lévy burst onto the French intellectual scene in 1977 with the publication of *Barbarism With a Human Face*, a denunciation of the French left's indulgent attitude toward communism and the Soviet Union. Now, more than 30 years later, *Left in Dark Times* updates that critique. The inspiration for the book was a phone call the author received in early 2007 from Nicolas Sarkozy, then a center-right presidential candidate, asking Lévy if he would follow other French left-wing intellectuals in supporting Sarkozy's candidacy. Lévy's answer was that he could not abandon his political "family"—the left that had stood behind Alfred Dreyfus, fought (like Lévy's father) in the Spanish Civil War, opposed colonialism, and defended social progress in France. But in confronting why he could not support Sarkozy, Lévy also feels the need to describe what is wrong with the modern French left, chastising it for its antiliberal, anti-European, anti-American, and anti-Israeli (if not anti-Semitic) attitudes. *Left in Dark Times* is marked by the traits for which the author is well known—self-importance, stream-of-consciousness prose, and the liberal use of metaphors, rhetorical questions, and philosophical references. Nonetheless, his challenge to the left deserves attention.



### *Recent Books*

*The French White Paper on Defence and National Security.* BY THE WHITE PAPER COMMISSION. Odile Jacob, 2008, 336 pp. \$19.95.

The third official statement of French defense policy since the founding of the Fifth Republic—and the first in 14 years—this white paper reflects the priorities of French President Nicolas Sarkozy, in office since May 2007. Some themes are familiar. For example, the paper makes a vigorous and controversial defense of traditional French nuclear deterrence policy, which remains the “essential foundation” of French national security strategy. It also underscores France’s long-standing European ambitions: “making the European Union a major player in crisis management and international security is one of the central tenets of [French] security policy.” But there are important new elements as well. The paper unambiguously asserts that NATO and European defense are complementary and advocates the “full participation of France in the structures of NATO,” a goal stated without reference to any sort of quid pro quo. The paper also proposes a new structure for the French armed forces, including the generation of a force-projection capability of 30,000 soldiers to be available at six months’ notice. The overall size of the French military will decline, while spending will increase slightly, leading to a better-funded, if smaller, overall force. Another innovation is the new priority placed on intelligence gathering, defended as more essential than ever in such an uncertain strategic environment. This serious work should be welcomed by those who want to see more Europeans take national security issues seriously.

*Pipelines, Politics, and Power: The Future of EU-Russia Energy Relations.* EDITED BY KATINKA BARYSCH. Center for European Reform, 2008, 115 pp. £10.00.

As energy prices rose dramatically during the early years of this decade, Europeans began to realize the degree to which their dependence on Russia for energy supplies complicated an already difficult relationship. Russia’s abrupt application of market prices to gas exports to Ukraine in 2006 (which led Ukraine, in turn, to siphon off gas destined for western Europe) and the Russian-Georgian war in 2008 (which threatened another key energy corridor) underscored the degree to which rising energy needs and costs created not just financial issues for Europe but also a major geopolitical challenge. This well-informed collection of essays—mostly by officials involved in EU-Russian energy relations over the past decade—explores that complex relationship and demonstrates the great diversity in perspectives on the subject. Daniel Gros, an economist based in Brussels, points out the costs to the EU of relying on a state-dominated Russian gas monopoly (Gazprom) and argues that diversifying the EU’s supplies not only would give Europe more political freedom but would save money as well. In turn, Konstantin Kosachev, chair of the International Affairs Committee of the Russian State Duma, complains about European double standards, reminds Europeans they have few good alternatives to Russian energy supplies, and calls on the EU to stop treating Russia as a threat. What nearly all the contributors point out is that the EU has been better at talking about energy solidarity than at achieving it (bilateral gas contracts

### *Recent Books*

and pipeline deals are the norm) and that interdependence with Russia has so far led to more friction than agreement.

## Western Hemisphere

RICHARD FEINBERG

*The Dictator's Shadow: Life Under Augusto Pinochet.* BY HERALDO MUÑOZ. Basic Books, 2008, 376 pp. \$27.50.

In his final heartbreaking radio broadcast, from a besieged presidential palace, Salvador Allende prophesied that “the grand avenues will open again through which free men will pass to build a better society.” Thirty-five years later, Chile is a successful democratic society. Yet for those Chileans who were marked by the fierce ideological battles of the Allende and Augusto Pinochet years, deep psychological scars persist. Chilean to the core—sober, self-critical, smart—the diplomat and scholar Muñoz writes, with remarkable moral clarity, that “Pinochet summed up the faults of a generation” of Chileans fatally divided among a confused, utopian left; an inflexible, shortsighted center; and an uncompromising, selfish right. In this quietly powerful personal reflection, Muñoz indicts Pinochet for transforming a military coup into a ruthless, self-serving power grab and for unleashing an unprecedented wave of political violence. Muñoz recognizes Pinochet’s talents, including his tactical astuteness and his selection of skillful advisers, while deploring his intellectual mediocrity and ethical cowardliness. *The Dictator's Shadow* effectively weaves in the author’s own political journey, documenting the brutalities suffered by many of his comrades, his own narrow

escapes, and the sweet resurrection of his democratic allies. Muñoz and his colleagues, who now govern Chile, drew the right lessons from their historical tragedies; fittingly, Muñoz currently serves as Chile’s ambassador to the United Nations.

*Falling Behind: Explaining the Development Gap Between Latin America and the United States.* EDITED BY FRANCIS FUKUYAMA. Oxford University Press, 2008, 336 pp. \$29.95.

In today’s fast-moving world, delaying publication for three years—these essays were first presented at a seminar in Buenos Aires in 2005—risks some disorienting surprises. Today, leading Latin American countries have adopted economic policies markedly superior to those of an imploding United States. But this edited volume is less about comparing U.S. and Latin American performance than it is an exploration of Latin America’s frustrations. Of varying originality, rigor, and polish, these essays by senior U.S. and Latin American historians and political scientists (including Tulio Halperin Donghi, Enrique Krauze, Jorge Domínguez, Adam Przeworski, Riordan Roett, and Natalio Botana) are organized around a single question but do not share common methodologies, common linguistic usage (for example, they differ on what is meant by “culture”), or common policy preferences, and disentangling causalities proves a strenuous assignment. The editor Fukuyama’s hopeful conclusion, which draws heavily on publications by the World Bank and the Inter-American Development Bank, points Latin America in the reasonable direction of stronger institutions, smarter

### *Recent Books*

social policies, and less inequality. But Fukuyama does not adequately explain how a still-trailing Latin America can exorcise its demons to attain these ambitious goals.

*The United States and Latin America After the Cold War.* BY RUSSELL CRANDALL. Cambridge University Press, 2008, 276 pp. \$85.00 (paper, \$24.99).

In offering the best available textbook on contemporary U.S. policies toward Latin America, Crandall admirably follows his own admonition: "We must observe carefully and not let outdated assumptions and models automatically lead us to foregone conclusions." A young political scientist, Crandall has advised both the Bush administration and the Obama campaign, and he brings a clear-eyed, evenhanded realism to his wide survey of the main bilateral relationships and functional issues (democracy, trade, drugs) that have dominated inter-American relations during the past two decades. By and large, his tone is sympathetic to U.S. goals, and he recognizes U.S. successes even as he does not hesitate to criticize failed counternarcotics policies or the poor judgment of individual policymakers, such as during the botched 2002 coup against Venezuelan President Hugo Chávez. To expose the assumptions behind other assessments, Crandall divides analysts into "establishment" and "anti-imperialist" schools, a somewhat strained but still useful device for students struggling to make sense of the strident polemics all too common in the literature. Overall, the balance of theory, description, case studies, and well-chosen illustrations will serve students well. Incoming policymakers seeking concise, informed

evaluations of the pressing issues in inter-American relations can also benefit from Crandall's contribution.

*First Stop in the New World: Mexico City, the Capital of the Twenty-first Century.* BY DAVID LIDA. Riverhead, 2008, 352 pp. \$25.95.

If Mexico City were located in western Europe, it would be a must-see tourist destination in the same league as London, Paris, and Rome. The metropolis' extraordinary museums, architectural masterpieces, vast cultural scenes, and extravagant restaurants are world-class; many Mexican elites are refined and erudite, their dinner conversations unsurpassed displays of verbal virtuosity. Lida critically surveys the capital's glittering literary, artistic, and culinary enterprises, but his revealing, sympathetic vignettes center on the "real" Mexico City: chaotic, resilient working-class neighborhoods; sprawling open-air markets; welcoming cantinas; boisterous *lucha libre* theaters; and degrading, overcrowded prisons. A New York intellectual living in Mexico, Lida is, fortunately, not hung up on his own persona; he spends more time discussing the advantages that educated European and South American immigrants enjoy in local labor markets than on anti-Americanism, and he reports honestly that Mexican consumers are thrilled with the low prices and endless choices offered by Wal-Mart. Readers also learn about Mexican sexual practices (mostly repressed) and how to daintily eat a *taco de guisado* (with small bites). Lida argues that crime rates are gradually falling, while hinting that he knows a specialist in negotiating with violent kidnapers, just in case.

*Recent Books*

## Eastern Europe and Former Soviet Republics

ROBERT LEGVOLD

*Russian Eurasianism: An Ideology of  
Empire.* BY MARLÈNE LARUELLE.

Woodrow Wilson Center Press, 2008,  
296 pp. \$60.00.

This book is a tour de force not merely because of the depth of the scholarship and the skill of the argument but also because Laruelle unveils a subject crucial to understanding today's Russia but never given proper due. "Eurasianism," a much-banded-about label meant to bundle together Russian nationalisms that set the country off from and usually against the West, in fact has a long and remarkably dense intellectual history stretching back to the 1920s (and with antecedents in the nineteenth century). Laruelle unpacks a maze of exceedingly obscure ideas and links that, notwithstanding their often crosscutting and even contradictory nature, frame a deep emotional base justifying the notion that Russia is primordially distinct from both Europe and Asia—eternal and spiritually superior. Even the most serious student of contemporary Russia will get from this book a vastly deeper sense of what makes Russian intellectual life, for all of its vexed affinity with the West, fundamentally different.

*Eurasia's New Frontiers: Young States, Old  
Societies, Open Futures.* BY THOMAS W.  
SIMONS, JR. Cornell University Press,  
2008, 200 pp. \$25.00.

In this small, spare book, Simons is the

first to address one of the key failings of U.S. Russia policy, although in his gentle nudging he cares less about delivering criticism of the past than he does about offering guidelines for the future. To understand Russia and the rest of the post-Soviet space, he argues, the pieces have to be put together and treated as a composite. That is, all of the post-Soviet states must be understood in the context of the stumblings, contradictory paths, and disappointment of Western hopes that they have in common. When it comes to U.S. policy, patience and taking the long view is what Simons urges: accepting civil society's dim near-term prospects and the consequent need to engage those who command the state, while working to gradually transform those leaders. Simons is not despairing. "Today," he writes, "nearly two decades after the Soviet Union dissolved, Russia's state-nationalism-without-content makes the rest of the world the arbiter of Russian national identity."

*Blue Helmets and Black Markets: The Business  
of Survival in the Siege of Sarajevo.* BY  
PETER ANDREAS. Cornell University  
Press, 2008, 240 pp. \$25.00.

Andreas does not deny the suffering or the heroism of those caught in the three-and-half-year siege of Sarajevo, or the deadly earnestness of those who maintained it. But he wants to make this savage tale whole by exposing corruption's part in exploiting and sustaining the violence. For all the understandable attention focused on intra-state war since the end of the Cold War, its political economy has been one of its least-explored aspects. Andreas, with prose as lean as his analysis is rich, corrects this by demonstrating how thoroughly all become implicated, including the "good guys"—

### *Recent Books*

the nongovernmental organizations, UN peacekeepers, even the news correspondents. He avoids moral judgments and focuses instead on the two-sided aspects of this sort of war: the illicit commerce between the warring parties, the profiteering by politicians struggling to save a community, the indulgences of outside agencies sent to help the victims. He finishes by sketching the corruption that persists in political establishments that follow war and then by briefly comparing Sarajevo with other cities under wartime siege—Leningrad, Srebrenica, Grozny, and Fallujah, each variations on an all-too-human theme.

*For Kin or Country: Xenophobia, Nationalism, and War.* BY STEPHEN M. SAIDEMAN AND R. WILLIAM AYRES. Columbia University Press, 2008, 320 pp. \$35.00.

The Cold War, with its architecture of state against state, bloc against bloc, ideology against ideology, has given way to a new basket of conflict-bearing impulses: nationalism, ethnic tension, and irredentism. The last occupies these authors, particularly the question of when irredentism—that is, the claim on land controlled by others based on one's nation's ties to that land—leads to costly actions, even war, and when it does not. Armenia, Croatia, and Serbia fall into the first category; Hungary, Romania, and Russia, the second. Consider the Sherlock Holmes metaphor of dogs that do not bark: comparing those that do and those that do not in the case of irredentism is rather rare, and Saideman and Ayres go about the task with carefully specified hypotheses linked to deductive arguments

tracing back to dominant international relations theories. Out of this array, they privilege the impact of domestic politics over more popular explanations that feature international factors, for example, the restraining influence of institutions such as the European Union. When plumbing the force of domestic politics, they consider the material, self-regarding calculations of political leaders alongside the variable character of nationalism. The weak irredentism of Russia's case, for example, they attribute principally to the amorphous state of Russian nationalism and the lethargy among ethnic Russians abroad.

*Consumption and Social Change in a Post-Soviet Middle Class.* BY JENNIFER PATICO. Stanford University Press, 2008, 240 pp. \$60.00 (paper, \$24.95). Ethnographers use a ground-level perspective to get at social phenomena—in this case, the effect of the material ups and downs experienced by middle-class Russian professionals on their senses of themselves, their place in society, and their views of others. Patico spent 1998–99, a year of financial crisis, with two small clusters of schoolteachers in St. Petersburg, observing their shopping patterns, listening to their conversations, and talking to them in long sessions over coffee or on outings—all to probe their views on what the struggle to make ends meet meant to them, to discover how they regarded the newly wealthy, and to analyze how their daily consumer choices reflected judgments about Russia and the larger world. Although this is hardly a comprehensive picture of the way economic life has shaped social identity during Russia's recent turbulent times, Patico has produced a richly textured analysis that rings true for



## Recent Books

a wider swath of society than that simply comprising her teachers.

### *Serbia's Antibureaucratic Revolution:*

*Milosevic, the Fall of Communism, and Nationalist Mobilization.* BY NEBOJSA VLADISAVLJEVIC. Palgrave

Macmillan, 2008, 240 pp. \$74.95.

Vladislavljjevic challenges nearly every aspect of previous accounts of Slobodan Milosevic's rise to power in 1986–87 and of the nationalist mobilization of 1988–89. The notion that the Yugoslav leader's ascent to power and the resignation of Ivan Stambolic as president of Serbia entailed a recasting of the country's existing form of authoritarianism or the leadership's political program is wrong, Vladislavljjevic argues. So is the notion that the mass mobilization around nationalist themes that followed was manufactured and managed from above according to Milosevic's preconceived plan. These errors stem from a misunderstanding of the way social movements emerge and swell in mutating authoritarian societies such as that of post-Tito Yugoslavia. Much of Vladislavljjevic's attention is focused on the ground-up mobilization of the Kosovo Serbs between 1986 and 1988, which Vladislavljjevic insists emerged spontaneously in the collective action of local groups rather than being orchestrated from above. He explores in detail both the path to the point at which and the culminating phase when the leadership caught the wave and began guiding the movement. It is a stimulating argument and doubtless one that will stimulate argument.

## Middle East

L. CARL BROWN

### *King Hussein of Jordan: A Political Life.*

BY NIGEL ASHTON. Yale University Press, 2008, 464 pp. \$35.00.

### *Lion of Jordan: The Life of King Hussein in War and Peace.* BY AVI SHLAIM.

Knopf, 2008, 752 pp. \$35.00.

Great-grandson of Sharif Hussein bin Ali, of World War I's Great Arab Revolt fame, who died in exile; grandson of King Abdullah, who was assassinated by a Palestinian in 1951; and close kin of the Hashemites, who were brutally ousted from rule in Iraq in 1958, Jordan's King Hussein came to the throne as a teenager seemingly destined for a short reign. Instead, he ruled Jordan for just under 46 years and died a natural death. How did "the PLK" (the Plucky Little King, the nickname Western observers bestowed on him with some condescension but more admiration) manage to hang on to power from 1953 to 1999? During his long reign, Jordan was seen as little more than a pawn in the asymmetrical contest involving Israel, the Arabs, and the great powers. That Jordan survived, albeit in truncated form (having lost the West Bank during the 1967 Six-Day War), was King Hussein's achievement, and that story adds up to quite a saga. Ashton and Shlaim are both Middle East specialists. Each provides a balanced portrait of King Hussein set within the context of diplomacy and war in the Middle East during the last half of the twentieth century.

### *Descent Into Chaos: The United States and the Failure of Nation Building in Pakistan, Afghanistan, and Central Asia.* BY AHMED RASHID. Viking, 2008, 544 pp. \$27.95.

The politics and diplomacy of Afghanistan

### *Recent Books*

and its neighbors have long been Rashid's beat. His highly regarded *Taliban: Militant Islam, Oil, and Fundamentalism in Central Asia* was published a year before 9/11, and his reporting and writing since have been unremitting. *Descent Into Chaos* is a seasoned specialist's history of the international politics of the region essentially since September 11, 2001. Afghanistan, Pakistan, and the United States are the principals, but woven into the story are parts played by India, Uzbekistan, the United Nations, and others. This is no "above the fray" account. Rashid offers scathing condemnations. The United States, after defeating the Taliban and routing al Qaeda, basically just walked away from reconstructing Afghanistan. Pakistan accepted lining up with the United States after 9/11 but then let many Taliban and al Qaeda members escape the U.S. invasion in 2001 and maintained ties with such forces thereafter. Even Hamid Karzai, the post-Taliban president of Afghanistan, whom Rashid admires, is faulted for giving Afghan warlords too much sway. It all rings true, and yet Rashid's prescription for what must now be done involves so much coordinated change of behavior by so many players as to raise doubts about its viability.

*The Search for Al Qaeda: Its Leadership, Ideology, and Future.* BY BRUCE RIEDEL. Brookings Institution Press, 2008, 224 pp. \$26.95.

Riedel served as a point man for the Middle East on the U.S. National Security Council from 1997 to 2003, in the administrations of Bill Clinton and George W. Bush. He also had many earlier years of high-level involvement in monitoring the Middle East for the CIA. This book

is not, however, a memoir (although a number of personal accounts are given). It reflects the mindset of a model career intelligence officer: present succinctly the history of the problem (al Qaeda), move on to the present capabilities and plans of that problem, and end with specific steps the United States should take to defeat the problem. The history is set out in chapters featuring, separately, Osama bin Laden's deputy, Ayman al-Zawahiri; bin Laden himself; the Taliban leader Mullah Omar; and the now-dead al Qaeda in Iraq head, Abu Musab al-Zarqawi. There follows a chapter titled "Al Qaeda's Plans." The concluding chapter, "How to Defeat al Qaeda," insists that "a primarily military strategy will not eradicate this foe" and gets down to such specifics as the need to reach just settlements between Israel and the Palestinians and between India and Pakistan in Kashmir, implement an orderly but prompt withdrawal from Iraq, and eliminate U.S. bureaucratic confusion by giving the CIA director responsibility for the "global manhunt" against al Qaeda members.

*Hamas in Politics: Democracy, Religion, Violence.* BY JEROEN GUNNING. Columbia University Press, 2008, 320 pp. \$34.50.

Here is a book that refreshingly avoids the pitfalls of either dismissing Hamas as a terrorist organization or presenting it as being on the threshold of achieving both peace and democracy. Gunning offers his reader good social science, starting with just enough discussion of theory and methodology and then moving on to separate chapters setting out the historical roots of Hamas, its political philosophy, its organizational structure, and its contradictory dealings with Fatah, Israel, and the

### *Recent Books*

outside world. *Hamas in Politics*, solidly grounded in field research and reflecting a diligent digestion of the considerable scholarly literature on this topic, presents Hamas as a distinctive but still comparable example of a political party caught up in that most difficult political process: the transfer of power from alien to indigenous rule. As always, it will not be without violence. The future outcome is unclear, but Gunning concludes that rather than asking if Hamas is capable of democracy or will accept a negotiated settlement, it is better to ask, "Under what conditions is Hamas likely to be (come more) democratic" and to move toward such a settlement?

*A World of Trouble: The White House and the Middle East—From the Cold War to the War on Terror.* BY PATRICK TYLER. Farrar, Straus & Giroux, 2009, 640 pp. \$27.00.

The misperceptions and misdeeds of the United States in the Middle East from the time of Dwight Eisenhower to the closing days of the presidency of George W. Bush frame this big book. Eisenhower gets favorable mention for his actions during the Suez crisis in 1956, but few plaudits are to be found thereafter. The Six-Day War on Lyndon Johnson's watch was "a failure of American diplomacy." Secretary of State Henry Kissinger is charged with a pro-Israeli slant during the 1973 October War. Indeed, pro-Israeli policy "failings" constitute something of a leitmotif throughout the book. As for the Bill Clinton years, the headings of the two relevant chapters tell it all: "Tilting at Peace, Flailing at Saddam" and "Flight From Terror, Lost Peace." George W. Bush's war in Iraq is depicted as neither just nor necessary. Tyler's story, told largely in

terms of the personal contacts and confrontations between U.S. and Middle Eastern political figures over more than a half century, is well researched and readable. His judgments are almost always persuasive and in a few cases refreshingly original. And yet, a little bit less judging and more interpreting would have been nice.

## Africa

NICOLAS VAN DE WALLE

*Crude Continent: The Struggle for Africa's Oil Prize.* BY DUNCAN CLARKE.

Profile Books, 2008, 720 pp. \$69.95.

*Poisoned Wells: The Dirty Politics of African Oil.* BY NICHOLAS SHAXSON. Palgrave Macmillan, 2008, 288 pp. \$26.95.

Long a secondary player, Africa has seen its role in the global oil industry grow. The continent holds seven percent of the world's known reserves but is the least-explored region. It now accounts for 15 percent of U.S. oil imports, a figure that is increasing rapidly. The growing importance of African oil has resulted in a number of new books. These two are among the best, although they are very different. Clarke is an experienced insider in the African oil business, and he has written an exhaustive and well-informed sector study. The early chapters discuss the sector's dynamics not only in the oil-rich countries of the Gulf of Guinea but also in countries such as Madagascar and Kenya, which are at best marginal producers. The second half of the book methodically discusses the different oil companies working in the region. Clarke does not deny the region's political instability or governance deficiencies, which he views

### *Recent Books*

as structural characteristics of doing business in the region, but his optimistic account suggests that oil wealth can and often does improve things. The book would have benefited from more aggressive editing and some summary tables, but it is a remarkably complete and authoritative account of the oil industry in the region.

Shaxson's journalistic account of the seamier side of African oil is less informative, although still a good read. Shaxson devotes little time to the actual players in the oil sector. Instead, he advances and documents the now-popular view that Africa's oil is mostly a curse on its economy and people, as the wealth it procures has unleashed greed and venality and produced growing inequality and environmental disaster. Each chapter of Shaxson's account tackles one dimension of this negative assessment with evocative vignettes and revealing individual portraits. His chapter on Nigeria demonstrates how oil wealth worsened the country's authoritarianism and corruption by focusing on the life and times of the Nigerian musician Fela Kuti. Another chapter examines how oil has enriched Equatorial Guinea's president for life, Teodoro Obiang Nguema Mbasogo.

*Angola: The Weight of History.* EDITED BY PATRICK CHABAL AND NUNO VIDAL. Columbia University Press, 2007, 256 pp. \$50.00.

*L'Angola postcolonial: Guerre et paix sans démocratisation.* BY CHRISTINE MESSIANT. Karthala, 2008, 420 pp. €29.00.

Angola is woefully undercovered by both academics and journalists, in part because of its Portuguese heritage and in part because civil war and authoritarian politics have discouraged many observers from

trying to get there. Yet, as Africa's second-biggest oil producer (after Nigeria), and given the very active diplomacy of the regime of José Eduardo dos Santos, which has intervened militarily in both Congos in the last decade, the country deserves more attention. These two books on postcolonial Angolan politics are thus welcome. They cover largely the same ground in accounts that emphasize historical factors and political sociology. The edited collection by Chabal and Vidal is shorter and more focused. An early chapter focuses on the legacies of Portuguese colonialism and the guerrilla war led by the now-ruling MPLA (the Popular Movement for the Liberation of Angola). The best chapters, those by Vidal and Tony Hodges, focus on the nature of the dos Santos regime: first, as it consolidated power after independence despite the long and brutal civil war with the guerrilla movement UNITA (the National Union for the Total Independence of Angola) and, second, as it advanced a superficial democratization of the regime after the civil war ended in 2002.

The book by the French scholar Messiant is a fascinating, if at times repetitive, set of loosely related essays she wrote before her untimely death in 2006. Extensive fieldwork in the region informs the essays, which provide perhaps the best history of the Angolan civil war and the evolution of the MPLA regime—its internal dynamics and international diplomacy, its relationship to civil-society actors, and its use of the dynamics of the civil war to consolidate its power during the 1990s. Two excellent chapters focus on the complex relationship between the state and the church. In a country with an exceedingly weak civil society, where religious institutions have

## Recent Books

been uniquely allowed room to act in the public sphere, the role of the church has been critical.

*The French Betrayal of Rwanda.* BY

DANIELA KROSLAK. Indiana

University Press, 2007, 322 pp. \$65.00 (paper, \$24.95).

What is France's responsibility for the Rwandan genocide of 1994? Krosiak's study of the relationship between the Habyarimana regime and the French government between 1990 and 1994 uses a lot of circumstantial evidence and first-hand accounts from the time to argue that the French government possessed a good deal more information than it has been willing to admit about the increase in violence against Tutsis in the months before the genocide and that it enjoyed close relations with the regime and in particular with the political leaders who were personally responsible for planning and carrying out the genocide. Krosiak offers no evidence for the most damning accusation, which has been made by others: that the French military provided logistical support to the Interahamwe, the Hutu nationalist militia, after the genocide began. On the other hand, her book does offer support for the view that Operation Turquoise, the UN-approved French military intervention in the summer of 1994, after the genocide had begun, could have done much more to stop the

killings and protect Tutsi populations. (Instead, it seems to have focused more on protecting the old regime's dignitaries.) To explain these errors of judgment, Krosiak argues that long-standing ties between the French military and the Rwandan government blinded France to the regime's nature. She also makes clear that the French military mission in Kigali acted with little institutional oversight from Paris, which was probably not always well served by the intelligence it received from Kigali. Krosiak offers little new evidence for these claims, but she expertly marshals the evidence she does present, and she has provided a valuable contribution to the study of the events of 1994. 🌐

### FOR THE RECORD

A review of *Seduced by Secrets: Inside the Stasi's Spy-Tech World*, by Kristie Macrakis, in the November/December 2008 issue wrongly stated that the author grew up in East Germany. In fact, she studied there as a graduate student.

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