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Volume 94, Number 3

CHINA NOW

- | | |
|--|----|
| The End of Reform in China
Authoritarian Adaptation Hits a Wall
<i>Youwei</i> | 2 |
| Embracing China's "New Normal"
Why the Economy Is Still on Track
<i>Hu Angang</i> | 8 |
| China's Dangerous Debt
Why the Economy Could Be Headed for Trouble
<i>Zhiwu Chen</i> | 13 |
| China Will Get Rich Before It Grows Old
Beijing's Demographic Problems Are Overrated
<i>Baozhen Luo</i> | 19 |
| What It Means to Be Chinese
Nationalism and Identity in Xi's China
<i>Perry Link</i> | 25 |
| Xi's Corruption Crackdown
How Bribery and Graft Threaten the Chinese Dream
<i>James Leung</i> | 32 |
| China's Race Problem
How Beijing Represses Minorities
<i>Gray Tuttle</i> | 39 |

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A pair of hands is shown holding a small globe of the Earth. The hands are positioned at the top and bottom of the globe, with fingers gently gripping it. The globe is centered in the frame. Overlaid on the globe is the text 'SOLUTION DRIVEN PACIFIC FOCUSED GLOBAL RESULTS' in white, bold, sans-serif capital letters. The background features a large, stylized graphic of a globe with a blue and green color scheme, partially obscured by the hands and the central globe.

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ESSAYS

-
- Europe's Shattered Dream of Order** 48
How Putin Is Disrupting the Atlantic Alliance
Ivan Krastev and Mark Leonard
-
- Protecting America's Competitive Advantage** 59
Why the Export-Import Bank Matters
Fred P. Hochberg
-
- In Defense of Financial Innovation** 66
Creative Finance Helps Everyone—Not Just the Rich
Andrew Palmer
-
- From Calvin to the Caliphate** 77
What Europe's Wars of Religion Tell Us About the Modern Middle East
John M. Owen IV
-
- Drone On** 90
The Sky's the Limit—If the FAA Will Get Out of the Way
Gretchen West
-
- The Democratization of Space** 98
New Actors Need New Rules
Dave Baiocchi and William Welser IV
-
- The Precision Agriculture Revolution** 105
Making the Modern Farmer
Jess Lowenberg-DeBoer

ON FOREIGNAFFAIRS.COM

▶ **Amrita Narlikar** on the power of the poor.

▶ **27 experts** on whether to arm Ukraine.

▶ **Gregory Feifer** on Lithuania's war plans.

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REVIEWS & RESPONSES

Too Many Secrets	114
What Washington Should Stop Hiding <i>Ron Wyden and John Dickas</i>	
The Torture Blame Game	120
The Botched Senate Report on the CIA's Misdeeds <i>Robert Jervis</i>	
Putin's Hard Turn	128
Ruling Russia in Leaner Times <i>Joshua Yaffa</i>	
What Caused Capitalism?	136
Assessing the Roles of the West and the Rest <i>Jeremy Adelman</i>	
The Real Challenge in the Pacific	145
A Response to "How to Deter China" <i>Michael D. Swaine</i>	
Who Lost Libya?	154
Obama's Intervention in Retrospect <i>Derek Chollet and Ben Fishman; Alan J. Kuperman</i>	
Warning Signs	160
A Response to "The Calm Before the Storm" <i>Paul B. Stares</i>	
Recent Books	163
Letters to the Editor	187

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Archibald Cary Coolidge, Founding Editor
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Modernizing the Military in Austere Times

The Challenge

The U.S. military's Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) systems, while the best in the world, are nevertheless operating well below their full potential. Stove-piped systems make it difficult—and sometimes impossible—to collect, analyze, and disseminate critical threat and operations information or obtain a complete, single view of the battlefield. Defense leaders struggle to address these issues, but find themselves hampered by acquisition processes that inadvertently perpetuate the problems.

This challenge stems largely from the mindset that requires a C4ISR systems design to meet narrowly defined, specific mission requirements. Though very well suited to their intended purpose, these systems lack the inherent ability to share information or interoperate seamlessly with systems outside their mission space. As opportunities and requirements for collaboration grew, these systems expanded and morphed through modifications, typically by the original equipment manufacturers (OEMs) that built them using proprietary technology.

The propriety-systems approach is an efficient way to achieve the original objective. However, because each C4ISR system was developed in relative isolation, each has its own unique infrastructure, operating-system software, software services (e.g., security, reporting), data, and custom mission-specific software. Moreover, as operators fielded these systems and increasingly integrated them into military operations, expectations and demands on the systems grew significantly. The next logical step was to pursue options to integrate after the fact. Unfortunately, as the efforts to better connect the individual systems expanded, the challenges inherent to using proprietary systems surfaced.

A Better Approach

Warfighters and the organizations that support them need “integrated C4ISR,” in which individual pieces are designed as part of an enterprise system from the start. Although OEMs can integrate and upgrade their proprietary systems after deployment, the costs are high and the capabilities still fall short of the seamless interoperability required for contemporary warfighting missions. Moreover, the complex interfaces used to integrate stove-piped systems can create vulnerabilities that degrade security.

Five major features comprise an integrated C4ISR system:

- government-owned open architectures and standardized interfaces
- agile, incremental delivery of modular systems with integrated capabilities
- collective forums that bring together operators, acquisition professionals, and engineers to support agile development of solutions tailored to operational and technical requirements
- designed-in cybersecurity to infuse solutions with organic, unified, and multilayered defense
- enterprise-oriented culture

Acquiring integrated C4ISR requires a new approach, one we call Enterprise Integration. Enterprise Integration brings together three major disciplines and their communities: engineering, operations, and acquisition. Programs will need enhanced capabilities in all three areas to build integrated C4ISR on a foundation of open architectures, agile development, modular construction, and common hardware, software, data, and infrastructure.



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Although Enterprise Integration requires new skills and expertise, it does not require a wholesale reform of acquisition rules or processes. In fact, it is consistent with the thinking of top defense and military leaders and has a highly successful record of accomplishment in a number of current C4ISR programs. The required adjustments in acquisition and programmatic policies, processes, and leadership are levers that are already available to mission-critical programs such as C4ISR.

The Benefits of Integrated C4ISR

C4ISR systems operating as part of an overall network benefit the defense enterprise in many ways. Enterprise Integration will enable rapid insertion of new technologies while stimulating innovation and expanding the industrial base. It will also help government and military organizations build and deploy C4ISR systems that can share and analyze large quantities of sensor and intelligence data, quickly and easily, using secure, interoperable networks and communications.

Developers make interoperability part of the design from the outset, while enforcing standards across all C4ISR programs. This approach allows vendors to plug innovative solutions into the common infrastructure. It also facilitates agile development, making new technologies easier to incorporate into developing systems. Enterprise Integration also provides numerous mechanisms for bringing together operators and engineers to ensure that the systems are user-friendly and built to meet operational needs. This approach significantly strengthens security as well because, like interoperability, it is built into the system, rather than bolted on after deployment.

Acquisition costs drop over time due to greater efficiencies in technology insertion, component reuse, and system integration. Overall, adopting an integrated

C4ISR approach will help develop and field systems that improve situational awareness and decision-making, offering warfighters unmatched superiority over current and future threats.

The Path Forward

C4ISR is a weapons system that works best when integrated. Enterprise Integration builds systems in which interoperability, technology insertion, operator insight, and security are inherent characteristics of agile and efficient acquisition processes. In taking on the responsibilities of an Enterprise Integrator, acquisition organizations will need to expand their capabilities in the areas of engineering, operations, and acquisition.

Budget and force structure reductions loom on the horizon, while threats continue to grow increasingly sophisticated and dangerous. Integrated C4ISR is a force multiplier that enhances mission capabilities and enables warfighters to meet growing requirements, despite anticipated cuts. Moreover, Integrated C4ISR significantly improves situational awareness and decision-making to give warfighters a decisive battlefield advantage.

By: Steve Soules

Steve Soules is an executive vice president in Booz Allen Hamilton's Defense & Intelligence business leading the firm's C4ISR initiative.

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CHINA NOW

When is an anticorruption campaign not just an anti-corruption campaign? When it might be a harbinger of a regime's approaching developmental crisis.

China's extraordinary advances in recent decades have dragged the country up from totalitarian poverty to middle-income authoritarianism. The scale and speed of this transformation rank it as one of the great events in human history. But Beijing has now picked most of the low-hanging fruit of modernization, leaving it the unenviable task of trying to reach the upper branches of the tree without falling. So we decided it was time for a deep dive on China's condition today, and have put together a great package with seven authoritative articles on the country's politics, economics, demographics, national identity, corruption, and racial and ethnic tensions.

The authors—all top experts, most of them Chinese—have different perspectives, and some are more optimistic than others. But collectively, they paint a picture of a country bumping up against the classic challenges of the middle phases of development, pretty much across the board. China's existing institutions seem unlikely to be able to manage the country's problems for too much longer, yet Beijing seems unlikely to adopt the reforms that could help because they would threaten the Communist Party's hold on power. President Xi Jinping's signature anticorruption campaign emerges throughout as the epitome of the situation—the regime's attempt to

deal (and be seen to deal) with some of the country's major problems, but one that will have a hard time achieving its ambitious goals.

There is plenty of evidence here to support the view that China's next decade will be a turbulent one: that the anti-corruption campaign, adopted as a sort of strong medicine to cure the communist regime's ills, will in fact only hasten the patient's demise, by heightening the contradictions within the elite.

But there is also evidence to support the view that the regime may be able to muddle through for quite a while. Xi and his government have plenty of assets as well as liabilities, including support from the mass public and key elite factions, vast foreign exchange reserves, a protected currency, control of the banking system, smart technocrats, a large real economy, and the absence of any significant opposition movement.

And it's possible that the likeliest scenario will be neither crisis nor resilience but rather an eventual gradual political evolution, like those of other former authoritarian regimes dominated by a single party, such as Mexico or Taiwan.

Whatever China's future holds, it should be fascinating to watch the drama play out. This package provides an accurate snapshot of the situation today—and the material to form educated guesses about what will come next.

—Gideon Rose, *Editor*



Reform in China has now stagnated, and may even be moving backward.

—*Youwei*

The End of Reform in China <i>Youwei</i>	2	What It Means to Be Chinese <i>Perry Link</i>	25
Embracing China's "New Normal" <i>Hu Angang</i>	8	Xi's Corruption Crackdown <i>James Leung</i>	32
China's Dangerous Debt <i>Zhiwu Chen</i>	13	China's Race Problem <i>Gray Tuttle</i>	39
China Will Get Rich Before It Grows Old <i>Baozhen Luo</i>	19		

The End of Reform in China

Authoritarian Adaptation Hits a Wall

Youwei

Since the start of its post-Mao reforms in the late 1970s, the communist regime in China has repeatedly defied predictions of its impending demise. The key to its success lies in what one might call “authoritarian adaptation”—the use of policy reforms to substitute for fundamental institutional change. Under Deng Xiaoping, this meant reforming agriculture and unleashing entrepreneurship. Under Jiang Zemin, it meant officially enshrining a market economy, reforming state-owned enterprises, and joining the World Trade Organization. Under Hu Jintao and Wen Jiabao, it meant reforming social security. Many expect yet another round of sweeping reforms under Xi Jinping—but they may be disappointed.

The need for further reforms still exists, due to widespread corruption, rising inequality, slowing growth, and environmental problems. But the era of authoritarian adaptation is reaching its end, because there is not much potential for further evolution within China’s current authoritarian framework. A self-strengthening equilibrium of stagnation is being formed, which will be hard

to break without some major economic, social, or international shock.

IS CHINA EXCEPTIONAL?

One reason for the loss of steam is that most easy reforms have already been launched. Revamping agriculture, encouraging entrepreneurship, promoting trade, tweaking social security—all these have created new benefits and beneficiaries while imposing few costs on established interests. What is left are the harder changes, such as removing state monopolies in critical sectors of the economy, privatizing land, giving the National People’s Congress power over fiscal issues, and establishing an independent court system. Moving forward with these could begin to threaten the hold of the Chinese Communist Party on power, something that the regime is unwilling to tolerate.

Another reason for the loss of steam is the formation of an increasingly strong antireform bloc. Few want to reverse the reforms that have already taken place, since these have grown the pie dramatically. But many in the bureaucracy and the elite more generally would be happy with the perpetuation of the status quo, because partial reform is the best friend of crony capitalism.

What about society at large? Modernization theory predicts that economic development empowers society, which eventually leads to political transformation. With a per capita GDP of roughly \$7,000, is China succumbing to this logic? Many argue that the country will not, because it is exceptional. Political legitimacy in China rests more on the goods government provides than the rights it protects, they claim. Entrepreneurs are co-opted,

YOUWEI is a pseudonym for a scholar based in China.

students are distracted by nationalism, peasants and workers are interested only in material justice. More likely, however, what is exceptional in China is not society or culture but the state.

In China, as elsewhere, economic development has led to contention: peasants are demanding lower taxes, workers want more labor protections, students are forming activist groups, entrepreneurs are starting charities, media organizations have begun muck-raking, and lawyers are defending human rights. Collective action has soared, and the country now has more than a million grass-roots nongovernmental organizations. And the Internet poses a big challenge for the regime, by linking ordinary people to one another—and to intellectuals.

However, it takes organizational skills and ideological articulation for practical pursuits to mature into political demands. These require at least some political space to develop, and such space is almost nonexistent in China. If the Chinese Communist Party has learned anything from the 1989 democracy movement and the Soviet experience, it is the lesson that “a single spark can start a prairie fire,” as the Chinese saying goes. Equipped with tremendous resources, the regime gradually developed an omnipresent, sophisticated, and extremely efficient apparatus of “stability maintenance,” which has successfully prevented the second half of modernization theory’s logic from being realized. This system for ensuring domestic security is designed to nip any sign of opposition, real or imagined, in the bud. Prevention is even more important than repression—in fact, violent suppression of protests is seen as a sign of failure.

China’s strong state is reflected not so much in its sharp teeth as in its nimble fingers.

Speech is censored, in the press and on the Internet, to prevent the publication of anything deemed “troublesome.” Actions are watched even more closely. Even seemingly nonpolitical actions can be considered dangerous; in 2014, Xu Zhiyong, a legal activist who had led a campaign for equal educational opportunities for the children of rural migrants, was sentenced to four years in prison for “disturbing public order.” Public gatherings are restricted, and even private gatherings can be problematic. In May 2014, several scholars and lawyers were detained after attending a memorial meeting for the 1989 movement in a private home. Even the signing of petitions can bring retribution.

Just as important is the emerging mass line—that is, official public guidance—about China’s critical need to maintain stability. A grid of security management has been put in place across the entire country, including extensive security bureaucracies and an extra-bureaucratic network of patrol forces, traffic assistants, and population monitors. Hundreds of thousands of “security volunteers,” or “security informants,” have been recruited among taxi drivers, sanitation workers, parking-lot attendants, and street peddlers to report on “suspicious people or activity.” One Beijing neighborhood reportedly boasts 2,400 “building unit leaders” who can note any irregularity in minutes, with the going rate for pieces of information set at two yuan (about 30 cents). This system tracks criminal and terrorist threats along with political troublemakers, but dissenters are certainly among its prime targets.

In today's China, Big Brother is everywhere. The domestic security net is as strong yet as delicate as a spider web, as omnipresent yet as shapeless as water. People smart enough to avoid politics entirely will not even feel it. Should they cross the line, however, the authorities of this shadow world would snap into action quickly. Official over-reaction is a virtue, not a vice: "chopping a chicken using the blade for a cow," as the saying goes, is fully approved, the better to prevent trouble from getting out of hand.

This system is good at maintaining order. But it has reduced the chances of any mature civil society developing in contemporary China, let alone a political one. And so even as grievances proliferate, the balance of power between the state and society leans overwhelmingly toward the former. Social movements, like plants, need space in which to grow. And when such space does not exist, both movements and plants wither.

THE BURIED GIANT

Lacking support from above or below, reform in China has now stagnated, and may even be moving backward. The current leadership still embraces the rhetoric of reform, and it has indeed launched some reform initiatives. Yet they tend to be, as the Chinese say, "loud thunder, small raindrops."

The most significant is Xi's anticorruption campaign. Having brought about the downfall of 74 provincial-level officials over the past two-plus years, in addition to hundreds of thousands of lower officials, the campaign is certainly vigorous. In the three decades before Xi took power, only three national officials lost their positions for corruption; in less than

three years under Xi, five have already done so. Yet the anticorruption campaign should not really be considered a reform program. Instead of encouraging freer media, more independent courts, and watchdog groups to expose and check corruption, the campaign is driven and controlled from the top and characterized by secrecy, ruthlessness, and political calculation. Yu Qiyi, an engineer at a state-owned enterprise who was accused of corruption, died of torture while being interrogated in 2013. Zhou Wenbin, a former president of Nanchang University, has also claimed to have been tortured, in early 2015. This is reminiscent of the Maoist "rectification" campaigns (albeit much less intense) or even disciplinary actions in imperial China. Such campaigns tend to produce more concentration of power rather than less, strengthening the legitimacy of particular charismatic leaders at the expense of bureaucracies.

Small reforms are moving forward in some other areas as well, but none of them is transformational. The 18th Party Congress, held in late 2012, emphasized judiciary reform, but so far, nothing much more than administrative restructuring has happened. A Central Committee edict in late 2014 promised to strengthen "institutions of independent and fair trials and prosecution," but it set the first principle of legal reform as "asserting the leadership of the Chinese Communist Party." Party officials frequently nod to the importance of "deliberative democracy," and early this year, the party released a plan to "strengthen socialist deliberative democracy," but it is unclear how deliberation can be made meaningful without ways of punishing institutional unresponsiveness.



Mad in China: a labor protest in Beijing, January 2013

There has also been repeated talk about reforming the laws and rules that apply to nongovernmental organizations. Progress in this area, however, is slow and dubious, as demonstrated by the forced dissolution of the Liren Rural Library project, which was focused on extracurricular learning in rural China. The economic arena has seen some genuine reforms, such as the reduction of licensing barriers for businesses and the introduction of more competition in banking, but many see the efforts as mild, with state monopolies in several areas largely untouched. And in social policy, the loosening up of the national one-child policy represents progress, but it may not be enough to make much of a difference.

Underlying the inertia is ideological deadlock. The so-called socialist market economy principle has guided China for over 30 years, allowing for both

continuity and reform. It has always contained something of an internal contradiction, because the impersonal legal system required by the market economy could potentially compete with the personalized party leadership as the final arbiter of public affairs, and in recent years, the question has come to the fore with greater urgency: Which is more important, the needs of the market economy or those of the Communist Party?

In practice, the needs of the party prevail. But the regime has not developed a coherent, contemporary ideological discourse to justify that outcome. Marxism is obviously inadequate. The regime increasingly resorts to Confucianism, with its convenient emphasis on benevolent governance within a hierarchical order. Yet the two coexist uneasily because the party still nominally embraces Marxism-Leninism, whose emphasis on equality

goes against Confucianism, which stresses hierarchy.

What Xi presents most often are the so-called socialist core values. Now posted everywhere in China, these include “prosperity, democracy, civility, harmony, freedom, equality, justice, the rule of law, patriotism, dedication, integrity, friendship.” The list reads more like an ad hoc patchwork than a coherent vision. It reflects anxiety more than confidence, and with good reason: a praxis without ideological grounding is weak and unsustainable.

FOUR FUTURES

China faces four possible futures. In the first, which the party favors, the country would become a “Singapore on steroids,” as the China expert Elizabeth Economy has written. If the anticorruption campaign is thorough and sustainable, a new party might be born, one that could govern China with efficiency and benevolence. Policy reforms would continue, the country’s economic potential would be unleashed, and the resulting productivity and progress would boost the new party’s legitimacy and power.

Such a future is unlikely, however, for many reasons. For one thing, Singapore is much less authoritarian than contemporary China; it has multiple parties and much more political freedom. Political competition is not completely fair, but opposition parties won 40 percent of the popular vote in elections in 2011. For China to emulate Singapore, it would have to open up political competition significantly, possibly stepping onto a slippery slope to full pluralistic democracy—an outcome the Communist Party does not want to risk. Singapore is tiny, moreover, and so

the cost of supervising its administration is relatively small. China is huge, and the party would find it increasingly difficult to supervise the country’s vast, multilevel governmental apparatus from the top down.

The second and most likely future, at least in the short term, is a continuation of the status quo. Whatever problems it has, the regime’s current model of “socialism with Chinese characteristics” is not exhausted. From demographics to urbanization to globalization to the revolution in information technology, the structural factors that have facilitated China’s rise are still present and will continue to operate for some years to come, and the regime can continue to benefit from them.

But not forever: a regime relying on performance legitimacy needs continued economic growth to maintain itself in power. With growth already slowing, fear of a hard landing is rising. A housing bubble, manufacturing overcapacity, financial instability, weak domestic demand, and widening inequality represent significant vulnerabilities. The bursting of the housing bubble, for example, could cause problems throughout the economy and then in the political sector, too, as local governments lost a major fiscal source that they rely on to support public services and domestic security.

This could trigger the third possible future: democratization through a crisis. Such an outcome would not be pretty. With the country’s economy damaged and political demands soaring, conflicts could intensify rather than subside, and several time bombs planted by the current regime (a demographic crisis, environmental devastation, ethnic tensions) could eventually explode, making

matters worse. The result might be the reemergence of some form of authoritarianism as the country recoiled from democratic disorder.

A fourth scenario—controlled and sequenced democratization—would be the best for China but is unfortunately unlikely. An enlightened leadership in Beijing could take steps now to lay the groundwork for an eventual transition, with multiparty elections organized as the final step of the process, well down the road. Enabling gradual judicial independence, empowering the National People’s Congress to deal with fiscal issues, encouraging the development of civil society, and introducing intraparty competition are measures that could pave the way for a smoother transition later on, and that in conjunction with reforms on policies relating to population control, minorities, and the environment could help China dodge some future trauma. Such prepared and sequenced reform, however, would require a coalition of pro-reform politicians within the leadership, which is absent now and unlikely to appear soon.

As for outsiders, what they can do is limited. External pressure tends to ignite defensive nationalism rather than indigenous liberalism. For a country with China’s size and history, democratization will have to emerge from within. But the fact that the world’s most powerful countries tend to be liberal democracies creates a strong ideological pull—and so the best way for the West to help China’s eventual political evolution is to remain strong, liberal, democratic, and successful itself. 🌐



“The field of international relations is rapidly changing and wisdom established after the end of the Cold War is being challenged. The need to renew solidarity with old allies and to explore common grounds with new partners is now more pertinent than ever in the last 25 years. Politicians and scholars, as well as citizens, in different parts of the world sense how prosperity and peace in one region are dependent on stability and security in another. We need young professionals who understand the nature of these challenges.”

Wolfgang Ischinger
Senior Fellow, Hertie School of Governance
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Embracing China's “New Normal”

Why the Economy Is Still on Track

Hu Angang

It is clear by now that China's economy is set to slow in the years to come, although economists disagree about how much and for how long. Last year, the country's GDP growth rate fell to 7.4 percent, the lowest in almost a quarter century, and many expect that figure to drop further in 2015. Plenty of countries struggle to grow at even this pace, but most don't have to create hundreds of millions of jobs over the next decade, as China will. So understandably, some experts are skeptical about the country's prospects. They argue that its production-fueled growth model is no longer tenable and warn, as the economist Paul Krugman did in 2013, that the country is “about to hit its Great Wall.” According to this view, the question is not whether the Chinese economy will crash but when.

Such thinking is misguided. China is not nearing the edge of a cliff; it is entering a new stage of development. Chinese President Xi Jinping has called this next phase of growth the “new normal,” a term that Mohamed El-Erian, the former CEO of the global investment firm PIMCO, famously used to describe the West's painful economic recovery

following the 2008 financial crisis. But Xi used the phrase to describe something different: a crucial rebalancing, one in which the country diversifies its economy, embraces a more sustainable level of growth, and distributes the benefits more evenly. The new normal is in its early stages now, but if Beijing manages to sustain it, China's citizens can count on continued growth and material improvements in their quality of life. The rest of the world, meanwhile, can expect China to become further integrated into the global economy. The Chinese century is not at the beginning of the end; it is at the end of the beginning.

FOLLOWER TO LEADER

Understanding China's new normal requires some historical context. As a latecomer to the modern economy, China has followed what one could call a “catch-up growth” model, which involves rapid economic growth following years of lagging behind. From 1870 to 1913, for example, the U.S. economy followed precisely this path, growing at an average rate of four percent. Between 1928 and 1939, Russia's GDP grew at an average rate of 4.6 percent. And from 1950 to 1973, Japan's economy grew at an average rate of 9.3 percent. Yet none of those countries came close to matching China's record from 1978 to 2011: an average GDP growth rate of nearly ten percent over 33 years.

This ascent has helped China's economy approach, and perhaps even surpass, that of the United States. In terms of purchasing power parity, a measure economists use for cross-country comparisons, China's GDP surpassed that of the United States in 2010 or 2014, depending on whether one relies on

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historical statistics from the Maddison Project or data from the World Bank's International Comparison Program. Yet if one relies on the World Bank Atlas method, China's economy won't likely outgrow the United States' until 2019. And China's GDP still trails that of the United States if calculated using current U.S. dollars. But the best method for comparing the two economies objectively is power generation, since it is physical and quantifiable. It also closely tracks modernization; without electricity, after all, or at least without a lot of it, one can't run factories or build skyscrapers, which is exactly what China has been doing. In 1900, China generated 0.01 percent of the power the United States did. That figure rose to 1.2 percent in 1950 and 34 percent in 2000, with China surpassing the United States in 2011. In this respect, China has caught up.

China's rise has also brought massive benefits to the country's population, although here there is obviously much more to be done. With a population more than four times as large as that of its closest economic competitor, China won't likely match even half the United States' GDP per capita until around 2030. To be sure, the country has made major strides in other areas. Its average life expectancy (around 76 years) is nearing the United States' (around 79 years). Educational levels in the two countries are comparable. And measured by the Gini coefficient, economic inequality in China may now be lower than it is in the United States. Yet since 1979, most of the windfall from China's rise has accrued mainly to those who live in urban or coastal areas. Realizing Beijing's ultimate development goal—"common development and

common prosperity"—will require not only more sustainable growth but also more evenly distributed gains.

SLOWER BUT STEADIER

To a certain extent, China's latest slowdown was inevitable. Three decades of breakneck growth have left China with an economy that is simply massive, making marginal increases in size all the more difficult. Even measured using current exchange rates, Chinese GDP exceeded \$10 trillion in 2014, which means that growing by ten percent would amount to adding \$1 trillion to the economy after one year, a sum greater than the entire GDP of Saudi Arabia, which is among the world's largest economies. Growth on this scale was bound to become unsustainable at some point. It essentially requires an unlimited supply of energy and puts enormous stress on the environment. China already emits more carbon into the atmosphere than the United States and the EU combined, and its emissions are still increasing.

Given all this, China has little choice but to pare back. Although a seven percent growth rate is still high in comparison to most economies of the world, it will reduce China's demand for basic inputs, whether coal or clean water, to more manageable levels. It will also allow China to finally address its contribution to global climate change, in part by making good on the U.S.-China Joint Announcement on Climate Change, a 2014 agreement that requires China to begin reducing its carbon emissions by no later than 2030. Thanks to slower growth and a host of new energy-conservation policies, China will likely reach that target well ahead of time.

Beijing's shift toward the new normal has already begun, and so far, the results are impressive. Consider its 12th five-year plan, which was approved in 2011 and will run through 2015. Despite the plan's unfolding in a time of declining growth, five of its goals have strengthened the economy and improved the lives of Chinese citizens. The first was a commitment to creating 45 million new jobs in urban areas. Beijing has already exceeded the target, creating over 50 million jobs in the country's cities, a feat that stands in stark contrast to the unemployment crises in the United States and Europe during the same period. The second involved economic restructuring, calling for the expansion of the country's service sector from 43 percent of GDP in 2010 to just over 48 percent in 2014; in this case, too, the government has already hit its target, diversifying the economy and boosting employment in the process. The third objective, an emphasis on scientific innovation, mandated an increase in state funding for research and development from 1.75 percent of GDP in 2010 to 2.20 percent in 2015. Again, Beijing has hit its mark, turning the country into the world's second-largest funder of research and development. (The investment is already paying dividends: in 2012, less than three decades after China passed its first patent law, nearly 50 percent more patent applications were filed in China than in the United States.) The fourth priority was social welfare, including an expansion of the health-care system, which now covers more than 95 percent of China's total population. The last emphasized conservation. It called for improvements in eight environmental indicators, such

as the share of nonfossil fuels that make up primary energy consumption and the amount of carbon dioxide emissions in proportion to GDP.

The plan's growth targets, meanwhile, were relatively modest by China's standards. The central government set a goal of seven percent GDP growth and aimed to double per capita GDP by 2020 compared with the 2010 level. These targets sent a clear signal, especially to state governments that look to Beijing for guidance: when it comes to growth, focus on quality, not quantity.

The average income in urban areas is still more than twice as large as that in rural regions, but the gap is set to decrease in the coming years—a development that will boost domestic consumption and drive continued GDP growth. Of course, China's relative slowdown will also pose difficult challenges, particularly in the realm of job creation and food production, where growth rates will likely slow. But this is the cost of structural transformation, and it is a price well worth paying to carry the country forward.

GLOBAL GAINS

The new normal won't be limited to its effects on China itself: by rebalancing its domestic economy, the country will take on an even greater role abroad. China is already the world's largest contributor to global growth, and if its economy continues expanding at a rate of around seven percent, the country will likely remain, in terms of purchasing power parity, the most important force driving global growth. From 2000 to 2013, China was responsible for nearly 23 percent of global growth (the United States contributed almost 12 percent). My own fore-



Attention, Chinese shoppers: in Shanxi Province, March 2010

casts suggest that this figure will increase to 25 percent before 2020, helping keep global growth rates above three percent.

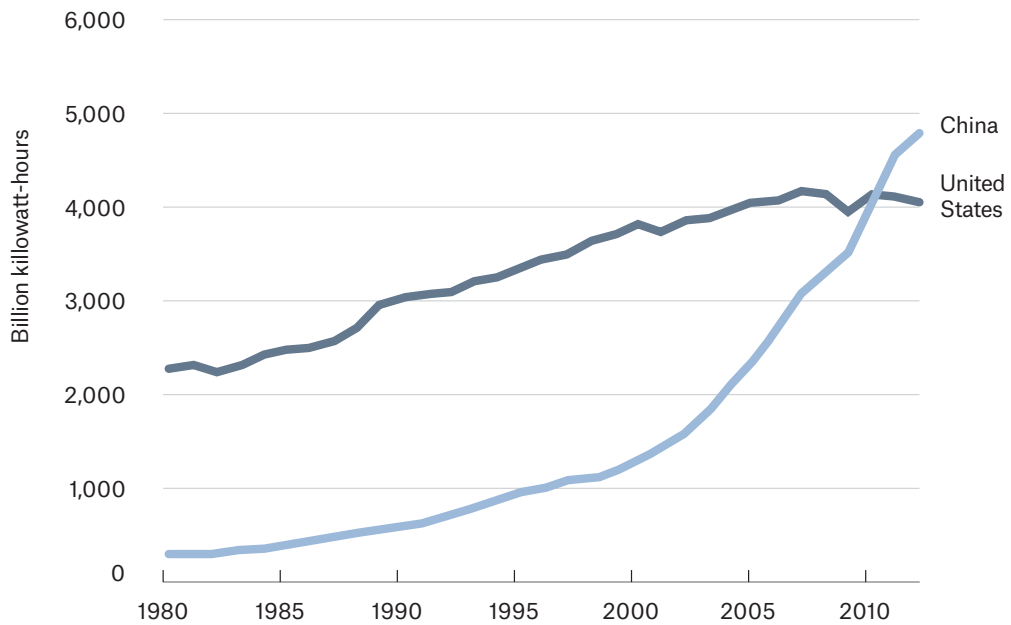
In trade, too, China is already the world's leader, and it will continue its upward trajectory. According to the International Monetary Fund's Direction of Trade Statistics database, it is the largest source of trade for some 140 countries, and its trading activities accounted for some 13 percent of the world's total growth from 2000 to 2012. But if Beijing wants to raise domestic consumption and reduce China's dependence on exports, it will have to open China's borders, by cutting tariffs, encouraging Chinese companies to expand internationally, establishing more free-trade zones, and increasing its trade in the service sector. And to attract more foreign investment, Beijing will have to deliver on basic reforms, such as capital account liberal-

ization, which involves easing restrictions on money flows across the country's borders, and the creation of a so-called negative list, a single document that indicates which sectors of the economy are not open to foreign investment, signaling that all the others are.

China is poised to make greater contributions in the realm of ideas as well. The country is now among the world's largest generators of intellectual property; from 2000 to 2012, inventors in China were responsible for nearly 62 percent of the growth in the world's patent applications (inventors in the United States contributed to around 25 percent). And as part of its new commitment to innovation, Beijing will likely adopt stricter intellectual property protections and encourage Chinese companies to apply for international patents and disseminate new technologies, especially to developing countries.

Volting Ambition

Net Electricity Generation in the United States and China, All Sectors, 1980–2012



SOURCE: U.S. Energy Information Administration.

The more integrated China's economy becomes, the more it will act as a global stabilizer, just as it did following the 2008 financial crisis. It was Beijing's aggressive stimulus plan that arguably contributed the most to the global recovery after the crisis hit. By ensuring that China kept its growth rate at over nine percent, Beijing helped turn negative global growth positive. China will continue to serve this role moving forward, but it will also act through more formal channels, mainly international financial institutions, such as the World Bank and the International Monetary Fund, to reform the international financial order in ways that benefit developing countries.

As China increases its economic lead, it will inevitably be called on to assume

greater global responsibilities. But in many ways, Beijing is already stepping up, knowing full well that the success of China's next stage of development depends as much on the wider world as it does on China itself. China can't thrive without a balanced, rules-based global order, and so the country will continue to advocate for the liberalization of trade, the end of protectionism everywhere, regional cooperation, and a system of global governance more representative of developing countries. The new normal, in this sense, is about building a China strong enough not only to hold its own but also to help others. 🌐

China's Dangerous Debt

Why the Economy Could Be Headed for Trouble

Zhiwu Chen

In September 2008, when Chinese President Hu Jintao got word that Lehman Brothers, then the fourth-largest U.S. investment bank, was on the verge of bankruptcy, he was traveling by van along the bumpy roads of Shaanxi Province. Surrounded by policy advisers and members of the Politburo, Hu asked them how China should respond to the inevitable spillover. According to one participant in the discussion, the group reached a clear consensus by the trip's end: China would need to launch a massive stimulus program. And it could trust only state-owned enterprises (SOEs), rather than private firms, to carry it out.

That November, as other governments were still debating what to do next, Beijing announced that it would distribute nearly \$600 billion in stimulus funds to SOEs and other institutions, principally to fund ambitious infrastructure and industrial projects. Banks began lending generously, and local governments rushed to form shell SOEs that would allow them to borrow. Over the next six years, China's nominal GDP roughly doubled, ballooning from around \$4.5 trillion in 2008 to just over \$9 trillion in 2014.

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China recovered from the 2008 financial crisis faster than any of its peers, and it drove unprecedented growth in the process, expanding its economy at rates its competitors had failed to match even before the financial crisis. The story was positive enough that some economists called on Western governments to adopt a similar approach, advocating increases in government spending and regulation. Yet China's speedy response would have been impossible to replicate without the power and reach of its central government. The government owns, either directly or indirectly, almost all of China's land and roughly two-thirds of its productive assets, enabling it to quickly allocate resources on an enormous scale.

This advantage carries a significant cost, however, and one that has already begun to surface. According to a recent report from the management consulting firm McKinsey & Company, China's total debt in 2007, counting that of private households, independent firms, and government institutions, equaled 158 percent of the country's GDP. In 2014, it reached 282 percent of GDP—among the world's highest levels for a major economy. In the past, China has been able to rely on a mix of bailouts and local dealmaking to keep toxic loans from poisoning the economy. But now that growth is slowing—a trend party leaders have euphemistically dubbed the “new normal”—many more borrowers are struggling to pay. If China doesn't get on top of its debt problem, the road ahead will be far bumpier than it was in 2008 and could even lead to a prolonged and painful crash.

LOANS AND LAND

Understanding how China accumulated so much debt across much of its economy requires understanding how growth occurs at the local level. For more than a decade, there has been no more important driver of Chinese economic success than the country's booming real estate market. Rising property prices provided the basis for a massive expansion of credit and a steady supply of capital, which allowed local governments to invest heavily in infrastructure and labor-intensive industrial projects.

In theory, the Chinese state owns urban land, whereas peasant collectives control agricultural land. In practice, the collectives have little say at all. Only local governments can open up agricultural plots to development, giving them monopolies over the supply of land. Taxes and fees included, the proceeds from land sales have made up an increasing share of local budgets, accounting for some 46 percent of revenues in 2013. Yet most of the cash has come from loans that local governments have secured through shell companies, or so-called local government financing vehicles (LGFVs), using public land as collateral. It is such funds that have, since 1998, made possible the country's feverish construction of highways, high-speed railways, airports, subways, steel foundries, office parks, and so on.

This reliance on land-backed debt has meant that despite the central government's efforts to stabilize housing prices and avoid a damaging real estate bubble, local governments have had a vested interest in keeping housing (and thus land) prices high, since doing so has allowed them to secure larger loans.

For this reason, localities sold land one small plot at a time, which exaggerated marginal land prices and helped inflate the value of the much larger tracts of land that remained, thereby increasing local governments' capacity to borrow. The strategy largely worked: land values soared, and credit flowed widely.

Since Chinese law forbids local governments from borrowing directly, most transferred land titles to LGFVs, which could take out loans freely. These bodies have been so successful at circumventing Beijing's prohibitions against local government borrowing—on paper, they look just like other SOEs—that nobody, not even the Ministry of Finance, knows how much local governments owe. This ambiguity has made it impossible to estimate China's true government debt, although guesses range anywhere from \$5 trillion to \$7 trillion.

For almost two decades, observers have been predicting a Chinese banking crisis but have not seen a single one. Their reasoning was flawed in two primary ways. First, they viewed China's commercial banks as they would private banks in true market economies. Yet all major banks in China are government-owned, and so as long as Beijing has enough capital to replenish the reserves of struggling banks, none will collapse. A second flaw was overlooking the crucial role of land in settling debts. With housing prices rising and land in high demand, local governments could always sell more land—and so few alarm bells rang.

Even when warning signs did appear, the government acted quickly enough to avert an actual crisis. Throughout the 1990s, virtually all Chinese banks lent generously at Beijing's instruction. And not surprisingly, they racked up large



Priced out: construction in Changzhi, March 2012

numbers of nonperforming loans. By 1999, four major national banks—the Agricultural Bank of China, the Bank of China, the China Construction Bank, and the Industrial and Commercial Bank of China—were technically insolvent. But officials moved quickly to remedy the situation, forming a series of asset-management companies that took over all of the banks' toxic loans and returned their balance sheets to good health.

In 2003, however, these same banks found themselves loaded with nonperforming loans once more, and again, the government came to the rescue. As part of a larger effort to restructure Chinese financial institutions so that they could be publicly listed on the Hong Kong Stock Exchange, the central government pumped \$45 billion worth of foreign exchange reserves into the Bank of China and the China Construction Bank. In 2005, it injected \$15 billion

into the Industrial and Commercial Bank of China. And in 2008, it put \$19 billion into the Agricultural Bank of China.

There is little reason to believe that Beijing won't continue to stand behind these major banks in the years to come, assuming the government has the funds to do so. But when it comes to local banks, the central authorities have kept their distance. Although these institutions have had just as much trouble with nonperforming loans, Beijing has left the troubleshooting mostly to regional and municipal governments. Since local governments lack Beijing's cash reserves, they have relied on mediation, bringing together lenders, borrowers, and third-party corporations capable of funding bailouts. In exchange for a corporation's assistance, a local government would typically provide a free or low-cost piece of developable land or some other sweet-

ener. But using land as an instrument to resolve bad loans was only tenable so long as real estate prices remained high and such land deals remained attractive—and that is no longer appearing to be the case.

Indeed, the beginning of 2015 marked a turning point for China's real estate market; land sales in both volume and proceeds plunged by 30 percent compared to the prior year. The reason was twofold. The first was a decline in quality: after a 15-year boom, local governments had sold off most of the country's premium plots. The second was a drop in demand. In 2014, new property sales fell by 7.6 percent in volume and by 6.3 percent in proceeds, down from increases of 17.3 percent and 26.3 percent, respectively, in 2013. To make matters worse, the real estate market is now suffering from an excess of supply. At the end of 2014, China had around 75 billion square feet of new property space either under construction or ready to be occupied; even if demand were to remain steady, it would likely take more than five years to sell all that space. In fact, demand will probably dip.

Local governments are already struggling in the face of declining property markets, and they are increasingly using shell corporations to bid up prices and keep land valuations high. According to a recent study by Deutsche Bank's chief China economist, Zhang Zhiwei, local-government-owned shell entities likely won 43 percent of land auctions in Jiangsu Province in 2014, up from negligible levels in prior years. When a local government sells land to one of its own entities, it amounts to self-dealing. The sale, in other words, is fake. That this practice has grown increasingly

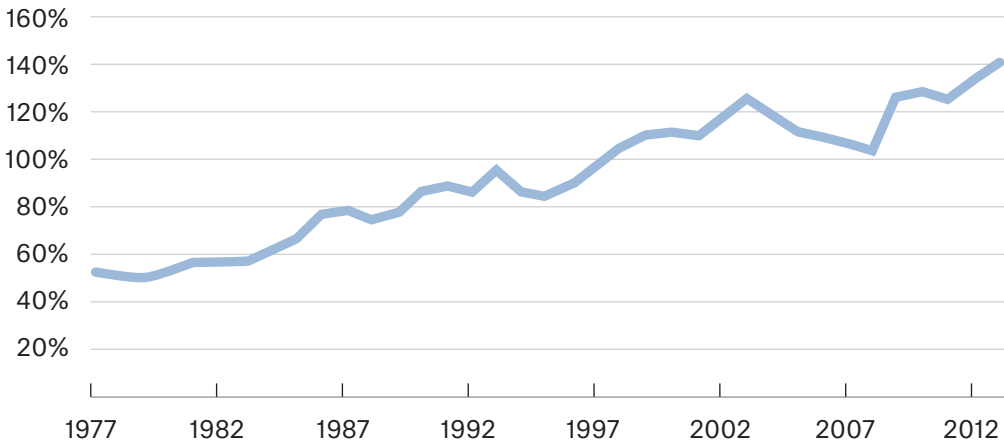
common suggests a sense of desperation: local officials know that if land prices drop in the absence of market demand, borrowing will become more difficult, and unpaid debts harder to settle.

In a further sign of the times, China's State Council, the country's top administrative body, announced this past March that it planned to provide local governments with new ways of borrowing, principally by allowing them to issue up to around \$480 billion worth of long-term bonds to pay off existing debt. Swapping short-term local government debt for long-term bonds represents an important step forward, since China's debt structure has been extremely short-term and thus unnecessarily risky. But the move also raises a major concern. Since China is not a democracy, allowing local governments to sell bonds could establish a dangerous precedent, leading them to freely issue debt without any real intention of paying it back, which is what happened in the early 1990s. Of course, Beijing could address this risk by introducing new checks on local government power. Yet such a political reform is nowhere on the party's current agenda.

Beyond restructuring local government debt, Beijing could also raise taxes in order to help pay it off. Indeed, the State Council is considering levying a property tax, the revenue from which would flow to local governments. But at a time when real estate sales are slumping, and in a country where tax burdens are already among the highest in the world, new taxes or higher tax rates could slow the economy further. At this point, then, neither policy option—maintaining short-term growth by taking on more long-term debt or

Debt on the Rise

China's Domestic Credit to Private Sector as a Percentage of GDP, 1977–2013



SOURCE: World Development Indicators, World Bank.

pping taxation to boost revenues—is a good strategy. Both would raise the probability of a major economic crisis.

DAMAGE CONTROL

So what should China do to avert such a worst-case scenario? The immediate response should be to force local governments to cut spending and sell off wasteful assets. Many local governments still hold large portfolios of unnecessary buildings; selling them would not just provide badly needed capital to pay off debt but also eliminate burdensome operating costs. In the past, Chinese officials have preferred to issue new debt or raise taxes instead of reducing spending or selling assets. But now China's leaders must change course.

Unfortunately, the requisite will is notably lacking. The National People's Congress and its local counterparts have never played much of a role in budget-

ing, and they are unlikely to break with tradition. Only President Xi Jinping can mandate spending cuts and asset selloffs on the scale that is needed, much the same way as he has been carrying out his anticorruption campaign—as a presidential prerogative. So far, however, there are few indications that he intends to do so.

In the meantime, China is trying to improve the country's roughly 155,000 SOEs through the “mixed ownership” reform it announced in November 2013, which aims to open SOEs up to private investment. Although the concept is a promising one in theory, the policy in its current form will make things worse. The reform essentially allows private investors to own minority equity stakes in new projects and new businesses controlled by SOEs, rather than permitting them to buy into the enterprises themselves. The effect will be to enable SOEs to raise additional funds and

expand their asset bases—which will enlarge, rather than reduce, the relative share of the state sector in the Chinese economy. SOEs are well known for their inefficiencies, and their wasteful operations will prove a painful drag on China's already slowing economy. Just keeping these enterprises running will carry a heavy cost, yet they won't be able to rely on the levels of debt they once did. As the housing market declines, land is no longer as effective an instrument to help borrowers avert defaults.

Expanding SOEs will also stand in the way of Beijing's effort to promote domestic consumption to offset the economy's dependence on investment. (Today, household consumption accounts for only around 35 percent of China's GDP; in the United States, the figure is around 70 percent.) Boosting China's household consumption is difficult in large part because of the dominance of SOEs and other state-backed businesses, whose profits and valuation gains accrue mainly to the government rather than investors, employees, or households.

In addition, SOEs will continue to undermine the rule of law, since their government owners hold unchecked power to bend or flout the rules when convenient. Any industry with an SOE cannot provide a level playing field for everyone or foster real competition. The system is rigged in every sense: even China's judiciary cannot act impartially when it comes to ruling on cases that pit an SOE against a private party.

Finally, because of the advantages SOEs enjoy, they will continue to suck up financial resources at the expense of private firms, both within China and abroad. Consider that from January to August 2014, nearly 1,500 Chinese non-

financial firms offered bonds worth more than \$500 billion. According to the China Business Network, 267 of these companies were private, and they raised only six percent of the total, with the rest going to SOEs. Raising that capital was also cheaper for the government-owned firms; for one-year AA-rated bonds, the yield, or cost to the borrower, was 5.9 percent for SOE issuers and 6.7 percent for private firms.

Unless China's leaders correct course, the mixed-ownership reform, at least in its current form, will likely create more problems than it solves. Before it's too late, then, the country must shift its focus to privatizing SOEs, divesting nonessential government assets, selling at least some portions of SOE equity to private investors, and cutting government spending. Those measures would help reduce both operating costs and debt burdens for governments at all levels. If Beijing fails to act, however, standing by as local governments and SOEs generate more losses and larger fiscal burdens, a crippling crisis will become unavoidable. 🌐

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China Will Get Rich Before It Grows Old

Beijing's Demographic Problems Are Overrated

Baozhen Luo

At a conference on the Chinese economy in 2012, Cai Fang, a demographer at the Chinese Academy of Social Sciences, issued a dire warning: “There’s now no doubt China will be old before it is rich.” He was expressing a view widely held by economists and China watchers. Over the past 65 years, life expectancy in China has more than doubled, from 35 years to roughly 75, as the fertility rate has plunged. Many fear that if these trends continue, China’s population will age faster than the country can accommodate. In 2014, the share of China’s population older than 60 reached roughly 15 percent; demographers predict that figure will double by 2050, reaching the equivalent of nearly 450 million people, or about one-quarter of the world’s elderly. Over the same period, China’s median age will skyrocket, from roughly 35 to 46. China, some experts say, is in for a shock: As more and more people age out of their working years, the country’s economic productivity will plummet. And as its

growth slows, China will find itself without the money and resources to provide for its elderly, who will become a financial burden.

But a closer look at China’s demographics reveals a more positive picture. For one thing, although China’s working-age population has been shrinking, its employment rate has been increasing steadily, as has the productivity of those entering the work force. For another, since around 2000, the Chinese government has aggressively prioritized the creation and expansion of public welfare programs to support the elderly. In 2007, Chinese President Hu Jintao signaled that the country’s aging population had become a political priority when he included proposals for their well-being in his report to the 17th National Congress of the Chinese Communist Party. In 2009, Beijing enacted major reforms of its pension and health-care systems, and in 2013, an amended version of the country’s elderly rights law went into effect, calling for a comprehensive system for eldercare at the national and local levels. Put simply, as its population ages, China will not be caught off-guard.

Still, more remains to be done. To guarantee the productivity of its future work force—especially if it is a smaller one—China must continue to invest heavily in education. To alleviate the financial burden on households caring for the elderly, Beijing will need to improve its pension system, putting more effort into managing funds and equalizing the benefits paid to urban and rural residents. It will also have to grapple with the repercussions of its one-child policy, enacted in 1979, whereby a single child will be expected to support two parents and potentially four grandparents. As a

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supplement, China should establish a professional work force to tend to its elderly, who will live longer than their predecessors and therefore require more care. If China prepares itself, it may be able to grow rich before it grows gray.

GROWING PAINS

Until recently, China was experiencing a demographic golden age: it had a large labor force and a small dependent population of children and the elderly. Beginning in the 1970s, the large cohort of post–World War II baby boomers began reaching working age. At around the same time, fertility rates declined, a result of the one-child policy, and the elderly population remained relatively constant, with life expectancy held back by famine and poor health care. Given this so-called demographic dividend, China’s population was primed for economic growth. Between 1980 and 2010, relying on a seemingly unlimited supply of laborers, the country achieved double-digit annual GDP growth rates and surpassed Japan as the world’s second-largest economy.

But demographic dividends do not last forever—and as this one ends, many fear that China’s economic miracle will end with it. Within the next two decades, China’s baby boomers will enter their 60s and 70s. The rate of population aging has been higher in the country’s eastern region, which tends to be more developed, but the problem has hit the central and western regions as well. Meanwhile, thanks in part to the effects of the one-child policy and higher rates of women’s education and employment, the fertility rate remains low, at around 1.7 births per woman, according to 2012 figures from the World Bank—lower

than that of developed nations such as France and the United States. China has moved to relax the one-child policy in recent years, allowing couples to have two children if at least one spouse is an only child, but this has had limited impact. As of May 2014, *The Wall Street Journal* reported, only 271,600 couples, out of a possible 11 million, had applied for permission to have a second child.

With a growing number of older people and a shrinking number of younger people, China’s work force is in trouble. According to the latest report from China’s National Bureau of Statistics, the country’s working-age population has already begun to shrink, from roughly 941 million in 2011 to 916 million in 2014. The population is aging at roughly the same rate as the work force is declining. The fear is that a shrinking work force will raise average wage levels, making China less competitive in labor-intensive export industries than other emerging economies, such as India, Indonesia, and Vietnam—countries that are still in the honeymoon period of their own demographic dividends.

The news is better than it seems, however. Although China’s working-age population has indeed shrunk, its employment rate has increased. In 2014, China’s active work force consisted of 772.5 million people, 2.8 million people more than in 2013. This growth, despite a smaller working-age population, suggests that many underemployed Chinese, especially in rural areas, are being drawn into the work force. As Beijing enacts policies to encourage internal migration, including revising the household registration system and increasing investment in the mechanization of agriculture, more and more surplus



Senior moment: playing billiards at a Beijing nursing home, March 2013

unskilled laborers from rural areas will be absorbed into urban manufacturing and service industries. Many will not even have to travel far: as China's coastal areas become more technology-oriented, manufacturing jobs are moving inland.

The increase in China's employment rate also suggests that a large portion of the elderly population has stayed in the work force. The country's statutory retirement age is relatively young—60 for men and 50 or 55 for women—and given increased life expectancy, many are looking at an average of 15 to 25 years in retirement. (The retirement age was set in the 1950s, when life expectancy was much lower.) Some are rehired after retirement; others start second careers. In March, Beijing officially announced its intention to raise the

retirement age, in large part to tap this potential. According to Bloomberg News, raising the male retirement age to 65 could, by 2020, keep some 41.5 million men in the work force. In the meantime, early retirement means that more grandparents have time to care for their grandchildren, freeing up working-age mothers to take jobs.

The work force can be further strengthened if those entering it are better educated and more productive than those exiting. Keeping this in mind, Beijing is pouring \$250 billion a year into higher education, with the goal of producing 195 million college graduates by 2020. Chinese policymakers hope that a broadly educated public will help China compete against the versatile labor forces of Europe and the United States. Also by 2020, China

aims to orient its economy toward innovation and to become a world leader in science and technology—important goals if China’s work force is to mature. Meanwhile, the government has begun to reform the education system to allocate funding and resources more evenly between urban and rural areas, so that people in the latter are as able to contribute to the economy as those in the former.

PAYING DIVIDENDS

China’s elderly pose an economic threat not just because they are leaving the work force but also because they will be expensive to support. If countrywide pension and health-care systems are not strong, China’s households will bear the brunt of the burden, as a greater share of their disposable income will go toward supporting elderly parents. That will squeeze family budgets: Chinese households already pay a large share of their health-care costs out of their own pockets—roughly 80 percent in 2007, according to the International Monetary Fund.

Paying for the elderly poses a challenge to any economy undergoing a demographic transition, but the problem is particularly acute in China, where policymakers have sought to rebalance the economy toward greater domestic consumption—the source, they hope, of future economic growth. Historically, China’s lack of adequate public welfare programs and well-regulated investment channels led households to set aside large pots of precautionary savings, holding back consumption. Between 1995 and 2005, China’s average urban household savings rate, relative to disposable income, rose from 17 percent to 24 percent. Chinese consumers

won’t be able to support their parents and the economy at the same time.

The good news is that China has made big strides in improving public welfare, overhauling its urban and rural pension systems, for instance. In 2009, according to *The Economist*, government pensions covered less than 30 percent of Chinese adults. That year, officials announced a new rural pension scheme to expand insurance coverage beyond cities, and in mid-2011, China’s government instituted an urban residents pension scheme to ensure universal coverage. For the most part, these programs have been a success. According to a 2013 report by HelpAge International, an international nongovernmental organization dedicated to protecting elderly rights, the proportion of Chinese people enrolled in a pension plan nearly doubled between 2009 and 2012, reaching 55 percent. As of 2012, the report noted, some 125 million Chinese were receiving a monthly pension—60 percent of those aged 60 and over.

There is room for improvement, of course. The Chinese Academy of Social Sciences estimates that by 2050, there will be an accumulated pension shortfall of roughly \$128 trillion. In 2014, Zheng Bingwen, a researcher at the academy, found that the government manages its pension funds so poorly that it likely forwent billions of dollars in the past two decades. Only 1.6 percent of the government’s social insurance fund had been put into government bonds or invested, according to Zheng. Bloomberg News has reported that about half of China’s 31 provinces cannot cover their retiree costs, relying instead on money from the central government—financial support that may soon run out.

In addition to managing its funds better, Beijing must reduce the disparity between urban and rural pension benefits. According to a 2012 report by the Chinese Academy of Social Sciences, annual pension benefits for urban retirees reached roughly \$3,300, whereas retired agricultural workers received just \$137. Officials have indicated an interest in unifying urban and rural programs, which would be a step in the right direction. In 2014, according to the official Xinhua News Agency, China's State Council announced that it would build a unified and standardized pension system for the country's urban and rural population by 2020.

When it comes to health care, China has also upped its game. In 2009, the government announced an ambitious plan for universal health care, which expanded coverage to rural residents, unemployed urban residents, and migrant workers. The program, heavily subsidized by Beijing and local governments, allows citizens to buy insurance plans for as low as \$20 a year, covering outpatient care, medicines, and hospitalization. The program is not perfect: it could improve the way it handles risk, for example, as China's health-care system is currently fragmented into some 3,000 separate risk pools. But it is impressive. By 2011, China was able to provide health care to some 95 percent of the population. In addition to decreasing the need for households to save for the elderly, the insurance scheme has the added benefit of keeping younger generations healthy and thus economically productive.

Remarkably, the government managed to put in place these nationwide pension and health-care reforms within a single decade. The programs

are emblematic of action-driven policy innovation, itself the result of a new kind of authoritarianism within China that allows greater input in policymaking from individuals and groups. In creating more channels for citizen participation, the country is also granting its citizens, especially its middle class, a sense of self-worth beyond economic well-being.

ALL IN THE FAMILY

Even as its public welfare programs develop, the Chinese state will not displace the family as the primary source of eldercare—evidence of the continued importance of the Confucian value of *xiao*, or “filial piety.” The concept is even embedded in law: the Chinese constitution says that “children who have come of age have the duty to support and assist their parents,” and the penal code of 1980 went so far as to threaten up to five years in prison for children who neglected their parents. (*Xiao* pervades all levels of Chinese society: on his first official trip as general secretary of the Chinese Communist Party, Xi Jinping, now China's president, reportedly visited his mother.) In 2013, when Beijing's revised elderly rights law went into effect, it reinforced the family's centrality: families would provide primary care to the aging, with the community serving as a backup and institutional care being only a supplement.

Given the size of China's aging population, however, some wonder if adult children will continue to be willing and able to support their parents. The offspring of today's aging baby boomers were born under the one-child policy, which means that they will be left to care for two parents, and often four grandparents, without the help of siblings.

But because baby boomers in China are on average healthier and better educated than their parents were—and, thanks to reforms to the social safety net, likely to be more financially independent—the soon-to-be elderly will not require as much care. Besides, their children may be more attached to them: to ensure that their adult children continue to care for them, baby boomers have taken on extensive grandchild-rearing responsibilities, making themselves indispensable to the family.

A decade and a half ago, Beijing began overhauling community organizations in urban and rural areas to extend support to those caring for their elderly family members at home. In 2001, for example, China implemented the Starlight Program, which, according to a white paper published by China's State Council Information Office, has invested roughly \$2.1 billion in building community-based senior centers in cities across China. By 2005, the program had established 32,000 such centers nationwide. In recent years, China has begun building a long-term care system designed to support its oldest citizens. Through so-called virtual nursing homes, for example, elderly Chinese can call a hot line to request a variety of in-home services. Looking forward, Beijing should start growing a sustainable work force of caregivers so that the supply is ready to meet whatever demand exists in the future. Where at-home care is not available—such as in many rural areas, which the elderly's adult children have left for the cities—the state will be ready to step in.

As China ages, it is increasingly broadening the concept of *xiao* beyond

the family. Xi's "Chinese dream" campaign calls for a nationwide revival of traditional values such as filial piety. During a visit to community eldercare facilities in 2013, Xi called caring for the elderly a traditional Chinese virtue and said that all of China's elderly should enjoy comfort, health, and security. If China continues to meet its demographic challenge head-on, it might yet be able to grow old and rich at the same time. 🌐

What It Means to Be Chinese

Nationalism and Identity in Xi's China

Perry Link

What does it mean to be Chinese? A strong tradition in premodern China held that it meant thinking, behaving, and living in a society in accord with heaven-sanctioned principles exemplifying the best way to be human. Other peoples could learn this Chineseness, and they could also become civilized, but they could never rival China in either defining propriety or drawing people into accordance with it.

For centuries, this way of thinking went largely unchallenged, and even today, its fundamental assumptions run deep. To be Chinese still means to exhibit proper behavior and to be part of a civilization that has primacy in the world. Most modern Chinese would accept this, at least tacitly. Where they would disagree—often sharply—is over just what values Chineseness should stand for today. Is the moral model of premodern times still relevant in the modern political context, or should it be displaced by newer ideas of political morality? Chinese President Xi Jinping's

"Chinese dream" is best understood as a backward-looking answer to the question. But in spite of his wishes, the debate will continue, and it could contribute to instability and even violence in the coming decades.

OLD SCHOOL

Traditional Chinese family values, often called "Confucian," were deeply ethical, although not egalitarian. A father had authority over a son, and the son was bound to obey. But the father was bound, too: he had to be a proper father, treating his son as a father should, and could be held up to public scorn if he did not.

Political norms were based on the family model. A ruler had absolute authority over his subjects but was morally bound to treat them properly. If he did not, they could flee or rebel, and the ruler might lose his "heavenly mandate" to rule. And how could rulers learn what proper treatment of subjects was? By reading and internalizing texts. Officials at all levels were chosen through examinations in the Confucian classics, the memorization of which was thought to instill a morality that equipped them to be proper leaders.

This system worked, but not always well. Sometimes the exams were corrupted, and sometimes the world of officialdom amounted to little more than routinized bribery—flaws that were clearly in evidence during the mid-nineteenth century. But even with the system at a low point, assumptions about how it was supposed to work held strong. The legitimacy of officials was supposed to be based on their morality, with virtue increasing all the way up the chain to the emperor—the "son of heaven," whose only superior was

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nature itself. Non-Chinese peoples who fell outside this system, meanwhile, were considered ethically inferior; their role was to pay tribute to, and learn from, the center.

The term “Chinese” implicitly meant “Han,” referring to China’s dominant ethnicity. Over the last century, both nationalist and communist governments have tried to counter this ethnocentricity, embracing a definition of “national citizen” that included non-Han peoples as well. This new usage gained some traction at official levels, but in daily life, “Chinese” has continued to be understood, implicitly, as Han. A Han family living in Singapore or San Francisco, for example, is regarded as *huaqiao*—meaning “Chinese abroad”—even after several generations, but nobody would think to use that term to refer to a Uighur from Xinjiang who has moved to Samarkand, in Uzbekistan. In the unlikely event that a Caucasian baby were adopted by Chinese parents and raised in China, the child would not easily be thought of by locals as Chinese. But a Han baby adopted and raised in the United States is normally regarded by both Chinese and American communities as “one of us.”

Throughout most of China’s history, the traditional moral-political model was able to withstand or absorb outside influences. Buddhism came from India, Mongol and Manchu invaders swept in from inner Asia, and traders from the Near East arrived along the Silk Road and by sea, but the system held fast. Chineseness was too powerful to be dislodged; it was the invaders who adapted.

The arrival of the industrialized West, however, broke the pattern. When the

British, armed with advanced cannons, won a series of starkly unequal battles along the Chinese coast in the mid-nineteenth century, China was shocked in an unprecedented way. Feelings of humiliation grew even stronger at the end of the century when Japan—a “little brother” civilization in the traditional Confucian world, but one that had cleverly learned the Westerners’ tricks—defeated China in another quick and one-sided war. Chinese leaders recognized the need to change, albeit reluctantly, and ever since, their mantra has been “Do what is necessary to rebuff the outsiders—but only what is necessary,” keeping Chineseness intact otherwise.

One of the first responses by the Chinese to the British cannons was to upgrade their own. But to do that, China needed Western science, and to get that, it needed Western schooling—which meant learning Western languages and traveling abroad. This seemed a slippery slope; the core of Chineseness might fade away. Some Chinese thinkers in the early twentieth century went so far as to call for scrapping the traditional model and opting for all-out westernization. But most stopped short of that. Mao Zedong, for one, used the slogan “foreign things for China’s use”—with China, by implication, retaining its core identity.

Meanwhile, the modern world kept coming: electricity, textile mills, rail and air travel, finance, diplomacy, computers, the Internet, and more. China did not really have a choice about whether to let these things in, even though some of them undermined established patterns. Having to pay lip service to words such as “democracy” while continuing to resist what they actually meant led to hypocrisy.



Generation Xi: students at a Confucian temple in Nanjing, August 2009

Mao called his rule a “people’s democratic dictatorship” and claimed that it was administered through “democratic centralism.”

Such language was an attempt to continue the traditional authoritarian model under a fashionable modern label. But other Chinese took the new words and concepts at face value. Early-twentieth-century thinkers, such as Hu Shih and Luo Longji, embraced Western notions of democracy and citizen rights, as did more recent figures, such as the late astrophysicist Fang Lizhi and the Nobel Peace Prize laureate Liu Xiaobo.

Ordinary Chinese people, too, have moved in this direction; the notion that everyone has rights has spread widely in recent decades. In Mao’s time, simply pronouncing the phrase “people’s rights” in public was dangerous; today, even farmers in small towns organize to

assert their rights. The change has been gradual, but it is real.

BACK TO THE FUTURE?

In recent decades, Chinese Communist Party leaders have tried to revive the traditional moral-political model with certain modern adaptations. Xi’s “Chinese dream,” for example, emphasizes wealth, national pride, and obedience to authority. Media and schools stress the idea of patriotism, with “love of country” considered conterminous with “love of the Communist Party.” Ideas such as democracy, human rights, and modernization are mentioned as well, but generally with the appendage “with Chinese characteristics,” to indicate that they have been modified to fit into Communist Party authoritarianism. And a “Chinese model” of development supposedly offers other countries an

example of an authoritarian route to wealth and power.

Underlying all these developments is a vision of China returning to its place at the center of the world, serving as the defining example of how things should be. Yet this vision remains a mere possibility, not a certainty, because strong currents in Chinese society run against it. Foremost among them is the popular perception that the prevailing system benefits a privileged elite more than the nation as a whole.

The gap between rich and poor in China has grown immensely in recent years, and common people often feel that the wealth of the politically connected elite has been won through graft, repression, and private connections more than hard work and enterprise. Ordinary people see their land confiscated and their savings depleted, and those who resist are bullied by hired thugs. The Internet has made it difficult to keep events of this kind secret, and popular resentment has led to protests, including strikes, demonstrations, and road blockades. Hundreds of them occur every day, forcing Beijing to spend scores of billions of dollars annually on “stability maintenance”—a euphemism for “domestic security.”

On the Internet, meanwhile, there have been recent signs that some Chinese have been moving away from equating the country with the Communist Party. Because Internet censors use filters to track the use of sensitive words such as “government,” regular Internet users have invented sly substitutes. Standard work-arounds for references to China’s rulers have included terms such as “heavenly dynasty” and even “western Korea”—meaning “western North Korea.”

Forty years ago, such sarcasm was unthinkable. Twenty years ago, it was rare. Today, it suggests the emergence of new grounds for conceiving of national identity, based on something other than identification with the party.

Xi’s “Chinese dream” stresses party-loving patriotism and materialism, but it does not say anything about the moral treatment of fellow human beings in daily life. This is a major weakness, given the heavy emphasis that Confucian tradition puts on interpersonal ethics. No dream about what it means to be Chinese in the twenty-first century can feel right in Chinese culture if it omits all mention of moral behavior. Democracy advocates who speak of “rights” and “dignity” may be using foreign terms, but they are also answering a very traditional Chinese question about how people should relate to one another.

China’s rulers surely recognize the lacuna in their dream, but they fear the concept of citizenship because it gives the populace too much autonomy. They want followers, not citizens. This is why they spend so much effort and money pushing the ideas of materialism and state strength, whose shallow appeal has had considerable success. Many Chinese, especially the urban young, have bought into the notion that being Chinese in the twenty-first century means being materialistic, nationalist, and aggressive. Whereas Chinese students of a generation ago admired Western life and values so much that they built a statue, *Goddess of Democracy*, on Tiananmen Square, today, after decades of government-sponsored anti-Western indoctrination, many see the West more as a hostile rival than as a friend.

LUMPERS AND SPLITTERS

Beijing's massive domestic security efforts are geared primarily toward keeping a lid on protests by China's lower classes. But not all sources of contemporary instability are rooted in economic inequality. Power rivalry within the elite, for example, is a perennial concern. Recent factional squabbling has occurred among the so-called princelings (children of prominent revolutionaries), the Youth League faction (allies of former President Hu Jintao), and the Shanghai Gang (associates of former President Jiang Zemin).

Strife among competing factions of the elite differs from friction between the elite and the underclass, but the two levels of conflict can align when members of the elite see opportunities to manipulate popular discontent to their advantage. This occurred in 2009–11, for example, when the Chongqing-based princeling Bo Xilai exploited widespread anger over corruption in order to build support for his attempt to jump ahead of his rival princeling Xi and position himself as the country's next leader. Bo's gambit failed: he now sits in prison. Meanwhile, having ascended to the top himself, Xi is using an anti-corruption campaign in part to fuel his own popularity and bring down rivals.

One sign of insecurity within the elite is the eagerness of many to send wealth and family abroad. Many rich Chinese have emigrated in recent years or have at least taken steps to make their future emigration easier; Australia, Canada, Hong Kong, and the United States are favorite destinations. The number of Chinese students from prominent families sent to school in the West has risen sharply, as have private

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Chinese real estate investments in North America. And residents of Hong Kong have complained that maternity wards in local hospitals have become overcrowded because mainland Chinese women come to give birth there, so as to ensure that their babies receive automatic local residency rights.

China's military bureaucracy is less transparent than its civilian counterpart, but it appears to be just as fraught with corruption and internal rivalries. The danger of military disobedience is indirectly suggested by warnings from civilian leaders (including Xi) against any such actions.

China has many strong regional identities—in Guangdong, Sichuan, the Northeast, and elsewhere—and patterns of talking back to Beijing, or pretending to obey while in fact going one's own way, have played out for decades. Yet residents of these regions would have no hesitation in identifying themselves as Chinese; their local actions pose little threat to national unity or the stability of communist rule. The Chinese heartland, therefore, is not in danger of falling apart. But the demands for autonomy by Tibetans, Uighurs, and the residents of Hong Kong and Taiwan do represent a challenge to the official conception of national identity.

For Tibetans and Uighurs, the desire for self-rule is rooted primarily in differences of ethnicity, language, culture, and religion. For Han Chinese living in Hong Kong and Taiwan, the impulse emerges from the past century's history and politics, which have given them a sense of independent identity. Since party ideology holds that minorities are treated equally and love the motherland, secessionist longings by Tibetans

and Uighurs embarrass the authorities in Beijing and pose a threat to their claims of legitimacy. The economic and social success of Hong Kong and Taiwan pose a different sort of threat by making clear, contrary to Beijing's official line, that Western-style democracy can work just fine with Chinese citizens.

Beijing's response to all four cases has been the same, essentially declaring that each area is part of China whether its residents desire it or not. Communist Party leaders have used all four to stimulate nationalist sentiment within the Chinese heartland and to position themselves as guardians of national pride. To hear party officials tell it, the otherwise diverse figures of the Dalai Lama, the exiled Uighur leader Rebiya Kadeer, the former Taiwanese president Chen Shui-bian, and the Hong Kong student activist Joshua Wong have one trait in common: their desire to "split the motherland."

MAO BETTER BLUES

The popular Western view of China as a self-confidently rising power is dangerously superficial. The country is certainly wealthier than it was four decades ago, and its military, diplomatic stature, and international economic presence are all much stronger. Living standards have improved, and hundreds of millions of Chinese have moved out of poverty through their own hard work. Beneath the surface, however, insecurity is widespread among everyone from rural farmers to members of the privileged urban class. People fear tainted food, water, and air, and rampant corruption and chicanery sour the public mood and erode trust. The spread of the Internet and the readiness of ordinary people to

assert their rights have made it far harder for the government to keep society in line today than during Mao's regime two generations back.

Hu, who stepped down as the top leader in 2012, seemed to spend the last few months of his term running out the clock. His successor, Xi, took office knowing that China faced a crisis and that he had to try something different. His response, however, has been to fall back on the familiar revolutionary ideas of his parents' generation. His father, Xi Zhongxun, was Mao's confederate in the 1940s and 1950s. He strongly believed that a Spartan, uncorrupt Communist Party organized under a unified command could "serve the people" (in the words of the then-common slogan) and could bring them happiness. Mao later persecuted Xi senior, and the Maoist project failed in spectacular ways. Xi junior observed those failures, but he has nevertheless started to head down a similar path. Since 2012, he has sought to fashion himself as a repeat of Mao—centralizing power, launching anticorruption drives, targeting rivals, and even suggesting a move toward a cult of personality.

This is a dangerous game, for several reasons. Xi is no Mao, in terms of either intellect or charisma, and the society over which he rules is far more refractory than the one Mao dominated. Although Xi's anticorruption campaign has drawn popular support and hurt some of his enemies, continuing it in earnest will soon require going after his own allies, including relatives and senior military officials, which could produce a backlash sufficient to take down the regime. However, failing to press forward—the more likely prospect—will expose Xi as

just another conventional ruler and cause his popular support to drop. In this sphere, as in others, the lessons of the 1950s have limited contemporary utility.

The scholar Jonathan Spence titled his excellent history of the country *The Search for Modern China*. The word "search" was an inspired choice. For nearly two centuries, the great ancient civilization of China has been looking for a way to reinvent itself for the modern era. This process has involved fits, starts, and reversals; it has caused trauma and led to at least 70 million unnatural deaths.

The key questions today are whether the Communist Party's project to revive Chinese-style authoritarianism in modern clothing will succeed and, if so, what its effects will be—both on China and on the world at large. Taking both global and local history into account, one would have to bet against success; despite occasional setbacks, the long-term trend toward greater popular participation in politics seems clear. But the Chinese government has pulled off unexpected successes in many areas in recent decades, so it could surprise here as well. If it does—if it can engineer its retrograde political vision at home and export authoritarianism abroad—both China and the world will suffer, left waiting for a vision of Chinese identity more suitable for the present age. 🌐

Xi's Corruption Crackdown

How Bribery and Graft Threaten the Chinese Dream

James Leung

In a series of speeches he delivered shortly after taking office in 2012, Chinese President Xi Jinping cast corruption as not merely a significant problem for his country but an existential threat. Endemic corruption, he warned, could lead to “the collapse of the [Chinese Communist] Party and the downfall of the state.” For the past two years, Xi has carried out a sweeping, highly publicized anticorruption campaign. In terms of sheer volume, the results have been impressive: according to official statistics, the party has punished some 270,000 of its cadres for corrupt activities, reaching into almost every part of the government and every level of China’s vast bureaucracy. The most serious offenders have been prosecuted and imprisoned; some have even been sentenced to death.

The majority of the people caught up in Xi’s crackdown have been low- or midlevel party members and functionaries. But corruption investigations have also led to the removal of a number of senior party officials, including some members of the Politburo, the group of 25 officials who run the party, and, in an unprecedented move, to the

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expulsion from the party and arrest of a former member of the Politburo’s elite Standing Committee.

Xi’s campaign has proved enormously popular, adding a populist edge to Xi’s image and contributing to a nascent cult of personality the Chinese leader has begun to build around himself. And it has the quiet support of the aristocratic stratum of “princelings,” the children and grandchildren of revolutionary leaders from the Mao era. They identify their interests with those of the country and consider Xi to be one of their own. But there has been pushback from other elites within the system, some of whom believe the campaign is little more than a politically motivated purge designed to help Xi solidify his own grip on power. Media organizations in Hong Kong have reported that Xi’s two immediate predecessors, Jiang Zemin and Hu Jintao, have asked him to dial back the campaign. And some observers have questioned the campaign’s efficacy: in 2014, despite Xi’s efforts, China scored worse on Transparency International’s Corruption Perceptions Index than it had in 2013. Even Xi himself has expressed frustration, lamenting a “stalemate” in his fight to clean up the system while pledging, in grandiose terms, not to give up: “In my struggle against corruption, I don’t care about life or death, or ruining my reputation,” he reportedly declared at a closed-door Politburo meeting last year.

There is no doubt that Xi’s campaign is in part politically motivated. Xi’s inner circle has remained immune, the investigations are far from transparent, and Xi has tightly controlled the process, especially at senior levels. Chinese authorities have placed restrictions on

foreign media outlets that have dared to launch their own investigations into corruption, and the government has detained critics who have called for more aggressive enforcement efforts.

But that doesn't mean the campaign will fail. The anticorruption fight is only one part of Xi's larger push to consolidate his authority by establishing himself as "the paramount leader within a tightly centralized political system," as the China expert Elizabeth Economy has written. So far, Xi seems capable of pulling off that feat. Although this power grab poses other risks, it puts Xi in a good position to reduce corruption significantly—if not necessarily in a wholly consistent, apolitical manner.

This might seem paradoxical: after all, too much central power has been a major factor in creating the corruption epidemic. That is why, in the long term, the fate of Xi's anticorruption fight will depend on how well Xi manages to integrate it into a broader economic, legal, and political reform program. His vision of reform, however, is not one that will free the courts, media, or civil society, or allow an opposition party that could check the ruling party's power. Indeed, Xi believes that Western-style democracy is at least as prone to corruption as one-party rule. Rather, Xi's vision of institutional reform involves maintaining a powerful investigative force that is loyal to an honest, centralized leadership. He seems to believe that, over the course of several years, consistent surveillance and regular investigations will change the psychology of bureaucrats, from viewing corruption as routine, as many now do, to viewing it as risky—and, finally, to not even daring to consider it.

Stamping out graft, bribery, and influence peddling could very well help China's leaders maintain the political stability they fear might slip away as economic growth slows and geopolitical tensions flare in Asia. But if Xi's fight against corruption becomes disconnected from systemic reforms, or devolves into a mere purge of political rivals, it could backfire, inflaming the grievances that stand in the way of the "harmonious society" the party seeks to create.

I'LL SCRATCH YOUR BACK . . .

One school of thought holds that corruption is a deeply rooted cultural phenomenon in China. Some political scientists and sociologists argue that when it comes to governance and business, the traditional Chinese reliance on *guanxi*—usually translated as "connections" or "relationships"—is the most important factor in explaining the persistence and scope of the problem. The comfort level that many Chinese citizens have with the *guanxi* system might help explain why it took so long for public outrage to build up to the point where the leadership was forced to respond. But all cultures and societies produce a form of *guanxi*, and China's version is not distinct enough to explain the depth and severity of the corruption that inflicts the Chinese system today.

The main culprits are more obvious and banal: one-party rule and state control of the economy. The lack of firm checks and balances in a one-party state fuels the spread of graft and bribery; today, no Chinese institution is free of them. And state control of resources, land, and businesses creates plenty of opportunities for corruption. In the past three decades, the Chinese economy has become

increasingly mixed. According to Chinese government statistics, the private sector now accounts for around two-thirds of China's GDP and employs more than 70 percent of the labor force. And the Chinese economy is no longer isolated; it has been integrated into the global market. Nevertheless, the private sector is still highly dependent on the government, which not only possesses tremendous resources but also uses its regulatory and executive power to influence and even control private businesses.

When it comes to government purchasing and contracting and the sale of Chinese state assets (including land), bidding and auctioning processes are extremely opaque. Officials, bureaucrats, and party cadres exploit that lack of transparency to personally enrich themselves and to create opportunities for their more senior colleagues to profit in exchange for promotions. Midlevel officials who oversee economic resources offer their superiors access to cheap land, loans with favorable terms from state-owned banks, government subsidies, tax breaks, and government contracts; in return, they ask to rise up the ranks. Such arrangements allow corruption to distort not just markets but also the workings of the party and the state.

Similar problems also exist in government organizations that do not directly control economic resources, such as China's military. To win promotion, junior military officers routinely bribe higher-ranking ones with gifts of cash or luxury goods. Last year, the authorities arrested Xu Caihou, a retired general who had served as a member of the Politburo and had been the vice chair of the Central Military Commission.

In his house, they discovered enormous quantities of gold, cash, jewels, and valuable paintings—gifts, the party alleged, from junior officers who sought to advance up the chain of command. After the party expelled him, Xu confessed, according to Chinese state media; a few months later, he died, reportedly of cancer.

Direct state ownership, however, is hardly a prerequisite for self-dealing. The immense regulatory power that Chinese authorities hold over the private sector also helps them line their own pockets. In highly regulated industries, such as finance, telecommunications, and pharmaceuticals, relatives of senior government officials often act as “consultants” to private businesspeople seeking to obtain the licenses and approvals they need to operate. Zheng Xiaoyu, the former head of the State Food and Drug Administration, accepted around \$850,000 in bribes from pharmaceutical companies seeking approval for new products. In 2007, after more than 100 people in Panama died after taking contaminated cough syrup that Zheng had approved, he was tried on corruption charges; he was found guilty and executed a few months later.

Corruption has also infected law enforcement and the legal system. Organized criminal groups pay police officers to protect their drug and prostitution rings. Criminal suspects and their relatives often bribe police officers to win release from jail or to avoid prosecution. If that fails, they can try their luck with prosecutors and judges. And of course, since China's judiciary is not independent, there are always party and government officials who might be able and willing to



Cleaning house: Yang Hanzhong, a former official, on trial for corruption, September 2013

intervene in a case—for the right price. Authorities allege that Zhou Yongkang, a former member of the party's Standing Committee who oversaw legal and internal security affairs, personally intervened in many court cases after accepting bribes. Zhou was arrested, charged, and expelled from the party last year and is currently awaiting trial—the first time in decades that the state has pursued a criminal case against a former member of the Standing Committee.

As China's domestic markets have grown, multinational companies and banks have learned that getting access means knowing whose palms to grease. Many firms have taken to hiring the children of senior government officials, sometimes even paying their tuition at Western universities. Others have opted for a more direct route, paying hefty “consulting” fees to middlemen in order to participate in stock offerings or to

win preferential treatment in bidding for government contracts. This environment has discouraged some multinational companies from investing and conducting business in China, especially those constrained by U.S. anticorruption laws.

Meanwhile, officials have taken advantage of loose financial controls and a lack of transparency to safeguard their illicit profits. Many officials hold a number of Chinese passports, often under different names but with valid visas, and use them to travel abroad and stash their money in foreign bank accounts.

But corruption is hardly limited to official circles and big business; every aspect of society feels its effects. Consider education. To give their child a shot at getting into one of the relatively small number of high-quality Chinese primary and secondary schools and universities, parents often have to bribe admissions officers or headmasters.

Similarly, the scarcity of good hospitals and well-trained medical personnel has led to the practice of supplying doctors or medical administrators with a *hongbao*—a “red packet” of cash—to secure decent treatment.

KEEP IT CLEAN

Faced with this far-reaching problem, Xi has promised more than a mere Band-Aid, envisioning a long-term process of systemic reform. The first phase has been the heavily stage-managed crack-down of the past two years. So far, the campaign has contained an element of populism: it has targeted only officials, bureaucrats, and major business figures whom the party suspects of corrupt dealings; no ordinary Chinese people have felt the sting.

The campaign seeks not only to punish corruption but to prevent it as well. In late 2012, the party published a set of guidelines known as the “eight rules and six prohibitions,” banning bureaucrats from taking gifts and bribes; attending expensive restaurants, hotels, or private clubs; playing golf; using government funds for personal travel; using government vehicles for private purposes; and so on.

The government has also required all officials and their immediate family members to disclose their assets and income, to make it harder to hide ill-gotten gains. At the same time, the party has sought to reduce incentives for graft by narrowing the income gaps within the system. In the last year, it raised the salaries and retirement benefits of military officers, law enforcement personnel, and other direct government employees, while sharply cutting the higher salaries

enjoyed by top managers of state-owned enterprises.

Still, to date, Xi’s campaign has been chiefly an enforcement effort. Investigations are led by the party’s Central Commission for Discipline Inspection (CCDI), which sends inspection teams to examine every ministry and agency and every large state-owned enterprise. The teams enjoy the unlimited power to investigate, detain, and interrogate almost anyone, but mainly government officials, the vast majority of whom are party members. Once the teams believe they have gathered sufficient evidence of wrongdoing, the CCDI expels suspects from the party and then hands them over to the legal system for prosecution.

Xi has declared that no corrupt official will be spared, no matter how high his position. In practice, however, the CCDI has chosen its targets very carefully, especially at senior levels. The decision to go after Zhou was heralded as setting a new precedent—since the late 1980s, the party has followed an unspoken rule against purging a member or former member of the Standing Committee. And yet Zhou’s removal and prosecution remain unique; they appear to have been less a signal of things to come than a shot across the bow, intended to scare off any potential opposition to Xi within the leadership. Zhou was vulnerable because he was retired and no longer had direct control or power. Also, Zhou had backed a group of senior party officials who had challenged Xi’s power and authority early in his tenure; among them was Bo Xilai, the influential party chief of Chongqing, who in 2013 was brought down by a scandal involving corruption and a murder plot in which his wife

participated. Finally, Zhou and his immediate family members were particularly flagrant in their corrupt pursuits, which made him an easy target. Some media reports have indicated that authorities are investigating the family members of other retired Standing Committee members. But so far, no ranking member of the “red aristocracy” has yet been targeted, and all the highest-level targets, including Zhou and Xu, have been part of a single loose political network. Apparently, there are still lines Xi is not willing to cross.

It is also worth noting that although Xi has allowed investigations of the country's key military institutions, he has yet to make any major personnel changes within the Commission for Discipline Inspection of the Central Military Commission, the armed forces' equivalent of the CCDI. Xi still needs more time to consolidate his control over the military and its institutions.

A number of other elements of Xi's campaign are also problematic, because they present opportunities for abuse and run contrary to the spirit of the legal reforms that Xi is pursuing. Xi claims that he wants to improve due process and reduce abusive police and judicial practices. But the CCDI itself does not always follow standard legal procedures. For example, Chinese law allows police to detain a suspect for only seven days without formally charging him, unless the police obtain express permission from legal authorities to extend the detention. The CCDI, on the other hand, has kept suspects in custody for far longer periods without seeking any approval and without issuing any formal charges, giving the appearance of a separate standard.

Meanwhile, with its newfound authority, the CCDI is gradually becoming the most powerful institution within the party system. Unless the party balances and limits the agency's power and influence, the CCDI could grow unaccountable and become a source of the very kinds of conduct it is supposed to combat.

Perhaps the biggest potential obstacle to the success of the campaign is strong resistance to it within the bureaucratic system. Xi has launched a direct attack on the interests of many entrenched bureaucrats and officials; even those who have escaped prosecution have watched their prosperity and privilege shrink. Many officials might also resent the idea that there is something fundamentally wrong with the way they are accustomed to conducting themselves. They may feel that they deserve the benefits they get through graft; without their work, after all, nothing would get done—the system wouldn't function.

Early in Xi's tenure, some officials seemed to believe that although the days of flagrant self-dealing were over, it would still be possible to exploit their positions for profit; they would just need to be a bit more subtle about it. In 2013, *The New York Times*, citing Chinese state media, reported that a new slogan had become popular among government officials: “Eat quietly, take gently, and play secretly.” But that sense of confidence has evaporated as it has become clear that Xi is serious about cracking down. During the past two years, party members and state bureaucrats have become extremely cautious about running afoul of the new ethos, although many are quietly seething about the situation. This has interfered with

the traditional wheel-greasing function of corruption and contributed to China's economic slowdown. If corruption no longer assists entrepreneurs in slipping past bureaucratic barriers, it will put additional pressure on Xi to institute economic reforms that genuinely reduce those obstacles.

THE POLITICS OF ANTICORRUPTION

Since the anticorruption campaign is just one of a number of major changes taking place in the Xi era, it's difficult to forecast what path it might take. In a pessimistic scenario, the campaign would end in failure after strong resistance within the top party leadership and the bureaucratic system forces Xi to back down. That outcome would be a catastrophe. Corruption would likely rise to pre-2012 levels (at the very least), destabilizing the economy, reducing investor confidence, and seriously eroding Xi's authority, making it difficult for him to lead.

In a more optimistic scenario, Xi would manage to overcome internal resistance and move on to broader economic, legal, and political reforms. Ideally, the campaign will strengthen Xi's power base enough and win him the support necessary to reduce the party's tight grip on policy and regulatory and administrative power, creating a favorable environment for the growth of a more independent private sector. Xi has no interest in creating a Western-style democratic system, but he does think that China could produce a cleaner and more effective form of authoritarianism. To better serve that goal, Xi should consider adding a number of more ambitious elements to the anti-corruption crusade, including a step

that both Transparency International and the G-20 have called for: improving public registers to clarify who owns and controls which companies and land, which would make it harder for corrupt officials and businesspeople to hide their illicit profits.

At the moment, there is more reason for optimism than pessimism. Xi has already consolidated a great deal of control over the state's power structures and is determined and able to remove anyone who might resist or challenge his authority or policies. So far, within the senior leadership and the wider bureaucratic system, resistance to the anticorruption campaign has been passive rather than active: some bureaucrats have reportedly slowed down their work in a rather limited form of silent protest. Meanwhile, the anticorruption campaign continues to enjoy strong public support, especially from low- and middle-income Chinese who resent the way that corruption makes the Chinese system even more unfair than it already is. Anti-corruption thus represents a way for the party to ease the social tensions and polarization that might otherwise emerge as the economy slows, even as dramatic economic inequalities persist. To maintain this public support, the trick for Xi will be calibrating the scope and intensity of the campaign: not so narrow or moderate as to seem half-hearted, but not so broad or severe as to seem like a form of abuse itself.🌐

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China's Race Problem

How Beijing Represses Minorities

Gray Tuttle

For all the tremendous change China has experienced in recent decades—phenomenal economic growth, improved living standards, and an ascent to great-power status—the country has made little progress when it comes to the treatment of its ethnic minorities, most of whom live in China's sparsely populated frontier regions. This is by no means a new problem. Indeed, one of those regions, Tibet, represents one of the “three Ts”—taboo topics that the Chinese government has long forbidden its citizens to discuss openly. (The other two are Taiwan and the Tiananmen Square uprising of 1989.)

But analyses of China's troubles in Tibet and other areas that are home to large numbers of ethnic minorities often miss a crucial factor. Many observers, especially those outside China, see Beijing's repressive policies toward such places primarily as an example of the central government's authoritarian response to dissent. Framing the situation that way, however, misses the fact that Beijing's hard-line policies are not merely a reflection of the central state's desire to cement its authority over distant

territories but also an expression of deep-seated ethnic prejudices and racism at the core of contemporary Chinese society. In that sense, China's difficulties in Tibet and other regions are symptoms of a deeper disease, a social pathology that is hardly ever discussed in China and rarely mentioned even in the West.

When placed next to the challenge of maintaining strong economic growth, fighting endemic corruption, and managing tensions in the South China Sea, China's struggle with the legacy and present-day reality of ethnic and racial prejudice might seem unimportant, a minor concern in the context of the country's rise. In fact, Beijing's inability (or unwillingness) to confront this problem poses a long-term threat to the central state. The existence of deep and broad hostility and discrimination toward Tibetans and other non-Han Chinese citizens will prevent China from easing the intense unrest that roils many areas of the country. And as China grows more prosperous and powerful, the enforced exclusion of the country's ethnic minorities will undermine Beijing's efforts to foster a “harmonious society” and present China as a model to the rest of the world.

IT TAKES A NATION OF BILLIONS TO HOLD US BACK

Estimates vary, but close to 120 million Chinese citizens do not belong to the majority Han ethnic group. Ethnic minorities such as Kazakhs, Koreans, Mongols, Tibetans, Uighurs, and other groups represent only eight percent of China's population. But their existence belies a commonplace notion of China as a homogeneous society. It's also worth noting that, taken together, the

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regions of China that are dominated by non-Han people constitute roughly half of China's territory and that if non-Han Chinese citizens formed their own country, it would be the 11th largest in the world, just behind Mexico and just ahead of the Philippines.

Although Tibetans represent only about five percent of China's non-Han citizens, their struggle attracts significant international attention and is in many ways an effective stand-in for the experience of the other minority groups. Tibetans have long been treated as second-class citizens, deprived of basic opportunities, rights, and legal protections that Han Chinese enjoy (albeit in a country where the rule of law is inconsistent at best). The central government consistently denies Tibetans the high degree of autonomy promised to them by the Chinese constitution and by Chinese law. The state is supposed to protect minority groups' cultural traditions and encourage forms of affirmative action to give minorities a leg up in university admissions and the job market. But such protections and benefits are rarely honored. The state's approach toward the Tibetan language well illustrates this pattern: although the government putatively seeks to preserve and respect the Tibetan language, in practice Beijing has sought to marginalize it by insisting that all postprimary education take place in Chinese and by discouraging the use of Tibetan in business and government.

More overt forms of discrimination exist as well, including ethnic profiling. Security and law enforcement personnel frequently single out traveling Tibetans for extra attention and questioning, especially since a wave of protests against

Beijing's policies—some of which turned violent—swept Tibet in 2008. Hotels in Chinese cities routinely deny Tibetans accommodations—even those who can “pass” as Han, since their identity cards designate them as Tibetan. Worse, since 2008, the state has placed new restrictions on Tibetans' civil rights, forbidding them to establish associations devoted to issues such as the environment and education—something Han Chinese are allowed to do.

Deprivations of that kind are part of a broader, more systemic inequality that characterizes life for Tibetans in China. Andrew Fischer, an expert on Tibet's economy, has used official Chinese government statistics to demonstrate that Tibetans are much less likely to get good jobs than their Han counterparts due to the lack of educational opportunities available to them. Even in Tibetan-majority areas, where Tibetans should enjoy some advantage, Tibetans earn lower incomes relative to Han Chinese.

It is hard to know exactly what role racism or ethnic prejudice plays in fostering these inequalities. In part, that is because it is difficult to generalize about the views of Han Chinese toward Tibetans and other minorities; just like in the West, public opinion on identity in China is shaped by the ambiguity and imprecision of concepts such as ethnicity and race. Still, it is fair to say that most Han Chinese see Tibetans and other minorities as ethnically different from themselves and perhaps even racially distinct as well.

That was not always the case. In the early twentieth century, Chinese intellectuals and officials talked about Tibetans and Chinese as all belonging to “the yellow race.” By the 1950s,



Unfree Tibet: near the Jokhang Temple, in Lhasa, Tibet, March 2014

however, such ideas had gone out of fashion, and Mao Zedong's government launched a project to categorize the country's myriad self-identifying ethnic groups with the aim of reducing the number of officially recognized minorities—the fewer groups there were, the easier they would be to manage, the government hoped. This had the effect of creating clearer lines between the various groups and also encouraged a paternalistic prejudice toward minorities. Han elites came to see Tibetans and other non-Han people as at best junior partners in the project of Chinese nation building. In the future, most Han elites assumed, such groups would be subsumed by the dominant culture and would cease to exist in any meaningful way; this view was partly the result of Maoist tenets that saw class consciousness as a more powerful force than ethnic solidarity.

RACISM WITH CHINESE CHARACTERISTICS

Perhaps the most striking aspect of contemporary racism and ethnic prejudice in China is its continuity with the past. Throughout the many convulsions China has experienced in the past century, there has never been a watershed moment or turning point in Chinese thinking about race and ethnicity. And regardless of communism's putative colorblindness, racial and ethnic identity was central to early, pre-Maoist versions of Chinese nationalism, which never ceased to influence the country's political culture.

Although traditional Chinese thought posited the superiority of Chinese culture, it was not explicitly racist. But during the late nineteenth and early twentieth centuries, Chinese intellectuals who had studied in Japan—which, during that period, was self-consciously embracing many Western ideas, including some

relating to race—began bringing home new, more essentialist ideas about race and ethnicity. Chinese scholars adopted the Japanese term *minzoku-shugi* (*minzu zhuyi* in Chinese), which Chinese speakers use today as the equivalent of “nationalism.” But as the historian Frank Dikotter has argued, *minzu zhuyi* “literally meant ‘racism,’ and expressed a nationalist vision of race.”

By the 1920s, the question of China’s racial and ethnic identity began to take on greater importance as the revolutionary leader Sun Yat-sen sought to transform the crumbling Chinese empire into a modern state. In 1921, Sun declared that China must rid itself altogether of the idea of separate races. “We must facilitate the dying out of all names of individual peoples inhabiting China, i.e., Manchus, Tibetans, etc.,” Sun said. He had a specific model in mind: the United States. “We must follow the example of the United States of America,” he said, in order to “satisfy the demands and requirements of all races and unite them in a single cultural and political whole, to constitute a single nation.”

Of course, at that time, the United States was hardly a paragon of racial justice and tolerance. But in the decades following Sun’s remarks, the U.S. civil rights movement began the process of eliminating legally sanctioned discrimination and reducing prejudice in society. Although racial inequality remains a serious problem in the United States, individual and official views on race have changed dramatically during the past century.

The story is far less hopeful in China. Although China’s constitution and ethnic autonomy laws create the appearance of progress, there are no mechanisms

for enforcing the vision of equality put forward by those texts. Put simply, there is no Chinese Department of Justice or Chinese Supreme Court to which Tibetans can appeal to fight discriminatory practices.

MINORITY REPORT

It is hardly surprising that Han views of Tibetans include an undercurrent of prejudice and paternalism. After all, Tibet came to be ruled by Beijing through conquest.

One of the main challenges facing Mao’s Communist forces after their triumph in the Chinese Civil War was the consolidation of the central government’s control of China’s frontier provinces. Between 1949 and 1951, Chinese Communists used the threat of overwhelming military force to incorporate Tibet into China. By that point, Tibet had enjoyed self-rule, if not international recognition as a state, for more than three decades.

From the beginning, racial nationalism played a crucial role in Beijing’s consolidation of control over Tibet. In this respect, Chinese communism mirrored the European colonialism that had dominated China in earlier eras. In 1954, the state formally “recognized” some 30 ethnic groups, including the Tibetans, as minority ethnicities. Over the course of the next three decades, Beijing would add another 18 ethnic groups to that list. Of course, within the borders of their home territories, many of those groups made up almost total majorities.

Beijing spun this recognition as a sign of China’s respect for minorities. In reality, it was merely a step in codifying inequality. The Communist Party deemed

Tibetans and most other ethnic minorities unfit for leadership roles and made it clear that it was not interested in including them in high-level decision-making. In 1958, authorities placed the leading ethnic Tibetan Communist, Puntsok Wanggyel, under house arrest, charging him with the crime of “local nationalism”; he would spend the next 20 years incarcerated. And although Tibetans and other minority groups were subjected to (and sometimes willingly participated in) the radical reforms and revolutionary violence of the Great Leap Forward and the Cultural Revolution, they were never offered positions within the party leadership.

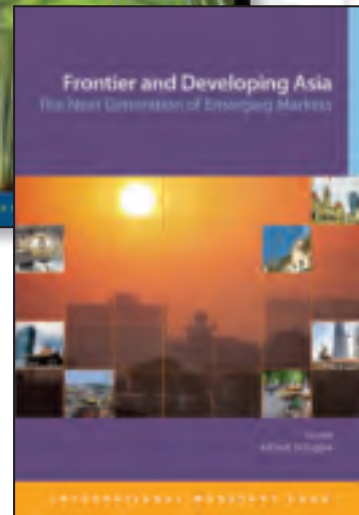
At the same time, the Communist Party began educating the Han majority in a new form of official racism. Ten “minority films” produced by the government between 1953 and 1966 and screened widely throughout the country depicted ethnic minorities as living in harsh, primitive conditions prior to their “liberation” by Chinese Communists. One of these films, *The Serf* (1963), is still shown today. It features a mute Tibetan protagonist, an unintentionally apt symbol for the way in which authorities in Beijing have sought to silence appeals for Tibetan autonomy and self-representation. Other official efforts to inculcate racist views included museums that distorted Tibet’s past, depicting it as a “hell on earth” and portraying Tibetans as a savage, backward people in need of civilizing.

For Mao, instituting an official form of racism was not merely a way to justify quasi-colonial rule in Tibet and elsewhere but also a means for shoring up a Chinese national identity that would otherwise fragment along any

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number of potential fault lines: rich and poor, urban and rural, coastal and inland. Just as China needed external “others”—the British, the Japanese, the Koreans—to rally against, so the state needed internal others to shift attention away from the party’s domination and exploitation of the Chinese people.

CHAUVINISM OR RACISM?

The level of tension in Tibet today rivals that of the late 1950s, when the Chinese Communists forced unwelcome social, religious, and economic changes on the area. Early Tibetan attempts to drive out Chinese forces were forcefully suppressed, but Beijing has never been able to totally eradicate resistance to its control. For decades, the Dalai Lama has served as a powerful symbol of Tibetan self-determination—and as an intense irritant to Beijing—traveling the world to garner support for greater political, religious, and civil rights for Tibetans. Meanwhile, challenges to Beijing’s control have emerged on the ground as well. During the unrest in 2008, nearly 100 protests broke out in Tibet; around 20 percent of them escalated into violent riots, as protesters looted shops, set fire to police stations and government buildings, and attacked security personnel.

But the 2008 unrest was something of an aberration from the contemporary norm: generally, the central state maintains firm control of the Tibetan Plateau and enforces its rule with a strong military, police, and bureaucratic presence. And rather than produce doubts among the Han majority about the wisdom of Beijing’s policies toward Tibet, the unrest instead encouraged some Han Chinese, including well-educated elites, to embrace

a belief in an essential racial difference between themselves and Tibetans, whom many Han people have come to see as inherently dangerous.

One reason that attitudes and beliefs about race and ethnicity have changed so little in China is the extent to which the state has blocked discussion of the topic through its control of universities and research institutions and through its obsessive monitoring and censoring of the press and electronic communications. Communist Party ideologues and state media outlets occasionally acknowledge racism by referring euphemistically to “Han chauvinism.” But such admissions usually come only in the wake of campaigns to repress dissent in minority-dominated regions.

Occasional criticism from within the Communist Party has had little effect. In a speech delivered in Lhasa, Tibet, in 1980, the party leader Hu Yaobang explicitly compared Beijing’s Tibetan policy to colonialism and argued that it had failed to live up to communist ideals: “We have worked nearly 30 years, but the life of Tibetans has not notably improved,” he lamented. He called for the state to make good on its promises of autonomy and “to let Tibetans really be the masters of their own lives,” proposing a series of specific measures: compelling some Han Chinese officials to learn the Tibetan language, replacing Han party officials in Tibet with ethnic Tibetan ones, and creating more opportunities for higher education in Tibet. But the government mostly ignored Hu’s ideas; as with other instances of government recognition of Han chauvinism, this foray into self-criticism was short-lived and inconsequential.

GO WEST, YOUNG HAN

Chinese Communist Party officials have long argued that the government's "Develop the West" campaign, which seeks to increase growth and create economic opportunities in Tibet and other frontier provinces, is the best way to redress ethnic inequality in China. "Development is the foundation of resolving Tibet's problems," declared Chinese President Hu Jintao in 2006. But as Fischer, the expert on Tibet's economy, has revealed, Beijing has directed most of the development funding toward government administration and massive infrastructure projects that surely help central authorities exercise more control but whose benefit to Tibetans is less obvious. Aside from the small number of Tibetans who serve as Communist Party bureaucrats, very few Tibetans can take advantage of such funding and development, since their levels of educational attainment and Chinese-language abilities generally fall below those of the Han workers who arrive from other provinces to compete for jobs. The result is what Fischer has termed "disempowered development," which marginalizes Tibetans in their own autonomous region.

Whatever economic improvements the campaign has created, it has also had a counterproductive effect on Han views of Tibetans. Han people often describe the Tibetans as ungrateful for the largess of the central state. As Emily Yeh, an expert on development in Tibet, has written, many Han Chinese tend to see economic projects there as a "gift" to the Tibetans rather than as an instrument of Beijing's power and control. This perception fuels a view

of Tibetans as lazy, unproductive, incapable of managing their own economy, and dependent on the central state.

MAKING CONTACT

In the context of the current political environment in China, it is difficult to imagine how the condition of China's ethnic minorities might be improved. The authorities treat any activism or dissent in Tibet and other minority-dominated areas as separatist incitement or even terrorism. And given the fact that Han Chinese citizens themselves enjoy few political or civil rights, it might be unrealistic to hope for an improvement in minority rights.

Still, there are officials within the Chinese Communist Party and state structures who recognize the need for change. One way they could start improving relations among China's ethnic groups would be to revive the ideas of Hu Yaobang. Beijing should increase the numbers of Communist Party and government officials of Tibetan descent; put Tibetans in real positions of power, such as party secretary for the Tibet Autonomous Region; and create a Tibetan-language educational system, especially in rural areas of Tibet. Beijing should also start protecting constitutional guarantees and enforcing existing laws regarding ethnic autonomy, even if doing so requires creating a new administrative or judicial body to hold officials accountable.

Perhaps what China really needs is a truth-and-reconciliation process through which Tibetans and other minorities could safely air their grievances and the Chinese state could acknowledge the abuses of the past. Of course, such

an undertaking will be unimaginable as long as China remains a one-party authoritarian state. But nothing currently prevents the Communist Party from simply acknowledging that its policies and practices have failed to bring minority ethnicities willingly into the Chinese state. Such a concession would cost the party very little and would be a significant first step toward improving relations and creating a foundation for a more stable society.

The best hope for change, however, lies with ordinary Han Chinese. If they could see through the Communist Party's attempts to divide and dominate, then they might come to realize that all Chinese citizens share a similar desire for freedom from government oppression. The U.S. civil rights movement succeeded only after significant numbers of white Americans, appalled by the brutality and inequality blacks faced, allied with black organizations and movements that had been fighting against racism for decades. Likewise, any substantive change in Beijing's policies toward Tibetans and other minorities will take a similar change in the views of China's dominant ethnic group.

Such a stark shift might be catalyzed by more person-to-person contact between Han Chinese and Tibetans; according to the so-called contact hypothesis, such interactions make it easier for people from different ethnic groups to overcome their prejudices and fears. Such contact is now happening more than ever before. Owing to the Develop the West campaign, migrant workers now travel to and from Tibet in huge numbers. And since the opening in 2006 of a train line that connects Lhasa to the city of Xining, in Qinghai

Province (the first railway to link Tibet to another Chinese region), Han Chinese tourists have poured into the region; this year, 15 million are expected to visit. Meanwhile, even as mainstream Han views of Tibetans have hardened in recent years, a growing number of Han Chinese—especially young people—have begun to demonstrate a sincere and respectful interest in Tibetan society, culture, and religion.

But those developments hardly provide ample grounds for optimism. Barring fundamental changes in Beijing's policies, it is likely that ethnic and racial prejudice against Tibetans and other minorities will remain a serious weakness in the fabric of Chinese society. 🌐

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ESSAYS



The Ukraine crisis has forced Europeans to face up to the fact that their political model is not attractive to everyone.

—Ivan Krastev and Mark Leonard

Europe's Shattered Dream of Order

Ivan Krastev and Mark Leonard 48

Protecting America's Competitive Advantage

Fred P. Hochberg 59

In Defense of Financial Innovation

Andrew Palmer 66

From Calvin to the Caliphate

John M. Owen IV 77

Drone On

Gretchen West 90

The Democratization of Space

Dave Baiocchi and William Welser IV 98

The Precision Agriculture Revolution

Jess Lowenberg-DeBoer 105

Europe's Shattered Dream of Order

How Putin Is Disrupting the Atlantic Alliance

Ivan Krastev and Mark Leonard

Until recently, most Europeans believed that their post-Cold War security order held universal appeal and could be a model for the rest of the world. This conviction was hardly surprising, since Europe has often played a central role in global affairs. For much of the last three centuries, European order was world order—a product of the interests, ambitions, and rivalries of the continent's empires. And even during the Cold War, when the new superpowers stood on opposite sides of the continent, the central struggle was between two European ideologies, democratic capitalism and communism, and over control of the European lands in between.

Still, it was not until 1989 that a distinctly European model of international conduct emerged, one that represented a radical departure from the assumptions and practices that still held elsewhere. In June 1989, communist authoritarians in China crushed that country's nascent pro-democracy movement; that same year, communist authoritarians in Europe gave way without a fight as the Berlin Wall fell. For Europe's leading intellectuals, this moment signified more than the conclusion of the Cold War; it marked the beginning of a new kind of peace. "What came to an end in 1989," the British diplomat Robert Cooper wrote some years later, "was not just the Cold War or even, in

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a formal sense, the Second World War” but “the political systems of three centuries: the balance of power and the imperial urge.”

Indeed, the Cold War ended without a peace treaty or a parade—it seemed at the time a victory for both sides—and Europe’s new system washed its hands of old notions of sovereignty. Continental leaders were not interested in creating new states, as they had been after World War I. Nor did they move people around to secure existing ones, as they had done following World War II. Instead, they sought to change the nature of borders themselves, encouraging the free flow of capital, people, goods, and ideas. Political maps fell out of fashion; economic graphs took their place. Diplomats in Brussels came to see economic interdependence, international legal institutions, and mutual interference in one another’s domestic politics as their primary source of security. And later, in the wake of U.S. failures in Afghanistan and Iraq, military force lost its luster.

Europeans were aware that this order was distinctive but also believed that it could expand well beyond the European Union—to Turkey, to Russia, and to the postcommunist countries of eastern Europe. They expected that their model would spread naturally, whether through the enlargement of NATO, the extension of EU ties to states on the union’s periphery, or the ascent of global institutions that enshrined European norms, such as the International Criminal Court and the World Trade Organization. So long as citizens could choose freely, the thinking went, governments would eventually embrace the European way.

Russia shattered that assumption last year when it invaded Crimea. In the face of Moscow’s determination to preserve its influence in the post-Soviet space through the use of force, the EU’s soft power proved to be very soft indeed. Turkey, along with three of the world’s largest democracies—Brazil, India, and Indonesia—refused to join the EU and the United States in placing sanctions on Russia. China preferred to see Russia’s annexation of Crimea as a natural adjustment of borders rather than a challenge to international order. Brussels and Washington, meanwhile, did level significant sanctions. But these measures have done little to dissuade Moscow from holding its line.

The Ukraine crisis has forced Europeans to face up to the fact that their political model is not attractive to everyone—and certainly not to everyone in their own neighborhood. Their shock recalls that felt by Japanese technology executives at the end of the last decade, when

they realized that although they manufactured the world's most advanced cell phones, they could not sell them abroad. Consumers elsewhere simply weren't ready, since Japanese devices relied on advanced technologies, such as third-generation e-commerce platforms, that were not widely used in other countries. Japanese cell phones, in other words, were too perfect to succeed.

Some dubbed this phenomenon Japan's "Galápagos syndrome," referring to Charles Darwin's observation that animals living in the remote Galápagos Islands, with their unique flora and fauna, had developed special characteristics not replicable elsewhere. Much the same could be said of Europe's order today, which evolved in an ecosystem shielded from the wider world's rougher realities—and has consequently become too advanced and too particular for others to follow.

As the Ukraine crisis drags on, Europeans must abandon their dreams of transforming foreign habitats and focus instead on protecting their own increasingly endangered one. The task won't be easy. It will require a de-escalation of tensions with Moscow and calculated compromises, such as accepting Russia's own regional integration efforts as legitimate. Acknowledging that the European order has limits, however, is far preferable to seeing it weaken—or to seeing another authoritarian power take advantage of the impasse.

FAULT LINES

Although the immediate effect of the Ukraine crisis was to bring Europe and the United States closer together, the process of formulating a response has exposed deep divisions between them. There are persistent questions, for example, about U.S. guarantees of European security, despite repeated assurances from U.S. President Barack Obama. Were Russia to support rebel forces in a NATO member—Latvia, say—how would Washington respond? There are also doubts about Washington's attention span. At the 2015 Munich Security Conference, a senior German official complained to us that the United States is unreliable: "Because the stakes are so low for [the Americans], we never know where Washington will end up. It could escalate the sanctions and arm Ukraine now. But in a few years, it could reset the relationship to secure Russia's cooperation on an unconnected issue, such as Islamic State."

Underlying this uncertainty is a sense among Europeans that their security is no longer central to U.S. strategy, as it was during the Cold War. Europe, after all, is only one of many theaters in which



Europe in the cross hairs: wielding a pistol at a protest in Odessa, May 2014

Washington has interests, and it is probably not the most important one. U.S. officials, for their part, increasingly fear that European countries will gradually lose their military capabilities and political will, abandoning their alliance with the United States in order to pacify the bully next door. Americans were especially shocked, for example, to see that even in the wake of Russia's invasion of Crimea, many European governments—including those of Germany and the United Kingdom—still chose to make further cuts to their military budgets. And a 2014 WIN/Gallup International survey only reinforced U.S. doubts about European publics; just 29 percent of French citizens polled, 27 percent of British citizens, and 18 percent of German citizens said that they were willing to fight for their country. (Sixty-eight percent of Italians said they would outright refuse.) As then U.S. Secretary of Defense Robert Gates put it in 2010, “The demilitarization of Europe—where large swaths of the general public and political class are averse to military force and the risks that go with it—has gone from a blessing in the 20th century to an impediment to achieving real security and lasting peace in the 21st.”

Such attitudes reflect an even deeper philosophical split over two competing narratives about the end of the Cold War. For most Americans, it was the military and economic superiority of the West

that made victory inevitable and the 1980s arms race that pushed the Soviet system over the edge. But for many Europeans, it was Europe's liberal values that ultimately won the day and West Germany's *Ostpolitik*, a policy of improved relations with the Soviet Union and its allies, that hastened the conflict's end.

These divisions color today's policy discussions in predictable ways. Take the question of whether Europe and the United States should arm Ukraine in the ongoing fight against Russian-backed rebels in the east of the country. If the primary goal is to increase the price of Russian revisionism, then the move makes sense, even if the conflict escalates as a result. But if the chief aim is to protect the EU's distinctive mode of conduct and preserve the EU's unity in the face of Russia, then anything fueling further violence would stand in the way of the only acceptable outcome: an orderly political settlement. That explains why many members of the U.S. foreign policy establishment support arming the Ukrainian military, whereas most of their European counterparts oppose it. Even in Poland, where most citizens think that the Ukraine crisis presents a clear and present danger to their security, a majority do not favor arming Ukraine, according to a survey conducted by Warsaw's Institute of Public Affairs this past February.

It was always unrealistic to expect the Ukraine crisis to alter Europe's DNA, at least in the short term. Neither European publics nor EU elites are ready to abandon the hope that economic interdependence remains the most viable source of European security. Although U.S. security guarantees are critical to ensuring that the European order survives, they also threaten its integrity. Were the EU to collaborate with the United States in arming Ukraine, it would suggest that peaceful mediation had failed.

EUROTRIPPING

Europe finds itself in this predicament for a simple reason: in the years leading up to the Ukraine crisis, Western governments fundamentally misread Russia. They mistook Moscow's failure to block the post-Cold War order as support for it, assumed that Russia's integration into the world economy would invest the country in the status quo, and failed to see that although few Russians longed for a return to Soviet communism, most were nostalgic for superpower status.

They also missed the importance of Ukraine's so-called Orange Revolution in 2004, which saw mass street protests help bring a

pro-Western leader to power. Russian President Vladimir Putin, convinced that Western governments incited the demonstrations in order to carry out regime change, has since come to see street protests as a significant threat to his rule. In this context, resistance to Western liberalism and to Washington's democracy promotion now defines his understanding of sovereignty.

For over a decade, Putin's regime has been searching for a new order, one that can ensure its long-term survival. In 1943, Joseph Stalin dissolved the Communist International (also known as the Comintern), an organization dedicated to spreading communism internationally, in order to convince Franklin Roosevelt and Winston Churchill that his priority was the defeat of Nazi

*Western governments
fundamentally misread
Russia.*

Germany, not global revolution. Putin hoped that the West would make a similar overture by halting its promotion of democracy. He wanted a guarantee that the Kremlin would not confront Western-backed protests on the streets of Minsk or Moscow. But Brussels and Washington could not dissolve what did not exist; regardless of what Putin and his advisers might believe, the wave of global protests that has swept the world in recent years is the result of cultural, political, and technological changes. What former U.S. National Security Adviser Zbigniew Brzezinski has called "the global political awakening" is a real trend, not the code name of a CIA operation.

Western powers also misjudged their ability to coerce Putin through sanctions and diplomatic isolation. Sanctions have not altered Russia's behavior in eastern Ukraine, and few experts think that any financial penalty could be great enough to convince Moscow to hand back Crimea. Although the sanctions have contributed to Russia's current financial woes, there is little evidence that they have weakened Putin's grip on power. And even if they did, a post-Putin Russia would unlikely be a pro-Western democracy. "It is impossible to say when the system will fall," the former Putin adviser Gleb Pavlovsky told *The New Republic* in 2013, "but when it falls . . . the one to replace it will be a copy of this one."

To be sure, the sanctions have proved critically important in uniting Western countries against Putin's aggression. But damaging the Russian economy has also undermined Europe's longer-term goals. Moscow's

policy in Ukraine does not represent a revival of Russian imperialism; it is an expression of the Kremlin's isolationism. By cutting off the Russian economy, the sanctions have served Putin's effort to limit Russia's exposure to the West, giving his regime cover to restrict the Internet, curb foreign ownership of the media, repatriate Russian money from Western banks, and limit travel abroad. They have also obscured his failure to grow the economy.

Worst of all, the sanctions have encouraged Russia to compete with the West for military dominance rather than on economic terms, an arena in which the EU's advantage is far greater. One of the union's great successes of the last decade was its European Neighborhood Policy, which aimed to draw in the states on its periphery through economic and political agreements. Although the policy hardly transformed those countries in any fundamental way, it did influence Russian foreign policy. After the Orange Revolution, Russia tried to vie for influence in Ukraine and other postcommunist countries by offering similar incentives, such as trade agreements and aid packages. Even in the fall of 2013, Moscow did not move to occupy Ukraine before attempting to buy it, offering the government of then President Viktor Yanukovich a multibillion-dollar loan. But now that Russia's economy is even less competitive, owing to low oil prices and new sanctions, Moscow will be more inclined to expand its influence through military adventurism.

THE ROAD TAKEN

In defining its Russia policy, Europe faces only hard choices. It is unrealistic to expect that in the coming year the EU will transform itself into a great military power. It is also unlikely that sanctions alone can change the Kremlin's policy in the short term, or that unanimous support for comprehensive sanctions can be sustained over the long term, especially if the conflict in Ukraine somehow subsides. Moving forward, Europe must find a policy that doesn't attempt to turn Russia into a Western-style democracy but that forces the country into a position the West can live with. Cold War-style containment, however, is insufficient. Russia poses a threat to not only the territorial integrity of the EU member states but also the union's very existence. Already, it has begun infiltrating European politics in order to undermine European unity, principally by supporting political leaders friendly to Russia and hostile to the union.

Guarding against this threat will require Europeans to make a clear distinction between two different kinds of institutions. The first are those, such as the Council of Europe and the EU, that embody European values and therefore have no place for authoritarian regimes such as Putin's. The second are those, such as the Organization for Security and Cooperation in Europe and the United Nations, that can bridge Europe's divide with illiberal governments. European leaders need to make the former more disciplined and rigid and the latter more flexible and accommodating.

Take the Council of Europe. Moscow's membership, a privilege theoretically reserved for democracies—the body is tasked with promoting human rights and the rule of law—has done little to liberalize Russia and has undermined the council's credibility. Handing out membership to other countries with repressive regimes, such as Azerbaijan, has similarly failed to hasten their democratic transitions. After Azerbaijan's 2010 parliamentary elections, for instance, the council failed to even issue a critical statement in response to reports of widespread violations of due process.

The West needs a Russia strategy that allows for cooperation without shying away from confrontation.

The organization now serves as a convenient vehicle that allows authoritarian regimes to appear democratic abroad while suppressing human rights at home. Only by kicking out its illiberal members can the council truly stand up for its founding values once again.

Decontaminating values-based institutions by removing Russian influence is all the more urgent given the growing popularity of Putin's governing model in some eastern European EU member states and the Kremlin's efforts to support Euroskeptical parties—including both those on the left, such as Syriza in Greece, and those on the right, such as the National Front in France. These moves, designed to mirror Western support for opposition movements and election monitoring in Russia, initially functioned as a kind of slap in the face. But now they are in danger of seriously fraying EU unity. Last year, Hungarian Prime Minister Viktor Orbán spoke publicly of “parting ways with western European dogmas, making ourselves independent from them.” He went on to state his intention to turn Hungary into an “illiberal state,” listing Russia as an example of a country that, like China and Turkey, has a governing system that is neither Western nor liberal but

is “capable of making us competitive.” Orban, in an effort to cozy up to his role model, has since opposed plans for a European energy union, an EU flagship policy designed to reduce member states’ dependence on Russian gas. In return, Putin has ensured that Russian gas will flow to Hungary for at least the next four to five years.

To prevent other fragile EU states, such as Cyprus and Greece, from falling prey to Russian bribes or blackmail, the union needs to help them deal with their economic crises by continuing to provide loans and other forms of financial support. It must also push member states to realize that in the growing conflict between Brussels and Moscow, they have to choose sides. At present, illiberal regimes such as Hungary’s have the best of both worlds: EU funds sustain them even as they benefit from anti-EU rhetoric at home and special relations with Moscow, and so they have little incentive to change course.

ANOTHER UNION

Europe and the United States can never recognize Russia’s annexation of Crimea, just as they could not recognize the Soviet occupation of the Baltic states during the Cold War. They will need to keep sanctions in place, since they remain the only available instrument capable of maintaining European unity and taming Moscow’s willingness to spread the current conflict to other parts of Ukraine. But sanctions alone—guided by a misplaced hope that Russia will one day reverse course and return Crimea to Ukraine—are not enough.

The West needs a long-term Russia strategy that allows for cooperation but does not shy away from confrontation. The crisis began because of a tussle over whether Ukraine would participate in the Eastern Partnership, a European program aimed at integrating eastern European countries into the EU economy, or the Eurasian Economic Union (EEU), a competing trade bloc that Moscow established with Belarus and Kazakhstan this past January. Ironically, the best way of establishing a new working relationship with Russia will be through this very Russian project—an approach that top European officials, including German Chancellor Angela Merkel and French President François Hollande, have publicly backed.

Most Europeans agree that the EEU is a flawed economic project that will do more to serve Russia’s geostrategic ambitions than to bring prosperity to such places as Armenia and Kyrgyzstan. They also find it hard to believe that any country would choose a repressive Russian

model of development over an enlightened European one. That choice, however, belongs to sovereign governments. And if the EU recognizes the right of Belarus and Kazakhstan to join a Russian integration project, Brussels can more credibly insist that Moscow should recognize the right of Georgia and Moldova, for example, to chose not to join.

Europe has failed to recognize what the EEU actually represents. To be sure, Moscow established the union in order to pose a geopolitical challenge to Brussels, but it sought to do so by engaging with other countries on the EU's terms—through

economic links rather than military competition. What's more, the EEU is inclusive, largely devoid of Russian assertions of ethnic nationalism, and overtly committed to the concept of economic interdependence. And by virtue of their value in propping up a

Europe has failed to recognize what the Eurasian Economic Union actually represents.

signature Russian initiative, the union's members have Moscow's ear. In fact, Belarus and Kazakhstan, owing to their veto power, may have the best shot at taming Russia's aggression in eastern Ukraine.

In short, the EEU is precisely the sort of project that Brussels might have invented itself. It is the only institution capable of reducing Moscow's reliance on military pressure and nationalist rhetoric. But instead of recognizing its own influence on the EEU, Brussels has interpreted Moscow's imitation as an affront, missing a critical opportunity to moderate the conflict in Ukraine.

Engaging with Russia over its plans for the EEU would have been easier before the Ukraine crisis, but it is far from impossible now. An EU overture to the EEU, such as an invitation to establish formal diplomatic relations between the two organizations, would send a clear signal that Brussels recognizes Moscow's right to an integration process of its own but firmly opposes Russia's right to a sphere of influence. It would suggest that going forward, the European order will not be built only around the enlargement of the EU and NATO, which Russia bitterly opposes. Instead, it would set the stage for a peaceful competition between two integration projects, based on different philosophies but at least nominally aimed at pursuing similar goals.

Legitimizing the EEU would also drive a wedge between the world's two largest authoritarian powers, China and Russia, who have grown dangerously close in recent years, with an outcome likely to strengthen

the declining partner at the expense of the rising one. Indeed, Beijing's expanded role in eastern Europe has been one of the least noticed and most consequential outcomes of the Ukraine crisis. As Brussels and Washington sanctioned Moscow over Crimea, Chinese President Xi Jinping launched two ambitious initiatives designed to restructure the Eurasian economy: the so-called Silk Road Economic Belt, a program of infrastructure and trade investments that will stretch from Bangkok to Budapest, and the Twenty-First-Century Maritime Silk Road, a similar program focused on the waterways between the South China Sea and the Mediterranean. The two projects, which Chinese officials have touted under the slogan "one-belt, one-road," essentially aim to draw all the countries of Central Asia into China's gravitational field, which would provide Beijing with a much-needed source of natural resources, foreign markets, and economic diversification.

But China's approach to regional integration differs markedly from both Russian-style spheres of influence and EU-style regionalism. As the scholar David Arase has argued, rather than use multilateral treaties to liberalize markets or offer generous payoffs, China promises to give other countries access to its continuing growth primarily through investments in infrastructure, such as railways, highways, ports, pipelines, customs facilities, and so on. Beijing is setting itself up as an independent hub for global trade, operating through an overlapping series of bilateral ties. At present, little stands in the way of this plan; because its economy is so much larger than those in Central Asia, China can relegate its partners to a peripheral zone, where they have no formal processes for resolving disagreements and few ways of resisting China's pull. If Western countries remain narrowly focused on combating Russia and undermining the EEU, China could emerge as the preeminent regional power—much in the same way that the United States came to dominate Europe after World War I.

Neither Europe nor the United States can afford to allow Xi's grandiose vision to materialize. And so they must allow Russia to compete with China for influence in its own backyard. Of course, Brussels and Washington should not have any illusions about the Kremlin's dream to divide and weaken the EU—but that is precisely why they should establish formal relations with the EEU rather than ignore it. A prolonged standoff with Russia will only put Europe's distinctive order at further risk and allow Beijing to step in while Brussels and Moscow squabble. This least bad option isn't perfect, but the others are far worse. 🌐

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Protecting America's Competitive Advantage

Why the Export-Import Bank Matters

Fred P. Hochberg

Two months from now, the U.S. Congress may shutter a government agency that, in the past six years, has supported more than 1.3 million American jobs and generated more than \$2 billion in deficit-reducing profits. The Export-Import Bank of the United States empowers American exporters by equipping those that cannot access private financing with credit insurance and working capital, among other tools.

For more than 80 years, the bank has operated largely without controversy. With overwhelming bipartisan majorities, Congress has reauthorized the bank 16 times. But last September, with its congressional authorization set to expire, the bank found itself the subject of fierce ideological debate. Ignoring the bank's long record of supporting jobs, safeguarding taxpayer dollars, and maintaining a low default rate, a small minority of conservative Republicans began expressing opposition to the bank on ideological grounds. The U.S. government, they argued, has no role to play in global finance and should not interfere in the export sector in ways that might give some companies an advantage over others. Of course, this argument ignores the fact that government-backed export financing does not pick winners and losers—on the contrary, it is entirely demand-driven. Despite such criticism, and thanks to a broad bipartisan coalition, the bank was granted a nine-month reprieve in September. If some in Congress have their way, this may well be its last stand.

Opponents of the bank hold views of the world economy that do not reflect the reality of global competition. If Congress opts to eliminate

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or curtail the bank, the United States will find itself going dangerously against the grain. In the past two decades, the nature of export competition has fundamentally changed: as an increasing number of countries operate with little regard for established international guidelines, export competition has come to resemble the Wild West. To keep up with countries, such as China, that are willing to shell out billions of dollars to help their exporters close a deal, other governments have given their own versions of the Export-Import Bank more flexibility and authority. There are 60 such export credit agencies around the world, but the United States is the only country in which there is a raging political debate being waged by a small but potent minority over whether to actually weaken its bank's financing capacity. The U.S. stance is reminiscent of the joke about an elderly man who is driving down the highway when he gets a call from his wife. "Honey," she says, "be careful! I just saw on the news that there's a car going the wrong way on Route 95!" And the husband says, "Are you kidding? It's not just one car—there are hundreds of them!" Ideological opposition to the Export-Import Bank is not only shortsighted; it could also have devastating consequences for the thousands of U.S. businesses and workers who rely on the bank's financing to secure overseas sales. No doubt China, Russia, and other competitors are salivating at the prospect.

NO SHERIFF IN TOWN

For decades, government-backed export support fell under the aegis of the Organization for Economic Cooperation and Development, an international body that sets responsible standards for export lending for its members. As recently as 1999, nearly 100 percent of export credit was governed by its rules. By 2004, with the rise of Chinese exports, the share of export support governed by the OECD had fallen to roughly two-thirds. By 2013, the share had plummeted to one-third. If this trend continues, and countries are allowed to finance export deals without limit, the United States will lose out. During its eight decades of operation, the U.S. Export-Import Bank has financed a total of roughly \$590 billion worth of U.S. exports. By contrast, over the past two years alone, China has financed at least \$670 billion worth of exports. The actual sum, which is difficult to ascertain given China's lack of transparency, may well be close to \$1 trillion.

As exports have become more powerful drivers of growth, the stakes have increased. The McKinsey Global Institute projects that

the world will need \$60 trillion in infrastructure investments by 2030. The United States' foreign competitors are uniform in their recognition of what this means: in markets such as India, Latin America, the Middle East, and sub-Saharan Africa, there is an enormous opportunity for exports to spur economic growth and employment, available to any nation—not just any company—that is willing to do what it takes to win deals. Frequently, that means operating outside of any rules-based, transparent system.

As chair of the Export-Import Bank, I have seen this race to the bottom firsthand. Last June, I met with officials from Transnet, the South African rail company, to discuss a locomotive manufacturing order that General Electric had split with a Chinese competitor. Since U.S. locomotives are globally recognized as being the highest in quality, I did not want financing to present an obstacle to securing the deal; after all, more locomotives made in the United States means more well-paying jobs in Erie, Pennsylvania, instead of China. Like any good businessman, I wanted to know what terms our competitors were offering. An official from Transnet told me that when Chinese firms come to the table, government financing is virtually always part of the package. In fact, the typical questions are, “Do you want a ten-year, 15-year, or 20-year loan?” “How about a grace period?” More and more, U.S. businesses are competing not against their Chinese counterparts but against China, Inc. In South Africa, it was clear to me that Transnet had judged General Electric not solely on the quality of its locomotives but also on its ability to offer competitive financing.

As countries disregard international guidelines, export competition has come to resemble the Wild West.

Of course, export credit agencies are no replacement for the private sector, but with the push to implement major global banking reforms and the rising scale of global infrastructure projects, they are increasingly a vital supplement. As commercial banks oscillate in their willingness to extend credit, as they did most recently in the wake of the global financial crisis, the Export-Import Bank provides a dependable backstop for U.S. exporters. The reluctance of private banks to hold long-term debt for large export projects—such as the solar installations, nuclear power plants, and bridges that soon will be in high demand throughout the developing world—has created a gap that the Export-

Import Bank was designed to fill. As private lenders have shied away from projects in developing markets, export credit agencies have stepped in: last year, 68 percent of the Export-Import Bank's financing served projects in developing markets.

The Export-Import Bank also supports small businesses whose razor-thin margins often deter private financiers. The bank provides the backing necessary for smaller firms to tackle global markets until they grow large enough to become attractive to private lenders. In 2014, nearly 90 percent of the Export-Import Bank's transactions directly served small U.S. businesses.

NEW PLAYERS, NEW RULES

As the United States engages in an internal political debate over the Export-Import Bank, it risks missing the larger picture: global trade competition is evolving under the influence of new multilateral lending institutions, backed primarily by China. The New Development Bank, a joint venture of the BRICS countries (Brazil, Russia, India, China, and South Africa), and the Asian Infrastructure Investment Bank, spearheaded by China and set to begin operating by the end of this year, will play a growing role in financing large-scale projects in developing countries.

Questions remain about these new institutions: Will bidding for projects be fair and open? Can the banks be counted on to implement responsible environmental and labor standards? How these institutions choose to conduct themselves will dictate the tenor of the next era of global export finance, one that will shape the lives of millions of people the world over. The United States, the United Kingdom, and other trading partners are working to influence the charters of these banks to make them more transparent and fair to borrowers and bidders alike. But the new banks are as concerned with garnering global influence as they are with financing infrastructure responsibly.

It is in the best interests of developing markets, global stability, and the BRICS countries themselves that new financing institutions embrace competitive bidding rules and prudent transparency requirements. When importing countries are forced to make sourcing decisions based on aggressive financing rather than value and quality, the consequences are negative for everyone. Buyer nations are liable to end up with inferior products that can hamstring long-term growth, and exporting nations, relying heavily on the easy wins that come from cut-rate financing, may



The shipping news: off the coast of Los Angeles, February 2015

discourage quality and innovation in their own private sectors. When Ethiopia sought to expand its cellular service in 2013, for example, it opted for a network built by two Chinese firms that were offering a combined \$1.6 billion in financing—more than enough to edge out Western competitors. But an attractive financing package masked bargain-basement quality, and today Ethiopia's cell service remains notoriously unreliable, with many Ethiopians forced to walk for miles just to pick up a signal.

For the BRICS, committing to transparency would bolster their credibility as they seek to build trust throughout the developing world. Transparency signals to prospective buyers that countries stand behind the quality of the goods and services they bring to market—that the companies that operate on their shores can deliver on the merits. Responsible lending rules of the sort championed by the OECD may not be palatable to every nation, but there is plenty of room between adhering to those standards and adhering to no standards at all. Countries, such as China, that have eschewed transparency in the past have little to lose from disclosing the extent of their government-backed export support, and competitors would finally get the chance to see what they are up against. Releasing details on important lending terms—subsidies, risk structures, and the like—would also impart a sense of integrity to the new banks. The goal of a transparent export landscape is not to ensure that U.S. firms sew up

every infrastructure project that comes along. It is, instead, to empower developing nations to decide for themselves how their futures will be built, free from the disorienting influence of opaque financing.

UNITED WE STAND

If fair global competition is to become more than an ideal, the United States and China will have to work together. Here there is cause for optimism. Beijing's willingness to partner with Washington on a historic climate agreement in 2014 would have been unthinkable not so long ago. When discussions to expand the proposed Trans-Pacific Partnership were in their infancy a few years back, China was skeptical. Today, China is publicly acknowledging that it may one day sign on to the trade agreement. More and more, China is signaling a desire to grow responsibly into its role as a global economic leader, a trend that should be received as heartening news the world over.

Whether China's willingness to work with the United States will extend to export finance remains to be seen. In 2012, U.S. President Barack Obama and then Chinese Vice President Xi Jinping announced the International Working Group on Export Credits, an initiative designed to arrive at a set of responsible international guidelines. The IWG, which now includes 16 other nations, has made limited progress. The original goal was to develop comprehensive regulations by the end of 2014, a deadline that has now passed. Some of the slow pace can be attributed to the fact that transparent, rules-based financing is a foreign concept to much of the world. Additionally, many other nations are seeking to do whatever it takes to maximize their export coffers; unlike the United States, their interest in export credit agencies extends beyond merely filling in private-sector gaps. International agreements take time to negotiate, but markets around the world cannot afford to wait for a stable, uniform regulatory regime to take shape—nor, for that matter, can the U.S. exporters that wish to compete with overseas rivals solely on the merits of their goods and services. Until a broader agreement emerges, Washington should do everything in its power to give American exporters the support they need: ensuring the presence of a robust and capable Export-Import Bank and ratifying the Trans-Pacific Partnership, among other steps. In the new global economy, Washington's failure to forcefully advocate on behalf of U.S. companies will mean ceding well-paying jobs—and the power to write the rules of the road—to other nations.

Competition, unlike war, doesn't need to be a struggle between enemies. At its best, it is a race among challengers, a shared engagement that spurs everyone to innovate and to act not simply as rivals but also as partners in responsible global growth. The competition ahead will be an export race of unprecedented scope, one that holds the potential to touch more lives than any invention, conflict, or initiative in recent history. Someone will be bringing electricity to the 600 million people in sub-Saharan Africa who today live without it. Someone will be providing the technology that will help the industrialized world move toward climate resilience. Someone will be building the airports, highways, railroads, power plants, cell towers, and hospitals that will serve the needs of generations to come on every continent.

The rules that will govern that race are important; if the field is skewed, the results will be, too. Arriving at the best possible playing field will require an acknowledgment that there is no single ideal export credit agency to which all countries should aspire, that the best possible version of a Chinese agency may look very different from the best possible version of an American one. The United States, for its part, must resolve within its own borders to reckon with the world as it is: a web of competing governments, competing values, and markets that have for a long time been less than fully free.

The best version of the U.S. Export-Import Bank is one that, although bound by the world's most stringent financial, transparency, and environmental rules, nevertheless maintains the capacity to fill the fluctuating gaps in the United States' private sector, freeing U.S. exporters from the shackles of uncertainty forged by antiquated ideological debates. China, too, must do its part to move the world away from the Wild West mentality that it has developed over the last 15 years. The best version of China's export credit agency would be one that places China's own long-term interests and the interests of global growth ahead of fleeting gains. The United States and China need not be identical to be partners in encouraging above-board competition and sustainable growth. But as the new global age brings countries closer together, deepening their economic interdependence, it is in everyone's interest to encourage export competition that is as clear and free as possible. For the United States, a reauthorized, robust Export-Import Bank is the best way to ensure that future. 🌐

In Defense of Financial Innovation

Creative Finance Helps Everyone—Not Just the Rich

Andrew Palmer

At a 2013 conference held by *The Economist* in New York, business and policy leaders debated whether talented university graduates should join Google or Goldman Sachs. Vivek Wadhwa, a serial entrepreneur, spoke up for Google. “Would you rather have your children engineering the financial system [and] creating more problems for us, or having a chance of saving the world?” he asked. He had a much easier time pitching his case than Robert Shiller, the Nobel Prize–winning economist who advocated for Goldman Sachs by arguing that every human activity, even saving the world, had to be financed. No use; in the end, the audience voted heavily in favor of Mountain View and against Wall Street.

Such bias reflects the profound shift in public attitudes toward Wall Street that followed the 2008 financial crisis. In the decade before the meltdown, bankers were lionized. Policymakers applauded the efficiency of financial markets, and widespread praise for financial innovation drowned out any criticism. But when the crisis hit, the pendulum swung too far in the opposite direction. The new consensus now portrays bankers as villains whose irresponsible practices and shady techniques unleashed disaster. This view holds that only a small part of the financial industry actually benefits society—the one that doles out loans to individuals and businesses. The rest constitutes dangerous, unnecessary gambling, and so financial ingenuity of all kinds is highly suspect.

ANDREW PALMER is Business Affairs Editor at *The Economist* and the author of *Smart Money: How High-Stakes Financial Innovation Is Reshaping Our World—for the Better* (Basic Books, 2015), from which this essay is adapted. Follow him on Twitter @palmerandrew.

Such anger is well founded; finance certainly did a bad job of applying itself to big problems in the run-up to the crisis, and the popular myth of the industry's invincibility contributed to this failure. Eliminating this misperception was entirely for the best. But demonizing finance is also a mistake, and restricting the sector to its most familiar elements would do nothing to mend its flaws. Worse, such a course could wreak damage outside the banking industry, because financial ingenuity reaches far beyond Wall Street. Innovative financiers are currently helping solve an array of socioeconomic problems—including those related to the strength of social safety nets, the poor's ability to save, and the capacity of the elderly to support themselves—that weigh heavily on governments around the world. Instead of fearing such innovation, policymakers and the public should welcome it, with prudent oversight.

REALITY CHECK

For critics of Wall Street, the financial crisis served as a warning against experimentation. Financial innovation, they argue, has approached a point of diminishing returns. If only finance could turn back the clock, all would be well. Gone would be toxic practices such as securitization, the banks' way of bundling mortgages, credit-card loans, and other financial assets into bonds that they resell to investors—a technique seen as having triggered the crisis. The out-of-control financial wizardry that generated skyrocketing amounts of consumer debt would come to an end. And stock exchanges would stop serving as the playthings of algorithms.

Some skeptics go so far as to argue that “banking should be boring”—a slogan adopted by Elizabeth Warren, the senior Democratic senator from Massachusetts, who has demanded tighter restrictions on finance. In 2013, Warren launched a campaign to separate U.S. banks into two distinct groups. The first would include the comfortably familiar retail businesses that accept deposits and provide mortgages. The second would contain investment firms that raise money and manage risks through obscure capital-market practices, and they would be barred from taking insured deposits to fund themselves. Although the bill that Warren introduced has stalled on Capitol Hill, it counts plenty of sympathizers.

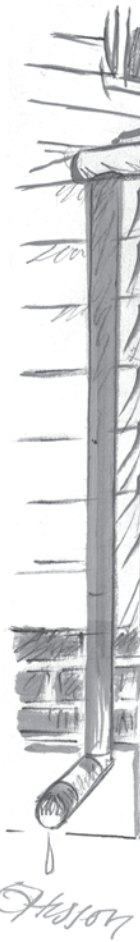
Going one step further, a few prominent observers have suggested that financial creativity has reached the limits of its utility. They

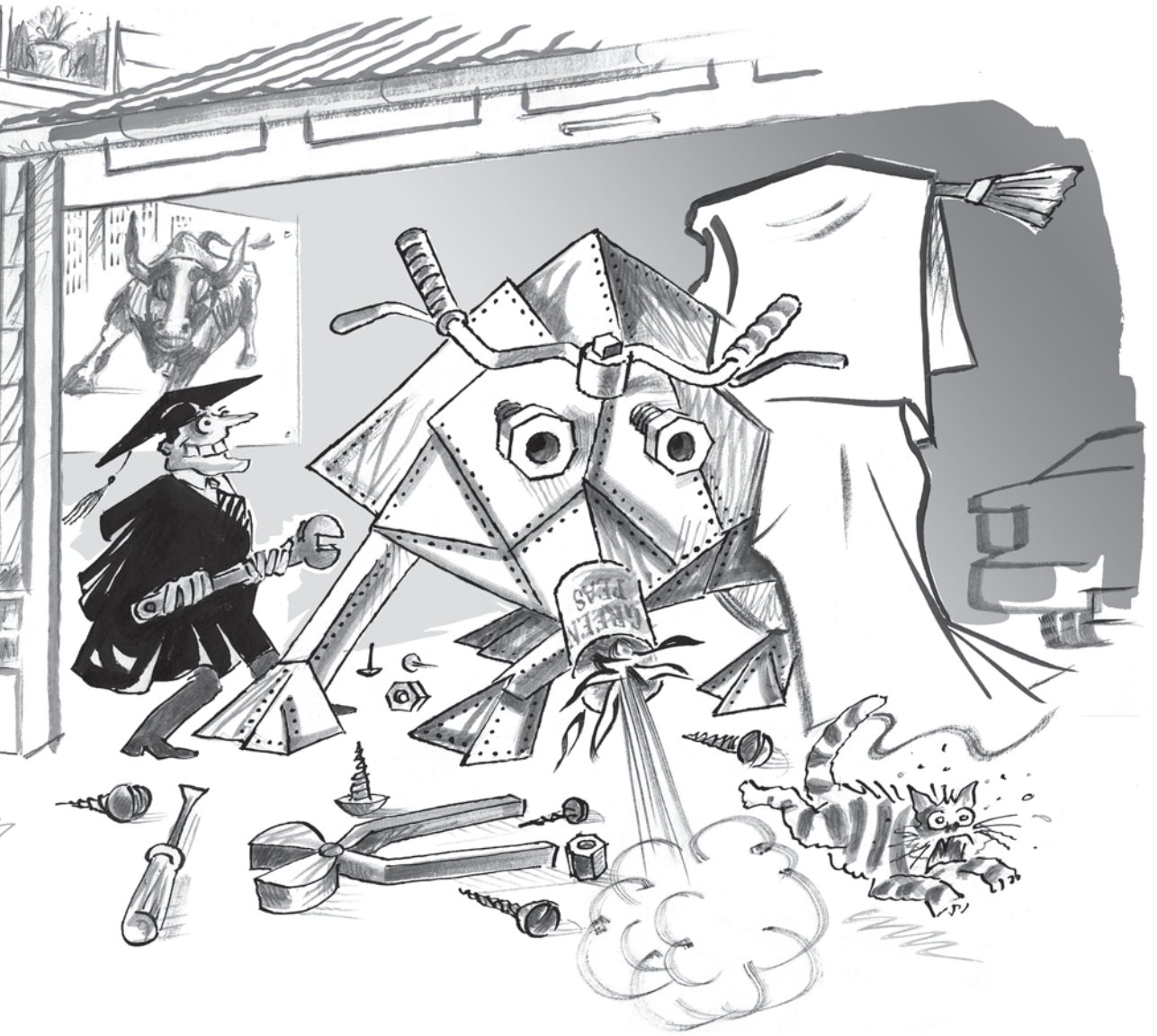
point to a host of seemingly out-of-control pre-crisis financial forces, from the blinding speed of high-frequency traders to the exploding volume of credit default swaps, a type of insurance policy written against borrowers going bust. In 2009, for example, Paul Volcker, the former Federal Reserve chair, said that no financial innovation of the pre-crisis period was as useful as the simple automatic teller machine. Similarly, the economist Paul Krugman admitted in a 2009 *New York Times* column that he had trouble thinking of a single recent financial breakthrough that had aided society. Rather, he wrote, “overpaid bankers taking big risks with other people’s money brought the world economy to its knees.”

To be fair, the motives behind many new financial products are far from pure, and greater scrutiny would help stave off crises in the future. But widespread criticism of particular Wall Street innovations has had the effect of unfairly smearing the reputation of finance as a whole, and it has given rise to proposed solutions that could do more harm than good. Calling a halt to financial inventiveness—freezing finance in place; no bright ideas allowed—would not solve the problems associated with the industry. In fact, the greatest dangers to economic stability often lurk in the most familiar parts of the financial system.

After all, retail and commercial banks accounted for some of the most massive write-downs recorded during the crisis. The biggest bank failure in U.S. history was that of Washington Mutual, which collapsed in 2008 with \$307 billion in assets and a pile of rotting mortgages on its books. The largest quarterly loss for a bank was suffered in 2008 by Wachovia, which was brought down by bad loans. And the product that caused the most damage during the financial crisis was mortgages, the most familiar instrument of all. The amount of mortgage debt in the United States had roughly doubled between 2001 and 2007, to \$10.5 trillion. Real estate was by far the biggest asset held by U.S. households, reaching \$22.7 trillion in value in 2006, when house prices were at their peak. The United States was not alone in this vulnerability; wide holdings of residential and commercial property were the common denominator across the countries most affected by the crisis, including Ireland, Spain, and the United Kingdom.

Part of the reason is that property has inherently destabilizing characteristics. This asset thrives on debt: in many housing markets,





buyers routinely take out loans worth more than 90 percent of the property's value. Virtually the entire worldwide rise in the ratio of private-sector debt to GDP in the past four decades has been caused by rising levels of mortgage lending. Yet banks tend to see this type of secured lending as safe, even though it could involve decisions made solely on the basis of collateral offered by the borrower (say, a house) rather than the borrower's creditworthiness.

Indeed, the great irony of the property bubble was that many banks and investors had thought that concentrating on housing was a prudent bet. Although the financial sector has since been criticized for recklessness, it was its pursuit of safe returns that brought

trouble. An insightful study by the economists Nicola Gennaioli, Andrei Shleifer, and Robert Vishny revealed that much financial-sector creativity—from the invention of money-market funds to the pre-crisis surge in mortgage-backed securities—is rooted in a search for safety as well as profit. The reason investors sought out mortgage-backed securities was that these instruments offered slightly higher returns than more traditional assets (such as U.S. Treasury bonds) while also appearing to be low risk. This pattern holds across a wide range of other financial products; the siren song of safety is a recurring theme in finance.

The property market thus offers a lesson for the financial industry more broadly: studying the ways in which people and companies manage money and risk—and harnessing these behaviors for more constructive ends—could help address the dangers that still lurk in plain sight. Rather than being a warning against innovation, the crisis was a clarion call for creative thinking of a different kind. Indeed, when it comes to property, finance is already demonstrating how using new techniques could forestall future shocks.

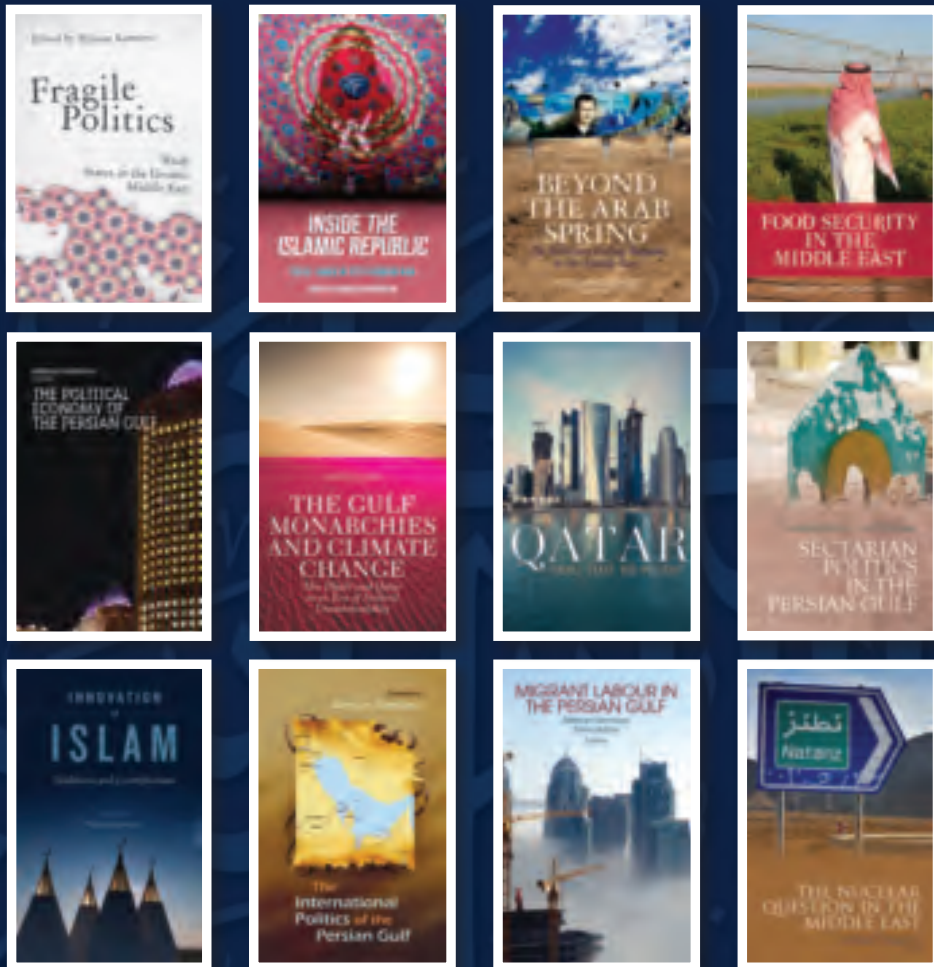
Some entrepreneurs, for example, are exploring ways to temper the adverse effects that fluctuations in housing prices carry for both borrowers and lenders. A housing downturn can reduce the price of a property to less than the value of the mortgage holder's outstanding loan, triggering a loan default that hurts both the buyer and the bank. One answer is to offer borrowers no interest on their mortgages in return for allowing the lenders to share in the gains or losses from movements in house prices. If prices fall, owners are more protected; if they rise, lenders reap some of the rewards. As for the adverse effects that market downturns can have on lenders, one firm, London-based Castle Trust, has found a clever solution: tying its funding to the national house price index in a way that makes assets and liabilities on its balance sheet rise and fall in unison. The Castle Trust model is a radical break from the norm—but one that is entirely welcome.

THE IDEAS MACHINE

Even the most ardent critics of Wall Street do not dispute the value of financial innovation over the long sweep of human history. The invention of money, the use of derivative contracts, and the creation of stock exchanges all represent smart responses to real-world problems.



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These advances helped foster trade, create companies, and build infrastructure. The modern world needed finance to come into being.

But this world is still evolving, and the demand for financial creativity is as strong today as ever. Fortunately, despite all the recent criticism, the financial sector has been evolving as well. Today, this industry is home to not only big banks skimming fat fees but also visionary innovators that are rethinking the ways in which money, livelihoods, and technology relate to one another.

To take just one example, many countries, including the United States, face unprecedented pressure to trim their budgets by cutting public spending. As a result, social programs—say, rehabilitating prisoners and training the unemployed—can fall by the wayside.

Even where such initiatives do continue, they often end up wasting taxpayers' money, because they either fail to tie spending to desired outcomes or focus on the wrong outcomes altogether. Many job-training programs, for example,

*Financial creativity
reaches far beyond Wall
Street.*

focus on the number of people they enroll and graduate rather than the number of participants who subsequently find jobs. Flaws of this kind are common across state-funded initiatives. According to the Brookings Institution, out of ten rigorous evaluations of social programs run by the U.S. federal government in 1990–2010, nine found that the programs either produced weak positive results or had no impact at all.

Finance has stepped in with answers to both the funding problem and the shortfalls of planning and monitoring. One innovative tool, known as a social-impact bond, channels private investment to programs that track measurable social benefits. For instance, a social-impact bond focused on rehabilitating prisoners might monitor the number of new convictions of former inmates one year after they were released from prison. Fewer repeat convictions means less spending by the government, which can then use the cash it saves to pay back investors. The first initiative of this kind was introduced in 2010 by the city of Peterborough in the United Kingdom, and that program has already reduced reoffending rates vis-à-vis the national control group. Other countries, including the United States, have introduced similar programs of their own. New York City launched a social-impact bond in 2012 focused on adolescents

incarcerated at Rikers Island; the program counts Goldman Sachs as an investor. And Massachusetts has announced two social-impact bonds, one of which will fund a seven-year effort to reduce prisoner recidivism with a budget of \$27 million.

The reason finance has a shot at solving problems of such complexity is its ability to align the incentives of diverse market participants—in this case, governments that commission services, social organizations that provide them, and investors that supply capital. Governments are attracted to social-impact bonds because they require payouts only when the programs they fund achieve results. Social organizations come on board because these initiatives involve private investment with longer time frames than federal contracts usually offer. And investors benefit from detailed data on how well the programs are performing. Social-impact bonds will never be the only answer to the shrinking state. But they are an extremely promising avenue to explore.

THE NEXT FRONTIER

Governments are not alone in facing an enormous financial squeeze; individuals must grapple with similar challenges. Today, ordinary people in developed economies expect to live longer than any generation did before them, yet they generally do not save nearly enough for retirement. Too many of these people put far too little money aside as protection against unexpected shocks. And a large share have trouble accessing credit, especially if they find themselves on the periphery of the economic system.

Finance has been providing ingenious answers to these kinds of problems by drawing on the insights of behavioral economics. Recent years have given rise to the birth of a subfield known as behavioral finance, which studies the different prompts and nudges that help people achieve more financially efficient outcomes. This field already counts one remarkable achievement: getting more Americans to save for retirement by enrolling them in 401(k) pension plans automatically. People have a tendency to dither, so requiring them to opt out of a scheme, rather than make the effort to opt in, draws in scores of new customers. U.S. companies that have introduced auto-enrollment mechanisms have reported sharp rises—of as much as 60 percent—in average 401(k) participation rates.

A more recent application of behavioral economics has allowed society's least creditworthy people to build up their savings accounts.

Millions of people in developed economies lack any sort of financial cushion. A 2012 survey by the Financial Industry Regulatory Authority asked Americans whether they'd be able to come up with \$2,000 if an unforeseen need arose; almost 40 percent said no or probably not. Nearly two-thirds did not have three months' worth of emergency funds on which they could draw if they fell ill or became unemployed. And whereas the housing boom had once disguised these problems—as long as prices kept climbing, people in distress could refinance or sell their homes—today, average Americans have no choice but to save more.

Finance is home to not only big banks skimming fat fees but also visionary innovators.

When money is tight, of course, saving is difficult. To make matters worse, new regulations discourage mainstream banks from reaching low-income households by capping the credit-card penalties and overdraft fees that banks can levy. Once again, innovative financial players have moved in to fill the gap. Some, such as the Massachusetts-based Doorways to Dreams (D2D) Fund, have managed to motivate savers via a simple trick: offering prizes for putting money aside. After all, humans love lotteries, and the prospect of winning awards instantly makes saving seem more attractive.

In 2009, the D2D Fund launched a prize-linked savings program in Michigan (one of the few places that permits private lotteries) called Save to Win. For each \$25 in deposits, savers earn raffle tickets that give them a chance to win quarterly prizes of as much as \$5,000, as well as smaller monthly rewards. Nebraska, North Carolina, and Washington State have since introduced versions of the program, and D2D hopes to eventually tap into state lottery systems directly in order to reach more people. Meanwhile, in Michigan, its strategy has helped customers set up more than 50,000 accounts and put away over \$94 million in new savings—a small amount by the financial industry's standards but a significant achievement for scores of low-income families.

It's not just the poor who have trouble accessing credit. At all levels, potential borrowers get turned away by banks; other people get deterred by high interest rates on bank-offered loans. One solution involves peer-to-peer lending, which allows suppliers and consumers of credit to connect directly rather than rely on a bank

to intermediate. Leading the charge is a San Francisco-based firm named Lending Club, which was launched in 2007; many others are following its example.

Lending Club invites borrowers to make a pitch for loans and then allows lenders to choose those individuals they would like to fund.

One fund has motivated savers via a simple trick: offering prizes for putting money aside.

Both parties get a better deal than they would at an established bank. Peer-to-peer lending does not carry the heavy costs of the legacy information technology systems and branch networks that weigh down established banks, so it can offer borrowers lower interest rates than a bank can provide. The average

rate that Lending Club borrowers paid on loans in 2013, for example, was 14 percent—well below typical credit-card rates. Allowing for a default rate of four percent and Lending Club's service fees, the returns to investors were nine to ten percent—not bad given how low interest rates have been.

Peer-to-peer platforms are designed to address some of the flaws of mainstream finance. A firm such as Lending Club is inherently more resilient than a bank because it does not run a balance sheet on which it incurs debts in order to fund lending of its own. If there are defaults on a bank's loan book, its creditors still expect to be paid back. But when a customer defaults on a Lending Club loan, the investors absorb the costs. Moreover, Lending Club locks up lenders' money for the duration of the loan. After investors fund a three-year consumer loan, for example, they can't demand the money back one month later in the way that bank depositors can. The borrower, therefore, will not face a sudden call for cash and the scramble to raise money that it entails.

Admittedly, the numbers involved in this new sector remain tiny. Lending Club had facilitated loans totaling more than \$7 billion by the end of 2014—an amount that pales in comparison to the outstanding credit-card debt of roughly \$700 billion in the United States that same year. Nevertheless, peer-to-peer lending is gaining wide credibility. Lending Club was valued at \$5.4 billion when it went public in 2014, and institutional investors now account for more than two-thirds of its loan volume. Some insurers and sovereign wealth funds have made allocations of as much as \$100 million.

The success of these new lending platforms, of course, does not mean that mainstream banks are about to disappear. Banks may be slower to innovate, but they can mobilize an awful lot of money and operate across borders. They also offer their customers many unique advantages, such as the ability to access savings instantly, that make them hard to dislodge.

But banks have good reason to worry. For one thing, regulators are pushing them to reduce their leverage—their ratios of debt to equity, a rough proxy for financial fragility—which means that banks must find other ways to increase returns to their investors. To do so, they could try cutting expenses, but it is hard to imagine that they could ever run leaner ships than the innovators competing with them. Banks could also increase the cost of credit, but that measure would simply create more opportunities for the likes of Lending Club to exploit.

In the end, the two groups will probably drift closer. Financial innovators will gradually eat away at the banks' activities, and the banks will slowly evolve to become more efficient. Some peer-to-peer platforms are already collaborating with mainstream lenders; others will end up being bought by them.

BANKING ON CREATIVITY

Anyone who defends the financial industry must recognize its inherent failings. There is a destructive logic to the way that the seething brains of finance innovate, experiment, and standardize. Even a banking sector populated by saints would tend toward excess, and modern finance is rather short of halos. The words that finance immediately conjures up—"bonuses," "recklessness," "greed," "bastards," "greedy bastards"—are all part of the industry's narrative.

The banking industry has certainly not lost its destructive tendencies in the wake of the crisis. Beyond a certain scale and beyond a certain point in their evolution, good ideas have a tendency to run wild. But suppressing financial innovation is the wrong answer to the problems facing Western societies. Instead, regulators and financiers must strike a careful balance between watchfulness for the risks that can cause economic damage and tolerance for creativity that can yield real benefits.

Two warning signs, in particular, ought to cause alarm among regulators. The first is rapid growth. When a financial technology or

product truly takes off, the surrounding infrastructure often fails to keep pace. This pattern manifests itself in many different ways, from the ability of high-speed traders to outrun the stock exchanges on which they operate to the opacity of the credit default swap market in the run-up to the financial crisis. During periods of quick growth, the front offices of financial firms often sell at a breakneck pace, while the back offices struggle to cope and the rapid flow of money relies on jerry-built plumbing. Regulators must be wary of market overheating of this sort and seek to ensure that the infrastructure of finance keeps pace with its innovators.

The second pitfall is the assumption of safety. Policymakers should remember that the false comfort of the familiar helped precipitate the crisis in the first place. In the United States, home buyers and lenders fell for the faulty notion that property prices couldn't crash nationwide and that AAA credit ratings represented a gold-plated promise of creditworthiness. Such misconceptions are hard to uproot; after all, the Western financial system remains heavily skewed in favor of providing supposedly safe mortgages to affluent households. Introducing higher capital requirements even for those assets that appear to be low risk could be one answer.

For all the problem-solving power of finance, growth and greed can distort any good idea. But when the next financial crisis hits, its triggers will likely come from an established market, such as property, in which mainstream investors and profit-maximizing institutions have once again gotten carried away. The true innovators of finance will not be the ones to blame. They are the reason the world should look at finance with a clear eye. 🌐

The Revival of the Housing Sector



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2014 showcased Mexico's housing industry's recovery with the comeback of multiple housing developers and improved results, with the larger companies facing problems linked to the housing bust, undergoing prearranged bankruptcy proceedings.

The housing sector's evolution has reversed the negative trend of the past two years, significantly contributing to job creation, economic growth, and potentially improving social cohesion.

President Enrique Peña Nieto announced a series of measures in January to boost access to home ownership as part of his National Housing Policy. The president aims to lift housing that will trigger Mex\$370 billion (close to USD \$25 billion) in investment in the construction of 500,000 homes and the implementation of 1 million actions. The project will benefit over 6 million Mexicans, from a 9.7 million housing gap.

"The construction industry experienced a great recovery in 2014. Alone it generated over 135,800 formal jobs, five times more than in 2013, when 25,400 were created," Peña Nieto said.

Figures from the Housing Registry Office show that the number of home units under construction or in sale process were 560,000 at the end of 2014, 34 percent more than in 2013.

"And well over the goal we had for 2014, which was 450,000 dwellings," claims Peña Nieto. "That is, we went further and managed to build 560,000 homes for Mexicans. This is undoubtedly positive data that encourage us to continue to reduce the housing deficit of approximately 9.7 million homes."

Government and private-sector representatives alike agree that 2015 will be the year of consolidation for housing in Mexico, in light of new official figures that indicate the end of the two-year crisis. Uplifting news for the housing sector—badly shaken since 2010—is ever more welcome amid the global collapse of oil prices, which have prompted large cuts in public spending, threatening major projects. In January Finance

Minister Luis Videgaray announced cuts of about Mex\$8.5 billion (US\$574 million), about .7 percent of Mexico's gross domestic product. About a third of the Mexican government's budget comes from oil revenue, and the price-per-barrel of Mexican crude has fallen in recent months from about Mex\$100 to Mex\$38. Videgaray said the "adjustments" were preventive and responsible, aimed to protect "stability and the economy of Mexican families." Federal transport, communications, water, and agriculture were the sectors subjected to the largest cuts, but Videgaray said housing and agriculture subsidies would not be affected, although pensions for the elderly would be reduced. Such announcement confirms that the government is working to expand decent housing for Mexican families, especially those with the lowest income.

Many in the business community, especially in housing, welcomed the cuts as necessary and timely. "The important thing now, in addition to this austerity program, is to enact parallel public policies to give incentive to sustainable economic growth," according to the representative for the National Chamber of Industry Development and Promotion of Housing (CANADEVI). Fernando Abusaid Quinard, president of CANADEVI, added that the sector will fare better in 2015 than in 2014, because important companies are progressing with their projects.

Minister Jesús Murillo Karam said, "The positive results of the revival of the housing industry in Mexico are a consequence of the reforms President Peña Nieto has achieved under his administration." The new urban agenda of the Ministry of Agriculture, Territorial and Urban Development (SEDATU) main goal is to plan urban and rural development to fight social and economic inequality. He said that the housing industry and urban development in Mexico has reformed and that it has been a priority in President Peña Nieto's administration.

The SEDATU announced that in 2015 there will be a special programs focused on housing diversification. Support will reach the

most needed, such as single mothers, youth, and the disabled. Measures have been put in place to facilitate access to housing, offering better housing at lower cost. The housing sector plays a strategic role in creating jobs and attracting investment, which improves the country's economic activity.

Fernando Abusaid Quinard, president of CANADEVI, says the implemented measures "reinforce our confidence in the country's progress." He said that CANADEVI "has found a strategic partner in President Enrique Peña Nieto to achieve development and growth of both the housing sector and the national economy. Housing developers are working to meet the high demand, which they are confident will be triggered by the structural reforms approved last year." He added that the government's capacity for dialogue has facilitated important measures and policies to boost demand, such as extending the subsidy to up to five minimum salaries for right-holders.

Housing developers believe 2015 will be a good year for the sector with many players seeing double-digit growth, as is the case of VINTE. Sergio Leal, general director of the company, claims his growth in 2014 was assisted by the public-sector incentives. He said: "SEDATU managed to act as a cohesive agent between the private sector, i.e. banks and housing developers."

In line with Merrill Lynch's analysis, which places Mexico as the leader in real-estate and housing growth in Latin America and sixth worldwide, Paloma Silva, general director of the National Housing Commission, claims the sector's recovery offers a much brighter outlook for developers, investors, and analysts. "The evolution of the housing sector in 2014 reversed the negative trend of the past two years, significantly contributing to economic growth and job creation around the nation. The gross domestic product (GDP) of the housing sector accounted for over 10 percent of the total GDP of the country and 47.7 percent of the construction sector GDP," Silva added. "In fact general business confidence is on a high, with the Housing Register reaching in December 2014, 83,300 units, the highest level since August 2007. Silva concluded by noting that the government will continue to support housing with clear guidelines and resources to meet the ongoing demand.

Currently, the market offers better solutions to promptly address housing deficits in each state and municipality, but many of them still depend on federal subsidies.

José Reyes Baeza Terrazas, spokesperson for the Housing Fund for State Workers (FOVISSSTE), has been responsible for generating financing and credit, modernizing many of the fund's processes, updating funding products, and consolidating its internal administration. Reporting investment of Mex\$36,276 (US\$2.4 million) and 81,900 loan arrangements by December 2014, Reyes Baeza qualified 2014 as extraordinary. "Certainly 2014 represents a great recovery year for housing, and 2015, during which we will launch new products in pesos without sweepstakes, will be a great consolidation year."



An alliance between commercial banks and the Federal Mortgage Society, affiliated with FOVISSSTE, now enables applicants to obtain home loans immediately, rather than having to go through draws as in the past. Reyes Baeza confirmed that as of June, members from FOVISSSTE and the Housing Fund for Private Workers (INFONAVIT) will finally be able to use the balance in their housing accounts for a mortgage with the financial institution of their choice.

THE DEVELOPMENT DETONATORS

Mexican cities had been growing rapidly but the quality of development had varied. Problems with the construction of new housing included poorly planned neighborhoods, low quality construction and a lack of oversight by local governments to ensure that the homes were being built to code. Between 2010 and 2012 the structure collapsed with the key developers, namely Geo, Urbi and Homex, entering into serious liquidity problems. As a result commercial banks stopped lending even to solvent developers.

SHF was created in 2001 to provide credit and guarantees for banks, mortgage issuers

Photo 1: President Enrique Peña Nieto (second from right) and officials at the announcement of 500,000 new homes to be built



and other financial organizations to encourage their participation in the construction, purchase and refurbishment of the low-income housing market.

Since December 2012 when Jesús Alberto Cano Vélez took over the management of the Federal Mortgage Society (SHF) this development bank embarked on a completely new strategy.

Following failed attempts of restructuring the bank's participation with guarantees, it was decided to finance developers directly through syndicated loans. General Director Cano Vélez

explains this was an unprecedented measure for SHF, "The lack of financing had been negatively affecting housing production and consequently the GDP and it was necessary for the bank to assume its role as a development detonator for the sector."

In parallel SHF struck a strategic alliance with FOVISSSTE that helped catapult the Mexican mortgage market. Between 2013 and 2014 SHF granted the fund two lines of credit valued in \$6,000 million pesos (\$400 US million) allowing it to increase its goals by approximately 15,000 actions per year. Additionally, a timely payment guarantee was designed enabling better conditions for the fund's securitization program.

Through these actions, Cano Vélez confirmed "SHF reached a direct and induced credit balance of \$263,000 MXN pesos (\$17.5 USD Billion), a 16% increase from 2013 and a 38% increase from 2012".

Recent investment announcements from leading banks to the sector reveal confidence has returned. BBVA Bancomer and Banorte have announced investments for housing purchase and construction for this year that amount to 65,000 mdp (\$4.3 USD billion).

The sector trusts other announcements will follow. Cano Vélez celebrates the lending comeback to developers. "If financings flows our role will be to support the sector through second-tier lending and guarantees, however we do hold the tools so that in case of a credit contraction we can react accordingly."

"Our strategy for 2015 remains ambitious. In addition to the syndicated loans we will adjust our products to continue making them attractive to the market."

SHF is working closer with the National Housing Fund for Private Workers (INFONAVIT) in a program to support state and municipal workers in obtaining their own homes and with CONAVI to promote labor formality through incentives in mortgages.

The INFONAVIT was founded in 1972 as an autonomous organization. Its institutional leadership is equally represented by workers, employers, and members of government; its creation has a unique and meaningful purpose: to provide suitable housing for every Mexican worker.

The institute has built a solid reputation as one of the world's largest mortgage providers, and is Mexico's most important mortgage

originator, with a loan portfolio of nearly \$70 billion. Simultaneously, Infonavit has become the nation's largest manager of retirement savings with a portfolio of over \$50 billion that represents a market share of 22 percent.

Infonavit's influence on Mexico's housing sector makes the institution relevant during the implementation of the new National Housing Policy in close coordination with the Ministry of Finance, the Ministry of Agrarian, Territorial and Urban Development, and other national housing agencies. The policy's main goal is to make sustainable and affordable housing available to all Mexicans.

Infonavit's institutional strategy focuses on the pursuit of improved welfare to its right-holders by offering better located and higher quality housing solutions, and a modern, flexible, and robust system to manage their savings.

The institute's new executive management, led by CEO Alejandro Murat, has proposed a new paradigm for Mexico's housing landscape, moving from a model based on quantity metrics to one that focuses on quality, widens the housing options available to right-holders, improves the market value of financed properties, and translates into better quality of life for credit holders—a model with stronger institutional coordination between government, private, and social sectors.

The institute undertook a set of important financial innovations to meet these goals. "We recently increased the maximum mortgage amount by 76 percent, from Mex\$483,000 (US\$32,600) to Mex\$850,000 (US\$57,400). Additionally, in 2015, all mortgages will be denominated in Mexican pesos (previously they were denominated in minimum wages), creating better credit conditions for our right-holders; this product allows for faster repayment and for higher purchasing power for low-income families, offering a fixed rate throughout the repayment period of the loan.

"Also, for the first time, Infonavit requires housing builders to hire a quality insurance provider to protect home owners against waterproofing failures and other damages that result from the construction process, in order to maintain the value of houses acquired by our right-holders. Moreover, Infonavit has been committed to the federal government's guidelines on city limits to contain urban sprawl, which has significantly

reduced dwellings registered outside the urban borders. These actions contribute to reducing transportation costs, improving quality of life, and enabling higher productivity conditions in our communities," explains Alejandro Murat.

To strengthen municipalities' tax collection and protect property value, Infonavit launched the Mortgage with Services initiative, allowing automatic collection of property taxes and maintenance fees as part of the loan payment. Also, to increase access to housing and other social security benefits, the institute is supporting the federal government's program, *Crezcamos Juntos* (Growing Together), a public strategy that aims to encourage formal economic activity.

Infonavit, interested in developing rental and secondary markets, will promote reliable financial innovations to provide liquidity to real-estate developers focused on property leasing, aiming to boost the availability of investment vehicles that support properties managed by professional administrators. Accordingly, Infonavit has recently launched the road map to develop the first mortgage real estate investment trust (REIT) in Mexico.

In 2015, Infonavit expects to originate 505,000 housing solutions—350,000 mortgages and 155,000 home improvements—equivalent to \$7.9 billion.

Murat concludes, "Infonavit's strategic actions will continue to transform Mexico's urban and housing development, improving the quality of life of its communities and supporting Mexican workers' dream to provide a suitable home for their families."

As part of the sector's international promotion, a special forum on Mexico's Housing Revival took place at Foreign Affairs in February. 250 investors, analysts, and brokers participated in the debate featuring the Mexican housing organizations. Other actions being taken this year include the participation at SIMA (the International Real Estate Show) in Madrid in May and the launch of the Master in Housing and Sustainability in conjunction with ITAM (Technology Institute of Mexico) and UPM, Madrid's Polytechnic University.

www.nationroadshow.com

Directors: Juliette Frey & Raquel Picornell

Creative: Lisette Flores

For full interviews and report please see:

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From Calvin to the Caliphate

What Europe's Wars of Religion Tell Us About the Modern Middle East

John M. Owen IV

Nearly a century after it first emerged in Egypt, political Islam is redefining the Muslim world. Also called Islamism, this potent ideology holds that the billion-strong global Muslim community would be free and great if only it were pious—that is, if Muslims lived under state-enforced Islamic law, or sharia, as they have done for most of Islamic history. Islamists have long been confronted by Muslims who reject sharia and by non-Muslims who try to get them to reject it. At times benign and at times violent, these confrontations have fueled the revolutions in Egypt in 1952 and Iran in 1979, the al Qaeda attacks in 2001, the Arab Spring of 2011, and the rise of radical Islamist groups such as the self-proclaimed Islamic State (also known as ISIS).

It is not Islam the religion that is generating discord. Rather, the problem is a deep disagreement among Muslims over the degree to which Islam ought to shape the laws and institutions of society. Most Muslims, Islamist or otherwise, are, of course, not jihadists or revolutionaries. But the ongoing competition over what constitutes good public order has polarized them, creating vicious enmities that resist compromise. The result is a self-tightening knot of problems in which each aggravates the others.

Western scholars and policymakers have long struggled to understand the nature of this conflict, but so far, their efforts have fallen short.

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Although experts on Islamic jurisprudence, theology, and history have produced rich scholarship on Islamism, they have tended to treat it as if it were unique. What they forget is that Islamism is not only Islamic but also an “ism”—an ideology and a plan for ordering common life that should be analyzed alongside other ideologies. No part of the world has generated as many isms as the West itself, and so to aid clear thinking about the contemporary Middle East, it is useful to look back at the West’s own history of ideological strife.

Parts of the Muslim world today, in fact, bear an uncanny resemblance to northwestern Europe 450 years ago, during the so-called Wars of

*Parts of the modern
Muslim world resemble
Europe during the Wars of
Religion 450 years ago.*

Religion. Then, as now, a wave of religious insurrection rolled across a vast region, engulfing several countries and threatening to break over more. In the 1560s alone, France, the Netherlands, and Scotland each faced revolts led by adherents of a new branch of Protestantism called Calvinism. Theirs was

not the Calvinism of the Presbyterians of the twenty-first century or even the nineteenth. Early modern Calvinism—like Catholicism, Lutheranism, and other Christian isms of the time—was a political ideology as much as a set of religious doctrines. It emerged in an era when Europe’s socioeconomic order was built around, and partly by, the Roman Catholic Church, and it defined itself in opposition to that order. Choosing an ideology was as much a political commitment as a religious one; the Wars of Religion were also wars of politics.

The revolts came in the middle of a 150-year-long contest over which form of Christianity the state should favor—and today, that story has a familiar ring. As ideologues vied for influence, dissent was brutally suppressed, religious massacres broke out periodically, and outside powers intervened on behalf of the rival parties. The turmoil ultimately led to the miserable Thirty Years’ War, which killed at least a quarter of the population of Germany (then the center of the Holy Roman Empire). And when that crisis ended, two other ideological battles followed: between monarchism and constitutionalism in the eighteenth century and between liberalism and communism in the twentieth.

These three long periods of ideological strife, in which Western countries were divided over the best way to order society, offer crucial

lessons for the present. At the broadest level, Western history shows that the current legitimacy crisis in the Middle East is neither unprecedented in its gravity nor likely to resolve itself in any straightforward way. Political Islam, as did many ascendant ideologies of the past, has drawn new strength from the regional conflict it helped fuel, and it is here to stay. Moreover, ideological contests of the kind experienced by the Middle East rarely conclude in a winner-take-all fashion; they often rage until the competing doctrines either evolve or converge. Often this occurs only after the crisis has embroiled outside powers and redefined the regional order. These lessons yield no clear silver bullet for solving today's challenges in the Middle East, but they do at least show that the region's problems are not unique—and that leaders and countries can take steps to reduce the violence and create conditions more conducive to human flourishing.

FROM CALVIN IN EUROPE TO HOBBS IN THE MIDDLE EAST

“History doesn't repeat itself,” the saying goes, “but it does rhyme.” Although the rise of Islamism in the Middle East is a uniquely modern phenomenon, the path it has followed and the crisis it has spurred echo parts of the West's own past. What began as a simple contest between Islamism and secularism in the Muslim world has evolved into a complex struggle, but the nub of the question is who or what is sovereign in society, and the flashpoint is the source and content of law. Islamists insist that it must be sharia, meaning that it would be derived from the sacred texts of Islam: the direct revelations from Allah to the Prophet Muhammad, which make up the Koran, and the sayings of the Prophet (or hadith). Secularists counter that law should derive from human reason and experience, not from Islam—or, for moderate secularists, not from Islam alone.

Secularism came to the Middle East with European colonialism. Many Muslim elites adopted it following independence precisely because the powerful European states had surpassed and humiliated the Ottoman Empire, generally regarded as the caliphate, or the dominant Islamic polity. But secularism was met with pushback: Islamism. Although Islamists present their ideology not as an ism but as simply Islam, the pristine religion of the Prophet, their belief system has more modern origins. In the second quarter of the twentieth century, early Islamists grew convinced that it was hard to live as a pious Muslim under a secular regime and began organizing resistance movements.



In the 1950s, Islamists became more radical and began advocating for a return to state-enforced sharia. Secularism had the upper hand until the 1960s, but key moments in subsequent decades—the 1967 defeat of secularist Egypt by Israel, the 1979 Islamic Revolution in Iran, and the 1990–91 Gulf War—turned the momentum in favor of Islamism.

In one sense, then, political Islam has already triumphed. Although modern Muslims are neither purely secularist nor purely Islamist, the average Muslim in the Middle East and North Africa leans Islamist. A 2013 poll by the Pew Research Center showed that large majorities in Egypt, Iraq, Jordan, Morocco, and the Palestinian territories wished to see sharia as the law of the land. A 2012 Gallup poll revealed that in five countries of the region—Egypt, Libya, Syria, Tunisia, and Yemen—women were as likely as men to favor sharia. And although deep internal divisions persist within the Islamist camp—over the role of religion in public life and the role of the clergy in government, for example—even secular rulers now embrace elements of Islamism.

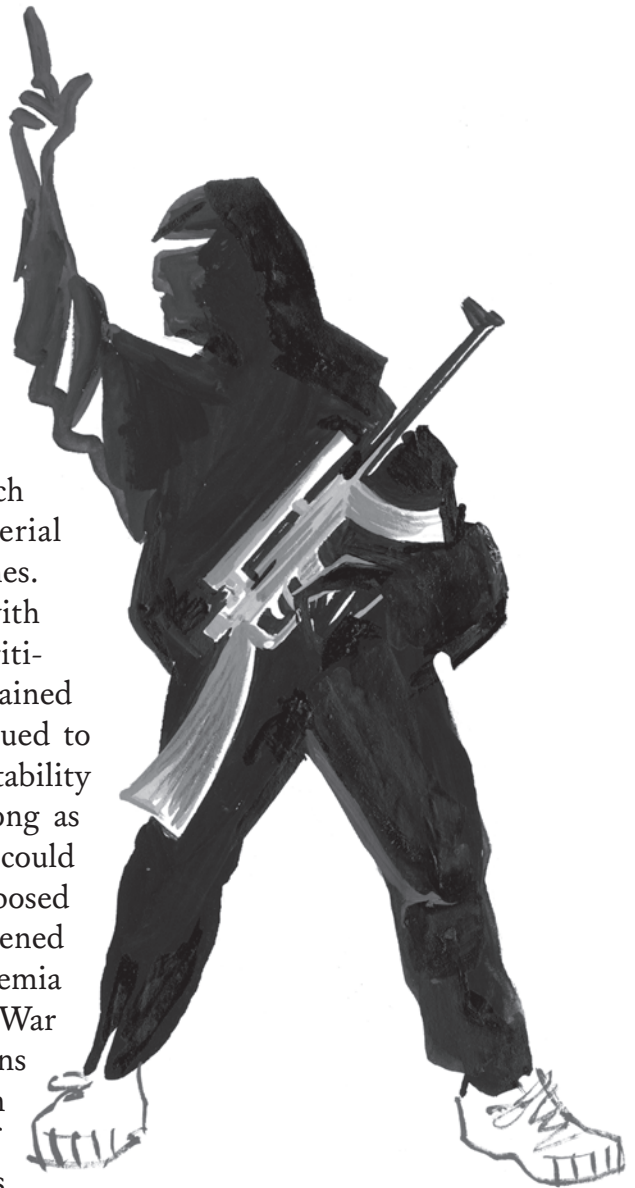
Despite these successes, however, political Islam still encounters skepticism about its ability to survive. Early on, outside observers dismissed it as an idea that was out of step with modernity. More recently, experts have assured one another that rising violence in the Middle East, including suicide terrorism and beheadings practiced by jihadist groups such as ISIS, is a sign of a desperate movement on its last legs.

Yet if Europe's own history of ideological strife provides one key lesson for the Middle East, it is this: do not sell Islamism short. Europe's Wars of Religion illustrate why underestimating a seemingly outdated ideology is so dangerous. At many points during those wars, reason and progress appeared to dictate an end to hostilities, as the Catholic-Protestant rivalry was taking its toll on local populations and economies. At several junctures—including in 1555, when leading German principalities agreed to religious self-determination, and in

the 1590s, when the French Wars of Religion ended and the Protestant Dutch Republic secured its independence from Catholic Spain—it appeared that the crisis had passed. Princes, nobles, city councils, and their subjects seemed to have settled on a practical peace. Pragmatic political rationality appeared to reign, raising hopes of a new Europe in which states would look after their material interests and not their ideological ones.

But Europe was not finished with ideological violence, because the legitimacy crisis that had fueled it remained unresolved. Most Europeans continued to believe that permanent political stability required religious uniformity. So long as they thought so, the slightest spark could repolarize them into radically opposed groups—which is exactly what happened when a Protestant revolt in Bohemia tipped Europe into the Thirty Years' War in 1618. It was not until Europeans separated questions of faith from those of politics, toward the end of the century, that religious dogmas lost their incendiary power.

A different kind of ideological short-selling took place in a more recent era: during the global contest between liberalism and communism in the twentieth century. In the 1930s, the travails of the Great Depression convinced many leading Western intellectuals that liberal democracy was an idea whose time had passed. For a while, centralized, coercive states appeared to be better equipped to deal with the new economic and social challenges, leading some thinkers to buy into communism. A few visited and openly admired the Soviet Union, where, under Joseph Stalin, industrialization proceeded apace and workers never went on strike. The sentiment was captured by the U.S. journalist Lincoln Steffens: “I have been over into the



future, and it works.” In the end, of course, liberal democracy rebounded and won out.

The point is not that Islamism will necessarily win in the Middle East but that smart people can underrate the viability of alternative political systems, sometimes with grievous results. Indeed, one secret of political Islam’s longevity is that outsiders have underestimated the system all along. History also shows that an ideology’s life can be extended when that ideology has state sponsors, as liberal democracy did in the 1930s and as Islamism does today. Far from being on its way out, political Islam may well be getting its second wind.

IN GOD’S NAME?

Political Islam, like many competing ideologies of old, is not monolithic. Although Islamists share a general devotion to sharia, they come in many stripes: Sunnis and Shiites; extremists and moderates; nationalists, internationalists, and even imperialists. This kind of variance has led to a debate in the West over whether the United States and its allies should accommodate moderate, pragmatic Islamism in places where it competes with more radical movements. Those who say no generally depict Islamism as a single movement united by its hatred of the West. Those who say yes portray Islamism as internally divided.

This debate is nothing new, and opponents of an ideology often try to exploit ideological cleavages to tip a conflict in their favor. Throughout Western history, outside powers have periodically attempted to use such divide-and-conquer tactics, although they have had mixed results; at times, their efforts backfired. Take the Wars of Religion again. The prolonged conflict led to the splintering of Europe’s dominant ideologies, and some of the resulting mutations survived to compete with the originals. Protestantism started out as Lutheranism but quickly developed into Zwinglianism in Switzerland and Anabaptism in Germany, before sprouting a Calvinist version in France and an Anglican one in England. Calvinists and Lutherans often competed for influence and could be worse enemies of each other than either group was of the Catholics. The Catholic Habsburg dynasty that ruled the Holy Roman Empire worked tirelessly to nurture these divisions. In the end, however, this strategy failed to either weaken the Calvinists or prevent them from forming a united front with the Lutherans in the Thirty Years’ War.



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The trick for outsiders, therefore, is to ascertain whether some ideologues are predisposed against radicalism and to know how to cultivate them. It's possible to do this successfully. In the post-World War II effort to limit the Soviet Union's influence in Europe, U.S. President Harry Truman showed great dexterity in determining which of the Western European leftist parties could become U.S. allies. He correctly concluded that Italy's Communists and Socialists were monolithic: they were united in supporting the Soviet Union and opposing the U.S.-sponsored Marshall Plan. Truman instead cultivated the Christian Democrats, helping them win a crucial election in 1948. In France, however, Truman recognized that the Socialists opposed communism and struck a deal with them, allowing France to become an ornery but genuine U.S. partner.

Such overt and covert interventions by outside powers are another defining trait of prolonged legitimacy crises. The clash between

Early modern Calvinism was a political ideology as much as a set of religious doctrines.

Islamism and secularism is just the latest contest in which a host of external actors have involved themselves in the internal affairs of other states, either by working behind the scenes or by using military means. Some have criticized many such outside interventions; in particular, critics have argued that the

U.S. campaigns in Afghanistan, Iraq, and, more recently, Libya represented irrational bursts of crusading that fell outside the bounds of prudent statecraft. In fact, however, it is normal practice for a great power to use force to alter or preserve another country's regime. External interventions are not a separate, foolish, and avoidable addition to ideological struggles; they are part and parcel of them. More than 200 such interventions have occurred over the past 500 years, the vast majority of them during regionwide legitimacy crises such as the one racking the Middle East today.

The deep polarization produced by these kinds of struggles helps explain why intervention is so common. Often, ideological conflicts deepen social schisms so much that people become more loyal to foreigners who share their principles than to their own countrymen who do not. These clashes strongly predispose people and countries toward either friendship or enmity with foreign actors, especially with those that are powerful enough to give them or their opponents the

upper hand. And foreign actors, for their part, see these kinds of crises as opportunities to make new friends or prevent the emergence of new enemies.

Intervening powers need not have a religious stake in the conflict; sometimes a material stake is enough. At other times, ideological and material calculations combine to trigger an intervention. For example, in 2011, during the Arab Spring, Sunni-dominated Saudi Arabia sent troops into Bahrain to help stop a Shiite rebellion, thereby containing both the reach of Shiite Islam and the power of Shiite-dominated Iran. A short while later, Iran intervened in Syria to prop up the Assad regime against Sunni rebels who would likely align Syria with Saudi Arabia if they won. Developments such as these have given rise to fears that the Middle East will see increasingly reckless, ideologically driven states that are bent on destroying the regional order. Some observers worry, for instance, that if Iran acquires nuclear weapons, it might use them to upset the precarious balance in the Middle East and even provoke an apocalypse.

History does not offer a simple verdict on that fear, but it does show that a state can be at once ideological and rational. A regime ruled by ideologues may have ideological ends, such as a radically different regional order. To pursue those ends, it may employ rational means, retreating when aggression becomes too costly. But it could also occasionally act in a way that belies the traditional cost-benefit logic of geopolitics.

The behavior of a leading German principality called the Palatinate during the Wars of Religion illustrates both of those possibilities. The principality's rulers were militant Calvinists who strove to end Catholic domination in the Holy Roman Empire and all of Europe. They repeatedly tried to cobble together grand Protestant alliances against the Catholic powers, sending troops on several occasions to help Calvinists in France and the Netherlands. For much of the sixteenth century, however, their calculus included a healthy mix of ideology and rationality: when they encountered sufficient resistance from the mighty Habsburgs and indifference from fellow Protestants, they pulled back. But then, Calvinist rebels in Bohemia (another subject of the empire, governed by Catholics) invited the Palatinate ruler Frederick V to defy the Habsburgs and become their king. Frederick accepted and, in 1619, claimed Bohemia for himself despite the obvious risks of a Habsburg backlash and the fact that most Euro-

pean Protestants refused to openly support him. Sure enough, the Habsburgs crushed Frederick's army and went on to ravage the Palatinate and suppress Protestantism there. These were the opening moves of the Thirty Years' War.

SURVIVAL OF THE FITTEST

Like all prolonged, regionwide ideological contests, the one between Islamism and secularism will one day end. How that will happen, however, and what prospects there are for democracy in the Middle East are both open questions.

Western history shows that legitimacy crises usually resolve themselves in one of three ways: a decisive victory by one side, a transcending of the conflict by the warring parties, or the emergence of a hybrid regime that combines rival doctrines in ways that once seemed impossible. Today, the first scenario, a straight-out win by any single ideology, appears unlikely; given that Islamism is far from monolithic, a triumph of Islamism in general would not settle which of its many strands—Sunni or Shiite, moderate or extreme, monarchical or republican—would predominate. But the other two scenarios are conceivable.

Although it may be difficult to imagine a Middle East that transcended its current legitimacy crisis, one of the West's past crises indeed concluded in that way. Early modern Europe ultimately overcame its religious strife with the emergence of new kinds of regimes that rendered old ideological differences irrelevant. Catholics and Protestants remained faithful to their religions, but they stopped thinking of them in zero-sum terms and gradually embraced the separation between church and state. A similar kind of outcome in the Middle East would require that Muslims, both elites and mass publics, cease to see the question of Islam's influence on laws and the public order as a life-and-death matter. Given the deep polarization that prevails, however, the prospect of such a transcendence appears remote.

Alternatively, competing ideologies could begin to converge, adopting some of one another's institutions and practices. Europe experienced this development, too. From the 1770s until the 1850s, the continent was torn between monarchists, who believed that rule must be inherited, and republicans, who wanted governments to be elected. These two ideas at first seemed mutually exclusive; monarchies repeatedly crushed

republican revolts. But after a period of repression, Europe's monarchs struck a new bargain with the middle classes. Following the lead of the United Kingdom, a number of states—Austria, France, Italy, and Prussia—constructed a new kind of regime. Sometimes called “liberal conservatism,” it combined monarchy with parliamentary constraints and greater civil liberties.

This story points to the final historical lesson: the ultimate success of an ideology, or a hybrid of several ideologies, often depends on whether it has a powerful state champion. The triumph of liberal conservatism in Europe was partly caused by the manifest success of the United Kingdom, the state that best exemplified it. That country had long had a hybrid regime, a constitutional monarchy that merged tradition and reform. The

Like all prolonged ideological contests, the one between Islamism and secularism will one day end.

United Kingdom was also, without doubt, the world's most successful state of the time, boasting the largest economy, the most extensive empire, and a remarkably stable social order. The reason its hybrid regime inspired imitation throughout the region was that it had proved to work.

Across the Muslim world, a hybrid regime of a different sort has recently been showing signs of strength. That hybrid has sometimes been called “Islamic democracy.” Although scholars have long thought that democracy and Islamism are inherently incompatible, some Islamists and democrats in different countries have been trying to join these two systems in theory and practice. In 2011–13, for example, Egypt's Freedom and Justice Party (the political wing of the Muslim Brotherhood) took pains to portray itself as a moderate force by accepting religious and ideological pluralism. That effort ultimately failed, as President Mohamed Morsi began to accumulate power and Egypt's military ousted him. Since then, Egypt appears to have abandoned democracy altogether, but the country certainly has the size and influence to become an exemplary state should it ever attempt the experiment again.

Meanwhile, a more successful attempt to combine Islamism and democracy was made by the political party Ennahda in Tunisia, which conducted democratic elections in late 2014 despite openly embracing Islamism. Tunisia is too small to become an exemplary state, but it

represents the brightest spot to emerge from the Arab Spring and, at the very least, shows what is possible.

Much depends on the political choices of the two most powerful Muslim-majority countries in the region: Iran and Turkey. Although neither is Arab, each has a long history of regional influence. Iran exemplifies Islamism, having proclaimed itself the standard-bearer for the ideology in its 1979 revolution. Although the country is formally a republic with semicompetitive elections, supreme power rests in the hands of Ayatollah Ali Khamenei. But Iran's prospects as an exemplary state have suffered during the Arab Spring and its aftermath, as Tehran's unstinting support for the Assad regime in Syria has alienated the vast majority of Sunni Arabs. Moreover, the regime has been looking brittle since the suspicious election of 2009, raising doubts that its neighbors would want to follow its example. So long as Iran remains the role model for Islamism, therefore, Islamism is in trouble.

Turkey could be a different story. Although the country is formally a secular republic, it has been drifting in the Islamist direction. For the past three years, Turkey has appeared well on its way to becoming a model of a new, hybrid kind of Islamic democracy. Competitive elections have repeatedly buoyed its ruling Justice and Development Party, or AKP, headed by President Recep Tayyip Erdogan, which has styled itself the vanguard of Islamic democracy (even though it prefers to call this style of government "conservative" rather than "Islamic"). The country enjoyed a burst of popularity among publics in the region early in the Arab Spring and has continued to expand its influence since. But when it comes to an Islamist-democratic hybrid, the bloom is off the rose, partly because Erdogan has instead begun embracing an authoritarian style of rule. Turkey may yet come to exemplify a hybrid regime, but that hybrid's democratic component is now being replaced by old-fashioned autocracy.

WHY THEY FIGHT

As with the many ideological contests before it, the crisis in the Middle East has led some observers to question whether ideology is really its root cause at all. Many critics trace the conflict to something else altogether, claiming that Western imperialism—first European, now American—has humiliated Muslims and severely limited their ability to control their own future, both as individuals and as societies. In

this view, the United States' military presence in the region and its support for Israel are to blame for the rising violence. But arguments of this sort overlook a key fact: the world is full of powerless, frustrated people and groups, and U.S. hegemony is nearly global. Yet the peculiar knot of problems entangling the Middle East—serial unrest and repression, terrorism and brutality, and recurring foreign interventions—can hardly be found anywhere else.

Others blame poverty. If Muslims had more wealth and opportunity, they maintain, the crisis would abate. But this argument, too, is countered by the world's numerous other poor societies, many of them much worse off than the average Middle Eastern state, that have managed to avoid turmoil. If poverty were what mattered most, then sub-Saharan Africa would be experiencing many more acts of terrorism, revolutionary waves, and foreign invasions. Evidence points to a different conclusion: although both powerlessness and poverty are key factors, they can produce the kind of dysfunction that defines today's Middle East only when combined with a prolonged, regionwide legitimacy crisis.

The good news is that the United States may be able to encourage a more stable long-term outcome by nurturing countries and parties that exemplify a moderate system of government, even if that system falls short of being entirely secular. The bad news, however, is that this is all it can hope for: even the mighty United States cannot solve all of the region's problems, since all sides would inevitably view its interventions as partisan. The United States must, of course, protect its interests—a duty that at certain times and places might again require force. But just as the Ottoman Empire, the Muslim superpower at the time of the Wars of Religion, could not resolve the strife among Christians in the sixteenth century, no outside actor can pacify the Middle East today. Only Muslims themselves can settle their ideological war. 🌐

Drone On

The Sky's the Limit—If the FAA Will Get Out of the Way

Gretchen West

In the beginning, drones were almost exclusively the province of militaries. At first little more than remote-controlled model planes used in the World War I era, military drones advanced steadily over the decades, eventually becoming sophisticated tools that could surveil battlefield enemies from the sky. Today, the terms “drone” and “unmanned aircraft system” denote a vehicle that navigates through the air from point A to point B and is either remotely controlled or flies autonomously. While they vary in size and shape, such vehicles all feature a communications link, intelligent software, sensors or cameras, a power source, and a method of mobility (usually propellers).

Inevitably, drone technology spilled out from the military and into other parts of the public sector. In the United States over the last decade, federal researchers turned to drones for monitoring weather and land, the Department of Homeland Security started relying on them to keep an eye on borders, and police adopted them for search-and-rescue missions. Then came everyday consumers, who took to parks on the weekend with their often homemade creations. Outside government, drones were mostly flown for fun, not profit.

Until recently, that is. In the last several years, a new group of actors has come to embrace drones: private companies. Inspired by the technological progress made in the military and in the massive hobby market, these newcomers have realized that in everything

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from farming to bridge inspection, drones offer a dramatic improvement over business as usual. The potential for the commercial use of drones is nearly limitless. But in the United States, the growing drone industry faces a major regulatory obstacle: the Federal Aviation Administration (FAA) has issued overly restrictive rules that threaten to kill a promising new technology in the cradle.

SERIOUS BUSINESS

As more and more actors have invested in drone research and development, the vehicles themselves have become cheaper, simpler, and safer. Perhaps even more exciting are the changes in software, which has advanced at lightning speed, getting smarter and more reliable by the day: now, for example, users can fly drones without any guidance and set up so-called geo-fences to fix boundaries at certain altitudes or around certain areas. The economics are now attractive enough that many industries are looking to drones to perform work traditionally done by humans—or never before done at all.

Many applications involve inspection; it's far cheaper and safer to send a drone with a camera into a remote or dangerous place than to send a human. Oil and gas companies are using drones to monitor pipelines, oil rigs, and gas flares. Utility companies can use them to check electrical wires and towers. Engineers are beginning to use them to inspect bridges and buildings for damage and to survey land. In agriculture, meanwhile, drones offer a bird's-eye view of farms, without the cost of aircraft or satellites. Farmers are starting to rely on drones to diagnose the health of their crops, assess damage after a storm or flood, herd livestock, and eradicate pests. In Australia and Japan, drones are fertilizing crops.

Drones could soon deliver light packages, too. Already, Amazon and Google have spent millions of dollars developing drone delivery programs, although much work remains to be done to make the services practical. Some entrepreneurs have tried out drones to deliver beer at concerts and champagne to hotel balconies. In Singapore, which has more service jobs than available workers, one restaurant chain is planning to replace waiters with drones. In remote parts of the world with little transportation infrastructure, drones could be used for humanitarian purposes, delivering medicine and other essentials. They could also play a role in protecting endangered species by tracking illegal poachers.

The list of potential uses goes on. Drones could help with mining by mapping sites and tracking equipment, and they could help with construction by measuring stockpiles of excavated soil and monitoring the progress of projects. In the real estate industry, entrepreneurs are using drones to photograph houses from previously unreachable vantage points. As for filmmaking, drones are a safer, cheaper, and less labor-intensive alternative to renting a helicopter. Hollywood has rapidly embraced drones: parts of the 2012 James Bond movie *Skyfall* were shot by drones in Istanbul, and the Motion Picture Association of America has helped get some of the first FAA approvals for the use of commercial drones in the United States. Likewise, news and sports broadcasters find the portability and affordability of drones particularly attractive. Earlier this year, CNN got FAA approval to explore their use in reporting.

The potential size of the commercial drone market is hard to pin down, in part because in the United States, the shaky regulatory environment is leading many companies to keep their plans private. Still, forecasts are upbeat. In 2014, the firm Lux Research estimated that by 2025, the global market for commercial drones will reach \$1.7 billion, with drones used for agriculture generating \$350 million in annual revenue and those used in the oil and gas industry generating \$247 million. The drone industry is poised for greatness.

NO-FLY ZONE

But in the hotbed of drone research—the United States—the FAA is impeding the sector's growth. Charged with overseeing U.S. airspace and the U.S. civil aviation industry, the FAA began asserting its regulatory authority over drones as they became more widespread. In the early years of this century, the FAA began allowing parts of government outside the military—federal, state, and local agencies; public universities; and police—to apply for permission to fly their own drones. But in the face of a new and poorly understood technology, the FAA refused to allow anyone to fly a drone for commercial purposes. Those who wished to do so had to go through a limited, expensive, and labor-intensive approval process.

Then, in February 2012, Congress passed the FAA Modernization and Reform Act, which was the first FAA-related bill to include language about drones. The act gave the FAA deadlines for devising new rules on civil and commercial drones, setting an ultimate goal of safely integrating



Blades of glory: at a trade fair in Hanover, Germany, March 2014

them into the country's tightly overseen airspace by September 2015. Among the partial reforms, the bill required the FAA to make exceptions for first responders, create six test sites across the United States to experiment with ways to accommodate drone traffic, and publish a final rule for small drones.

Although the FAA missed most of the original deadlines for these objectives, it has now met most of the provisions—but not always in the most practical way. The provision for test sites amounted to an unfunded congressional mandate, and the sites are struggling to become operational. The exemption process for commercial drone operators, which the FAA announced in 2014 under Section 333 of the bill, requires applicants to jump through far too many hoops; for example, they must have a pilot's license to operate drones and apply for a special certificate each time they do so. Not surprisingly, given its limited resources, the FAA has granted only 37 approvals as of this writing, and the backlog totals 536 applications.

But the bill did spur the FAA to finally release proposed rules for small commercial drones, which came out in February 2015. The industry found much in the draft to celebrate. The FAA proposed relaxing the requirement that drone operators have a pilot's license; instead, they will need merely to get vetted by the Transportation

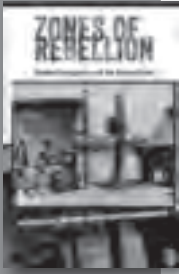
Security Administration, pass a knowledge test, and obtain a special operator's license. The drones themselves, meanwhile, will no longer have to meet cumbersome airworthiness standards (such as having a maintenance program and a manual); all one will need to do is register the drone with the FAA and conduct a simple safety inspection before every flight.

Some of the FAA's proposals, however, are too restrictive. For example, a drone will not be allowed to fly beyond its operator's line of sight. That is an extremely limiting constraint for farmers and surveyors trying to cover vast swaths of land, and it will make package delivery by drone impossible. What's more, the FAA is not allowing so-called daisy-chaining, whereby users would transfer the line-of-sight requirement from one operator to another in order to cover a larger area. In traditional aircraft, pilots can fly under "instrument flight rules," which allow them to rely on sensors and signals to navigate when visibility is limited. There is no reason a similar exemption cannot be applied to drones when they are flying beyond an operator's line of sight.

Other restrictions are equally business-unfriendly. Even though technologies exist that allow operators to safely manage multiple drones at once, the FAA is planning to limit each user to flying just one drone at a time, which is particularly problematic for companies that wish to survey vast areas. And although the FAA has raised the altitude ceiling for drones from 400 feet (under the old guidelines) to 500 feet, many commercial operations, such as the inspection of tall buildings, require higher altitudes. In addition, the FAA's rules would allow only daytime flights, even though drones can easily be equipped with lights that make them visible to the operator and others in the airspace at nighttime. And by banning flights over people who are "not directly involved in the operation," the rules limit commercial drones to unpopulated areas. Vacating all employees is impractical at mines or construction sites, where employees are protected by hardhats anyway. The FAA still has a long way to go when it comes to adopting a sensible, risk-based approach to regulation.

SAFE SKIES

Other governments outside the United States have also had to grapple with the rise of drones. Like the United States, some countries, such as the Netherlands and South Africa, have opted for restrictive regulations.



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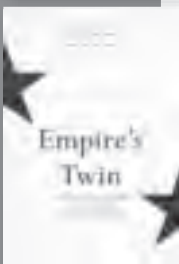
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It hasn't helped that the International Civil Aviation Organization, the body that issues global standards and practices, has failed to provide clear rules for small drones flying at low altitudes. Drone manufacturers, which often sell their products in many different countries, are paying the price for the lack of consistency.

But a number of countries have adopted sane drone regulations. Some, such as Australia, Germany, New Zealand, Spain, and the United Kingdom, are taking a risk-based approach, outlining different rules for different weight classes. Others have quickly and aggressively opened their skies to commercial drones. Canada has approved over 1,000 commercial operators, France has more than 1,200 of them, and Japan conducts more than 85 percent of its crop spraying by unmanned helicopter.

Not surprisingly, many U.S. companies, stymied by the FAA, have moved their drone operations overseas. Google has tested its delivery program in Australia; Amazon is researching its in the United Kingdom.

With the FAA's final rules at least a year away from being released, U.S. firms will likely continue to shift their work elsewhere. The result: the United States could well miss out on an economic windfall. In 2013, the Association for Unmanned Vehicle Systems International, the drone advocacy group for which I recently served as executive vice president, predicted that the economic impact of drones in the United States over a ten-year period would total \$82 billion—but only once the proper regulation was in place.

The FAA should take its cues from countries with a risk-based approach to regulation. Small drones that weigh less than five pounds don't pose the same threats to people, aircraft, and buildings that ones weighing 50 pounds do, and the rules should reflect that. Ultimately, it will take Congress to influence the FAA's rules, along with the right amount of pressure from the various industry associations that have formed to lobby on behalf of drone use. No technology is 100 percent safe, of course, but that doesn't mean an outright ban is in order. In the event that a negligent drone user does cause a mishap, society can deal with the fallout the way it already handles similar incidents: through civil and criminal law.

In the face of a new and poorly understood technology, the FAA refused to allow drones for commercial purposes.

Some of the safety concerns can be addressed through technology. To prevent collisions, companies are now developing “sense and avoid” technology, whereby the drone automatically backs away from nearby objects. The start-up I work for now, DroneDeploy, has created software that performs periodic safety checks and monitors the airspace for obstacles. Researchers are also tinkering with programs to create a sort of air traffic control system for drones. NASA, working with the FAA and partners in the private sector, has spearheaded the Unmanned Traffic Management program, which is intended to create infrastructure that organizes commercial drone flights at low altitudes. Just as traditional aviation has used technology to improve safety, so is drone aviation.

Privacy is also a concern. After Congress passed the FAA Modernization and Reform Act, privacy advocates started an anti-drone campaign, claiming that drones might spy on citizens. In Congress and state legislatures, politicians began proposing laws limiting the use of drones, primarily by law enforcement. Privacy is a legitimate issue when it comes to drones, but the conversation tends to miss the point. Many things can collect data—not just drones but also phones, manned aircraft, surveillance cameras, and so on—and so laws should focus on how the data are collected, used, and stored, not on the devices themselves.

Part of the problem goes back to drones’ military origins. Until recently, the media often accompanied stories about commercial drones with pictures of weaponized drones flying over Afghanistan. (Lately, however, the proliferation of small drones by such manufacturers as DJI, 3D Robotics, and Parrot has shifted perceptions: drones are no longer just military machines; they are toys, too.) Some privacy groups have inaccurately alleged that commercial drones could hover for hours to conduct persistent surveillance, ignoring the fact that most drones used commercially today are lightweight vehicles with limited carrying capacity and only around 30 minutes of battery-powered flight time. And they have claimed that drones possess capabilities such as facial recognition and Gorgon Stare—a high-quality, wide-area surveillance video feed—even though those technologies are used primarily by the military and are of little interest to the private sector.

Of course, all technologies get smaller and cheaper over time, and businesses could someday start using those that concern privacy

advocates. Again, however, the focus should be on the data, not the device. Laws already exist to protect privacy; people using drones to spy on neighbors, for example, could be prosecuted under peeping Tom laws.

SWEET DREAMS AND FLYING MACHINES

In a remarkably short period of time, the private sector has discovered a multitude of uses for drones, ones that benefit businesses, their employees, and their customers. Real estate agents can showcase properties in ways that were never before possible. Farmers can detect and fix crop blights faster than ever before. Inspection companies can save lives by taking men and women off ladders.

All that's left to do is clear the obstacles to this burgeoning industry. Private companies, for their part, need to aggressively raise awareness of drones' potential, even demonstrating the technology directly to decision-makers, and take advantage of facilities such as the FAA's test sites to prove drones' reliability with hard data. Hobbyists, meanwhile, should fly safely and responsibly. And the FAA should abandon technophobia in favor of sensible rules. Once all that has been accomplished, commercial drones can at last take off. 🌐

The Democratization of Space

New Actors Need New Rules

Dave Baiocchi and William Welser IV

Starting with the Soviets' launch of Sputnik in 1957, early space missions were funded exclusively by national governments, and for good reason: going to space was astronomically expensive. Setting up a successful space program meant making major investments in expertise and infrastructure, along with tolerating a great deal of risk—which only the superpowers could do. NASA's Apollo program, for instance, employed 400,000 people, cost more than \$110 billion in today's dollars, and resulted in the death of three skilled astronauts. Not surprisingly, then, the legal framework that developed as the space race intensified was government-centric. In 1967, the United States, the Soviet Union, and many other countries signed the Outer Space Treaty, which set up a framework for managing activities in space—usually defined as beginning 62 miles above sea level. The treaty established national governments as the parties responsible for governing space, a principle that remains in place today.

Half a century later, however, building a basic satellite is no longer considered rocket science. Thanks to the availability of small, energy-efficient computers, innovative manufacturing processes, and new business models for launching rockets, it has become easier than ever to launch a space mission. These advances have opened up space to a crowd of new actors, from developing countries to small start-ups. In other words, a new space race has begun, and in this one, nation-states are not the only participants. Unlike in the first space race, the challenge

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in this one will not be technical; it will be figuring out how to regulate this welter of new activity.

FREE-FOR-ALL

Computing gets much of the credit for lowering the barriers to entry to space. The modern smartphone is the product of three-plus decades of advances in circuit design and fabrication techniques, and today's processors pack 1,000 times as many transistors as their predecessors did 20 years ago. The iPhone 6 has as much computational power as a supercomputer from the 1990s did. Smaller also means more energy efficient: a typical cell phone will draw just 25 cents' worth of electricity in a year, compared with the \$36 worth a typical desktop computer does. Small, powerful, and energy-efficient hardware is perfectly suited for satellites, which have a finite amount of electricity (from solar panels) and volume. And thanks to new software-development tools and customizable hardware, anyone with even a modest programming ability can assemble a highly capable computer that could fit into a satellite.

Changes in manufacturing are also making space missions cheaper. The space community's needs have always been at odds with traditional fabrication techniques. Satellite payloads typically require parts that are durable, extremely delicate, and specialized. And because the companies or governments that buy them rarely build more than two or three of any particular type of satellite, they usually need only a few copies of each part. As a result, space missions have never benefited from the economies of scale offered by assembly lines.

Enter additive manufacturing techniques such as 3-D printing and laser sintering. With a single \$35,000 device, designers can quickly build things that, in the past, would have required all the trappings of a modern factory: custom molds, specialized robots, and conveyor belts. Additive manufacturing slashes the cost of producing a handful of parts by a factor of at least ten. Plus, no machine-tooling expertise is required.

Not only has it become much less expensive to construct a satellite; it is also becoming much cheaper to send it into space. Companies such as Orbital ATK and SpaceX are working to lower the costs of space launches, by modularizing their vehicles, modernizing their design and fabrication workflows, and vertically integrating their manufacturing processes. These companies are still primarily focused

on traditional missions involving heavy payloads, such as launching military satellites and resupplying the International Space Station.

Alongside these giants, a group of more obscure start-ups is focusing on smaller satellites. At least a dozen companies are now developing small rockets designed to carry payloads of less than 1,000 pounds. In the past, these small payloads—made up of such things as science experiments or atmospheric sensors—had to wait for room on a larger, state-sponsored rocket, if they could get a ride at all. As technology has made small payloads more viable and prolific, new companies are looking to fill this niche by developing launch services that cost between \$1 million and \$10 million, in lieu of the \$50 million to \$250 million for traditional payloads.

These advancements—in computing, manufacturing, and launching—have made space more accessible than ever before, and entrepreneurs are entering the fray. One characteristic newcomer is Tyvak Nano-Satellite Systems, a small company that employs just two dozen engineers and is headquartered in a modest office park in Irvine, California. Its mission: to build satellites so inexpensive and easy to use that practically anyone can buy and launch them. The company has developed a modular system—essentially, an Erector set for satellites—that allows it to configure a satellite for a particular client's needs, and at a very low cost. While the average satellite in orbit costs around \$100 million to build, Tyvak's start at \$45,000. Their clients range from well-funded high school science clubs to NASA.

Given the revolution in accessibility, it's possible to imagine other nonstate actors having a go at space as well. Nongovernmental organizations may start pursuing missions that undermine governments' objectives. An activist billionaire wanting to promote transparency could deploy a constellation of satellites to monitor and then tweet the movements of troops worldwide. Criminal syndicates could use satellites to monitor the patterns of law enforcement in order to elude capture, or a junta could use them to track rivals after a coup.

TIME TO PLAN

The democratization of space will pose new challenges for policymakers, given that for the most part the existing legal framework has effectively applied to only a handful of states. The Outer Space Treaty outlined four basic concepts: the parties agreed to keep space open for exploration and use by all states, take responsibility for all activities conducted



Flying private: a SpaceX cargo ship, April 2014

from within their borders (whether carried out by governmental or nongovernmental entities), assume liability for damage caused by their space objects, and cooperate with one another and provide mutual assistance. Nearly all the international space agreements and national space policies in place today are built on those principles.

But much has changed in the nearly 50 years since the treaty was signed. Today, 12 countries host a total of 26 public and private launch facilities, and the pace of technological change is dizzying. The diplomats and lawyers who drafted the treaty likely never envisioned commercial space tourism or crowd-funded satellites. Nor could they have imagined nongovernmental organizations, activists, or a wave of entrepreneurs heading to space. And so they limited their guidelines to what they knew: protecting basic science research and prohibiting the use of nuclear weapons in space. Just as national governments now have to deal with the rise of drones in their airspaces, the international community, operating at a higher altitude, will have to adapt to the proliferation of space missions.

So what are policymakers to do? The first step in the responsible use of any resource is understanding and tracking how that resource is used. For space, this means knowing where everything is located—or, as it's known in the industry, developing "space situational awareness." The U.S. Space Surveillance Network, which is part of U.S.

Strategic Command, currently tracks more than 17,000 objects in space, from active satellites to old rocket bodies to small pieces of debris. But these objects are not actively tracked 24 hours a day; instead, they are tagged whenever they pass over a network of optical and radar sites on the ground, after which their orbits are entered into a catalog. When satellites suddenly alter their orbits—which they do as part of regular maneuvers or for clandestine purposes—the network has to search for these objects anew and update the catalog with their latest positions.

As the number of players in space increases, situational awareness will become all the more important. For one thing, tracking

Today, 53 countries are responsible for over 1,300 active satellites.

satellites allows their owners to prevent them from accidentally colliding with one another. Today, this risk is reasonably low, but debris-generating collisions have occurred in the past, and their frequency will only grow with the number of space objects. For another

thing, since countries are liable for their own space objects, when a collision does occur, the victim needs to be able to attribute the cause to a particular state—and doing that requires situational awareness.

When it comes to preventing accidental collisions, it is in everyone's best interest to share all the data. Traditionally, the United States has served as the de facto keeper of a global catalog, but other countries and even private organizations have started maintaining their own. It's time to centralize all this information in one location, which will require governments to agree to new policies and the use of new technologies that can make it easier to share data.

A second policy challenge has been around since the dawn of the space age, but it is going to get worse. Satellites and space shuttles are often referred to as “dual-use technologies” because they can be used for both peaceful and military purposes. An imaging satellite, for example, can monitor crop production as easily as it can spy on submarine bases. As more private actors enter the space business, it may be more important to distinguish between intended and unintended purposes. A fleet of small camera-equipped satellites may be launched for the purpose of providing more accurate weather data, but once the constellation of satellites enters orbit, operators may discover that it is also capable of monitoring the police. It will be up to the operators whether to declare this use.

The current policies assume that all actors will state their intentions and abide by them, but this is less likely to occur as smaller and more private interests enter the market. These smaller, private entities won't necessarily recognize strong state ties, and, empowered by new technologies, they may feel free to operate independent of national policies. Indeed, the private sectors in the United States and Europe may present a greater challenge than those in China and Russia, since firms in the latter are so closely aligned with the state.

The final policy challenge concerns nonstate actors. During the four decades when Washington and Moscow had space nearly all to themselves, coordinating and attributing activities there was relatively straightforward. But today, 53 countries are responsible for over 1,300 active satellites; even Ghana has a space agency. Coordinating all their missions is hard enough, but it will only get harder when nonstate actors enter the picture. Although most large commercial missions today are still closely tied to governments, many of the smaller and cheaper missions of tomorrow will be funded by cross-national teams and private interests. It will become harder to both assess the intent of a mission and assign liability to the right party in the event of a mishap, putting at risk important capabilities such as weather forecasting, satellite television, and navigation systems.

The Outer Space Treaty remains a solid foundation for international space policy, one to which governments will have to add new norms. Although the treaty holds countries responsible for the nongovernmental activities that initiate from within their borders, until recently, technical barriers meant that governments never had to worry about the prospect of such activities. As those barriers fall, policymakers will need to establish norms for what to do when, for example, small satellites are covertly moved close to large, state-sponsored satellites in order to spy on them.

THE NEW SPACE RACE

Given the abundance of challenges, policymakers will have to resort to triage. Some problems are overdue for a solution, others are imminent, and still others are merely emerging. The lack of situational awareness should be classified as an urgent problem: when a satellite stops working in orbit, operators need enough information to figure out whether the problem is the result of natural causes (such as a solar storm) or a collision with another man-made object. The rise of nonstate actors is

best thought of as an imminent challenge, because even though companies have started developing new services, such as in-orbit refueling and robotic satellite repair, there isn't yet enough demand to bring these products to market. The advent of large-scale space tourism, by contrast, is still likely a decade or two away.

Regardless of whether governments get to work now on drafting a new framework for space or kick the can down the road, the new space race will continue to unfold. In many ways, this race is likely to follow the path of the software industry. When Apple decided to allow developers to design apps for the iPhone, it unleashed an explosion of unforeseen innovation that has transformed daily life and put more technology in the hands of ordinary people. But because the revolution happened so quickly, it outpaced policymakers. To take just one example of an unforeseen challenge, after an early morning earthquake shook Napa, California, in 2014, the fitness tracker company Jawbone used data collected from its customers to generate maps that showed who woke up. But had people ever agreed to this explicit use of their sleep data? Only now are policymakers starting to wrestle with important questions of security and privacy that such apps have raised.

The space community now finds itself in the same position that software developers did at the beginning of the smartphone age: an exciting new platform is about to open up, but governments have barely started to plan for how it will be used. They need to start thinking about that now—before space fills up. 🌍



TOWARD A COMPREHENSIVE GLOBAL ALLIANCE

By Minister of Foreign Affairs Yun Byung-se

Back in 1953 – at the time of the Korean Armistice and the year of my birth – the Republic of Korea (ROK) was a war-stricken, destitute country reliant on U.S. military and economic assistance for its survival. Now, more than sixty years later, as the minister of foreign affairs, I take pride in the ROK's remarkable metamorphosis – not only into a robust democracy with a thriving economy, but also into an active and responsible member of the international community and a trusted partner of the United States.

During this transformational process, the ROK-U.S. alliance has played a pivotal role. Based on a shared commitment to universal values – such as freedom, human rights and the rule of law – the alliance has contributed to

stability in the Asia-Pacific.” Indeed, this sentiment was eloquently reflected in the latest Congressional Research Service Report on U.S.-South Korea Relations, which stated that relations are “at their best state in decades.”

That is not mere rhetoric. As a matter of fact, such an excellent relationship manifests itself in many different and diverse areas.

Regarding North Korea, the combined defense posture of the ROK and the United States has successfully met the security challenges on the Korean peninsula.

The ROK and the United States are also firmly united on North Korea, including its nuclear problem. Secretary Kerry and I have reaffirmed on many occasions that “there is not an inch of daylight” between our two countries.

In particular, the United States strongly supports President Park Geun-hye's steadfast and principled approach to North Korea, and the international community is standing with us.

And as the ROK government steps up its efforts to overcome the division of the Korean

Peninsula – now in its seventieth year – and to pave the way for unification, the United States is a staunch supporter, with President Barack Obama stating that “the deep longing for freedom and dignity will not go away, and the Korean people, at long last, will be whole and free.”

Our alliance has evolved into a comprehensive strategic one. Our cooperation encompasses not only security, but also economic and social issues.

In this regard, the KORUS Free Trade Agreement (FTA) embodies the commitment of the ROK and the United States to a shared future of growth and prosperity.

As we celebrate the third anniversary of the KORUS FTA this year, the overall trade volume of both manufactured goods and services has increased, providing more opportunities for the people of both countries. The KORUS FTA serves as a useful model free-trade agreement for the region, including the Trans-Pacific Partnership Agreement.

Another indispensable element of our comprehensive strategic alliance is our global partnership.

President Park has long believed that our alliance should aim far – that it should ultimately contribute to a more peaceful and prosperous world.

In fact, the ROK and the United States, as global partners, stand shoulder-to-shoulder in tackling the proliferation of weapons of mass destruction, terrorism, the Ebola outbreak, piracy, cyberattacks, climate change, and poverty.

Additionally, our collaboration covers newly launched multilateral initiatives, with the United States and Korea taking turns in hosting the Group of Twenty meeting, the Nuclear Security Summit, as well as the upcoming Global Health Security Agenda meeting.

I am confident that the U.S.-ROK alliance will continue to play a crucial role in achieving sustainable peace and ultimate unification in the Korean Peninsula.

In a turbulent, fast-changing world, Korea, together with the United States, will make every effort to further strengthen our alliance and usher in a new kind of Korea, a new kind of Asia-Pacific, and a new kind of world.



Yun Byung-se, minister of foreign affairs of the Republic of Korea

peace and stability not only on the Korean peninsula, but also in the Northeast Asian region and beyond.

As U.S. Secretary of State John Kerry and I publicly declared at the Foreign and Defense Ministers' Meeting held in Washington, DC last October: “Our alliance is stronger than ever before, developing into more than the linchpin of peace and

A partnership for a secure region and a richer world

In March 2012, the United States and the Republic of Korea (ROK) signed a comprehensive free-trade agreement (KORUS FTA). At that time, it was considered the most significant deal of its kind that Washington had signed in nearly two decades.

As the first U.S. trade deal of with a North Asian country, the KORUS FTA is being held as the model for other trade agreements under negotiation with other U.S. partners in Asia-Pacific and reflects Washington's unwavering commitment to the region.

During the Asia-Pacific Economic Cooperation (APEC) summit held in Beijing in November 2014, U.S. President Barack Obama and ROK President Park Geun-hye reaffirmed their pledge to strengthen the strategic partnership between their two countries and discussed steps to boost security in the Korean Peninsula.

Although the KORUS FTA has unmistakably improved the existing business climate for Korean and American companies, it

also opened up several new sectors for investment, particularly in information and communications technology (ICT), clean energy, as well as in science and technology.

Three years on, the KORUS FTA is said to account for between \$10 billion and \$12 billion of the yearly gross domestic product (GDP) of the United States, and valued at around \$10 billion of the annual goods exports of South Korea.

Through more extensive cooperation with the United States – in security, economic, and even cultural spheres – South Korea is certain it will further consolidate its status as an important regional and global power.

Spearheading efforts to expand relations between American and South Korean businesses has been the American Chamber of Commerce (AMCHAM), currently led by Amy Jackson, a former U.S. government trade representative for Japan and Korea.

“When the KORUS FTA was



Hanil E-hwa makes car trim for global car giants, including homegrown Hyundai and Kia, as well as Nissan, Ford, and Volkswagen

launched, the AMCHAM had been already a firm supporter and in fact, an advocate of the agreement,” recalled Jackson.

Two years after, AMCHAM South Korea has devoted a lot of time to publicizing how the two sides have benefited from the sweeping trade agreement.

“Some times after FTAs are implemented, there is not enough reporting on the positives. So, we are working on a follow-up since the agreement's implementation. We are seeing that trade flows are up in areas where there were tariff reductions under the FTA. Flow areas have increased more for Korea thus far, but perhaps by March of next year, that will change,” Jackson also said.

South Korea is determined to become a hub for global trade that will rival the busiest ports in Europe and North America.

Should South Korea finalize a free-trade deal with economic powerhouses, China and Japan, its FTA coverage will amount to 83 percent of the world's GDP.

Beyond South Korea's conglomerates, or chaebols, small and medium enterprises are contributing to the country's economic growth, thanks to the efforts of President Park, who has helped SMEs grow from domestic players to exporters.

With more investment opportunities brought about by the FTA, U.S. companies have also seen the benefit of partnering with South Korean SMEs and integrating these new players into the global supply chain.

In the service sector, the FTA has provided increased access both ways.

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In Korea's automotive industry, exports to the United States have increased sharply since the implementation of the KORUS FTA. Also, there has also been a growth in the sales of American cars, which were a rare sight in the country until recently due to the restrictive tariffs.

Since it began business in 1972, auto parts supplier Hanil E-Hwa Co. has opened fourteen overseas subsidiaries and built up an impressive clientele.

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Chairman Yang Seok Ryu has overseen the company's impressive expansion as he adopted the latest technology and maintained his passion to make world-class products for its partners.

With easier access to markets, including the United States, Ryu hopes to make Hanil E-Hwa a leader in the global automotive industry.



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Senior partner Kye-Sung Chung attributes Kim & Chang's success to the dedication and passion of its professionals. "Throughout the firm's history, we have played a central role

in developing how law is practiced in Korea, how lawyers are trained, and how business risk is managed. We have been and will always strive to be the firm of choice for clients with respect to their most challenging legal issues, most significant business transactions, and most critical disputes, in Korea and abroad," said Chung.

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We would like to offer our congratulations on the 3rd anniversary of the KORUS FTA, and we look forward to establishing more mutually beneficial partnerships. Thank you.



Chairman & CEO
Ryu Yang Seok



▲ Natural fiber Door trim



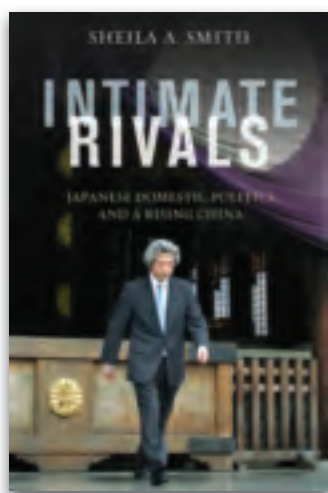
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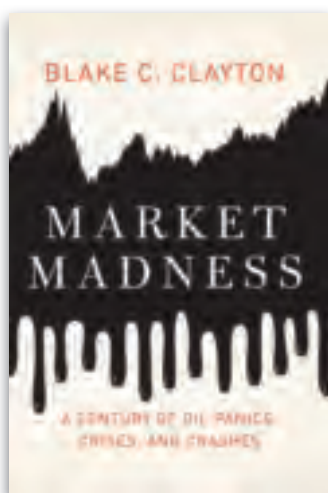
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The Precision Agriculture Revolution

Making the Modern Farmer

Jess Lowenberg-DeBoer

Thousands of years ago, agriculture began as a highly site-specific activity. The first farmers were gardeners who nurtured individual plants, and they sought out the microclimates and patches of soil that favored those plants. But as farmers acquired scientific knowledge and mechanical expertise, they enlarged their plots, using standardized approaches—plowing the soil, spreading animal manure as fertilizer, rotating the crops from year to year—to boost crop yields. Over the years, they developed better methods of preparing the soil and protecting plants from insects and, eventually, machines to reduce the labor required. Starting in the nineteenth century, scientists invented chemical pesticides and used newly discovered genetic principles to select for more productive plants. Even though these methods maximized overall productivity, they led some areas within fields to underperform. Nonetheless, yields rose to once-unimaginable levels: for some crops, they increased tenfold from the nineteenth century to the present.

Today, however, the trend toward ever more uniform practices is starting to reverse, thanks to what is known as “precision agriculture.” Taking advantage of information technology, farmers can now collect precise data about their fields and use that knowledge to customize how they cultivate each square foot.

One effect is on yields: precision agriculture allows farmers to extract as much value as possible from every seed. That should help feed a global population that the UN projects will reach 9.6 billion by 2050. Precision agriculture also holds the promise of minimizing the

JESS LOWENBERG-DEBOER is Professor of Agricultural Economics at Purdue University.

environmental impact of farming, since it reduces waste and uses less energy. And its effects extend well beyond the production of annual crops such as wheat and corn, with the potential to revolutionize the way humans monitor and manage vineyards, orchards, livestock, and forests. Someday, it could even allow farmers to depend on robots to evaluate, fertilize, and water each individual plant—thus eliminating the drudgery that has characterized agriculture since its invention.

ACRE BY ACRE

The U.S. government laid the original foundations for precision agriculture in 1983, when it announced the opening up of the Global Positioning System (GPS), a satellite-based navigation program developed by the U.S. military, for civilian use. Soon after, companies began developing what is known as “variable rate technology,” which allows farmers to apply fertilizers at different rates throughout a field. After measuring and mapping such characteristics as acidity level and phosphorous and potassium content, farmers match the quantity of fertilizer to the need. For the most part, even today, fields are tested manually, with individual farmers or employees collecting samples at predetermined points, packing the samples into bags, and sending them to a lab for analysis. Then, an agronomist creates a corresponding map of recommended fertilizers for each area designed to optimize production. After that, a GPS-linked fertilizer spreader applies the selected amount of nutrients in each location.

Over 60 percent of U.S. agricultural-input dealers offer some kind of variable-rate-technology services, but data from the U.S. Department of Agriculture indicate that in spite of years of subsidies and educational efforts, less than 20 percent of corn acreage is managed using the technology. At the moment, a key constraint is economic. Because manual soil testing is expensive, the farmers and agribusinesses that do use variable rate technology tend to employ sparse sampling strategies. Most farmers in the United States, for example, collect one sample for every two and a half acres; in Brazil, the figure is often just one sample for every 12 and a half acres. The problem, however, is that soil can often vary greatly within a single acre, and agricultural scientists agree that several tests per acre are often required to capture the differences. In other words, because of the high cost of gathering soil information, farmers are leaving



She thinks my tractor's techy: fertilizing in Leesburg, Indiana, October 2014

productivity gains on the table in some areas of the field and over-applying fertilizer and other inputs in others.

Researchers are beginning to tackle the problem, developing cheap sensors that could allow farmers to increase their sampling density. For example, one new acidity sensor plunges an electrode into the soil every few feet to take a reading and records the GPS coordinates; manually sampling on that scale would be far too costly. Such sensors have not yet arrived at most farms, however. Some haven't proved reliable enough, breaking after a few acres of use, whereas others aren't accurate enough. But several research groups around the world are working on developing sturdier ones.

More practical are sensors that look at the color of plants to determine their nutritional needs. Plants with too little nitrogen, for example, tend to turn pale green or yellow, whereas those with enough appear dark green. Several U.S. and European companies have developed sensors that detect greenness, generating measurements that can be used to create a map recommending various amounts of nitrogen to be applied later. Alternatively, the measurements can be linked directly to the nitrogen applicator to change the application rate on the go. A tractor may have a sensor mounted on the front and an applicator on the back; by the time the applicator

reaches a point that the sensor has just passed, an algorithm has converted the readings into settings for how much fertilizer to apply. Because research in this area has focused mainly on small grains, such as wheat, barley, rye, and oats, the technology is mostly limited to the parts of the United States and Europe that grow those crops. According to a 2013 survey by Purdue University, only seven percent of agricultural-input dealers offer plant-color sensors. Given the number of start-ups in this area, however, it is clear that many investors see the technology as a potential gold mine.

FIELDS AND YIELDS

The government's GPS decision also enabled another revolutionary technology to emerge: yield monitoring. Most harvesters in the United States and Europe are outfitted with special sensors that measure the flow rate of grain coming in. An algorithm specific to the crop then converts the resulting data into a commonly used volume or weight, such as bushels per acre or kilograms per hectare. That information is then turned into colorful maps that show the variation within fields.

These maps have become a staple of farming magazines and trade shows, and for good reason: they have given farmers unprecedented insight into the effects of various production techniques, weather conditions, and soil types. Such a map can help a farmer arrive at yield numbers for the purpose of insurance or government programs, measure the results of experiments that test the qualities of genetically modified crops or the effectiveness of various cultivation practices, and reveal which parts of a field aren't living up to their potential. In the eastern United States, it was only through yield monitoring that farmers were able to convince landlords that flood-related crop losses were not limited to completely submerged parts of the field; they also extended to a ring around those spots. In response, farmers installed more subsurface drainage systems. In Argentina, the technology has taken off because most managers of large farms there, unlike their U.S. counterparts, rarely operate vehicles themselves (a consequence of the peculiar history of landownership there). For them, yield maps offered on-the-ground insight into productivity they couldn't otherwise get.

When it comes to the quality of the data, however, yield-monitoring technology still has a long way to go. In most cases, the algorithms

that convert data about flow into volume or weight measurements must be calibrated annually for each crop and farm, and many farmers don't bother to do so. The data can also be affected by how fast a harvester is driven and other idiosyncrasies. And although research studies can rigorously analyze data from yield monitoring, farms and agribusinesses typically lack the necessary statistical skills and software. The next step in yield monitoring is for agribusinesses to adopt the statistical techniques now used mainly by researchers; since their findings would be spread across millions of acres, they should be able to justify the cost.

PLOW BY WIRE

The most common use of precision-agriculture technology is for guiding tractors with GPS. Manually steering farm equipment requires skilled operators and is a tiring endeavor. And even the best drivers often overlap their passes by as much as ten percent to avoid skipping parts of the ground. The late 1990s saw the introduction of LED light bars, each a series of LED lights in a foot-long plastic case that is mounted in front of the operator of a tractor, harvester, or other vehicle. If the lights in the center are lit up, then the equipment is on track. If those on the left or the right are illuminated, then the driver needs to correct the steering.

Increasingly, farmers are taking this technology to its next logical step, replacing the light bars with automatic guidance systems that link GPS data directly to a vehicle's steering mechanism. Although an operator still needs to sit on the equipment, for the most part, it can be driven hands-free. The technology first gained widespread use in the 1990s in Australia, where clay-rich soils—plus a lack of freezing and thawing—make fields particularly vulnerable to compaction from wheeled vehicles. Australian farms used GPS automated guidance to concentrate equipment traffic on narrow paths, preventing the rest of the soil from getting compacted. Today, about 40 percent of fertilizer and other agricultural chemicals are applied with automated guidance in the United States.

Such systems have led to numerous spinoffs. One category is mechanisms that track the path of a tractor and automatically shut off its seed-planting and chemical-spraying functions when it passes over parts of the field that have already been covered or are environmentally sensitive. The technology is especially useful for irregularly shaped fields, which are vulnerable to overplanting and overspraying.

Geospatial data aren't just for plowing straight lines, however. For decades, NASA and some of its foreign counterparts have encouraged farmers to use their satellite imagery. Along with aerial photography, these images form the basis for "geographic information systems," which enable farmers to store and analyze spatial data. The technology has proved particularly useful in areas where multiyear data are available, since it allows growers to divide large fields into zones that receive different seeds, fertilizers, and herbicides.

Some managers of farms are even using GPS to keep an eye on their employees in the field, especially in the former Soviet Union and particularly in Ukraine. Since the biggest farms there—many of which cover over 100,000 acres—tend to rely on hired staff and not owner-operators, farm managers like to track all field operations in real time. If a tractor stops for more than a few minutes, for example, the head office will notice and can call the driver to inquire about the problem. The tracking technology also allows managers to crack down on employees who use company machines on their own farms.

YIELD OF DREAMS

Precision agriculture has already turned one of the oldest sectors into one of the most high-tech, but the best is yet to come. The next step likely involves "big data." Farmers and agribusinesses are increasingly considering how to best take advantage of their treasure troves of data to boost profits and make agriculture more sustainable. In 2013, for example, the agriculture giant Monsanto acquired the Climate Corporation, a start-up founded by two Google alumni to use weather and soil data to create insurance plans for farmers and generate recommendations for which crop varieties are best suited to a particular plot of land. Another low-hanging fruit for big data is research on how to use equipment. For example, it's not clear how fast a tractor should be driven when planting corn: too slow makes for an inefficient process, but too fast results in uneven planting, which hurts yields. After collecting data on the tractor's speed, the eventual yield of the crop, and other factors, however, one could determine the optimal speed for planting.

In order to harness big data's power, companies will probably have to pool information across farms. In the United States and Europe, individual farms are too small to generate a meaningful quantity of data, and even the very large farms in Latin America

and the former Soviet Union would benefit from combining data with their neighbors. The problem, at the moment, is that farmers have little incentive to collect quality data. In the United States, some start-ups have tried to pay farmers for data, without much success. So far, it is the agricultural-input suppliers and agricultural cooperatives that have been able to collect the most data. But even their data sets are relatively small.

Some of that big data may come from drones. With the United States largely out of Afghanistan and Iraq, some suppliers of military hardware have turned their attention to the agricultural market. The move might be smart: small, unmanned aircraft can capture regular images of crops to guide irrigation, pesticide application, and harvesting. And unlike satellites, drones are largely unaffected by cloud cover. Given the operating expense and expertise required, drones will most likely be used commercially at first only for high-value crops, such as wine grapes. And in the United States, the Federal Aviation Administration will first have to open up the skies to commercial drones.

Someday, farms might be filled with hundreds of small autonomous robots.

The technology that would truly transform agriculture as we know it is robotics. The rapid adoption of GPS guidance has opened the door to more autonomous farm equipment, and most major manufacturers have already tested driverless versions of their tractors. Once the driver is removed from the picture, the design criteria for a piece of equipment change radically: it can become far smaller. It's possible to imagine farms someday filled with hundreds of small autonomous robots, doing everything from planting to harvesting. Robots could scout fields continuously and identify pest and disease problems at the earliest possible stages. They could apply pesticides in tiny doses, targeting individual insects or diseased plants. They could efficiently manage small and oddly shaped fields, such as those common in the eastern United States, which are hard to farm profitably with conventional equipment driven by humans. In the United States, by reducing the need for Mexican laborers, robots might even affect immigration policy.

When it comes to emerging technologies, it is a fool's errand to pick winners. But the history of farming in the twentieth century

offers some clues to its future. Almost all the agricultural technologies that were widely adopted in the twentieth century were characterized by what economists call “embodied knowledge,” meaning that the scientific advancements were contained within them. Farmers didn’t have to know how pesticides killed insects or how a gasoline tractor worked; they just needed to know how to spray the chemical or drive the vehicle.

Likewise, the tools of precision agriculture will gain widespread use only once they are sold in easy-to-use forms. That’s why GPS guidance has become so widespread: farmers don’t need to understand it to use it. And so variable rate technology for fertilizer, to take one example, will take off the day a farmer can trigger it with the mere push of a button. Eventually, precision agriculture could take humans out of the loop entirely. Once that happens, the world won’t just see huge gains in productivity. It will see a fundamental shift in the history of agriculture: farming without farmers. 🌐



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REVIEWS & RESPONSES

*History is rarely
kind to champions of
excessive secrecy.*

— *Ron Wyden and
John Dickas*



Too Many Secrets <i>Ron Wyden and John Dickas</i>	114	The Real Challenge in the Pacific <i>Michael D. Swaine</i>	145
The Torture Blame Game <i>Robert Jervis</i>	120	Who Lost Libya? <i>Derek Chollet and Ben Fishman; Alan J. Kuperman</i>	154
Putin's Hard Turn <i>Joshua Yaffa</i>	128	Warning Signs <i>Paul B. Stares</i>	160
What Caused Capitalism? <i>Jeremy Adelman</i>	136	Recent Books	163
		Letters to the Editor	187

Too Many Secrets

What Washington Should Stop Hiding

Ron Wyden and John Dickas

Democracy in the Dark: The Seduction of Government Secrecy

BY FREDERICK A. O. SCHWARZ, JR.
New Press, 2015, 368 pp. \$27.95.

One of the most persistent challenges of U.S. national security policy is balancing the short-term benefits of secrecy with the long-term benefits of openness. Government agencies responsible for dealing with national security threats will often be more effective if they are allowed to keep certain details about their activities secret. But openness is not just a cherished American value; it is a core element of American strength. Government officials who ignore this fact and insist on secrecy whenever it seems convenient will serve their agencies and their country poorly.

In *Democracy in the Dark*, Frederick Schwarz, Jr., has produced a thoughtful, authoritative account of this problem, focusing on the troubling consequences of excessive secrecy. In the mid-1970s, Schwarz, a veteran lawyer, served as the chief counsel to the Church Committee,

RON WYDEN is the senior U.S. Senator for Oregon.

JOHN DICKAS is Senator Ron Wyden's staff member on the U.S. Senate Select Committee on Intelligence.

a Senate body that examined U.S. intelligence activities and revealed significant abuses, laying the foundation for major reforms, including expanded congressional oversight of the intelligence agencies. Schwarz addresses his topic with a thorough and evenhanded approach, and his work is a must-read for anyone interested in a detailed treatment of this subject.

Schwarz strengthens his analysis by acknowledging at the outset that there can be legitimate reasons for keeping certain information secret from the public. Americans today do not expect the Obama administration to reveal the details of troop movements in Afghanistan any more than early Americans expected George Washington to disclose his strategy for the Battle of Yorktown. The challenge is to figure out where to draw the line between genuinely important secrets and information that would be unwise or improper to withhold from the public. As Schwarz makes clear, U.S. policymakers and intelligence officials have too often drawn that line in the wrong place, unjustifiably concealing information that the public has a need and a right to know. "Too much is kept secret not to protect America," he writes, "but to keep embarrassing or illegal conduct from Americans."

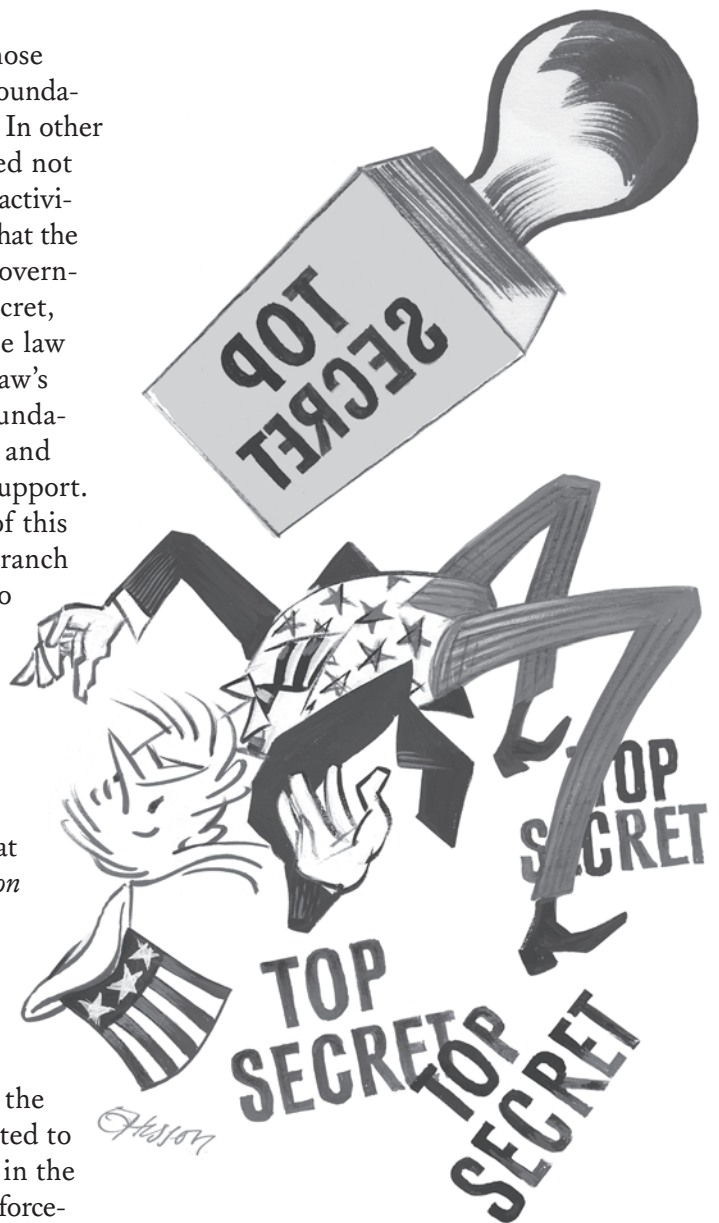
THE PERILS OF SECRET LAW

In considering the line between justifiable and excessive secrecy, a particularly important distinction must be made between secret operations and secret law. Although most Americans recognize that it will sometimes be appropriate for government agencies to rely on secret sources and methods to gather important

information, they also expect those agencies to operate within the boundaries of publicly understood laws. In other words, government officials need not reveal all the details of sensitive activities, as long as they follow rules that the public can understand. When government officials instead rely on secret, expansive interpretations of the law that are inconsistent with the law's plain meaning, they violate a fundamental principle of democracy and should not expect the public's support.

An obvious recent example of this was the decision by executive-branch officials during the past decade to conceal the secret interpretation of the U.S.A. Patriot Act that they were using to justify the dragnet surveillance of millions of law-abiding Americans by the National Security Agency (NSA)—surveillance that *The Guardian* and *The Washington Post* publicly revealed in 2013. Concealing the government's true understanding of the law represented a clear violation of the public trust. Furthermore, both the surveillance itself and the secrecy surrounding it contributed to an erosion of public confidence in the country's intelligence and law enforcement agencies, which will make it harder for them to do their jobs.

Secret law also played a role in the CIA's post-9/11 use of torture. Legal memos drafted by Justice Department officials in 2002 secretly reinterpreted the word "torture" to authorize a variety of ill-considered CIA interrogation tactics. This undermined U.S. credibility on human rights issues, complicated Washington's relation-



ships with a variety of foreign partners and allies, and served as fodder for terrorist recruiting efforts.

In both cases, keeping the public in the dark allowed problematic and unnecessary programs to go on much longer than they otherwise would have. In secret presentations to congressional committees and White House officials in both the George W. Bush and the

Obama administrations, intelligence agencies made greatly exaggerated claims about the usefulness of mass surveillance and torture. These mischaracterizations crumbled quickly when they were publicly exposed, but they were allowed to fester for years under a veil of secrecy.

Some have suggested that relying on secret interpretations of the law is acceptable as long as the executive branch discloses these interpretations to a limited number of federal judges and members of Congress. Michael Hayden, a former director of the NSA, has even defended this approach as a “Madisonian trifecta.” This alarming view disregards the vital role of public accountability in a democracy. As voters, U.S. citizens must be able to learn both what the law says and what government officials think the law means, so that citizens themselves can decide when laws need to be changed. The use of secret law short-circuits that fundamental process.

HIDING BEHIND SECRECY

In some cases, the main reason for keeping important information secret has been to avoid public criticism or questioning or to prevent embarrassment to agencies or individuals. It is appropriate to keep secrets to protect national security, but officials have too frequently kept secrets to protect their own political security instead. In 1938, FBI Director J. Edgar Hoover wrote a memo, later read by President Franklin Roosevelt, urging that the expansion of the FBI’s power to investigate “subversive” Americans should be handled “with the utmost degree of secrecy in order to avoid criticism or objections.” In recent years, officials have been more

careful to avoid citing such concerns as a justification for secrecy. But those who lack the courage to subject their plans to public scrutiny have often exaggerated the sensitivity of potentially controversial programs in order to avoid disclosing them. Schwarz suggests that was the case with the secret domestic surveillance programs exposed by the Church Committee and with post-9/11 activities such as torture and warrantless wire-tapping.

The damage done when government agencies withhold information to escape scrutiny or embarrassment is compounded by a growing impression that a double standard exists: unlawful disclosures aimed at making intelligence agencies look good go unpunished, whereas unauthorized revelations by critics of particular policies or programs lead to harsh punishments. The Senate Intelligence Committee’s recent report on the use of torture by the CIA cites numerous internal communications in which officials arranged to selectively provide highly classified information about CIA interrogations to particular reporters in order to ensure favorable press coverage. It is safe to say that any critic of CIA interrogations who chose to disclose information in this manner would have been fired and probably prosecuted.

In addition to serving as a barrier to democratic accountability, keeping embarrassing facts and expansive legal interpretations secret is incredibly shortsighted. Some legislators who knew the truth about the NSA’s mass domestic surveillance warned that the secrecy surrounding it was not sustainable and would inevitably lead to a public backlash. But the departments and agencies involved collectively acted

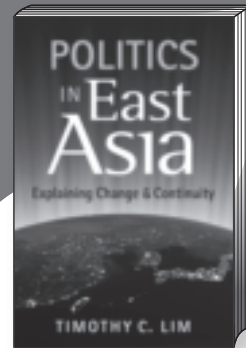
as if they could conceal the truth forever and as if the public could be deceived indefinitely with no consequences.

In addition to disregarding the impact of this surveillance on Americans' privacy, senior officials failed to recognize how it could erode public trust in the government—and how badly it could impact the U.S. economy. The American high-tech sector—one of the most innovative and successful fields in the country—is now reeling from the public reaction to recklessly broad surveillance practices. The Internet companies that have served as an engine of economic growth rely on consumer trust. People are willing to share their personal information with these firms only because they have confidence that it will be adequately protected. The NSA's dragnet surveillance of millions of law-abiding people has greatly undermined that trust. At a roundtable in Palo Alto last year, Eric Schmidt, the chair of Google, publicly warned that the fallout from these practices could "end up breaking the Internet."

In response to the backlash from consumers in the United States and overseas who felt betrayed by the broad scope of the NSA's activities, many firms are now aggressively resisting surveillance efforts and contesting surveillance orders in court. Many companies are also increasing their use of encryption, in part to make themselves and their customers less vulnerable to secret surveillance, a move that senior FBI officials have publicly complained will hinder their investigations.

This outcome perfectly illustrates the counterproductive nature of excessive secrecy. If the expansion of the NSA's power to surveil Americans had been subjected to open, democratic debate, the agency probably would not

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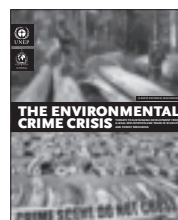
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have gotten everything that it wanted. But many of the bigger problems now facing the U.S. government could have been avoided.

Defenders of mass surveillance sometimes argue that the problem is not the surveillance itself but its public exposure, and they blame leakers and the press for the backlash. But as Schwarz's detailed history demonstrates, secret programs do not stay secret forever. Any U.S. official who believed that mass surveillance could be concealed from the public indefinitely was being naive.

In this instance, as in many others, excessive secrecy was the result of policymakers deferring too much to the judgment of intelligence officials in determining what information should remain classified. Doing so actually did a disservice to those officials, by placing an unreasonable burden on them. Intelligence professionals are charged with collecting and analyzing various types of information. It is entirely reasonable to seek their input when determining whether information relevant to their work should become public or remain classified. But it is neither fair nor appropriate to ask intelligence officials to balance the narrow benefits of secrecy with the broader benefits of transparency and public trust, or to weigh the potential impact of their activities on U.S. businesses or on Washington's relationships with close allies. That balancing should remain the responsibility of the policymakers who are charged with negotiating these competing priorities; delegating the task to intelligence officials is unlikely to end well.

Of course, although intelligence officials should not be the final arbiters

of the costs and benefits of secrecy, they must never actively deceive the public or Congress about what they do. A number of senior officials have at times exacerbated the problem of excessive secrecy by making inaccurate or misleading statements about the scale and scope of their activities and then failing to correct those statements when asked to do so.

THE BEST DISINFECTANT

Fortunately, although there are many causes of excessive secrecy, there are also many things that can help correct it. Perhaps the most important are checks on executive power. The executive branch has a tendency to concentrate information and power in its own hands. But presidents can also rein in the executive branch's own worst impulses. President Bill Clinton issued executive orders aimed at reducing excessive secrecy, and President Barack Obama has done the same. Meanwhile, advisory bodies such as the Public Interest Declassification Board and the various blue-ribbon panels that have examined government secrecy can make recommendations that help drive reforms, such as the establishment of the National Declassification Center at the National Archives, which Obama set up in 2009 at the PIDB's suggestion.

Congress, too, can take action. Although congressional efforts to legislate systemic reforms regarding secrecy have been somewhat limited, Congress has often succeeded in forcing the disclosure of particular information by negotiating agreements with the executive branch or by legally mandating the release of certain documents, such as the CIA inspector general's report on

9/11. (Congress also maintains the authority to disclose information over the executive branch's objections, but doing so requires the consensus of a significant number of members.) Federal courts can also order the disclosure of information, particularly in response to cases brought against the government under the Freedom of Information Act. Although the FOIA process places plenty of obstacles in the way of anyone seeking more transparency, it has led to a number of high-profile government disclosures over the years, including the recent public confirmation of the CIA's role in conducting drone strikes overseas.

The free press also serves as an important check on excessive secrecy. Unauthorized disclosures by journalists are the source of significant controversy, particularly among government officials. And Schwarz identifies a number of harmful press disclosures, including some that clearly jeopardized individual lives, such as an instance in 1943 when press reports revealed that a tactical error was making Japan's depth charges less effective against U.S. submarines. It is important to recognize, however, that the press can also serve as an important corrective when information is improperly concealed from the public, Congress, and the courts. Both the NSA's warrantless wiretapping program and the CIA's secret prisons were brought to the attention of most members of Congress by investigative journalists, not by notifications from the executive branch. And in both cases, the public exposure of these programs was the impetus for significant reform efforts that would not otherwise have taken place.

The executive branch will almost always seek to protect its secrets and

warn that revealing them will harm national security. And sometimes such warnings will be justified. But citizens, Congress, the courts, and journalists have an obligation not to simply accept those arguments at face value, particularly given the executive branch's long history of exaggeration. Sometimes, of course, both secrecy and openness might lead to negative consequences. When faced with that dilemma, policymakers and legislators have too often deferred to intelligence officials' natural preference for greater secrecy instead of carefully weighing which course of action would better serve the public.

Still, Schwarz sees "reasons for optimism about the possibility of changing the pervasive secrecy culture." The national security bureaucracy might classify more information today than ever before, but the post-9/11 era has also witnessed a sea change in public awareness of secrecy's costs. In particular, the revelations of the NSA's widespread domestic surveillance have struck a nerve: secrecy is no longer an obscure niche issue; it is a central policy concern. Many ordinary Americans have grown impatient with those who reflexively defend secrecy and advise the public to simply trust policymakers and intelligence officials to make the right decisions. Officials who attempt to make that argument should read Schwarz's book; at the very least, it will remind them that history is rarely kind to champions of excessive secrecy. 🌐

The Torture Blame Game

The Botched Senate Report on the CIA's Misdeeds

Robert Jervis

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ROBERT JERVIS is Adlai E. Stevenson Professor of International Politics at Columbia University and a member of the Saltzman Institute of War and Peace Studies.

At the end of World War II, the United Kingdom built memorials to every military branch save one: the Royal Air Force’s Bomber Command. The group had skillfully carried out its mission, leveling German cities in raids that killed hundreds of thousands of civilians. But by 1945, the British public had developed second thoughts about the morality and efficacy of that mission. Years later, opinion shifted again. In 1992, the country finally erected a statue, unveiled by the queen mother, of the command’s lead officer, Sir Arthur Travers Harris. Still, the debate over the bombings never really went away; for months, police had to guard the statue from vandalism.

In recent years, the United States has also developed a belatedly guilty conscience about a wartime practice: the torture of detainees in the “war on terror.” The controversy over the program of “enhanced interrogation” carried out by the CIA during the George W. Bush administration was rekindled late last year with the release of a set of reports and documents related to the U.S. Senate Select Committee on Intelligence’s five-year, \$40 million investigation of the program. That investigation resulted in a 6,700-page report that remains classified. But after a long struggle between the Senate, the White House, and the CIA, the committee’s Democratic majority released a heavily redacted summary of the report last December, along with a dissenting view from the minority Republicans on the committee. Simultaneously, the CIA issued a rebuttal of the majority report and soon afterward declassified an overview of its interactions with Congress regarding the program. (A disclosure:

I have led internal studies for the CIA, including one on U.S. intelligence failures relating to Iraq's weapons of mass destruction programs, and I currently chair its Historical Review Panel.)

The many questions surrounding the interrogation program are not inherently partisan. Yet the committee's Republican minority withdrew its staff early on, in September 2009, after Attorney General Eric Holder launched his own investigation into detainee abuse, which prevented some CIA officers from talking to the committee. (Although many others could have still provided testimony, especially after the Justice Department closed its investigation in August 2013, the committee did not interview anyone.) So the final report was essentially a product of the Democratic majority, which chose to absolve everyone but the CIA. The Republican rebuttal, in turn, amounted to a brief for the defense, based partly on the CIA's response to the majority's charges, with a heavy dose of snark thrown in. Most media coverage of these documents has focused almost exclusively on the majority report, in large part because its authors provided reporters with an advance copy, something that the minority's staff neglected to do. But any sensible analysis requires reading all the documents.

Although the committee's prodigious research into CIA records is commendable, its sources tell only part of the story, especially when it comes to determining how the agency made decisions about interrogation techniques. To paint a fuller picture of the program, investigators would have needed the records of other agencies, especially those of the White House. But executive privilege and Republican opposition stood in

their way. And even with more complete access, much would be missing thanks to the government's inhibitions about keeping records of sensitive discussions. In the words of one CIA official quoted in the majority report, "All of the fighting and criticism is done over the phone and is not put into cables."

The various reports are deeply disturbing, owing not only to the shameful abuse and torture they describe; they also demonstrate the dogmatism and partisanship that continue to suffuse the politics of U.S. national security in the post-9/11 era. To be sure, the adversarial nature of the U.S. government can prove useful, and bipartisanship isn't necessarily a good thing. The 9/11 Commission's commitment to presenting a common front, for instance, prevented it from drawing an obvious conclusion from the relevant facts: that the Bush administration had not seen terrorism as a major problem before the attacks. But in the case of investigating the CIA's interrogation program, a more collegial process would have served the country better, yielded a deeper understanding of what happened, and made clearer the legitimate disagreements that remain. Instead, the reports fail to present any evidence that could undermine their cases, express any uncertainty, or acknowledge any alternative interpretations of the facts they do include. And each sidesteps fundamental questions about the proper balance between values and security, wasting a rare opportunity to fill the vacuum that allowed torture to occur in the first place.

FACT FINDING

The report and the rebuttals agree on five central points. First, they all line

up on some essential facts and share a basic timetable. Six days after the 9/11 attacks, Bush signed a classified memo authorizing the CIA to “capture and detain persons who pose a continuing, serious threat of violence or death to U.S. persons and interests or who are planning terrorist activities.” (The document made no mention of interrogations.) In the years that followed, the agency detained at least 119 individuals. The use of “enhanced interrogation techniques” began in 2002. The agency ceased using one of the most controversial techniques, waterboarding, in 2003; by 2007, it had stopped using the other ones as well. But the program didn’t officially end until January 2009, when President Barack Obama signed an executive order that required the CIA to close its detention facilities and prohibited any U.S. government employee from using interrogation techniques not permitted by the *U.S. Army Field Manual*.

A second basic point is also beyond dispute: the “enhanced interrogation techniques” were brutal. Prisoners went for days without sleep, often with their arms shackled to a bar overhead. Sometimes, handlers forced them to go to the bathroom in diapers (Bush expressed unease about this) and delivered food and water rectally (for medical reasons, the CIA claims). Whether these and other tactics, such as slapping or waterboarding, qualify as torture under the law remains subject to debate. But they certainly count as torture in the ordinary sense of the term.

That said, the majority report never uses the term “torture” to describe U.S. actions. Nor does it wade into the controversy about the quality of the legal

opinions composed by Justice Department officials between 2002 and 2007 that declared the CIA’s techniques permissible, most likely because the committee was unwilling to deal with the implications of taking a stance on the question of whether the CIA broke U.S. or international law. Classifying CIA practices as crimes would have raised the uncomfortable question of who should be indicted for them. The list of candidates, after all, could have included Bush and Vice President Dick Cheney. Declaring the CIA’s techniques legal, on the other hand, would have undercut the committee’s message that they should never be used again.

Defenders of the program point to the absence of more severe techniques, and they are correct that there was a line that interrogators did not cross. No one seems to have suggested breaking a prisoner’s bones, stubbing out cigarettes on his skin, attaching electric wires to his genitals, or pulling out his fingernails, for example. But a Goldilocks view of the CIA’s interrogations—that they were not so cruel as to constitute torture but just harsh enough to compel hardened terrorists to divulge critical intelligence—seems too convenient to be true.

All sides accept that the CIA was unprepared to hold prisoners and that from the program’s inception in March 2002 to early 2003, the agency managed the interrogations poorly, doing little to prevent unauthorized excesses. (Many of the most egregious abuses, including what led to the death of one prisoner, occurred during this period.) They also agree that the agency did not systematically assess the value of the information that the torture produced. Although the



Official line: CIA headquarters, July 2004

CIA did conduct several reviews, none was thorough, and none involved outside experts. Finally, there is consensus that the CIA often overstated the value of the information that came from the torture. It remains unclear, however, whether the agency's leaders knowingly misled others, were misled by subordinates, or misled themselves. In any case, a lack of objective analysis helped muddy perceptions all around.

These areas of agreement aside, the various accounts diverge, beginning with the majority report's allegation that the CIA, in a gross betrayal of duty, failed to tell Bush what it was doing. That seems unlikely. Although the majority could not find any records showing that the CIA briefed Bush on its interrogation practices before April 2006, years after the program began, here the old maxim applies: "Absence

of evidence is not evidence of absence." For one thing, the committee could not examine White House records, and Bush himself has said that he was adequately and appropriately informed. For another, the majority report notes that the National Security Council staff requested that the secretaries of state and defense not be briefed on the program's specifics, which suggests that members of the president's inner circle were fully informed gatekeepers. The committee also makes little mention of Cheney and his staff, who, according to many media accounts, were also deeply involved.

The majority report's parallel but more self-serving claim is that the CIA "actively avoided or impeded congressional oversight of the program." In this case, too, the available facts tell a more complicated tale: the agency acknowledges that it

did not inform the full Intelligence Committee about the program until late 2006, but the committee confirms that beginning in September 2002, the CIA did brief the chairs and vice chairs of the House and Senate Intelligence Committees, along with the leadership of each house of Congress. So even if the CIA should have brought in the entire committee earlier, it did inform the key congressional leaders. There is no indication, moreover, that those legislators pressed hard for additional information until early 2005.

The central argument of the majority report—that when the CIA did brief Congress and the president, the agency inaccurately claimed that its methods were working—invites similarly close scrutiny. The reasoning here is intricate, turning on legalistic definitions, detailed timelines, and implied counterfactuals. It is especially hard to follow because the report addresses the CIA's rebuttal in footnotes and because much of the underlying evidence is available only in the committee's full study, which remains classified. The majority report's first conclusion is that "the CIA's use of its enhanced techniques was not an effective means of acquiring intelligence or gaining cooperation from detainees." Although it never defines "effective," the report essentially claims that torture never provided any valuable intelligence in the cases it examines.

On its face, that position is suspect. For it to be true, all 39 of the people the CIA tortured would have had to divulge everything useful they knew before being tortured or given up nothing once they were. In theory, it's possible that's what happened, but it seems unlikely, given the wide range of ways that different

people respond to duress and pain. And if torture were uniformly ineffective, there would be no need for a treaty banning it—which the Geneva Conventions do.

The majority's argument has problems with evidence as well. In judging the torture's effectiveness, the majority report looks for direct connections between the intelligence derived from the torture and its benefits to national security. But the minority and CIA rebuttals are right to urge a broader view. For one thing, analysts needed a great deal of information about al Qaeda before they could make sense of any one source. By the majority report's standard, the torture was not effective if it merely contributed to a general understanding of al Qaeda, rather than leading directly to the foiling of a terrorist plot or the capture of an al Qaeda member. Yet crucial insights often result from indirect links. It might have been, as the majority report argues, that breaks in many cases came from prisoner interrogations that did not involve torture. But in some cases, interrogators asked those detainees questions because of intelligence that came from others who were tortured. And although the majority report lends little weight to information that simply confirmed other intelligence, such findings can prove invaluable, since tips from individual sources are rarely sufficient to merit action on their own. In essence, the report and the rebuttals talk past each other on this point: the Democrats dismiss evidence of a type that the Republicans and the CIA (rightfully) consider central.

The majority report also relies heavily on hindsight. Although the majority report is probably correct to say that in



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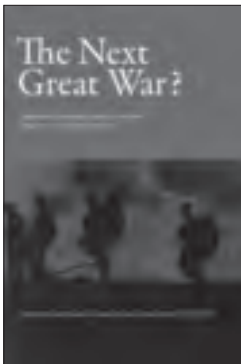
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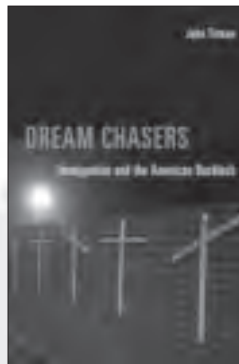
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many cases the CIA had enough information to identify a terrorist or break up a plot without torturing detainees, it does not consider how the CIA actually reached its conclusions. In some instances the report cites, the CIA could have drawn multiple judgments from the existing intelligence; in others, agency analysts overlooked valuable information. Whatever criticism is due, saying that the CIA could have reached a conclusion without torture is different from saying that it would have.

Take, for example, one piece of intelligence that proved critical to the CIA's hunt for Osama bin Laden. The majority report claims that the CIA could have identified bin Laden's courier, Abu Ahmed al-Kuwaiti, without information derived from torture. But merely reciting other evidence that Kuwaiti was the courier, as the report does, doesn't prove anything. The only way to test the report's claim would be to examine the entire CIA database, remove any intelligence gleaned from torture, and then determine if Kuwaiti should have stood out from the many other suspects that were in play. The problem, in other words, wasn't connecting the dots; it was that too many of them looked alike. What clinched the Kuwaiti case, the CIA claims, were suspicious denials by two major al Qaeda figures, after they were tortured, that Kuwaiti was close to bin Laden—something that set analysts on his trail. The agency makes a similar argument in explaining how it found Saajid Badat, who had been trained to bring down an airliner with a shoe bomb in 2001. After the plot failed, Badat was not immediately identified as one of the conspirators. The CIA claims that evidence obtained

from Khalid Sheikh Mohammed, whom the agency waterboarded 183 times, was crucial in pointing them in Badat's direction. "We were following many disparate individuals who were allegedly threatening U.S. interests," the CIA says in its rebuttal, "and there was nothing at the time on Badat to lead us to prioritize him over the others."

A MISSED OPPORTUNITY

The debate over whether torture produced useful information should not be confused with the broader question of whether the interrogation program did more harm than good. Even if torture worked in the narrow sense, its costs might have outweighed its benefits: the negative global reaction to the CIA's brutal methods decreased support for U.S. policies and may have helped terrorist groups win more sympathizers and recruits. At the very least, the torture committed alienated U.S. allies and gave ammunition to those who opposed Washington's policies, contributing to the belief that the United States was hypocritical in its public defense of liberty and prone to treat Muslims as less than human. But neither the Senate reports nor the CIA rebuttal seeks to calculate those costs.

The CIA's interrogation program raised a host of moral questions as well, which the Senate reports and the CIA rebuttal ignore. Perhaps this is just as well; one has no reason to expect senators or intelligence officials to be especially qualified on the subject of morality. But both the Democratic majority report and the Republican dissent take easy ways out. By claiming that the torture was ineffective, the Democratic report encourages a sense of indignation and

implies that the interrogation program was morally indefensible. The Republican dissent, for its part, contents itself with claiming that the torture did produce useful information but avoids an accounting of its moral and political costs, suggesting that such concerns have no place in counterterrorism policies.

All the documents suffer from a shortcoming that has characterized the debate over interrogation ever since press reports revealed the truth about the CIA's "enhanced techniques": a failure (or refusal) to acknowledge the existence of tradeoffs between competing values. Looking back, no one wants to argue that the CIA's techniques constituted torture but were also an important tool in defending against terrorism. Likewise, no one seems willing to contend that the "enhanced interrogation techniques" were ineffective but nevertheless nothing to be ashamed of. Yet the alternative conclusions aren't all that convincing. The Republicans describe the techniques as less brutal than torture but harsh enough to make hardened terrorists betray their cause. The Democrats argue that those detainees would have provided useful information through benign interrogation techniques but were so committed that they would not yield anything useful when water-boarded. Both these formulations are highly implausible, and both spare their beholders from confronting the possibility that the CIA tortured people, acted immorally, and also saved lives.

It's conceivable that the magnitude of the threats the United States faced after 9/11 required some sacrifice of values. The CIA's leadership seems to have adopted that view; consider, for example, the agency's decision to not

punish those responsible for torturing Khalid al-Masri, a German citizen the agency imprisoned after mistaking him for someone else. In such cases, the majority quotes the CIA as saying, "the Director believes the scale tips decisively in favor of accepting mistakes that over connect the dots against those that under connect them." But one could use that logic to justify virtually any tactic—and in Masri's case, there were no dots to connect at all. Critics have also pointed out that many of the horrific contingencies officials have worried about—for example, a terrorist plot to bring down the Brooklyn Bridge by loosening its bolts and cutting its cables—have been little more than fantasies. Either way, assessing the scale of the terrorist threat today remains difficult, and Americans have not had a substantive debate about the kind of sacrifices they should be willing to make in the service of their safety. Americans generally agree that they should not change their way of life, or cede their tolerance of satirical movies or inflammatory cartoons, in order to conciliate their enemies. A corollary might be that the United States should preserve the principle of treating prisoners humanely even if Americans die as a result. The country does not pay ransom to terrorists; perhaps it should also not surrender its values to them.

Such difficult questions require a national conversation. Unfortunately, the Senate Intelligence Committee forfeited its chance to lay the foundations for one. Indeed, the majority report suggests that little further thought is needed, clearing almost all involved. According to the Democrats on the committee, the American people, Congress, the Department of Justice, and even the president himself

were either kept in the dark by the CIA or deceived by it into needlessly allowing torture to continue. The majority report's authors seem to want Americans to accept these findings, condemn the CIA, and then simply vow to never permit torture to recur.

But preventing torture from happening again would require a much less blinkered examination of the facts, a far deeper national consensus about the possible tradeoffs between rights and security, and a clearer understanding of what U.S. and international law permits and forbids. Does the United States need new laws, an executive branch that interprets them differently, or stronger punishments for offenders? The majority report doesn't just fail to offer clear answers; it doesn't even help Americans think more deeply about the questions themselves.

Consider the contrast between the majority report on torture and the various reports issued in 1975 and 1976 by the Church Committee, a Senate body that investigated and revealed abuses and crimes committed by the CIA and other U.S. intelligence agencies during the Cold War, including spying on American citizens and conspiring to assassinate foreign leaders. At the start, Senator Frank Church, who led the investigation, likened the CIA to a rogue elephant; by the end, he had concluded that the agency had in fact carried out presidential policy. That willingness to minimize partisanship and evaluate history with an open mind lent credibility to the committee's policy recommendations, many of which Congress implemented.

The Senate Intelligence Committee could have taken a similar path, by candidly considering how a policy of

torture resulted from decisions made at the highest levels of the executive branch and was conducted without objection from the CIA's congressional overseers. Bush clearly supported the use of torture while it was occurring and has continued to defend its use; Cheney has been even more aggressive in pushing back against criticism, refusing to acknowledge any flaws at all in the way the CIA used so-called enhanced interrogation techniques. And even though Obama has said that he believes the CIA "tortured some folks," his administration has declined to prosecute anyone for doing so. What's more, for all the outrage generated in some quarters by the majority report's revelations about the CIA's brutal methods, an opinion poll conducted by *The Washington Post* and ABC News after the report's release found that a large majority of Americans—59 percent—nevertheless support the use of those methods. This all suggests that should the United States suffer another massive terrorist attack, U.S. officials might very well decide to use torture again. If the authors of the majority report believe their efforts have made that outcome less likely, they are mistaken. In the end, a less political report might have had more influence. 🌐

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Nothing Is True and Everything Is Possible: The Surreal Heart of the New Russia
BY PETER POMERANTSEV. Public Affairs, 2014, 256 pp. \$25.99.

For many who arrived in Moscow in recent decades, the city had an almost narcotic effect. In the vacuum created by the Soviet collapse, unabashed opportunism and a limitless sense of the possible became the closest thing the wounded country had to a collective ideology. There were few consequences and everything was pretend—except, of course, for the massive sums of money. And as long as Russia, after Vladimir Putin took power in 2000, kept up its winking nod toward modernization and democracy, it was easy enough to play along without too much of a drag on your conscience.

For Bill Browder, the American-born investor turned human rights campaigner, the high started early. Not long after

the end of communism in eastern Europe, he came across his first “ten bagger,” an investment that delivers a ten-times return. “For those who don’t know,” he writes in his memoir *Red Notice*, a tale of financial braggadocio and moral outrage, “the sensation of finding a ‘ten bagger’ is the financial equivalent of smoking crack cocaine.” As the years went on, Browder began to scoop up shares in Russian companies and use his position as a shareholder to try to make them more efficient and transparent. He went on to build his investment company, Hermitage Capital Management, into one of the best-performing emerging-market funds in the world, which at its peak delivered returns of 1,500 percent and managed a total of \$4.5 billion.

Around the same time that Browder was racking up ten baggers, Peter Pomerantsev—a Soviet-born, British-educated television producer—turned up in Moscow. In *Nothing Is True and Everything Is Possible*, his tale of descending into and eventually emerging from Moscow’s hallucinogenic reality, he writes of encountering “speeding Maybachs on the roads, swirling faster and faster in high-pitched, hypnotic fair-ground brilliance.” As Pomerantsev set to work, his specialty became producing reality shows on such topics as the mating rituals of “Forbeses” (rich Russian men, named after *Forbes* magazine’s most wealthy list) and “*tiolki*” (literally, “cattle”—the young, beautiful women who chase those men). He filmed the two species in Moscow nightclubs and came to realize that they were less hunter and prey than kindred spirits. They were equally adrift in post-Soviet Russia, sending each other “sweet, simple

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glances” that “seem to say how amusing this whole masquerade is.”

The air of inauthenticity that characterized the first decade of Putin’s rule allowed all sorts of characters to exist: Browder, the shareholder-activist who spoke approvingly of Putin, seeing something common in both his and Putin’s efforts to rein in the oligarchs of the 1990s; Pomerantsev, the Londoner Russians simultaneously fawned over and disparaged for his Western tastes; and various creative professionals who produced work that in theory presented a challenge to the ruling system but was left alone because it posed no real threat. Everything from political parties to youth movements was fake, designed to create the image of civil society rather than the real thing. Behind the façade of a formal political system, replete with elections, candidates, and party platforms, lay a much more powerful network of relationships and understandings. Oligarchs and managers of state-owned corporations aspired to the respectability of Davos, even if their enterprises had barely moved beyond the legacy of the Soviet command economy, with all the inefficiency and corruption that entailed.

Soviet-era doublethink, whereby people had no qualms about saying one thing and believing another, was updated for the twenty-first century, fueled by high production values and slick PR. In such a climate, to believe in anything with sincerity was to be naive, which is why Pomerantsev writes of so many of his colleagues and friends having the confidence of feeling at once “cynical and enlightened.” Politics and culture took on the feeling of a lived game. But over time, the game grew harder, and

the complications of real life began to push themselves onto Browder and Pomerantsev, and onto Russia more broadly. By the end of their books, both have ended up in London, disillusioned and racked with guilt for having participated in something so grotesque.

For Browder, the party ended in 2005, when, for reasons still unclear, but surely having something to do with his efforts to expose corruption at state-owned companies, his Russian visa was revoked. (Even after being exiled, he continued to praise Russia, telling anyone who would listen that it represented a fantastic investment opportunity.) Like the one-time oligarch Mikhail Khodorkovsky, Browder knowingly went up against powerful interests in the state apparatus and lost, which makes him less an innocent victim than someone who played a high-stakes game until the game’s masters decided his time was up. But what began as a commercial defeat turned personal: in 2009, his former lawyer Sergei Magnitsky died from neglect and abuse while in pretrial detention in Moscow, sending Browder on a years-long search for justice and revenge. “Guilt coated me like tar,” Browder writes of the weeks leading up to Magnitsky’s death. His lobbying efforts led the U.S. Congress to pass the 2012 Magnitsky Act, which bars those connected to the case and to other Russian human rights abuses from entering the United States and freezes their assets.

At first, Pomerantsev saw the constant transformations of the Russians around him as the celebration of a society “pulling on different costumes in a frenzy of freedom.” Over time, however, he came to see these “endless mutations not as freedom but as forms of delirium.” But as long as that delirium didn’t require

too much of Russia's citizens, there seemed little harm—for Russians and for those making money off them in London and New York—in going along for the ride. Pomerantsev describes one advertisement, for a high-priced Moscow real estate development, that was designed in the style of a Nazi poster. The ad is neither humorous nor serious, Pomerantsev writes, but something else: “It’s saying this is the society we live in (a dictatorship), but we’re just playing at it (we can make jokes about it), but playing in a serious way (we’re making money playing it and won’t let anyone subvert its rules).”

THE PARTY'S OVER

That era—the fun-house years chronicled by Browder and Pomerantsev—has come to a definitive close. The beginning of the end came in late 2011, when urban professionals took to the streets to protest Putin's decision to return to the presidency and a fraudulent parliamentary election. At the same time, the economy was reaching the end of its oil-fueled boom. By the time Putin returned to formal power in the Kremlin in 2012, the country's unwritten pact—whereby citizens stayed out of the state's business and the state largely left them alone to live increasingly middle-class lives—was no longer tenable. Putin had no choice but to reinvent his own style of rule, turning to a mishmash ideology of anti-Americanism, social conservatism, Orthodox Christianity, and Russian exceptionalism. The state grew harder and less flexible.

The first iteration of Putinism came to a true finish sometime early last year, when Putin, faced with the prospect of seeing Ukraine move toward the West,

reacted by annexing Crimea and proping up an armed rebellion in eastern Ukraine. The resulting standoff with the West isolated Russia from Western governments and institutions and unleashed a repressive impulse at home, as the Kremlin tried to mobilize society in response and blame the country's woes on external enemies. Suddenly, Putin's turnaround was complete: now, instead offering material well-being, the state was promising historical purpose. The Kremlin has portrayed the hardships of this new course, whether in the form of economic sanctions or global opprobrium, as signs of its virtue. The politics of confrontation have taken on their own momentum, with the many arms of the state becoming more reactionary as the costs of the new Putinism mount.

Most of the private spaces that allowed Browder and Pomerantsev to flourish have disappeared. Whereas for the first decade of Putin's rule, the state preferred a passive and disengaged population, over the last year, it has sought to keep society antsy and militarized, on something approaching a war footing—even if the war itself remains technically undeclared. The faction in the Kremlin that long wished for more control, over everything from the newspaper business to the agricultural sector, has found its excuse in the arguments of geopolitics and national security. Examples of the more suffocating atmosphere abound. Nearly all the start-up journalistic outlets that flourished in Moscow in recent years have been shuttered or taken over by pro-Kremlin interests. (It is no accident that the most promising new Russian media venture—Meduza—is based in Riga, Latvia.) What were meant just a few years ago to be a collection of



The mourning after: protesting Boris Nemtsov's murder in Moscow, March 2015

new, innovative state-run “centers of culture” to showcase modern art in smaller Russian cities have been reimagined as educational institutions designed to promote “traditional moral-spiritual values,” operated in coordination with the Orthodox Church. Suspicion is in the air, with the security services using a new and more flexible law on treason to arrest Russians with foreign contacts. The message is clear, and with obvious precedent in Russia’s history: be afraid of the West, and don’t involve yourself in the state’s business.

Putinism used to represent a not-quite-real form of soft authoritarianism, but the time to pretend is over. Unlike in the first decade of Putin’s rule, when opposing the policies of the Kremlin made one simply a freak, now it makes one an enemy of the state, a person on the wrong side of a historic struggle. Putin has warned of the dangers of a

“fifth column” of “national traitors” working to destabilize the country, a paranoid notion that has received full airing on state-run television. It was in this environment that Boris Nemtsov, a former deputy prime minister and high-profile opposition politician, could be gunned down on a bridge across from the Kremlin in February. In the new climate, people like Nemtsov are not political opponents to be mocked but enemies to be destroyed, whether by the Kremlin itself or by hard-line elements within its orbit. By covering for those who killed Nemtsov—allegedly fighters linked to Chechnya’s strongman leader, Ramzan Kadyrov—the state risks losing its monopoly on violence.

No longer is Russia interested in putting forward the simulacrum of a democratic state that aspires to equal membership in the Western-led order. If anything, it prides itself on its pariah

status; it would rather upend Western institutions than join them. To do so, Putin needs to fracture them, whether by testing NATO's willingness to deliver on its promises of collective security or playing on divisions within the EU.

Yet it is misleading to suggest, as Pomerantsev does, that unlike the Soviet Union, Russia under Putin has no ideology. In fact, it has become a pole for the world's most potent one: anti-American and anti-Western frustration. Often, that ideology can be found within the West itself. In Europe, for example, Russia is allying itself with individuals and parties that feel dissatisfied with the European consensus. Appealing to this sizable audience is what has made RT, the Kremlin-funded cable television channel, so popular. It serves as a home not so much for pro-Russian propaganda as for an unwieldy coalition of conspiracy theorists and marginal academics, from far-left antiglobalization activists to far-right xenophobes.

At the same time that the state is tightening the country's political and social culture, the easy money has run out. Nearly all at once, the spare production capacity that allowed for the oil-fueled consumer frenzy dried up, U.S. and EU sanctions choked off Russian companies' access to foreign capital, and the global price of oil dropped below \$50 a barrel. The combined effect has been disastrous, and unlike Russia's financial crisis in 2008–9, this one is the result of Russia-specific factors, not global ones, so there is little hope that things will turn around quickly. The ruble lost half its value last year, and the Russian economy is projected to enter into a recession this year, with GDP growth falling to

negative five percent. Inflation is expected to top 15 percent, which could have grave implications for social stability.

This new reality will force Putin to make some uncomfortable economic choices. He cannot afford to simultaneously fund a large security state and an ambitious military modernization program, provide rising wages and social benefits to state workers and pensioners, and funnel lucrative contracts to loyalists and favored oligarchs. Something will have to give. As the pool of resources to be shared among the elite dwindles, its members will likely turn on one another. Last fall, authorities placed Vladimir Yevtushenkov, the billionaire head of the holding company Sistema, under house arrest and ordered that an oil company he owned, Bashneft, be nationalized. Bashneft may well end up in the hands of Igor Sechin, the head of the state oil giant Rosneft and one of Putin's closest allies. With production declining at Rosneft and sanctions making exploration at new fields in the Arctic nearly impossible, Sechin needed to find new output somewhere. The affair is a harbinger of future fights: with less cream to skim off, the politically connected will have to start stealing their share from one another.

THE SURREAL RUSSIA

It is only natural that Pomerantsev spends much of his book writing about Vladislav Surkov, the Putin adviser who was most responsible for the rules and motifs of Russian politics throughout the first decade of this century. Surkov is a postmodern Machiavelli: he has put his brilliance in the service of autocracy, all the while listening to Tupac and writing

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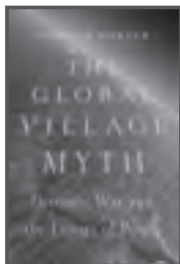
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dystopian fiction under a pen name. It was Surkov who coined the term “sovereign democracy” to legitimate the Putin system, a neologism whose true meaning, Pomerantsev writes, is a “postmodern dictatorship that uses the language and institutions of democratic capitalism for authoritarian ends.” Pomerantsev recounts watching Surkov deliver a political sermon to an audience of Russian students, journalists, and politicians in Moscow, a speech that blended “democratic rhetoric and undemocratic intent.” Surkov’s genius, he explains, is to “marry authoritarianism and modern art, to use the language of rights and representation to validate tyranny, to recut and paste democratic capitalism until it means the reverse of its original purpose.”

It is also no accident that Surkov ended up as one of Putin’s chief advisers on Ukraine over the course of 2014. For what is Russia’s policy in Ukraine if not a war on reality? The so-called people’s republics in the rebel-held Donetsk and Luhansk regions began as fictions thought up by oligarchs in Ukraine’s eastern regions and propagandists in the Kremlin and over time morphed into entities real enough to hold territory, send representatives to international negotiations, and inspire young men to die for them. Similarly, Putin and other Russian nationalists have resurrected the term “Novorossiia,” or “New Russia,” a tsarist-era geographic construction that includes much of eastern and southern Ukraine. In a fitting detail, Igor Girkin, also known as Strelkov, the most famous rebel commander who has fought in eastern Ukraine, is a former Russian intelligence officer with a hobby of dressing up for

historical reenactments of the Russian Civil War.

The Kremlin’s ability to turn imaginary territories into quasi states represents the ultimate success of what Pomerantsev observed at a Moscow television studio not long after joining a Russian production company, where he sat in on a meeting of Russian broadcasting executives discussing what to show on that week’s news programs. The images they decided on would be the “incense” to bless the actions of the state. To these men, Pomerantsev writes, “reality was somehow malleable.”

PUTIN’S WAY

The West is not without its own illusions. One of them, shared by Browder, who was himself susceptible to the charms of money, is that cash rules everything around the Kremlin. Under Putin, Browder writes, Russia’s national interest is “now guided by money, specifically the criminal acquisition of money by government officials.” Here, Browder is a somewhat unreliable narrator, given that his discomfort with corruption and shady business practices is, at best, relative to the situation. One of two main initial investors in Hermitage was Beny Steinmetz, an Israeli billionaire who has been under investigation by the FBI and the U.S. Justice Department for alleged bribery in the acquisition of mining rights in Guinea. (In the wake of an earlier Russian financial crash, Steinmetz pulled his money out of Hermitage. “Losing Beny as a partner was unfortunate,” Browder writes.)

A decade ago, when his business in Russia was thriving, Browder was a very public supporter of Putin. “We want an authoritarian—one who is exercising authority over mafia and oligarchs,” he

told *The New York Times* in 2004. Putin, he said, “has turned out to be my biggest ally in Russia.” Browder cheered the 2003 arrest and prosecution of Khodorkovsky, hoping that it would presage a larger campaign against the oligarchs who made their fortunes in the 1990s. As he writes in *Red Notice*, if Khodorkovsky “miraculously stayed in jail and this was to be the beginning of a crackdown on the oligarchs, it meant that Russia had a chance at becoming a normal country.” In other words, Browder wanted more politically directed prosecutions to clean up Russia, and whatever Putin was doing to consolidate control over the media, dismantle any prospects for genuine political opposition, and give near-total impunity to law enforcement and the judiciary didn’t really matter.

The belief that Russia is about money—“making it, keeping it, and making sure no one took it,” as Browder puts it—is widely held, and it provides much of the rationale for the Western sanctions against Russia. Make aggression in Ukraine costly, the thinking goes, and Putin will give up. But the last several months have not borne out this hypothesis: in January, as the ruble flirted with historic lows, Putin increased his military involvement in eastern Ukraine, deploying Russian forces to spearhead a push for more territory. Similarly, a far-reaching round of U.S. and EU sanctions introduced after the shooting down of Malaysia Airlines Flight 17 over Ukraine in July 2014, allegedly by Russian-backed rebels, did not keep Putin from escalating the conflict with the direct use of Russian troops in August and September. Extreme wealth and corruption have indeed

been defining characteristics of Putin’s system. But over the last year, Putin’s ultimate aims have come to look rather different: to weaken the West, expose U.S. hegemony as hollow, and reveal NATO to be toothless and unreliable. To Putin and those around him who see themselves as the guarantors of Russia’s historical destiny, material gain comes as an inherent right of their positions—but it is not their main goal.

Like Browder, Pomerantsev makes too much of his personal experience. The production of reality shows is a revealing and, at times, brilliant lens for understanding the theatrics of contemporary Russian political life. But the danger of looking at things this way is that it places all the blame on state television and the propaganda machine. Reading *Nothing Is True and Everything Is Possible*, one would think that Russia is a place devoid of history, national interests, or electoral pressures—that the country’s politics and society are nothing but the invention of Surkov-like figures.

Although the people in the television studios shape Russia’s reality, they do not invent it from scratch. To suggest otherwise is to deny agency to Russians, who have their own fraught and symbiotic relationship with the state. “You will always look for your compromise with the state, which in turn makes you feel just the right amount of discomfort,” Pomerantsev writes. “Whichever way, you’re hooked.” Putin’s approval rating of well above 80 percent is in no small measure a product of the state’s monopolistic control over mass media, but it is also an expression of buried historical grievances. Putin is less the country’s captor than the manifestation of its collective subconscious.

That leads to another, quite dangerous illusion of the West: that it faces a Putin problem and thus needs to come up with a Putin policy. Such a frame causes analysts to psychoanalyze Putin and explain Russian behavior by looking at, say, the size of his secret wealth. (Browder told CNN in February that he puts the number at \$200 billion, a figure he admitted was essentially made up.) But at this point, 15 years into his rule, Putin is less a man than a system. Removing Putin would not repair the country's many damaged institutions, undo the personalization of power, or heal the lingering trauma of the Soviet experience. Nor would it necessarily bring to power a superior individual leader: however tragic or frustrating, it is easier to imagine Putin being replaced by a figure such as Strelkov than by a Western-oriented liberal like Nemtsov. If there is anything good about the end of the era chronicled by Browder and Pomerantsev, it is that understanding Russia should be easier than ever: the state's inclinations are on full display. That is no guarantee that a full-blown crisis can be avoided, however. As Magnitsky ominously tells Browder before he dies in jail, "Russian stories never have happy endings."

The chief difficulty of the new era of Putinism is that, in a time of increasing scarcity, it requires ever more resources to maintain, whether they be money or force or political favors. Crimea needs billions of rubles in investment, and the insurgency in eastern Ukraine does not come cheap either—and that is before the Kremlin eases the financial pressures on Russian companies and households. Putin will have to decide which elements of his rule are essential to stability and

which are expendable. He has already given some indication: the military-industrial complex seems to have avoided the ten percent cuts in expenditures facing other areas of the budget, and with pensions indexed to inflation, the elderly have kept their share, too.

But many camps are unhappy, from the oligarchs who see their profits declining to the nationalists close to the security services and the Orthodox Church who want a more direct intervention in Ukraine. Putin has long prided himself on serving as the system's arbiter, parceling out morsels to various clans while never elevating one over another. He may not be able to maintain that balance forever, however, having to choose in a more decisive way between, for example, Sechin's interests at Rosneft and those of other sectors of the economy, or between factions of the security services, such as the FSB and his Chechen proxy, Kadyrov. The danger for Putin is that weakening or removing one pillar of his ruling edifice could make the whole thing wobble. In the beginning of his rule, he could delay or avoid decisions, and the profits would flow all the same. Now there are thinner profits, and tougher choices. 🌐

What Caused Capitalism?

Assessing the Roles of the West and the Rest

Jeremy Adelman

The Cambridge History of Capitalism, 2 vols.

EDITED BY LARRY NEAL AND JEFFREY G. WILLIAMSON. Cambridge University Press, 2014, 1,205 pp. \$260.00.

The Enlightened Economy: An Economic History of Britain, 1700–1850

BY JOEL MOKYR. Yale University Press, 2012, 550 pp. \$35.00.

Empire of Cotton: A Global History

BY SVEN BECKERT. Knopf, 2014, 615 pp. \$35.00.

Once upon a time, smart people thought the world was flat. As globalization took off, economists pointed to spreading market forces that allowed consumers to buy similar things for the same prices around the world. Others invoked the expansion of liberalism and democracy after the Cold War. For a while, it seemed as if the West's political and economic ways really had won out.

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But the euphoric days of flat talk now seem like a bygone era, replaced by gloom and anxiety. The economic shock of 2008, the United States' political paralysis, Europe's financial quagmires, the dashed dreams of the Arab Spring, and the specter of competition from illiberal capitalist countries such as China have doused enthusiasm about the West's destiny. Once seen as a model for "the rest," the West is now in question. Even the erstwhile booster Francis Fukuyama has seen the dark, warning in his recent two-volume history of political order that the future may not lie with the places that brought the world liberalism and democracy in the past. Recent best-sellers, such as Daron Acemoglu and James Robinson's *Why Nations Fail* and Thomas Piketty's *Capital in the Twenty-first Century*, capture the pessimistic Zeitgeist. So does a map produced in 2012 by the McKinsey Global Institute, which plots the movement of the world's economic center of gravity out of China in the year 1, barely reaching Greenland by 1950 (the closest it ever got to New York), and now veering back to where it began.

It was only a matter of time before this Sturm und Drang affected the genteel world of historians. Since the future seems up for grabs, so is the past. Chances are, if a historian's narrative of the European miracle and the rise of capitalism is upbeat, the prognosis for the West will be good, whereas if the tale is not so triumphal, the forecast will be more ominous. A recent spate of books about the history of global capitalism gives readers the spectrum. *The Cambridge History of Capitalism*, a two-volume anthology edited by two distinguished economic historians,

Larry Neal and Jeffrey Williamson, presents readers with a window into the deep origins of capitalism. Joel Mokyr's *The Enlightened Economy* explains how capitalism broke free in a remote corner of western Europe. And in *Empire of Cotton*, Sven Beckert, a leading global historian, offers a darker story of capitalism, born of worldwide empire and violence.

WESTWARD HO!

The conventional narrative of the making of the world economy is internalist—that is, that it sprang up organically from within the West. The story goes like this: after the Neolithic Revolution, the global shift from hunting and gathering to agriculture that occurred around 10,000 BC, the various corners of the globe settled into roughly similar standards of living. From China to Mexico, the average person was more or less equal in height (five feet to five feet six inches) and life expectancy (30 to 35 years). Societies differed in their engineering feats, forms of rule, and belief systems. But on the economic front, they boasted common achievements: advanced metallurgy, big walls, and huge pyramids.

If there were tragedies, they entailed plagues and blights more than man-made catastrophes. This is not to say that the Mongol conquest of Baghdad in 1258 was polite; of the city's one million people, more than 200,000 were killed, and the Tigris is said to have run red with blood. But horrific episodes such as this did not determine social well-being, measured as income per person over the long run. That figure remained remarkably constant until about 1500. In this sense, the world was flat. About this portrait, there is consensus.

Where there is debate is over what came next. Some say that groups of Europeans, especially northern Protestants, began to be rewarded for the improved productivity that stemmed from their individualistic habits. Others argue that Europeans stumbled on the right balance of good governance and benevolent self-interest. Either way, late-medieval Europeans found the formula for success, banked on it, and turned it into what, by the nineteenth century, would be known as capitalism.

Internalists argue that capitalism was born European, or more specifically British, and then became global. A system of interconnected parts and peoples, it radiated out from a few original hot spots and over time replaced the "isms" it encountered elsewhere. "Replace" is actually a bland way of putting it. Champions of capitalism would say "liberate." Marxists would call it a "conquest." But the story line is the same: Europe exported its invention to the rest of the world and in so doing created globalization.

CAPITALISM RISING

The internalist story remains the most familiar way of explaining the breakout from the long post-Neolithic *durée*. *The Cambridge History of Capitalism* goes so far as to argue that elements of capitalism have existed since prehistoric times and were scattered all over the planet; the traits of the individual optimizer were sown into our DNA. Clay tablets recording legal transactions with numbers offer proof of some Mesopotamian capitalist plying his wares. Relics of trading centers in Central Asia trace the primitive optimizer to the steppes. True, for millennia, capitalists were uncoordinated,

fragile, and vulnerable. But the origins of capitalism go as far back as archeologists have found remnants of organized market activity. As Neal explains in his introduction, “The current world economy has been a long time in the making.”

In this rendering, the survival of capitalists is a bit like that of early Christians: often in doubt. Just as Christians had to make Christendom, imperiled and scattered capitalists had to defeat predatory rulers and rent-seeking institutions in order to make capitalism. In *The Cambridge History of Capitalism*, it was the Italian city-states that first departed from the old order. Although they were vulnerable to rivals and tended to favor oligopolies, these polities laid the groundwork of institutions and norms that in the fifteenth century would pass to mercantile states of the Atlantic—Spain and Portugal—and then the Netherlands, France, and England. Freed from a Mediterranean Sea crowded with Ottoman fleets and North African corsairs, the Atlantic upstarts unleashed themselves on the world’s oceans. In the internalist account, what was important was getting a virtuous cycle going: creating institutions, such as the legal defense of private property, that rewarded entrepreneurial behavior and letting this profit seeking reinforce those institutions through people abiding by laws and paying taxes. The virtuous cycle lifted capitalists from trading with one another to coordinating with one another, thus creating a system of rules and norms to sustain the returns of profit-seeking pursuits. These moneymen put the “ism” in “capitalism.”

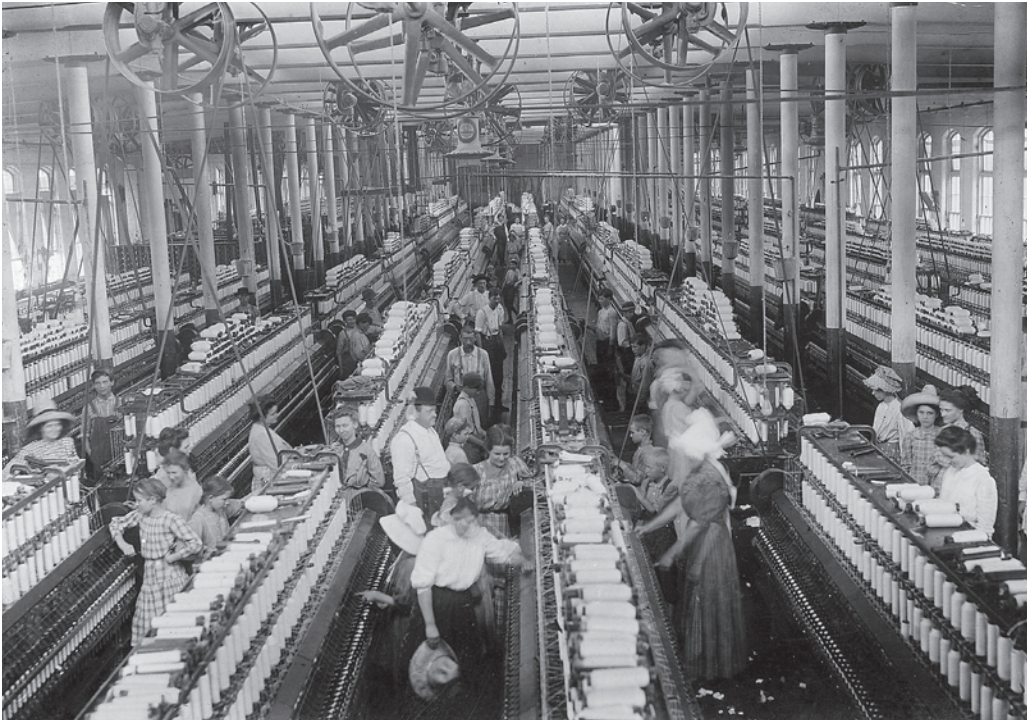
Then came a second leap forward with the Industrial Revolution and the

spread of the printed word, which, Neal writes, dissolved the “obstacles to imitation.” European societies began to emulate one another. From pockets of accumulation and ingenuity emerged coordinated and, eventually, integrated processes. Coal, timber, draperies, and flatware filled European trade routes.

Afterward, according to this story, capitalism went global, as European actors and institutions fanned out to join forces with the huddled capitalists in Asia, Africa, and Latin America from the seventeenth to the nineteenth century. But here’s the rub: beyond Europe, capitalism had weaker domestic roots, and so it yielded more conflict and tension in the periphery than in the heartland. Local societies resisted change and resented being viewed as backward, condemned as hewers of wood and drawers of water. The globalization of European capitalism has been an uneven and bitter process. Only a few in the periphery, such as Japan, got the mimicry right; these exceptions help confirm the norm that capitalism is best built from the inside out.

FROM SCIENCE TO WEALTH

There are other ways of explaining how capitalism started in Europe and diffused. Mokyr, for instance, has championed the view that capitalism owes its existence to the cognitive, cultural, and intellectual breakthrough that came about as the scientific revolution swept Europe in the seventeenth and eighteenth centuries. More than any other scholar, he has connected the shifting attitudes to and uses of technology to economic change, crediting the rise of capitalism to an alliance of engineers and investors, tinkerers and



Spin zone: a cotton mill in Magnolia, Mississippi, 1911

moneymen. When those people finally joined forces in the middle of the eighteenth century, the obstacles to growth came crumbling down. In *The Enlightened Economy*, Mokyr goes further:

A successful economy . . . needs not only rules that determine how the economic game is played, it needs rules to change the rules if necessary in a way that is as costless as possible. In other words, it needs meta-institutions that change the institutions, and whose changes will be accepted even by those who stand to lose from these changes. Institutions did not change just because it was efficient for them to do so. They changed because key peoples' ideas and beliefs that supported them changed.

This is a lot of entangled change and rules, and it's not easy to sort out the

causality. The key to Mokyr's internalist argument is the emergence of what he calls "useful knowledge," which translated science into production. The process was far from simple. *The Enlightened Economy* charts the often imperceptible steps that rewarded intellectual innovators and aligned them with impresarios, to create circles of "fabricants" and "savants." "Interaction" is a key word in Mokyr's vocabulary; it's what conjugates curiosity and greed, ambition and altruism. The big breakout came with the Enlightenment, which gave birth to rational thought, the modern concept of good government, and scientific insights into what produced more wealth. After that, there was no looking back.

Internalist histories vary a lot. There are materialists, who see people responding to incentives and opportunities to pool their money. There are institutionalists,

who insist on the primacy of property rights and constitutional constraints on greedy rulers. And there are idealists, who spotlight Europe's intellectual breakthroughs. Some combine elements. But internalist narratives also share a lot. Internalists argue that Europe's breakout was autopoietic—that is, that the causes can be found within the system itself, one capable of maintaining and reproducing success without depending on outside forces. In general, the internalist story is also a cheery one. It focuses on what went right, fits with a rise-of-the-West narrative, and tends to be confident of capitalism's durability. If the rest poses a threat, this is mainly because the rest seethes over lagging behind the West.

There are a couple of problems with this kind of history. The first is that what passes for capitalist behavior is so broad that it's no wonder one can find proof of *Homo economicus* from time immemorial. Charting the rise of capitalism can be like tracking the hedge fund manager from the hominids who marched out of Africa. Some internalist narratives rely so much on the capitalist as the maker of the system that they define the hero of the story in such a way that he is either unrecognizable to historians who see more in human behavior than material self-interest or so generic that he is hard to separate from the crowd.

The other problem involves the scale of analysis. "Britain," "Europe," and "the West" are notoriously imprecise and anachronistic terms. Why some city-states and not others? Why not Spain but France? Empires seem to drop out of Mokyr's story. When they do creep in, they play the role of agents non-provocateurs, promoting greed of the

wrong sort: Spain throttled capitalism because it acquired Aztec gold and then got conquistadors hooked on precious metals and not profits, and the United Kingdom acquired an empire in a fit of absent-mindedness—and that empire was merely an extension of the more important domestic market.

As for explaining the fate of the followers, the lesson of internalist theories has been "Replicate!" Catch up by copying. Borrow the script. Free markets; protect private property. But the problem has always been that the nature of catching up makes copying impossible. As the Russian-born economic historian Alexander Gerschenkron noted, "In several very important respects the development of a backward country may, by the very virtue of its backwardness, tend to differ fundamentally from that of an advanced country." Finally, as a new crop of global historians has been showing, it is not so easy to isolate the United Kingdom, Europe, or the West from the rest. When it comes to privileged internalist variables, such as scientific knowledge or the Enlightenment, a growing chorus of scholars is finding that West-rest interactions set the stage for the workings of impresarios, engineers, and philosophers. So what role did the rest play in the rise of the West?

THE ROLE OF THE REST

The internalist narrative has long been shadowed by an externalist rival, which sees Europe's leap forward as dependent on relations with places beyond Europe. Externalists summon a different battery of action verbs. Instead of "coordinating" or "interacting," the system favored "exploiting" and "submitting." The most

recent externalist explanation of capitalism is Beckert's *Empire of Cotton*. The book is a triple threat: it insists that the Industrial Revolution would never have happened without external trade, that the rise of industrialism and factory labor would never have transpired without the spread of slave labor, and that cotton was a commodity that made an empire and thus the world economy. In other words, capitalism was born global because it required an empire to buoy it.

As is the case with Piketty's data-fueled bestseller, *Empire of Cotton* is modest only in style. A Harvard historian known for his legendary undergraduate course on the history of American capitalism, Beckert last wrote a penetrating history of the New York bourgeoisie in the Gilded Age, *The Monied Metropolis*, which described the immense concentration of power in a short period of time as the United States transformed from an agrarian society into an urban, cosmopolitan one. His newest book gives readers the global picture of which New York was a part. Collectively, historians have drawn up a shopping list of causal commodities. Sugar was once seen as the driver of the early modern triangle trade. Kenneth Pomeranz made coal famous, arguing in *The Great Divergence* that Europe succeeded because British mines were close to start-up factories, whereas China lagged behind because bituminous deposits there were out of reach. David Landes, in *The Unbound Prometheus*, made even the humble vat of grease a hidden hero of the Industrial Revolution. For Beckert, the globalizer is cotton.

In 1858, James Henry Hammond, a South Carolina planter-senator, thundered on the floor of the Senate, "Cotton is

**Not all readers
are leaders,
but all leaders
are readers.**

- Harry S. Truman

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king.” But cotton was not always king in the Atlantic world. For long stretches, it was a mere pawn. Where it was king was in India. At the start of Beckert’s epic tale, in the early eighteenth century, India provided coveted muslins and calicoes for European markets. Its cotton was grown by peasants, along with their food crops, with enough supply to sustain an export boom until the nineteenth century. Europe was a growing, but fringe, market.

So how did India and Europe trade places as the center of the cotton industry? The key lies in the nature of the Atlantic trade. Beckert locates the preindustrial origins of that trade in what he calls “war capitalism.” By this, he means the use of state power to wage war on rivals for markets and possessions and to shove native peoples off their land in the Americas and Africa. While Native Americans were dispossessed, Africans were shipped—about 12 million of them—from one side of the Atlantic to the other. Once American land, African labor, and European capital were bonded together on the cotton plantation, a new source of cotton could finally outmuscle the peasant household on the Indian subcontinent. It was not internalist factors, such as local property rights or useful knowledge, that punched through the capitalist transformation; “a wave of expropriation of labor and land characterized this moment, testifying to capitalism’s illiberal origins,” Beckert argues.

But this was not all. Manufacturers in Europe needed to keep out their Indian competitors and create new markets. Various kinds of protectionist policies came to the rescue, Beckert writes, “testifying . . . to the enormous importance of the state to the ‘great

divergence” between industrializers and those that trailed behind. On the eve of the American Revolution, the British Parliament decreed that cotton cloth for sale at home could come only from cloth made in the United Kingdom. Other European governments did the same.

Even protectionism was not enough. Because European domestic markets alone could not sustain expanding factories, an export boom had to be manufactured. Europeans gave clothes to African traders in return for captives, pressured newly independent countries in Latin America to throw open their markets, and eventually introduced cheap, milled textiles to the bottom end of the Indian market. Thus subverted, Indian peasants became estate sharecroppers producing raw cotton for export to British mills. After the American Civil War, King Cotton fell on hard times, because Brazilian, Egyptian, and Indian estates could hire displaced peasants more cheaply than freed slaves. Once the traditional bond between peasants and land had been severed in Africa, Asia, and the Americas, cotton merchants were free to exploit the land as they saw fit. Beckert writes that from 1860 to 1920, 55 million acres of land in those regions were plowed for cotton. According to some estimates, by 1905, 15 million people made a living by growing cotton—about one percent of the world’s population.

The cotton industry became so competitive that it attracted arrivistes. Japan, for example, replaced its imported textiles from British India and the United States with raw cotton from Korea in the early twentieth century and so became a new commercial empire in its own right. Belgium and Germany tried the same thing in Africa. Thus was born an

imperial spasm in the name of free trade. The circle finally closed when India, too, tried to replace imports with domestic production and economic nationalists lobbied to free the colonial economy from British control. In the 1930s, the original textile manufacturers in the United Kingdom saw their business go overseas in response to labor costs and working-class militants. Mill towns hollowed out. By the 1960s, British cotton textile exports had shrunk to a sliver (2.8 percent) of what they once were. The American South saw its staple flee to Bangladesh. Eventually, Beckert writes, cotton mills in Europe and North America were refurbished as “artist studios, industrial-chic condos, or museums.”

A narrative as capacious as this threatens to groan under the weight of heavy concepts. In fact, Beckert dodges and weaves between the big claims and great detail. His portrait of Liverpool, “the epicenter of a globe-spanning empire,” puts readers on the wharves and behind the desks of the credit peddlers. His description of the American Civil War as “an acid test for the entire industrial order” is a brilliant example of how global historians might tackle events—as opposed to focusing on structures, processes, and networks—because he shows how the crisis of the U.S. cotton economy reverberated in Brazil, Egypt, and India. The scale of what Beckert has accomplished is astonishing.

Beckert turns the internalist argument on its head. He shows how the system started with disparate parts connected through horizontal exchanges. He describes how it transformed into integrated, hierarchical, and centralized

structures—which laid the foundations for the Industrial Revolution and the beginnings of the great divergence between the West and the rest. Beckert’s cotton empire more than defrocks the internalists’ happy narrative of the West’s self-made capitalist man. The rise of capitalism needed the rest, and getting the rest in line required coercion, violence, and the other instruments of imperialism. Cotton, “the fabric of our lives,” as the jingle goes, remained an empire because it, like the capitalist system it produced, depended on the subjugation of some for the benefit of others.

IMPERIAL DISCONTENTS

Like the heroic capitalist rising and spreading his wings in the internalist narrative, the distinctly unheroic empire in the externalist narrative functions as the machine that made itself. This raises all the same problems of circularity: empire becomes the cause and the effect of capitalism. It also raises problems of how to join inequality and integration, both of which lie at the heart of Beckert’s book. Contrary to the externalist precept, coercion need not be the only binding force when power relations are asymmetric; global domination is not necessarily inherent to capitalism. Maybe it is because the English language lacks the right terms to describe a global order of uneven and asymmetric parts that externalists resort to shortcuts such as “empire” or “hegemony.” Internalists, by contrast, offer a vocabulary that accents choices and strategies, such as “creating opportunities” and “maximizing returns.”

Most historians side with a single narrative, captive to stories of capitalism

as either liberating or satanic, springing from below or imposed from above. In order to plumb the past of global capitalism, however, they need a stock of global narratives that get beyond the dichotomies of force or free will, external or internal agents. To explain why some parts of the world struggled, one should not have to choose between externalist theories, which rely on global injustices, and internalist ones, which invoke local constraints.

Indeed, it's the interaction of the local and the global that makes breakouts so difficult—or creates the opportunity to escape. In between these scales are complex layers of policies and practices that defy either-or explanations. In 1521, the year the Spanish defeated the Aztec empire and laid claim to the wealth of the New World, few would have predicted that England would be an engine of progress two centuries later; even the English would have bet on Spain or the Ottoman Empire, which is why they were so committed to piracy and predation. Likewise, in 1989, as the Berlin Wall fell and Chinese tanks mowed through Tiananmen Square, “Made in China” was a rare sight. Who would have imagined double-digit growth from Maoist capitalism? Historians have trouble explaining success stories in places that were thought to lack the right ingredients. The same goes for the flops. In 1914, Argentina ranked among the wealthiest capitalist societies on the planet. Not only did no one predict its slow meltdown, but millions bet on Argentine success. To find clues to success or failure, then, historians should look not at either the world market or local initiatives but at the forces that combine them.

Alternative narratives may have to come from beyond the heartland of capitalism itself, the home of classical fables of modernization. In the nineteenth century, many liberals outside Europe struggled to find a different path, because copying the West was a hopeless pursuit. Since they could not claim histories of capitalism as their own but still believed in the credos of liberalism, they tried to think beyond the binary choice of coercion or free will. Juan Bautista Alberdi, the father of Argentina's 1853 constitution and a native of the country's cotton province of Tucumán, was devoted to free trade and opening up frontier lands for the production of commodities. Like many global liberals, he insisted that governments did not have to resort to coercion to integrate supply chains. Alberdi was a fierce critic of using war as a means to modernize, and he blasted Argentine and Brazilian elites for colluding during the Paraguayan War of 1864–70, the South American echo of the American Civil War. His work represents but one example of capitalist endeavors that were neither carbon-copied nor made out of the barrel of a gun.

The dichotomy between internalists and externalists is harmful because it creates a pressure to rely on just one of their heroic and unheroic duelers to explain capitalist development. In fact, the payoff from global history comes from thinking about capitalism in multiple ways and on multiple scales. Surely, the travails of the rest serve as a reminder that the isms of the West are neither as inevitable nor as durable as their chroniclers or critics believe. 🌐

The Real Challenge in the Pacific

A Response to “How to Deter China”

Michael D. Swaine

In past years, Andrew Krepinevich, Jr., has argued for a U.S. military operational concept in the Pacific theater called “Air-Sea Battle.” This concept relies heavily on preemptive deep strikes in the early stages of a conflict and would have been highly escalatory. Perhaps implicitly recognizing the costs and risks of such an approach, Krepinevich now offers up a replacement he calls “Archipelagic Defense” (“How to Deter China,” March/April 2015). This approach would “deny China the ability to control the air and the sea around the first island chain,” largely through the deployment of U.S. and allied ground forces and supporting military assets, including anti-aircraft, antimissile, and antisubmarine capabilities. Arrayed in areas from Japan to the Philippines, these measures are necessary, he argues, because Beijing is committed to a strategy of coercion and intimidation designed to exclude the United States from the

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western Pacific and eventually lead to China’s dominating the region.

Krepinevich is correct that some sort of denial strategy directed against Chinese provocations and attacks on vital allied territory in the first island chain makes sense as a deterrent against worst-case contingencies. He is unclear, however, about how this strategy should relate to the overall U.S. security posture in the region. And he fails to address the truly critical strategic issue confronting Washington, which is the near-inexorable relative decline of U.S. military and economic predominance along the Asian littoral.

For analysts such as Krepinevich, it is axiomatic that rising powers such as China seek hard power dominance and that the central challenge for currently dominant powers such as the United States is how to prevent them from doing so. This sort of zero-sum thinking—which is increasingly common on both sides of the Pacific—polarizes the region and undermines the goals of continued peace and prosperity toward which all strive. Both sides would benefit from a different approach, one that moved from a growing contest over U.S. predominance in the region to a genuine, long-term balance of power in the western Pacific resting on mutual military and political restraint and accommodation, as well as new policy initiatives designed to reduce the volatility of flash points such as the Korean Peninsula and Taiwan.

CLASHING ASSUMPTIONS

Virtually all U.S. officials and many Asian leaders believe that American military predominance in the maritime realm has provided the foundation for a 70-year period of relative peace and

prosperity throughout most of the Asia-Pacific region, forestalling arms races and militarized disputes and permitting a sustained focus on peaceful economic development. Many Chinese, however, believe that in an increasingly multipolar and interdependent world, order and prosperity should rely on a roughly equal balance of power, both globally and among the region's major nations, which should cooperate in managing common challenges, working whenever possible through international institutions such as the United Nations.

To some extent, these views are self-serving. Washington benefits enormously from a U.S.-led international order in which its views and preferences are given special consideration, and Beijing would benefit from a more equal balance of power, which would give it a greater voice and check the United States. But elites in each country also genuinely think that their position accurately reflects the current and future reality of the international system. Americans generally believe that peace and stability flourish under American hegemony, which can and should be preserved, and their Chinese counterparts generally believe that such hegemony is an unfortunate historical anomaly that should give way to a more balanced distribution of power—and that it is doing so already.

For most of the postwar era, these perspectives coexisted relatively easily, primarily because Beijing was too weak to push its own view and was able to rise steadily within the U.S.-sponsored order. But times have changed; China has outgrown its subordinate status and now feels strong enough to press its case in the western Pacific.

This development should not be surprising to anyone who understands modern Chinese history and great-power transitions. Beijing has an ongoing incentive to work with Washington and the West to sustain continued economic growth and to address a growing array of common global and regional concerns, from pandemics to climate change to terrorism. At the same time, it understandably wishes to reduce its vulnerability to potential future threats from the United States and other nations while increasing its overall influence along its strategically important maritime periphery. As its overseas power and influence grow, its foreign interests expand, and its domestic nationalist backers become more assertive, Beijing will naturally become less willing to accept unconditionally military, political, and economic relationships and structures that it believes disproportionately and unjustly favor Western powers. And it will increasingly worry that Washington might resort to pressure or force to try to undermine Chinese security moves in the western Pacific and head off the United States' impending relative decline.

Many Chinese observers now believe that Beijing's past weakness and its need to cooperate with the United States and the West in general have made it too accommodating or passive in dealing with perceived challenges to China's vital national interests, from U.S. support for Taiwan and Asian disputants over maritime claims to close-up U.S. surveillance and other intelligence-gathering activities along the Chinese coast. The more extreme variants of this nationalist viewpoint threaten to transform China's long-standing "peaceful

development” policy, which focuses on the maintenance of amicable relations with the United States and other powers, into a more hard-edged approach aimed at more actively undermining U.S. influence in Asia. The so-called bottom-line concept of Chinese President Xi Jinping’s foreign policy is an apparent step in this direction, stressing in an unprecedented manner the need for China to stand resolute in managing territorial and sovereignty issues in the East China and South China Seas.

Observing these stirrings, meanwhile, many American and other foreign observers see the beginnings of a larger effort to eject the United States from Asia and eventually replace it as the regional, and possibly even global, superpower. China’s greater assertiveness regarding maritime territorial disputes and U.S. and Japanese intelligence and surveillance activities along its coastline are interpreted as tests of U.S. and allied resolve, a prelude to the creation of no-go zones essential for the establishment of Chinese control over the western Pacific. In this view, the proper course of action for Washington is to decisively disabuse Beijing of its aspirations by enhancing U.S. predominance, increasing Chinese vulnerability in the western Pacific, and making clear who is boss, right up to China’s 12-nautical-mile territorial waters.

The problem with this outlook—implicit in the concept of Archipelagic Defense that Krepinevich proposes—is that it misdiagnoses China’s motivations and thus exacerbates, rather than mitigates, the underlying problem. Beijing’s de facto attempts to limit or end U.S. predominance along its maritime periphery are motivated by uncertainty,

insecurity, and opportunism rather than a grand strategic vision of Chinese predominance. Chinese leaders today are not trying to carve out an exclusionary sphere of influence, especially in hard-power terms; they are trying to reduce their considerable vulnerability and increase their political, diplomatic, and economic leverage in their own backyard. This is a much less ambitious and in many ways more understandable goal for a continental great power. It does not necessarily threaten vital U.S. or allied interests, and it can and should be met with understanding rather than defensive aggressiveness.

UNSUSTAINABLE TRENDS

Continued U.S. predominance in the western Pacific cannot be justified by the need to resist a Chinese drive to replace it, nor is it necessary in order to ensure regional (and global) order. It is inconceivable that Beijing will accept U.S. predominance in perpetuity and that it will grant the United States complete freedom of action in the Pacific and recognize its ability to prevail militarily in a potential conflict. Trying to sustain such predominance, therefore, is actually the quickest route to instability, practically guaranteeing an arms race, increased regional polarization, and reduced cooperation between Washington and Beijing on common global challenges. And even if some Chinese leaders were tempted to accept continued U.S. predominance, they would almost certainly end up meeting fierce and sustained domestic criticism for doing so as China’s power grows and would likely end up reversing course to ensure their political survival.

Trying to sustain American military predominance in the region, meanwhile, will become increasingly difficult and expensive. A recent study by the Carnegie Endowment for International Peace (which I co-authored) on the long-term security environment in Asia concluded that the United States will remain the strongest military power on a global level for many years to come. But this study also found that Washington will almost certainly confront increasingly severe economically induced limitations on its defense spending that will constrain its efforts to keep well ahead of a growing Chinese military and paramilitary presence within approximately 1,500 nautical miles of the Chinese coastline (that is, the area covered by the so-called first island chain).

The barriers to maritime predominance, however, apply to China as well as the United States. The Carnegie Endowment study also concluded that U.S. military power in Asia will almost certainly remain very strong and that even increased Chinese regional military capabilities will not offer Beijing unambiguous superiority. Any Chinese attempt to establish predominance in Asia would fail, therefore, both because it would be difficult for China to surpass the United States and because a scenario of this kind would frighten bystanders and drive them into Washington's arms.

Chinese leaders understand this and so are highly unlikely to seek predominance if they feel that they can achieve a decent amount of security in less confrontational ways. They are likely to seek some form of predominance (as opposed to acting merely opportunistically and in a more limited manner) only if Washington's words and actions

convince them that even the minimal level of security they seek requires it. Unfortunately, the United States' adoption of aggressive military concepts—such as Air-Sea Battle, Offshore Control, or even Archipelagic Defense—would deny them such security and thus contribute to an ever-worsening security dilemma.

THE NEED FOR MORE STABILITY

For both the United States and China, therefore, the primary future strategic challenge is finding a way to develop a mutually beneficial means of transitioning from U.S. predominance toward a stable, more equitable balance of power in the western Pacific—one in which neither nation has the clear capacity to prevail in an armed conflict, but in which both countries believe that their vital interests can nonetheless remain secure.

This will be difficult to achieve and potentially dangerous. It will not only require a variety of crisis-management and confidence-building mechanisms, beyond what have been developed thus far in Asia, but also necessitate high levels of strategic reassurance and restraint. Many knowledgeable observers have offered recommendations designed to reduce mistrust and enhance cooperation between Washington and Beijing, involving everything from caps on U.S. and Chinese defense spending to mutual, limited concessions on Taiwan and the ongoing maritime disputes. Many of these initiatives make sense. But they fail to address the real underlying problem—namely, China's unwillingness to continue to accept a clearly subordinate military position along its maritime periphery.

To reduce the risk of conflict and enhance the opportunities for cooperation,

Washington and Beijing will need to reach reliable understandings regarding the future long-term status of the Korean Peninsula and Taiwan, the management of maritime territorial disputes in the East China and South China Seas, and the scope and function of non-Chinese military activities within the first island chain (or at least within both China's and Japan's exclusive economic zones). Such understandings should almost certainly involve some credible form of neutralization of these areas as sources of growing contention or as locations from which to project U.S. or Chinese power, creating a de facto buffer zone along China's maritime periphery. Only these kinds of moves will provide the mutual strategic assurance required to maintain a stable security environment over the long term.

In the case of North and South Korea, this strategy would imply the emergence of a unified, nonaligned (or only loosely aligned) peninsula free from foreign military forces. Such an outcome would need to rest on credible security assurances by both the United States and China that a unified Korea would remain free from coercion and always open to close economic and political relations with both countries. Such assurances might involve the continuation in some form of a security relationship with Washington, although one that is greatly reduced, at least in the short to medium term. This process might also require Japan to provide security assurances to a unified Korea, at least to the extent of not acquiring nuclear weapons or some types of conventional weapons that the latter might find threatening, such as precision ballistic and cruise missile strike capabilities.

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In the case of Taiwan, it would require, as a first step, a U.S.-Chinese understanding regarding restrictions on U.S. arms sales to Taiwan, along with verifiable limits on relevant Chinese military production and deployments, including of ballistic missiles and strike aircraft. Beijing would also likely need to provide credible assurances that it would not use force against Taiwan in any contingency short of an outright Taiwanese declaration of *de jure* independence or the U.S. placement of forces on the island.

In the past, Beijing has resisted providing assurances regarding any nonuse of force toward the island, viewing guarantees of this kind as a limit on Chinese sovereignty over Taiwan. However, similar to the case of the Korean Peninsula, Beijing would likely view such a shift in its stance toward Taiwan as acceptable if it were necessary to stabilize the western Pacific; Chinese leaders might also regard it as a step toward the eventual unification of the island with the mainland. In addition, Beijing would likely need to accept that such unification could occur only through a peaceful process involving the willing consent of the people of Taiwan and that it might take decades. Washington, for its part, would likely need to provide assurances to Beijing that it would neither place forces on the island nor provide any new level of defense assistance to Taipei, as long as Beijing abided by its own assurances. And both countries would need to consult closely with both Taiwan and Japan at each step of this process and provide clear and credible assurances regarding the understanding reached between them.

Regarding territorial disputes in the East China and South China Seas, the United States needs to make clear that it has little direct interest in the interactions occurring among the disputants, apart from clear security threats leveled against the two U.S. allies involved, Japan and the Philippines. Washington should support, in an evenhanded manner, a binding code of conduct and established legal procedures for resolving clashes and arbitrating claims, but it should avoid staking its credibility on ensuring that a noncoercive process is followed in every instance. That said, the United States should also make clear that it will oppose, with force if necessary, any Chinese attempt to establish an exclusion zone or a *de facto* expansion of China's territorial waters in disputed areas beyond legally justifiable limits. For its part, Beijing must clearly affirm, through its words and actions, that there is no military solution to these disputes and that it will never seek to dislodge rivals forcibly from occupied areas. It must also credibly and convincingly state—privately, if not publicly—that South China Sea waters located within its so-called nine-dash line (a border it claimed in the 1940s and that no other country has recognized) but outside its territorial waters and exclusive economic zone constitute open ocean.

In the conventional military realm, U.S. primacy within at least the first island chain will need to be replaced by a genuinely balanced force posture and an accompanying military doctrine. This approach should likely be centered on what is termed a “mutual denial” operational concept, in which both parties—China and the United States

and its allies—possess sufficient levels of anti-access/area-denial capabilities to deter each other's attempts to achieve a sustained advantage through military means over potentially volatile areas (such as Taiwan, the Korean Peninsula, and disputed rocks and islands).

On the nuclear level, a stable balance of power in the western Pacific will require a clear set of mutual assurances designed to strengthen the deterrence capacity of each side's nuclear arsenal and thereby reduce the danger of escalation. To attain this goal, U.S. and allied defense analysts must discard the dangerous notion that Washington's primacy should extend to the nuclear realm. The United States should authoritatively indicate that it accepts and will not threaten China's retaliatory nuclear strike capability; abandon consideration of a long-range, precision global strike system or other systems capable of destroying China's nuclear arsenal; and provide greater assurances that its ballistic missile defense capabilities cannot eliminate a Chinese second strike. For its part, Beijing must be willing to accept such U.S. assurances and itself eschew any attempt to transition beyond its existing minimal deterrent, second-strike nuclear capability to a much larger force.

Obviously, these sorts of changes would have major implications for U.S. allies and friends in the region. For Japan to provide a unified Korea with the necessary assurances and to accept such adjustments in the United States' force posture and stance toward Taiwan, for example, certain clear understandings with Washington and Beijing would be necessary. In general, the creation of a *de facto* buffer zone or a neutral area

within the first island chain would almost certainly require that Japan significantly strengthen its defense capabilities—either autonomously or, preferably, within the context of a more robust, yet still limited, U.S.-Japanese security alliance.

This strengthening would entail the creation of a more fully integrated U.S.-Japanese infrastructure critical for so-called C4ISR capabilities. (C4ISR stands for “command, control, communications, computers, intelligence, surveillance, and reconnaissance.”) It would also necessitate building stronger passive defenses against possible Chinese ballistic and cruise missile threats to U.S. and Japanese military assets and enhancing Japanese logistics and support facilities, alongside improvements in specific defense-oriented Japanese capabilities, such as antisubmarine warfare and interceptor aircraft. However, these steps would not require Japan to become a fully normalized security partner of the United States or to undertake alliance-based security activities across the western Pacific and beyond.

For China, acceptance of a strengthened (albeit limited) U.S.-Japanese alliance; a unified, largely nonaligned Korean Peninsula; verifiable limits on Chinese capabilities vis-à-vis Taiwan; and the other elements of a stable balance of power would require a clear willingness to forgo those more ambitious objectives toward which some Chinese might aspire, both now and in the future. Those objectives include, most notably, the clear ability to establish control over the waters and airspace along China's maritime periphery and a Sinocentric Asian economic and political order that largely excludes the United

States. This outcome will likely require, in turn, that Beijing make concerted, public efforts to reject and invalidate among the Chinese citizenry the more extreme interpretations of Chinese nationalism. The benefits for China of these accommodations would be an enhanced level of security via a reduced U.S. threat to vital Chinese interests and the avoidance of a costly and likely increasingly dangerous security competition.

OBSTACLES TO A STABLE BALANCE

Several obstacles stand in the way of Washington and Beijing undertaking such a substantial change in perceptions, practices, and deployments. On the U.S. side, the first and foremost barrier is the general refusal of most, if not all, U.S. decision-makers and officials to contemplate an alternative to U.S. military predominance in this vital region. In addition, the short-term perspective, natural inertia, and risk avoidance of bureaucrats and policy elites militate against major shifts in policy and approach, especially in the absence of an urgent and palpable need for change. Indeed, it is extremely difficult for any major power, much less a superpower, to begin a fundamental strategic shift in anticipation of diminished relative capabilities before that diminishment has fully revealed itself.

In the western Pacific in particular, as Krepinevich's article demonstrates, U.S. national security decision-makers remain wedded to the notion that U.S. power (and in particular U.S. naval power) must brook no limitations in international waters. Service interests, intelligence needs, and alliance-maintenance requirements all reinforce the general U.S. bias in favor of continued maritime predominance.

U.S. decision-makers are also extremely loath to contemplate significant adjustments in the current status of the Korean Peninsula or Taiwan. It is generally believed that any movement toward a reduction in, or even a significant modification of, the U.S. security commitment to South Korea and Taiwan might result in their either moving to acquire nuclear arms or falling prey to threats or attacks from North Korea and China. Moreover, Japan might react to such a movement by questioning Washington's security commitment to Tokyo, which could result in a break in the two countries' alliance and even in Japan's acquisition of nuclear arms.

On the Chinese side, perhaps the most significant obstacle to undertaking a transition toward a stable balance of power in Asia derives from the insecurities and weaknesses of the Chinese government, both at home and abroad. China's leaders rely for their legitimacy and support not only on continued economic success and rising living standards but also on a form of nationalism that prizes the ability of the regime to stand up to slights and correct past injustices meted out by the imperialist powers during China's "century of humiliation." This dependence makes Chinese leaders hesitant to quell more extreme forms of nationalism and prone to concealing their country's military capabilities while they are undergoing rapid development.

A STAGED PROCESS IS REQUIRED

Clearly, therefore, Washington and Beijing are not about to agree on any sort of grand bargain to establish a new regional security environment anytime soon. Such a fundamental shift in policies and approaches could occur only gradually

over an extended period of time. But even starting to lay its foundations would require that elites in Washington, Beijing, and other Asian capitals open their eyes to the dangers of continuing on the present course and the benefits of devising fundamentally new arrangements appropriate to inexorably changing power realities.

Such rethinking must take place in several stages: first domestically, then among allies, and finally through a bilateral U.S.-Chinese strategic dialogue, with ample opportunities for each side to assess the credibility and veracity of the other's commitments along the way. Once all the players recognize the big picture—the general need for strategic readjustment—they can address specific concessions and arrangements.

An understanding that a gradual, peaceful transition to a more equal regional balance of power was under way could make Beijing more likely to persuade Pyongyang to abandon or strongly limit its nuclear weapons program and begin the sort of reforms that would eventually yield a unified peninsula. Both U.S. and Chinese leaders might ultimately convince Taipei of the benefits of new and more stable security arrangements (none of which would require the U.S. abandonment of Taiwan). And as for Japan, a calibrated strengthening of its capabilities, in the context of the creation of a buffer-like arrangement and stable balance of power with regard to the first island chain, would almost certainly prove acceptable to Beijing and eventually necessary for Tokyo.

Such realignments will not occur automatically. They will require coura-

geous and farsighted leadership in all the relevant capitals, some significant risk taking, and highly effective diplomacy. In fact, given the daunting obstacles in the way, one might legitimately ask why it is worth even raising the prospect of these changes. The answer is that the alternative—trying to sustain U.S. predominance in the western Pacific and muddle through continual and likely intensifying crises—is even worse, risking the sort of large-scale military conflict that power transitions throughout history have so often generated.

Ultimately, the choice facing decision-makers in the United States, China, and other Asian powers is whether to deal forthrightly and sensibly with the changing regional power distribution or avoid the hard decisions that China's rise poses until the situation grows ever more polarized and dangerous. Indeed, delay will only make the process of change more difficult. There are no other workable alternatives. 🌐

Who Lost Libya?

Obama's Intervention in Retrospect

A Close Call

Derek Chollet and Ben Fishman

It is tempting to view the chaos in Libya today as yet one more demonstration of the futility of U.S.-led military interventions. That is precisely the case that Alan Kuperman makes in his article (“Obama’s Libya Debacle,” March/April 2015), which asserts that NATO’s 2011 intervention in Libya was “an abject failure” that set free Libya’s vast conventional weapons stockpiles, gave rise to extremist groups, and even exacerbated the conflict in Syria. Today, no one involved in Libya policy since the overthrow of Muammar al-Qaddafi is satisfied with how events have unfolded. As Kuperman rightly notes, U.S. President Barack Obama has said that what has happened there is one of his greatest regrets and that he draws lessons from it when considering U.S. military interventions elsewhere.

But Kuperman goes much further, arguing that the situation that led to NATO’s intervention wasn’t so bad—that Qaddafi’s threat to civilians was overblown and that the United States and Europe were snookered into thinking there was a humanitarian emergency. The better course, according to Kuperman, would have been to allow the regime

to defeat the uprising, which it was on the verge of doing when NATO intervened, and instead invest in a political solution with Qaddafi’s son Saif al-Islam. Such arguments are seductive in hindsight, but they don’t shed any light on what policymakers confronted at the time, and in the case of the Saif counterfactual, they are misguided.

When the Libya crisis erupted in February 2011, reports came in from all corners—diplomatic and intelligence assessments from the United States and Europe, press reports, and eyewitness accounts—that the regime was perpetrating arbitrary arrests, torture, and killings. Given his record, the world rallied to pressure Qaddafi to relent. In late February, the UN Security Council unanimously approved a resolution calling for an immediate end to the violence and imposing an arms embargo on Libya and sanctions against the Qaddafi family and key regime members.

Of course, things only got worse. Qaddafi’s own actions and rhetoric made clear to those of us in Washington (and even to the usually skeptical Russia and reticent Arab League) that he would not step aside easily and that a humanitarian catastrophe loomed. If the uprising continued, Qaddafi’s forces would eventually regroup and rout the rebel forces in the east with the benefit of superior arms.

Kuperman describes Qaddafi as publicly offering reassurances and peace overtures, but what most everyone else saw was a Qaddafi who went to the airwaves and pledged that there would be “no mercy” and that his troops would go house to house looking for “traitors.” “Capture the rats,” he told followers. On March 15, 2011, as Qaddafi’s forces shelled the city of Ajdabiya, *The*

New York Times reported from the frontlines on the frantic exodus under way: “Hundreds of cars packed with children, mattresses, suitcases—anything that could be grabbed and packed in—careened through the streets as residents fled. Long lines of cars could be seen on the highway heading north to Benghazi, about 100 miles away.” As Qaddafi’s forces bore down on Benghazi, a city of nearly 700,000 people, the world saw a slaughter in the making.

That said, the decision to use military force was a close call, one that divided top U.S. officials and that Obama approached carefully. U.S. Secretary of Defense Robert Gates, who opposed the intervention, recalled in his memoir that the president told him it was a “51–49” decision. The military campaign that the United States designed and led (even if from behind the scenes) was tightly limited to ending attacks against civilians and achieving a cease-fire that would pave the way for a political transition. Unfortunately, despite the diplomatic efforts of the United States and others—a UN envoy, an African Union initiative, a Russian special envoy, and even a Russian chess player—leaving power was the last thing Qaddafi proved interested in. As a result of his intransigence, it was Qaddafi himself, and not NATO, who turned the intervention from a mission to protect civilians into something that led to regime change.

In a July 2011 meeting with Qaddafi’s representatives in Tunis, U.S. envoys (one of us, Derek Chollet, among them) made one last attempt to offer a way out. Instead of exploring the terms of a deal for Qaddafi to step aside, the Libyans blustered that the rebellion was driven by “foreign agents” and al Qaeda and

that Washington should be supporting them instead of bombing them. They expressed genuine disappointment, believing that since the reopening of ties in 2003, the United States would “protect them.” After the war, some of these Libyan officials admitted to U.S. officials that they had understood the brutal nature of the regime they were part of and that at no point during the first months of the bombing did Qaddafi’s family or inner circle believe they would be defeated—that, in the words of one of Qaddafi’s closest confidantes, they suffered from “supreme arrogance and miscalculation.” Given this, it seems that the way Qaddafi ended his rule—on the run and hiding in a sewer pipe, before being killed—was inevitable.

But even if members of the regime had been willing to negotiate Qaddafi’s exit, Kuperman’s assertion that Qaddafi’s son Saif would have been a viable alternative is far-fetched. (It’s worth pointing out that Saif’s principal aide participated in the Tunis meeting.) Unfortunately for the Libyan people, Saif was part of the problem, not the solution. True, he played the role of reformer in the eyes of the international community for a brief period. But he was focused primarily on removing Libya from sanctions lists in order to entice investors. There is no evidence that genuine political reform was anywhere on Saif’s agenda, despite his having handsomely paid some notable American academics to give lectures in Libya—just as his brothers paid for pop stars to perform on their private yachts. Indeed, any political liberalization or additional transparency would have interfered with Qaddafi’s ability to use state wealth for his family’s personal benefit.

U.S. officials who had dealt with Saif after Libya renounced terrorism and gave up its nuclear weapons ambitions in 2004 considered him overrated and, by the time of the war, irreconcilable. If there was any remaining hope that Saif could act as a moderating influence on his father and convince him to relinquish power, it was dashed on the evening of February 20, three days after the protests broke out in Benghazi. In a rambling late-night speech that matched his father's tone in venom, Saif warned the rebels that the Libyan government was not as weak as the regimes that had fallen in Tunisia and Egypt. He suggested that the protests were overblown and manipulated by outside actors, and he promised to "fight to the last bullet." For previously loyal Libyan public servants, such as Ali Aujali, then the ambassador to the United States, it was Saif's speech that prompted them to defect to the opposition.

By arguing that the United States never should have been involved in the first place, Kuperman avoids the tougher problem: how it could have handled postwar Libya better, especially given its limited influence over a government that has not been eager to accept help and its limited ability to deliver that help even if the government wanted it.

The paradox of postwar Libya was that the Libyan people and their consecutive interim governments both demanded their independence and insisted on international aid. That dynamic caused perpetual frustration in the international community as it sought to help rebuild the Libyan institutions that Qaddafi had decimated. For this reason, the international community

trod carefully, charging the UN Support Mission in Libya (UNSMIL) and its successive special representatives of the UN secretary-general, to oversee the design, coordination, and implementation of aid programs. Contrary to the assertions of some critics, there was never a realistic option for establishing an international peacekeeping or post-conflict security mechanism, because the Libyans did not want it. And no viable candidates from the West or the region stepped up to lead or compose such a force, because no one wanted to participate in an enterprise that might appear neocolonial.

Absent a peacekeeping effort, UNSMIL and Libya's key allies sought to put together a variety of assistance programs that could start rebuilding Libya's economic, judicial, and, most important, security institutions. Those offers no doubt could have been better coordinated, but every assistance program took weeks, if not months, for the Libyans to accept—and even longer to get started due to the torturous pace of decision-making, Libyan ministers' lack of budgetary authority, and the public sector's minimal bureaucratic capacity. For example, Italy, Turkey, the United Kingdom, and the United States all worked to build a Libyan "general-purpose force" to replace the militias, but Libya's administrative incompetence and lack of both resources and qualified recruits got in the way. Despite a massive effort, this initiative collapsed. In fact, beyond some effective civil society and elections assistance programs, just one program designed and implemented between 2012 and 2014 has worked as intended in the security sphere: the destruction of leftover and undeclared chemical weapons.

Yes, the international community could have demanded more from the Libyans. Looking back, perhaps it was too deferential to Libyan sensitivities about interference in the country's internal affairs, and perhaps officials should have pressed the Libyans much harder to disarm and demobilize the militias and reincorporate them into a reformed military structure. But outsiders' leverage was limited; the United States and its partners could not force decisions, sign essential documents, or extract payments from a dysfunctional budget process. Instead, the militias proliferated and were legitimized by the Libyan government, leading to the chaos of today.

The other major problem the United States faced was a lack of on-the-ground personnel who could evaluate the situation firsthand, work with the Libyan government, coordinate with allies, and report back to Washington with recommendations. Just around ten U.S. officers were performing these tasks in Tripoli in 2012, a consequence of security concerns and the fact that the U.S. embassy had to be completely overhauled after having been evacuated and ransacked in 2011. After Christopher Stevens, the U.S. ambassador to Libya, was killed in 2012, Washington understandably prioritized recovering from the tragedy of his death and ensuring the protection of the remaining personnel, making it excessively difficult to gain any additional traction in assisting the Libyan government. Last year, the United States and most other countries shuttered their embassies in Tripoli due to security concerns.

These are only some preliminary lessons from the intervention and its aftermath. Unlike the interventions

in the Balkans, Afghanistan, and Iraq, which involved thousands of troops, the one in Libya offered U.S. diplomats and aid officials none of the assets (or occasional disadvantages) of the U.S. military. Rebuilding civilian ministries and interacting with local populations are certainly easier under the protection of U.S. or coalition military forces. As Obama has made clear, additional planning is necessary for such light-footprint approaches to postwar stabilization.

While we disagree with Kuperman's conclusions, his prodigious research into the Libya intervention illustrates the dilemmas policymakers face, especially the twin challenges of information and time. It also brings to mind the different perspectives of analysts and decision-makers. As Henry Kissinger observed in his book *Diplomacy*, analysts can choose the problems they want to study, "whereas the statesman's problems are imposed on him." And although analysts possess all the facts, have ample time to reach their conclusions, and face minimal risks in being wrong, the pressure of time, he wrote, is the "overwhelming challenge" for policymakers, who "must act on assessments that cannot be proved at the time" and whose "mistakes are irretrievable."

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Kuperman Replies

I appreciate that Derek Chollet and Ben Fishman concede one of the central tenets of my recent article: that in the wake of NATO's 2011 intervention, a "military campaign that the United States designed and led," there is "chaos in Libya today." But these two former officials from the U.S. National Security Council attempt to pin blame on everyone except those most responsible: President Barack Obama and his senior advisers who lobbied for the intervention.

Chollet and Fishman say that it is not the administration's fault for intervening on the false pretense of an impending bloodbath, because the whole "world saw a slaughter in the making." But that simply is not true. The world's top two human rights organizations, Amnesty International and Human Rights Watch, never warned of an impending massacre in Libya. Nor did the U.S. intelligence community, according to one of its senior officials, who told *The Washington Times* this past January that the intervention "was an intelligence-light decision."

My exposure of this flawed premise for war does not reflect merely the 20-20 hindsight of an academic, as Chollet and Fishman suggest. To the contrary, I warned of Libyan trickery as far back as March 2011, writing in *USA Today*: "Despite ubiquitous cellphone cameras, there are no images of genocidal violence, a claim that smacks of rebel propaganda." Given that experts in the intelligence, human rights, and scholarly communities expressed strong doubts at the time about rebel warnings of an impending bloodbath, it is the Obama administration that must accept responsibility for spearheading a disastrous intervention on phony grounds.

In another dodge, Chollet and Fishman allege that it was Muammar al-Qaddafi's fault for failing to negotiate a peaceful outcome "despite the diplomatic efforts of the United States and others." The facts show otherwise. Just three days into the bombing campaign, it was the Obama administration that unilaterally terminated peace negotiations between U.S. Africa Command and the Qaddafi regime.

Charles Kubic, a retired rear admiral in the U.S. Navy, who brokered the negotiations, told *The Washington Times* that Qaddafi's military leaders had proposed a peace plan under which "the Libyans would stop all combat operations and withdraw all military forces to the outskirts of the cities and assume a defensive posture." Qaddafi, Kubic recounted, "was willing to step down and permit a transition government" under two conditions: that his inner circle receive free passage out of the country and that Libya's military retain sufficient force to fight radical Islamists. Looking back, Kubic posed a key question regarding the approach of Obama and his team: "If their goal was to get Qaddafi out of power, then why not give a 72-hour truce a try?" For these administration officials, he concluded, "it wasn't enough to get him out of power; they wanted him dead."

Unaware, Qaddafi continued to pursue peace talks in vain. On April 10, 2011, he accepted an African Union proposal for an immediate cease-fire to be followed by a national dialogue. But the rebels declared that they would reject any cease-fire until Qaddafi had left power, and the Obama administration backed this intransigent position. Still seeking peace, Qaddafi's government offered on May 26 not merely to cease its fire but also to negotiate a constitution and

pay compensation to victims. The rebels summarily rejected this offer as well, supported, again, by the Obama administration.

The authors report that Chollet and other U.S. negotiators, in July 2011, after four months of NATO bombing, offered “a deal for Qaddafi to step aside.” They claim that because Qaddafi rejected such demands for unilateral surrender, “it was Qaddafi himself, and not NATO, who turned the intervention from a mission to protect civilians into something that led to regime change.”

But this assertion turns logic on its head. The Obama administration had insisted on regime change from the very start. On March 3, 2011, two weeks before NATO intervened, Obama declared that Qaddafi “must step down from power and leave.” That explains why the State Department ordered U.S. Africa Command to halt peace talks on March 22, and why NATO kept bombing even after the rebels repeatedly rejected negotiations.

The most repugnant part of Chollet and Fishman’s response comes when they blame Qaddafi for his own torture and execution. It was because of the Libyan leader’s refusal to acquiesce to NATO bombing, they insist, that “the way Qaddafi ended his rule—on the run and hiding in a sewer pipe, before being killed—was inevitable.”

Not so. This gruesome denouement was hardly inevitable. Instead, it was the result of the Obama administration’s serial errors: starting a war of choice based on a faulty premise, exceeding the UN’s mandate to protect civilians, rejecting Qaddafi’s peace offers, insisting on regime change, and supporting an opposition composed of radical Islamists and fractious militias.

After Qaddafi’s death was confirmed in October 2011, a gloating Secretary of State Hillary Clinton declared to a television reporter, “We came, we saw, he died!” She was justified in claiming credit on behalf of the Obama administration for the outcome in Libya, including Qaddafi’s brutal murder. Back then, however, she and her colleagues believed their intervention was a success. Now that it has turned into a dismal failure, it is too late to shed responsibility. As President George W. Bush learned the hard way, “mission accomplished” can be declared, but subsequent events may haunt you. 🌐

Warning Signs

A Response to “The Calm Before the Storm”

Paul B. Stares

Intelligence analysts have labored for years to identify the factors that make countries unstable. For those wanting to anticipate the next failed state, Nassim Nicholas Taleb and Gregory Treverton (“The Calm Before the Storm,” January/February 2015) offer a counter-intuitive insight: “Disorderly regimes come out as safer bets than commonly thought—and seemingly placid states turn out to be ticking time bombs.” But the authors fail to support that claim, and their proposed method for assessing a state’s fragility does not appear to offer anything better than the early warning methods already in use.

Taleb and Treverton point to “five principal sources” of fragility: “a centralized governing system, an undiversified economy, excessive debt and leverage, a lack of political variability, and no history of surviving past shocks.” These variables are indeed important, as other forecasting models recognize. In particular, intelligence analysts have long evaluated what is called “state resilience” to internal and external shocks. The challenge has always been to determine

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in advance whether a state under stress will bend or break.

Discussing the recent experiences of Syria and Lebanon, Taleb and Treverton suggest that their own approach could have predicted that the former would descend into violent chaos while the latter would remain relatively stable. In the case of Syria, however, it is far from clear that concentrating on their five indicators of fragility would have been especially illuminating. According to statistics from its central bank, Syria’s economy was in fact quite diversified before the civil war, divided among agriculture (22 percent of GDP), industry and excavation (25 percent), retail (23 percent), and tourism (12 percent). The country’s external debt had plummeted in 2005 and stayed low afterward. Syria had also ridden out major challenges in recent history, surviving the 1982 uprising in the city of Hama and the prolonged succession crisis occasioned by the declining health and eventual death of its strongman leader Hafez al-Assad in 2000. True, Syria was a highly centralized state. But what made the country vulnerable was less authoritarianism per se than the fact it rested on minority sectarian rule. Exogenous factors, such as the civil war raging in Iraq and the successive droughts in northeastern Syria, also contributed.

As for Lebanon, Taleb and Treverton are right that it has proved relatively robust. They attribute this outcome to the country’s decentralized political structure and relatively open economy but ignore the inconvenient fact that its external debt grew substantially before 2011, which under their model should promote instability. It is also plausible that the still vivid memories of a horrific civil war, along with the restraining

influence of external actors such as Iran and its proxy Hezbollah, have also played a part. What's more, Lebanon's resilience may well not last. Some things, after all, snap from accumulated stress rather than sudden shocks.

A closer look at the other cases Taleb and Treverton highlight further calls their model into question. They label Egypt "fragile" because it manifests so many of the factors they consider critical. But someone could just as reasonably conclude that it has shown remarkable resilience by reverting to military rule after the revolution and not falling apart. Judging by the generals' past staying power, moreover, the current regime could remain in place for a long time, especially if several Persian Gulf states continue to prop it up financially. Bahrain's situation is similar.

Conversely, the authors hold up Thailand as an example of an "antifragile" state, one that has grown resilient from weathering previous crises. Yet although Thailand is hardly a basket case, it is difficult to look at the country and not feel unease: it has once again succumbed to a military coup, unrest is growing in the rural north, and an ugly insurgency has rendered much of the far south a no-go zone.

Taleb and Treverton's most baffling assertion, however, is that former Soviet states should be viewed as "relatively stable" because they have recovered from the collapse of the Soviet Union. Setting aside the contradiction between that generalization and the authors' pronouncements about the growing risk of instability in Russia, the collapse of Viktor Yanukovich's regime in Ukraine and the deadly conflict that ensued represent a giant exception to their

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theory that needs to be explained. The crisis in Ukraine caught nearly everyone by surprise, and there is no reason to believe that analysts employing Taleb and Treverton's five factors would have seen it coming either. Although Ukraine was burdened by debt and politically centralized, its economy was quite diversified and the state had adapted well to a series of leadership changes.

Given all these problematic cases, it's hard to see why those who have to make important decisions in response to warning signals—policymakers, investment managers, humanitarian relief planners, and so on—should rely on Taleb and Treverton's approach for guidance. Indeed, the authors seem to admit as much, belatedly conceding that their five factors “cannot indicate with high confidence whether a given country is stable—no methodology can—but they certainly can reveal if a given country should cause worry.” The problem, however, is that dozens of states “cause worry” for one reason or another, and decision-makers need to differentiate and prioritize among them.

The authors' solution for making this task easier is not encouraging. Taleb and Treverton propose three categories of states: “fragile,” “moderately fragile,” and “slightly fragile.” Without further elaboration, these terms are virtually meaningless. If the best a methodology can do is reach conclusions such as that Russia “probably lies somewhere between moderately fragile and fragile,” “Greece and Iran could transform into more robust states or lapse into fragility,” and Nigeria is “somewhat adaptable in the face of new threats,” it will not gain traction among policymakers. Nor should it.

Ultimately, as Taleb and Treverton acknowledge, there will be uncertainty associated with any method of assessing a country's vulnerability. For this reason, analysts should focus on the other dimension of risk: consequences. Given that the collapse of some countries would pose a far larger threat than the collapse of others, it makes little sense to fixate on probability rather than impact. If policymakers grew more aware of the downside risk, then they would be more likely to hedge against potential threats and, better still, minimize them—for example, acting earlier in Syria or being better prepared for what happened in Ukraine. Such assessments would almost certainly make them think twice about hoping—as Taleb and Treverton casually do in closing—for the swift arrival of “a Black Swan of Beijing.” 🌪️

Recent Books

Political and Legal

G. John Ikenberry

Restraint: A New Foundation for U.S. Grand Strategy

BY BARRY R. POSEN. Cornell University Press, 2014, 256 pp. \$29.95.

Posen has written the most challenging critique yet of the United States' post-Cold War grand strategy of global engagement. According to Posen, U.S. liberals and neoconservatives both see a multitude of threats facing their country that call for elaborate American-led efforts at security cooperation and power projection. In their view, Washington must remain the world's dominant military power, build alliances, deploy forces around the world, manage global institutions, and be ready to intervene anywhere to ensure stability and promote liberal democracy. But Posen advances a much narrower, classical realist definition of U.S. security interests: sovereignty, territorial integrity, and the safety of the homeland. The liberal hegemonic order is built around Washington's ability and willingness to enforce global rules and protect allies, but Posen argues that this undertaking is too costly and unsustainable. Yet how does one determine the proper price of "stability" or determine if the presence of U.S. forces in Asia and Europe prevents costly wars or provides Washington with political influence in other policy areas? Posen's

strong argument is that this dependence on U.S. power increases Washington's propensity to make costly mistakes. But in the absence of a system that relies on Washington for stability, what would discipline American power and prevent the United States from pursuing self-destructive ideological crusades or risky overseas adventures? The trouble is that what Posen is proposing is really a strategy of disengagement, which comes with its own dangers. In reality, a more restrained United States would be one that is even more deeply bound to the international community through its leadership of global institutions and alliances.

Thieves of State: Why Corruption Threatens Global Security

BY SARAH CHAYES. Norton, 2015, 272 pp. \$26.95.

As a journalist covering the fall of the Taliban, and later as an aid worker, entrepreneur, and military adviser in Afghanistan, Chayes slowly uncovered the layers of graft and corruption that make up the Afghan state: patronage, kickbacks, payoffs, protection rackets, stolen cash, and smuggled goods. Chayes argues that Afghanistan is not a failed or failing state but rather a "vertically integrated criminal syndicate" that operates according to its own perverse political logic. Its objective is to enrich the ruling elite. Her argument is not that Afghan society or culture is intrinsically corrupt. But as it currently exists, the Afghan system makes the rule of law and honest government impossible. Chayes points to diplomatic, financial, and intelligence tools that outsiders could use to fight extreme corruption, but

the challenge seems overwhelming. Indeed, U.S. and European military and humanitarian officials understand the problem, but more often than not, they end up as enablers of the corruption, working through intermediaries who are themselves part of the racket. Still, at various points, Chayes refers to classic political thinkers—Machiavelli, most notably—to make an essential and somewhat more optimistic point: corruption is the natural temptation of rulers, but it is often what ultimately brings them down.

The Improbable War: China, the United States, and the Logic of Great Power Conflict
BY CHRISTOPHER COKER. Oxford University Press, 2015, 256 pp. \$29.95.

Coker takes aim at what he considers a dangerous liberal misconception: that today's world of complex, interlocked economies and shared interests has made war between major powers, such as China and the United States, irrational and therefore unlikely. In the years prior to World War I, many held a similarly sanguine view about Europe; such optimists soon learned that rationality was not the constraint on violence they believed it to be. As Coker explains, ideology and emotional appeals to "national purpose" have just as much influence on states as sober cost-benefit assessments of the national interest. He stops short of predicting a Sino-American war, but he convincingly argues that the rise of China will be as disruptive to the U.S.-led international order as the rise of Germany after 1870 was to the British-led order of that era. China will want to rewrite the rules of the system and

reassert its place in Asia, and the United States will inevitably resist. Deep cultural and ideological divides between China and the United States will make a peaceful power transition even more difficult. What worries Coker most is intellectual complacency. If leaders in Beijing and Washington think war is impossible, they will not do the hard work of overcoming the mistrust and antagonism generated by their conflicting interests, worldviews, and values.

Fateful Transitions: How Democracies Manage Rising Powers, From the Eve of World War I to China's Ascendance
BY DANIEL KLIMAN. University of Pennsylvania Press, 2014, 248 pp. \$59.95.

Power transitions—when a rising state overtakes a dominant but declining one—are dangerous moments in international relations. Ambition, fear, and risk taking tend to intensify, often leading to war. In this important study, Kliman argues that some power transitions are more dangerous than others, depending on the political character of the states involved. The most peaceful transitions, Kliman contends, have been between democracies. When faced with an ascendant autocratic state, leading democracies have tended to pursue hedging and balancing strategies, and sometimes containment—think of the United States facing growing Soviet power after World War II. When confronted by a rising fellow democracy, powerful democratic countries have tended to pursue appeasement and other more accommodating strategies—think of the British response to the rise of the United States after World War I.

Kliman argues that since democracies share values and have more transparent political institutions, they find it easier to establish trust, whereas because autocratic states obscure their intentions and strive to keep out foreign influences, conflict is more likely. The book does not offer good news for the management of the U.S.-Chinese power transition, although it suggests that American relations with India and other rising non-Western democracies might fare better.

Economic, Social, and Environmental

Richard N. Cooper

Prioritizing the World: Cost-Benefit to Identify the Smartest Targets for the Next 15 Years
 EDITED BY BJORN LOMBORG.
 Copenhagen Consensus Center, 2014,
 118 pp. \$9.99.

The UN is currently developing a set of so-called Sustainable Development Goals, a sequel to the Millennium Development Goals, many of which were achieved, remarkably, during their 15-year target period, which ends this year. But unlike the MDGs, which consisted of eight specific, succinctly expressed targets, the SDGs currently involve 169 targets that require more than 4,000 words to describe. Lomborg argues that the program must be more focused. If the past decade is any guide, trillions of dollars of foreign assistance will be available in the next 15 years—a large, but not unlimited, amount. Lomborg urges that it be used to maximize the

benefits to humankind. To that end, he convened panels of experts to evaluate the cost-effectiveness of each proposal. They found that some of the goals are highly cost effective—for example, reducing import barriers to agricultural products and assuring that all children have adequate access to early childhood care and preprimary education. But the estimated costs of other goals would outweigh their likely benefits—for example, assuring that all young adults have access to affordable, high-quality education and substantially increasing the share of renewables in the global energy market.

Following Oil: Four Decades of Cycle-Testing Experiences and What They Foretell About U.S. Energy Independence
 BY THOMAS A. PETRIE. University of Oklahoma Press, 2014, 272 pp. \$26.95.

Market Madness: A Century of Oil Panics, Crises, and Crashes
 BY BLAKE C. CLAYTON. Oxford University Press, 2015, 248 pp. \$27.95.

These two timely books on global oil markets, both written by financial analysts, are formally quite different. Petrie's is more personal, even autobiographical, and emphasizes people, firms, and financial markets; Clayton's is more scholarly, covers a much longer period of time, and focuses more specifically on the oil business. Still, both books make the same central point: the specific factors that drive the oil sector's booms and busts vary, but the underlying dynamic does not change much. Markets expect high prices to last, leading to more conservation, new exploration,

and technical innovations. In time, those factors overcome the apparent scarcity and even result in periods of overabundance. Then the cycle reverses, as consumption increases and exploration falls. Although both books were finished before the sharp drop in oil prices that began in mid-2014, their implicit message still applies: this too shall pass.

Food Security and Scarcity: Why Ending Hunger Is So Hard

BY C. PETER TIMMER. University of Pennsylvania Press, 2014, 240 pp. \$59.95.

At its core, economic development in poor countries relies on moving workers out of agriculture and into more productive activities. But even people who live in cities need to eat, so agricultural productivity must increase. Drawing on a lifetime of experience in developing countries, Timmer clearly describes the vital role that agricultural transformation plays in structural economic change, the risks involved, and the pitfalls to avoid. The process of shifting away from agriculture has happened in countries all over the world, sometimes smoothly, sometimes not. Governments have helped the process but have also hindered it, often in the name of food security: to reduce hunger in rural areas, officials have subsidized farmers or protected them against imports, even though doing so often impedes development and prolongs poverty. Timmer worries that a rush to shift the focus of agriculture from growing food to producing biofuels might prevent the doubling of food production that must occur over the next four decades to meet the needs of growing populations and changing diets.

Climate Shock: The Economic Consequences of a Hotter Planet

BY GERNOT WAGNER AND MARTIN L. WEITZMAN. Princeton University Press, 2015, 264 pp. \$27.95.

Despite decades of copious research on the subject, environmental scientists are still flummoxed by their own uncertainty—even ignorance—when it comes answering central questions about the future of the climate. What will happen if no global agreement emerges to limit greenhouse gas emissions? And what will be the likely impact of climate change on economies and societies? Wagner and Weitzman focus on several low-probability but high-cost outcomes, such as a rise in average surface temperature of six degrees, rather than the 2.5- or 3-degree increase that more conservative estimates foresee. They argue that governments should do what they can now to avoid the most devastating outcomes, even if they are less likely, and suggest as a model the kind of worst-case planning that sometimes informs national security policies and budgets. The book combines sophisticated analysis with a breezy, informal style, relying (not always convincingly) on analogies rather than equations to drive home its points.

Perspectives on Dodd-Frank and Finance

EDITED BY PAUL H. SCHULTZ. MIT Press, 2014, 288 pp. \$45.00.

The 2008 financial crisis left governments all over the world scrambling to put in place better regulations. In the United States, the main result was the Dodd-Frank Wall Street Reform and Consumer Protection Act, a massive

piece of legislation whose text runs to some 1,500 pages. It has proved difficult for everyone, including even the legislators who crafted the law, to understand what it says, much less comprehend all its ramifications. This useful volume examines the principal objectives of Dodd-Frank and its main provisions and also identifies some important things that were omitted from the law—some deliberately, others not. The book presents a fairly wide range of critiques of Dodd-Frank, some more sympathetic than others. It focuses exclusively on the United States, but developments there have had implications for other countries, given the interconnectivity of major financial institutions around the world.

Military, Scientific, and Technological

Lawrence D. Freedman

Ministers at War: Winston Churchill and His War Cabinet

BY JONATHAN SCHNEER. Basic Books, 2015, 352 pp. \$29.99.

Schneer has pulled off quite a feat: he has said something original about Winston Churchill as a wartime leader and has done so in a lively and readable book. The basic story—of how the United Kingdom's coalition government formed in 1940 and how it held together until the Allies defeated Germany—is familiar. But Schneer's telling makes the tale fresh, owing to his compelling portraits of Churchill's cabinet members and his

emphasis on the importance of postwar planning. The story features some remarkable characters, such as the imperialist Lord Beaverbrook, who became the fiercest advocate of mounting a second front to support the Soviet Union, and the austere socialist Sir Richard Stafford Cripps, who at one point during the war seemed poised to mount a credible threat to Churchill's leadership. Schneer stresses the vital contributions that Labour members of the cabinet made and highlights Churchill's skill in managing such a disparate group. His account also helps explain why Churchill lost his post in 1945, despite his personal popularity: British voters wanted a strong welfare state and feared that a Churchill victory would mean a return to the Conservatives' less generous pre-war social policies.

The Next Great War? The Roots of World War I and the Risk of U.S.-China Conflict

EDITED BY RICHARD N.

ROSECRANCE AND STEVEN E.

MILLER. MIT Press, 2014, 320 pp. \$27.00.

Blinders, Blunders, and Wars: What America and China Can Learn

BY DAVID C. GOMPERT, HANS BINNENDIJK, AND BONNY LIN.

RAND Corporation, 2014, 302 pp. Free online.

The potential for conflict between China and the United States has invited many comparisons with past great-power rivalries, especially those that sparked World War I. Hoping to get past superficial parallels, two groups of scholars have delved deeply into past crises to find out if there are indeed any lessons that might apply today.

Examining the causes of World War I, Rosecrance and Miller's star-studded cast of scholars ask all the right questions: Did war break out in Europe owing to poor diplomacy or insufficient economic interdependence? Perhaps domestic upheavals or offensive military doctrines were to blame? Or did the simple fact that the rise of one power came at the expense of others make war inevitable? But the experts struggle to come up with original answers. Many wind up emphasizing the significant differences between 1914 and today, and, as the political scientist Joseph Nye, Jr., warns, overreliance on such analogies can create a "whiff of inevitability" about a developing conflict. Rosecrance points to the "tyranny of small things": the importance of minor events whose major consequences cannot be predicted.

Gompert, Binnendijk, and Lin zero in on the problem of miscalculation, considering a number of cases in which states either committed or averted major blunders. The mistakes tended to involve taking military action based on optimistic assumptions: for example, Napoleon's and Hitler's invasions of Russia, Germany's embrace of unrestricted submarine warfare during World War I, and Argentina's invasion of the Falkland Islands in 1982. Good decisions involved resisting temptation, as when the Soviet Union declined to use military force to support its communist allies during the political crisis in Poland in 1981. The authors contend that states avoid miscalculations about war when they allow themselves to be challenged by multiple sources of

information, which is why democratic governments make fewer such mistakes than autocratic ones. Nevertheless, as the book points out, the 2003 U.S. invasion of Iraq demonstrated that democracies are hardly immune to catastrophic optimism.

The Amazons: Lives and Legends of Warrior Women Across the Ancient World
BY ADRIENNE MAYOR. Princeton University Press, 2014, 536 pp. \$29.95.

The Amazons, ferocious warrior women, have long been assumed to be little more than a compelling myth of the ancient Greeks—a fantasy concocted by men who in real life probably preferred to keep women in domestic subservience. But it turns out that the Greeks almost certainly did confront women from the Central Asian steppes who fought on horseback and came from a nomadic society in which men and women shared essential tasks. The popular notion that these women cut off a breast so that they could more easily wield an archer's bow appears to be apocryphal: after all, women can fire arrows perfectly well without drastic surgery. In her quest to separate reality from mythology, Mayor left few stones unturned, even examining the graves of women with war wounds and mummified tattoos. She skillfully presents her findings with wit and conviction in this superbly illustrated book. And in a final section, she shows that female warriors have in fact made frequent appearances at other times and places in history, in locations as distinct as China and Egypt.

The Last Warrior: Andrew Marshall and the Shaping of Modern American Defense Strategy

BY ANDREW KREPINEVICH AND BARRY WATTS. Basic Books, 2015, 336 pp. \$29.99.

The influential American strategist Andrew Marshall—affectionately known as Yoda within the U.S. national security establishment—joined the newly formed RAND Corporation in 1949 and later set up the Pentagon’s Office of Net Assessment, which he headed for more than four decades before retiring earlier this year at the age of 93. Krepinevich and Watts, two of Marshall’s close associates, have written an interesting examination of Marshall’s role in shaping American thinking on key defense issues: the potential vulnerability of U.S. strategic bases to a surprise Soviet nuclear attack, the burden of the defense sector on the Soviet economy, the so-called revolution in military affairs that might (or might not) have taken place during the 1990s, and the rise of China. But the authors shed little light on the meaning and methodology of “net assessment”; readers might conclude that it simply means that Marshall spent a lot of time worrying about threats. Marshall was unquestionably a giant in the field, and yet somehow he appears to have said very little and left few traces of his contributions. This helps explain his professional durability, but it also makes him a frustrating subject for an intellectual biography.

88 Days to Kandahar: A CIA Diary
BY ROBERT GRENIER. Simon & Schuster, 2015, 464 pp. \$28.00.

Have any of the CIA operatives who worked in Afghanistan and Pakistan in the aftermath of the 9/11 attacks not yet written a memoir? Grenier’s book is the most recent addition to the genre and one of the more valuable ones. As the CIA station chief in Islamabad during that period, Grenier was closely involved in U.S. efforts to hunt down Osama bin Laden, defeat the Taliban, and set up a viable state in Afghanistan. His book illuminates the intricacy of the area’s politics and provides some interesting characterizations of players on both sides of the porous Afghan-Pakistani border, including the Afghan leader Hamid Karzai. He conveys the frustrations of intelligence work, in which nobody ever quite tells the truth or is quite sure about the meaning of success, and also the exasperation that intelligence officers feel when their governments oversimplify complex situations or lose interest whenever a new issue grabs their attention. The last section of the book offers a mournful commentary on how badly things went during the U.S. wars in Afghanistan and Iraq, as the twists and turns of political sentiment in Washington stymied the development of durable policies.

The United States

Walter Russell Mead

The War That Forged a Nation: Why the Civil War Still Matters

BY JAMES M. MCPHERSON. Oxford University Press, 2015, 232 pp. \$27.95.

The Cause of All Nations: An International History of the American Civil War

BY DON H. DOYLE. Basic Books, 2014, 400 pp. \$29.99.

Marching Home: Union Veterans and Their Unending Civil War

BY BRIAN MATTHEW JORDAN. Liveright, 2015, 384 pp. \$28.95.

Fortune's Fool: The Life of John Wilkes Booth

BY TERRY ALFORD. Oxford University Press, 2015, 464 pp. \$29.95.

The Man Who Would Not Be Washington: Robert E. Lee's Civil War and His

Decision That Changed American History
BY JONATHAN HORN. Scribner, 2015, 384 pp. \$28.00.

One hundred and fifty years after its end, the American Civil War continues to reverberate in U.S. culture and politics. This is partly because of the sheer scale of the conflict (more Americans were killed in it than in all other U.S. wars combined) and partly because the issues at its core—race relations and the nature and power of the federal government—remain central to American political life.

McPherson, the dean of U.S. Civil War historians, offers readers an insightful overview of some of the most important questions in contemporary Civil War scholarship. Was emancipation driven by top-down national policy or by a grass-roots movement of blacks, both slave and free, that forced the hand of reluctant politicians? How close did France and the United Kingdom come to intervening in the Civil War, and what held them back? How good a military strategist was U.S. President Abraham Lincoln? McPherson's mastery of the Civil War literature and the field's historiographic debates allows him to present nuanced answers to those questions and many others, and his gift for narrative clarifies even the most obscure scholarly disputes. The literature on the Civil War is one of the greatest accomplishments of the American historical profession, and this collection of lucid essays is a distinguished addition to the field.

As rich as that literature is, however, it has generally shortchanged the issue of the Civil War's impact on international politics. Doyle's important book reveals why the war was more than a domestic quarrel; it was also a geopolitical event that shook the global balance of power, and it catalyzed an important turning point in the ongoing battle between democracy and despotism in Europe. In Europe, the shattering of the United States revived the hopes of imperialists; both France and Spain seized the opportunity to rebuild their American empires. European supporters of democracy cheered for the Union, while the Confederacy won the support of conservatives and monarchists across the continent. These realities helped shape strategic choices in both Washington and Richmond; Lincoln and Confederate President Jefferson

Davis thought much more about international politics than many conventional Civil War histories suggest. Doyle's overview leaves some gaps; Russian attitudes played a larger role in blocking French and British intervention than Doyle allows, and this complicates his picture of a pro-democratic, pro-Union front in Europe. Nevertheless, Civil War buffs and students of U.S. foreign policy will find this book useful.

A focus on geopolitics can obscure the human side of war, a crucial subject that Jordan's *Marching Home* addresses by exploring the fate of Union army veterans after the end of the most terrible conflict in U.S. history. Most affecting are the stories of maimed soldiers and of the survivors of Confederate prison camps, such as the notoriously brutal Camp Sumter, in Andersonville, Georgia; these men found little sympathy and even less understanding in civilian life. The book falls short in some ways; the experiences of African American soldiers and immigrant conscripts are largely absent. Also, Jordan tends to portray veterans primarily as suffering victims rather than as vigorous participants in postwar life. But despite their psychological and physical scars, many Civil War veterans played an active and important role in postwar business, culture, and politics. Still, readers of this clearly written and exhaustively researched book will come away with a deeper appreciation of the sacrifices soldiers make; many living veterans will thank Jordan for his attention to an often neglected but important aspect of U.S. military history.

In Civil War histories, the spotlight that rarely falls on the masses of men who did the fighting often shines instead on a few larger-than-life figures. One of those

is John Wilkes Booth, the man who assassinated Lincoln less than a week after the Confederate surrender in 1865. Lincoln's death plunged the North from the heights of joy to an abyss of mourning and sent waves of dread through a defeated South, which trembled before what it feared would be a fierce retribution for a horrifying crime. As Alford's excellent book makes clear, Booth was a celebrity in his own right, and his high profile heightened the drama of the deed: imagine if Elvis Presley had assassinated President John F. Kennedy. As the Civil War approached, Booth developed strong anti-abolitionist passions and, in 1859, briefly absconded from an acting gig in Richmond to participate in the execution of the radical antislavery activist John Brown. Booth's pro-South sentiments grew even as he spent most of the war performing to sold-out houses and critical raves in Northern theaters. Ironically, by cutting down Lincoln at the height of his glory, before the grinding problems and inevitable shortcomings of Reconstruction could tarnish Lincoln's reputation, Booth may have done more than anyone else to make Lincoln one of the most revered figures in U.S. history.

Another crucial character in the Confederate story is Robert E. Lee, the commander of the South's main fighting force, the Army of Northern Virginia. Lee is an inevitable but difficult subject for biographers: much like George Washington, Lee projected a opaque image of patriotism, honor, and dedication to duty that impressed contemporaries but resists deconstruction. Horn, like other biographers, struggles to get behind Lee's façade, but his account is at times illuminating, especially when it looks at Lee's complex family and its tangled

relationship to Washington's legacy (Lee's wife was Martha Washington's great-granddaughter). The "decision that changed American history" to which the book's subtitle refers was made when Lee, a unionist who opposed slavery, turned down Lincoln's offer to command the Union forces and chose instead to follow Virginia into secession. Horn's book could have shed more light on Lee by looking more closely at the history of Virginia's precipitous decline from the 1770s, when its statesmen and military leaders dominated the American scene, to the Civil War era, when the so-called Cotton South drove Virginia into a ruinous war. To unlock the mystery of Lee, one might have to grapple more closely with the faulty vision, failing business ventures, and unraveling political ideas that haunted an entire class of Virginians, whose state proved unable to preserve the greatness they had once known.

Nation Builder: John Quincy Adams and the Grand Strategy of the Republic

BY CHARLES N. EDEL. Harvard University Press, 2014, 432 pp. \$29.95.

In this masterful and fluidly written book, Edel tells the story of John Quincy Adams and explores Adams' pivotal contributions to the American tradition of grand strategy. Adams had three big strategic ideas. The first was neutrality. Informed by his education and early diplomatic experiences abroad, Adams saw that the United States was at once materially weak and ideologically threatening to European powers. To protect its fragile unity, the country had to steer clear of foreign entanglements. The second big idea was national

defense. As secretary of state under President James Monroe, from 1817 to 1825, Adams supported territorial expansion and insisted that Washington unilaterally issue the Monroe Doctrine, which opposed any European intervention in the Western Hemisphere, rather than take that position as part of an alliance with the United Kingdom. This strategic posture overstated U.S. capabilities at the time, but also deftly preserved a free hand for further American expansion. Adams, however, was more than a calculating realist, and his third big idea was liberty. After serving as president from 1825 to 1829, Adams won election to the House of Representatives in 1831, where he opposed the expansion of slavery to new territories and anticipated a time when American ideals would merge with U.S. power to "unsettle all the ancient governments of Europe." Today's free Europe is the true legacy of Adams' grand strategy. As Edel concedes, Adams' personal and political inflexibility sometimes impeded his ideas, especially during his presidency. But the ideas endured.

HENRY R. NAU

Western Europe

Andrew Moravcsik

The Power of Inaction: Bank Bailouts in Comparison

BY CORNELIA WOLL. Cornell University Press, 2014, 224 pp. \$32.50.

Most analyses of the 2008 financial crisis advocate various technocratic solutions but say little about the politics of putting

them in place. That's not the case with this pathbreaking book, which focuses on the political questions that really matter: Who ends up paying to clean up a crisis, and why? Woll asks why some governments have been much better than others at bailing out their banks. Some countries, such as France and Denmark, have kept the costs of bailouts low and have distributed the costs fairly between the public and the private sector, thereby shortening and softening the economic effects of the crisis. Others, such as Germany, the United Kingdom, and most notably Ireland, have let bailout costs balloon and have imposed them on the public sector alone, with disastrous consequences. The United States is somewhere in the middle. One might think that the key to success would be to have a strong government and state bureaucracy. In fact, the crucial factor is the nature of a country's financial sector: the more coherent and organized it is, the more efficient and fair a bailout will be. Private-sector coordination permits banks to spread costs evenly; without it, banks start to duck paying their fair share, and ultimately no one is left to pay except the state. Woll's original analysis is a must-read for anyone who seeks the deeper economic lessons of the past five years.

States, Debt, and Power: "Saints" and "Sinners" in European History and Integration

BY KENNETH DYSON. Oxford University Press, 2014, 600 pp. \$135.00.

This magisterial history of European debt offers a unique perspective on the

eurozone crisis. It begins in ancient Greece and continues all the way to speculations about Europe's financial future. Dyson finds continuities across the millennia. Economic interdependence has meant that creditors have always had more bargaining power than debtors, a fact that is encoded in economic institutions and ideas; historically, debtors have had to accede to creditors' demands. The willingness of states to incur debt nonetheless typically results from pressing priorities such as war, reconstruction, or demands for social welfare. Yet the most interesting constants throughout European financial history are the pervasive illusions and misunderstandings that befall every generation. Over and over again, market participants and observers mislead themselves into believing that they fully understand the true nature of credit and debt and mistake the parochial positions they take as creditors or debtors for moral standards. The resulting hubris and self-delusion often wreak havoc, particularly for the economically disadvantaged.

The Uncertain Legacy of Crisis: European Foreign Policy Faces the Future

BY RICHARD YOUNGS. Carnegie Endowment for International Peace, 2014, 300 pp. \$49.95 (paper, \$19.95).

Jacques Delors, the legendary president of the European Commission, used to say, "Never let a crisis go to waste." In the spirit of Delors' adage, Youngs has penned this book on how Europe can restore its global influence, which has taken a hit during the ongoing eurozone crisis. The general impression Youngs leaves is that the crisis has not undermined

European power as much as it seems. Much of his advice is sensible. Europe should spend less energy fiddling with its internal institutions and trying to replicate EU norms elsewhere and more energy investing in traditional multilateral institutions. It should also focus on more concrete objectives, such as the defense of global economic openness and European cooperation with rising Asian powers. The book also rightly downplays the importance of military force as an instrument of modern international power projection.

Europe Entrapped

BY CLAUS OFFE. Polity, 2015, 104 pp. \$19.95.

Offe is a venerable figure in European sociology. His take on the current state of the EU is unfailingly intelligent but lightly documented, and his analysis depends to a large extent on a selective reading of secondary sources that agree with his own position. Still, his book clearly reveals how European social democrats, such as himself, face a difficult dilemma. On the one hand, they understand better than anyone that the euro fundamentally constrains the ability of states to provide the welfare spending and broad economic growth essential to left-wing goals. Yet their pro-EU ideals prevent them from turning against the euro—a task that social democrats have left to more extreme parties, whose opposition to the common currency has won them a great deal of public support. Offe's way out is to propose a series of radical EU-level solutions, such as pan-European taxation, social welfare spending, and

citizenship. His prescriptions are instructive not because they are likely to be either feasible or effective but because they are so typical of what many on the European left believe today.

Western Hemisphere

Gretchen Helmke

Venezuela: What Everyone Needs to Know
BY MIGUEL TINKER SALAS. Oxford University Press, 2015, 264 pp. \$74.00 (paper, \$16.95).

For much of the second half of the twentieth century, Venezuela was one of Latin America's few bastions of democracy and stability. Today, with inflation soaring and protests mounting, instability seems inevitable, and the country is on edge. How did this happen? In this broad, accessible overview of the country's political history, Salas finds the roots of most, but not all, of today's problems in the rule of Hugo Chávez, who served as Venezuela's president from 1999 until his death in 2013. Salas recounts how during an economic slump brought on by low oil prices at the end of the 1990s, Chávez boldly set the country on a new footing. In 1999, he called for a new constitution, and he subsequently spearheaded new regional alliances that excluded the United States. Not surprisingly, Chávez's policies deeply polarized Venezuelan society and provoked multiple attempts by the opposition to remove Chávez from power, ranging from an attempted military coup in

2002, to oil strikes, to a failed recall referendum in 2004. But Salas also finds much to applaud in Chávez's project to revolutionize Venezuela: for example, the sharp decline in poverty rates between 2002 and 2010 and the success of various programs aimed at improving health, literacy, and housing. As he sees it, the main problem is that Chávez's "Bolivarian Revolution" was not sufficiently institutionalized. Chávez's death, along with a severe drop in oil prices and the lackluster performance of Chávez's handpicked successor, Nicolás Maduro, has left the country adrift.

"Cuba: A New Start," October 12–December 31, 2014

BY THE EDITORIAL BOARD OF *THE NEW YORK TIMES*. Available online.

A series of editorials published by *The New York Times* late last year offered a powerful critique of U.S. policy toward Cuba. By shining a critical light on Washington's decades of missteps, the *Times* helped influence public perceptions of U.S. President Barack Obama's historic decision to restore diplomatic relations with Cuba.

The first editorial, simply titled "Obama Should End the Embargo on Cuba," urged the administration to remove Cuba from the U.S. State Department's list of nations that sponsor terrorist organizations, push Congress to end economic sanctions, and cut a deal to free a USAID worker imprisoned by the Cubans. (So far, only the last of those three tasks has been accomplished.) Timing is everything, the editorial argued. Cuba has already begun a program of economic liberalization. Demographic shifts within the Cuban

American community have made it far less costly for U.S. politicians to take a softer stance on Cuba. Publics around the world, particularly in the Western Hemisphere, steadfastly oppose the U.S. embargo. Interestingly, the *Times* editorial was immediately endorsed by both Fidel Castro, who republished most of it in *Granma*, the official newspaper of the Cuban Communist Party, and the well-known Cuban dissident blogger Yoani Sánchez.

Subsequent editorials delved more deeply into these arguments and explored other areas, including Washington's failure to support Cuban doctors serving on the frontlines of the Ebola crisis. One editorial launched a blistering attack on the U.S. policy of regime change, which was codified in the Helms-Burton Act, passed by Congress in 1996. The *Times* argued that the policy has been counterproductive, stigmatizing dissidents, legitimizing the Cuban government, and jeopardizing the safety and credibility of aid workers and social activists.

Spare Parts: Four Undocumented Teenagers, One Ugly Robot, and the Battle for the American Dream

BY JOSHUA DAVIS. Farrar, Straus and Giroux, 2014, 240 pp. \$25.00 (paper, \$14.00).

Spare Parts tells the unlikely but inspiring true story of four Arizona teens, all undocumented immigrants from Mexico, who joined their high school's robotics team and went on to win the Marine Advanced Technology Education national championship in 2004. The story is pure Hollywood—and indeed, a film based on the book was released last year. But it

is not all uplift: Davis deftly juxtaposes the team's success with the political backlash faced by undocumented immigrants all over the country. Nor is the story a clear testament to the transformative power of education. A decade after the competition, some of the U.S. citizens who were runners-up in the contest now hold jobs at NASA and Exxon. The undocumented winners have not fared as well: one is a janitor, another is a cook, and a third spent a year picking beans in Mexico before finally gaining U.S. citizenship. The specter of deportation haunts them and their families, just as it will continue to haunt all undocumented children in the United States as long as the U.S. Congress fails to pass the Dream Act, which would grant permanent residency to many of those who were brought to the United States as children and know no other home.

Eastern Europe and Former Soviet Republics

Robert Legvold

The Sino-Russian Challenge to the World Order: National Identities, Bilateral Relations, and East Versus West in the 2010s
BY GILBERT ROZMAN. Stanford University Press, 2014, 264 pp. \$50.00.

Notwithstanding the many issues on which China and Russia agree these days, conventional wisdom holds that a real alliance between the two powers is not in the cards. The growing gap in power,

the historical sources of enmity, and the cultural divide make it impossible, the thinking goes. But those assumptions ought to be reconsidered. The evolving, multidimensional nature of national identity under Chinese President Xi Jinping and Russian President Vladimir Putin, Rozman argues, is bringing the two countries together in profound ways. Both regimes have tapped into deep historical and cultural sensitivities, fashioned updated versions of authoritarianism that celebrate the state, proclaimed a sense of alienation from Western values, and engaged in the “demonization of the United States.” Rozman recognizes that Chinese and Russians leaders might overreach and that events might send their currently parallel quests for identity onto disparate paths. But he doubts that the core similarities, including the residual influence of communism, will soon fade, and he suspects that stronger ties between Beijing and Moscow will pose a challenge to the West's preferred world order.

Radovan Karadzic: Architect of the Bosnian Genocide

BY ROBERT J. DONIA. Cambridge University Press, 2014, 360 pp. \$90.00 (paper, \$32.99).

In the 1980s, Radovan Karadzic was a practicing psychiatrist and a published poet living a middle-class life in Sarajevo with a wife and two children. Nothing about him suggested the capacity for the fierce ethnic nationalism, violence, and sadism that swept him to power as the leader of the Serbian Democratic Party and then president of the Republika Srpska, an

enclave carved by force out of Bosnia and Herzegovina. But from 1992 to 1995, he orchestrated, in both idea and deed, a military campaign that took 100,000 lives—most of them Bosnian Muslims, many of whom were killed in atrocities that led the International Criminal Tribunal for the Former Yugoslavia to indict Karadzic on charges of genocide. After 13 years on the run, he was arrested and brought before the ICTY in 2008. Donia testified as an expert witness during the trial and had the extraordinary experience of being cross-examined by Karadzic. (The court has yet to issue a verdict.) The sense of Karadzic that Donia gained from that encounter contributes to an elegantly written biography of a complex, charismatic figure who “thought creatively and acted ruthlessly in realizing, at any cost, a utopian vision of a separate state controlled and inhabited only by Serbs.”

Corruption as a Last Resort: Adapting to the Market in Central Asia

BY KELLY M. MCMANN. Cornell University Press, 2014, 200 pp. \$47.95.

Economic development specialists and agencies used to consider corruption to be a secondary issue. Now, they see it as not merely a factor in dysfunctional economies but also a potential source of extremist violence and terrorism. For her part, McMann looks at how corruption figures in the daily lives of people struggling to meet their basic needs in the turmoil of Kazakhstan, Kyrgyzstan, and Uzbekistan, societies moving from Soviet-style economies to market-based ones. This is not the

voluptuous venality of high officials and heavy rollers manipulating laws and regulations but rather, as she says, “petty corruption”—the small bribes, favors, and paid-for votes offered by the average person to get a modest loan, a job, or money for food, housing, or health care. Relying on a wealth of survey and interview data, she makes an intriguing argument: ordinary people in these countries engage in corruption only as “a last resort,” after losing alternative sources of support, such as the government, charitable organizations, social groups, or family—losses that often occur when economic reform takes place in the absence of strong institutions.

The Romani Gypsies

BY YARON MATRAS. Harvard University Press, 2015, 336 pp. \$29.95.

They came to Europe from India in the Middle Ages. Their Romany language is flecked with words close to Hindi and is spoken in various dialects from Transylvania to San Francisco. To the outside world, they are known as “Gypsies,” with all the romanticism and prejudice that term connotes. But as Matras makes plain in this rich, colorful account, much of what people think they know about the Roma—their proper name, sometimes rendered as Roms—is wrong. Some Roma move about in caravans, but the vast majority are sedentary. Far from the sensuous Gypsy women of lore, Romany women live according to norms of extreme modesty. Romany attitudes toward cleanliness are far stricter than the attitudes in the wider societies that the

Roma interact with at arm's length. Matras, a professor of linguistics, punctures the distorted images of Roma and probes Romany beliefs and opinions about everything from gender roles, age, and work to marriage, shame, and religion. The reader comes away far less ignorant about this inward-looking and often persecuted group.

Ukrainian Nationalism: Politics, Ideology, and Literature, 1929–1956

BY MYROSLAV SHKANDRIJ. Yale University Press, 2015, 344 pp. \$85.00.

Russian officials and media have painted Ukraine's new leaders as the heirs of the ultranationalist, crypto-fascist Organization of Ukrainian Nationalists, a group remembered today mostly for its campaigns of violence during World War II against Poles, Jews, Russians, and eventually even the Germans, whom the OUN had at one point partnered with—all in the name of an extremist vision of Ukrainian nationhood. That depiction is cynical and mostly unfounded. But right-wing Ukrainian political parties continue to celebrate the OUN, which lends relevance to this detailed study of the group, its interwar origins in Polish Galicia, and its program and actions during and after the war. Shkandrij dispassionately examines the group's hyperauthoritarian, anti-humanist strain of Ukrainian nationalism, detailing its evolution and tracing the complex ideas and values of the figures who served as the OUN's intellectual guides. Although the movement spun off democratic variants, its tactics and core ideology reflected a troubling

view of violence "as redemptive, as a way of galvanizing a debased mass."

Kyiv, Ukraine: The City of Domes and Demons From the Collapse of Socialism to the Mass Uprising of 2013–2014

BY ROMAN ADRIAN CYBRIWSKY. Amsterdam University Press, 2014, 366 pp. \$124.00.

It's tempting to describe this book as an exceptionally ambitious tourist guide, full of detailed and elaborate descriptions of Kiev's sights, sounds, and entertainments. But that would grossly misrepresent what is, in fact, a staggeringly detailed portrait of the city at the heart of Ukraine's tortured existence. It is not a history of Kiev but rather a walking tour of its sociology. Cybriwsky, a geographer, digs deeply into the city's secrets and mechanics, exploring its physical features, voices, and "seamy stories." Some of his knowledge comes from his extensive study of historical and political literature relating to Kiev. But mostly, he draws on insights gained simply by walking and experiencing the city, talking to its people, and watching its daily dramas. The result is as thorough a portrait as one could wish for of this beautiful, tumultuous place.

Middle East

John Waterbury

Once Upon a Revolution: An Egyptian Story
BY THANASSIS CAMBANIS. Simon & Schuster, 2015, 288 pp. \$26.00.

Cambanis' remarkable account of Egypt's 2011 uprising and 2013 counterrevolution is built on his firsthand reporting. Cambanis was in the country during both developments and shared in the initial euphoria and in the bitter disappointment that followed. He tells the story mainly through in-depth profiles of two men: Basem, a middle-aged, secularist architect who became politically active in anger at the almost comically fraudulent 2010 parliamentary elections that confirmed President Hosni Mubarak's grip on power, and Moaz, a young activist in the Muslim Brotherhood, impatient with the group's leadership and willing to cooperate with people like Basem. Cambanis' analysis is sharp, and he does not hold back when it comes to graphically depicting the Egyptian state's violence against its own people, be they Coptic Christians or Muslim Brotherhood supporters. In his gripping account of the 2011 massacre of some two dozen Copts at a protest in front of the Maspero television building in Cairo, Cambanis squarely blames the violence on the military leadership. Likewise, Cambanis accuses the military of deliberately killing as many Brotherhood supporters as possible during a protest against the 2013 military coup that brought General Abdel Fattah el-Sisi

to power. Cambanis claims, at one point, that the lessons of the 2011 uprising cannot be unlearned. But even though the Egyptian people pushed out one autocrat, Sisi's regime is more authoritarian and less liberal than Mubarak's. So it's not altogether clear what the lessons are.

Inside the Brotherhood
BY HAZEM KANDIL. Polity Press, 2014, 240 pp. \$25.00.

The portrait of Egypt's Muslim Brotherhood that emerges from Kandil's fascinating and lively book is hardly flattering, highlighting the group's anti-intellectualism and its emphasis on faith and action over analysis. Before the group came to power in Egypt in 2012, its leadership had long believed that once a community of the faithful formed and won power, government policies and programs would take care of themselves. Small wonder, then, that the democratically elected but short-lived government led by President Mohamed Morsi, who had previously been a Brotherhood leader, proved to be so incompetent. As popular anger against Morsi's government grew in 2013, the Brotherhood tried to compromise with the army and the security forces, hoping that they could still be won over. Once the army took control, Brotherhood members occupied a square in Cairo to protest, convinced that God would intervene on their behalf. Security forces fired on the demonstration, killing hundreds, and the new regime then outlawed the Brotherhood and arrested all its leaders. Although Kandil laments this "brutal repression," he clearly thinks that the Brotherhood earned its tribulations.

Cultivating the Nile: The Everyday Politics of Water in Egypt

BY JESSICA BARNES. Duke University Press, 2014, 248 pp. \$84.95 (paper, \$23.95).

For its significant water needs, Egypt depends entirely on the Nile River—to which it contributes not a drop. But Barnes argues that water scarcity in Egypt is not a “given” but rather “made,” through the interactions of bureaucrats, donors, and consumers. She reveals a perverse imbalance of supply and demand: some regions, such as the Toshka area, have an excess of water, which they literally dump in the desert, while in others, such as Faiyum, water scarcity means that bureaucrats choose winners and losers among farmers. To increase their leverage, farmers employ a variety of tools: forming water-user associations, subleasing reclaimed land in order to gain access to state-supplied irrigation water, and sometimes simply stealing water. Among other fascinating details that Barnes describes is the country’s massive system of underground drains; if laid end to end, the drains would circle the globe multiple times.

The Clerics of Islam: Religious Authority and Political Power in Saudi Arabia

BY NABIL MOULINE. TRANSLATED BY ETHAN S. RUNDELL. Yale University Press, 2014, 344 pp. \$65.00.

Mouline takes readers inside the Wahhabi religious establishment of the kingdom of Saudi Arabia. Wahhabi clerics, known as the *ulama*, have been allied and have occasionally intermarried

with the tribal House of Saud since the 1740s. In the twentieth century, the clergy went from shunning interaction with many other Muslims, let alone non-Muslims, to engaging with the wider Muslim world—and to some extent with the non-Muslim world as well. On most issues, the political leaders of the kingdom have proved more open than the clergy to change—for example, by introducing the concept of “positive,” human-made law to the legal system. Still, the clergy has always elected to adapt rather than to confront the monarchy, for fear of producing *fitna*, or dissidence. At the same time, the clergy has never been marginalized, and through the Grand Council of Ulama, it plays a critical role in decision-making on education, the judiciary, public morality, and business and finance. Mouline makes no predictions about the sustainability of this arrangement, but his account makes clear that, even after a few centuries, it remains viable.

The Wages of Oil: Parliaments and Economic Development in Kuwait and the UAE

BY MICHAEL HERB. Cornell University Press, 2014, 256 pp. \$35.00.

With its heavy reliance on oil revenues to sustain its public finances, Kuwait resembles an archetypal rentier state. But unlike other oil-rich Gulf states, such as Qatar and the United Arab Emirates, Kuwait boasts a vibrant elected National Assembly that fitfully exercises some influence over the country’s monarchy. Herb concludes that the roots of this difference lie in Iraq’s irredentist claim to Kuwait in 1961 and the Iraqi invasion of Kuwait in

1990. To shore up its regional and international legitimacy in the face of these threats to its sovereignty, Kuwait fashioned a credible electoral democracy. But no matter how expedient its creation, Kuwait's National Assembly has become a real force, representing the interests of the publicly employed middle class. The ruling Sabah dynasty is not likely to throttle it, even though it might be tempted to do so.

Asia and Pacific

Andrew J. Nathan

Intimate Rivals: Japanese Domestic Politics and a Rising China

BY SHEILA A. SMITH. Columbia University Press, 2015, 384 pp. \$40.00.

One might expect close trade ties and a common interest in regional stability to pull China and Japan together. But Smith explores several ways in which growing Chinese power has undercut Japanese public support for conciliatory policies toward Beijing. Chinese umbrage at Japan's Yasukuni Shrine—which honors those who died fighting for the Japanese empire, including a number of convicted war criminals—has made it difficult for Japanese prime ministers to pay their respects to the war dead, whom many Japanese view as honorable patriots. In 2008, a shipment of poisoned dump-lings from China sickened at least ten people in Japan and heightened long-standing anxieties about the country's dependence on imported food. The

ratification by both countries of the UN Convention on the Law of the Sea intensified, rather than resolved, disputes over rights to fisheries and under-sea oil resources. And the Japanese public has been shocked by the inability of their country's maritime forces to prevent recent Chinese incursions into Japanese territorial waters. Episodes like these have fed existing fears about the weakness of the Japanese government, generating pressure for a harder stance toward China.

Great Game East: India, China, and the Struggle for Asia's Most Volatile Frontier
BY BERTIL LINTNER. Yale University Press, 2015, 376 pp. \$35.00.

Lintner shines a bright light on one of the most obscure corners of Asia: the region of mountains and jungles in northeastern India that is surrounded by Bangladesh, Tibet, and Myanmar (also called Burma). What comes into view is a complex struggle between China and India for influence across the wide arc of land and sea that lies between them. Lintner shows how the tribal and ethnic insurgencies that have smoldered in the area for decades have been shaped by colonial legacies, the Indian government's violent repression of dissent, and periodic Bangladeshi, Chinese, and Pakistani assistance to insurgent groups. India has supported opposition movements in Bangladesh and has tried to maintain influence in Tibet by supporting the Dalai Lama. China, meanwhile, has cooperated with rebels in Myanmar but has also assisted that country's government in upgrading its naval facilities on the coast facing India.

*Men to Devils, Devils to Men:
Japanese War Crimes and
Chinese Justice*

BY BARAK KUSHNER. Harvard University Press, 2015, 416 pp. \$45.00.

Besides the well-known Nuremberg and Tokyo trials, thousands of legal proceedings were held after World War II in Asia and Europe to try those accused of war crimes. Among the defendants were hundreds of Japanese officers and soldiers who were prosecuted in China. Using newly available sources from both China and Japan, Kushner examines the complex motives that shaped the Chinese trials. In the immediate postwar period, the Chinese Nationalist government wanted to establish its credentials as a law-abiding state, cultivate favorable relations with Japan, and provide its public with a sense of vindication. It pursued these contradictory goals by releasing many Japanese defendants, trying several hundred, and executing about 150. Evidence was hard to collect, and many in Japan saw the condemned as patriots who became the casualties of victor's justice. The question of whether justice was done was controversial then and remains so today.

Elite Parties, Poor Voters: How Social Services Win Votes in India

BY TARIQ THACHIL. Cambridge University Press, 2014, 352 pp. \$99.00.

Why do poor voters sometimes back parties whose policies mostly serve the interests of elites? Thachil studied two districts in India where wealthy backers of the upper-caste-based Bharatiya Janata

Party (BJP) sought to expand the party's electoral support by funding one-teacher schools, village health workers, and other simple social services targeted at specific lower castes that had not yet been mobilized by other parties. This approach is different from two other strategies that parties can use to mobilize the poor to vote against their own interests: the use of caste-based or other identity-based appeals (which is possible only for a party that represents the interests of a mass base) and the employment of networks that distribute government welfare benefits selectively (which is possible only for a party that controls at least one level of government). Thachil's study was conducted before the BJP's victory in last year's national elections, so more research will be needed to find out how fully his insight explains the party's performance, as well as to explore its relevance to the behavior of elite parties in other countries.

China Leadership Monitor

Hoover Institution. Free online.

Before China opened up to the outside world, intelligence analysts and academics used the techniques of "Pekingology" to decode open media sources, where political tensions and policy adjustments were often signaled by subtle shifts in official rhetoric. Despite the wealth of new information sources, that skill is still necessary today, and it is practiced at a high level by the six regular contributors to the *China Leadership Monitor*, a quarterly online publication of the Hoover Institution. Each issue tracks the latest developments in Chinese foreign policy, military affairs, economic

policy, Communist Party politics, and events in the provinces. In a recent issue, for example, Michael Swaine sorted out the political and economic motives behind Chinese President Xi Jinping's July 2014 trip to Latin America, Barry Naughton discussed the party's ambiguous signals on economic reform, and Cheng Li identified 17 officials who have risen to high office thanks to having served in the provinces with Xi.

Pot Shards: Fragments of a Life Lived in CIA, the White House, and the Two Koreas

BY DONALD P. GREGG. New Academia Publishing, 2014, 344 pp. \$38.00 (paper, \$26.00).

Gregg is best known for his service as U.S. ambassador to South Korea in 1989–93. But that post was merely the culmination of a distinguished 42-year career in Asia. Gregg started out as a CIA operations officer based in Burma, Japan, South Korea, and Vietnam and later served as a member of the National Security Council staff and as national security adviser to U.S. Vice President George H. W. Bush. He recounts his experiences with insight and humor. While serving as the CIA station chief in Seoul, he opposed the torture employed by the South Korean Central Intelligence Agency during the period of military rule. He twice helped prevent the military-led government from killing Kim Dae-jung, a dissident who later went on to become South Korea's president and win the Nobel Peace Prize. Gregg offers few details of his work for the CIA, drawing more from his NSC and ambassadorial postings.

Throughout, he provides a rich sense of the highs and lows of family and professional life in government service and reflects on the role of personalities in making policy machinery work well (as was sometimes the case in South Korea) or poorly (as was often the case in Vietnam).

The Nature of Asian Politics

BY BRUCE GILLEY. Cambridge University Press, 2014, 272 pp. \$85.00 (paper, \$29.00).

In this ambitious book, Gilley offers a novel way to understand the politics of East and Southeast Asia. He proposes that states in the region succeed or fail according to how closely they hew to what he dubs “the Asian Governance Model,” in which a widely acknowledged political authority “allocates political values in a non-patrimonial manner that advances broadly shared development, internal and external security and social opportunity through a form of governance that is characterized by the traits of rationality, accountability and propriety.” He alternates between grand theory and fine-grained analysis. The book is engaging and will surely stimulate classroom debates. But Gilley weakens his own argument by repeatedly insinuating that at heart, Asians simply prefer despots. Gilley's model downplays the intense ambivalence many in the region feel toward state authority, and he sometimes misses the fact that in Asia, as the saying goes, the emperor's writ often stops at the village gate.

DUNCAN MCCARGO

Deng Xiaoping: A Revolutionary Life
BY ALEXANDER V. PANTSOV AND
STEVEN I. LEVINE. Oxford
University Press, 2015, 640 pp. \$34.95.

Like the heroes of a Hollywood Western riding into town to clean up a mess, Pantsov and Levine have swept into the unruly genre of contemporary Chinese biography. Pantsov contends with Soviet archives, while Levine wrangles Chinese-language materials and secondary sources in English. Both bring prodigious energy and research firepower to their work. Their previous collaboration, 2012's *Mao: The Real Story*, questioned the conventional wisdom among U.S.-based China specialists that Mao Zedong retained a good deal of independence from Soviet leader Joseph Stalin and his Comintern; Pantsov and Levine emphasized Mao's loyalty to both. Their portrait of Mao's successor, Deng Xiaoping, cuts in a similar direction: despite the independence and pragmatism that Deng displayed later in life, Pantsov and Levine argue that the distinguishing features of Deng's formative years were his servility to Mao and his extreme radicalism. They claim that their interpretation finally sets the record straight after many previous efforts missed the mark; this pretension lends their work a certain dynamism but also detracts from the authority of a well-researched, interesting, and readable book about an elusive figure who exhibited a curious combination of idealism and ruthlessness.

ORVILLE SCHELL

Africa

Nicolas van de Walle

Why States Recover: Changing Walking Societies Into Winning Nations, From Afghanistan to Zimbabwe
BY GREG MILLS. Oxford University
Press, 2015, 700 pp. \$29.95.

In this sprawling inquiry into why several dozen low-income countries, mostly in sub-Saharan Africa, collapsed and why some of them subsequently recovered, Mills finds more answers in domestic politics than in international factors. In most of these “walking societies”—a term Mills coins to describe places where people walk everywhere, which he sees as an indication of inefficiency—dysfunctional political systems led to crises, and only effective national-level leadership and viable governing coalitions could chart a path back to stability. Mills argues convincingly that although outsiders and foreign aid can help, without local resolve, such assistance is mostly wasted. On the other hand, Mills acknowledges that absent an external force, dysfunctional political systems can persist for decades, at a huge cost to local populations. The book is impressive in its mastery of the histories of so many countries and is clearly based on a significant amount of fieldwork. But Mills says too little about how and why good governance emerges in the first place.

Stones of Contention: A History of Africa's Diamonds

BY TODD CLEVELAND. Ohio University Press, 2014, 240 pp. \$26.95.

Africa produces more than half of the world's diamonds. As Cleveland's book makes clear, a combination of high value and low volume makes the stones a destabilizing resource, and the concept of "blood diamonds" has become a familiar trope in African affairs. But this concise history of the African diamond trade, which began with the discovery of a diamond in South Africa in 1867, evinces a more nuanced understanding of its impact on the continent. An excellent chapter on Botswana, the single largest producer of diamonds, makes clear that in some circumstances, the precious stones can be a force for economic development and state building, if a government converts its diamond revenues into productive investments in education, health, and infrastructure—as Botswana's has done. The book also includes a fascinating chapter on the history of De Beers, the South African diamond company that, according to Cleveland, has long exerted tight control over global prices by stockpiling uncut diamonds and limiting the number available on the market at any given time.

Inside South Africa's Foreign Policy: Diplomacy in Africa From Smuts to Mbeki
BY JOHN SIKO. I.B. Tauris, 2014, 288 pp. \$99.00.

This sharp investigation into the factors that shape South Africa's foreign policy is well worth reading for anyone interested in the country's politics. Through

a number of remarkable interviews with South African elites, Siko examines the impact that interest groups, the press, big business, political parties, and the legislative branch have on foreign policy. He finds that although all those players exercise some influence, the executive branch has historically maintained a considerable amount of autonomy, as presidents and their collaborators have pursued their own sense of the national interest. Siko further argues that the emergence of majority rule in the mid-1990s did little to alter this culture of executive dominance, despite much rhetoric about the democratization of policymaking. He explains this continuity by pointing out that the South African public is generally uninterested in foreign policy; there is little pressure to change the way things have normally been done. Apartheid also played a role, by encouraging the fragmentation of nongovernmental groups, which even today rarely collaborate to advance common interests. Siko's analysis is largely focused on process, but along the way he does discuss some specific cases of policy in action, such as South African President Thabo Mbeki's "quiet diplomacy" toward the crisis in Zimbabwe during the first decade of this century.

States at Work: Dynamics of African Bureaucracies

EDITED BY THOMAS BIERSCHENK AND JEAN-PIERRE OLIVIER DE SARDAN. Brill, 2014, 442 pp. \$80.00.

This collection of essays on African bureaucracies offers some profound insights, presenting excellent case studies of the day-to-day workings of

specific agencies, including Senegal's forest service, Niger's district courts, Cameroon's education ministry, and Malawi's central administrative bureaucracy. Most of these organizations are hamstrung by inadequate finances and personnel and are held back by highly centralized, hierarchical structures, in which most of the resources get captured by the top of the administrative pyramid. A number of contributors emphasize the negative effects of reforms that are frequently imposed by external donors but rarely implemented in full. This is a bleak picture, but the book also observes that many African bureaucracies have maintained enough institutional vitality and experience to provide decent public services and are often staffed by professionals who demonstrate remarkable ingenuity while serving the public in less-than-ideal circumstances.

compelling account examines the nature of economic activity in the midst of the area's long-standing instability, and he finds that new kinds of social organizations have replaced or co-opted the moribund state structures, regulating markets and providing the modicum of authority necessary for them to function. Often linked to specific networks of producers, these new organizations allow for some level of capitalist accumulation but make no contribution to the goal of lasting peace and have little interest in building any kind of political community. Indeed, the power and wealth they have accrued have probably made peace and effective state building less likely. 🌍

Violent Capitalism and Hybrid Identity in the Eastern Congo: Power to the Margins

BY TIMOTHY RAEYMAEKERS.

Cambridge University Press, 2014,
199 pp. \$95.00.

The area surrounding the border between Uganda and the Democratic Republic of the Congo has not been ruled effectively by any sovereign state in decades and has been mired in ethnic violence since the mid-1990s, when the Congolese state collapsed. Raeymaekers has conducted extensive fieldwork in this dangerous part of the world, which allows him to provide fascinating information on the practices, discourse, and power relations of the individuals and firms that exist and sometimes thrive in this Hobbesian environment. His

Letters to the Editor

RETURN THE MARBLES

To the Editor:

James Cuno (“Culture War,” November/December 2014) makes an unpersuasive argument against the repatriation of museum artifacts to their countries of origin. Certainly, as Cuno writes, encyclopedic museums broaden our understanding of the historical interplay among cultures. But he goes too far when he flatly dismisses countries’ claims to historical objects as “frivolous” and overly nationalist. He too easily brushes aside the moral case for returning objects to the countries in which they were first unearthed—and, in particular, he is too quick to dismiss Greece’s case for the repatriation of the Elgin Marbles.

Apparently with the permission of Greece’s indifferent Ottoman rulers, Thomas Bruce, seventh Earl of Elgin, acquired the marbles between 1801 and 1812, crudely hacking off the Parthenon’s sculptures and shipping them to the United Kingdom. Far from protecting the sculptures, however, the British Museum spent years systematically scraping and destroying their surfaces in an attempt to whiten them, only to belatedly realize its mistake and attempt to cover up the damage it had done.

Cuno scoffs at Athens’ insistence that returning the marbles would “restore the unity” of the Parthenon. But of course it would. Unlike the churches and mosques that foreign powers built on the Acropolis,

which were subsequently removed by the newly independent Greek government, the marbles are physically integral to the Parthenon itself. Illuminating ancient Athenian values and stories, they breathe life into one of the world’s greatest architectural achievements. Visible to the people of Athens in their natural setting for more than two millennia, the marbles now find themselves 1,500 miles away from home, stuck in a dim, cavernous room in the British Museum, starved of context. Greece’s calls for their return are no less frivolous than the United Kingdom’s would be had half of Stonehenge been carted away by foreign thieves.

The Elgin Marbles controversy is a sorry testament to the paternalist arrogance of the British government, which continues to claim that these sculptures are better maintained, displayed, and studied in the British Museum than they would be in the state-of-the-art Acropolis Museum, a stone’s throw from the Parthenon.

DAVE GLANTZ

Strategy Consultant, Washington, D.C.

NOT ORDINARY RUSSIANS

To the Editor:

In her review of my book *No Illusions: The Voices of Russia’s Future Leaders*, Sarah Mendelson (“Generation Putin,” January/February 2015) wrongly criticizes my research methods. She writes that random-sample surveys would have added more information to the focus groups of Russian students on which I based my book. But as any social scientist will tell you, mass surveys might tell you what people think, but focus groups are much better at revealing why they think it. My research for the book was about a

COUNCIL *on* FOREIGN RELATIONS

Franklin Williams Internship

The Council on Foreign Relations is seeking talented individuals for the Franklin Williams Internship.

The Franklin Williams Internship, named after the late Ambassador Franklin H. Williams, was established for undergraduate and graduate students who have a serious interest in international relations.

Ambassador Williams had a long career of public service, including serving as the American Ambassador to Ghana, as well as the Chairman of the Board of Trustees of Lincoln University, one of the country's historically black colleges. He was also a Director of the Council on Foreign Relations, where he made special efforts to encourage the nomination of black Americans to membership.

The Council will select one individual each term (fall, spring, and summer) to work in the Council's New York City headquarters. The intern will work closely with a Program Director or Fellow in either the Studies or the Meetings Program and will be involved with program coordination, substantive and business writing, research, and budget management. The selected intern will be required to make a commitment of at least 12 hours per week, and will be paid \$10 an hour.

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particular group of young elite Russians, the country's likely future leaders, not average Russians; the latter may be suited to mass surveys, but the former are not. For data about opinions and attitudes that are representative of all of Russia, readers can—and should—look elsewhere.

Mendelson also expresses surprise that I did not follow up with my subjects to gauge their reactions to current events in Russia. But this would have been impossible. As the focus groups maintained the strictest confidentiality, I had no access to the students' contact information. Beyond the aliases they used in the sessions, I do not even know their names. Such confidentiality is the norm in research concerning human subjects, and it undoubtedly contributed to the startling candor with which the students spoke to one another. Indeed, the groups talked animatedly, with no break, for two hours straight. As a scholar, I chose to employ the most solid instruments of research for credibility and utility.

ELLEN MICKIEWICZ

James R. Shepley Emeritus Professor of Public Policy, Duke University

A CONTINUED STRUGGLE

To the Editor:

Deborah Yashar ("Does Race Matter in Latin America?" March/April 2015) provides a sophisticated analysis of identity politics in Latin America, but she overestimates the gains that indigenous groups have made.

Yashar describes Rigoberta Menchú Tum's 1992 Nobel Peace Prize as a watershed moment for indigenous groups across the region. Menchú's award was indeed momentous, but it was not quite the sea change that Yashar implies it was. Indeed, Menchú herself lost in the first

rounds of Guatemala's 2007 and 2011 presidential elections, in part because she could not overcome the conventional old-boy network that privileges the country's business and military elites. Despite its large indigenous population, Guatemala today has no coherent political party representing indigenous interests, and indigenous leaders are conspicuously absent from national politics writ large.

Yashar goes on to argue that Latin America's neoliberal reforms have strengthened indigenous movements. But they have also prioritized industrial development over land rights and the ecological services that sustain indigenous villages. As a result, indigenous groups—especially in Guatemala—have continued to experience disproportionately low levels of development.

Indigenous peoples across Central and South America continue to struggle for land rights, political representation, and equality. Yashar is correct to note that indigenous groups have begun to mobilize, but whether this will lead to substantive improvements in their future well-being remains an open question.

MATTHEW KLICK

Adjunct Lecturer, University of Denver

CLOUDY OUTLOOK

To the Editor:

In their analysis of the rapid growth of solar power worldwide, Dickon Pinner and Matt Rogers ("Solar Power Comes of Age," March/April 2015) write that "solar power is ready to compete on its own terms." But a broader view of the facts

suggests that the story of solar power's growth isn't quite as sunny as they claim.

Pinner and Rogers correctly identify the main reasons that solar power has taken off so quickly around the world, including large feed-in tariffs and subsidies for distributed solar power production. But they do not acknowledge the negative consequences of such subsidies. In Germany, for example, overly generous subsidies for solar power have contributed to a rise in electricity prices, from 18 cents per kilowatt-hour in 2000 to more than 37 cents per kilowatt-hour in 2013. (By contrast, the average retail price of electricity in the United States, as of December 2014, was about 10 cents per kilowatt-hour.) Moreover, subsidies for rooftop solar systems tend to benefit only the wealthy, as evidenced by a 2015 study done for the Louisiana Public Service Commission.

Because of the intermittent nature of renewable energy sources, and the energy's costs, fossil fuels will not be completely replaced in the immediate future. Instead, the world will gradually build an ever-growing portfolio of renewable energy sources. Finding the best way to manage this long-term transition to clean power—preserving the reliability of the grid, preventing consumer electricity prices from skyrocketing, and finding a pragmatic path toward reducing carbon dioxide emissions—will require a thorough understanding of the pitfalls of moving too rapidly.

JEFFREY ALTMAN

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doesn't fit on 189 pages.**

"[Tokyo] has . . . aimed to boost women in leadership positions from ten percent to 30 percent by 2020, is debating tax incentives that would encourage women to work full-time, and is planning to allow more foreign laborers into the country to work as housekeepers."

Abenomics Meets Womenomics

Transforming the Japanese Workplace

By Devin Stewart

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"It is certainly ironic that at this point, when the United States is the closest it has ever been to destroying al Qaeda, its interests would be better served by keeping the terrorist organization afloat."

Accepting al Qaeda

**The Enemy of the United States'
Enemy**

By Barak Mendelsohn

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accessible electricity
to over 350.000 citizens of Pointe-Noire

let's give new life to energy

use
of natural gas
for local development

60% of the electricity
capacity installed in the
Republic of Congo

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taking care of energy means creating new energy, together



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