

TALKING TURKEY: A CONVERSATION WITH ABDULLAH GUL

JANUARY/FEBRUARY 2013

FOREIGN AFFAIRS

**Will Chinese
Communism Survive?**

Eric Li • Yasheng Huang

**The Future of the
Arab Spring**

Seth Jones • Sheri Berman

Can America Be Fixed?

Fareed Zakaria

Roger Altman



FOREIGN AFFAIRS

Digital Edition User Guide



Here are some quick tips for navigating your enhanced PDF issue.

- * View as a spread by choosing View → Page Display → Two-Up Continuous.
- * Go to a specific page using the tools in the top and left-side navigations.
- * Return to the Table of Contents from the page header and footer.
- * Use the Table of Contents in the left-side navigation to jump to an article.
- * Click on advertisements and book titles to visit company and publisher Web sites.

The screenshot shows a digital edition of the magazine 'Foreign Affairs' in a browser window. The left sidebar contains a 'Bookmarks' menu with the following items: Cover Page, Table of Contents, A G-Zero World, Germany's Immigration Dilemma, Getting China to Sanction Iran, Arms Sales for India, The Tea Party and American Foreign Policy, The Post-Washington Consensus, The Advantages of an Assertive China, Will China's Rise Lead to War?, Currency Wars: Then and Now, Iraq, From Surge to Sovereignty, How al Qaeda Works, The Indian-Pakistan Divide, Fighting the Laws of War, From Innovation to Revolution, The War Over Containing Iran, and Recent Books on International Relations. The main content area displays the 'Return To Table of Contents' page for the March/April 2011 issue (Volume 90, Number 2). It lists articles under 'Comments' and 'Essays' with their respective page numbers. A callout box on the right side of the page says 'Click on each article to jump to that piece.'

Return To Table of Contents

FOREIGN AFFAIRS

MARCH / APRIL 2011
VOLUME 90, NUMBER 2

Comments

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

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

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

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

Essays

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

Click on each article to jump to that piece.

Please send feedback about your experience to foreignaffairs@cfr.org.

Copyright © by the Council on Foreign Relations. All rights reserved.

Please visit www.ForeignAffairs.com/permissions for information about reprinting or distributing *Foreign Affairs* articles.

TALKING TURKEY: A CONVERSATION WITH ABDULLAH GUL

JANUARY/FEBRUARY 2013

FOREIGN AFFAIRS

**Will Chinese
Communism Survive?**

Eric Li • Yasheng Huang

**The Future of the
Arab Spring**

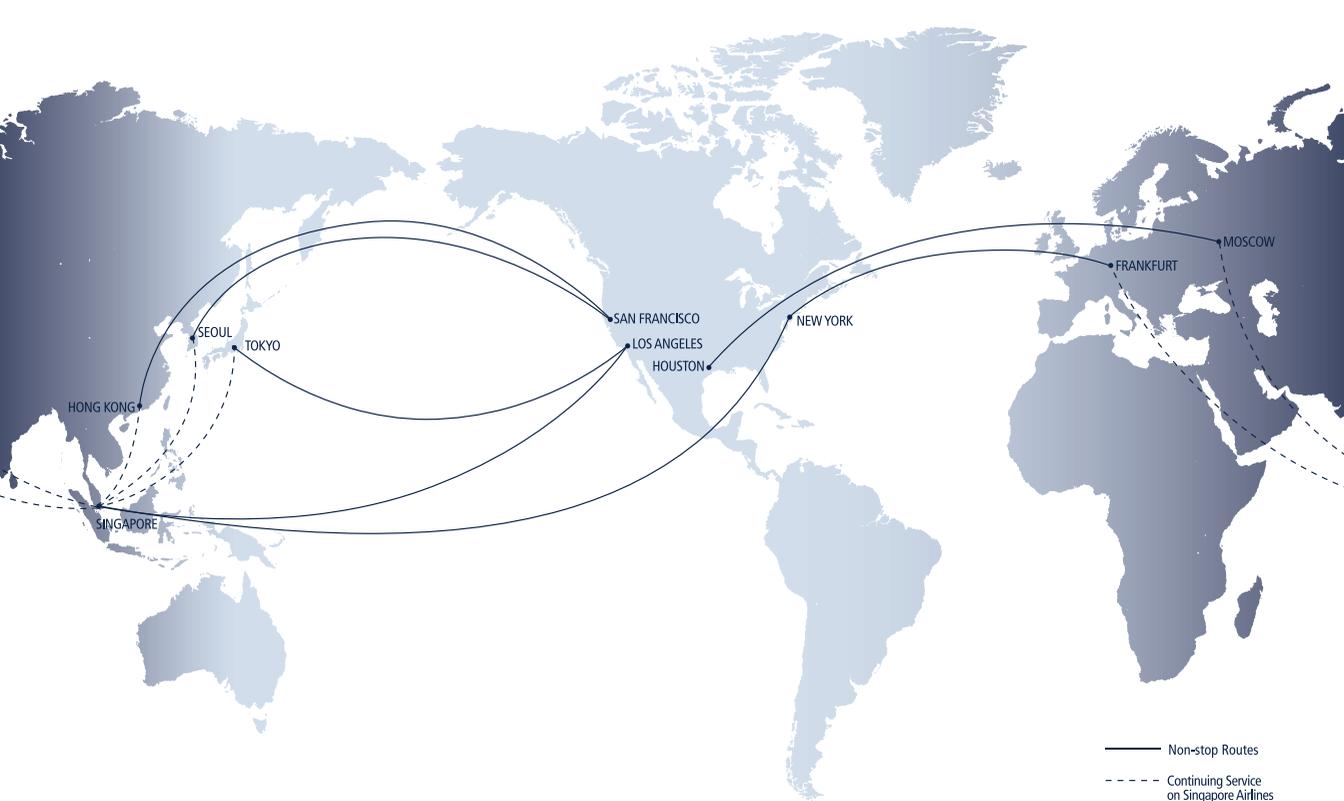
Seth Jones • Sheri Berman

Can America Be Fixed?

Fareed Zakaria

Roger Altman





SINGAPORE



HONG KONG



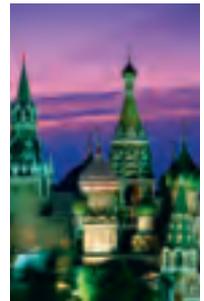
SEOUL



TOKYO



FRANKFURT



MOSCOW

SIX CITIES. NON-STOP.

FLY SINGAPORE AIRLINES NON-STOP FROM THE USA TO SIX INTERNATIONAL CITIES

Singapore Airlines offers non-stop flights from the USA to Hong Kong, Seoul, Tokyo, Frankfurt and Moscow en route to Singapore. Or fly non-stop to Singapore on our All-Business Class service from Los Angeles or New York. From Singapore, connect to over 50 destinations throughout Asia, a network served by Singapore Airlines and SilkAir, our regional carrier. Onboard you'll enjoy Krisworld, your personal in-flight entertainment system, and the in-flight service even other airlines talk about.



singaporeair.com



FOREIGN AFFAIRS



January/February 2013 · Volume 92, Number 1

COMMENTS

- | | |
|--|----|
| Turkey's Moment
A Conversation With Abdullah Gul
<i>Jonathan Tepperman</i> | 2 |
| The Fall and Rise of the West
Why America and Europe Will Emerge Stronger From the
Financial Crisis
<i>Roger C. Altman</i> | 8 |
| Do Less Harm
Protecting and Compensating Civilians in War
<i>Sarah Holewinski</i> | 14 |



the number one guide for finding your way around in the world of energy

Oil is the most authoritative journal for learning about the world of energy through opinions from key players and expert analysis by top journalists. Providing a forum for debate on energy and a focus on the environment, Oil is published quarterly on recycled paper in Italian and English and can be found at top Italian booksellers.

Oil magazine can also be read at oilonline.it, the website that delivers in-depth analysis and up-to-the-minute news and events 24/7.

eni.com

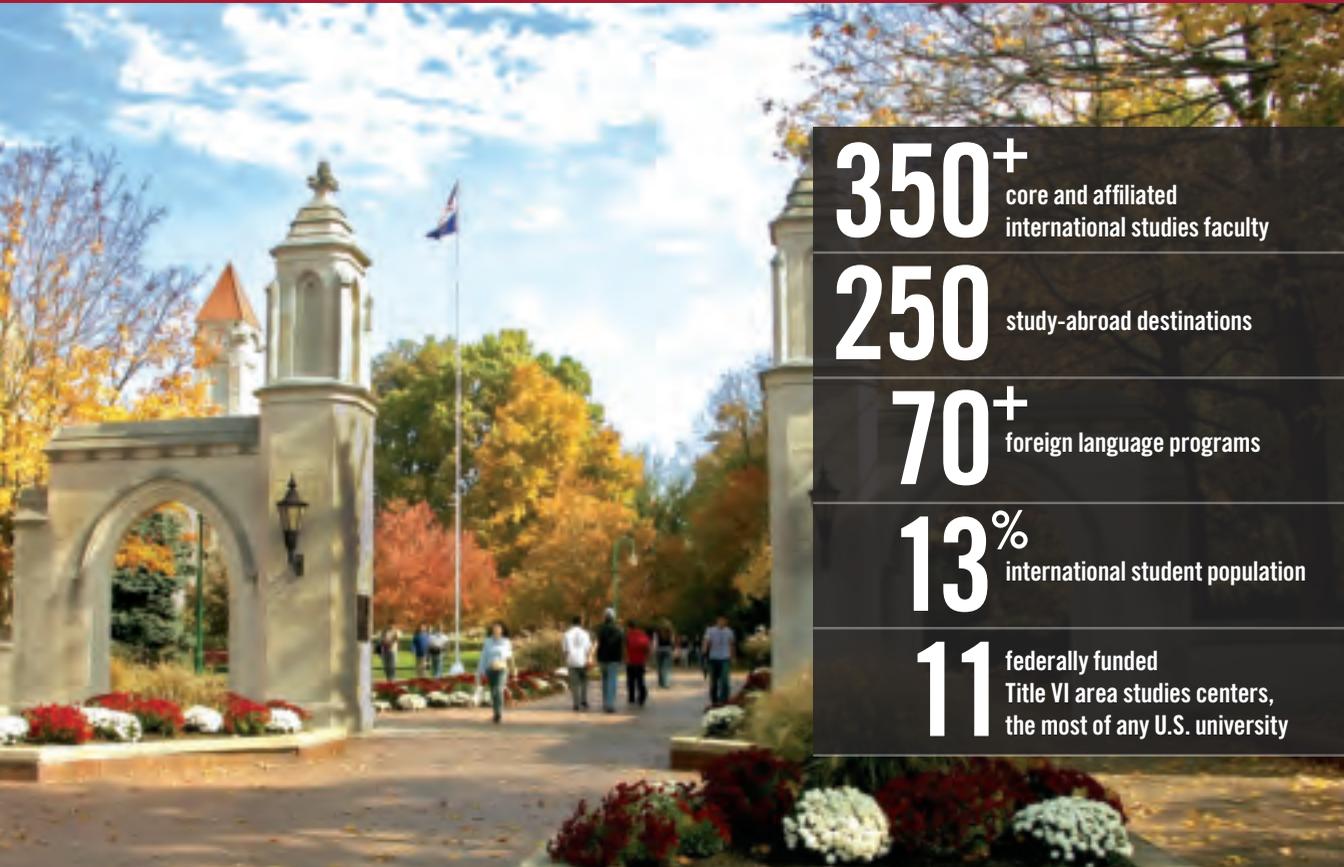


ESSAYS

-
- Can America Be Fixed?** 22
The New Crisis of Democracy
Fareed Zakaria
-
- The Life of the Party** 34
The Post-Democratic Future Begins in China
Eric X. Li
-
- Democratize or Die** 47
Why China's Communists Face Reform or Revolution
Yasheng Huang
-
- The Mirage of the Arab Spring** 55
Deal With the Region You Have, Not the Region You Want
Seth G. Jones
-
- The Promise of the Arab Spring** 64
In Political Development, No Gain Without Pain
Sheri Berman
-
- The End of the Age of Petraeus** 75
The Rise and Fall of Counterinsurgency
Fred Kaplan
-
- Barak's Last Battle** 91
An Israeli Lion in Winter
Jonathan Tepperman

Introducing the Indiana University

School of Global and International Studies



350⁺ core and affiliated international studies faculty

250 study-abroad destinations

70⁺ foreign language programs

13% international student population

11 federally funded Title VI area studies centers, the most of any U.S. university

You'll find one of the nation's best international studies programs at one of its top public universities.

Indiana University's history of international engagement stretches back to 1901, when IU professors first recruited students from the Philippines, China, and Japan. Since then, we've quietly become one of the world's leading centers

for global education. Now, with the exceptional resources and expertise of IU's College of Arts & Sciences, we have established the School of Global and International Studies. People are starting to talk. Join the conversation at sgis.indiana.edu/foreign-affairs

Getting to Yes With Iran	105
The Challenges of Coercive Diplomacy	
<i>Robert Jervis</i>	

Pull Back	116
The Case for a Less Activist Foreign Policy	
<i>Barry R. Posen</i>	

Lean Forward	130
In Defense of American Engagement	
<i>Stephen G. Brooks, G. John Ikenberry, and William C. Wohlforth</i>	

Rebooting Republican Foreign Policy	143
Needed: Less Fox, More Foxes	
<i>Daniel W. Drezner</i>	

America's Misguided Approach to Social Welfare	153
How the Country Could Get More for Less	
<i>Kimberly J. Morgan</i>	

ON FOREIGNAFFAIRS.COM

► **Michael Eisenstadt** and **David Pollock** on why the U.S.-Israeli relationship offers America more benefits than critics think.

► **Javier Corrales** on how Hugo Chávez's socialist economic policies have done more for Venezuela's private sector than for its poor.

► **Jerome Alan Cohen** on the surprising progress China's legal system has made in recent years, and what Beijing must do next.

Our graduates are prepared to tackle complex international challenges in an uncertain world —from partisan politics to a “zombie apocalypse.”



Ask Professor of International Politics Daniel W. Drezner about zombies, and be prepared for a learned conversation about what various international relations paradigms would predict in the face of a global threat. At The Fletcher School, Professor Drezner and a multidisciplinary group of faculty help prepare tomorrow's leaders to see beyond the haze of political rhetoric toward the practical application of international relations theories in uncertain, or unknowable conditions. Through the study of politics, economy, law and business—taught by internationally respected faculty with real-world experience—the School produces broadly knowledgeable practitioners who are trained to lead with authority and confidence on the global stage.

Professor of International Politics Daniel W. Drezner is a leading commentator, scholar and writer on international relations and a contributing editor to *Foreign Policy* magazine, where his widely read political blog was named one of *TIME*'s “25 Best Blogs 2012.” His prior work includes positions at the U.S. Department of the Treasury and RAND Corporation. Drezner is the author of four books, including “Theories of International Politics and Zombies” (2011).

Master of Arts in Law and Diplomacy (MALD)
Master of International Business (MIB)
Global Master of Arts Program (GMAP)
Master of Laws in International Law (LLM)

Doctor of Philosophy (PhD)
Master of Arts (MA)
Executive Education
Summer School

Visit fletcher.tufts.edu or call 617.627.3040

REVIEWS & RESPONSES

-
- The Volcker Way** 166
Lessons From the Last Great Hero of Modern Finance
Austan Goolsbee
-
- The Totalitarian Temptation** 172
Liberalism's Enemies, Then and Now
Andrew Nagorski
-
- Smart Shift** 177
A Response to "The Problem With the Pivot"
Shawn Brimley and Ely Ratner
-
- Recent Books** 182

"Foreign Affairs . . . will tolerate wide differences of opinion. Its articles will not represent any consensus of beliefs. What is demanded of them is that they shall be competent and well informed, representing honest opinions seriously held and convincingly expressed. . . . It does not accept responsibility for the views in any articles, signed or unsigned, which appear in its pages. What it does accept is the responsibility for giving them a chance to appear."

Archibald Cary Coolidge, Founding Editor
Volume 1, Number 1 • September 1922

FOREIGN AFFAIRS

January/February 2013 · Volume 92, Number 1

GIDEON ROSE Editor, Peter G. Peterson Chair
JONATHAN TEPPERMAN Managing Editor
ANDREW BAST Web Editor
STUART REID, JUSTIN VOGT Senior Editors
KATHRYN ALLAWALA Associate Editor
BENJAMIN ALTER Staff Editor
EDWARD FISHMAN, SIGRID VON WENDEL Assistant Editors
ANN TAPPERT Copy Editor
LORENZ SKEETER Production Manager
IB OHLSSON Contributing Artist
SARAH FOSTER Business Administrator
ELIRA COJA Editorial Assistant

Book Reviewers

RICHARD N. COOPER, RICHARD FEINBERG, LAWRENCE D. FREEDMAN, G. JOHN IKENBERRY, ROBERT LEGVOLD, WALTER RUSSELL MEAD, ANDREW MORAVCSIK, ANDREW J. NATHAN, NICOLAS VAN DE WALLE, JOHN WATERBURY

LYNDA HAMMES Publisher
EMILIE HARKIN Marketing Director
STACY HAN Senior Product Manager
CHRISTINE LEONARD Assistant Manager, Marketing and Product Development
JONATHAN CHUNG Assistant Manager, Operations
EDWARD WALSH Advertising Director
MICHAEL PASUIT Senior Account Manager
CAROLINA AGUILAR Manager, Business Development
KATIE SEDGWICK Business Administrator
TOM DAVEY Director, Web Management and Development
CREE FRAPPIER Web Development
RICHARD WANDERER Regional Manager
DANIEL SCHOENBAECHLER Account Executive
LAURA VAIL, PROCIRC LLC Circulation Services

LISA SHIELDS, IVA ZORIC, DAVID MIKHAIL Media Relations

Board of Advisers

MARTIN S. FELDSTEIN Chairman
TOM BROKAW, LOUIS V. GERSTNER, JR., THOMAS H. GLOCER, DAVID GREENBERG, RITA E. HAUSER, JIM HOAGLAND, JOHN J. MEARSHEIMER, RODNEY W. NICHOLS, LOUIS PERLMUTTER, COLIN POWELL, PENNY S. PRITZKER, DAVID M. RUBENSTEIN, FREDERICK W. SMITH, MAURICE SONNENBERG, JOSHUA L. STEINER, MARGARET G. WARNER, ANITA VOLZ WIEN

SUBSCRIPTION SERVICES:

ForeignAffairs.com/services
TELEPHONE:
800-829-5539 U.S./Canada
813-910-3608 All other countries
EMAIL: service@ForeignAffairs.customersvc.com
MAIL: P.O. Box 60001, Tampa, FL, 33662-0001

Foreign Affairs

58 E. 68th Street, New York, NY 100065

ADVERTISING: Call Carolina Aguilar at 212-434-9526 or visit www.foreignaffairs.com/about-us/advertising
WEB SITE: ForeignAffairs.com
NEWSLETTER: ForeignAffairs.com/newsletters
VIDEO: ForeignAffairs.com/video
FACEBOOK: Facebook.com/ForeignAffairs

REPRODUCTION: The contents of *Foreign Affairs* are copyrighted. No part of the magazine may be reproduced, hosted or distributed in any form or by any means without prior written permission from *Foreign Affairs*. To obtain permission, visit ForeignAffairs.com/about-us

Foreign Affairs is a member of the Alliance for Audited Media and the Association of Magazine Media.

GST Number 127686483RT

Canada Post Customer #4015177 Publication #40035310

Published by the Council on Foreign Relations *cf*r



“EDUCATION COMBINED
with real experience - that’s what AMU offers.”

Stephen Schwalbe, Ph.D. | Political Science & Public Administration

Retired U.S. Air Force colonel, intelligence officer, and air attaché to Korea and Jordan, Dr. Schwalbe represents the high caliber of AMU faculty. His credentials include a baccalaureate from the U.S. Air Force Academy; graduate degrees from Golden Gate University, Naval Postgraduate School, and U.S. Naval War College; and a Ph.D. in Public Policy from Auburn University.

Learn More at www.amuonline.com/foreign-affairs



[Return to Table of Contents](#)



SERVICE IS NOT A MOMENT—IT'S A MINDSET

Situated in the midst of DC's Embassy Row, AU's School of International Service prepares more graduates for global service in government, nonprofits, and business than any other school in the nation. Transform your career into one that is truly world-class.

Learn more at american.edu/sis



SCHOOL of INTERNATIONAL SERVICE
AMERICAN UNIVERSITY • WASHINGTON, DC

CONTRIBUTORS

After working on AIDS policy in the White House, **SARAH HOLEWINSKI** was named head of Center for Civilians in Conflict in 2006. The organization works in war zones from Afghanistan to Somalia, documenting the suffering of civilians, training military officers on avoiding collateral damage, and lobbying governments to compensate victims—all themes of Holewinski's article "Do Less Harm" (page 14).



Today, **ERIC LI** is the Shanghai-based managing director of a venture capital firm and director of a think tank. But growing up in a newly open China, Li wanted to become an industrialist. Then, a managerial job after college changed his mind. After spending time at a venture capital firm in Silicon Valley, Li founded Chengwei Capital, one of China's first independent venture capital firms, in 1999. He brings that experience to bear in his essay "The Life of the Party" (page 34), which looks at the strengths of the Chinese political system.



AUSTAN GOOLSBEE is not your average University of Chicago economist: few of his peers have made it onto *Salon's* annual list of the 15 sexiest men or been named Washington's "funniest celebrity." Goolsbee became the youngest member of President Barack Obama's cabinet when he was appointed chair of the Council of Economic Advisers in 2010, at age 41. In that role, he helped guide the nation's recovery and explain the administration's policies to the public. His review essay "The Volcker Way" (page 166) looks at the career of Paul Volcker, a fellow economist and public servant credited with killing inflation in the 1980s.



Born in Scotland to Polish parents, **ANDREW NAGORSKI** moved to the United States as an infant and has rarely stopped moving since. At various times in his career, Nagorski taught high school in Massachusetts; ran *Newsweek's* Hong Kong, Warsaw, Moscow, and Berlin bureaus; got himself kicked out of the Soviet Union for his vigorous reporting; and wrote five books, including a best-selling novel. Nagorski is currently vice president and director of public policy at the EastWest Institute; his review essay "The Totalitarian Temptation" (page 172) seeks to draw lessons from the last century's struggles against totalitarianism.





WELCOME TO THE NEIGHBORHOOD

Every year, **GW's Elliott School of International Affairs** hosts more than 250 public events featuring hundreds of renowned policymakers, scholars, journalists, diplomats, and other world leaders.

Our unique location in the heart of Washington, D.C. enriches our teaching and research by giving our students and faculty unparalleled opportunities to engage with the international leaders who walk through our doors on a regular basis.

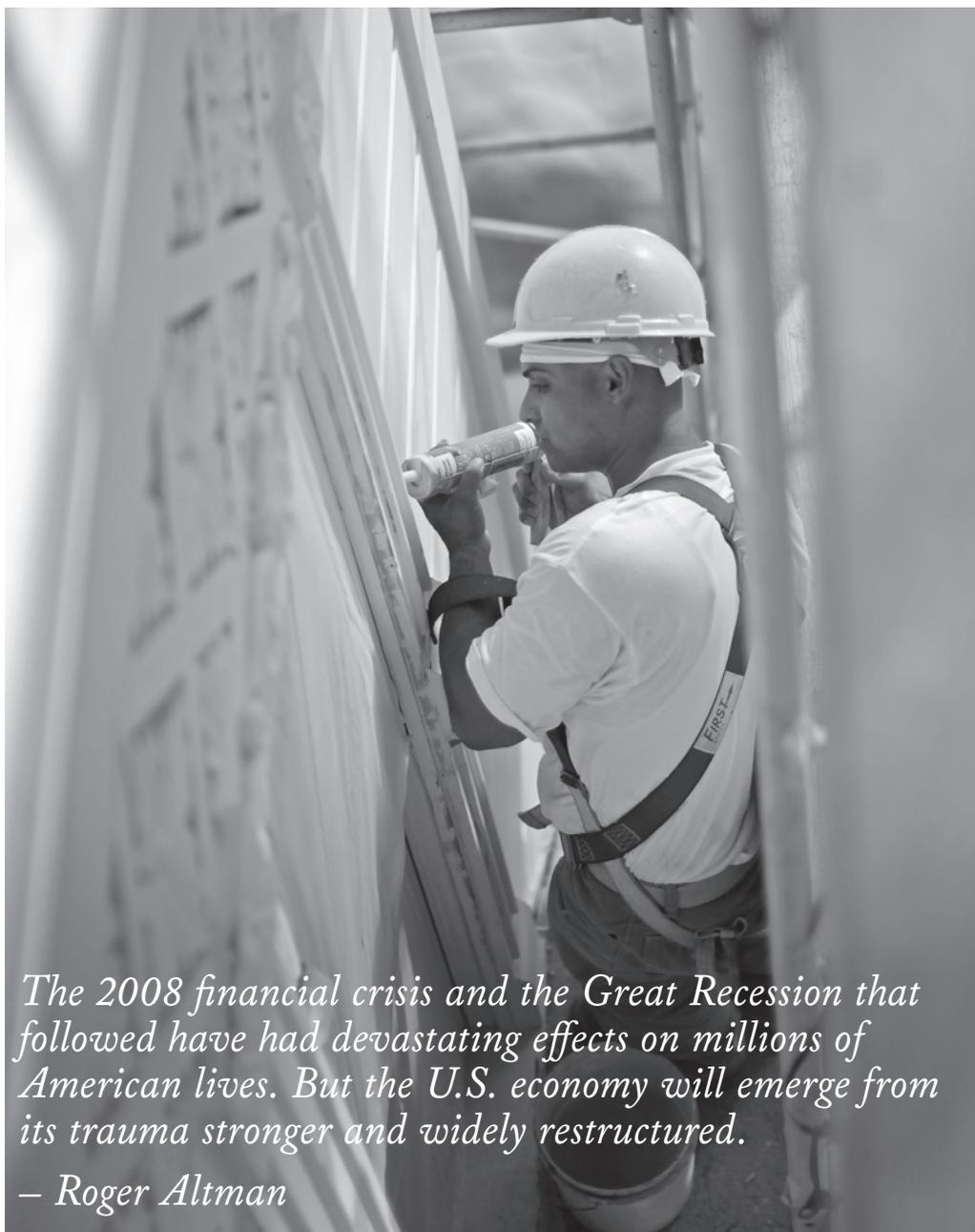
Learn more about our innovative undergraduate and graduate programs or view some of our superb special events online at www.elliott.gwu.edu.

**CONNECTED
TO THE WORLD**

**Elliott School of
International Affairs**

THE GEORGE WASHINGTON UNIVERSITY

COMMENTS



The 2008 financial crisis and the Great Recession that followed have had devastating effects on millions of American lives. But the U.S. economy will emerge from its trauma stronger and widely restructured.

– Roger Altman

A Conversation With Abdullah Gul
Jonathan Tepperman

2

Do Less Harm
Sarah Holewinski

14

The Fall and Rise of the West
Roger C. Altman

8

Turkey's Moment

A Conversation With Abdullah Gul

Jonathan Tepperman

Abdullah Gul has been president of Turkey since 2007. Somewhat overshadowed, at least abroad, by his longtime political partner Recep Tayyip Erdogan—Turkey's prime minister and leader of the ruling Justice and Development Party (AKP)—Gul has recently started to carve out a more independent political identity. While Erdogan has become increasingly strident and authoritarian since taking office in 2003, especially as the AKP's parliamentary majorities have grown, Gul—although personally pious and traditional (he married his wife when she was 15 and he was 30)—has quietly pursued a more moderate and progressive path. A former foreign minister and prime minister himself, Turkey's head of state and commander in chief has raised his stature (and popularity) by embracing seemingly contradictory principles: defending both Turkey's Muslim identity and its pluralistic values, challenging his own government's antidemocratic excesses, championing the rule of law, and helping reorient his country's foreign policy eastward while remaining a forceful advocate of integration with Europe. We spoke in his Ankara office in October.

JONATHAN TEPPERMAN is Managing Editor of *Foreign Affairs*. Follow him on Twitter @j_tepperman.

How do you think Americans and the West are getting Turkey wrong?

Turkey is a bridge between Europe, Asia, the Middle East, and the Caucasus. Each of our neighboring countries has a different government and administrative style. In Turkey, we have a vast majority-Muslim population along with democracy, human rights, and a free-market economy, and this makes us unique in the region. From a geographic and geopolitical point of view, Turkey belongs to this region, and we have historical relations with all our neighbors. But from a values point of view, we are with the West.

If we look at the future, it's almost a mathematical fact that the world's economic and power balance will shift toward Asia. So politics must shift, too. The United States and Europe must start recognizing Turkey and its importance. And Turkey must become more important for them.

Many outsiders fear that Turkey's recent reorientation toward its own region means that Turkey is turning away from the West. Do you still see your future in Europe?

That is an unfair criticism. On the one hand, we have an ongoing negotiation process for full accession to the European Union. We are forcing our way through each door en route to full membership. Turkey has a role, a place, in all European institutions and bodies. So the fact that we have become more active in our region, dealing with regional matters, should not be interpreted as Turkey's reorientation or distancing itself from Europe. We are constantly adopting EU standards. I consider such remarks shallow and not well grounded, and I wonder if our friends from the EU might



*Turkey's president in
Istanbul, March 2012*

Jonathan Tepperman

actually be using them as a pretext to escape from their responsibilities regarding Turkey's membership.

With its not-so-warm welcome and its economic and political crisis, is Europe still a club that you want to join?

I believe that the current circumstances for Europe are temporary; if you go back through history, no depression is endless. After each such depression in the past, countries and continents have come back even stronger. This goes for Europe as well. The Europeans made huge mistakes, but they will draw lessons from those mistakes and enter a new era. But if Europe wants to prevent long-term stagnation, the Europeans have to come up with a broad strategic vision, and they must not attempt to limit their territory, their borders.

Of course, the enlargement process can continue within a different structure. Currently, the existing EU composition is being questioned, so perhaps a new composition might be envisaged. The United Kingdom, for example, is not a member of the monetary union, and it doesn't fall within certain other processes. Now there are talks about different forms of Europe for the future.

Did the downing by Turkey in mid-October of a plane suspected of carrying arms from Russia to Syria represent an escalation in tensions?

The problem in Syria is not a bilateral issue between Turkey and Syria. There is no conflict of interest or settling of accounts between Turkey and Syria. The problem in Syria is the grave human rights violations being committed by the regime against the people, who have legitimate demands. This makes

the matter something that relates to the whole international community.

Of course, with Turkey being a neighboring country and sharing a land border with Syria of 900 kilometers [about 560 miles], the repercussions for Turkey are different. For instance, we have 150,000 Syrians who have come to Turkey as a result of the problems [in Syria]. This has led to some security issues and border clashes—or clashes on the border between the regime forces and the opposition, which also affect us. From the very onset of the crisis, we've always opted for a controlled and orderly change in Syria. As a result of the escalation of events, we made it clear to everyone that Turkey, in unity with the free world, will support the Syrian people in their demands. But from the very beginning, I have argued that both Russia and Iran should be invited to engage with the transition in Syria to prevent further bloodshed. I believe that Russia in particular should be treated properly.

But how do you engage the Russians when they're doing everything possible to keep Bashar al-Assad in power?

Russia supported [the West] in Libya, but then the Russians were excluded from the transition process. So in Syria, Russia should be engaged, given a guarantee it will be made a part of the process and that its concerns will be taken into account.

Can Russia be induced to cooperate in building a free and democratic Syria?

I think it is really worth giving it a try. Because after all, what we aim for eventually is to have a new administration in Syria that is representative of the whole Syrian people.

You have emphasized that a new Syrian government would have to take a strong position on the Palestinians. Why?

The Palestinian issue was, for a long time, the most critical pillar used by the Syrian regime to legitimize its existence with its people. So the new regime in Syria will have to demonstrate links with Palestine to show that Syria is independent, sovereign, and acting in line with the demands of its own people. This will also send a message to countries such as Russia, Iran, and China that the new regime in Syria is not remote-controlled.

Are you frustrated that the United States and NATO are not doing more to help on Syria, especially on the military side?

Unfortunately, Turkish citizens have been killed as a result of artillery fire from Syria. But after the incident [on October 3], we believe the solidarity displayed by the United States and NATO was sincere. And within the internal structures of NATO, the necessary technical efforts have already been made with regard to the possible use of chemical or other ballistic weapons. But we are not at war with Syria, so we don't expect anything further from [the West].

On the other hand, if you compare the military power of Turkey and Syria, the results speak for themselves.

But does Turkey want a multilateral operation to end the fighting in the style of Libya or some other more limited measures, such as a no-fly zone, humanitarian corridors, or a buffer zone?

We wouldn't consider it right to have an explicit foreign intervention like the one in Libya.

No?

No. But let me once again underline that the international community's attitude toward Syria must go beyond simple rhetoric. A year and a half ago, during the outbreak of the crisis, we worked hard for an orderly change. We established contacts, we maintained our relations with the regime to urge it to change. And back then, I remember very well certain friends from the West were not willing to give us any time. So I urge them to act in a more meaningful manner now.

Is Turkey working now with Saudi Arabia and Qatar to help arm the Syrian rebels?

No. Since we are a neighboring country, our doors are open to the Syrian people. We are welcoming them, and we are providing them with all necessary humanitarian needs.

When the relationship between Israel and Turkey was good, it seemed that both countries profited from it. Now, the relationship is not so good, and it seems that both countries are suffering from it. And yet Turkey's conditions for improving relations with Israel, especially lifting the Gaza blockade, seem to set the bar impossibly high. So what prospect for reconciliation with Israel do you see?

First of all, the current situation between Turkey and Israel is the outcome of the Israelis' own preferences and the mistakes they've made. The whole world knows this. Even the allies of Israel, who cannot express it directly to the Israelis, clearly say it to us. Second, the current situation in Turkish-Israeli relations has not impacted our military options or our armed forces. It's true that we've procured drones, unmanned

Jonathan Tepperman

aerial vehicles, from them in the past, and some of them still do exist. Others were canceled or not bought. But I want everyone to clearly understand that the Turkish armed forces are in no way relying or dependent on Israel in that sense, or in any other sense. We have no weakness or lowered capability with regard to Syria because of the current level of relations with Israel.

With regard to Israel correcting and compensating for its errors against Turkey, it initiated a few attempts, but they were all left incomplete due to domestic political developments within Israel. And with regard to the Gaza blockade, it's not something that relates only to Turkey. It is a matter that relates to everyone—the EU, the United Nations, the United States—because everyone knows that the embargo must be lifted.

But let me here reiterate and underscore that our country, Turkey, and myself personally, as the president of the Republic of Turkey, have been working hard and making every effort to contribute to the peacemaking process between the Israelis and the Arabs. But the Israeli administration has a very shortsighted strategic stance. What we want from the Israelis is to appreciate the friendship displayed by Turkey.

You have called for nuclear disarmament across the Middle East, but Turkey does not seem as concerned about the Iranian nuclear program as are other countries in the region and countries in the West. Why is that?

Turkey does not want to see any neighboring country possess nuclear weapons. Turkey will not accept a neighboring country possessing weapons not possessed by Turkey herself. We are

not underestimating this matter in any way.

But we are more realistic, and what we need is a more comprehensive solution and approach to this problem. What matters here is to guarantee the security of Israel in the region, and once that is guaranteed, then the next step must be to eradicate all such weapons from the region. This can be done only through peace.

Is this where the Arab Peace Initiative comes in?

Of course. Because nowadays, there is no effort at all being put in place for peace.

But how would that address the Iranian nuclear program?

Here what matters is to put yourself in the shoes of Iran and consider how the Iranians perceive the outside threat.

So you mean the key to stopping the Iranian nuclear program is Israeli disarmament? Is that the implication?

That is the way I see it, because that route will help us solve the fundamental problems in the Middle East that affect the whole world.

Some foreign and Turkish observers have expressed concern that the Turkish government is backsliding on democracy. Does your recent criticism of the detention of journalists and the barring of Kurdish parliamentarians mean that you share this concern?

It's not true at all that democracy in Turkey is backsliding. On the contrary, we are moving forward, and we have many deep-rooted reforms put in place every day. Of course, there are certain wrong practices, and that's why I have

drawn attention to them. I talked about these wrong practices to make sure they would not cast a shadow on the whole reform and democratization process. I mean, you rightfully asked a question about these matters. That's what I mean by a shadow cast on Turkey. It saddens me deeply, so that's why whenever I observe such a wrong practice, I immediately issue a warning.

Turkey's economy and population are growing even as many global powers are becoming weaker due to economic crises and political gridlock. As Turkey continues to rise, what kind of an increased international role do you see it playing?

What matters is not to become a world power. What matters is for a country to have its own standards raised to the highest possible point, enabling the state to provide its citizens with prosperity and happiness. And when I say standards, I mean standards such as democracy and human rights. That is the ultimate objective for Turkey. When you raise your standards, your economy becomes much more powerful and you become a real soft power.

Once you accumulate all this know-how and once you succeed in raising and realizing your standards, then you start being followed very carefully by other countries; you become an inspiration for them. And once that happens, what matters is to combine your hard and soft power and translate it into virtuous power—for your immediate environment, for your region, and for the whole world.

You've used this term "virtuous power" before. What does it mean?

A virtuous power is a power that is not ambitious or expansionist in any sense.

On the contrary, it is a power where the priority lies with safeguarding the human rights and interests of all human beings in a manner that also entails the provision of aid to those in need without expecting anything in return. That's what I mean by a virtuous power: a power that knows what's wrong and what's right and that is also powerful enough to stand behind what's right.

Is this the role you're now playing with the new Arab democracies in the Middle East?

We're not assuming any role at all in the Arab world. If others take us as an example or are inspired by us, it is their call. We act in solidarity with them because every nation experiences ups and downs over time. What matters is to display solidarity with those who are struggling with weakness. All countries are equal, and all nations have their dignity, and no one can write a script and assign roles to other countries. You do not prioritize, and you do not patronize.

But isn't Turkey a good model for countries such as Egypt, Tunisia, and Libya to follow?

Of course, we are happy with the fact that they take us as an example because we are a Muslim country, a democracy, and an economic success story. They believe that they can achieve the same things as well. As an act of solidarity, we help them and we share with them the reasons behind our success. But we have no intention to act as anyone's big brother. 🌍

The Fall and Rise of the West

Why America and Europe Will Emerge Stronger From the Financial Crisis

Roger C. Altman

The 2008 financial crisis and the Great Recession that followed have had devastating effects on the U.S. economy and millions of American lives. But the U.S. economy will emerge from its trauma stronger and widely restructured. Europe should eventually experience a similar strengthening, although its future is less certain and its recovery will take longer to develop. The United States is much further along because its financial crisis struck three years before Europe's, in 2008, causing headwinds that have pressured it ever since. It will take another two to three years for these to subside, but after that, U.S. economic growth should outperform expectations. In contrast, Europe is still in the midst of its financial crisis. If historical logic prevails there, it will take four to six years for strong European growth to materialize.

Such strengthening in both regions will occur for one major reason: the crisis years have triggered wide economic restructuring. Sweeping changes in government finances, banking systems,

and manufacturing are under way, as are structural reforms in labor markets. All this is proving once again that global capital markets, the most powerful economic force on earth, can effect changes beyond the capacity of normal political processes. And in this case, they can refute all the forecasts of Western economic decline. Indeed, in the years ahead, the United States and Europe could once again become locomotives for global economic growth.

This is not to say that the crises were worth the pain; they most definitely were not. There is palpable suffering on both sides of the Atlantic due to unemployment and government austerity measures. It is tragic that so many people have lost their jobs and will never recover them. And it is socially corrosive that the crises have accentuated existing trends toward greater income inequality. But these events happened, and the subject being addressed here is their long-term impact.

The U.S. economy has been expanding—albeit in fits and starts—since the recession's trough, in June 2009. Europe, however, is on an entirely different timetable. Unlike those in the United States, Europe's financial systems did not implode in 2008. There were severe problems in Ireland and the United Kingdom, but capital markets did not revolt against Europe as a whole, and thus there was not a large fiscal or monetary response. It was not until 2012, when the sovereign debt and banking crises hit the continent in full force, that the eurozone confronted problems comparable to those that had afflicted the U.S. economy in 2008–9. As of today, therefore, the eurozone's GDP is still shrinking, and its recession may not have bottomed out yet. Having experienced

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

its crisis first, the United States now faces a shorter path to recovery. Yet if European countries can restructure their economies to the degree that the United States has, there will be cause for optimism.

The economists Carmen Reinhart and Kenneth Rogoff have argued that periods of economic recovery after financial crises are slower, longer, and more turbulent than those following recessions induced by the business cycle. The painfully slow recovery in the United States and the sharp economic stress in Europe corroborate this thesis. But history is filled with examples of countries whose economies grew stronger after financial implosions. Following the Asian financial crisis of 1997–98, South Korea accepted a tough bailout package from the International Monetary Fund, strengthened its financial system, and increased the flexibility of its labor markets; soon thereafter, it enjoyed an economic boom. In Mexico, the economy has performed well ever since the collapse of the peso and the U.S. rescue package of 1994. A similar phenomenon occurred in parts of Latin America following the sovereign debt crises there in the late 1980s. Although these financial crises were far smaller than the 2008 collapse in the United States, they followed the same pattern, with capital markets rejecting the old order—and then inducing major economic restructuring.

RESTRUCTURING AMERICA

Why will the recent crises eventually strengthen the U.S. and European economies? In the United States, a resurgent housing sector, a revolution in energy production, a remodeled banking system, and a more efficient manufacturing industry will fuel a

boom. Meanwhile, the reelection of President Barack Obama and the looming “fiscal cliff” have increased the prospects of a grand bargain on deficit reduction and a solution to the country’s debt problem.

First, after suffering a catastrophic collapse, the U.S. housing market is now poised for major, multiyear growth. Historically, when the U.S. housing sector has been pushed down far enough for long enough periods of time, it has eventually rebounded to very high levels. Before the recent crisis, the housing bubble had inflated so much that when it finally burst, the sector truly collapsed. Between 2000 and 2004, an average of 1.4 million single-family homes were built per year, but that number declined to 500,000 after the crisis and remained there until recently. Sales of new homes, which averaged 900,000 per year during the bubble, fell by two-thirds after the bubble popped. And overall residential investment, which accounted for four percent of U.S. GDP from 1980 to 2005, has averaged only 2.5 percent since 2008.

Although the housing collapse meant disaster for millions of homeowners who could not service their mortgages, it also cleared out the abuses and excesses that had plagued the sector for years. As a result, U.S. banks have spent the last few years improving their mortgage-underwriting standards and securitization markets, and household attitudes toward mortgages and home-equity financing have become healthier. Now, the housing sector has finally turned a corner, with a key home price index—the S&P/Case-Shiller 20-city composite—rising by eight percent since March 2012. The levels of relevant supply have fallen sharply (in other words, fewer homes

Roger C. Altman

are for sale), mortgage credit is more readily available, and population growth, coupled with a recovery in household-formation rates, is likely to drive high demand—all of which means that house prices are bound to keep growing. These factors are likely to boost total residential investment, which includes new construction and home remodeling, by 15–20 percent over the next five years. This change alone could add one percentage point to annual U.S. GDP growth and as many as four million new jobs to the economy.

Second, new technologies are producing a spectacular turnaround in U.S. oil and gas production. Advanced seismic techniques and innovative approaches to hydraulic fracturing and horizontal drilling have opened energy deposits that were previously unknown or inaccessible. The result has been a dramatic recovery of both the natural gas and the oil industries. In 2012, U.S. natural gas output reached 65 billion cubic feet per day, which is 25 percent higher than it was five years ago and an all-time record. Shale gas accounted for much of this increase. Meanwhile, U.S. oil output has soared. It is estimated that in 2012 alone, the production of oil and other liquid hydrocarbons, such as biofuels, rose by seven percent, to 10.9 million barrels per day. This marks the largest single-year increase since 1951.

Moving forward, the U.S. Department of Energy forecasts that American liquid hydrocarbon production will rise another 500,000 barrels in 2013, and the International Energy Agency projects that the United States will surpass Saudi Arabia as the world's largest oil producer by about 2017. Overall, this energy boom could add three percent to U.S. GDP

over the next decade, in addition to as many as three million direct and indirect jobs, almost all of which will pay high wages. The United States could cut its oil imports by one-third, improving its balance-of-payments deficit. Also, the higher natural gas output will reduce the average consumer's utility bill by almost \$1,000 per year, representing a further stimulus to the U.S. economy. And the American public's hunger for economic recovery and jobs has softened opposition to this energy revolution.

Third, negative publicity aside, the U.S. banking system has been recapitalized and thoroughly restructured since 2008. No one could have reasonably imagined the speed of the improvements in banks' capital and liquidity ratios that have occurred since then. The largest banks have consistently passed the rigorous stress tests administered by the U.S. Federal Reserve, and, surprisingly, they are well ahead of schedule in meeting their required capital ratios under the Basel III international regulatory framework. Midsize banks are in even better shape. Although the job is not yet finished, these institutions have rapidly rid themselves of their troubled legacy assets, especially mortgage-backed securities. Both large and midsize banks have divested from broad swaths of assets and raised substantial new capital from public and private sources. In many cases, moreover, they have revamped their management teams and boards of directors. In light of these changes, the earlier, acute concerns about the financial stability of U.S. banks have largely dissipated.

In fact, banks are already lending aggressively again to both businesses and consumers. According to the Federal Reserve, outstanding loans to U.S.



Raise the roof: a worker building a home in Joplin, Missouri, May 2012

businesses now total \$1.45 trillion, having increased at double-digit rates for each of the past four quarters. This number is still below the 2008 peak, but the gap is closing quickly. In terms of consumer credit, the previous record high was surpassed in 2011, and the total rose by another three to four percent in 2012. All this credit is boosting GDP growth, and the banking sector is likely to expand its loan totals consistently over the next few years.

Fourth, the Great Recession has quietly spurred greater efficiencies in the U.S. manufacturing sector. Unit production costs are down by 11 percent in the United States compared with ten years ago, even as they continue to rise in many other industrialized countries. And the differences between U.S. and Chinese labor costs are narrowing. The U.S. economy has added half a million new manufacturing jobs since 2010, and this growth should persist for a number of years. The transformation of the U.S. manufacturing sector is perhaps best

reflected in the auto industry. In 2005, U.S. automakers' hourly labor costs were 40 percent higher than those of foreign producers that operate plants in the United States. But today, these costs are virtually identical, and the Big Three—Chrysler, Ford, and General Motors—have regained market share in North America.

The resurgence of the housing and energy sectors will also positively affect the manufacturing industry. Given that the outlook for residential construction is so strong—and considering that new homes contain so many manufactured products—further manufacturing job growth is a near certainty. Moreover, decreasing natural gas prices will aid the petrochemical sector and all types of manufacturing that use this fuel.

Finally, although there are no guarantees, the chances that Washington will fix the national debt problem have increased. With Obama citing deficit reduction as the foremost goal of his second term—and with election results

Roger C. Altman

that were unfavorable to Republicans, whose anti-tax position now lacks public sanction—the prospects for a decisive deficit-reduction agreement have improved. If this occurs in 2013, it will provide a further boost to business and investor confidence, as well as to overall private investment.

HOPE FOR EUROPE

In Europe, there is less evidence, so far, that economies will emerge stronger from the crisis years. This is largely because after a sharp dip in 2008, Europe was recovering until the eurozone's twin sovereign debt and banking crises struck in 2011. Furthermore, compared with that of the United States, the amount of economic restructuring required in Europe is deeper and harder to achieve. In part, this reflects the sheer complexity of the European Union, which is composed of 27 very different countries. It is also an outgrowth of the inherently inflexible, sclerotic nature of many European economies. Therefore, the consequences of the European crisis and the question of whether it will truly lead to wide-scale restructuring remain unclear. Nevertheless, it is logical that large and positive changes could emerge, and a few encouraging signs are already visible. The eurozone has been fitfully moving toward fiscal union and banking reform. Across the EU, economies are boosting their productivity and making their exports more competitive, and governments are reining in their public sectors.

There are also precedents within Europe of restructuring and strengthening after major financial crises, such as Sweden's experience in the 1990s. In that case, a credit and real estate boom coincided with a long period of public-

sector expansion and a debt-to-GDP ratio of around 80 percent. Sweden, at the time, was widely considered the model of the European welfare state. In 1992, however, its banking system collapsed and unemployment rose to 12 percent, triggering wide-ranging economic, fiscal, and banking reform. Stockholm raised taxes, deregulated the electricity and telecommunications sectors, and slashed federal spending, including on pensions and unemployment benefits. All these steps improved Swedish competitiveness and boosted GDP growth, which rebounded to four percent two years later, in 1994.

In the eurozone today, governments are making tentative progress. Consider, for a start, the fiscal side, where there has been movement toward instituting a central fiscal authority with meaningful control over budgets and debt on a country-by-country basis. The eurozone members will probably not accord the eventual fiscal union with the legal authority to completely reject national budgets. Still, if it has credibility in financial markets, the fiscal union will possess real power, because its expressions of disapproval could induce punitive reactions from those markets.

Second, the eurozone's decision to give the European Central Bank supervision over the continent's largest private banks is also a major step forward. As a result of this move, these banks will finally be regulated in a modern, transparent, and independent fashion—a far cry from the present situation, in which weak local overseers coddle the banks. It also moves the European Central Bank closer to the more powerful and flexible model of the U.S. Federal Reserve. This is an essential change.

To fully repair its banking system, the eurozone needs an entity similar to the United States' Troubled Asset Relief Program, known as TARP, and the recapitalization of Spain's banks is a first step in that direction. The EU's bailout fund, the European Stability Mechanism, is providing Spanish banks with capital conditional on an overall cleanup of their balance sheets. If this approach were adopted throughout Europe, it would ultimately produce a healthier financial system.

Third, some countries in Europe are in the process of improving their structural productivity problems, which were a major, albeit less widely noted, contributor to the crisis. It looks increasingly possible that the least competitive European economies, mainly located along the continent's southern periphery, will make substantial improvements in productivity. Without local currencies to depreciate, these countries have been cutting costs through internal devaluations, which involve cutting labor inputs. In Greece, Portugal, and Spain—the eurozone countries under the most financial pressure—unit labor costs have fallen significantly since 2010. These countries have also initiated crucial labor-market reforms, such as curbing minimum-wage requirements and eliminating restrictions on hiring, firing, and severance. Ireland's path is instructive. After the Irish banking system collapsed in 2008, Dublin cut manufacturing costs sharply and boosted productivity. Today, just a few years removed from its crisis, Ireland is again one of the most efficient places in Europe for production.

Fourth, exports in the peripheral countries—which have long labored under large trade deficits with Germany

and other northern European states—are regaining their competitiveness. As a result, Italy, Portugal, and Spain now enjoy reduced deficits in both trade and their current accounts, reflecting the lower costs of their exports and a weaker euro. In Greece, despite the severity of that country's economic fall, the absolute level of exports has returned to pre-crisis levels.

Finally, by beginning to trim their public sectors, eurozone governments are playing an important role in the continent's economic renewal, as these spending cuts will create more room for the private sector to grow. According to the European Commission, the collective deficit of the 17 members of the eurozone fell to 4.1 percent of GDP in 2011, a significant decrease from the 6.2 percent figure in 2010. Moreover, the broader EU saw its collective deficit cut by one-third in 2011. To be sure, many of the European countries' deficit-to-GDP ratios remain well above the official target of three percent, and debt actually grew faster than GDP in the eurozone as a whole last year. Still, pressure from financial markets should continue to shrink European public sectors into the future.

Throughout modern history, severe financial crises have caused great pain to vulnerable segments of affected societies, but they have also often strengthened underlying economies. Both of these countervailing phenomena are asserting themselves in the United States today. Europe is inherently more fragile, but initial evidence suggests that the same dynamic is occurring there. If this historical pattern holds true, the United States and Europe could defy conventional wisdom and again lead growth in the world economy. 🌐

Do Less Harm

Protecting and Compensating Civilians in War

Sarah Holewinski

Everyone knows that civilians suffer in war. Even in lawfully conducted conflicts waged for legitimate causes, they lose lives, limbs, and loved ones. What fewer understand is that there are no laws that oblige warring parties to help the civilians they've harmed, as long as the action that caused the harm is considered legal. A fighter jet can strike a weapons cache next to a home, a guard can shoot a suspicious biker at a checkpoint, and a convoy can speed through a playground, but so long as in each instance the armed forces follow the Geneva Conventions' rules of discrimination and proportionality, they never have to explain, apologize, or pay for those losses.

Aside from being ethically bankrupt, indifference toward the plight of civilians has practical drawbacks: for survivors of war, nothing can generate more hatred toward a foreign government than never having their grief acknowledged. Responding is not simply an act of compassion; it is an act of strategic self-interest.

The United States learned that lesson the hard way in Afghanistan and Iraq. For years, Afghans and Iraqis whose family members were killed or maimed

took to the streets to protest what they saw as the Americans' callous indifference to civilian casualties. After the U.S. military finally came to understand that survivors' anger undermined the mission, it started tracking the damage it caused and responding directly to affected families. It managed to create a new culture geared toward understanding and addressing the civilian costs of its combat operations.

The question now is whether this shift will survive as the wars in Afghanistan and Iraq come to an end and Washington increasingly fights terrorism through drone strikes and special operations raids. After the Vietnam War, policymakers quickly forgot the lessons they had learned about the importance of winning over local populations. In order to avoid having to painfully relearn the lessons of the importance of recognizing civilian harm in its next war, the United States needs to turn its recent ad hoc progress into a permanent and formal policy followed not only by its own military but also by those of its partners.

The need is especially pressing since some other countries have developed an alternative concept of what is morally right and necessary to win a war, justifying indiscriminate killing in order to stamp out insurgencies. Left unchecked, this lethal view could undermine the historic strides the United States has made in mitigating civilian harm.

MAKING AMENDS

The United States has long taken precautions to avoid harming civilians in armed conflict. During the Civil War, President Abraham Lincoln issued a rule book for Union forces in battle—the famous Lieber Code—which stated

SARAH HOLEWINSKI is Executive Director of Center for Civilians in Conflict. Follow her on Twitter @SarahAtCivic.

that “the unarmed citizen is to be spared in person, property, and honor as much as the exigencies of war will admit.” The country entered World War I in part over attacks on civilians, and in 1955, it acceded to the Fourth Geneva Convention, which protects noncombatants. Today, Pentagon lawyers routinely sit next to war planners and assess the legality of battlefield actions.

Nonetheless, in modern warfare, the need to protect civilians is in constant tension with the desire to destroy the enemy. Getting that balance right has been a rocky process, with one mistake after another jolting U.S. policymakers into improving the way the military deals with civilian harm. In 1991, during the Gulf War, American jets bombed a bunker full of civilians in Baghdad. Colin Powell, then chairman of the Joint Chiefs of Staff, worried that further collateral damage would rob the United States of its moral high ground, and so he minimized the use of air strikes. In 1999, in the midst of NATO’s campaign in Yugoslavia, the U.S. Air Force unintentionally bombed the Chinese embassy in Belgrade, having relied on outdated maps of civilian infrastructure—a mistake the Pentagon vowed never to make again.

Despite these wake-up calls, Pentagon planners for the wars following 9/11 did not take civilian casualties seriously. Speaking with reporters in 2001 about the war in Afghanistan, Marc Grossman, a top State Department official, said, “When the military aspect of the struggle is over, it will be clear that the number of civilian casualties is very, very low.” But over 11 years later, thousands of civilians have been killed or injured by U.S. and NATO forces there. In Iraq, hundreds died during the three-week-

long “shock and awe” phase of combat operations alone. In the years that followed, according to conservative estimates, over 100,000 civilians died.

The Pentagon’s complacency about civilian harm was reflected in its initial decision not to compensate Afghans and Iraqis who suffered injuries, lost family members, or sustained property damage. Cold as it may sound, money is important to war victims. It can help replace destroyed property, restore lost income, and pay for medical care or burial. Above all, it lets civilians know that the United States recognizes their loss. The military justified its decision by arguing that compensation for civilian harm was culturally inappropriate, even though both Afghanistan and Iraq have extensive traditions of remunerating victims of injury. The policy was especially surprising because the U.S. military had paid harmed civilians in conflicts stretching back to the Vietnam War and the Korean War. Such payments became so commonplace in Vietnam that in 1970, civilians rioted outside a U.S. military base there when there were administrative delays in processing their claims.

With no framework or funds from Washington to respond to civilian losses, some military officers pressed their superiors to allow informal payments; in Iraq, they used money confiscated from Saddam Hussein’s palaces. It took until September 2003 for the U.S. government to authorize a proper funding stream—two years after the invasion of Afghanistan and six months after the invasion of Iraq. The new policy worked. Many of the Afghans and Iraqis interviewed about their losses by Center for Civilians in Conflict (of which I am executive director) said that

Sarah Holewinski

the compensation left them feeling more dignified and less angry at the United States. One Afghan man whose brother-in-law was unintentionally killed by coalition forces in 2007 reported that his resentment subsided after the family received assistance. “We thought this shows that they care, that they didn’t do it intentionally,” he said.

Even as the U.S. military began offering compensation in Afghanistan, however, it still often refused to admit causing civilian casualties when it engaged in attacks. The knee-jerk denials inflamed the population, and Afghan President Hamid Karzai threatened to end his partnership with the United States. Adding to the public relations problem, every time the U.S. military denied killing civilians or failed to respond altogether, the Taliban rushed into the breach. They took to the airwaves with their own narrative of every event so convincingly that in late 2009, locals in Kandahar City still falsely blamed an explosion that had been caused years earlier by a Taliban bomb on a U.S. air strike.

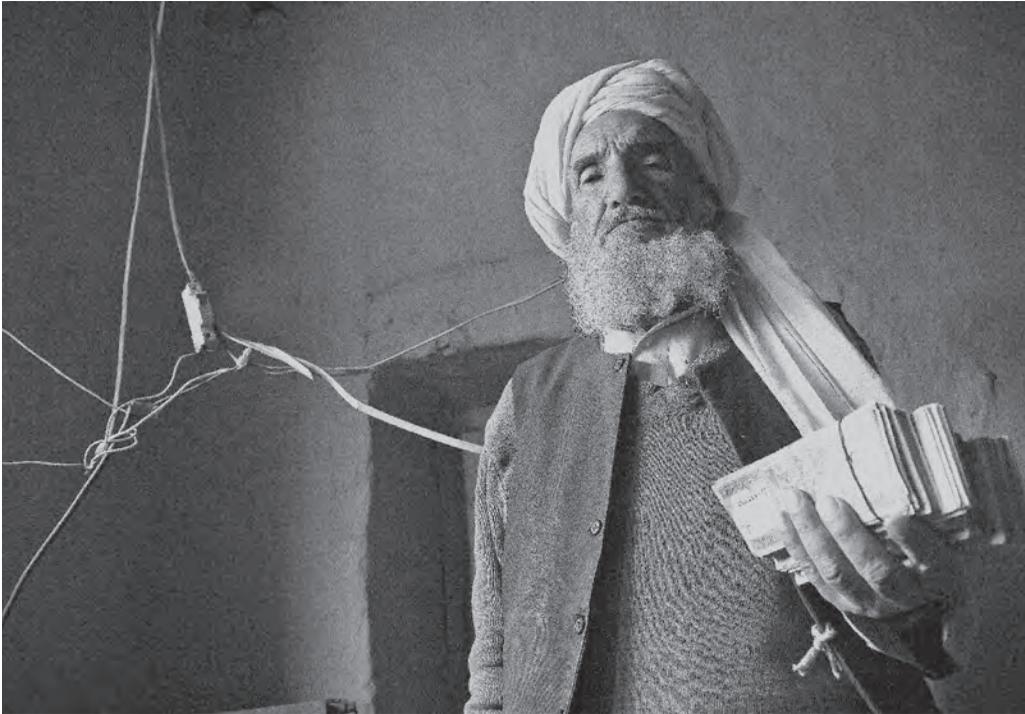
U.S. commanders finally adopted a new policy in 2008 of being “first with the truth”—vowing to respond immediately to an event with information and a promise to investigate. They took other steps, too. That same year, after two U.S. bombardments each killed 30 Afghan civilians, General David McKiernan, then the U.S. commander of international forces in Afghanistan, restricted air strikes to cases in which there was no other way to protect coalition forces. He also created a civilian casualties tracking cell, a group of officers tasked with tabulating civilian harm and analyzing it for trends.

When General Stanley McChrystal replaced McKiernan in 2009, he pledged to get the civilian casualty count down to zero—an impossible goal but one that conveyed his commitment. He also began holding meetings with Afghan civil-society groups to discuss what his forces were trying to do and why. McChrystal’s policies were not just public relations ploys; they saved lives. Even as the battle against the Taliban heated up, civilian casualties caused by U.S. air strikes dropped—by 50 percent within a year after McChrystal took command—and with no discernable cost to the mission’s effectiveness.

By the time ground operations in Iraq had ended and the United States announced its plans to leave Afghanistan, the U.S. military’s treatment of civilians exceeded the requirements of international law. American soldiers, along with many of their allied counterparts, were investigating civilian casualties, tracking their own operations, and compensating victims. These practices are not perfect, even today, but they represent marked improvements in the conduct of war.

LOST LESSONS

Now, however, the U.S. military risks forfeiting these hard-fought gains. There is no official in the Pentagon specifically responsible for monitoring civilian harm or figuring out ways to respond to it. Commanders have been compensating civilian victims on an ad hoc basis for over eight years, but no standing policy supports them on the ground, leaving commanders in the next conflict to reinvent the wheel. In February 2011, Center for Civilians in Conflict helped the U.S. military draft a handbook on mitigating civilian harm, but it is the



Blood money: an Afghan man displaying cash offered as compensation for the death of two of his sons, in Paktia Province, March 2010

only piece of doctrine of its type and it focuses entirely on Afghanistan, not future conflicts. Likewise, although some troops heading to Afghanistan now receive practical training on what to do after civilians are harmed, the program has not become part of the curriculum for those deploying elsewhere.

The lack of a coherent institutional policy also means that the U.S. military is not passing on the lessons it has learned to the foreign militaries it fights with. This failure constitutes not only an ethical lapse but also a strategic setback: when other countries' forces unnecessarily enrage civilians, Washington often shoulders the blame. Within a year of the U.S. military's 2003 decision to offer compensation to Afghan civilians, Australia, Canada, and other U.S. allies followed suit. But since NATO never set

a binding compensation policy, each country's military had its own program with its own levels of payment for deaths and injuries. Some had no policy at all. Since Afghans tended to view all international forces as American, their discontent often focused squarely on the United States.

During NATO's 2011 mission in Libya, the coalition's lack of common policies or institutionalized memory once again caused problems. Although U.S. and allied commanders carefully planned their air campaign to avoid harming civilians, they never bothered to track civilian casualties or conduct investigations. If they had, they would have confirmed what the UN and other independent investigators found: that NATO air strikes killed several dozen civilians, a relatively low number for an air campaign.

Sarah Holewinski

Instead, NATO's refusal to acknowledge any collateral damage hurt its credibility. Its failure to track casualties opened it up to unfounded accusations from China, Russia, and South Africa—all of which came to oppose the intervention—that many more civilians had died as a result of the campaign.

In Afghanistan, the U.S. military is now handing over security to Afghan forces and will be counting on them to maintain stability without harming the population. But the Afghan National Army still has no systems for tracking and responding to civilian casualties—the very tools international forces learned were so essential. U.S. and allied officials have pressed Kabul to create such programs, but it is hard to imagine Karzai's government heeding their advice unless tangible resources back it up. For 2013, the U.S. budget contains \$2.3 billion to support Afghanistan's military. Washington should make at least some of that money conditional on the Afghan government's progress on mitigating civilian harm.

Nor is the United States passing on its lessons to the other militaries it trains. The U.S. military regularly works with Colombian forces to help them fight FARC (Revolutionary Armed Forces of Colombia) rebels. Although it teaches them the battlefield requirements of international law, it does not cover responses to civilian harm. The Pentagon also runs training programs for Burundian and Ugandan troops headed to fight the al Shabab insurgency in Somalia; again, mitigating harm to civilians is not part of the curriculum. In the Philippines, commanders fighting terrorist groups such as Abu Sayyaf instilled a mindset that civilian harm is unacceptable, but

they did so with little help from the U.S. troops training them. For moral and practical reasons, the U.S. military has long sought to raise the standards of conduct for allied militaries around the world; there is no reason to exclude training on dealing with civilian harm.

CIVILIANS IN THE AGE OF COUNTERTERRORISM

U.S. allies are unlikely to follow the U.S. military's new playbook if leaders in Washington disregard it themselves. But that is exactly what they appear to be doing as the government relies more than ever on special operations raids and unmanned drone attacks to fight terrorism. These tools make it possible to fight overseas with few boots on the ground. Yet they come with new risks. Although U.S. Special Forces have composed no more than one-tenth of the U.S. military in Afghanistan, from 2007 to mid-2009, they were responsible for roughly half of U.S.-caused civilian casualties.

Drones may be equally problematic. Although President Barack Obama's top counterterrorism adviser, John Brennan, has said that they give the military "the ability, with laser-like focus, to eliminate the cancerous tumor called an al-Qaida terrorist while limiting damage to the tissue around it," drone strikes do often end up traumatizing the surrounding tissue. In Pakistan, Somalia, and Yemen, locals live with U.S. drones buzzing overhead, not knowing when or where a strike will occur. After the U.S. government conducts a strike, it cannot assess the full extent of local anger and never tries to remedy it. Since there are no conventional U.S. soldiers in many of the places patrolled by American drones, it is nearly impossible for Washington

to investigate the collateral damage and explain the losses to families.

Instead, civilians hear on the radio that the United States has denied a strike altogether or that only terrorists were killed. There is no way for a victim's relatives to dispute that claim, no military base for them to contact, and no possibility that the U.S. government will compensate them. The lack of recourse is especially ironic in Pakistan, since just across the border in Afghanistan, the United States does regularly provide civilians with recognition of harm and help.

In the long run, the United States' counterterrorism policy may suffer as a result of its failure to respond to civilian anger. Consider what one Yemeni lawyer wrote on Twitter last May: "Dear Obama, when a US drone missile kills a child in Yemen, the father will go to war with you, guaranteed. Nothing to do with Al Qaeda."

But Washington's failure to apply the lessons it learned in Afghanistan and Iraq to its global campaign against terrorism will have even wider spillover effects. If American leaders abandon the war-fighting model they ultimately adopted in Afghanistan and Iraq, they may find it harder to counter a more brutal and cynical narrative about the best way to win a war—one that treats civilians as irrelevant.

In 2009, the Sri Lankan military cornered an estimated 5,000 or more Tamil Tiger insurgents on a narrow strip of land, alongside hundreds of thousands of uprooted civilians. By shelling the area indiscriminately and summarily executing the group's escaping leaders, the government wiped out the insurgents—and killed tens of thousands of civilians in the process. Just like

Russia's brutal war in Chechnya during the first decade of this century, Sri Lanka's campaign proved that if a government is willing to expel aid groups and journalists and employ indiscriminate force, it can defeat insurgents.

To make matters worse, Sri Lanka has been actively promoting its model abroad: since 1999, its leaders have been traveling to other countries facing domestic insurgencies, including Myanmar (also called Burma), Pakistan, and the Philippines, to share the lessons of their victory. They have staged annual defense seminars attended by military officers from across the world. Sri Lanka's lethal counterinsurgency strategy requires having a strong stomach for civilian bloodshed and turning a blind eye to international criticism. But there are countries willing to go this route, because it can work. As one of the world's leading exporters of military ethos, aid, and training, the United States can and should provide a counterweight.

A PERMANENT POLICY

On both ethical and strategic grounds, the United States should turn what it has learned about saving lives and dignifying losses into standing policy. Change starts with the president. As commander in chief, Obama needs to signal to the military that however the United States fights—whether with troops on the ground or drones in the sky, whether alone or in a coalition—the security and dignity of civilians will be a paramount consideration. Congress, too, should make that clear by passing the legislation it is considering as part of the National Defense Authorization Act that would create a comprehensive policy of civilian compensation.

Sarah Holewinski

The Pentagon, for its part, needs to appoint an internal advocate for civilian harm mitigation. The secretary of defense should create a team within the Defense Department that focuses on civilian harm: guiding war planning, promoting the acquisition of nonlethal weapons, revising the military's doctrine and training programs, and influencing the aid the United States gives other countries that are actively engaged in combat. This team could go further and consider how to minimize the long-term impacts of U.S. military operations on populations, including environmental degradation and damaged civilian infrastructure. It should also debrief returning troops about their interactions with civilians, mining their experiences for information about civilian casualties and analyzing what did and did not work. No U.S. soldier should go to battle without having learned how to respond to the concerns of civilians.

As the use of drones becomes the norm, the White House needs to rethink its opaque policy, figuring out how to limit the harm inflicted on civilians in the first place and how to address it when it does occur. It is possible to minimize the civilian harm and mitigate the fallout caused by drone strikes, but that will require lifting the veil of secrecy that shrouds the CIA-led drone program and publicly explaining how the CIA defines civilians in this context.

Washington should also pledge that all drone operators will be educated about the culture of the places their aircraft fly over and receive training on how to distinguish between civilians and combatants and how to minimize needless harm. The United States should never launch a strike that could hit civilians if the intelligence behind it comes from

paid or unvetted sources. When civilians are injured or killed, the U.S. government should follow up with an investigation, not a denial. (If an investigation is not possible in a given country, then the U.S. drone program there ought to be reconsidered altogether.) On discovering civilian casualties, Washington needs to make tangible amends through a partnership between the State Department and the local government.

As the United States grows into its new security strategy after the conflicts in Afghanistan and Iraq, it is shaping future wars and the fate of civilians caught in their path. But as memories of those wars fade, there is a risk that the lessons learned during them will, too. That would be a shame. Civilians need to know that militaries value their lives. And as a country that champions justice and humanity, the United States must make sure that no civilian caught in conflict is ever in doubt about this. 🌍

Insurance coverage is underwritten by member companies of Allied World. Coverage is subject to underwriting. Member companies may not be licensed in your state or jurisdiction. To find out if coverage is available, please contact your insurance broker.

Bravely exploring uncharted territory in the world of specialty insurance and reinsurance.

INSURANCE | REINSURANCE | SYNDICATE 2232

A world without a road map is a world full of opportunity. At Allied World, we aren't afraid to journey off the beaten path to find new markets or explore new opportunities. Our skill at navigating uncharted terrain enables us to work closely with clients to find innovative ways to balance risk with reward. When it comes to specialty insurance and reinsurance solutions, sometimes the road less taken is the one well worth traveling.

Specialty solutions. Worldwide.

awac.com



The World's Leading MA Program in Security Studies Georgetown University



Dr. Bruce Hoffman,
SSP Director, terrorism
and insurgency expert.
*Author of Inside
Terrorism.* Senior Fellow,
U.S. Military Academy's
Combating Terrorism
Center. Former Chair
of Counterterrorism
and Counterinsurgency,
RAND Corporation.

Secure Our World, Advance Your Career

As the oldest and most respected master's degree program in its field, the Security Studies Program (SSP) is dedicated to preparing a new generation of analysts, policymakers, and scholars fully knowledgeable about the range of international and national security problems and foreign policy issues of the 21st Century.

SSP offers:

- 36 Credit hours
- 7 Concentrations
- Full- and part-time enrollment options
- Fall and spring admission

To learn more, visit
<http://ssp.georgetown.edu>
or call 202-687-5679.

Grand Strategy, Intelligence, Counterterrorism, Emerging Technologies and Security, and Cybersecurity are just five of the more than 70 courses in the SSP.

The SSP teaches students about the latest security challenges and connects them with the most influential practitioners in Washington.

As the world leader in security studies, Georgetown's SSP has the curriculum, faculty, and network to advance your career.

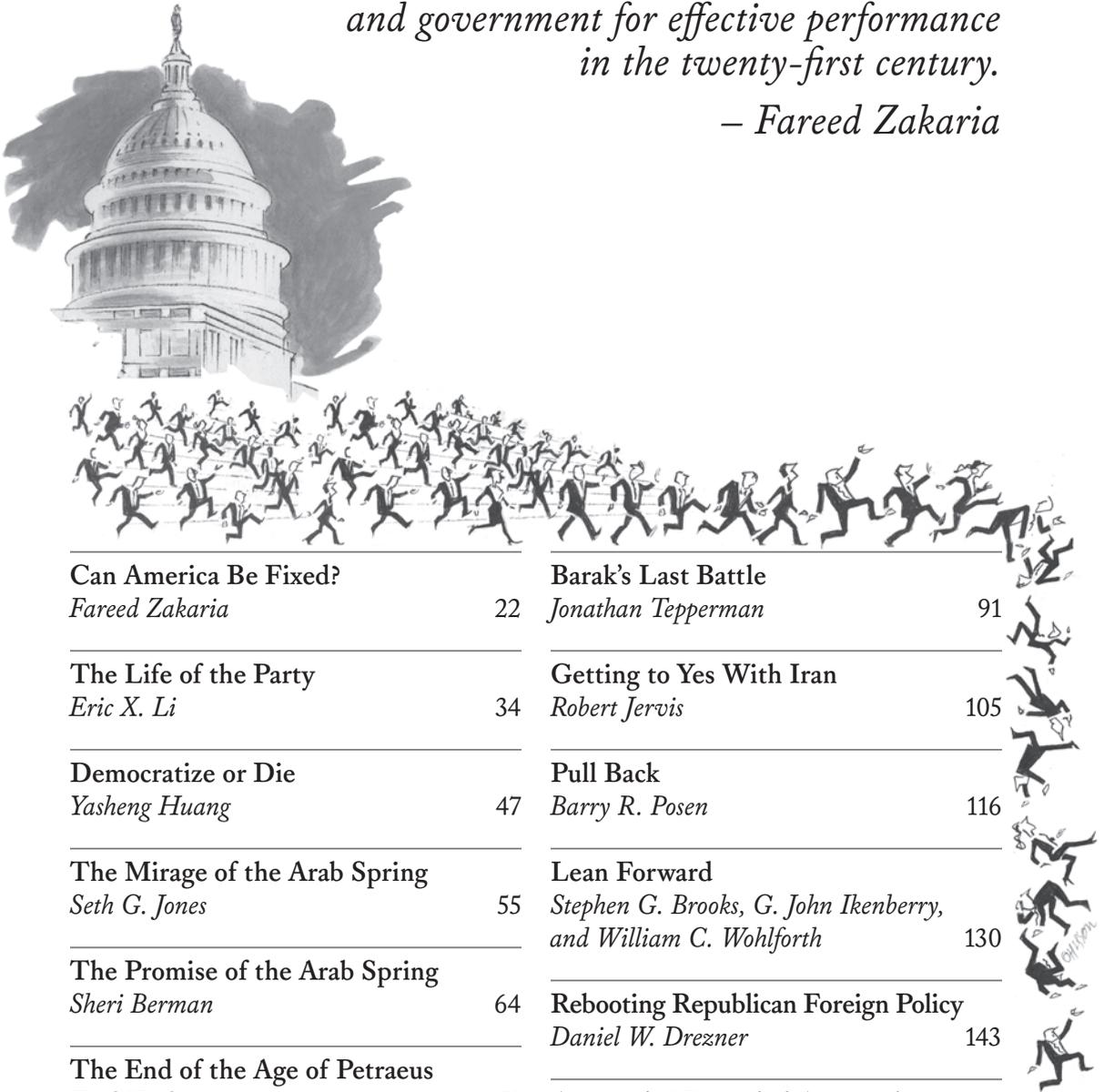


GEORGETOWN UNIVERSITY
School of Foreign Service
Security Studies Program

ESSAYS

Beyond the fiscal cliff looms a deep chasm that poses a much greater challenge—retooling the United States’ economy, society, and government for effective performance in the twenty-first century.

— Fareed Zakaria



Can America Be Fixed? <i>Fareed Zakaria</i>	22	Barak’s Last Battle <i>Jonathan Tepperman</i>	91
The Life of the Party <i>Eric X. Li</i>	34	Getting to Yes With Iran <i>Robert Jervis</i>	105
Democratize or Die <i>Yasheng Huang</i>	47	Pull Back <i>Barry R. Posen</i>	116
The Mirage of the Arab Spring <i>Seth G. Jones</i>	55	Lean Forward <i>Stephen G. Brooks, G. John Ikenberry, and William C. Wohlforth</i>	130
The Promise of the Arab Spring <i>Sheri Berman</i>	64	Rebooting Republican Foreign Policy <i>Daniel W. Drezner</i>	143
The End of the Age of Petraeus <i>Fred Kaplan</i>	75	America’s Misguided Approach to Social Welfare <i>Kimberly J. Morgan</i>	153

Can America Be Fixed?

The New Crisis of Democracy

Fareed Zakaria

In November, the American electorate, deeply unhappy with Washington and its political gridlock, voted to maintain precisely the same distribution of power—returning President Barack Obama for a second term and restoring a Democratic Senate and a Republican House of Representatives. With at least the electoral uncertainty out of the way, attention quickly turned to how the country’s lawmakers would address the immediate crisis known as the fiscal cliff—the impending end-of-year tax increases and government spending cuts mandated by earlier legislation.

As the United States continues its slow but steady recovery from the depths of the financial crisis, nobody actually wants a massive austerity package to shock the economy back into recession, and so the odds have always been high that the game of budgetary chicken will stop short of disaster. Looming past the cliff, however, is a deep chasm that poses a much greater challenge—the retooling of the country’s economy, society, and government necessary for the United States to perform effectively in the twenty-first century. The focus in Washington now is on taxing and cutting; it should be on reforming and investing. The United States needs serious change in its fiscal, entitlement, infrastructure, immigration, and education policies, among others. And yet a polarized and often paralyzed Washington has pushed dealing with these problems off into the future, which will only make them more difficult and expensive to solve.

Studies show that the political divisions in Washington are at their worst since the years following the Civil War. Twice in the last three years, the world’s leading power—with the largest economy,

FAREED ZAKARIA is the host of *Fareed Zakaria GPS* on CNN, Editor-at-Large of *Time*, and the author of *The Post-American World*. Follow him on Twitter @FareedZakaria.

the global reserve currency, and a dominant leadership role in all international institutions—has come close to committing economic suicide. The American economy remains extremely dynamic. But one has to wonder whether the U.S. political system is capable of making the changes that will ensure continued success in a world of greater global competition and technological change. Is the current predicament, in other words, really a crisis of democracy?

That phrase might sound familiar. By the mid-1970s, growth was stagnating and inflation skyrocketing across the West. Vietnam and Watergate had undermined faith in political institutions and leaders, and newly empowered social activists were challenging establishments across the board. In a 1975 report from the Trilateral Commission entitled *The Crisis of Democracy*, distinguished scholars from the United States, Europe, and Japan argued that the democratic governments of the industrial world had simply lost their ability to function, overwhelmed by the problems they confronted. The section on the United States, written by the political scientist Samuel Huntington, was particularly gloomy.

We know how that worked out: within several years, inflation was tamed, the American economy boomed, and confidence was restored. A decade later, it was communism and the Soviet Union that collapsed, not capitalism and the West. So much for the pessimists.

And yet just over two decades further on, the advanced industrial democracies are once again filled with gloom. In Europe, economic growth has stalled, the common currency is in danger, and there is talk that the union itself might split up. Japan has had seven prime ministers in ten years, as the political system splinters, the economy stagnates, and the country slips further into decline. But the United States, given its global role, presents perhaps the most worrying case.

Is there a new crisis of democracy? Certainly, the American public seems to think so. Anger with politicians and institutions of government is much greater than it was in 1975. According to American National Election Studies polls, in 1964, 76 percent of Americans agreed with the statement “You can trust the government in Washington to do what is right just about always or most of the time.” By the late 1970s, that number had dropped to the high 40s. In 2008, it was 30 percent. In January 2010, it had fallen to 19 percent.

Commentators are prone to seeing the challenges of the moment in unnecessarily apocalyptic terms. It is possible that these problems, too,

will pass, that the West will muddle through somehow until it faces yet another set of challenges a generation down the road, which will again be described in an overly dramatic fashion. But it is also possible that the public is onto something. The crisis of democracy, from this perspective, never really went away; it was just papered over with temporary solutions and obscured by a series of lucky breaks. Today, the problems have mounted, and yet American democracy is more dysfunctional and commands less authority than ever—and it has fewer levers to pull in a globalized economy. This time, the pessimists might be right.

TRENDING NOW

The mid-1970s predictions of doom for Western democracy were undone by three broad economic trends: the decline of inflation, the information revolution, and globalization. In the 1970s, the world was racked by inflation, with rates stretching from low double digits in countries such as the United States and the United Kingdom to 200 percent in countries such as Brazil and Turkey. In 1979, Paul Volcker became chair of the U.S. Federal Reserve, and within a few years, his policies had broken the back of American inflation. Central banks across the world began following the Fed's example, and soon, inflation was declining everywhere.

Technological advancement has been around for centuries, but beginning in the 1980s, the widespread use of computers and then the Internet began to transform every aspect of the economy. The information revolution led to increased productivity and growth in the United States and around the world, and the revolution looks to be a permanent one.

Late in that decade, partly because the information revolution put closed economies and societies at an even greater disadvantage, the Soviet empire collapsed, and soon the Soviet Union itself followed. This allowed the Western system of interconnected free markets and societies to spread across most of the world—a process that became known as globalization. Countries with command or heavily planned economies and societies opened up and began participating in a single global market, adding vigor to both themselves and the system at large. In 1979, 75 countries were growing by at least four percent a year; in 2007, just before the financial crisis hit, the number had risen to 127.

These trends not only destroyed the East but also benefited the West. Low inflation and the information revolution enabled Western



The 2012 Washington Institute for Near East Policy Book Prize

One of the most lucrative literary awards in the world, the prize honors books of outstanding scholarship, compelling writing, and cutting-edge insight. Our independent judges were Michele Dunne, director of the Rafik Hariri Center for the Middle East at the Atlantic Council; Prof. Robert J. Lieber, Georgetown University; and David E. Sanger, chief Washington correspondent, *The New York Times*.

CALL FOR ENTRIES

Deadline: May 1, 2013

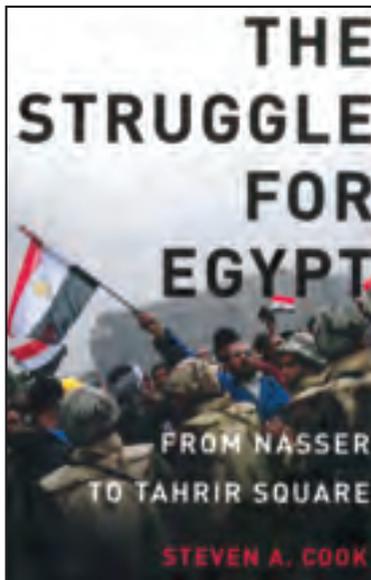
We invite new books published in the United States for the first time in English between May 1, 2012 and May 1, 2013. For complete rules and entry forms, visit, WashingtonInstitute.org/book-prize



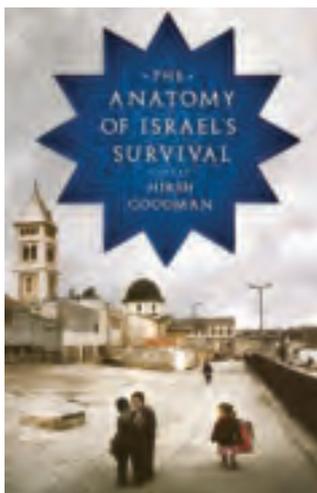
The Washington Institute for Near East Policy seeks to improve the quality of U.S. policy in the Middle East.

1828 L Street NW, Suite 1050, Washington, DC 20036
202.452.0650 ■ www.washingtoninstitute.org

Congratulations to **Steven A. Cook**, the Hasib J. Sabbagh Senior Fellow for Middle Eastern Studies at the Council on Foreign Relations, on receiving the **Gold Medal** in The 2012 Washington Institute for Near East Policy Book Prize for **The Struggle for Egypt: From Nasser to Tahrir Square** (Oxford University Press).

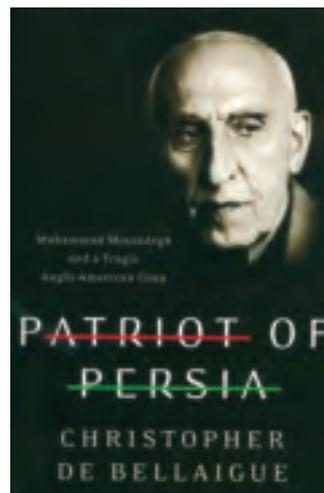


Gold Medal
(\$30,000)



Silver Medal
(\$15,000)

The Anatomy of Israel's Survival
By Hirsh Goodman
(PublicAffairs)



Bronze Medal
(\$5,000)

Patriot of Persia
By Christopher de Bellaigue
(Harper)

Banques centrales Global Health Relations transatlantiques Environmental Policies Action humanitaire International Affairs Intégration régionale International Governance Politique de coopération Humanitarian Law Inégalités Climate Change Politique agricole Global Health Relations transatlantiques Environmental Policies Droits de l'homme International Affairs Intégration régionale International Governance Politique de coopération Humanitarian Law Inégalités Climate Change Banques centrales Global Health Droits de l'homme Non-State Actors Organisations internationales Natural Resources Terrorisme Poverty Minorités Banques centrales Global Health Relations transatlantiques Environmental Policies Trade and Economic Integration Natural Resources Intégration régionale International Governance Politique de coopération Humanitarian Law Inégalités Climate Change Terrorisme Poverty Minorités Executive Education Géopolitique International Governance Microfinance International Governance Politique de coopération Humanitarian Law Inégalités Climate Change Politique agricole Conflicts and Peacebuilding Climate Change Politique agricole Global Health Relations transatlantiques Environmental Policies Action humanitaire International Affairs Droits de l'homme Environmental Policies Organisations internationales Natural Resources Terrorisme Poverty Minorités Executive Education Organisations internationales Natural Resources Terrorisme Executive Education Géopolitique International Governance Microfinance Règlement des différends Pays émergents Diplomatie multilatérale Union européenne Conflicts and Peacebuilding Migrations Banques centrales Global Health Relations transatlantiques Environmental Policies Trade and Economic International Affairs Intégration régionale International Governance Politique de coopération Humanitarian Law Inégalités Climate Change Politique agricole Climate Droits de l'homme Non-State Actors Organisations internationales Natural Resources Terrorisme Poverty Minorités Banques centrales Global Health Relations transatlantiques Environmental Policies Action humanitaire International Governance Intégration régionale International Governance Politique de coopération Humanitarian Law Inégalités Climate Change Politique agricole Global Health Droits de l'homme Non-State Actors Politique agricole Migrations Droits de l'homme Non-State Actors Organisations internationales Natural Resources Terrorisme Poverty Minorités Banques centrales Global Health Relations transatlantiques Environmental Policies Action humanitaire International Governance Intégration régionale International Governance Politique de coopération Humanitarian Law Inégalités Climate Change Politique agricole Global Health Droits de l'homme Non-State Actors Politique agricole Migrations Droits de l'homme Non-State Actors Organisations internationales Natural Resources Terrorisme Poverty Minorités Banques centrales Global Health Relations transatlantiques Environmental Policies Action humanitaire Politique agricole International Affairs Intégration régionale International Governance Politique de coopération Climate Change Politique agricole Global Health Droits de l'homme Non-State Actors Organisations internationales Natural Resources Terrorisme Poverty Minorités Migrations and Financial Regulation Géopolitique International Governance Microfinance Migrations Banques centrales Global Health Relations transatlantiques Environmental Policies Action humanitaire Trade and Economic Integration Minorités Climate Change Pays émergents Natural Resources Organisations internationales Monetary and Financial Regulation Géopolitique International Governance Minorités Règlement des différends Intégration régionale International Governance Politique de coopération Humanitarian Law

INNOVATIVE THINKING FOR WORLD CITIZENS

<http://graduateinstitute.ch>

How can you rise to the challenges of the 21st century?

Through a graduate or executive education, supported by quality research on global issues, in the fields of international affairs and development studies.

Bring your creativity to our cosmopolitan institute and develop your capacity to make a responsible impact on the world.

THE GRADUATE INSTITUTE | GENEVA

INSTITUT DE HAUTES ÉTUDES
INTERNATIONALES ET DU DÉVELOPPEMENT

GRADUATE INSTITUTE OF INTERNATIONAL
AND DEVELOPMENT STUDIES

economies to grow more quickly, and globalization opened up vast new markets filled with cheap labor for Western companies to draw on and sell to. The result was a rebirth of American confidence and an expansion of the global economy with an unchallenged United States at the center. A generation on, however, the Soviet collapse is a distant memory, low inflation has become the norm, and further advances in globalization and information technology are now producing as many challenges for the West as opportunities.

The jobs and wages of American workers, for example, have come under increasing pressure. A 2011 study by the McKinsey Global Institute found that from the late 1940s until 1990, every recession and recovery in the United States followed a simple pattern. First, GDP recovered to its pre-recession level, and then, six months later (on average), the employment rate followed. But then, that pattern was broken. After the recession of the early 1990s, the employment rate returned to its pre-recession level 15 months after GDP did. In the early part of the next decade, it took 39 months. And in the current recovery, it appears that the employment rate will return to its pre-recession level a full 60 months—five years—after GDP did. The same trends that helped spur growth in the past are now driving a new normal, with jobless growth and declining wages.

MAGIC MONEY

The broad-based growth of the post–World War II era slowed during the mid-1970s and has never fully returned. The Federal Reserve Bank of Cleveland recently noted that in the United States, real GDP growth peaked in the early 1960s at more than four percent, dropped to below three percent in the late 1970s, and recovered somewhat in the 1980s only to drop further in recent years down to its current two percent. Median incomes, meanwhile, have barely risen over the last 40 years. Rather than tackle the underlying problems or accept lower standards of living, the United States responded by taking on debt. From the 1980s on, Americans have consumed more than they have produced, and they have made up the difference by borrowing.

President Ronald Reagan came to power in 1981 as a monetarist and acolyte of Milton Friedman, arguing for small government and balanced budgets. But he governed as a Keynesian, pushing through large tax cuts and a huge run-up in defense spending. (Tax cuts are just as Keynesian as government spending; both pump money into

the economy and increase aggregate demand.) Reagan ended his years in office with inflation-adjusted federal spending 20 percent higher than when he started and with a skyrocketing federal deficit. For the 20 years before Reagan, the deficit was under two percent of GDP. In Reagan's two terms, it averaged over four percent of GDP. Apart from a brief period in the late 1990s, when the Clinton administration actually ran a surplus, the federal deficit has stayed above the three percent mark ever since; it is currently seven percent.

John Maynard Keynes' advice was for governments to spend during busts but save during booms. In recent decades, elected governments have found it hard to save at any time. They have run deficits during

In 1980, the United States' gross government debt was 42 percent of its total GDP; it is now 107 percent.

busts and during booms, as well. The U.S. Federal Reserve has kept rates low in bad times but also in good ones. It's easy to blame politicians for such one-handed Keynesianism, but the public is as much at fault. In poll after poll, Americans have voiced their preferences: they want low taxes and lots of govern-

ment services. Magic is required to satisfy both demands simultaneously, and it turned out magic was available, in the form of cheap credit. The federal government borrowed heavily, and so did all other governments—state, local, and municipal—and the American people themselves. Household debt rose from \$665 billion in 1974 to \$13 trillion today. Over that period, consumption, fueled by cheap credit, went up and stayed up.

Other rich democracies have followed the same course. In 1980, the United States' gross government debt was 42 percent of its total GDP; it is now 107 percent. During the same period, the comparable figure for the United Kingdom moved from 46 percent to 88 percent. Most European governments (including notoriously frugal Germany) now have debt-to-GDP levels that hover around 80 percent, and some, such as Greece and Italy, have ones that are much higher. In 1980, Japan's gross government debt was 50 percent of GDP; today, it is 236 percent.

The world has turned upside down. It used to be thought that developing countries would have high debt loads, because they would borrow heavily to finance their rapid growth from low income levels. Rich countries, growing more slowly from high income levels, would have low debt loads and much greater stability. But look at the G-20

today, a group that includes the largest countries from both the developed and the developing worlds. The average debt-to-GDP ratio for the developing countries is 35 percent; for the rich countries, it is over three times as high.

REFORM AND INVEST

When Western governments and international organizations such as the International Monetary Fund offer advice to developing countries on how to spur growth, they almost always advocate structural reforms that will open up sectors of their economies to competition, allow labor to move freely between jobs, eliminate wasteful and economically distorting government subsidies, and focus government spending on pro-growth investment. When facing their own problems, however, those same Western countries have been loath to follow their own advice.

Current discussions about how to restore growth in Europe tend to focus on austerity, with economists debating the pros and cons of cutting deficits. Austerity is clearly not working, but it is just as clear that with debt burdens already at close to 90 percent of GDP, European countries cannot simply spend their way out of their current crisis. What they really need are major structural reforms designed to make themselves more competitive, coupled with some investments for future growth.

Not least because it boasts the world's reserve currency, the United States has more room to maneuver than Europe. But it, too, needs to change. It has a gargantuan tax code that, when all its rules and regulations are included, totals 73,000 pages; a burdensome litigation system; and a crazy patchwork of federal, state, and local regulations. U.S. financial institutions, for example, are often overseen by five or six different federal agencies and 50 sets of state agencies, all with overlapping authority.

If the case for reform is important, the case for investment is more urgent. In its annual study of competitiveness, the World Economic Forum consistently gives the United States poor marks for its tax and regulatory policies, ranking it 76th in 2012, for example, on the "burden of government regulations." But for all its complications, the American economy remains one of the world's most competitive, ranking seventh overall—only a modest slippage from five years ago. In contrast, the United States has dropped dramatically in its investments in human

Fareed Zakaria

and physical capital. The WEF ranked American infrastructure fifth in the world a decade ago but now ranks it 25th and falling. The country used to lead the world in percentage of college graduates; it is now ranked 14th. U.S. federal funding for research and development as a percentage of GDP has fallen to half the level it was in 1960—while it is rising in countries such as China, Singapore, and South Korea. The public university system in the United States—once the crown jewel of American public education—is being gutted by budget cuts.

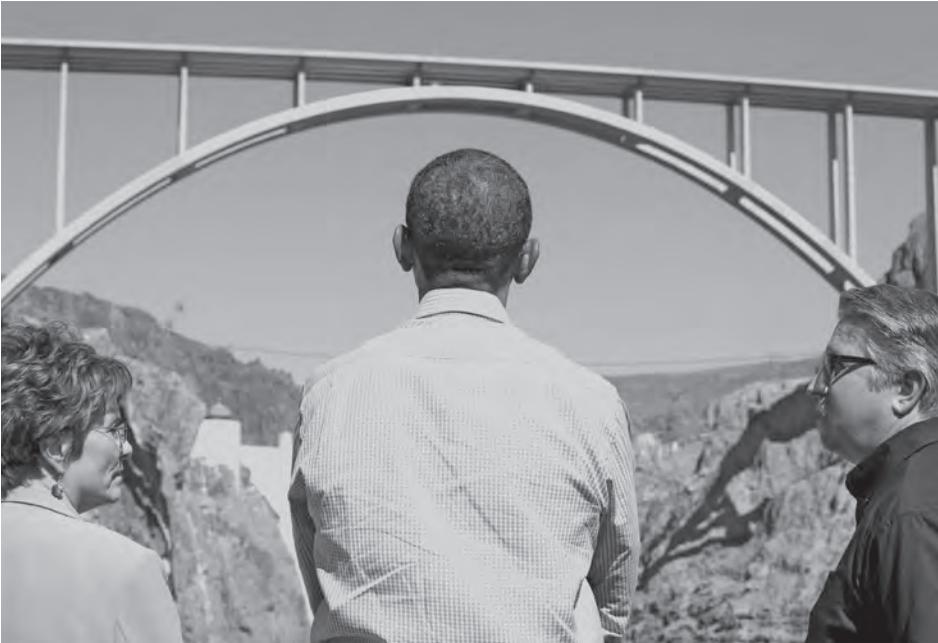
The modern history of the United States suggests a correlation between investment and growth. In the 1950s and 1960s, the federal government spent over five percent of GDP annually on investment, and the economy boomed. Over the last 30 years, the government

With only a few exceptions, the advanced industrial democracies have spent the last few decades managing or ignoring their problems rather than tackling them head-on.

has been cutting back; federal spending on investment is now around three percent of GDP annually, and growth has been tepid. As the Nobel Prize-winning economist Michael Spence has noted, the United States escaped from the Great Depression not only by spending massively on World War II but also by slashing consumption and ramping up investment. Americans reduced their spending, increased their savings, and purchased war bonds. That

boost in public and private investment led to a generation of postwar growth. Another generation of growth will require comparable investments.

The problems of reform and investment come together in the case of infrastructure. In 2009, the American Society of Civil Engineers gave the country's infrastructure a grade of D and calculated that repairing and renovating it would cost \$2 trillion. The specific number might be an exaggeration (engineers have a vested interest in the subject), but every study shows what any traveler can plainly see: the United States is falling badly behind. This is partly a matter of crumbling bridges and highways, but it goes well beyond that. The U.S. air traffic control system is outdated and in need of a \$25 billion upgrade. The U.S. energy grid is antique, and it malfunctions often enough that many households are acquiring that classic symbol of status in the developing world: a private electrical generator. The country's drinking water



We built that: President Barack Obama visiting the Hoover Dam, October 2, 2012

is carried through a network of old and leaky pipes, and its cellular and broadband systems are slow compared with those of many other advanced countries. All this translates into slower growth. And if it takes longer to fix, it will cost more, as deferred maintenance usually does.

Spending on infrastructure is hardly a panacea, however, because without careful planning and oversight, it can be inefficient and ineffective. Congress allocates money to infrastructure projects based on politics, not need or bang for the buck. The elegant solution to the problem would be to have a national infrastructure bank that is funded by a combination of government money and private capital. Such a bank would minimize waste and redundancy by having projects chosen by technocrats on merit rather than by politicians for pork. Naturally, this very idea is languishing in Congress, despite some support from prominent figures on both sides of the aisle.

The same is the case with financial reforms: the problem is not a lack of good ideas or technical feasibility but politics. The politicians who sit on the committees overseeing the current alphabet soup of ineffective agencies are happy primarily because they can raise money for their campaigns from the financial industry. The current system works better as a mechanism for campaign fundraising than it does as an instrument for financial oversight.

In 1979, the social scientist Ezra Vogel published a book titled *Japan as Number One*, predicting a rosy future for the then-rising Asian power. When *The Washington Post* asked him recently why his prediction had been so far off the mark, he pointed out that the Japanese economy was highly sophisticated and advanced, but, he confessed, he had never anticipated that its political system would seize up the way it did and allow the country to spiral downward.

Vogel was right to note that the problem was politics rather than economics. All the advanced industrial economies have weaknesses, but they also all have considerable strengths, particularly the United States. They have reached a stage of development, however, at which outmoded policies, structures, and practices have to be changed or abandoned. The problem, as the economist Mancur Olson pointed out, is that the existing policies benefit interest groups that zealously protect the status quo. Reform requires governments to assert the national interest over such parochial interests, something that is increasingly difficult to do in a democracy.

POLITICAL DEMOGRAPHY

With only a few exceptions, the advanced industrial democracies have spent the last few decades managing or ignoring their problems rather than tackling them head-on. Soon, this option won't be available, because the crisis of democracy will be combined with a crisis of demography.

The industrial world is aging at a pace never before seen in human history. Japan is at the leading edge of this trend, predicted to go from a population of 127 million today to just 47 million by the end of the century. Europe is not far behind, with Italy and Germany approaching trajectories like Japan's. The United States is actually the outlier on this front, the only advanced industrial country not in demographic decline. In fact, because of immigration and somewhat higher fertility rates, its population is predicted to grow to 423 million by 2050, whereas, say, Germany's is predicted to shrink to 72 million. Favorable U.S. demographics, however, are offset by more expensive U.S. entitlement programs for retirees, particularly in the area of health care.

To understand this, start with a ratio of working-age citizens to those over 65. That helps determine how much revenue the government can get from workers to distribute to retirees. In the United States today, the ratio is 4.6 working people for every retiree. In 25 years, it will drop

Get the keys to Global Governance

The Academy of Global Governance prepares executives, diplomats, international organisations' officials and academics, from all over the world, to investigate innovative policy solutions to present and future global issues.

The Academy offers a unique opportunity to gain and share knowledge and expertise in an interactive learning environment, and access an exceptional network of global thinkers and leaders.

Executive Training for Leaders of the Future

*"A rare opportunity to take a step back
and to compare approaches,
challenges and aspirations across world regions.
Thoroughly enjoyable
and intellectually rewarding."*

Andreas Unterstaller
(European Commission)

Programmes and registration forms available online
globalgovernanceprogramme.eui.eu/executive-training/academy/



WHEN EUROPE WENT MAD



THE WHOLE WORLD FOLLOWED

If you thought you knew the history of World War One, think again. Discover how the 20th Century was shaped by the insanity of The Great War.

Terence Finn's highly readable and concise history of World War One tells a compelling story of courage and casualties, of military skill and wartime blunders, of victory and defeat.



“Although much of the work scholars have produced on the First World War is worth examining, generally the length and level of detail are likely to be unsuitable for those readers who seek a brief but complete account of the war. For this purpose Terence Finn’s book serves admirably.”

— Maj. Mark Gillespie (USA, Ret.),
former Professor of Military History
at the United States Military Academy
at West Point.

**This \$17.95 hardcover book is available at
Amazon.com and www.ivyhousebooks.com
or call (919) 782-0281**

**For more information,
visit www.terencefinnbooks.com**

to 2.7. That shift will make a huge difference to an already worrisome situation. Current annual expenditures for the two main entitlement programs for older Americans, Social Security and Medicare, top \$1 trillion. The growth of these expenditures has far outstripped inflation in the past and will likely do so for decades to come, even with the implementation of the Affordable Care Act. Throw in all other entitlement programs, the demographer Nicholas Eberstadt has calculated, and the total is \$2.2 trillion—up from \$24 billion a half century ago, nearly a hundredfold increase.

However worthwhile such programs may be, they are unaffordable on their current trajectories, consuming the majority of all federal spending. The economists Carmen Reinhart and Kenneth Rogoff argued in their detailed study of financial crises, *This Time Is Different*, that countries with debt-to-GDP burdens of 90 percent or more almost invariably have trouble sustaining growth and stability. Unless its current entitlement obligations are

somehow reformed, with health-care costs lowered in particular, it is difficult to see how the United States can end up with a ratio much lower than that. What this means is that while

The danger for Western democracies is not death but sclerosis.

the American right has to recognize that tax revenues will have to rise significantly in coming decades, the American left has to recognize that without significant reforms, entitlements may be the only thing even those increased tax revenues will cover. A recent report by Third Way, a Washington-based think tank lobbying for entitlement reform, calculates that by 2029, Social Security, Medicare, Medicaid, and interest on the debt combined will amount to 18 percent of GDP. It just so happens that 18 percent of GDP is precisely what the government has averaged in tax collections over the last 40 years.

The continued growth in entitlements is set to crowd out all other government spending, including on defense and the investments needed to help spur the next wave of economic growth. In 1960, entitlement programs amounted to well under one-third of the federal budget, with all the other functions of government taking up the remaining two-thirds. By 2010, things had flipped, with entitlement programs accounting for two-thirds of the budget and everything else crammed into one-third. On its current path, the U.S. federal government is turning into, in the journalist Ezra

Klein's memorable image, an insurance company with an army. And even the army will have to shrink soon.

Rebalancing the budget to gain space for investment in the country's future is today's great American challenge. And despite what one may have gathered during the recent campaign, it is a challenge for both parties. Eberstadt points out that entitlement spending has actually grown faster under Republican presidents than under Democrats, and a *New York Times* investigation in 2012 found that two-thirds of the 100 U.S. counties most dependent on entitlement programs were heavily Republican.

Reform and investment would be difficult in the best of times, but the continuation of current global trends will make these tasks ever tougher and more urgent. Technology and globalization have made it possible to do simple manufacturing anywhere, and Americans will not be able to compete for jobs against workers in China and India who are being paid a tenth of the wages that they are. That means that the United States has no choice but to move up the value chain, relying on a highly skilled work force, superb infrastructure, massive job-training programs, and cutting-edge science and technology—all of which will not materialize without substantial investment.

The U.S. government currently spends \$4 on citizens over 65 for every \$1 it spends on those under 18. At some level, that is a brutal reflection of democratic power politics: seniors vote; minors do not. But it is also a statement that the country values the present more than the future.

TURNING JAPANESE

Huntington, the author of the section on the United States in the Trilateral Commission's 1975 report, used to say that it was important for a country to worry about decline, because only then would it make the changes necessary to belie the gloomy predictions. If not for fear of Sputnik, the United States would never have galvanized its scientific establishment, funded NASA, and raced to the moon. Perhaps that sort of response to today's challenges is just around the corner—perhaps Washington will be able to summon the will to pass major, far-reaching policy initiatives over the next few years, putting the United States back on a clear path to a vibrant, solvent future. But hope is not a plan, and it has to be said that at this point, such an outcome seems unlikely.

The absence of such moves will hardly spell the country's doom. Liberal democratic capitalism is clearly the only system that has the flexibility and legitimacy to endure in the modern world. If any regimes collapse in the decades ahead, they will be command systems, such as the one in China (although this is unlikely). But it is hard to see how the derailing of China's rise, were it to happen, would solve any of the problems the United States faces—and in fact, it might make them worse, if it meant that the global economy would grow at a slower pace than anticipated.

The danger for Western democracies is not death but sclerosis. The daunting challenges they face—budgetary pressures, political paralysis, demographic stress—point to slow growth rather than collapse. Muddling through the crisis will mean that these countries stay rich but slowly and steadily drift to the margins of the world. Quarrels over how to divide a smaller pie may spark some political conflict and turmoil but will produce mostly resignation to a less energetic, interesting, and productive future.

There once was an advanced industrial democracy that could not reform. It went from dominating the world economy to growing for two decades at the anemic average rate of just 0.8 percent. Many members of its aging, well-educated population continued to live pleasant lives, but they left an increasingly barren legacy for future generations. Its debt burden is now staggering, and its per capita income has dropped to 24th in the world and is falling. If the Americans and the Europeans fail to get their acts together, their future will be easy to see. All they have to do is look at Japan. 🌐

The Life of the Party

The Post-Democratic Future Begins in China

Eric X. Li

In November 2012, the Chinese Communist Party (CCP) held its 18th National Congress, setting in motion a once-in-a-decade transfer of power to a new generation of leaders. As expected, Xi Jinping took over as general secretary and will become the president of the People's Republic this March. The turnover was a smooth and well-orchestrated demonstration by a confidently rising superpower. That didn't stop international media and even some Chinese intellectuals, however, from portraying it as a moment of crisis. In an issue that was published before the beginning of the congress, for example, *The Economist* quoted unnamed scholars at a recent conference as saying that China is "unstable at the grass roots, dejected at the middle strata and out of control at the top." To be sure, months before the handover, the scandal surrounding Bo Xilai, the former party boss of the Chongqing municipality, had shattered the CCP's long-held facade of unity, which had underwritten domestic political stability since the Tiananmen Square upheavals in 1989. To make matters worse, the Chinese economy, which had sustained double-digit GDP growth for two decades, slowed, decelerating for seven straight quarters. China's economic model of rapid industrialization, labor-intensive manufacturing, large-scale government investments in infrastructure, and export growth seemed to have nearly run its course. Some in China and the West have gone so far as to predict the demise of the one-party state, which they allege cannot survive if leading politicians stop delivering economic miracles.

Such pessimism, however, is misplaced. There is no doubt that daunting challenges await Xi. But those who suggest that the CCP

ERIC X. LI is a venture capitalist and political scientist in Shanghai.

will not be able to deal with them fundamentally misread China's politics and the resilience of its governing institutions. Beijing will be able to meet the country's ills with dynamism and resilience, thanks to the CCP's adaptability, system of meritocracy, and legitimacy with the Chinese people. In the next decade, China will continue to rise, not fade. The country's leaders will consolidate the one-party model and, in the process, challenge the West's conventional wisdom about political development and the inevitable march toward electoral democracy. In the capital of the Middle Kingdom, the world might witness the birth of a post-democratic future.

ON-THE-JOB LEARNING

The assertion that one-party rule is inherently incapable of self-correction does not reflect the historical record. During its 63 years in power, the CCP has shown extraordinary adaptability. Since its founding in 1949, the People's Republic has pursued a broad range of economic policies. First, the CCP initiated radical land collectivization in the early 1950s. This was followed by the policies of the Great Leap Forward in the late 1950s and the Cultural Revolution in the late 1960s to mid-1970s. After them came the quasi-privatization of farmland in the early 1960s, Deng Xiaoping's market reforms in the late 1970s, and Jiang Zemin's opening up of the CCP's membership to private businesspeople in the 1990s. The underlying goal has always been economic health, and when a policy did not work—for example, the disastrous Great Leap Forward and Cultural Revolution—China was able to find something that did: for example, Deng's reforms, which catapulted the Chinese economy into the position of second largest in the world.

On the institutional front as well, the CCP has not shied away from reform. One example is the introduction in the 1980s and 1990s of term limits for most political positions (and even of age limits, of 68–70, for the party's most senior leadership). Before this, political leaders had been able to use their positions to accumulate power and perpetuate their rules. Mao Zedong was a case in point. He had ended the civil wars that had plagued China and repelled foreign invasions to become the father of modern China. Yet his prolonged rule led to disastrous mistakes, such as the Cultural Revolution. Now, it is nearly impossible for the few at the top to consolidate long-term power. Upward mobility within the party has also increased.

In terms of foreign policy, China has also changed course many times to achieve national greatness. It moved from a close alliance with Moscow in the 1950s to a virtual alliance with the United States in the 1970s and 1980s as it sought to contain the Soviet Union. Today, its pursuit of a more independent foreign policy has once more put it at odds with the United States. But in its ongoing quest for greatness, China is seeking to defy recent historical precedents and rise peacefully, avoiding the militarism that plagued Germany and Japan in the first half of the last century.

As China undergoes its ten-year transition, calls at home and abroad for another round of political reform have increased. One radical camp in China and abroad is urging the party to allow multiparty elections or at least accept formal intraparty factions. In this view, only full-scale adversarial politics can ensure that China gets the leadership it needs. However sincere, these demands all miss a basic fact: the CCP has arguably been one of the most self-reforming political organizations in recent world history. There is no doubt that China's new leaders face a different world than Hu Jintao did when he took over in 2002, but chances are good that Xi's CCP will be able to adapt to and meet whatever new challenges the rapidly changing domestic and international environments pose. In part, that is because the CCP is heavily meritocratic and promotes those with proven experience and capabilities.

MAKING THE GRADE

China watchers in the West have used reports of corruption—compounded by sensational political scandals such as the Bo Xilai affair—to portray the ruling party as incurably diseased. The disease exists, to be sure, but the most important treatment is the party itself. As counterintuitive as it might seem to Westerners, the CCP, whose political preeminence is enshrined in the Chinese constitution, is one of the most meritocratic political institutions in the world.

Of the 25 members that made up the pre-18th-Congress Politburo, the highest ruling body of the CCP, only five (the so-called princelings) came from privileged backgrounds. The other 20, including the president, Hu, and the premier, Wen Jiabao, came from middle- or lower-class backgrounds. In the CCP's larger Central Committee, which was made up of more than 300 people, the percentage of people born into wealth and power was even smaller. The vast majority of those in government worked and competed their way through the ranks to



Chinese democracy: voting in Guangdong Province, China, March 3, 2012

the top. Admittedly, the new general secretary, Xi, is the son of a previous party leader. However, an overwhelming number of those who moved up the ranks this past fall had humbler beginnings.

So how does China ensure meritocracy? At the heart of the story is a powerful institution that is seldom studied in the West, the Organization Department of the CCP. This department carries out an elaborate process of bureaucratic selection, evaluation, and promotion that would be the envy of any corporation. Patronage continues to play a role, but by and large, merit determines who will rise through the ranks.

Every year, the government and its affiliated organizations recruit university graduates into entry-level positions in one of the three state-controlled systems: the civil service, state-owned enterprises, and government-affiliated social organizations such as universities or community programs. Most new recruits enter at the lowest level, or *ke yuan*. After a few years, the Organization Department reviews their performance and can promote them up through four increasingly elite managerial ranks: *fu ke*, *ke*, *fu chu*, and *chu*. The range of positions at these levels is wide, covering anything from running the health-care

system in a poor village to attracting commercial investment in a city district. Once a year, the Organization Department reviews quantitative performance records for each official in each of these grades; carries out interviews with superiors, peers, and subordinates; and vets personal conduct. Extensive and frequent public opinion surveys are also conducted on questions ranging from satisfaction with the country's general direction to opinions about more mundane and specific local policies. Once the department has gathered a complete dossier on all the candidates, and has confirmed the public's general satisfaction or dissatisfaction with their performances, committees discuss the data and promote winners.

After this stage, public employees' paths diverge, and individuals can be rotated through and out of all three tracks (the civil service, state-owned enterprises, and social organizations). An official might start out working on economic policy and then move to a job dealing with political or social issues. He or she could go from a traditional government position to a managerial role in a state-owned enterprise or a university. In many cases, the Organization Department will also send a large number of promising officials abroad to learn best practices around the world. The likes of Harvard University's Kennedy School of Government and the National University of Singapore regularly host Chinese officials in their training programs.

Over time, the most successful workers are promoted again, to what are known as the *fu ju* and *ju* levels, at which point a typical assignment is to manage districts with populations in the millions or companies with hundreds of millions of dollars in revenues. To get a sense of how rigorous the selection process is, in 2012, there were 900,000 officials at the *fu ke* and *ke* levels and 600,000 at the *fu chu* and *chu* levels. There were only 40,000 at the *fu ju* and *ju* levels.

After the *ju* level, a very talented few move up several more ranks and eventually make it to the party's Central Committee. The entire process could take two to three decades, and most of those who make it to the top have had managerial experience in just about every sector of Chinese society. Indeed, of the 25 Politburo members before the 18th Party Congress, 19 had run provinces larger than most countries in the world and ministries with budgets higher than that of the average nation's government. A person with Barack Obama's pre-presidential professional experience would not even be the manager of a small county in China's system.



“The collaborative, cross-disciplinary approach of Fletcher’s GMAP program was extraordinary preparation for how the world really works.”

– Rachel Kyte, GMAP '02, Vice President and Head of Network, Sustainable Development, The World Bank



“At Fletcher, I learned that it is not enough to examine an issue simply from a financial or political perspective. I needed to have a thorough grounding in politics, economics, business and legal matters and then be able to translate that into practical action engaging the public, private and non-governmental sectors,” says Rachel Kyte of her experience in the Global Master of Arts Program (GMAP) at Fletcher. “Team projects completed with my classmates while we were spread out geographically and across time zones were a harbinger of the way I work now.”

For the past 10 years, The Fletcher School’s Global Master of Arts Program (GMAP) has set the standard for international leadership in and out of the classroom. An intensive, one-year degree program, GMAP brings together distinguished mid- and senior-level leaders through residencies and Internet-mediated learning to examine issues at the intersection of international affairs, business, diplomacy and geopolitics. Join more than 30 globally-minded classmates and a network of more than 600 distinguished alumni in the GMAP experience. Apply today.

Courses Include:

International Politics
International Negotiation
International Finance
International Trade

Leadership and Management
Security Studies
Transnational Social Issues
International Business
and Economic Law
International Organizations

CLASSES BEGIN IN MARCH AND JULY.

Minas Gerais : The Innovation State



ANTONIO ANASTASIA,
Governor of Minas Gerais



Brazil was the first major emerging market to enact counter cyclical monetary and fiscal policies, setting the stage for economic rebound. The country has seen the rise of a vibrant middle class and has become a relevant destination for many multinationals. Economic stability has allowed companies to extend the capital expenditure cycle and expand aggressively at home and abroad. According to Jerry O'Callaghan, CFO at JBS, the largest Brazilian multinational food processing company, "the government has tried aggressively to find different channels to facilitate business practices; such is the case of the promise to slash electricity prices in the latest attempt to revive the country's once booming economy."

Nonetheless, Brazil also faces significant barriers that are hindering economic and social progress: onerous regulations, a creaking infrastructure, and a huge informal sector that all limit productivity, not to mention a dependence on a large global appetite for commodities that

at some point is bound to falter. Nelson Jamel, chief financial officer of AMBEV, the third-largest brewing company in the world by volume, believes that "one of the most important reforms that Brazil needs to tackle is the tax reform." The actual scenario does not address the causes of loss of competitiveness of the industry, and it creates distortions and injustices. "Fiscal reform is needed to alleviate the tax burden on enterprise turnover and thus generate more wealth and jobs and thus make it easier to proceed with other necessary reforms."

In order to emerge from the world economic crisis intact, Brazil will need to rely on the development of its different states. As the fourth largest state in the country, Minas Gerais is now recognized as one of the leading economic regions (it is currently the second wealthiest in terms of GDP, with a land mass greater than that of France). The good ratings assigned by international agencies such as Standard & Poor's reflect

the state's well-diversified economic base which allows it to levy taxes and maintain an adequate fiscal performance and a track record of solid financial management. Mr. Jose Frederico Alvares, president of INDI, Minas Gerais Integrated Development Institute, said "We notice that there is a clear diversification in progress in the Minas Gerais industrial sector. Although mining remains extremely relevant in our economy, there is good performance in other sectors, such as food and beverage, energy, biotechnology, and others. We have to work on different fronts, expand the already strong sectors, and aim with the help of public policies at the economy's diversification, which is already happening."



**THE GATEWAY TO INVESTMENTS
IN MINAS GERAIS**

BRAZIL'S INVESTMENT CONFERENCE

Featuring : The Case Of The State Of Minas Gerais

November 28, 2012 | 2:00 PM | Council on Foreign Relations | 58 East 68th Street, New York, New York

This timely event brought together senior government officials, global business leaders, and financial experts to examine and discuss the latest developments, investment challenges and opportunities that exist in Brazil and Minas Gerais: the country's second-most industrialized state and a symbol of innovation and entrepreneurship. Standard & Poor's rating agency recently assigned "brAAA" national scale issuer credit ratings to Minas Gerais. The state has benefited from the continuation of administrations under the same political party for almost a decade, which helped strengthen management procedures and internal systems.

After opening remarks by Mr. Antônio Augusto Junho Anastasia, governor of the state of Minas Gerais, the responding panel began with a series of questions and answers.

Albert Fishlow, professor emeritus at both the University of California, Berkeley, and Columbia University; Julia E. Sweig, Nelson and David Rockefeller senior fellow for Latin America studies at the Council on Foreign Relations; Otávio Azevedo CEO of industrial conglomerate Andrade Gutierrez S.A.; and Riordan Roett, professor of political science and director of Western Hemisphere studies at the Johns Hopkins University, took part in the discussion.

INNOVATION PANEL:

Over the past decade, emerging economies have become fertile sources for creativity and disruptive business models, and the innovation revolution is alive among both

start-ups and the 21,500 multinationals currently located in emerging economies. A new report from INSEAD and the Organization for Economic Cooperation and Development's Development Center argues that by developing new business models, "in several revealing cases, Latin American businesses are redefining global business." This is the case of Minas Gerais, a role model when it comes to innovation and creativity. With a rapidly growing population – currently 20 million people – the state of Minas Gerais has been investing heavily in infrastructure to support both trade and a higher quality of life. Dorothea Werneck discussed the various developments underway, innovation programs and the public-private partnerships created to fund them. Speakers participating in the debate included Olavo Machado, president of the Federation of Industries of the State of Minas Gerais (FIEMG); Adriana Machado, CEO of General Electric Brazil; Nelson Jamel CFO of Ambev; and Dorothea Werneck, secretary of development for the state of Minas Gerais.

ENERGY AND INFRASTRUCTURE PANEL

The subsalt oilfield discoveries could generate considerable wealth, with the potential to transform Brazil's economy, but to ensure the full development of these subsalt fields, foreign technical expertise and massive investment are required.

What are the major tax, regulatory and legal challenges for foreign investors in this industry? What are the central opportunities and challenges of investing in and financing power-generation projects? These were some of the issues raised by panelists. Michel Di Capua, head of analysis for North America at Bloomberg New Energy Finance, moderated the event. Luiz Fernando Rolla, CFO of CEMIG and John D. Kasarda, Kenan distinguished professor of strategy and entrepreneurship participated in the vibrant question-and answer session.

Xi's career path is illustrative. Over the course of 30 years, Xi rose from being a *fu ke* level deputy county chief in a poor village to party secretary of Shanghai and a member of the Politburo. By the time he made it to the top, Xi had already managed areas with total populations of over 150 million and combined GDPs of more than \$1.5 trillion. His career demonstrates that meritocracy drives Chinese politics and that those who end up leading the country have proven records.

INNOVATE OR STAGNATE

China's centralized meritocracy also fosters government entrepreneurship. The practice of conducting top-down policy experiments in select locales and expanding the successful ones nationwide is well documented. The best-known example is Deng's creation of "special economic zones" in the 1980s. The first such zone was in Shenzhen. The district was encouraged to operate under market principles rather than the dictates of central planners. Shenzhen's economy grew rapidly, which prompted the central government to replicate the program in the cities of Zhuhai and Shantou, in Guangdong Province; Xiamen, in Fujian Province; and throughout Hainan Province.

There are also thousands of policy experiments that rise up from the local level. The competitive government job market gives capable local officials incentives to take risks and differentiate themselves from the pack. Among the 2,326 party representatives who attended the 18th Party Congress, one such standout was Qiu He, who is vice party secretary of Yunnan Province. At the congress, Qiu was selected as an alternate member of the Central Committee, putting the 55-year-old maverick near the top of the nation's political establishment. Qiu is the ultimate political entrepreneur. Born into poverty in rural China, Qiu watched two of his eight siblings die of childhood illness and malnutrition. After taking the national college entrance exam, China's great equalizer, he was able to attend university. When he entered the work force, he held several low-level civil service jobs before being appointed party secretary of Shuyang County, in northern Jiangsu Province, in the 1990s. With a peasant population of 1.7 million and an annual per capita GDP of only \$250 (less than one-fifth the national average), Shuyang was one of the poorest rural areas in the country. The county also suffered from the worst crime rate in the region and endemic government corruption.

Eric X. Li

Qiu carried out a broad range of risky and controversial policy experiments that, if they failed, would have sunk his political career. His first focus was Shuyang's floundering economy. In 1997, Qiu initiated a mandatory municipal bond purchase program. The policy required every county resident to purchase bonds to fund much-needed infrastructure development. The genius of the plan was twofold. First,

The CCP's role in saving China from outsiders is a far more durable source of its legitimacy than the country's economic performance.

he could not have raised the funds through taxes because, at his level, he had no taxation authority. Second, the mandatory bond program offered the citizens of Shuyang something taxes would not have: yes, they were required to buy the bonds, but they eventually got their money back, with interest. Qiu also assigned quotas to almost every county government

official for attracting commercial investments. To support their efforts, in addition to building up the area's infrastructure, Qiu offered favorable tax rates and cheap land concessions to businesses. In just a few years, thousands of private enterprises sprang up and transformed a dormant, centrally planned rural community into a vibrant market economy.

Qiu's second focus was combating corruption and mistrust between the population and the government. In the late 1990s, he instituted two unprecedented measures to make the selection of officials more open and competitive. One was to post upcoming official appointments in advance of the final decisions to allow for a public comment period. The other was the introduction of a two-tier voting system that enabled villagers to vote among party members for their preferred candidates for certain positions. The local party committee then picked between the top two vote getters.

Qiu initially met tremendous resistance from the local bureaucracy and population. But today, he is credited with turning one of the country's most backward regions into a vibrant urban center of commerce and manufacturing. Other poor regions have adopted many of his economic policy experiments. Moreover, the public commenting period has been widely adopted across China. Competitive voting is finding its way into ever-higher levels of the party hierarchy. Qiu has been personally rewarded, too, moving rapidly up the ladder: to vice governor of Jiangsu Province, mayor of Kunmin, vice party

secretary of Yunnan Province, and now an alternate member of the Central Committee.

BY POPULAR DEMAND

Even if critics accept that the Chinese government is adaptable and meritocratic, they still question its legitimacy. Westerners assume that multiparty elections are the only source of political legitimacy. Because China does not hold such elections, they argue, the CCP's rule rests on inherently shaky ground. Following this logic, critics have predicted the party's collapse for decades, but no collapse has come. The most recent version of the argument is that the CCP has maintained its hold on power only because it has delivered economic growth—so-called performance legitimacy.

No doubt, performance is a major source of the party's popularity. In a poll of Chinese attitudes published by the Pew Research Center in 2011, 87 percent of respondents noted satisfaction with the general direction of the country, 66 percent reported significant progress in their lives in the past five years, and a whopping 74 percent said they expected the future to be even better. Performance legitimacy, however, is only one source of the party's popular support. Much more significant is the role of Chinese nationalism and moral legitimacy.

When the CCP built the Monument to the People's Heroes at the center of Tiananmen Square in 1949, it included a frieze depicting the struggles of the Chinese to establish the People's Republic. One would expect the CCP, a Marxist-Leninist party, to have its most symbolic political narrative begin with communism—the writing of *The Communist Manifesto*, for example, or perhaps the birth of the CCP in 1921. Instead, the first carving of the frieze depicts an event from 1839: the public burning of imported opium by the Qing dynasty's imperial minister, Lin Zexu, which triggered the first Opium War. China's subsequent loss to the British inaugurated the so-called century of humiliation. In the following hundred years, China suffered countless invasions, wars, and famines—all, in the popular telling, to reach 1949. And today, the Monument to the People's Heroes remains a sacred public site and the most significant symbol of the CCP's national moral authority.

The CCP's role in saving and modernizing China is a far more durable source of its legitimacy than the country's economic performance. It explains why, even at the worst times of the party's rule in

Eric X. Li

the past 63 years, including the disastrous Great Leap Forward and Cultural Revolution, the CCP was able to keep the support of mainstream Chinese long enough for it to correct its mistakes. China's recent achievements, from economic growth to space exploration, are only strengthening nationalist sentiments in the country, especially among the youth. The party can count on their support for decades to come.

A final type of staying power comes from repression, which China watchers in the West claim is the real force behind the CCP. They point to censorship and the regime's harsh treatment of dissidents, which undoubtedly exist. Still, the party knows very well that general repression is not sustainable. Instead, it seeks to employ smart containment. The strategy is to give the vast majority of people the widest range possible of personal liberties. And today, Chinese people are freer than at any other period in recent memory; most of them can live where they want and work as they choose, go into business without hindrance, travel within and out of the country, and openly criticize the government online without retaliation. Meanwhile, state power focuses on containing a small number of individuals who have political agendas and want to topple the one-party system. As any casual observer would know, over the last ten years, the quantity of criticism against the government online and in print has increased exponentially—without any reprisals. Every year, there are tens of thousands of local protests against specific policies. Most of the disputes are resolved peacefully. But the government deals forcefully with the very few who aim to subvert China's political system, such as Liu Xiaobo, an activist who calls for the end of single-party rule and who is currently in jail.

That is not to say that there aren't problems. Corruption, for one, could seriously harm the CCP's reputation. But it will not derail party rule anytime soon. Far from being a problem inherent to the Chinese political system, corruption is largely a byproduct of the country's rapid transformation. When the United States was going through its industrialization 150 years ago, violence, the wealth gap, and corruption in the country were just as bad as, if not worse than, in China today. According to Transparency International, China ranks 75th in global corruption and is gradually getting better. It is less corrupt than Greece (80th), India (95th), Indonesia and Argentina (tied at 100th), and the Philippines (129th)—all of which are electoral democracies.



GEORGETOWN UNIVERSITY
School of Foreign Service in Qatar

We Are Growing. Join Us.

Building on our 7 years of success, Georgetown University School of Foreign Service in Qatar is hiring 24 faculty over 3 years. Faculty at any rank in social science and humanities disciplines, in particular political science and international relations, are invited to express interest at any time.

qatar.sfs.georgetown.edu/grow

growsFSQ@georgetown.edu

+974 4457-8242



Return to Table of Contents
A New eBook From *Foreign Affairs*

Iran and the Bomb

The Indispensable Guide to the Iran Nuclear Debate



This special collection drawn from the pages of *Foreign Affairs* tells the story of Iran's quest for nuclear weapons and the outside world's struggle to respond. The arguments presented span every significant position on the political spectrum, and the authors include world-renowned experts from several disciplines, backgrounds, and countries. *Iran and the Bomb* contains everything needed to understand the crisis and develop an informed, independent opinion on what should be done about it.

Now available at

www.foreignaffairs.com/iran-and-the-bomb

Designed for your favorite devices including:



Understood in such a context, the Chinese government's corruption is by no means insurmountable. And the party's deeply rooted popular support will allow it the breathing room to grapple with even the toughest problems.

ENTER THE DRAGON

China's new leaders will govern the country for the next ten years, during which they will rely on the CCP's adaptability, meritocracy, and legitimacy to tackle major challenges. The current economic slowdown is worrying, but it is largely cyclical, not structural. Two forces will reinvigorate the economy for at least another generation: urbanization and entrepreneurship. In 1990, only about 25 percent of Chinese lived in cities. Today, 51 percent do. Before 2040, a full 75 percent—nearly one billion people—are expected to be urban. The amount of new roads, housing, utilities, and communications infrastructure needed to accommodate this expansion is astounding. Therefore, any apparent infrastructure or housing bubbles will be momentary. In fact, China's new leadership will need to continue or even increase investment in these sectors in the years to come. That investment and the vast new urban work force, with all its production and consumption, will drive high economic growth rates. The party's extraordinary ability to develop and execute policy and its political authority will help it manage these processes.

Meanwhile, entrepreneurship will help China overcome threats to its export-fueled economic model. Externally, the global economic downturn and a rising currency value have dampened Chinese trade. Internally, labor costs have risen in the country's coastal manufacturing regions. But the market will sort out these problems. After all, China's economic miracle was not just a centrally planned phenomenon. Beijing facilitated the development of a powerful market economy, but private entrepreneurs are the lifeblood of the system. And these entrepreneurs are highly adaptive. Already, some low-end manufacturing has moved inland to contain labor costs. This is coinciding with local governments' aggressive infrastructure investments and innovative efforts to attract new business. In the coastal regions, many companies are producing increasingly-higher-value goods.

Of course, the government will need to make some economic adjustments. For one, many state-owned enterprises have grown too big, crowding out the private-sector growth that is critical to economic

Eric X. Li

vitality. Plans to require companies to pay out dividends to shareholders and other limits on expansion are already in the works. These will likely be implemented early on in the new administration. And some stalled measures encouraging financial liberalization, such as allowing the market to determine interest rates and the development of private small and medium-sized lending institutions, which would break the large state-owned banks' near monopoly in commercial lending, are likely to get picked up. These reforms would facilitate more efficient flows of capital to businesses.

Economic liberalization will likely be matched by a two-track reform of social policy. First, the process of making the party more

The significance of China's success is not that China provides the world with an alternative model but that it demonstrates that successful alternatives exist.

inclusive, which began with Jiang's inclusion of businesspeople in the CCP, will be accelerated. Second, the CCP will begin experimenting with outsourcing certain social welfare functions to approved nongovernmental organizations. Rapid urbanization is facilitating the growth of a large middle-income society. Instead of demanding abstract political rights,

as many in the West expected, urban Chinese are focused on what are called *min sheng* (livelihood) issues. The party may not be able to manage these concerns alone. And so private businesses or nongovernmental organizations might be called in to provide health care and education in the cities, which has already started to happen in Guangdong Province.

Corruption remains the hardest nut to crack. In recent years, family members of some party leaders have used their political influence to build up large networks of commercial interests. Cronyism is spreading from the top down, which could eventually threaten the party's rule. The CCP has articulated a three-pronged strategy to attack the problem, which the new leadership will carry out. The most important institution for containing corruption is the CCP's Central Commission for Discipline Inspection. Its leader usually sits on the Standing Committee of the Politburo and has more power than the state judiciary. This person can detain and interrogate party members suspected of corruption without legal limits. In recent years, the commission has been very aggressive. In 2011, it conducted formal investigations into 137,859

cases that resulted in disciplinary actions or legal convictions against party officials. This number represents a nearly fourfold increase since the years before 1989, when corruption was one of the main issues that drove the Tiananmen protests. One sign to watch in the next administration is whether the commission is authorized to investigate wrongdoing within the inner sanctum of the party leadership, where corruption can be the most detrimental to the party's credibility.

Complementing the party's own antigraft efforts is the increasing independence of media outlets, both state- and privately owned. News organizations have already exposed cases of official corruption and disseminated their findings on the Internet. The CCP has responded by pursuing some of the cases that the media have brought to light. Of course, this system is not perfect, and some media outlets are themselves corrupt. Illicit payments to journalists and fabricated stories are commonplace. If these problems are not corrected quickly, Chinese media will lose what little credibility they have gained.

Accordingly, the next administration might develop more sophisticated political regulations and legal constraints on journalists to provide space for the sector to mature. Officials have already discussed instituting a press law that would protect legitimate, factual reporting and penalize acts of libel and misrepresentation. Some might view the initiative as the government reining in journalists, but the larger impact would be to make the media more credible in the eyes of the Chinese public. Journalists who take bribes or invent rumors to attract readers can hardly check government corruption.

Also to tackle corruption, the party plans to increase open competition within its own ranks, inspired by the efforts of officials such as Qiu. The hope is that such competition will air dirty laundry and discourage unseemly behavior. The Hu administration initiated an "intraparty democracy" program to facilitate direct competition for seats on party committees, an idea that received high praise at the 18th Congress.

HISTORY'S RESTART

Should the 18th Party Congress' initiatives succeed, 2012 might one day be seen as marking the end of the idea that electoral democracy is the only legitimate and effective system of political governance. While China's might grows, the West's ills multiply: since winning the Cold War, the United States has, in one generation, allowed its

Eric X. Li

middle class to disintegrate. Its infrastructure languishes in disrepair, and its politics, both electoral and legislative, have fallen captive to money and special interests. Its future generations will be so heavily indebted that a sustained decline in average living standards is all but certain. In Europe, too, monumental political, economic, and social distress has caused the European project to run aground. Meanwhile, during the same period, China has lifted hundreds of millions of people out of poverty and is now a leading industrial powerhouse.

The West's woes are self-inflicted. Claims that Western electoral systems are infallible have hampered self-correction. Elections are seen as ends in themselves, not merely means to good governance. Instead of producing capable leaders, electoral politics have made it very difficult for good leaders to gain power. And in the few cases when they do, they are paralyzed by their own political and legal systems. As U.S. Secretary of State Hillary Clinton travels around the world extolling electoral democracy, the legitimacy of nearly all U.S. political institutions is crumbling. The approval rating of the U.S. Congress among the American people stood at 18 percent in November. The president was performing somewhat better, with ratings in the 50s. And even support for the politically independent Supreme Court had fallen below 50 percent.

Many developing countries have already come to learn that democracy doesn't solve all their problems. For them, China's example is important. Its recent success and the failures of the West offer a stark contrast. To be sure, China's political model will never supplant electoral democracy because, unlike the latter, it does not pretend to be universal. It cannot be exported. But its success does show that many systems of political governance can work when they are congruent with a country's culture and history. The significance of China's success, then, is not that China provides the world with an alternative but that it demonstrates that successful alternatives exist. Twenty-four years ago, the political scientist Francis Fukuyama predicted that all countries would eventually adopt liberal democracy and lamented that the world would become a boring place because of that. Relief is on the way. A more interesting age may be upon us. 🌐

GHANA: Accelerating Africa's Revival

Ghana, the first sub-Saharan state to gain independence, has set the standard for economic reform and, over the past decade, democratic stability in Africa. A major cocoa grower, gold exporter, and more recently oil and gas producer, Ghana has rapidly secured a top spot among the world's fastest-growing economies and is steadily rising into middle-income status. With projected GDP growth rates of around 11 percent in the coming years, how is the government translating resource revenues and rising foreign investment into a transparent and sustainable future?



John Dramani Mahama,
President of Ghana

Last year Ghana posted 14 percent GDP growth, the world's second-highest, after Qatar. Foreign direct investment amounted to some \$7 billion across various sectors. "Right now, there is something spectacular happening in Africa,"

said John Dramani Mahama, Ghana's interim president since the passing of late President John Evans Atta Mills in July 2012, to a recent United Nations assembly. "Growth is taking the place of stagnation; tranquility is taking the place of turmoil; democratic governance, founded on the rule of law, is taking the place of dictatorship. There is no denying the visibility and the viability of these significant developments."

President Mahama believes Ghana's progressing industry and private sectors are laying the foundation for its future. "This is the area of my utmost passion. We are at the threshold of transition from lower-middle-income to middle-income status. This phase has been largely led by the government. The next phase of transformation must be led by the private sector."

Oil and gas now also play a considerable role in assuring nationwide growth, as Vice-President Kwesi Amissah-Arthur explains. "Lessons learned from our several decades of mining metals and the Ghana EITI (Extractive Industries Transparency Initiative)

process served as a useful guide to developing the legal and fiscal frameworks for our recently discovered hydrocarbon resources. We continue to explore ways of making the process respond to the development aspirations of our people."

Ghana is, however, lagging behind in the attainment of several important Millennium Development Goals, including lower maternal mortality and sanitation coverage. Youth unemployment and gender disparities

"We are at the threshold of transition from lower-middle-income to middle-income status. This phase has been largely led by the government. The next phase of transformation must be led by the private sector."

John Dramani Mahama, President of Ghana

also remain high. The cost of environmental degradation (water, soils, forests, fisheries) and the effect that climate change has on exacerbating poverty in the country are equally significant. Nevertheless, Ghana's future oil prospects are extremely positive, giving the country a long-term planning horizon with realistic expectations. "We are well-poised for tremendous leaps forward," says Vice-President Amissah-Arthur. "Our economy is moving in the right direction and this is the time to consolidate our gains and face the challenges we have with a common resolve."

U.S. and Ghana, A Very Rewarding Friendship

Making Ghana the official port of call for President Barack Obama's 2009 visit to Africa was a logical and strategic choice. Sending out the message that the United States is a partner in developing the continent's promise, Obama said African people should hold their leaders accountable for the future. The Partnerships for Growth (PfG) assistance program, initiated by the Obama administration, encourages "truly sustainable, broad-based economic growth in the developing of strong institutions, harnessing sources of human capital, and the emergence of a strong and dynamic private sector." According to the U.S. leader, Ghana is pursuing these facets in a remarkable manner.

In 1961, President John F. Kennedy established the Peace Corps, and Ghana was the volunteer program's first mission. U.S. support remains constructive to this day, through USAID's "Feed the Future" initiative as well as compacts with the Millennium Challenge Corporation (MCC). Alhaji Muhammad Mumuni, Minister of Foreign Affairs, emphasizes the importance of the first \$547 million, five-year MCC procurement for rural areas, agriculture, and infrastructure. "We are ready to sign the second compact, which will ensure the adequate and reliable supply of energy in our country to aid our development in industrialization."

Deputy Minister of Economic Planning Fifi F. Kwetey believes that with the MCC II, the U.S. "has done a thorough diagnosis of our energy situation

and has tailored their support in a way that we can really deal with the difficulties."

Seth Terkper, Deputy Minister of Finance, adds that for the PfG, the ministry has defined "sixteen projects at a total cost of \$1.5 billion to \$2 billion. How do we repay that? As stipulated in the Petroleum Revenue Management Act, we are going to use 70 percent of the oil revenue flows as a long-term savings for sustainable capital funds financing to build the infrastructure that we need today," says Terkper.

"America is a big trading partner to Ghana," notes Fritz Baffour, Minister of Information. Two-way total trade between the United States and Ghana was valued at \$1.9 billion in 2011, a 56 percent increase over 2010. Some of the largest U.S. companies are active in Ghana today, including General Electric, IBM, and Apple. The largest contribution, however, comes from the U.S.-based diaspora. "Ghanaian emigrants living in the U.S. repatriate money to their families here. In the last year around \$4 billion was coming from outside Ghana." Today Baffour would like to see increased knowledge and technology transfer from U.S. investors, particularly in agro-processing and ICT systems.

Clearly the U.S. has become an integral part of Ghana's ascendance to middle-income status. A few months before his passing, late President John Atta Mills described Ghana's relations with the United States as "a very rewarding friendship."

Toward A Better Ghana: The Atta Mills Legacy

John Evans Atta Mills, the architect of Ghana's budding oil and gas sector and an unwavering peace advocate, is praised by fellow politicians and opposition figures alike. Succeeding President John Dramani Mahama recalled that "Professor Mills was a dedicated and honorable statesman. He committed himself to bringing about an improvement not only in the lives of Ghanaians, but also in the lives of all other Africans and indeed the lives of individuals throughout the world."

Following the passing of Atta Mills, the administration of President Mahama drew up critical policy actions to ensure that his much-praised work would continue to be pursued, in order "to maximize our resources and energies towards consolidating the gains that we have made over the last four years," as Mahama noted.

Atta Mills is credited with reducing Ghana's inflation to single digits, maintaining macro-

economic stability, and avoiding hikes in food prices, applying good governance in the public sector, and conducting a transparent and educated development of the natural resources sector. His vision for a better Ghana included stimulating agriculture and industry with oil revenues, accelerating infrastructure developments, and creating jobs through improved social services such as health, education, and utility provision, especially energy and water.

"Over the past few months, Ghanaians have shown ourselves to be resilient, respectful of the values that promote peace and the institutions that safeguard the stability of our democracy," remarked President Mahama. "In our process of healing, we have become more united and more determined to stay the course that we began in 1957, and become more confident than ever before in our ability to create a Better Ghana."

FDI: Ghana's Powerful Partner

From the very first footsteps of independence, attracting foreign investment to Ghana has been a means for comprehensive economic development. Sovereign Ghana's first President, Kwame Nkrumah, firmly believed science and technology would create a stronger nation, and a stronger Africa, saying; "African leaders must find the best and quickest means by which we can pool our economic resources together for our mutual benefit. If we achieve this, we shall raise in Africa a great industrial, economic, and financial power incomparable to anything the world has seen in our time."

U.S. President Dwight D. Eisenhower shared this vision with Nkrumah, engaging foreign aid and investment to realize the Volta River Project: the construction of the Akosombo Dam, its hydroelectric power station, transmission lines to major cities, and the Valco aluminum smelter, built by Kaiser Aluminum. The Kpong Dam followed in 1982.

The dam still stands today as an achievement of international cooperation. Following decades of the mining sector receiving the bulk of FDI, large infusions into manufacturing, construction, and general trade have been made since 2006. The service sector is also registering increased activity, especially since the Jubilee oil and gas field discovery in 2007.

The range of countries and companies investing in Ghana today reflects both its attractiveness and

good standing on the world stage, particularly as a peace mediator in conflicts. From U.S. and Chinese to Israeli and Arab investments, major inflows include \$2.1 billion by ALCOA, \$4.67 billion by the UK's Balkan Energy, and \$2.07 billion in railway rehabilitation and modernization from the United Arab Emirates. In July 2012, Sinopec of China also secured a \$750 million contract to develop Ghana's National Gas Processing Project.

Most foreign interest comes through the Ghana Investment Promotion Centre (GIPC), which in 2011 registered 514 projects worth \$6.82 billion in FDI. Chinese backing dominated with 79 projects, followed closely by 77 from India, 39 Nigerian, and 36 Lebanese ones. However, in terms of total investment value, South Korea topped the list, with the \$3 billion Asanteman Hong Group's real estate and construction project. The GIPC expects 46,761 jobs to be created as a result of these projects, with expatriates taking only 3,589 positions. Major companies currently operating in Ghana include Unilever, Asian agribusiness giant Wilmar, which acquired the Benso Oil Palm Plantation in 2011, Cargill, Kraft-Cadbury, and Toyota, to name a few.

This year, the newly completed Bui Dam will become Ghana's third hydro-generating source of power, with a \$562 million loan from China Exim Bank. Will it be able to regenerate the Afro-Ghanaian dream?



GHANA: Africa's golden gateway to a safe and stable investment destination

Ghana Investment Promotion Centre is the one-stop agency that facilitates and supports both local and foreign investors within the Ghanaian economy and seeks more value-creating operations, higher sustainable returns and new business opportunities for business.



Ghana Investment Promotion Centre

Public Services Commission Building, PO Box M193, Ministries, Accra
Tel.: (+233) (0) 302-665125-9, Email: info@gipcghana.com

www.gipcghana.com

Looking for the Movers: GIPC

Most investments in Ghana are centralized through the Ghana Investment Promotion Centre (GIPC), the one-stop agency that facilitates and supports local and foreign investors in the manufacturing and services sectors. GIPC's CEO George Aboagye acknowledges that 2011 was an impressive year for the country, having booked 14 percent GDP growth, of which 8 percent is classified as sustainable non-oil growth. This, says Aboagye, has secured investor confidence in Ghana.

"We have been able to lock into the international business arena very effectively. GIPC has promoted Ghana's opportunities very intensively in Brazil, Russia, China, and India. Now we are expanding our scope to cover Turkey, South Africa, and mainland Europe, particularly the Netherlands. When an investor comes, we assign them an assistant to guide them through the system, to push and get things done quickly for them, assuring that within the shortest possible time they

should get their permits and register their business."

"GIPC's eye," says Aboagye, is always on "investments that target growth-intensive sectors, or can move Ghanaians closer to a knowledge-based economy." One such facility is the 2,000-acre Sekondi Industrial Estate, which will process local manganese, gold, and bauxite into aluminum. Previously, George Aboagye had overseen development of the Ghana Free Zone Program, which encourages the indigenous private sector. "At the end of the day, we have to look at who is going to move the economy. The education has been there, the system has been liberalized reasonably. The macroeconomic conditions have improved, but not adequately enough to enable the investor to get the sort of financing that other countries would provide. When you have people feeling that they are really supported either by the economy itself or by a conscious effort by the government, then you have movers that can carry the economy."

Revenues of Integrity

Transparency may seem an elusive goal when remodeling old institutions, especially after many decades of military cronyism and a prevalence of corruption. But through reforms and reorganization of public entities, Ghana's democratic governments are managing to introduce a new culture of integrity. The Ghana Revenue Authority (GRA) is a very valid case in point. In December 2009, four existing tax divisions were brought together under the new GRA, consolidating into a three-winged structure: the Customs Division, Domestic Tax Revenues Division, and Support Services Division. The former two focus entirely on revenue collection, while the latter takes care of management services.

Large taxpayers now also have a dedicated office with customized services to accommodate their automated filings. In addition, a computerized system is enhancing accuracy and efficiency, issuing printed receipts to taxpayers. Meanwhile, an integrated cargo clearance system at Ghana's ports

tracks raw materials being imported to cross-check with production numbers.

"And the first years' results already show an impressive record," clarifies George Blankson, Commissioner-General of the GRA and architect of its restructuring. "When you compare the 2011 revenue collection with that of 2010, the difference is 46 percent." Blankson adds that the government target for tax revenue in 2011 was just under \$4 million, yet at the end of December 2011 the GRA had provisionally collected \$4.6 million. "In 2010, the tax-GDP ratio was close to 13 percent. Then, in one year after the restructuring, we managed to grow that ratio to about 16 percent. That has hardly happened in revenue history."

Blankson singled out the goodwill and support of taxpayers as a major contributing factor to the GRA's performance in 2011. "At the heart of the reform, however, is the way we see and treat the taxpayer. Under the old system, taxpayers are potential evaders, so you treated them with suspicion and came down hard on them at the first opportunity. The new philosophy, paired with this modernization we are carrying out, is to see the taxpayer as a client. The concept is revenue harvesting, just like farmers cultivate their crops and harvest more."

As with any transition, there are countless challenges. "When we have a 7,000-person staff that developed loyalties for separate autonomous organizations, bringing them together as one body will require a lot of hard work. But when I look back, we are happy about the outcome so far."



The Oil and Gas Turning Point

Oil discoveries in Ghana are not uncommon, but the significant resources of oil and natural gas found in the offshore Jubilee field in 2007 marked a turning point for the country's economy.

Phase I development of the core field by operating partners Tullow, Kosmos Energy, Anadarko, Sabre, and the Ghana National Petroleum Corporation (GNPC) progressed at such a rapid pace that by 2010 it had already started producing around 20,000 barrels of crude per day. Total proven reserves of the Jubilee oil field are around 600 million barrels. In addition, another twelve oil and gas discoveries have been made since, the most recent in September 2012 by Italy's Eni. Now, a rush by big players, including Hess and Mitsui Oil Exploration Co., has fast-tracked the Petroleum (Exploration and Production) Act, which contains an important law for local content and participation in the sector.

"The industry is very demanding on expertise," says Christian Ibeagha, the Oilfield Service Manager for Schlumberger, which started its resistivity data services in 2007. "But we hired local employees at a very fast pace. Today, 73 percent of our workforce are very proficient Ghanaians."

Current production averages at 80,000 barrels per day, and in the first three quarters of 2012, Ghana's oil exports reached \$2.1 billion. This is offset, however, by oil imports of around \$2.5 billion, including crude, gas from Nigeria, and refined products. By upgrading the state-run Tema

Oil Refinery and building a second refinery with private investors, Ghana aims to become a net exporter of crude and refined oil products by 2015. Eventually, Africa's newest oil producer targets a refining capacity of 120,000 to 200,000 barrels per day by 2020.

Ghanaian industrialists and entrepreneurs are also being urged to become more proactive in supplying the goods and services required by the oil industry. Ghana Oil Company (GOIL) has, in addition to its service stations, started producing vehicle lubricants, engine oil, liquefied petroleum gas (LPG), and bitumen. Furthermore, the Ghana Cylinder Manufacturing Company (GCMC) will start producing specially designed Liquefied Petroleum Gas (LPG) cylinders for commercial vehicles.

Natural gas, say many Ghanaians, has much stronger transformational qualities. It is capable of considerably reducing the cost of power generation, which is still a major challenge in Ghana. Deputy Energy Minister for Petroleum Emmanuel Armah-Kofi Buah says, "Ghana is determined to make hydrocarbons work for the people. We wanted to be one of the few countries in Africa that have made oil a blessing and not a curse. How do we ensure that the revenue we get is actually used for public benefit? We passed the Petroleum Revenue Management Law, which gives us clear guidelines on how every Ghanaian cedi is used. For example, the ongoing gas project is aimed at generating cheap power for our industries and the production of fertilizers to



INTEGRITY FAIRNESS SERVICE

Through continued reforms and modernization, the Ghana Revenue Authority is evolving to become a world-class revenue entity. We are committed to mobilize revenue towards national development in a transparent, fair, efficient and effective manner.

GHANA REVENUE AUTHORITY

Address: Off Starlets 91 Road, P.O. Box 2202, Accra

Email: info@gra.gov.gh • Telephone: +233 (0) 302 675701-7

www.gra.gov.gh



boost agriculture. This is expected to generate many jobs. In fact, our projection is that more than 900,000 jobs will be created in that sector alone over a ten-year period.”

Dr. Alfred Ofori Ahenkorah, Executive Secretary of the Energy Commission, says that although ambitious, Ghana’s plans are feasible. “Making the necessary impact on the national economy will require that the management, operations, and monitoring of the energy sector receive adequate focus. Teamwork and commitment by all stakeholders should be the primary principle

to ensure smooth implementation of the National Energy Policy,” he stressed.

Deputy Energy Minister for Power Inusah Fuseini says that a great majority of Ghanaians expect that their poverty “will be managed very well due to the hydrocarbon resources.” Fuseini adds that “part of the Strategic National Energy Plan 2006–2020 is to ensure that, within a short-medium term, we have a 5,000 megawatt (MW) capacity installed, and we hope that by 2021 there will be universal access to electricity for our communities.”

Total Coverage

Big oil already has a presence in Ghana. Since 1997, Total Petroleum has operated the country’s largest oil distribution network, with 220 service stations across the nation, as well as supplied the mining, aviation, agriculture, and food sectors. Guillaume Larroque, Managing Director of Total Petroleum Ghana, says that the advantage of its long presence has been a build-up of trust with Ghana’s consumers. In addition, Total introduced a Young Dealer Program to identify talent among its employees. “You may detect pump attendants that are very gifted, intellectually quite alert, and obviously very able. So we make sure that when

they reach a time in their professional career, we give them all the financial support to become a dealer. It is not only a necessity because you want to be seen as a local-content-complying company, but it makes sense as you can never reach your goals alone.”

The vast majority of Total’s workforce, says Larroque, is Ghanaian, including the transport companies it contracts. Larroque does not see a real difference in business challenges between Ghana or anywhere else in the world. “If we are talking about the macroeconomic context, you may not agree all the time to proposals for new regulations, but we have always been able to adapt ourselves.”

Renewable Needs

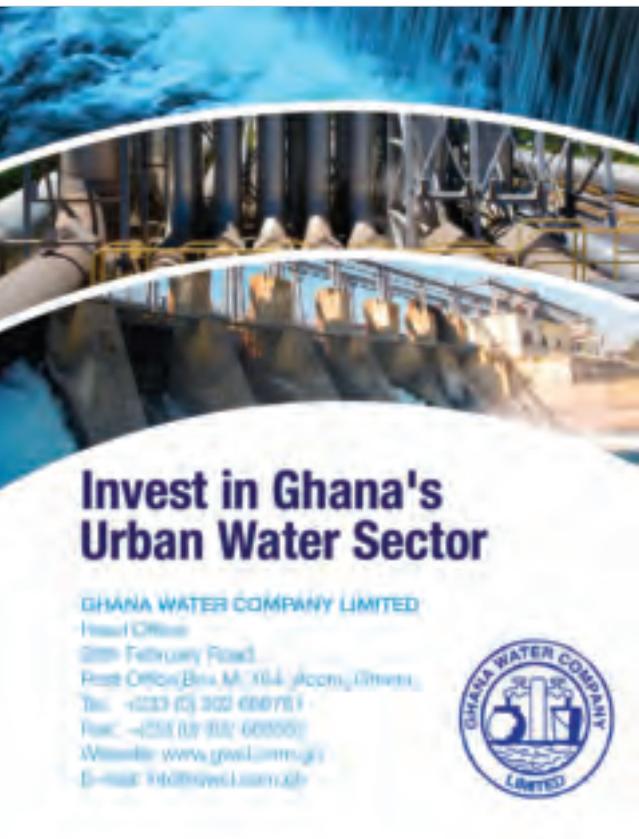
Due to the increased modernization and economic activity of investing companies over the last couple of years, the demand for electricity in Ghana has risen by 10 percent per annum. “We need to increase our power

generation from 2,000 MW to over 5,000 MW,” states Inusah Fuseini, Deputy Minister of Energy for Power.

An agreement made with Nigeria for a constant gas supply through the West African Gas Pipeline fell short of expectations, and so an ambitious plan was struck up to reach 5,000 MW of energy generation by 2015 utilizing Ghana’s own gas. Sinopec International Petroleum Service Corporation of China has been contracted to lay a 100-mile pipeline to connect and transport natural gas from the Jubilee field to the Ghana Gas Company’s Aboadze Thermal Power Plant in Takoradi. An earmark of \$850 million from the China Development Bank’s (CDB) \$3 billion loan for upgrading the country’s infrastructure is financing the project.

“We have also passed the Renewables Law, with a focus to encourage the private sector, and there are many incentives,” says Deputy Minister of Energy for Petroleum Emmanuel Armah-Kofi Buah. “We think that the goal for 10 percent power production from renewable resources, especially solar and wind, is very feasible.”

As a member of the West African Power Pool (WAPP), Deputy Minister Fuseini says Ghana could also have the capacity to increase access to stable and reliable electricity for many citizens of ECOWAS. “For us, everything is here. We harness the potential of solar, wind, biomass, and hydro, while we ensure that our gas is first used for the production of cheap energy.”



Invest in Ghana's Urban Water Sector

GHANA WATER COMPANY LIMITED
Head Office:
25th February Road,
Roose Office Bldg. M. 164, Accra, Ghana.
Tel: +233 (0) 302 696751
Fax: +233 (0) 302 696600
Website: www.gwcl.com.gh
E-mail: info@gwcl.com.gh



The Generation Factor

Ever since work on the Akosombo Dam started in 1961, the task of fulfilling Ghana's electricity needs has been in the hands of the Volta River Authority (VRA). From and around the Akosombo and Kpong Dams, VRA has built up an impressive ecosystem of facilities, including thermal energy plants near Tema and Takoradi, one of which is a joint venture with the Abu Dhabi energy company TAQA; real estate holdings; transport companies; and hotels; as well as schools and health clinics in regions where it operates.

Even with VRA's major contributions made to the national economy over the past fifty years, the current race to meet the rapidly rising demand for energy is one of the company's most challenging projects to date. The 400 MW Bui Dam Power Project is nearing completion, and existing thermal plants are being converted and prepared to run on cheaper natural gas from Ghana's own Jubilee field. "Up until 1998," recounts Mr. Kweku A. Awotwi, Chief Executive of Volta River Authority, "VRA was purely a hydro company. It produced 1,200 MW of hydropower, which met the country's needs. Today, 40 percent of our generation is thermal, as there are unfortunately very few hydro sites that can meet

the demand. So in the next five years, we hope to add another 1,000 MW of thermal capacity."

The company is also venturing into renewable energy. "We have a program to add 110 MW of renewable energy in the next two to three years, 100 MW of wind, and 10 MW of solar. We have a renewable energy goal to meet 400 MW by 2020, so we hope to add another 300 MW."

VRA has been financially viable for several years—operating profit for 2011 stood at \$88 million. "We are probably one of the best state-run organizations," says Mr. Awotwi. Nevertheless, VRA wants to focus on its core business of generating electricity, restructuring the current portfolio to find private investors as partners in running VRA's non-power assets. "Ghana is right in the middle of the ECOWAS region," explains Mr. Awotwi. "The goal of the West African Power Pool (WAPP), of which Ghana is a member, is to connect fifteen to sixteen countries, from Benin to Mali. VRA's current capacity is 2,000 MW, so we certainly have the scope, as well as the experience in the region, to manage and build new generation plants. We see that as a great opportunity."

Interconnecting with the region and the future

The combined efforts of Ghana's state energy entities have so far achieved 72 percent distribution coverage nationally, and the nation has even become a net exporter of energy. Mr. Charles A. Darku, Chief Executive of Ghana Grid Company Limited (GRIDCo), says this is only the beginning. "The landscape is evolving in a very dynamic and positive manner," he attests. "Private developers will bring in

capital and greater efficiencies, so as to produce power in a quality and quantity that consumers want."

Mr. Darku believes Ghana is achieving greater energy efficiency. "The passing of the Renewable Energy Law and possible introduction of unbundled tariffs are driving the sector to the point where maximum benefit and competitive prices are within reach."

That does not mean the energy sector is out of the



woods yet. "We have to sustain our actions so we do not run into supply difficulties," says Mr. Darku. "The region has its own challenges, and we have to deal with them. The biggest challenge was to modernize our network. That is under control now. To me, the worst is now behind us."

GRIDCo recently put finishing touches on a Transmission Asset Expansion Program master plan, and as part of an eight-year investment program it started building a new National Control Center, which will have real-time control of the network. Several other major projects are under construction. It is also setting up high-voltage interconnections across its eastern and western borders, three high-priority projects in

the North, and an extra high-voltage North-South transmission backbone to make the grid even more robust and reliable.

"We have raised a good chunk of the \$1.2 billion needed to get the infrastructure in place," remarks Mr. Darku.

On the government's rural electrification strategy, he argues that "the key aspect of rural electrification is not just to improve the social life of the people through available clean energy, but also to promote rural cottage industries, especially agro-based industries. He adds that "we are working around the clock to ensure that we stay ahead with infrastructural development to respond to demand increase arising from growth in the economy."

Current Innovations: Switching On Potential

Accelerating growth and reducing poverty is a key target of the Millennium Development Goals (MDG) for Ghana. The current phase of the National Electrification Scheme (NES), which was implemented by the Ministry of Energy in 1990, has managed to increase access rates from 54 percent to 72 percent in the past three years. A \$350 million U.S. Exim Bank-funded project, being executed by Weldy-Lamont Associates, an engineering firm from Mount Prospect, Illinois, and its Ghanaian partner TMG, has already become an internationally recognized turnkey development.

"We are extending electricity to close to 2,100 communities," says John Williams, Managing Director of TMG, adding that the original contract stipulated only 1,286 communities. "We are also strengthening some substations and transmission backbones in certain areas, particularly in the mid-region of Ghana."

Working closely with the Electricity Company of Ghana (ECG) and GRIDCo, Weldy-Lamont/TMG identified a solution to a common problem: frequent blackouts. "Ghana uses steel cross-arms for its electrical distribution," explains Williams. "But the country is located in a lightning-prone zone. By using fiberglass cross-arms, you reduce the interruption by lightning strikes and create more stability. By adopting this across ECG's system, and proven that over time it does work well, Ghana will be able to say, 'This is what we did to solve our problem.'"

Now in its second year, Williams believes the project may be completed sooner than its contractual fifth year, bringing a positive change to many people's lives. "Country coverage should reach 85 percent by 2017. When people in the villages ask you, 'What are you coming to do?' and you tell them 'I am bringing you electricity,' they think it is a fantasy. But when you switch it on for the first time, the community is delighted, the joy is all over." And that story, says Williams, should inspire other midsize

companies from the U.S. to look at the African market. "This is where I come from, and I think the potential and the talent pool here will not disappoint them."

Shedding distribution challenges

According to the 2012 Business Barometer Index of the Association of Ghana Industries, the top constraint to business growth is irregular power supply. This was due to necessary load shedding of power after damage caused to the West African Gas Pipeline by a vessel in August 2012 cut off supply to the Sunon Asogli power station. To ensure uninterrupted electricity to major industries, health centers, and security services, the Electricity Company of Ghana (ECG) had to shed up to 300 MW at peak periods from mainly residential networks. Although additional generation from the CENIT and Takoradi 3 plants has come online, the strain put on ECG transformers and switchgears would require new investment to replace them.

"Our major concern now," says William Hutton-Mensah, ECG's Acting Managing Director, "is to make sure that we reduce the outage frequency and duration to our customers and also reduce our system losses. That can only be done if we invest in the network to make sure that the electricity is available and reliable."

As such, ECG is now vigorously and rapidly responding to demand by improving its capacities, introducing ICT network systems, cooperating with private-sector contractors, and adopting a more client-friendly approach. "We want to change to a new philosophy, to let our employees know we are now operating as a business entity, not a government unit," adds Hutton-Mensah.

"Electricity is an essential commodity for life, enterprise, human comfort, even survival. If we are able to take advantage of the opportunities, we could become a net exporter of electricity in the West African market."

Easing the Pressure on Infrastructure

Rural-urban migration as a result of rapid economic development is commanding a rethink of spatial planning in Ghana—so said President John Dramani Mahama at the launch of two brand new urban development projects by the Renaissance Group. Over the next twelve years, the Renaissance Group will invest \$200 million to build King City near Takoradi and Appolonia near Accra for 166,000 residents. “Ghana’s population in the urban and rural areas used to be 30 percent and 70 percent, respectively,” said Mahama. “However, the trend is now 51 percent against 49 percent. There is therefore the need for more infrastructural work in the other regions to ease the pressure on the cities.”

According to Joe Gidisu, Minister of Roads and Highways, the national road sector carries 98 percent of Ghana’s traffic, and thereby “facilitates the distribution of wealth through creating employment opportunities in both urban and rural communities.” The current network is a patchwork of urban, federal, and highway routes in various states of quality, but important progress is being made on vital coastal and inland corridors.

“The Eastern Corridor is a flagship project of this government,” continues Minister Gidisu. “It will link the port of Accra through parts of the Volta region to the northern and upper east regions, connecting with Burkina Faso, which depends on Ghana’s ports. It is going to be the shortest link, reducing the travel distance by almost 214 miles, and will open up major areas of economic activity. The northern region, Ghana’s food basket, will equally receive an effective transportation network.”

Public-private partnerships (PPP) based on build-operate-transfer agreements are solutions in developing Ghana’s road, rail, port, and liberalized aviation

infrastructures. Mrs. Dzifa Aku Attivor, Deputy Minister of Transport, says the interest from private investors is very high, and the opportunities certainly abound. “In the wake of the oil find, there is pressure on the existing port facilities at Tema and Takoradi to accommodate the increase in traffic, especially supply vessels.” China Development Bank has provided a loan for the proposed expansion of Takoradi Port, and the South Korean government will assist in the construction of a deep sea port. “Once challenges are dealt with,” says Deputy Minister Attivor, “one of our major goals is to utilize our unique location to become the key transport hub in the region.”

Making Inroads

One of the local contractors expanding Ghana’s road network is Ussuya Ghana Limited. Founded in 1984, the company initially started building feeder roads and grew its construction capacity to create major arteries and highways. Among these are two major projects in Accra, including the rehabilitation of the Spintex-to-Airport bypass road.

Ussuya has been praised for delivering works ahead of schedule, even if this means sacrificing “some of the comforts,” such as subcontracting a different company to supply hard-to-get materials. Its Managing Director, Yussif Yakubu, believes Ussuya’s competitive advantage is its determination to excel and compete with international contractors, but stresses that it is “100 percent open to all foreign contractors. Ussuya wants to contribute to the construction sector so that the economy grows as much as possible,” concludes Yakubu.



We add value to lives

Powering Development in Ghana & West Africa through Sustainable Energy Generation. VRA continues to explore cleaner, cheaper, and renewable sources of power generation such as gas, wind and solar energy to sustain power supply.



**VOLTA
RIVER
AUTHORITY**

For further information please contact **The Chief Executive:**

Volta River Authority
28th February Road
Electro Volta House
PO Box MB 77
Accra - Ghana

Tel: +233 30 2664941-9
Fax: +233 30 2662610
Email: chiefs@vra.com
Email: PRUnit@vra.com
Web: www.vra.com

Water for the Masses

Demand has risen as much for water as it has for energy, notes Minister Enoch Teye Mensah of Water Resources, Works and Housing. "There are six major water treatment plants, and they are old and obsolete, because most of them were established around the early 1960s." At the time, the country had only 6 million inhabitants, of which 1 million were in Accra, and the supply of 55 million gallons per day was sustainable. Today Ghana counts 24 million souls, with 4.5 million settled in Accra alone.

Kweku Botwe, Managing Director of the Ghana Water Company Limited (GWCL), explains the shortfall. "In a very crude calculation, the expected delivery should be about 250 million gallons per day. How much are we actually producing? Barely 150 million gallons."

GWCL is now overseeing thirteen new urban water delivery projects, while the Community Water and Sanitation Agency (CWSA) has six rural works, facilitating everything from boreholes to desalination systems. "Recognizing that government cannot have all the resources to provide for the country's water needs, it has embarked on a strategy that allows for independent water producers into the system," informs Botwe.

Of those, the Kpong Water Supply Expansion Project is envisaged to supply an extra 40 million gallons of water to the Accra-Tema Metropolitan Area. At an estimated cost of \$273 million, the project is cofunded by the government and China Exim Bank, and implemented by the China Gezhouba Group Co.

Finally, a forty-year old plan was sealed in a joint application agreement in April 2012. "The Sogakope-Lome Trans-Boundary Project," explains Minister Mensah, "will enable Togo to anchor its water supply from the Volta River for delivery to Lome." The payoff

for all these interventions? "By 2014 we will be at about 80 percent coverage, and we have already achieved the Millennium Development Goals (MDG) for water."

Taking care of the future

MDG health-care targets have also improved dramatically in the past decade; the Ministry of Health's Disease Control Unit has effectively eradicated polio and brought HIV/AIDS prevalence down from 3.1 percent in 2003 to 1.5 percent last year. However, AIDS, malaria, and maternal health still remain serious issues. Deputy Minister of Health Robert Joseph Mettle-Nunoo hopes the 7 percent of oil and gas revenues allocated for social development will provide a healthy boost. "A number of investors want to establish hospitals, diagnostic centers, health parks, and health tourism centers. Already people from Nigeria are coming to our National Cardiothoracic Center. We have qualified personnel, we are upgrading our equipment to carry out very complex procedures such as spinal surgery, and as long as we continue to work with international medical specialists and academic institutions, we will always be up to date."

Meanwhile, the education sector recently received a \$75 million grant under the Global Partnership for Education Assistance program. But funds are still needed to support rural programs, such as turning 'schools under trees' into classroom blocks. "Concrete measures have been put in place to ensure the delivery of quality education at all levels of the education system," says Ambassador Lee Ocran, Minister of Education. "This objective is based on the understanding that we all have a collective responsibility in building an efficient, responsible, and skillful human resource base for the country."



WHERE GHANA SHOPS

THE LARGEST CHAIN OF DEPARTMENT STORES THROUGHOUT GHANA
info@melcomgroup.com www.melcomgroup.com

OVER
25
BRANCHES
THROUGHOUT GHANA

Gains in Industry and Manufacturing

International companies are widely present in Ghana's investment-friendly climate, but how well are domestic companies faring? "We are the second-largest gold-producing country in Africa after South Africa," says Minister of Finance and Economic Planning Dr. Kwabena Duffuor. "Cocoa is doing well—our price has moved from \$1.30 per ton to \$2.05 per ton in three years—and now we also have oil. We are trying to make sure that the income levels of our people will also rise."

The government has been aiming to elevate businesses across the board. The Rural Enterprises Program, which sets up district-level business advisory centers, trainings, and access to rural bank financing, started as a pilot project in 1996 with two districts. "In 2002 it went up to sixty-six districts," remarks Minister of Trade and Industry Ms. Hanna Tetteh, "and right now we are going to 160 districts. Formerly underemployed people and women are now building houses and shops for themselves, taking their products and exporting them." Export development incentives were set in, while an agriculture investment

fund and legal support mechanisms are available to help small and medium businesses grow.

Exports in particular have risen, due to better quality, a direct result of the promotion put forth by the Ghana Standards Authority (GSA) for the improvement and accreditation of goods, services, and management practices. "Our accredited testing laboratories," says Dr. George B. Crentsil, GSA Executive Director, "are helping Ghanaian products, especially fish and cocoa, to compete favorably in the international markets," which also facilitates trade among ECOWAS countries.

As 85 percent of Ghana's businesses are small-to medium-sized enterprises, the government wants to identify the challenges faced by family businesses. According to Seth Adjei Baah, President of the Ghana Chamber of Commerce and Industry, the sector isn't performing as well as it could be. "Industry grew by 1.7 percent last year. We need to add value to our gold, to the minerals that we are extracting, to timber, to cocoa, as for now everything is still exported in its raw state."

The Melcom Family: A Heart for Ghana

Bhagwan Khubchandani experienced private sector business in Ghana from all angles, opportunities as well as challenges, as he guided his family business, the Melcom Group, through successes and setbacks. Now aged seventy-two, Khubchandani, the son of an Indian immigrant in Ghana, took over his father's retail stores in the 1990s, making Melcom a nationwide household name.

The Melcom Group today ranks 14th among GIPC's Top 100 Businesses in Ghana, incorporating plastics manufacturing (Century Industries), an electronics assembly and certified service center for some of the world's largest brands (Crown Star), travel agents (Melcom Travel & Tours), and a charitable organization (Melcom Care). The chairman's devotion to and confidence in Ghana is evident from the group's growing landbank for expansion in Accra, Takoradi, and Kumasi.

"We have made a decision that for each of our projects hereafter, depending on the location, we will be making additions such as apartments, office space, or even three- and four-star hotels," Khubchandani reveals. The group is intent on developing secure construction and sustainable property investment to better serve and create employment for Ghanaians. A recent partnership deal signed with Sharp has raised the possibility of Melcom acquiring ten acres at the Ghana Free Zone to construct a refrigerator assembly plant, opening positions for local technicians and mechanics. "If Ghana wishes to achieve a middle-income status by 2020, we need to upgrade the skills of our people while at the same time increase our levels of performance," he remarks, adding that his entire family wants to see

Ghana rise higher. "My wife was born here, my children were all born here, and some of our grandchildren were born here," says Khubchandani fondly. "Ghana has given me a place where I hang my hat, and we are very grateful to the country and its people for giving us sanctuary and allowing us to call this place our home."



Building Better Lives with Power

Technology Management Group (TMG) is a leading project management company focused on power and water projects across Africa.

Aiming at improving the quality of life in the countries where we operate, our mark of excellence is achieved through innovation and efficiency.

tmg Weldy Lamont Associates Inc.

Head Office: Nua Otui Kofi Link, Kuku Hill, Osu, Accra, Ghana
Tel: +233 (0) 302 753417 / +233 (0) 242 277963
Email: info@tmg.com
Web: www.tmg.com

Stimulating Agriculture and Fishing to Feed West Africa

Ghana, with its new oil and gas capacities, does not want to make the mistake of neglecting its agriculture sector, as many developing nations have done before. It has rich land that, if cultivated to commercial standards, has the ability to feed not only Ghana, but the whole of the West Africa subregion. Recent initiatives have boosted the prominence of palm oil plantations and shea nuts. Fisheries have equally high development potential, from both the sea and freshwater farms in the Lake Volta reservoir. But although 60 percent of Ghanaians are active in agriculture, the country still needs to import food.

Modernization, mechanization, and marketing of the agriculture sector are urgently needed to convert from subsistence farming to market-oriented production. "Look at the level of investment into oil," says Seth Adjei Baah, President of Ghana's Chamber of Commerce and Industry. "If you put about a tenth of that into farms, we will get five times better profit."

Minister of Food and Agriculture Kwesi Ahwoi indicates that the United States has teamed up with the World Bank to fund the Ghana Commercial Agriculture Program with \$145 million dollars, a helpful hand in a huge project. "Out of the 23 million hectares of available land, only about 8 million is agricultural. Out of that, about 7 million is actually under cultivation now. We need to turn those and idle land into high yield land. But we do not have enough rainfall. Climate change is real, and it has a dangerous impact on us in terms of availability of water to feed our crops. Desertification is taking away a lot of our forest land that could have otherwise been cultivated." Ghana has an abundance of water flowing freely to

the sea, which, if harnessed for irrigation, could make a substantial difference. By way of example, Minister Ahwoi mentions the landmark Central Arizona Project canal, which effectively turned desert into commercial farming land.

Ahwoi stresses, however, that the most urgent need is to lift small farmers out of poverty "by scaling up their operation and encouraging them to earn a lot more from that same given piece of land" with fertilizer subsidies and Agric Mechanization Centers where farmers can rent tractors and additional farming machinery. "We intend to have one such center in each of our 170 districts. About 98 of those centers have been established now." A system of small-scale producers supplying what the minister calls a "nucleus farmer" is already functioning successfully in the oil palm industry, and could easily work for rural food crops like maize, rice, soya, and sago or cash crops, including rubber and citrus. "After that, we need value addition, storage facilities, and processing capacity. That is an area where investors will find a lot of opportunities."

A home-grown agricultural success story is that of cocoa. In 2011, cocoa brought in close to \$2 billion in export revenue. With 1 million metric tons of production, Ghana is the second-largest producer in Africa after Ivory Coast. "What is important about the cocoa revenues," says Anthony Fofie, Chief Executive of the Ghana Cocoa Board (COCOBOD), "is that the distribution is uniform throughout the rural areas. So you realize that whenever there is a cocoa season, people in the rural areas are very happy."

And the cocoa produced in Ghana seems to have the same effect on consumers throughout the world. Known for its organic qualities, Ghanaian cocoa is distinguished for containing high levels of theobromine, an alkaloid stimulant. "Our farmers have learned how to harvest in the half-ripe stage, as then the fermentation process actually releases the theobromine. The heat acts on some of the enzymes in the beans, which together with the proper drying period develops the chocolate taste."

COCOBOD's Chief Executive is now trying to rejuvenate the cocoa growers' pool by attracting young cocoa farmers. Currently, their average age is fifty-two. Minister of Food and Agriculture Kwesi Ahwoi explains how serious Ghana is about agriculture. "If at the end of all that we are doing, the farmer remains poor, then we have failed. The state of poverty dictates the failure or the success of all policies and programs that government and the ministry are running."



ARRIVING AT YOUR DESTINATION
WITH OUR ROADS

USSUYA (GH) LTD.
P.O. Box CT 126 Cantonments, Accra, Ghana
Tel.: (+233) (0) 302 810683/4/5
Fax: +233 (0) 302 810769
Email: ussuya@yahoo.com

Yes They Can: Myroc's Journey to Europe

Agro-processing in Ghana is slowly taking off, even within the private sector. The one constraint in expanding it, believes Charles Yao Mensah, Executive Chairman of the Myroc Group of Companies, is the lack of long-term bank financing. Mensah has nevertheless managed to grow a successful food production and canning enterprise that employs 2,000 people and produces up to sixty tons of tuna per day, of which 97 percent is exported to Europe at sales of over \$24 million annually.

Mensah recalls how the process of setting up and obtaining certifications to export to Europe was lengthy and costly. "The Ghana Standards Board really helped us, even though initially we thought that they were too harsh on us." Myroc met the high levels of quality demanded by the European Union, yet additional certifications were called for by the British Retail Consortium. "We were given three months to put the things right, and that was a lot of money. So I had to sell a few properties and invest the money. Since then we have been growing, and as we speak, we are now a class A company in Europe. The UK and the Netherlands are considered to be two of our biggest markets,

and we also export to Denmark, Greece, and the German market."

The recent depreciation of the local cedi is better for exports and should motivate Ghanaians to focus more on local production rather than imports, says Mensah. "People now will think of investing locally and maybe farming to produce soya oil or palm oil. Let us improve local production and then gradually we will have an equilibrium." The group currently operates Myroc Food Processing in Tema and Accra, which also produces poultry, Myroc Salts, the tuna fishing company ClearSkies, and Myroc Farms on 600 acres near Lake Volta.

"The idea of the farm was to subsidize the youth in my home town," says Charles Mensah, having experienced working for BP and Elf and seeing the need for improving not only agriculture but also young Ghana's perception about it. "We will train students for free to use tractors, to farm, and they will definitely develop some interest in it." Mensah welcomes foreign participation in the scheme. "We still have a lot of land and an irrigation system imported from France that is able to cover about 2,000 acres. We can seriously increase production."

Golden State of Mining

Mining and gold exports have for over a decade been leading Ghana's foreign exchange earnings. But most raw elements are transported out of the country for refinement and the government wants to drastically increase local value production.

"I see mining now as not being beneficiary to the

economy the way that it should be," says Minister of Lands and Natural Resources Mike Hammah. "The government can gain more from allowing the entire value chain to be done in the country." Ghana Chamber of Mines CEO Dr. Toni Aubynn indicates that currently 14,000 Ghanaians are

Myroc Group of Companies is focused on fishing, seafood processing, and farming. By providing top quality food products, our companies are enabling Ghana to bring its delicious natural resources to both the local and global market place.

FEEDING IDEAS. FEEDING PEOPLE.



MYROC GROUP OF COMPANIES

P.O. Box SC 171, Tema, Ghana • Head Office: Heavy Industrial Area, Tema, Ghana

Tel.: (+233) 303 206309/206578 • Email: myroc2012@yahoo.com / clearskies111@yahoo.com • Web: www.myrocg.com

employed by the large foreign mining companies, and 27,000 are indirectly involved. "Most of our mines are located in typical rural poor areas. But when you go to a community like Tarkwa, you see the schools are quite different, because these companies support education. Most of these areas have electricity and better-quality water."

Despite the high commodity prices and 19 percent increase in revenues over the last year,

profits are being held back by a broken-down rail network and long distances to ports. The Ghana Chamber of Mines would like to see a dedicated state effort to improving the sector, as well as a suggested mining revenue fund. Minister Hammah concurs: "I accept that moving forward, in exploiting our resources, we maintain a fine balance between the society, the ecology, the environment, and then the economy."

Long-Term Finance Perspectives

Ghana's commercial finance sector, comprising twenty-seven banks, is highly competitive. Total bank assets grew by 26.1 percent to \$11.87 billion in 2011. Minister of Finance and Economic Planning Dr. Kwabena Duffuor says that the existing capital, strong cache, high-quality assets, high rate of deposits, and recent mergers are making the sector even stronger. "We hope that the banks will spread their branch network into rural areas to grow the economy through mobilization and servicing of credit to the people."

Deputy Minister of Economic Planning Fifi Kwetey

says the pace of growth within Ghana's economy would be far greater if the banking sector had the confidence to bring interest rates down, especially to support large projects. "A typical business usually requires finance, which can take up to five, eight years, and sometimes much longer. But in our situation, for the most part, the highest period that you have to repay your facility will be a year, and how many people will be able to do that? Our work is to ensure that the banks continue to be confident that the macroeconomic stability we have now is here to stay."

Trending Ghana's Creativity

Ghana today is a modern, creative, and trendsetting environment. The country has a vibrant film industry, internationally awarded musicians such as hip-life artist Sarkodie, and burgeoning digital media production companies. "For a spot that promotes

Ghana," says Emmanuel Agyapong, a Director and Cofounder of young start-up Clockwork Media, "I'd include the usual suspects: our beaches, castles, and the familiar tourist sites. However, I would focus more on the cultural industry, such as the Kente weaving villages, our food, our belief and respect for the supernatural, and fashion, the merging of both traditional and contemporary." London fashion designers Ozwald Boateng and Adrien Sauvage are also of Ghanaian descent.

Ghana's tourism sector is still in its infancy, even though it contributes 6.9 percent of GDP, making it the fourth-largest foreign exchange earner. The Ministry of Tourism is now actively promoting the country, aiming to strengthen the creative economy's capacity to engage in the world trade of creative goods and services.

"Overall," says Minister of Tourism Ms. Akua Dansua, "Ghana's tourism strengths lie in the warmth and friendliness of its people, the unique cultural traditions, and strong historical heritage dispersed across numerous locations." Creativity and business will become Ghana's greatest attractions.

www.foreignaffairs.com/ghana2013specialreport



The name behind
electricity in Ghana



ELECTRICITY COMPANY GHANA LTD
Electro-Volta House P.O. Box 521 Accra
Call Centre: +233 (0) 302 611611
Tel: +233 (0) 302 676727 / 47
Email: ecggh@ecggh.com



Produced by:

**World
Profile Group**

www.worldprofilegroup.com

Democratize or Die

Why China's Communists Face Reform or Revolution

Yasheng Huang

In 2011, standing in front of the Royal Society (the British academy of sciences), Chinese Premier Wen Jiabao declared, “Tomorrow’s China will be a country that fully achieves democracy, the rule of law, fairness, and justice. Without freedom, there is no real democracy. Without guarantee of economic and political rights, there is no real freedom.” Eric Li’s article in these pages, “The Life of the Party,” pays no such lip service to democracy. Instead, Li, a Shanghai-based venture capitalist, declares that the debate over Chinese democratization is dead: the Chinese Communist Party (CCP) will not only stay in power; its success in the coming years will “consolidate the one-party model and, in the process, challenge the West’s conventional wisdom about political development.” Li might have called the race too soon.

Li cites high public approval of China’s general direction as evidence that the Chinese prefer the political status quo. In a country without free speech, however, asking people to directly evaluate their leaders’ performance is a bit like giving a single-choice exam. More rigorous surveys that frame questions in less politically sensitive ways directly contradict his conclusion. According to 2003 surveys cited in *How East Asians View Democracy*, edited by the researchers Yun-han Chu, Larry Diamond, Andrew Nathan, and Doh Chull Shin, 72.3 percent of the Chinese public polled said they believed that democracy is “desirable for our country now,” and 67 percent said that democracy is “suitable for our country now.” These two numbers track with those recorded for well-established East Asian democracies, including Japan, South Korea, and Taiwan.

YASHENG HUANG is Professor of Political Economy and International Management at the MIT Sloan School of Management and the author of *Capitalism With Chinese Characteristics: Entrepreneurship and the State*.

There are calls for more democracy in China. It is true that the party's antireform bloc has had the upper hand since the 1989 Tiananmen Square crackdown. But recently, voices for reform within the CCP have been gaining strength, aided in large part by calls for honesty, transparency, and accountability from hundreds of millions of Internet-using Chinese citizens. China's new leaders seem at least somewhat willing to adopt a more moderate tone than their predecessors, who issued strident warnings against "westernization" of the Chinese political system. So far, what has held China back from democracy is not a lack of demand for it but a lack of supply. It is possible that the gap will start to close over the next ten years.

THE NOT-SO-GREAT WALL

Li acknowledges that China has problems, namely, slowing economic growth, the inadequate provision of social services, and corruption, but he claims that the CCP is more capable than any democratic government of fixing them. The CCP, Li argues, will be able to make tough decisions and follow through on them thanks to the party's ability to self-correct, its meritocratic structure, and its vast reserves of popular legitimacy.

In its six-decade rule, the CCP has tried everything from land collectivization to the Great Leap Forward and the Cultural Revolution to privatization. According to Li, that makes the CCP "one of the most self-reforming political organizations in recent world history." Unfortunately, China's prime minister does not have Li's confidence that Beijing has learned from the disasters of its past and can correct its mistakes. Last March, in response to myriad corruption and political scandals, Wen warned that without political reforms, "such historical tragedies as the Cultural Revolution may happen again."

China does seem light years beyond both the Great Leap Forward and the Cultural Revolution, which were disastrous for the country. But the party has never explicitly repudiated or accepted culpability for either, nor has it dealt with the question of how to prevent similar catastrophes in the future. In a system with no true accountability or checks and balances, Wen's worries—and those of hundreds of millions of Chinese who suffered through the horrors of those events—are sincere and justified.

After extolling the CCP's adaptability, Li moves on to praising its meritocracy. Here, he relates the story of Qiu He, who, thanks to his

innovative public policies, rose from small-time apparatchik in a backward county to vice party secretary of Yunnan Province. The fact that the Chinese political system is sufficiently flexible to have allowed someone like Qiu to experiment with reforms is one reason it has not crumbled sooner. Nevertheless, it is odd that Li uses Qiu's story in his case against democracy. The features of the Chinese political system that allowed Qiu to experiment with policy innovations, subsidiarity (the organizational principle that matters should be handled by the lowest authority capable of addressing them) and federalism, are actually the foundation of any well-functioning democracy. Unlike in China, where the central government decrees subsidiarity and federalism, most democracies constitutionally enshrine the decentralization of political power.

There is another problem with the story: for each Qiu, there are countless Chinese politicians who were promoted up through the CCP for less positive reasons. Systematic data simply do not bear out Li's assertion that the Chinese political system as a whole is meritocratic. In a rigorous analysis of economic and political data, the political scientists Victor Shih, Christopher Adolph, and Mingxing Liu found no evidence that Chinese officials with good economic track records were more likely to be promoted than those who performed poorly. What matters most is patronage—what Wu Si, a prominent historian and editor in China, calls the “hidden rule” of the promotion system.

Li contends that a person with the credentials of Barack Obama before he was elected U.S. president would not have gone far in Chinese politics. He is right, but so is the flip side. Consider Bo Xilai, the former member of the Politburo whose wife confessed to murder, who could mysteriously afford an expensive overseas education for his son on a public servant's salary, and who oversaw a red terror campaign against journalists and lawyers, torturing and throwing in jail an untold number of citizens without a modicum of due process. No one with Bo's record would go very far in the United States. In China, however, he excelled. And before his downfall, he possessed the same unchecked power as Qiu, which he used to resurrect the very elements of the Cultural Revolution that Wen spoke out against.

What has held China back from democracy is not a lack of demand for it but a lack of supply.

Another of Li's claims is about the popular legitimacy of the CCP. But corruption and abuse of power undermine that legitimacy. This is one of the lessons party leaders have drawn from the Bo Xilai affair. Remarkably, both Hu Jintao, the outgoing president, and Xi Jinping, the incoming one, have recently issued dire warnings that corruption could lead to the collapse of the party and the state. They are right, especially in light of China's ongoing economic slowdown. That is not to say that some individual CCP leaders are not still widely respected by the Chinese population. But these officials tend to have been the reformers of the party, such as Deng Xiaoping, who initiated China's market reforms beginning in the late 1970s, and Hu Yaobang, who was general secretary of the CCP during Deng's leadership. The fact that such reformers remain popular today provides the CCP with an opportunity: it could pursue a proactive reform agenda to achieve a gradual and peaceful transition to democracy, avoiding the chaos and upheavals that are engulfing the Middle East. But the key would be to start those reforms now.

THE TRUTH IS OUT THERE

After walking through the positives of China's political system, Li moves on to the problems with the West's. He sees all of the West's problems—a disintegrating middle class, broken infrastructure, indebtedness, politicians captured by special interests—as resulting from liberal democracy. But such problems are not limited to liberal democratic governments. Authoritarian regimes experience them, too. Think of the economic turmoil that struck the juntas of Latin America in the 1970s and 1980s and Indonesia in 1997. The only authoritarian governments that have historically managed to avoid financial crises were those with centrally planned economies that lacked financial systems to begin with. Instead of sharp cyclical ups and downs, those types of economies produce long-term economic stagnation.

Li cites Transparency International data to argue that many democracies are more corrupt than China. Putting aside the irony of using data from an organization committed to transparency to defend an opaque authoritarian system, Li's argument reveals a deeper analytic point. Uncovering corruption requires information. In a one-party system, real information is suppressed and scarce. The Indian Web site *I Paid a Bribe* was set up in 2010 as a way for Indians to post anonymously to report incidents of having needed to



Nothing to see here: protesting a chemical plant in Zhejiang Province, China, October 27, 2012

pay someone off to get a government service. As of November 2012, the Web site had recorded more than 21,000 reports of corruption. Yet when Chinese netizens tried to set up similar sites, such as I Made a Bribe and www.522phone.com, the government shut them down. It would therefore be useless to compare India's 21,000 reported incidents with China's zero and conclude that India is more corrupt. Yet that is essentially what Li did.

To be sure, there are many corrupt democracies. As Li points out, Argentina, Indonesia, and the Philippines have terrible track records on that score. But ruthless military dictators governed each of those countries for decades before they opened up. Those autocracies created the corrupt systems with which the new democracies must contend. Democracies should be taken to task for their failure to root out corruption, but no one should confuse the symptom with the cause. Worldwide, there is no question that autocracies as a whole are far more corrupt than democracies. As a 2004 Transparency International report revealed, the top three looting officials of the preceding two decades were Suharto, the ruler of Indonesia until 1998; Ferdinand Marcos, who led the Philippines until 1986; and Mobutu Sese Seko, president of the

Democratic Republic of the Congo until 1997. These three dictators pillaged a combined \$50 billion from their impoverished people.

Since 1990, according to a report briefly posted a few months ago on the Web site of China's central bank, corrupt Chinese officials—about 18,000 of them—have collectively funneled some \$120 billion out of the country. That figure is equivalent to China's entire education budget between 1978 and 1998. Beyond the sheer financial loss, corruption has also led to extremely poor food-safety records, since officials are paid to not enforce regulations. A 2007 Asian Development Bank report estimated that 300 million people in China suffer from food-borne diseases every year. Food safety is not the only woe. Corruption leads to bridge and building collapses that kill and chemical factory spills that poison China's environment—and their cover-ups.

The problem is not that China is lenient on corruption. The government routinely executes complicit officials. And some are high ranking, such as Cheng Kejie, who was vice chair of the National People's Congress before he was executed in 2000, and Zheng Xiaoyu, director of the State Food and Drug Administration, who was executed in 2007. The problem is the absence of any checks and balances on their power and the lack of the best breaks on corruption of all, transparency and a free press.

DEMOCRACY IS COMING

Even as Li argues that the CCP's one-party system is the best China can get, he also lays out some sensible reforms for improving it. He proposes stronger nongovernmental organizations, which would help the government deliver better services; more independent media, which would help check corruption; and elements of so-called intra-party democracy, which would help air the party's "dirty laundry and discourage unseemly behavior." He is right. Ironically, these are all core components of a well-functioning democracy.

No country can adopt such foundational elements of democracy without eventually adopting the whole thing. It would be impossible to sustain vibrant primary elections or caucuses, such as that in Iowa, but have a central government that ruled like Stalin. Consider Taiwan, where democracy evolved over time. In the early 1970s, Chiang Ching-kuo, who was to become president in 1978, began to reform the ruling party, the Kuomintang, in order to allow local competitive elections, indigenous Taiwanese participation (before, only

those living in mainland China had been allowed to stand for important positions), and public scrutiny of the party's budget process. He also released political prisoners and became more tolerant of the press and nongovernmental organizations. When an opposition party, the Democratic Progressive Party, sprang up in 1986, it was a natural outgrowth of Chiang's earlier reforms. For Taiwan, it was eventually impossible to draw a line between some democracy and full democracy. The same will be true for China.

And that is a good thing. Li is right that China has made huge economic and social gains in the past few decades. But it has also proved ineffective at creating inclusive

growth, reducing income inequality, culling graft, and containing environmental damage. It is now time to give democracy a try. As the scholars David Lake and Matthew Baum have shown, democracies simply do a better job than authoritarian governments at providing public services. And countries that make the transition to democracy experience

It is unlikely that a democratic China would beat today's China in GDP growth, but at least the growth would be more inclusive.

an immediate improvement. Already, China is seeing some of these effects: Nancy Qian, an economist at Yale University, has shown that the introduction of village elections in China has improved accountability and increased expenditures on public services.

It is unlikely that a democratic China would beat today's China in GDP growth, but at least the growth would be more inclusive. The benefits would flow not just to the government and to a small number of connected capitalists but to the majority of the Chinese population, because a well-functioning democracy advances the greatest good for the most possible.

Two aspects of the Chinese economy presage a path to democratization. One is the level of per capita GDP. China has already crossed what some social scientists believe to be the threshold beyond which most societies inevitably begin to democratize—between \$4,000 and \$6,000. As the China scholar Minxin Pei has pointed out, of the 25 countries with higher per capita GDPs than China that are not free or partially free, 21 of them are sustained by natural resources. Other than this exceptional category, countries become democratic as they get richer.

The second structural condition presaging democratization is that China's torrid growth will almost certainly slow down, heightening conflicts and making corruption a heavier burden to bear. When the economy is growing, people are willing to put up with some graft. When it isn't, the same level of corruption is intolerable. If China continues with its political status quo, conflicts are likely to escalate sharply, and the pace of capital flight from the country, already on the rise due to declining confidence in China's economic and political future, will accelerate. If not stemmed, the loss of confidence among economic elites will be extremely dangerous for the Chinese economy and could trigger substantial financial instabilities.

To be sure, democratization is in the CCP's hands. But on that score, too, things are getting better. Even some of China's establishment figures have come to believe that stability comes not from repression but from greater political and economic openness. On the eve of the 18th Party Congress, which was held in November, an open letter calling for more transparency and more intraparty democracy swirled around the Internet. One of the letter's authors was Chen Xiaolu, the youngest son of one of the most decorated marshals of the Chinese army, who was also a former vice premier and foreign minister and a trusted aid to former Premier Zhou Enlai. Chen and many other Chinese elites no longer believe the status quo is viable.

Since 1989, the CCP has not adopted any genuine political reforms, relying on high growth rates to maintain its rule. This strategy can work only when the economy is booming—something Beijing cannot take for granted. It matters tremendously whether the CCP proactively adopts political reforms or is forced to do so in reaction to a catastrophic crisis. It would be far better for the political system to change gradually and in a controlled manner, rather than through a violent revolution. The CCP could regain its prestige by reclaiming the mandate of reform, and it could improve China's political system without having to surrender its power. Not many autocratic regimes get this kind of an opportunity; the CCP should not squander it. 🌐

SWITZERLAND

Strengthening relations with the U.S.

Historically, Switzerland and the United States have enjoyed close relations ever since Switzerland opened its first embassy outside of Europe in Washington, DC, in the 1880s. However, the two formerly self-proclaimed sister republics have suffered from more turbulent relations in recent years, as the fallout from the UBS saga and reactions to the global financial crisis have taken their toll. Now Swiss businesses look to the U.S. administration to rekindle the countries' once-closer ties.

The good relationship between the two nations was based not only on Switzerland's famous neutrality, but also on celebrated Swiss commercial values and business acumen. This is proved by the staggering figures showing that Switzerland—a country smaller than the state of Maine—was the top foreign investor in the United States in 2010, employing almost half a million Americans stateside and being the only country among leading investing nations to add new jobs during the global financial crisis.

However, Swiss business is still concerned that fallout from the UBS saga and the reaction in boardrooms to the Foreign Account Compliance Act (FAC-TA) was not just a blip in the political relationship, but rather has grown into an anti-business feeling in Washington that could risk the traditionally strong business and investment partnership.

Now Swiss boardrooms would simply like Washington to think about how U.S. policies could affect its country's number one foreign corporate investor. This is nothing more than friendly advice from one partner to another.

ABB, the leading global power and automation technology group, is an example of how well the two countries can work together. Among numerous illustrations of the partnership, the company built the world's most powerful battery storage system for Alaska, and its technology is used in NASA's Scramjet facility.

"ABB has invested over \$13 billion in the U.S., by way of acquisitions, in the last three years, and this shows that the two countries should be natural partners, but I would like to see adjustments in the tax code and a less litigious society. However, there is no reason why the two countries could not work together even more closely than they do now," said Joe Hogan, CEO of ABB. The company is creating new jobs and increasing its market reach, and revenue from the United States could reach between 25 and 28 percent of ABB's total proceeds by early 2013.

Hogan remains positive about ABB in the United States, although he is looking for President Barack Obama's second term to be more business friendly so that companies like ABB can continue to grow and create jobs.

A good sign for ABB's relationship with the United States is that the company continues to be one of the world's largest innovators, and the U.S. energy market will be able to take advantage of that. ABB's commitment to investment in research and development (R&D) is once again paying off: the company has won a monumental battle in the development of a hybrid direct current (DC) breaker. This solves a problem that has handicapped the use of high-voltage DC in transmission lines, networks, and grids for a century. ABB management is hailing the development as "game changing," showing once again the United States—and the world—need Swiss innovation, such as what ABB continues to supply.

Another Swiss company that embodies the spirit of the U.S.-Switzerland relationship is Novartis. They are so well integrated in the U.S. market that one could mistake them for being more American than Swiss.

Dr. Daniel Vasella, Novartis's long time chairman, is keen to point out that there are many positives in the U.S.-Switzerland relationship, and he chooses to use figures to draw attention to its importance: "Take note of the \$212 billion in cumulative direct Swiss investment in the United States and the creation of close to 400,000 jobs [from] these investments in finance, insurance, pharmaceuticals, research and development, and electronics. That is an important investment," he stated.

The numbers are equally important when it comes to Novartis. The United States accounts for around one-third of Novartis's business, and the company employs more than 20,000 Americans.

This relationship will continue, because Dr. Vasella recognizes the importance and value of investing in the United States. "If you look at the environment, I would say that most important, after the market size of the U.S., is the capability of our associates there. We have very good technical capabilities in the U.S., especially in the scientific field," he added, but with a caveat: "We do need the U.S. to work closely with us to maintain those high standards."

Though the United States and Switzerland are proven to work well together, Swiss investors in the United States would like that partnership to be even closer. Given Switzerland's capabilities in innovation and R&D, the reasons the United States needs Swiss innovation, and the Americans who have Switzerland to thank for new job creation, the United States would do well to heed the investors' advice.

Welcome to Medtech Cluster Schweiz

- office, research and production facilities
- state-of-the-art infrastructure
- auditorium and conference halls
- premium hotel with business-suites
- supporting services for participants



10 GOOD REASONS TO INVEST IN CANTON SCHWYZ

- Well located in the heart of Europe and within the dynamic Zurich economic area
- Less than an hour to the international airport in Zurich
- Very low tax burden for companies and private individuals
- Home to important life science and finance sectors and host of many international headquarters
- Fast-growing medtech cluster in the Küssnacht am Rigi area
- Well-educated, multilingual, and highly qualified workforce
- First-rate education system, with private and international schools
- Proximity to well-known universities
- Exceptional quality of life thanks to unique natural environment
- Efficient and company-friendly administration

Testimonial : Georg Schinko, Chairman of the Board of Directors Neuroth Hörcenter AG

"The industrial area [Fänn] of Küssnacht am Rigi, Canton Schwyz, is a truly extraordinary site—a marvelous landscape with Lake Lucerne and mountains over six thousand feet high as a beautiful backdrop—that offers very favorable economic conditions. We are very positive about the success of the medtech Cluster Switzerland, so much so that I, as the owner of Neuroth, will develop the core business park as a private investor, and Neuroth Switzerland will be one of the first companies to move in." The Austrian-founded Neuroth Group is a European leader in hearing-aid retailing. More than 850 employees generate a turnover of approximately \$130 million in six European markets. As a provider of premium hearing acoustics for 105 years, the driving force for Neuroth is offering state-of-the-art hearing solutions that give its clients a higher quality of life.

Schwyz attracts medtech and diagnostic companies

Not only did Canton Schwyz bequeath its name to the country, it is also the heart and soul of Switzerland. Well positioned and well connected to the rest of the country and the wider European market, the canton is also investing in the future by building a new medtech cluster that will attract global companies to what will be Switzerland's largest hub of this type.

International and home-based organizations as well as foreign investors are already becoming aware of the favorable conditions the canton has to offer, and though it may not yet share the same renown as other cantons, Schwyz is certainly cranking up its offerings to investors.

Building on its strong transportation links to the rest of the country and neighboring nations via the A3 and A4 highways, the Gotthard railway, and a new direct rail link to Milan, Italy, opening in 2016, the canton, as part of the greater Zurich area, has decided to take advantage of its location and attitude toward business by investing in a new medtech cluster.

Scheduled to come online in two years, the project, known as Med-Tech Cluster Switzerland (MCS), is expected to create thousands of new jobs and attract scores of companies to the area.

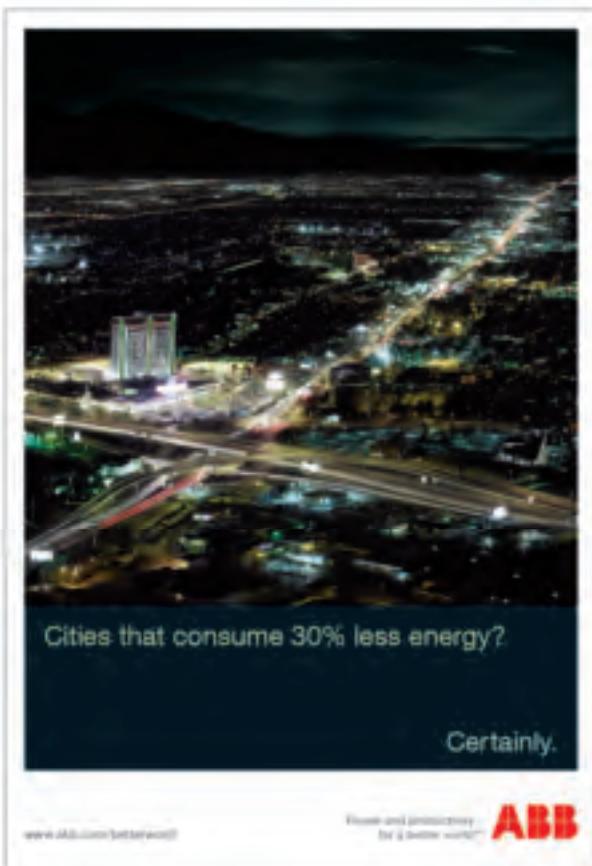
With plans for 60,000 square meters of office space, conference facilities, and all the services necessary for companies to operate, the cluster promises to be like no other. "A lot of regions say they have clusters, but that means they have office space with a hotel with good transport links. What we are doing is building the largest and most modern cluster in Switzerland," explained Mr. Urs Durrer, head of the Office of Economics of Canton Schwyz.

"Initially it will be able to provide space for up to 1,500 employees, and each additional module after that will add the potential for another 1,500," he continued. With the aim of attracting research and development companies in the pharmaceutical, medtech, and diagnostic industries, the canton hopes to link the incoming companies to the highly qualified staff at a pharmaceutical cluster just down the highway from MCS, giving this cluster the edge over others.

The company Neuroth Hörcenter AG has already become a founding affiliate of MCS, and many national and international names in the sector are following suit and planning to join them at the site in Küssnacht am Rigi, along with ancillary businesses in the surrounding area.

One challenge for the canton is how to invest in this infrastructure while protecting the area's natural beauty. "These are some of the first areas changing from agriculture to industry in some time," explained Durrer, adding that "nature is a very important part of Canton Schwyz, but we are maintaining this by having each cluster right next to the highway."

Two things are clear: with many companies moving into the canton and MCS, many Americans will ultimately benefit from the products originating in Schwyz; and by being able to profit from the research done here when it opens in two years, MCS will help establish a closer relationship between Schwyz and the United States.



The home of Davos targets industry

Graubünden is Switzerland's largest and only trilingual canton. It has also hosted the globally prestigious Davos World Economic Forum (WEF) for forty-two years. Having always been associated with global leadership, with the world's political and economic leaders congregating at the famous resort every January, the canton now wants to encourage industries to base themselves here.

Graubünden's resorts and mountains are famous for more than being home to the WEF; they are also a major tourist draw. But according to Mr. Eugen Arpagaus, head of the canton's Economic Development and Tourism Agency, Graubünden is looking for economic growth to come from a newfound appetite for industry and business.

"The cantonal government has a growth plan and a 'Vision Graubünden 2020,' and the first part of this program is growth. We are also working on a new law for economic development," he explained. He added that, however, "we are not yet very well known as a place of industry, but we want to change that, and we are working to persuade companies to take a closer look at us."

Security and the quality of life on offer in the canton are unrivaled, and given Graubünden's excellent transport links and its highly skilled and multilingual population, companies would do well to consider basing themselves here. Add in the favorable tax laws for residents and businesses, and it is hard to disagree with Mr. Arpagaus's assertion that there is no better place in Switzerland to set up a business.

10 GOOD REASONS TO INVEST IN CANTON GRAUBÜNDEN

- Highest quality of life in Switzerland (Cantonal rating, FACTS 2006)
- Moderate tax rates (8.5% in 2010; maximum 16.8% of net profit before taxes)
- Highly qualified, well educated, and loyal employees
- 25% lower wage and real estate costs than in Swiss metropolitan areas
- Central European location (on the North-South axis of Stuttgart/Munich-Milan)
- Proximity to international airports in Zurich, Altenrhein, Lugano, Agno, and Milan
- Excellent education system, with private and international schools in Tamins, Buchs, and Triesenberg
- Renowned universities in the vicinity
- Home to various research institutes
- Unbureaucratic and company-friendly government

Testimonial: Andreas Wieland, CEO of Hamilton Bonaduz AG Ideal for innovation-oriented technology

"Graubünden is an ideal location due to the low tax rates and land prices. It's a great plus for Hamilton's recruiting that our highly qualified staff can work where others enjoy their holidays. Due to the high quality of education at the local universities and research institutes, this region is ideal for innovation-oriented technology companies. The airport at Zurich is only eighty minutes away by car."

The U.S. company Hamilton is a global leader in laboratory automation and sensor and medical technology. Since 1966, the company has run product development and manufacturing operations in Bonaduz (Graubünden). In 2009, Hamilton Bonaduz opened a new 16,000-square-meter development and manufacturing facility, adding two hundred new jobs and bringing its total number of employees to eight hundred today. One-third of the employees in Bonaduz are university graduates.



Innovating for better medicines



www.novartis.com



Graubünden clears the way for real entrepreneurs.

Have you got great plans? Why not start in Graubünden, only a stone's throw from Zurich, Stuttgart, Munich and Milan. We welcome new entrepreneurs in a very unbureaucratic way. And we take care of them like we do for resident companies: with a first-class infrastructure, highly qualified, reliable employees and with very moderate taxes. And with mountains of leisure-time offers right on your doorstep. Would you like to know more? Contact us at the Economic Development and Tourism Agency, we will be pleased to help. Phone +41 (0)81 257 23 42. www.zwt.gr.ch.



**COUNCIL *on*
FOREIGN
RELATIONS**

Center for Preventive Action

The Top Thirty Global Hot Spots in 2013

The Fifth Annual Preventive Priorities Survey
From CFR's Center for Preventive Action



The Council on Foreign Relations' Center for Preventive Action has released the fifth annual Preventive Priorities Survey ranking the most plausible conflicts on which the U.S. government should focus in the year ahead.

To help U.S. policymakers prioritize their contingency planning efforts, CFR asked experts to review a list of thirty conflicts and rank their likelihood of occurrence in 2013 as well as their relative impact on U.S. national interests.

Which did they say constitutes a "tier one" threat: a highly disruptive cyberattack on U.S. critical infrastructure, or a major military incident with China involving U.S. or allied forces? Find out at www.cfr.org/preventive_priorities_survey.



The Mirage of the Arab Spring

Deal With the Region You Have, Not the Region You Want

Seth G. Jones

As popular demonstrations swept across the Arab world in 2011, many U.S. policymakers and analysts were hopeful that the movements would usher in a new era for the region. That May, President Barack Obama described the uprisings as “a historic opportunity” for the United States “to pursue the world as it should be.” Secretary of State Hillary Clinton echoed these comments, expressing confidence that the transformations would allow Washington to advance “security, stability, peace, and democracy” in the Middle East. Not to be outdone, the Republican Party’s 2012 platform trumpeted “the historic nature of the events of the past two years—the Arab Spring—that have unleashed democratic movements leading to the overthrow of dictators who have been menaces to global security for decades.” Some saw the changes as heralding a long-awaited end to the Middle East’s immunity to previous waves of global democratization; others proclaimed that al Qaeda and other radicals had finally lost the war of ideas.

The initial results of the tumult were indeed inspiring. Broad-based uprisings removed Tunisia’s Zine el-Abidine Ben Ali, Egypt’s Hosni Mubarak, and Libya’s Muammar al-Qaddafi from power. Since the toppling of these dictators, all three countries have conducted elections that international observers deemed competitive and fair, and millions of people across the region can now freely express their political opinions.

SETH G. JONES is Associate Director of the International Security and Defense Policy Center at the RAND Corporation and an Adjunct Professor at Johns Hopkins University’s School of Advanced International Studies. He is the author, most recently, of *Hunting in the Shadows: The Pursuit of al Qaeda Since 9/11*. Follow him on Twitter @SethGJones.

Seth G. Jones

The prospects for further democratization, however, have dimmed. Most countries in the Arab world have not jumped political tracks, and those that did begin to liberalize are now struggling to maintain

The demise of Middle Eastern authoritarianism may come eventually. But there is little reason to think that day is near.

order, lock in their gains, and continue moving forward. The region's economic growth has been sluggish—which is particularly worrisome, since according to a 2012 Pew Research Center poll, majorities in several countries there (including Jordan and Tunisia) value a strong economy more than a democratic government. And even after all the

changes, the region comprising the Middle East and North Africa remains the least free in the world, with Freedom House estimating that 72 percent of the countries and 85 percent of the people there still lack basic political rights and civil liberties.

In the wake of the uprisings, many local regimes remain weak and unable to establish law and order. Syria has descended into a bloody civil war along sectarian lines. Iraq and Yemen, already unstable beforehand, remain deeply fractured and violent. Libya's fragile central government has failed to disarm the warlords and militias that control many of the country's rural areas. Even in Egypt, the poster child for regional political reform, the Muslim Brotherhood-led government has attempted to solidify its control and silence the media using tactics reminiscent of the Mubarak era. Meanwhile, as the riots that spread across the region in September illustrated, anti-American sentiment shows no signs of abating. Terrorism continues to be a major problem, too, with al Qaeda and its affiliates trying to fill the vacuums in Libya, Syria, and other unstable countries.

The demise of Middle Eastern authoritarianism may come eventually. But there is little reason to think that day is near, and even less reason to think that the United States can significantly increase its chances of happening. Any effort by Washington to bring democracy to the region will fail if local social and economic conditions are not ripe and if vested interests in the countries oppose political reforms. Indeed, outside powers such as the United States have historically had only a marginal impact, at best, on whether a country democratizes. Until another wave of local uprisings does succeed in transforming the region, U.S. policy should not be hamstrung by an overly narrow

focus on spreading democracy. The United States and its allies need to protect their vital strategic interests in the region—balancing against rogue states such as Iran, ensuring access to energy resources, and countering violent extremists. Achieving these goals will require working with some authoritarian governments and accepting the Arab world for what it is today.

WAVING OFF

In the 1970s and 1980s, what the political scientist Samuel Huntington called the “third wave” of global democratization led to breathtaking political changes in Latin America, parts of Asia, sub-Saharan Africa, and eventually Eastern Europe. Freedom was on the march almost everywhere—except for the Middle East. The immunity of Arab regimes to democratization was so broad and seemingly so durable that it gave rise to a new literature, one seeking to explain not democratic change but authoritarian persistence. Some have argued that the Arab Spring has changed all this and that it is best understood as a delayed regional onset of the third wave or even the harbinger of a fourth. But that misreads events and offers undue optimism.

In Algeria, for example, the protest movement that began in December 2010 with the aim of overthrowing President Abdelaziz Bouteflika and installing a democratic system has sputtered. The government has cracked down on dissenters and appeased others with symbolic reforms. Even though the May 2012 parliamentary elections were derided by much of the population as a sham and the long-entrenched military government declared an emphatic victory, few Algerians took to the streets in protest. Similarly, in Jordan, King Abdullah kept protesters at bay with modest concessions, such as dismissing government ministers and expanding popular subsidies. Regardless of these superficial changes, the Hashemite monarchy remains firmly in control, and Jordanian security forces continue to crush domestic resistance, restrict freedom of expression, and prevent peaceful assembly.

In Saudi Arabia, the monarchy has kept a firm grip on power and has used its might to prop up neighboring autocratic regimes. In February 2011, Riyadh ordered tanks into Bahrain to help put down a popular uprising that Saudi and Bahraini leaders portrayed as sectarian agitation. What the Saudis and the other members of the Gulf Cooperation Council really feared, however, was the protesters’ demands

Seth G. Jones

that Bahrain become a constitutional monarchy. The Gulf monarchies, as uncomfortable with the Arab Spring as they were with Arab nationalism half a century earlier, have once again taken up the mantle of counterrevolution. A telltale sign came in May 2011, when the GCC offered membership to the kingdoms of Jordan and Morocco, neither of which are located in the Gulf region. Coupled with the financing that the GCC provided to Egypt in order to gain leverage over its new government, these overtures demonstrated that the Arab monarchies intend to consolidate their power and spread their influence across the Middle East.

At the same time, the Arab countries that managed to topple their old regimes face great uncertainty. In Libya, for example, the July 2012 elections did indeed represent a remarkable achievement for a state

Authoritarian governments have been allies in the fight against terrorism, and keeping such cooperation intact is imperative.

still reeling from decades of dictatorial rule, especially given that fears of violence, fraud, or an Islamist landslide did not materialize. But storm clouds loom ahead. As in Iraq, the writing of a constitution in Libya will likely be hampered by divisions over the question of federal power between different parts of the country. And as the September

killing of the U.S. ambassador and three other Americans in Benghazi demonstrated, the government is struggling to reestablish security and the rule of law. The bureaucracy is weak; well-armed militias control much of the countryside; and Salafi groups have attacked Sufi shrines across the country, digging up graves and destroying mosques and libraries. Human rights abuses continue, as thousands of prisoners taken during the struggle to oust Qaddafi remain in illegal detention facilities, where they face mistreatment, torture, and even extrajudicial killings. And tens of thousands of displaced people, many of whom were forced out of their homes, languish in refugee camps around the country.

Yemen is also a mess. Following several bloody crackdowns on the country's protest movement throughout 2011, President Ali Abdullah Saleh eventually agreed in November of that year to transfer power to his vice president, Abed Rabbo Mansour Hadi. But in the subsequent presidential election, Hadi was the only candidate on the ballot. His weak government is now grappling with a Shiite rebellion in the north, a secessionist movement and an al Qaeda insurgency in the south,



Out with the old, in with the old: graffiti in Cairo depicting the December 2011 protests, months after the fall of Hosni Mubarak

and powerful militias and tribes that control substantial swaths of territory. All signs indicate that violence will persist and the economy will remain in the doldrums.

Egypt recently held the first competitive presidential election in its history, but the country does not have an easy path to stability and prosperity. President Mohamed Morsi of the Muslim Brotherhood has wrested substantial political and military control from the Supreme Council of the Armed Forces. Like Mubarak before him, he has tried to vest himself with enormous power; he currently holds significant executive, legislative, and judicial authority, and he has attempted to silence the media. Yet the generals continue to exercise influence through the National Defense Council, and secular liberals are challenging Morsi's consolidation of power in the courts. And one of the strongest political challenges to the Brotherhood comes not from liberals but from al Nour, a Salafi party that supports strict implementation of sharia. Political instability and a difficult period of civil-military relations will continue to weigh heavily on the economy, which has been crippled by a lack of foreign investment, disruptions in manufacturing, and a decline in tourism.

Seth G. Jones

Tunisia has emerged as one of the few success stories of the region's upheaval. It has evolved from an authoritarian state to an electoral democracy whose new leaders have supported moderation, civil liberties, and the rule of law. The press is vibrant, civil society has blossomed, and the leadership appears committed to tackling corruption. Although Tunisia faces some of the same problems as its neighbors, such as a weak state and a challenge from radical Salafists, at least for now, the country is moving in the right direction. Unfortunately, the futures of few other countries in the region look as promising.

IT'S GOOD TO BE THE KING

Scholars have long puzzled over the hurdles to democracy in the Middle East, particularly given the rapid expansion of freedom elsewhere in the world. Classical modernization theory holds that democracy will follow when a society reaches a certain level of economic development. But even in the wealthiest Arab countries, democracy has not yet materialized. Another common but false assumption is that doing away with a dictatorship necessarily leads to freedom. Yet as Huntington and others have pointed out, when authoritarian regimes fall, they sometimes give way to other authoritarian regimes rather than to liberal ones. Despite the developments of the last two years, certain structural factors will continue to block the spread of democracy in the Middle East.

Some governments in the region, especially in the Gulf, derive the majority of their revenue from energy exports and foreign aid. Relying heavily on such income streams allows these regimes to avoid taxing their populations significantly, removing a central source of popular demand for political participation. The American colonists insisted on "no taxation without representation." Think of this as the converse principle: no representation without taxation.

Energy wealth also allows autocrats to fund their security forces lavishly and buy the loyalty of key domestic constituencies. In March 2011, King Abdullah of Saudi Arabia blunted calls for reform by announcing a staggering \$130 billion benefits package that improved wages and job opportunities for a population of less than 30 million. The benefits mostly went to the young and the poor, the groups that had been at the forefront of the revolutions in Egypt and Tunisia. Riyadh's control of an official clerical establishment proved similarly instrumental in delegitimizing protests, as the Saudi grand mufti—the country's chief Sunni religious leader—issued a fatwa against demonstrations and dissent.

Return to Table of Contents



**NORWICH
UNIVERSITY™**

Online



MASTER GLOBAL STRATEGIES

EARN YOUR MASTER OF ARTS IN DIPLOMACY – ONLINE

The Master of Arts in Diplomacy online program provides you with an in-depth understanding of crucial global topics, such as the global economy, international conflict management, international terrorism, and international commerce.

Become a leader of tomorrow. Visit: diplomacy.norwich.edu/tni



NEASC Accreditation: Norwich University is accredited by the New England Association of Schools and Colleges, Inc., through its Commission on Institutions of Higher Education.

For more than 90 years,

Foreign Affairs has been an invaluable forum for thinkers and actors in the international arena. Congratulations to *Foreign Affairs* on its bold new look, bringing a robust tradition of analysis and insight together with a 21st century approach to engaging readers.

For more than 90 years,

Georgetown University's School of Foreign Service has offered a rigorous education in international affairs that combines theory and practice, led by a faculty committed to teaching, learning and discovery. Grounded in tradition and guided by timeless values, we evolve continuously in order to achieve our essential mission: providing students with the knowledge, tools and moral capacities to lead the way in engaging the challenges and opportunities of the 21st century.

Here's to past, present and future.



GEORGETOWN UNIVERSITY

Edmund A. Walsh School of Foreign Service

Celebrating Our Centennial in 2019

GO FULL THROTTLE

Jumpstart Your Career with an MA in Global Security Studies at **Johns Hopkins University in Washington, DC.**

The Master of Arts in **Global Security Studies** is an innovative program designed to explore the complex threats to security in the 21st century. Our students analyze military strategy, economic interdependence, and energy & environmental security.

Upcoming courses include:

- » Intelligence and Counterterrorism
- » U.S. Cybersecurity Strategy
- » Strategies in Insurgent Warfare
- » Security Politics: The Rise of China

Johns Hopkins also offers a certificate in **National Security Studies** for professionals who want to advance their skills without pursuing a full degree program.

Classes are in the evening at the Hopkins Washington, DC Center, one block from the Dupont Circle Metro.

Learn more and apply online:
globalsecurity.jhu.edu



JOHNS HOPKINS
UNIVERSITY

Krieger School of Arts & Sciences
Advanced Academic Programs

The external environment, furthermore, will not be particularly helpful in spurring further political change. In the late 1980s, Soviet Premier Mikhail Gorbachev, facing grim economic problems at home, decided to curb Soviet support for communist regimes in Eastern Europe—a move that sounded the death knell of authoritarianism there. The former Soviet satellite states promptly turned to Western Europe and the United States, which supported their political liberalization and welcomed the region into democratic institutions such as the European Union and NATO. But today, the Saudi regime—the richest and strongest authoritarian power in the region—is trying to fight reforms and has shown that it is more than willing to dispense cash to that end. And so even though many Arab autocrats now face unprecedented unrest at home, they still possess the ample financial resources that have kept their regimes afloat for so long.

The region's monarchies, finally, have been particularly adept at resisting democratic change. Kingdoms such as Jordan, Morocco, and Oman, for example, do not enjoy large per capita oil revenues, but their traditional regimes have nonetheless managed to remain in power while ceding some control to elected parliaments. Where the ruler retains a special bond with the people, either by claiming descent from the Prophet Muhammad (as in Morocco) or by serving as a unifying force for different ethnic groups in the country (as in Jordan), protesters have been more likely to accept legislative change and have not demanded a wholesale abandonment of the monarchy.

In January 2011, for example, Jordanian protesters began to complain about corruption, rising prices, rampant poverty, and high unemployment. In response, King Abdullah replaced his prime minister and formed two commissions to study possible electoral reforms and constitutional amendments. In September, the king approved amendments to create a more independent judiciary and establish a constitutional court and an independent electoral commission to oversee the next municipal and parliamentary elections. There have been occasional violent demonstrations, such as in late 2012, when protesters complained about rising gas prices. But so far, the government's limited concessions have managed to head off most instability, leaving Abdullah in control.

HURRY UP AND WAIT

Washington should not base its policy toward the greater Middle East on the assumption that the region is democratizing quickly or sustainably. The United States and other Western countries should encourage liberal reforms, support civil society, and provide technical

Seth G. Jones

assistance in improving countries' constitutions and financial systems. But the perceived promise of the Arab uprisings should not cause the United States to overlook its main strategic priorities in the region. Like it or not, the United States counts among its allies a number of authoritarian Arab countries, and they are essential partners in protecting its interests. The normative hope that liberal democracy may flourish in the future must be balanced by the need to work with governments and societies as they exist today.

A central goal remains counterbalancing Iran—not only preventing it from acquiring nuclear weapons but also checking its long-term regional ambitions. Iran views the United States as its main ideological and geopolitical enemy, and it is seeking to become the preeminent power in the Middle East and to promote its revolutionary ideology. Tehran has lent support to a number of U.S. adversaries and organizations that challenge U.S. interests, including Shiite groups in Iraq, Hezbollah in Lebanon, Palestinian terrorist groups, Bashar al-Assad's regime in Syria, and the Venezuelan government under Hugo Chávez. Even though many of the countries that the United States will rely on to help counter Iran, including Jordan, Saudi Arabia, and the United Arab Emirates, are not democratic, their cooperation is too important for Washington to forsake.

Another crucial goal is maintaining the free flow of energy resources at reasonable prices. The United States imports about 23 percent of its crude oil and related products from the Arab world, particularly from Saudi Arabia (1.2 million barrels per day in August 2012), Iraq (550,000 barrels), Algeria (303,000 barrels), and Kuwait (301,000 barrels). Several of these countries are—not coincidentally given their immense oil wealth—undemocratic. This means that for the foreseeable future, the United States must continue to work with authoritarian states to preserve its energy security.

Finally, the United States needs to work with nondemocratic countries on fighting terrorism. Although al Qaeda has been weakened along the Afghan-Pakistani border, it has attempted to compensate for this by expanding its influence elsewhere and establishing relationships with local Sunni groups. In Yemen, for example, the local al Qaeda affiliate has exploited the weakness of the government and established a foothold in several provinces along the Gulf of Aden, triggering alarm in Saudi Arabia. With U.S. troops gone, al Qaeda in Iraq increased its attacks to nearly 30 per month in 2012, a 50 percent jump from the previous two years and a major cause of concern in Jordan. Militants from Iraq have

also crept across the border into Syria, where they have orchestrated dozens of car bomb and suicide attacks against the Assad regime.

Al Qaeda in the Islamic Maghreb has dispatched fighters into Mali, Tunisia, and other countries, hoping to take advantage of the political vacuums in North Africa. The al Qaeda affiliate al Shabab retains a foothold in parts of southern Somalia. And al Qaeda has fostered ties with other groups in the region, including Boko Haram in Nigeria, Ansar al-Sharia in Libya, and a jihadist network in Egypt led by Muhammad Jamal Abu Ahmad. Authoritarian governments such as those in Jordan and Saudi Arabia have been important allies in the fight against radical Islamist terrorism in the region, and keeping such cooperation intact is imperative.

In fact, the cold reality is that some democratic governments in the Arab world would almost certainly be more hostile to the United States than their authoritarian predecessors, because they would be more responsive to the populations of their countries, which are largely anti-American. According to a 2012 Pew Research poll, the United States' image in several countries in the Muslim world has deteriorated sharply over the past several years. Before the Arab uprisings, for example, 27 percent of Egyptians and 25 percent of Jordanians polled had favorable attitudes toward the United States. By 2012, those numbers had dropped to 19 percent and 12 percent, respectively. The September 2012 anti-American demonstrations in the region, which spread from Egypt and Libya throughout the Middle East, provided yet another reminder that anti-American and anti-Western sentiments still exist in the Muslim world.

The uprisings of the last two years have represented a significant challenge to authoritarian rule in the Arab world. But structural conditions appear to be preventing broader political liberalization in the region, and war, corruption, and economic stagnation could undermine further progress. Although the United States can take some steps to support democratization in the long run, it cannot force change. Middle Eastern autocrats may eventually fall, and the spread of liberal democracy would be welcomed by most Americans, even if it would carry certain risks. Yet until such changes occur because of the labor of Arabs themselves, U.S. policy toward the Middle East should focus on what is attainable. As former U.S. Secretary of Defense Donald Rumsfeld might put it, Washington should conduct its foreign policy with the Arab world it has, not the Arab world it might want or wish to have at a later time. 🌐

The Promise of the Arab Spring

In Political Development, No Gain Without Pain

Sheri Berman

Two years after the outbreak of what has come to be known as the Arab Spring, the bloom is off the rose. Fledgling democracies in North Africa are struggling to move forward or even maintain control, government crackdowns in the Persian Gulf and elsewhere have kept liberalization at bay, and Syria is slipping ever deeper into a vicious civil war that threatens to ignite the Middle East. Instead of widespread elation about democracy finally coming to the region, one now hears pessimism about the many obstacles in the way, fear about what will happen next, and even open nostalgia for the old authoritarian order. Last June, when the Egyptian military dismissed parliament and tried to turn back the clock by gutting the civilian presidency, *The Wall Street Journal's* chief foreign policy columnist cracked, "Let's hope it works." (It didn't.) And Egyptian President Mohamed Morsi's attempted power grab in November made such nostalgia commonplace.

The skepticism is as predictable as it is misguided. Every surge of democratization over the last century—after World War I, after World War II, during the so-called third wave in recent decades—has been followed by an undertow, accompanied by widespread questioning of the viability and even desirability of democratic governance in the areas in question. As soon as political progress stalls, a conservative reaction sets in as critics lament the turbulence of the new era and look back wistfully to the supposed stability and security of its authoritarian

SHERI BERMAN is Professor of Political Science at Barnard College, Columbia University.

predecessor. One would have hoped that by now people would know better—that they would understand that this is what political development actually looks like, what it has always looked like, in the West just as much as in the Middle East, and that the only way ahead is to plunge forward rather than turn back.

The first error critics make is treating new democracies as blank slates, ignoring how much of their dynamics and fate are inherited rather than chosen. Turmoil, violence, and corruption are taken as evidence of the inherent dysfunctionality of democracy itself, or of the immaturity or irrationality of a particular population, rather than as a sign of the previous dictatorship's pathologies. Because authoritarian regimes lack popular legitimacy, they often manipulate and deepen communal cleavages in order to divide potential opponents and generate support among favored groups. So when democratization occurs, the pent-up distrust and animosity often explode. And because authoritarian regimes rule by command rather than consensus, they suppress dissent and block the creation of political and social institutions that allow for the regular, peaceful articulation and organization of popular demands. So citizens in new democracies often express their grievances in a volatile and disorganized way, through a dizzying array of parties, extremist rhetoric and behavior, and street protests and even battles.

All these dynamics have been present in the aftermath of the Arab Spring. In Egypt, for example, the regimes of Anwar al-Sadat and Hosni Mubarak refused to allow the development of real political parties or many independent civil-society associations, which helps explain why Islamism is such a dominant political force there now. Religious organizations were among the only forums in which average citizens could express themselves or participate actively in the lives of their communities, and so when Mubarak fell and the transition occurred, only Islamists had the infrastructure in place to mobilize supporters effectively. The underdevelopment of other civil-society and political organizations, in turn, meant that once the dictatorship disintegrated, there were few institutions capable of channeling, much less responding to, popular grievances—which explains the current lack of strong non-Islamist political parties and the tendency of Egyptians to take to the streets to express their demands and dissatisfaction. Morsi's November move to escape judicial review of his edicts reflects a broader Islamist distrust of Egyptian courts, due in part to the absence of reliable rule of law during the Mubarak era, just as the inability of the anti-Mubarak

Sheri Berman

forces to work together today reflects their fractured, poisoned history under the previous tyranny. As Ahmed Mekky, the justice minister, said of the judicial-review controversy, “I blame all of Egypt, because they do not know how to talk to each other”—which was precisely Mubarak’s goal.

Similar stories could be told of other Middle Eastern dictatorships. In Iraq, Saddam Hussein deliberately pitted different sectors of his population directly against one another as a way to tie certain groups

Critics treat new democracies as blank slates, ignoring how much of their dynamics and fate are inherited rather than chosen.

to the regime and weaken any potential opposition. This practice, along with the regime’s complete suppression of normal political or civil-society activity, meant that Iraq was only steps away from slipping into violent chaos once his regime was toppled—a process the United States facilitated by failing to help provide an effective new order to replace the old one. In Libya, Muammar al-Qaddafi

ruled through a bizarre personalized dictatorship that left his country almost entirely stateless after his ouster, paving the way for the struggle of the new government in Tripoli to establish order throughout its domain. And in Syria, the Assad family’s dictatorship has favored the country’s Alawite minority at the expense of other communities, setting the stage for communal strife as the Assads’ rule disintegrates.

In addition to blaming new democratic regimes for the sins of their authoritarian predecessors, critics also set absurdly high benchmarks for success, ones that lack any historical perspective. They interpret post-transition violence, corruption, confusion, and incompetence as signs that particular countries (or even entire regions or religions) are not ready for democracy, as if normal democratic transitions lead smoothly and directly to stable liberal outcomes and countries that stumble along the way must have something wrong with them. In fact, stable liberal democracy usually emerges only at the end of long, often violent struggles, with many twists, turns, false starts, and detours.

These troubles, moreover, are not a bug but a feature—not signs of problems with democracy but evidence of the difficult, messy process of political development through which societies purge themselves of the vestiges of dictatorship and construct new and better democratic orders. Stable liberal democracy requires more than just a shift in

political forms; it also involves eliminating the antidemocratic social, cultural, and economic legacies of the old regime. Such a process takes lots of time and effort, over multiple tries. Historically, most initial transitions have been the beginning of the democratization process, not the end of it—something that the tortured histories of today’s mature liberal democracies make clear.

FRENCH LESSONS

Take France. Just as the Arab Spring and other recent waves of global democratization were greeted with jubilation by observers around the globe, so, too, was the collapse of France’s hereditary dictatorship in 1789. In *The Prelude*, William Wordsworth remembered the time as one when Europe “was thrilled with joy, / France standing on the top of golden hours, / And human nature seeming born again.” Yet despite the initial optimism, the transition soon went awry. In 1791, with the proclamation of a constitutional monarchy, France made its first attempt to create a new political order, but this moderate political regime was rejected by both reactionaries and radicals. The latter soon gained the upper hand, and in 1793, they executed the king and declared a republic with universal suffrage and a commitment to a broad range of civil and political rights. Then, Europe’s first modern democracy descended quickly into what came to be called the Reign of Terror, in which 20,000–40,000 people were executed for “counterrevolutionary” activities.

The British political theorist Edmund Burke was only the most well known of the conservative critics who argued that these experiences showed the dangers of radical political change and the need for elites and institutions to restrain mass passions. But Burke and the other critics were wrong. The conflict, chaos, and violence that followed the French Revolution were not the inexorable result of either democracy per se or the immaturity of the French masses; rather, they stemmed from the way the previous dictatorship had ruled. The *ancien régime* in France had rested on an alliance between the king and a narrow slice of society, primarily the nobility. In order to keep the aristocrats’ support, French kings bought them off with various financial benefits and privileges, including pensions, patronage, special legal treatment, access to lucrative commercial opportunities, and exemption from taxation. This system allowed the Bourbons to stabilize the country and begin building a modern, centralized state. But it also created the widespread popular perception

Sheri Berman

that French nobles were parasites who extracted resources from the state while exploiting the peasantry.

The ancien régime, in short, rested on an extremely narrow social base, with the king and the nobility locked in an unhealthy embrace that created resentment and conflict between the lower orders and the privileged sectors of society. As the scholar Hilton Root has noted, this led to a “society divided into closed, self-regarding groups”—and the members of these groups, as Alexis de Tocqueville quotes one of

If France's first democratic experiment failed, it nevertheless made a profound contribution to the eventual formation of a stable liberal democracy.

Louis XVI's own ministers as saying, had “so few links between themselves that everyone thinks solely of his own interests, no trace of any feeling for the public weal is anywhere to be found.”

By the second half of the eighteenth century, thanks largely to several expensive and disastrous wars, the French state was in grave fiscal trouble. Unwilling to raise taxes on the favored rich, the regime resorted to borrowing more and more, and by the 1780s, its debt burden

had become unsustainable. When the king was finally forced to call a national assembly in 1789 to try to deal with the country's problems, the long-simmering conflicts within and among different socio-economic groups burst into the open, and France was set on the path to both revolution and postrevolutionary turmoil.

If France's first democratic experiment failed, it nevertheless made a profound contribution to the eventual formation of a stable liberal democracy. Economically, the revolution replaced a patronage system based on pseudo-feudal hierarchies with a market system based on private property and equality before the law. Socially, it replaced a society structured by functionally different hereditary groups (nobles, peasants, and so forth) with a nation composed of equal citizens. Politically, it changed popular attitudes to citizenship, rights, and legitimate governance. And it dramatically accelerated the state's modernization, replacing a welter of local arrangements and fiefdoms with a national bureaucracy and national taxation system. The revolution and its aftermath, in short, turned out to be the crucial first steps in a century-and-a-half-long struggle to get rid of the ancien régime and put something better and more democratic in its place.

Join a new generation of leadership

ANCHORED IN THE PRESENT, FOCUSED ON THE FUTURE

The 21st Century China Program at IR/PS:

- Promoting collaboration to address global issues
- Engaging in China policy dialogue
- Connecting China and U.S. communities



At the 21st Century China conference on the internationalization of the renminbi, June 2012, left to right: **Lei Guang**, Director, 21st Century China Program; **Robert Dohner**, Deputy Assistant Secretary for Asia, Department of the Treasury; **Susan Shirk**, Chair, 21st Century China Program; **Barry Naughton**, Professor of Chinese Economy



School of International Relations and Pacific Studies

University of California, San Diego irps.ucsd.edu

Visit china.ucsd.edu

Global Environmental Politics

**Stacy D. VanDeveer
and Kate O'Neill,
Editors**

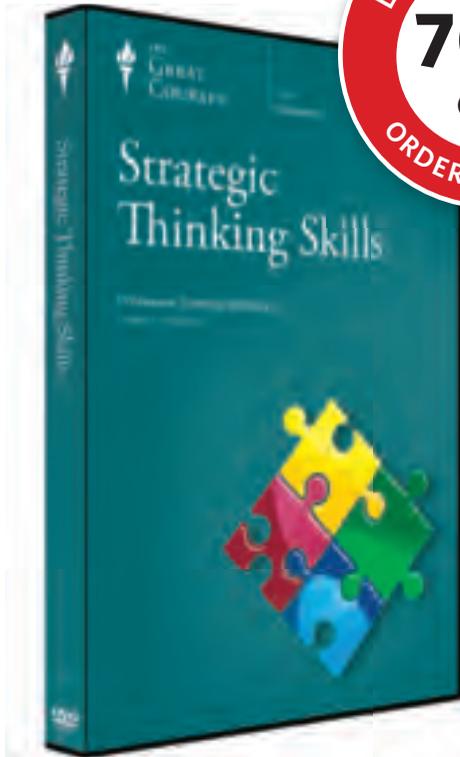
mitpressjournals.org/gep

***Global Environmental Politics* is a crucial resource for anyone interested in the intersection of global political resources and environmental change. The journal provides incisive analysis of political issues that impact environmental management from the local to the global level. Insightful research articles, lively debates and thoughtful book reviews make up the core of this vital journal.**

photo © Jennifer Clapp



THE
GREAT
COURSES®



Harness the Power of Strategic Thinking

Did you know that you can increase your chance of success—no matter the challenge—by thinking more strategically? The only catch: This skill doesn't come naturally; it must be learned, cultivated, and practiced.

Find the essential tactics, techniques, and tools you need to master this art in **Strategic Thinking Skills**, 24 comprehensive, accessible lectures delivered by business consultant, former military intelligence officer, and award-winning Professor Stanley K. Ridgley of Drexel University.

Filled with case studies from the realms of business, politics, military science, and even sports, this unique course will train you to anticipate the unexpected, boost your productivity, gain an edge over the competition, and make savvier decisions, both professionally and personally.

Offer expires 04/01/13

1-800-832-2412

WWW.THEGREATCOURSES.COM/9FA

Strategic Thinking Skills

Taught by Professor Stanley K. Ridgley
DREXEL UNIVERSITY

LECTURE TITLES

1. The World of Strategic Thinking
2. The Origins and Relevance of Ancient Strategy
3. The Dawn of Modern Strategic Thinking
4. Modern Principles of Strategic Conflict
5. Geography—Know Your Terrain
6. Grand Strategists and Strategic Intent
7. The Core and the Rise of Strategic Planning
8. Which Business Strategy? Fundamental Choices
9. Your Competitive Advantage—Find the Blue Ocean
10. Strengths, Weaknesses, Opportunities, Threats
11. Avoid the Pathologies of Execution
12. Tactics of Combat as Problem-Solving Tools
13. Shock of the New—Inflection Points
14. Surprise! Perils and Power of Strategic Deception
15. The Sources and Uses of Reliable Intelligence
16. Move and Countermove—The Theory of Games
17. The Evolution of Cooperation
18. When Strategy Breaks Down
19. Leverage Cognitive Psychology for Better Strategy
20. Strategic Intuition and Creative Insight
21. From Systemic Problems to Systemic Solutions
22. Seize the Future with Scenario Analysis
23. The Correlation of Forces, Luck, and Culture
24. Strategic Thinking as a Way of Life

Strategic Thinking Skills

Course no. 5913 | 24 lectures (30 minutes/lecture)

SAVE \$185

DVD ~~\$254.95~~ **NOW \$69.95**
CD ~~\$179.95~~ **NOW \$49.95**

+ \$10 Shipping & Handling
Priority Code: 76245

Designed to meet the demand for lifelong learning, The Great Courses is a highly popular series of audio and video lectures led by top professors and experts. Each of our more than 400 courses is an intellectually engaging experience that will change how you think about the world. Since 1990, over 10 million courses have been sold.

THE ITALIAN JOB

Italy, meanwhile, democratized just before World War I. The new regime was plagued by social conflict and political instability from the start, and the problems were exacerbated by the war's difficult aftermath. In 1919–20, about 1.3 million urban and industrial workers marched off the job and declared that they, rather than the owners and managers, were now in charge of the factories. The situation in rural areas was perhaps even more chaotic, as peasants and agricultural workers seized unoccupied or underutilized property and large landowners responded by hiring private militias to keep the rebellious lower orders in check. The country's two largest political parties, representing Catholics and Socialists, respectively, were unable or unwilling either to work together or to commit unequivocally to democracy, making it impossible to build stable, effective governments. Many Italians quickly grew fed up with the constant conflict and political instability and blamed democracy itself for the country's problems. And in October 1922, the antidemocrats got what they wanted when the Italian king, urged on by conservatives, terminated the democratic experiment and turned the country over to the dynamic leader of the radical right, Benito Mussolini.

The shift to fascism was applauded by many both within Italy and without who believed that dictatorship offered a better chance of providing the stability and development that the country so desperately needed. And Mussolini's first years in office only increased his celebrity and acclaim. But the adulation was misplaced. The short-lived democratic regime had been more attractive than its fascist successor; its problems, moreover, were caused mostly by its own nondemocratic predecessor, which had deliberately divided and manipulated the Italian public and refused to allow the routine expression of popular demands and discontent.

Only a few decades earlier, the Italian peninsula had been home to a large number of separate states with different political, economic, social, and cultural histories. Poor transportation networks and the lack of a common language meant that most inhabitants of the region knew and cared little about one another. And when unification did occur, in the 1860s, it was the result not of a mass popular uprising but of decisions from above, made by the leaders of Piedmont, the peninsula's most powerful state. The Piedmontese imposed what was essentially a foreign political system (their own) on the rest of the

Sheri Berman



Enter Benito, democracy finito: Mussolini with Blackshirts, Rome, 1922

area, and as a result, the new Italian state met immediate resistance—from communities that felt colonized and exploited by Piedmont and from the Catholic Church, which rejected the idea of a superior secular authority governing the lives of Italians.

Lacking the ability and perhaps the desire to cultivate the support of the masses, Italian political elites ruled the new country through a system that came to be known as *trasformismo*, which involved co-opting certain favored groups into the political order via the spoils system. The master of this method was Giovanni Giolitti, Italy's prime minister at various points between 1892 and 1921, who used the extension and withholding of state patronage and backroom deals to reward or punish key constituencies. Institutionalized corruption, in other words, was embedded in the heart of the young Italian state from early on, something that had profound consequences for the country's subsequent political development.

Since the formal institutions of Italian politics during the late nineteenth and early twentieth centuries—elections and parliament—were clearly not the true arbiter of political power in the country, many groups in Italian society lost interest in them and began organizing outside or even against them. The arbitrary exclusion of certain groups from power, moreover, generated resentment and frustration. And because the political system was not responsive to popular concerns and demands, the divisions within Italian society were not dealt with either consistently or effectively.

All this meant that when a full transition to democracy finally occurred, the new regime started life with a vast array of problems. The chaos, conflict, and violence that plagued Italy in the years before Mussolini came to power, in other words, were caused not by too much democracy then (as critics claimed) but by too little earlier. The country's fascist interlude was a step back rather than a step forward, and when Italian democracy was restored after World War II, it was able to benefit from its trial run and pick up where the earlier democratic experiment had left off.

MODEL GERMANY

Germany democratized in the democratic wave that swept across Europe after World War I, and the young Weimar Republic was also burdened from birth by social conflict, political instability, and extremism. Within months of the republic's founding, local Communists declared a Soviet republic in Bavaria, which was soon overthrown by the *Freikorps*, right-wing militias largely beyond the central government's control. The *Freikorps* then continued their rampages, engaging in assassinations and violent demonstrations and eventually supporting an attempted coup in 1920; other right-wing uprisings, including Hitler's infamous 1923 Beer Hall Putsch, followed, as did left-wing rebellions. And to top it off, the government's default on reparations debts in 1923 caused the Belgians and the French to seize control of the Ruhr, setting off the Great Inflation—which ended up destroying the German middle classes and further delegitimizing the government and other mainstream political institutions.

Some stabilization did occur in the late 1920s, but the republic barely had time to breathe before it was buffeted by the Great Depression. When mainstream political forces dithered in the face of looming economic and political catastrophe, extremists gained ground, and in the fall of 1932, the Nazis became the largest party in the country, having run on a platform marrying attacks on democracy with promises to tackle capitalism's problems and heal the country's social divisions. In January 1933, Hitler was offered the chancellorship, and Germany's democratic experiment came to an end.

Echoing the fears and analyses of Burke and others, hordes of conservative critics claimed that Weimar and other failed interwar democratic experiments showed that democracy and mass political participation more generally were disasters waiting to happen. Only authoritarian

Sheri Berman

political systems ruled by a strong leader, they claimed, could ensure order and discipline and head off social strife, political instability, and moral permissiveness. Once again, however, the critics were wrong. Weimar's fate had less to do with any inherent problems of democracy or what the Spanish writer José Ortega y Gasset called "mass man" than it did with the tragic legacy of previous German authoritarianism.

Modern Germany emerged in the second half of the nineteenth century unified from above under the auspices of its most powerful state, the conservative and militaristic Prussia. The government was run by a chancellor who reported to a hereditary monarch, the kaiser, rather than

There is little reason to expect the Arab world to be a permanent exception to the rules of political development.

to the public at large, and there were two legislative houses, an upper one dominated by Prussian conservatives and a lower one elected by universal suffrage. The chancellor did not require mass support to stay in power, but he did require it to pass major legislation. This soft authoritarian or mixed regime created strong incentives for rulers to

manipulate politics in order to gain what they wanted while keeping opponents off balance and on the defensive. Otto von Bismarck, who served as chancellor for nearly two decades, was a master of this balancing act, holding together a conservative, antidemocratic coalition of the large landowning Junker aristocracy and heavy industrialists while dividing, suppressing, and demonizing his Catholic and Socialist opponents and deepening divisions across the country. Bismarck's "enemies of the state" policy also exerted a pernicious influence on German nationalism, helping cement the idea that Germany faced dangers within as well as without.

The result was a Germany unified politically but increasingly divided against itself socially, with a warped sense of nationalism, a paranoia about internal as well as external enemies, and rising levels of frustration and extremism (since the nondemocratic government proved unable or unwilling to respond to public needs and demands). When a full transition to democracy finally occurred in the wake of Germany's defeat in 1918, therefore, the new regime inherited many crippling legacies from its predecessor, including deliberately falsified blame for the loss of the war and all the political, economic, and psychological consequences that flowed from it.

In Germany, as in France and Italy, even though the country's initial democratization experiment failed spectacularly, it had major positive effects down the road. When a second chance at democracy came a generation later, there was much to build on, and everything from political parties to national and local governments to civil-society organizations were reclaimed from the ashes. The Weimar experience helped political elites later on ensure that past mistakes were not repeated, with the lessons influencing the writing of constitutions, the structuring of welfare states and employer-employee relations, and political behavior overall. The interwar period and its aftermath proved to be not a detour but an important stage of Europe's long-term struggle to build stable liberal democracies.

IT GETS BETTER

What do such cases have to say about the Arab Spring? That the problems so evident in Egypt and other transitioning countries today are entirely normal and predictable, that they are primarily the fault of the old authoritarian regimes rather than new democratic actors, and that the demise of authoritarianism and the experimentation with democratic rule will almost certainly be seen in retrospect as major steps forward in these countries' political development, even if things get worse before they eventually get better.

Most countries that are stable liberal democracies today had a very difficult time getting there. Even the cases most often held up as exemplars of early or easy democratization, such as England and the United States, encountered far more problems than are remembered, with full-scale civil wars along the way. Just as those troubles did not mean democracy was wrong or impossible for North America or western Europe, so the troubles of today's fledgling Arab democracies do not mean it is wrong or impossible for the Middle East.

Then and now, most of the problems new democracies faced were inherited. Democracy does not necessarily cause or exacerbate communal and social strife and frustration, but it does allow the distrust and bitterness built up under authoritarian regimes to surface, often with lamentable results. But nostalgia for authoritarian stability is precisely the wrong response to such troubles, since it is the pathologies inherent in authoritarianism that help cause the underlying problems in the first place.

Sheri Berman

History tells us that societies cannot overcome their problems unless and until they face them squarely. The toppling of a long-standing authoritarian regime is not the end of a process of democratization but the beginning of it. Even failed democratic experiments are usually critical positive stages in the political development of countries, eras in which they get started on rooting out the anti-democratic social, cultural, and economic legacies of the past. Too many observers today interpret problems and setbacks as signs that an eventual stable democratic outcome is not in the cards. But such violent and tragic events as the French Revolution, the collapse of interwar Italian and German democracy, and the American Civil War were not evidence that the countries in question could not create or sustain liberal democracies; they were crucial parts of the process by which those countries achieved just such an outcome.

The widespread pessimism about the fate of the Arab Spring is almost certainly misplaced. Of course, the Middle East has a unique mix of cultural, historical, and economic attributes. But so does every region, and there is little reason to expect the Arab world to be a permanent exception to the rules of political development. The year 2011 was the dawn of a promising new era for the region, and it will be looked on down the road as a historical watershed, even though the rapids downstream will be turbulent. Conservative critics of democracy will be wrong this time, just as they were about France, Italy, Germany, and every other country that supposedly was better off under tyranny. 🌍

Myanmar

NO TURNING BACK

A New Tiger Emerges

The transformation continues. Unprecedented numbers of tourists and business-men are flooding into the golden land. Meanwhile, the country is stepping onto the world stage with a hat trick of global events: the WEF on East Asia and the Southeast Asia Games in 2013, and the ASEAN Summit in 2014. This is Myanmar's time in the sun.



“Have we already completed building a new nation where genuine democracy and eternal principles flourish?” mused Myanmar's President U Thein Sein earlier this year. “No, we still have much more to do,” he retorted, answering his own question.

And so, a second phase of reforms continues to focus on delivering tangible gains to the people while speeding up the drive for development, resulting in a big thumbs-up from the West.

At first unsure about the initial reforms, the international community is now pleased with the ongoing significant political and economic progress and delighted that more changes are still forthcoming. Following the abolishment of censorship on religion and politics in private publications in August 2012, four reform-minded ministers were nominated “super ministers” and promoted to work from the presidential office.

In September, freedom was granted to between 80 and 100 percent of Myanmar's political prisoners in response to a request from Washington, on the basis of an “action for action” process, which resulted in a gradual lifting of the import restrictions on most goods prior to Obama's visit.

U Soe Thane, chairman of the Myanmar Investment Commission and a key reformer, is now studying plans to speed up policy implementation and financial reforms as well as the need to address the country's corruption problem.

Meanwhile, a newly independent Central Bank is looking at reforms—including adoption of a Banking Sector Development Strategy—that may eventually see foreign banks participating in Myanmar's banking system.

That Myanmar is opening up and poised for economic takeoff is further confirmed in the recent engagements of the International Monetary Fund and the World Bank. In October, the IMF predicted a rise in direct foreign investment high as 40 percent (to 3.99 billion) and

economic growth of 6.7 percent for fiscal year 2012–2013. In early November, the country was granted US\$245 million in aid.

Myanmar is “the best investment opportunity in the world,” experts believe. With plenty of assets ranging from a large domestic market and mighty neighbours to forestry, manpower, silver, copper, gas, and oil (to name just a few natural resources), Myanmar is indeed a paradise for investors. A new foreign investment law enacted in November further grants tax exemption benefits and more flexibility in terms of investment ratios in joint ventures. All in all, Myanmar is set to be the world's hottest new investment destination for some years to come.

Much loved and with high approval ratings at home, President U Thein Sein has received a steady procession of delegations from all over the globe, including political heavyweights and business leaders such as Soros, Barroso, Tony Blair, Ban Ki-moon, and most recently Obama. This testifies to Myanmar's strategic importance and huge potential as a high-growth market.

Back in his 2009 UN speech, U Thein Sein mentioned future changes. This year, he reminded the audience that “Myanmar's democratic transformation will be a complex and delicate one that requires patience.” His open praise of Aung San Suu Kyi and his remarkable sincerity have certainly been a factor in his rising international prestige.

But Myanmar is not only about business; listed by Lonely Planet in 2012 as a Top 10 country to visit, tourists from all over the globe flock to its forests and coastline. “It is quite unlike any place you know about,” Kipling wrote, and his words still ring true today.

Myanmar is calling, and it is only with Western engagement, says Thant Myint-U, author of *Where China Meets India*, that Myanmar can “not only escape the potentially exploitative influence of its neighbors, but also transition into a sustainable democracy.”

‘Myanmar is the best investment opportunity in the world’

Jim Rogers
oilprice.com



A NEW MYANMAR STEPS ONTO THE GLOBAL STAGE

>>The president's reform ally, U Soe Thane, brings the World Economic Forum to Myanmar, the first of several international events the country will host, and aims to create a "new Myanmar."

A brand new investment law, a transformed parliament flexing its muscles, a free press, a cabinet reshuffling, and the hosting of a series of major upcoming international events—through all of this Myanmar is impressing even its most pessimistic detractors. With its surprising come-back on the regional and global scenes, one might wonder: Who is masterminding this turnaround?

U Soe Thane is frequently mentioned as one of the country's leading reformers. With the long-expected reshuffling of ministerial posts in September 2012, U Soe Thane was promoted from the Ministry of Industry to the president's office—in particular to "super minister" position, the term bestowed on the four most reform-minded members of the cabinet. "We are drawing up good policies and plans but implementation is slow—we are going step by step, but also want to push ministries to go faster. We also have to promote good governance—and involve civil society in this," the minister said.

U Soe Thane also plays an increasingly important role as the chairman of the Myanmar Investment Commission (MIC), a position that coincides nicely with November's new foreign investment law. The law is most welcoming to foreigners; investment can be 100 percent foreign-owned, with a five-year tax exemption benefit and fifty-year land leases, which are extendable.

Originally founded in 1994, the MIC was re-established in 2011 to facilitate foreign investment and is crucial to the country's economic development. The commission is an important tool to attract sustainable investment and an important step on the path to a market economy. "Please assist us by helping to promote our trade and industry, by facilitating investment, by exposing us to world-class business practices. Please assist in training our young businessmen and entrepreneurs to grow with you and assist us to regain our stance back in the global arena," U Soe Thane said to eight hundred Myanmar and foreign delegates in his address at the Myanmar Global Investment Forum in September.

Super reformer U Soe Thane took more than just domestic steps to mark the coming out of a new Myanmar: He brought the 22nd World Economic Forum (WEF) on East Asia to his country.

U Than Htay, Myanmar's union minister for energy, is optimistic that the country's infrastructure will be ready to host the event in June 2013. His opinion is shared by the WEF's founder and executive chairman, Mr. Klaus Schwab, who, while acknowledging that there is much work to be done, is

"confident we will see substantial progress in the country."

The WEF 2012 East Asian chapter was highlighted by the participation of opposition leader Daw Aung San Suu Kyi, who urged the participants to help her nation.

"We are committed to build a new Myanmar: democratic, inclusive, peaceful, with sustainable economic growth, which will actively and responsibly participate in our shared mission to build a thriving and harmonious Asia."

U Soe Thane, Chairman
Myanmar Investment Commission & Minister to Presidency

Though optimism abounds, U Than Htay is certain his country is also very much aware of the dangers that reforms could bring. Privatization, for example, could easily result in a happy few owning the country's entire wealth. The reforms, he said, are not only aimed at boosting gross domestic product, but also the living standards of the entire population.

Some criticize the country's shaky judiciary, rule of law, and obsolete financial system, which U Soe Thane acknowledges: "We have a major weakness in infrastructure, and reform steps are being taken regarding the judiciary and other rule-of-law institutions."

The previous 1988 investment law discouraged foreign investment in Myanmar, principally because of requirements that prevented foreign investors from owning more than 35 percent in joint ventures with local partners in unrestricted sectors, as well as a blanket block on restricted sectors. The new law is a step forward and less protectionist, although the MIC will now be at the heart of any major new investment, as it must first sign off on projects in key sectors—such as agriculture and fisheries—as part of its role adjudicating on investments' merits. Foreign investors, however, understand that "some amount of initial protection for Myanmar companies was in the country's interests. A gradual opening up of the market is better than a 'big bang,'" as Denis O'Brien from telecommunications firm Digicel recently told the *Myanmar Times*.

Another step marking the country's return to the international scene is the chairmanship of the Association of Southeast Asian Nations (ASEAN), foreseen for 2014. ASEAN is a regional bloc of ten Southeast Asian countries that aims to become a European-style economic community by 2015. It is an excellent way for Myanmar to showcase its reforms and access a 580-million-person market and a GDP of over US\$1.5 billion, according to Associated Press. The member countries are unanimously enthusiastic about Myanmar's chairmanship and regard its position as a reward for the country's return to the international community.

"We are committed to build a new Myanmar: democratic, inclusive, peaceful, with sustainable economic growth, which will actively and responsibly participate in our shared mission to build a thriving and harmonious Asia," said U Soe Thane.

Myanmar's role at the heart of this dynamic region will be further boosted by the hosting of the 27th Southeast Asian Games, an offer that was unanimously accepted by the Games Federation Council. Myanmar previously hosted the games in 1961 and 1969 in Yangon. The 2013 edition will be spread over Naypyidaw, the country's new capital; Yangon; and Mandalay.

U Soe Thane is also said to be the driving force behind the improving working relations between President U Thein Sein and Daw Aung San Suu Kyi. Needless to say, this relationship has proved to be crucial for the country's return to the international scene, as the recent lifting of the U.S. import ban underscored: President Barack Obama ensured that the Lady approved of the abolishment first, before moving forward. 



OBAMA HAILS MYANMAR'S REMARKABLE PROGRESS

SOUTH EAST ASIAN NATION NOW SEEN AS KEY ASIA PIVOT FOR U.S.

“I came here because of the importance of your country. You live at the crossroads of East and South Asia. You border the most populated nations on the planet. You have a history that reaches back thousands of years, and the ability to help determine the destiny of the fastest-growing region of the world,” U.S. president Barack Obama said in his speech at Yangon University.

In November, the president spent six hours in Myanmar as part of his three-day Asia tour. Not only was it his first post-re-election foreign trip, but also the first time a U.S. president had ever visited Myanmar (or Cambodia), highlighting U.S. intentions to play a stronger role in the region. Now that its presence in the Middle East has diminished, the recent pivot of the United States toward Asia announces the dawn of a new era in American foreign policy. Obama's participation at the annual summit of the ASEAN countries in Cambodia is another hint of the country's strategic shift eastward.

What makes Myanmar suddenly so popular that the major players of the international scene are so keen on the country? Obviously, there is an enormous economic interest for U.S. companies, in terms of energy, minerals, fast-moving consumer goods, and infrastructure, now that the country is opening up after decades of isolation and embargoes.

Not to mention, changing times require different priorities. Against the backdrop of the global financial crisis, the ongoing eurozone crisis, the Arab Spring, and the Latin American rejection of the Free Trade Area of the Americas, the United States is shifting its priorities to Asia.

Myanmar's return to the global scene also seeks to counterbalance China's influence amid fears that Myanmar could have become the larger country's vassal client state.

Obama's visit signals a tremendous boost for Myanmar and the commencement of normalized international relations—with the diplomatic corps, but also through reengagement by the World Bank, the Asian Development Bank, United Nations agencies, and various nongovernmental organizations.

Could Obama help end Myanmar's armed conflicts? Further action could well develop around last November's U.S.-Myanmar Joint Plan on Trafficking in Persons, on which the two governments joined forces.

But in a region where power is divided between China and India, it should come as no surprise that the United States' so-called Asia pivot, meant to counter China's rising influence, is also a smart geostrategic move. Myanmar enjoys an excellent geostrategic position in that it borders both India and China. Both of those countries share an unquenchable thirst for energy and natural resources. Furthermore, Myanmar has a sizable, low-cost human capital. This could be interesting for China, which recently saw salary costs increase due to an aging population and shrinking rural labor force.

“Strike while the iron is hot” is pretty much the essence of Obama's Asia pivot, and that is exactly the message that the CEOs of major Myanmar conglomerates are unanimously conveying to the West: Myanmar is hot and business is selling out quickly; it is now or never!

AYEYARWADY BANK
peer trusted partner

No. 1 Ywama Curve, Bayint Naung Road,
2nd Quarter, Hlaing Township,
Yangon, Myanmar.
Tel. 951-531087, 531088, 531089
www.ayabank.com

Myanmar Group of Companies

QUALITY,
CUSTOMER
SATISFACTION,
GROWTH,
SUCCESS

HEAD OFFICE :
No 123, Alanya Pagoda Road, Dagon Township, Yangon, Myanmar.
Tel: (+951) (253-838)
E-mail: trading@mgc.com; trading@mgc.com
Website: <http://www.myanmargroup.com>

CONSTRUCTION SECTOR REAPS DEMOCRATIC DIVIDENDS

>>Real estate rockets as sector benefits from a double spike in demand: a combination of foreign investment and a growing domestic market. Shopping malls see growth.

Forecasts are promising as a real estate boom transforms Yangon's cityscape.

The sector has seen impressive double-digit growth of 11.48 percent over the 2007–2011 period, and it is expected to remain strong and growing through 2016. Because of a new investment law, passed last November, analysts expect to see a huge increase in Myanmar's economic activity, thanks to foreigners and foreign companies on one hand and increasing domestic income on the other. This increase means greater demand for condominiums, hotel rooms, office space, and infrastructure. It is easy to see why construction is forecast to post strong growth over the 2012–2016 period.

Our correspondents had the opportunity to meet with some of the country's most prominent business leaders: U Aik Htun of Shwe Taung Group of Companies, U Zaw Zaw of Max Myanmar, Daw Win Win Tint of City Mart and U Shwe Kyaing of Wah Wah Win Int.

Aik Htun founded Shwe Taung Group of Companies in 1990. This success story began humbly, with U Htun working as a driver and then selling cookies for no more than seventy cents a day. This was in the days when Myanmar was nominally a communist country and doing business was forbidden. But as the coun-

try opened up, he persisted, and patiently built his portfolio one project at a time. Over the years, Shwe Taung has built flagship projects such as the Yeywa Hydropower Project, which provides a substantial percentage of the country's electricity, as well as the Yangon-Mandalay Highway Toll Road, and the Myanmar Radio and Television complex.

The group also owns five shopping malls under the brand Junction, now the country's most famous mall chain. The first, Yangon's 8th Mile Junction, was built for US\$100,000. Another pioneer in Myanmar's retail industry is City Mart, established in 1996 with only twenty employees, and now the market leader in the retail segment, with an annual growth rate of 20 percent. "We are looking to start new projects with foreign partners," says Managing Director Daw Win Tint. "We also operate Pahtama Group Company, one of the top five largest distribution companies in the country," which focuses on fast-moving consumer goods.

U Htun also finds time to chair the International Business Promotion Centre and has organized numerous international delegations that have taken Myanmar's business leaders on visits throughout the region. Given that the roads and power plant sector is forecast to grow by 8.89 percent through 2016, Shwe Taung



airBagan
Treasure of Myanmar

TELEPHONE: (95-1) 513 411, 513 422, 509 660
Fax: (95-1) 513 107
Rm: (95-1) 504 888
www.airbagan.com
E-mail: rsm@airbagan.com
No 56, Shwe Taung Gyar Street,
Bohan Township, Yangon, Myanmar

Group looks well situated to benefit. As U Htun mulls the future, he predicts a key role for his company, and looks to play the patriot by “setting out a new mission to be a part of the rebuilding processes of our nation.”

U Shwe Kyaing started from humble beginnings in salt trading from necessity rather than choice as one of the few available options of doing business in a closed country. Through hard work and determination he positioned Wah Wah Win as a leader in construction and property development. Wah Wah Win is still a family owned business, with an international outlook. “We work hand in hand with investors from overseas in joint-ventures” Han Myo Kyaing, Director of Wah Wah Win, told our reporters.

Max Myanmar is ranked in the top five conglomerates in the country—not bad for a company that is a mere nineteen years old. Involved in a variety of divergent sectors, from gems and construction to property development, Max Myanmar is currently reorienting its activities toward manufacturing, banking, and tourism. The company is also hard at work constructing the Zabuthiri Stadium that will host the 2013 Southeast Asian Games. Chairman Zaw Zaw is himself a keen sportsman and moonlights as head of the country’s Football Federation. In anticipation of the 2015 single market, the company is looking for foreign partners for Ayeyarwady Bank.

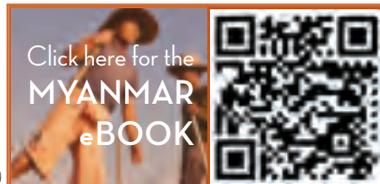
Yangon’s real estate market is hot; homes and offices are selling fast, and despite the fact that foreigners are not officially allowed to own property, Chinese, Korean, and Singaporean citizens are getting around the legislation with the help of local partners. A new law with regard to foreigners owning property will be enacted next year. “There is still a lot of potential to develop. We are already meeting

some of the demand for offices by foreign companies,” says U Htun.

Many businessmen we met with have pointed to a substantial difference between the United States and the European Union on one side and Asian countries and business partners on the other side. Europe and the United States, it seems, have so far yet to match their shifting tone and political rhetoric with significant investments in this last major frontier market. Looking at Japan, observers have already noted “the writing-off of Myanmar’s US\$3.37 billion debt, followed by an increase in Japanese companies bidding for contracts with ‘favored’ status,” according to the Diplomat magazine. Japan is already visibly more active across many key sectors.

Both Aik Htun and Zaw Zaw share a philanthropic approach toward business, which they attribute to their Buddhist roots. “We benefit from the country, it should go back to the people. . . . If the people are developed, the country is developed. . . . We’ve donated sixty-seven schools and three hospitals, and also roads,” explains Aik Htun.

Max Myanmar’s Zaw Zaw has donated roughly US\$3 million in the aftermath of Cyclone Nargis and over US\$10 million in donations to the health sector over the years—including for the construction of the Pediatric Hospital at Yankin and the General Hospital at Kyaungkon. He personally finances around 10,000 students, saying that he wants “to encourage those who are less fortunate than . . . I. . . to have a better life.”



DEVELOPING THROUGH INNOVATION



UNLOCKING THE POTENTIAL OF AGRIBUSINESS

>> Development of agriculture and fisheries could lift millions out of poverty and cause exports to surge, creating billion-dollar investment opportunities

Once the rice bowl of Asia, Myanmar has a huge agricultural potential. Since some 65 percent of the population works in the rural economy, no other sector will have a greater impact on raising living standards than agriculture. Bullish about the future, U Chit Khine, chairman of Eden Group and of the Myanmar Rice Federation, said, "We are on track to becoming one of the world's leading rice exporters again, and recapturing our title as rice bowl of Asia."

Agriculture accounts for 58 percent of gross domestic product, with 20 percent generated through rice and a further 20 percent through beans and pulses. Myanmar rice remains competitive at \$10 to \$20 per ton cheaper than similar-quality product from Vietnam, India and Pakistan. Other crops include sesame, groundnuts, sugarcane and lumber.

A 2011 International Monetary Fund country report suggests a low base for sector development, underscoring the potential for rapid transformation: "Agricultural development is suppressed by poor access to credit, of private land ownership, and inadequate infrastructure and inputs. . . . energy has surpassed agriculture as the main source of export revenues." The government is now revitalizing the sector, and the IMF considers lifting agricultural productivity "essential for rural development."

With low wages, abundant agricultural resources and problems easily tackled through capital injection, the country's agri sector has great potential to attract foreign direct investment. New mills, for example, would greatly increase productivity of the rice industry.

Fertilizers are another market niche and a pretty sure bet; lack of income results in Myanmar using two-thirds less fertilizer compared to the country's neighbors. Increased fertilizer use is on the agenda of President U Thein Sein, who is keen to see agricultural productivity soar leading to a consequent decrease in the poverty of farmers (the government's target is 16 percent poverty, from the current 26 percent, by 2015).

Some big-name companies are currently prospecting. DuPont Pioneer, a U.S. agricultural company, told Reuters back in August that it is keen to explore opportunities in Myanmar.

"Myanmar has incredible agricultural potential that has only been partially exploited. We are looking for development and investment partners to join us so we reach that potential. We believe that we have a lot to offer, including in contract farming," said U Chit Khine.

Ye Min Aung, secretary-general of the Myanmar Rice Federation, shares U Chit Khine's opinion, predicting an increase in rice exports from 778,000 tons in 2011, to a projected 2 million for 2012 and 3 million by 2015. Opportunities certainly appear abundant.

Perhaps no other sector needs foreign investment more than the Myanmar fisheries which declined in the sanctions era. Fish numbers were reduced by 80 percent and half the feed factories stopped operating. The sector is now worth about US\$600 million per annum as against US\$6 billion for Vietnam which has similar potential but benefited greatly from privileged access to the United

States and European markets in the same period.

A Myanmar Fisheries Federation (MFF) representative pinpoints the industry's top needs as "technology and finance". Yet the country is full of possibilities. "The tiger prawn business would be ideal for the U.S." Production is 100 percent organic and takes place in the best ecological circumstances.

"If Europe or the U.S. [don't invest], others will," says the MFF vice-president.

A Key player in the fishery business, Wah Wah Win International, is eager to cooperate: "[we need] more educated, more experienced Americans or Europeans, or other counterparts coming in. . .

We just want development to happen. . . we want our country to prosper and grow. For that we need financing," remarked Chairman U Shwe Kyaiing.

With over 200,000 acres of fish ponds, potential in the fishing industry is strong. In the past, outdated invest-

ment laws made foreign investors hesitate. The new 2012 investment law gives the Myanmar Investment Commission power to adjudicate on investment in the "restricted" fisheries sector, leaving the door ajar: the fish are waiting, but not for long.

"We are on track to becoming one of the world's leading rice exporters again and [to] recapturing our leadership of the rice and beans and pulses sector, so that we can once again be the rice bowl of Asia."

Chit Khine, Chairman, Myanmar Rice Federation

YOUR KEY PARTNERS IN THE AGRICULTURE SECTOR



Rice, Beans and Pulses account for 40% of Myanmar's GDP and a sizeable percentage of our global exports. While agriculture is a traditional mainstay of our economy, we are actively seeking partners to join with us for investment in agriculture and agrobased industries.






THE SKY IS THE LIMIT FOR FMCG

>>SOFT DRINK GIANTS MAKE HISTORIC RETURN AS BREWERIES TOAST AWARD-WINNING SUCCESS

Now opening up to multinationals after the partial lifting of international sanctions, Myanmar has huge potential for development in the food and beverage industries. Until this year, it was one of the few countries where Coca-Cola and Pepsi were not readily available; today, the soft drink players' billboards greet visitors as they exit Yangon's main airport and drive down cities' main boulevards. Fast-moving consumer goods (FMCG) is set to be a high-growth segment.

The country's aptly named, award-winning beer, Myanmar Beer, is produced by Myanmar Brewery Limited (MBL). The beer, though relatively little known, is the surprise holder of a number of beer industry medals and cups, including a silver award at the United States' 2004 World Beer Cup.

MBL was one of the earliest major joint-venture projects in Myanmar when it was created in 1995, and it is a strong example of a successful cooperation between a local company (the Union of Myanmar Economic Holdings, or UMEH) and a foreign one (Asia Pacific Breweries, or APB).

"This is one of the beers with international standards," Lin Yeu Hoe, managing director of Myanmar Beer, said in an exclusive interview. "And it's going to get better, because we use water from more than 100 meters underground... Most of the ingredients we use are imported. That's the reason why we normally win in international beer competitions."

The beer is being exported to multiple countries, and the brand is a great sponsor of football, which is very popular in Myanmar. "Football is something that unites a nation, and Myanmar football is actually doing quite well," Mr. Yeu Hoe explains. "We represent the country, and we want to grow up alongside them."

Since this summer, Pepsi and Coca-Cola are now firmly back in the country, after an absence of fifteen and more than sixty years, respectively. PepsiCo signed a deal with Diamond Star Co., Ltd., that gave it the exclusive right to import, sell, and distribute Pepsi, 7Up, and Mirinda, with each brand generating more than \$1 billion. The Coca-Cola Company is setting up a bottling entity with the local soft drink provider Pinya Manufacturing Co., Ltd. Loyal to its habit of starting local production as soon as possible, the company does not intend anything different for Myanmar.

With almost untouchable potential and the upcoming 2015 ASEAN single market, the sky is the limit for Myanmar's FMCG.



Strength
in Diversity



Investing in the Myanmar of tomorrow, Ruby Dragon has created the Metals Foundation to build on Myanmar's rich mining heritage and educate the next generation of mining engineers.



PORTRAIT OF A LADY

>>Aung San Suu Kyi's Gandhian commitment to freedom, forgiveness, and nonviolence makes her an international icon

A legend; the Lady. Daw Aung San Suu Kyi, one of the world's most prominent political prisoners, spent about fifteen years under house arrest between 1989 and her last release in November 2010. The daughter of General Aung San—the father of modern-day Myanmar, he founded the army and negotiated the country's independence—Aung San Suu Kyi continues to intrigue and inspire the world. Her persistence and promotion of nonviolence led the National League for Democracy (NLD) to a long-awaited electoral success in April 2012.

Suu Kyi studied at Oxford and lived for many years abroad before returning home in 1988 to take care of her mother. August 1988 was a turbulent time: the ruling general stepped down; then followed the 8888 Uprising, a widespread call for democracy. Following her father's example, Suu Kyi addressed half a million people in her famous "Freedom from Fear" speech. "It is not power that corrupts, but fear. Fear of losing power corrupts those who wield it, and fear of the scourge of power corrupts those who are subject to it," Aung San Suu Kyi co-founded the NLD, taking a nonviolent stand for freedom and democracy, a position that would become her trademark. But the uprising was violently suppressed by the government, and Suu Kyi was placed under house arrest. During the next elections, in 1990, the NLD won 59 percent of the national vote and 81 percent (392 of 485) of the seats in Parliament, but the results were nullified and the military remained in power.

Suu Kyi's ongoing efforts in the battle for democracy earned her the 1991 Nobel Peace Prize, which her sons had to accept on her behalf because of her ongoing house arrest in Myanmar.

"Of course I regret not having been able to spend time with my family," says Suu Kyi. "One wants to be together with one's family. That's what families are about. Of course, I have regrets about that. Personal regrets."

Her intellectual and spiritual quest is an integral part of her life, and she developed it further while incarcerated. Her thoughts

gained clarity and balance through daily meditation in the lonely and quiet morning hours. She preaches "loving kindness" with regard to politics especially, since she does not believe that anything successful can be built without the benevolent cooperation of all parties concerned.



"You should never let your fears prevent you from doing what you know is right."

Aung San Suu Kyi

"The four basic ingredients for success are: you must have the will to want something; you must have the right kind of attitude; you must have perseverance; and then you must have wisdom. Then you combine these four and then you get to where you want to get to."

For Daw Suu, or Mother Suu, as she is known to her fellow citizens, persistence paid dividends: in April 2012, she was elected to the lower house of Parliament, where her party won forty-three of the forty-five vacant seats.

Her perseverance and long struggle for democracy has made her beloved and admired throughout the world. In September 2011, she flew to the United States for an eighteen-day-long trip, which included meetings with President Barack Obama, Myanmar groups, and the press.

There, she also received the country's highest civilian award: the Congressional

Medal of Honor. "It's almost too delicious to believe, my friend, that you are here in the rotunda of our Capitol . . . as an elected member of your parliament," said Secretary of State Hillary Clinton, according to NBC News.

"You should think of me as a political party leader. I was a politician before I was a 'democracy icon.' As the leader of a party, you have to aspire to the leadership of the nation, because that means your party will have won, and every party wants to win," Suu Kyi says when asked if she wants to run in the 2015 presidential election. She is focused on the future and well aware of the problems that lie ahead. Myanmar's 2008 constitution states that urgent reforms are needed if the country wants to organize truly democratic elections. More work must be done in the judicial sphere, as well, until the "Land of Pagodas" acquires "an independent, free, and well-trained judiciary."

Aung San Suu Kyi also chairs the Committee on the Rule of Law and Tranquility: "[The committee] gives us a chance to engage the military and the military a chance to see how the civilian aspects of democracy work," she told an Asia Foundation audience. This will also put the Lady center stage as the country seeks a solution to the Rakhine ethnic conflict. Her handling of the riots and their aftermath has proved controversial to many observers and has highlighted the challenges Suu Kyi faces as she repositions herself from head of a protest movement to leader of an opposition political party.

"I pay my great tribute to President U Thein Sein and Daw Aung San Suu Kyi. They have been walking together down the path of reconciliation and political stability and democracy and human rights, and I really count on her continuing support," said UN secretary-general Ban Ki-moon, reaffirming the United Nations' support for Myanmar. His opinion is shared globally and was endorsed by President Obama during his historic trip to the former Burma in November 2012.

ICT: AHEAD OF THE CURVE

>>AUDACIOUS PLAYERS HAVE THE FIRST MOVER ADVANTAGE

Myanmar is enjoying its own perestroika and censorship has been lifted, enabling a telecom revolution and creating ripe conditions for a potentially thriving ICT sector. Our reporters had the pleasure to talk to two of the sector's leading corporations, pioneers in a frontier market whose unusual background has helped shape their success as outliers whose special vision has inspired them to go against the prevailing market wisdom and invest in controversial sectors.

One is the founder of publishing and e-commerce group Information Matrix (IM), one of the country's leading ICT players. U Thaung Su Nyein returned to Myanmar after several years in New York with a plan to be an internet entrepreneur back in 1999. "It was very exciting for me to be in New York at that time, at the age of 17, studying Computer Science and learning all these new cool things." He set up his first company in 1999, when the country had eleven Internet users. "My dream was to become like Yahoo; Yahoo was bigger than Google way back then [...] why let a foreigner be a pioneer in my own country? Why not me? So I dropped out of school and I got into a plane back to Myanmar."

"Innovating for the future" is the motto of U Thaung Su Nyein, an IT guru who says he is neither pro- nor anti-government, but pro-people.

The other is Sit Taing Aung, founder of Suntac Technologies and grandson of Bo Bala, one of the Thirty Comrades. The Thirty Comrades are Myanmar national heroes, on a par with the founding fathers; they formed the Burma Independence Army and successfully liberated the country from British rule. "That's why I'm interested in politics. I'm only thinking of my country...and what I can offer the nation."

IM's priorities are daily newspapers, TV shows and e-commerce. The 7Day News—circulation 150,000 and an estimated 5 million readers—is Myanmar's top weekly newspaper. IM also publishes Internet Journal, 7Day Sports Journal, 7Day Shopping Guide Journal and Myanmar People Magazine. It also develops the portals Planet Myanmar and mySuboo, which includes music, books, and picture sharing; the few Burmese connected to the internet are already getting hooked on social media.

The company has "branched out recently by adding People Media Video Production, M.I.C.E services, 7Day Express Distribution Services, 7Day Press Offset Printing and Fascinating Myanmar Travel Agency," their website reads. A Pioneer provider for e-gov, the company's technology related business activities are "consultancy, software applications, web portals design and maintenance, e-commerce, research, training, intranets, groupware, Web-based Teaching System, Logistic Management System, Inventory & Sales

Management System, KBZ Bank Facility Management System and Rice Mill Operation Management System".

Specialized in geo-mapping, Suntac Technologies provides engineering and technology solutions in the fields of civil and mechanical engineering, surveying, aerial mapping, computer technology, remote sensing, consultancy, geographic information system technology and geology. Suntac's outstanding know-how, R&D and technology, make it unique in a country still focused on trading raw materials; with two resorts in the Naypyidaw area it also sees long-lasting potential in tourism.

India and the Philippines are a pleasant proof that it is possible to innovate and invest in technology in developing countries. Myanmar could, in the medium term, with an educated population and labor costs lower than Bangladesh, follow the same track.

Suntac further does project implementation that is related to engineering, such as railway construction or irrigation systems and national spatial database development. They aim at providing complete geomatics and IT solutions on a national as well as an international level and establishing a leading technology center for remote sensing, GIS, geodetic engineering and survey engineering fields.

Taing Aung sees the importance of a gradual development, first educating the population to acquire skills and earn better salaries, and only then attracting foreign organizations that will train locals. Japan and Korea's international cooperation agencies (JICA and KOICA respectively) are thinking "about providing financial assistance for vocational training. I also suggested that Samsung focus on vocational training first."

Myanmar is secretly dreaming that European, U.S. and Asia hardware companies currently manufacturing in China's East coast region, will move to Myanmar in search of lower salaries, rather than China's rural provinces. Companies like IM or Suntac Technologies can certainly facilitate the country's development offering highly skilled jobs. They both stand out as reliable and experienced partners for foreign companies.

Suntac Technologies has positioned itself as an ideal partner for global companies specializing in technology and engineering who want to enter Myanmar.

Information Matrix is full of potential; CEO U Thaung Su Nyein, is young and innovative. The company holds a unique position in its industry through its capacity of global communication. Blessed with the right connections and thorough knowledge of the market, IM is an excellent partner for those keen on being part of Myanmar's future in terms of media or IT. Clearly in Myanmar, "the early bird gets the network"! 

PIONEERING THE FUTURE OF MEDIA AND TECHNOLOGY IN MYANMAR

MYANMAR'S LEADING COMPANY IN NEWS MEDIA & E-GOV



Tel.: +95-1 513515-519
www.informationmatrix.com



TELCOM SECTOR READY TO TAKE OFF

>>Welcome to the world's last major virgin telcoms market, where only a privileged 1-2 percent own a mobile, and where the government ambitiously targets to connect 40 million users within the next 3 years...

If the first thing you do in the morning is check your email, you might have difficulty imagining a country where only 0.03 percent of the population has access to broadband Internet. With an annual gross domestic product of US\$821 per capita and a SIM card costing about US\$230, it is estimated that only one out of every sixty people in Myanmar has a mobile phone.

Most villages remain without landline service, and the number of subscriptions nationwide approximately is only 550,000. A similar story goes for the Internet: if you are one of the rare birds with a landline—a requirement for obtaining a connection—signing up will cost you US\$625 for installation plus a monthly subscription fee of US\$250 for 2 megabits per second (Mbps). Let us put that into context: the average connection speed in the United States is 6.7 Mbps, for about US\$40 per month. Unsurprisingly only 0.03 percent of Myanmar's inhabitants have broadband Internet.

"We have about 80 percent of the market," says U Tin Win, the CEO of Yatanarpon Teleport, [...] we have to increase our mobile tele-density up to 50 percent within five years." As a consequence of the high cost, most web surfers use cyber cafes.

There is reason for optimism, though; following free service upgrades, Internet speed has doubled since August, and subscription fees are expected to come down. The Ministry of

Communications and Information Technology aims to add 40 million mobile phone users by March 2016 targeting 4G services before the Southeast Asia (SEA) Games, late 2013. Myanma Post and Telecommunication (MPT) announced in April governmental plans to boost Internet speed by connecting to the global SEA-ME-WE 4 cable.

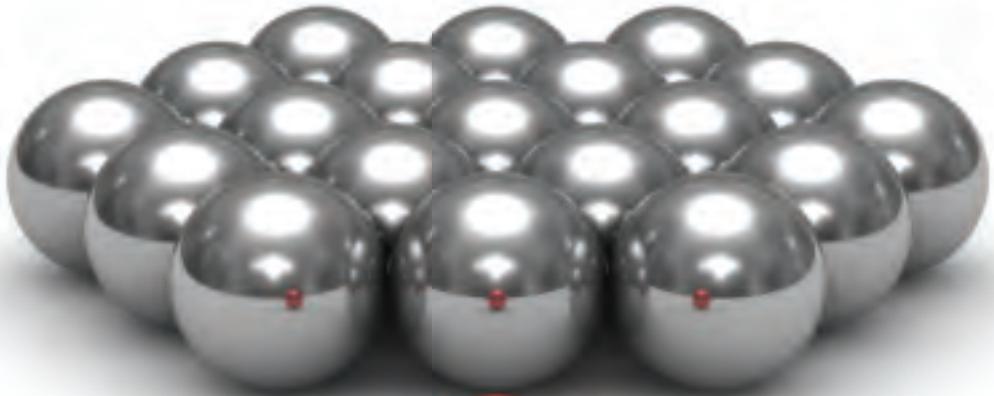
Whilst most telecom companies are impatiently waiting for a new law to clarify regulations, some are already in the country, like Ericsson. In October, the Japanese NTT Communications opened a branch office in Yangon and American service provider Cisco Systems is looking to develop Myanmar's network infrastructure. China's Huawei has also seen a niche in the market for network suppliers and consultants.

As the market opens up, others are reassessing what had previously been a wait-and-see policy. TeliaSonera CEO, Lars Nyberg, confirms that "what has happened over the last 18 months allows us to consider if we could do something." Malaysia's Axiata, Norway's Telenor, Digicel, Vietnam's VNPT-Fujitsu and Russia's VimpelCom, seem to share this point of view. Competition is heating up. According to Telenor: "its geographical location, low mobile penetration and expected economic growth, it is natural for us to consider Myanmar."

"[We] have started working on a reform plan to provide

"(We) have started working on a reform plan to provide telecommunication services to the people at an international standard and at a cheap price,"

Thein Tun, Myanma Post and Telecommunication Minister



HTOO GROUP OF COMPANIES
Building Tomorrow's Myanmar

telecommunication services to the people at an international standard and at a cheap price," said Thein Tun, MPT minister.

"As we transform our telecoms sector we are encouraging more private sector participation," Thein Tun stated. Two private licenses will go to national operators: MPT (to be renamed Myanmar Telecom Company after a planned privatization) and the ISP, Yataraporn Teleport, which is 40 percent government owned. To enhance their technical know-how and financial muscle these will likely form joint ventures with international partners. Remaining licenses are intended for international operators, to be selected by tender.

To facilitate selection of the international operators, the government organized a summit in December, which proved to be a unique networking opportunity for public and private sector. "Very soon, we will have more telecom operators competing," said the minister.

Another project with space for foreign investment is the Yatanarpon Cyber City, an impressively sized project, currently in its test phase, with a lot of potential to support a nascent ICT sector.

It is the start of a telecom battle, giving "telcos entering the market now an early-mover advantage," says Kevin Kwang, an information technology reporter for ZDNet Asia.

Myanmar has a curious past alternating between a free press and super-strict censorship. Ranked 169th of 179 nations in the 2011–2012 Press Freedom Index, it only lifted direct media censorship in August. Journalists are still subject to some restrictions but things are changing for the better. Just as with telecoms. The reformist government understands the key role ICT can play in the development of this emerging economy, and has set a target of 50 percent wireless accessibility by 2015. A virtuous cycle of economic growth, generating higher incomes, will stimulate the purchase of the latest communications gadgets as being part of the world's growing social media revolution has begun. And as that happens, a certain degree of freedom of speech is ensured. Just remember Iran's Twitter revolution and the way social media shaped the Arab Spring.

Obviously, a leapfrog transformation like this one will encounter quite a few

problems: "We will try to reduce the SIM card cost, but we have to build our infrastructure. We bought 1,400 VDS towers; to cover the whole country, 25,000 to 30,000 VDS towers are needed. That is a lot of investment," Tin Win explained.

Barons Tele-Link Services Co. Ltd is another company which invested in VDS; "we have supplied and supervised the construction of more than 400 towers across the country [...]. As an existing distributor of telecoms equipment we are seeking partners to supply this sector," says managing director Phyu Sin Htay.

And these are not the only infrastructure gaps: "At the moment we rely on the optical fiber network, about 7,000 or 8,000 kilometers of which is owned by the army," Tin Win said. Barons Tele-Link is eyeing thirty percent of that sector.

Myanmar's untapped potential as an investment destination in the telecom sector has been making global headlines. It certainly faces challenges—in infrastructure, legislation, and know-how—but taking into account the government's targets, the country's needs, and its potential, the sector is sure to boom.

SHWE TAUNG DEVELOPEMENT CO

THE ONLY LOCAL
TURNKEY SOLUTION
FOR YOUR PROJECTS

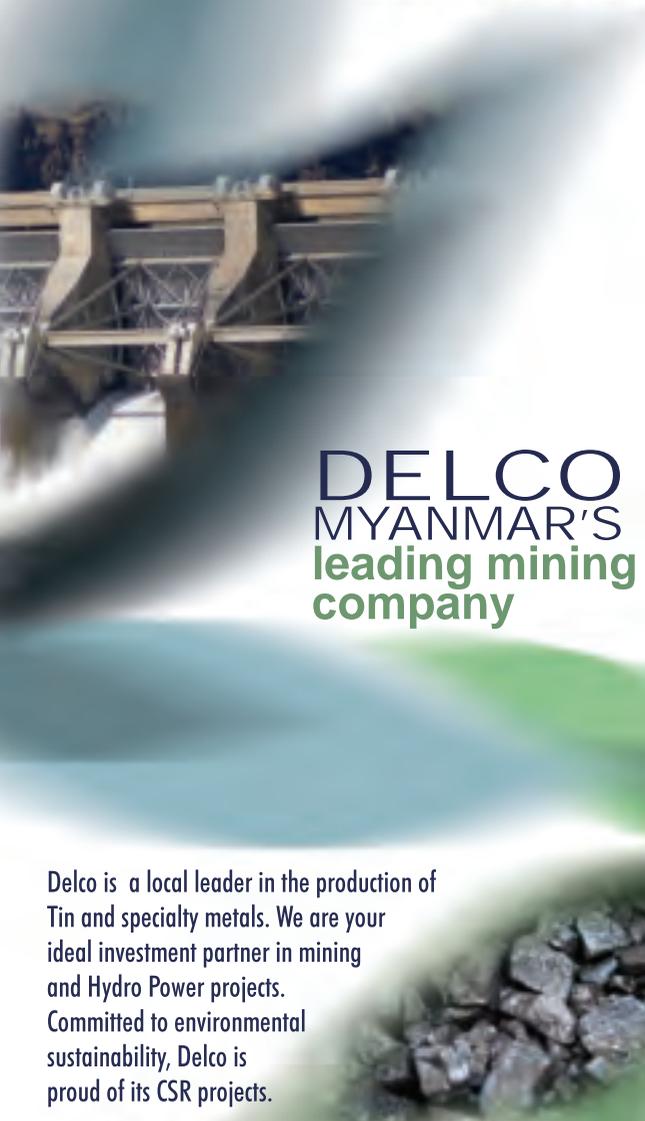


Ahlong Tower, 1st Floor, River View Garden Housing,
Strand Road, Ahlong Township, Yangon, Myanmar.
Tel: (951) 21 1430, 212704
Email: info@std.com.mm





DELCO MINING CO.,LTD.



DELCO MYANMAR'S leading mining company

Delco is a local leader in the production of Tin and specialty metals. We are your ideal investment partner in mining and Hydro Power projects. Committed to environmental sustainability, Delco is proud of its CSR projects.



Natural Energy Wave Co., Ltd.



MYANMAR APEX (PANG) WARE MINING LTD., LTD.



ADDRESS: 150(B), New University Avenue Road,
Bahan Township, Yangon, Myanmar.
Tel: 95-01-400534

Website: <http://www.delcomining.com/>
E-mail: panwa_resource@yahoo.com.sg

OIL AND GAS: COMPETITION INTENSIFIES AS MAJOR PLAYERS SWOOP IN

With gas reserves estimated by the Asian Development Bank (ADB) at 7.8 trillion cubic feet and vast, as yet underexplored oil reserves, Myanmar's oil and gas sector is set to see a powerful renaissance. "We have over twenty available blocks onshore and around twenty-six offshore blocks available for exploration," states Ken Tun, CEO and founder of Parami. Obama's recent green-lighting of energy investment in the country is in line with an expected surge in international competition.

"We think there are large reserves of both oil and gas that are yet to be found," said ONGC Videsh Ltd.'s managing director. At present, Myanmar produces 19,600 barrels of crude oil and 1.475 billion cubic feet of natural gas every day.

"The changes are happening right now As a businessman, if you wait until 2015, then I really don't know what opportunity will be left for you,"

Ken Tun, CEO, of Parami Energy Group of Companies at the New Myanmar Summit

"Many multinational companies, including Shell, BP, BG Group, ConocoPhillips, Chevron, and many others have shown great enthusiasm to invest and keen interest to conduct upstream petroleum exploration in Myanmar's petroleum sector," Energy Minister U Than Htay said in a speech at the Myanmar Oil, Gas & Power Summit in September. Mr. Tun is of the same opinion: "If you look at the statistics and trends and inquiries to investment commission, there are sharp increases of commitment from the players from the west as compared to Asian corporations."

This is understandable, with the country's 2013 forecasted gas production of 700 billion cubic feet.

Parami Energy Group of Companies is an unusual conglomerate, which is rapidly expanding its presence on the local energy scene, thanks to its phenomenal growth and great prospects. More recently, Parami has thrown its hat into the energy and petroleum (E&P) ring alongside India's Jubilant. And the ambitious company has also signed a memorandum of understanding with the Russian-Vietnamese Vietsovetpetrov to bid on the next international tender. Pundits expect Parami's phenomenal rise to continue.

Meanwhile, several sizable offshore blocs are being negotiated directly by the major companies, "holding a considerable promise for those who are capable of tapping them." The ADB's *Myanmar in Transition* report states that while Shell's Marc Gerrits "refused to disclose whether Shell has any deals on the horizon, *Interfax* understands the company is in talks to explore at least one offshore deepwater block."

"U.S. firms are interested in offshore, not onshore," said Ken Tun. "These guys want to play big, and the big games are all offshore."

While Parami is already considered a reliable joint-venture partner for foreign players keen to team up with an ambitious

indigenous company, it is also worth noting the conglomerate's wholesale commitment to sustainable development. "I wish we had seen more global players that are also responsible and sensitive to the needs of our local people and environment coming in," said Ken Tun, whose corporate social responsibility ethos is always at the forefront of his mind, shown through Parami's unwavering commitment to make a huge contribution in the health, educational, and ecological sectors. "We are committed to support one third of monastery schools in Myanmar by 2015 and have already planted 200,000 trees (of different varieties) in Karen state against our target of 500,000 trees by 2015."

"New technology, capability, and reputation are the three most important things a foreign partner can bring," according to Tun.

Likewise, Gazprom International states on its website that it is "also interested in developing contacts with this South East Asian country. At present, the two parties are discussing prospective areas of collaboration and a form of possible participation in energy projects in Myanmar."

With an eye on its energy-hungry

neighbors and its excellent geostrategic position in mind, Myanmar has several Sino and Thai energy export projects in the pipeline, all set to launch in 2013. A long-running but controversial project is Yadana, an offshore project in the Andaman Sea that provides natural gas to Thailand and Yunnan, China, and that is operated by Total (France), Chevron (United States), PTTEP (Thailand), and the Myanmar Oil and Gas Enterprise (MOGE). Another project, Zawtika, is co-owned by MOGE and PTTEP on a 20 to 80 percent basis and is set to export 300 million metric cubic feet of gas a day.

There is a considerable amount of activity on the Sino-Myanmar side, since pipelines between the two countries would substantially reduce shipping costs and avoid a 1,200 kilometer detour around the Strait of Malacca. China is currently heavily involved in three major oil and gas projects. To meet an import goal of 240,000 barrels per day, a pipeline will link the Myanmar Kyaukpyu port with Kunming and Nanning, and an oil storage and unloading project is being set up at Maday Island. The Shwe gas project will link Arakan to Kunming and is estimated

to produce 12 billion cubic meters of natural gas per year.

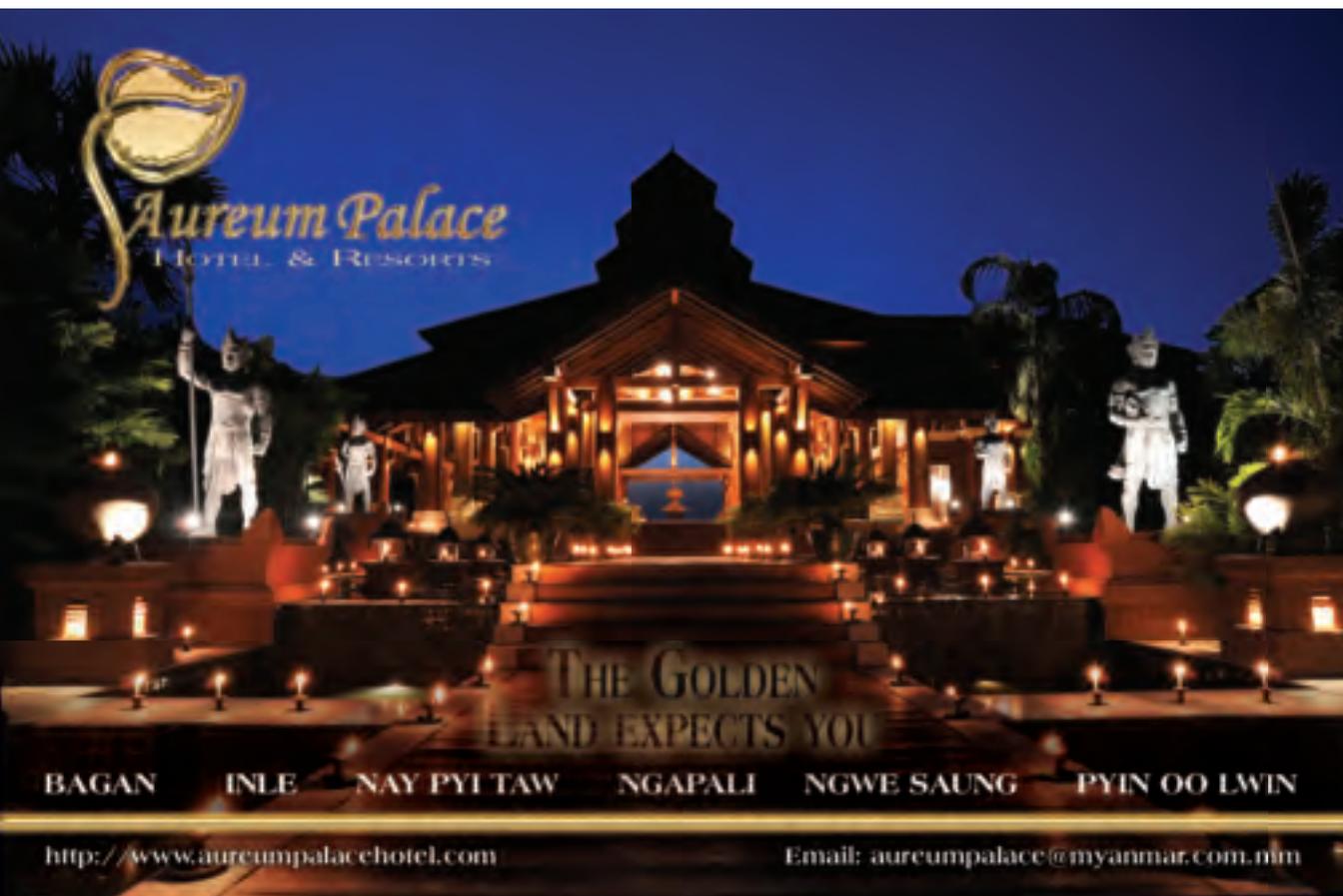
With much going on in the oil and gas sector, the upcoming Myanmar Oil & Gas Summit, scheduled to take place on February 4-5 in Yangon, might bring long-awaited news about the second bidding round. The summit will be a "complete overview of Myanmar's new approach to its oil and gas industry and E&P outlook for the 23 onshore blocks," promises its website.



MYANMAR eBOOK

Click the code for:

- ☆ extended interviews
- ☆ profiles &
- ☆ key contact information



MYANMAR'S TOP BUSINESSMAN REINVENTS HIMSELF WITH THE TIMES

It is hard to be in Myanmar for long without using a service or buying a product provided by the Htoo Group, the country's largest private sector conglomerate. The group is run by the renowned U Tay Za, the country's first billionaire, often considered its most successful entrepreneur. Whether you're a tourist flying Air Bagan to Mandalay or staying at an Aureum Palace hotel, or a trader doing business in the country—with its industries as diverse as gems, timber, construction, and agriculture—the Htoo Group is likely a big part of your life in Myanmar.

The group employs some 40,000 people in Myanmar, but it wasn't always the behemoth we know today. Chairman and founder Tay Za built Htoo from the ground up, and became a highly successful entrepreneur and generous philanthropist in the process. Since selling his car and house and spending his last cent investing in the company's first logging concessions in 1990, Tay Za has developed major business interests in the real estate, banking, hotel, airline, trading, transportation, mining, forestry, agricultural and other industries. With impeccable timing he seized new timber industry opportunities in remote areas of the country in the early 1990s, extracting logs at a cost of US\$10 and bringing them to market at nearly US\$500 per unit.

His success brought significant gains to remote logging regions along the Thai border as the group developed new transportation infrastructure, built schools and generally increased the connectivity of a region otherwise isolated from the country's main transportation and commercial hubs in Mandalay and Yangon.

Today, changes in Myanmar are opening up even more opportunities

for Htoo, as the reform-minded president has brought an end to many of the most restrictive sanctions that have stifled growth in the past.

"We cannot take an individualist approach. We have to have partners," said Tay Za in an interview. Now that sanctions are making it easier for companies in Myanmar to do business with the outside world, "joint ventures are among the most important things to consider. We are looking for win-win joint-venture partners and are considering publically listing certain businesses," he added. "I want to grow together with the country during this exciting chapter; to grow our nation and our people together. Whatever benefits we have, we look forward to the economic integration of ASEAN in 2015 and to reaping them together."

Indeed, the lifting of sanctions and restrictions on doing business with Myanmar are likely to be a boon for Tay Za, perhaps one of the most misunderstood business tycoons in the country, one who has long been wrongly associated with the former military regime.

He did attend the Defense Services Academy, but he dropped out and watched his family nearly lose everything when the ruling General Ne Win's socialist government carried out mass nationalization and expropriation projects between 1962 and 1988. Indeed, Tay Za is widely known to have been among those joining street protests against the regime in the 1980s. Though he has been adversely affected by foreign perceptions of his association with the former regime, Tay Za is seen at home as a successful businessman and a genuine entrepreneur known for his generosity, one who provides scholarships for employees, builds schools, replants deforested areas, and advances Myanmar's private sector.

DATA-ING NEW HORIZONS

THE FASTEST TELECOMS EXPANSION

- Estimated growth of telecom & IT sector reform 75% – 80% in 4 years.
- Increase to 39.5 mln mobile phones.



Myanma Posts & Telecommunications
 Office Building No.2,
 Naypyitaw, Myanmar.
 Tel.: +95 67 407 056
 myanmarjv@mpt.net.mm
 www.mpt.net.mm

U TAY ZA THE HUMANITARIAN?

Indeed, Tay Za has been reinventing himself with the times. Recent years have seen a greater focus on the group's philanthropic work through the Htoo Foundation that works on "Enhancing living standards [...] in remote areas. Preservation of culture, tradition and dialect of national races [...]. Preservation and reforestation of natural forests of Myanmar. [...] Preservation and protection of exotic wildlife species."

"Our mission is to achieve not only monetary profits, but profits from work that benefits all stakeholders, while contributing to humanity through honesty, teamwork, speed, social responsibility and family spirit," said Tay Za.

His reinvention, he says, is due in part to a tremendously trying personal experience. On a helicopter tour over a frozen lake in the mountainous far north of Myanmar in February 2011, the pilot lost control and crashed into the mountainside, stranding Tay Za and the five others on some of the country's most remote and inhospitable terrain.

With limited supplies the group descended the mountainside by foot in waist deep snow, having sent out a distress call by cell phone with little success. Surviving the night with just a few candy bars and limited water Tay Za says they made it by eating moss scraped from rocks and sucking on ice for water after supplies ran out. When night fell the group clung to each other for warmth, calling out each other names periodically to stay awake and stay alive.

Rumors of the missing tycoon quickly made international news and Myanmar's army and air force units were dispatched in conjunction with a civilian helicopter chartered from Thailand. All six survivors were rescued, and though the pilot lost both his feet to frost bite, the others

escaped with only minor injuries.

"It truly changed my life," says Tay Za of the incident. "It instilled in me a new way of looking at life and with a new set of values I hope to pass on to my children and to reflect in my business as a whole." In particular he says that the incident has brought about an even stronger focus on his philanthropic work and on businesses that have the potential to create jobs for Myanmar locals.

TOURISM BOOM

While timber, gems and lucrative import licenses have helped to bolster the Htoo Group's bottom line, Tay Za says it is investment in job creating industries such as tourism, hospitality and airlines that give him the most joy. Indeed, some of the group's best-prospected businesses include those expected to benefit from dramatically increased tourism, which is growing steadily up from 193,319 visitors in 2008 to 268,336 in 2009 and 310,668 in 2010.

The Htoo Group's Aureum Palace Hotel and Resorts chain is one of the country's best-positioned companies to service the influx of tourists keen to explore the largely untapped beauty of Myanmar. With a goal of operating twenty-five hotels and resorts under its brand name, the group has committed to expanding and developing new properties at major tourist destinations in Myanmar in addition to its current 618 rooms in seven destinations.

Tay Za says he hopes to bring



U Tay Za, Chairman, Htoo Group

SHE SHINES
Gems & Jewelry

SHOWROOM : 005-006 BUILDING (B), UNIVERSITY YEIKMON HOUSING, NEW UNIVERSITY AVENUE RD.,
BAHAN TOWNSHIP, YANGON PH: 951-548832, FAX: 544867
FACTORY : 003-004 BUILDING (B), UNIVERSITY YEIKMON HOUSING, NEW UNIVERSITY AVENUE RD.,
BAHAN TOWNSHIP, YANGON PH: 951-540087, 543324
E-mail: sheshinesgems@gmail.com / Website: www.sheshinesgems.com

the total number of rooms to 1,500 and create jobs to match.

The Htoo Group is not the only interested party. Discussions at the World Economic Forum in Davos, Switzerland last year included talks on tourism in Myanmar and international giants Starwood Hotels & Resorts Worldwide and Marriott International Inc.—which runs the Westin, Sheraton, and La Meridian hotel chains—have issued press releases stating their interest in entering the country’s booming tourism market.

Despite the interests of several of the world’s leading hoteliers many investors remain on the side lines while the government continues to work on a draft foreign investment law that is expected to provide greater protection to foreign investments and reduce barriers to joint venture partnership.

Tay Za has been one of the country’s most vocal critics of foreign sanctions by the European Union and United States.

“These sanctions only hurt the working people of Myanmar,” he said. “They provide protection for established businesses but we don’t need them. We are ready to compete. We only want to compete fairly,” he added.

Indeed Tay Za is on the hunt for an international hotel chain ready to joint venture on the huge opportunities emerging in the tourism industry. Today Aureum Palace Resorts and Hotels has access and assets in some of the most sought after tourist destinations in Myanmar.

“The expectation is often that Myanmar doesn’t have the availability of high-end, luxury resorts that foreign tourists are looking for,” said Tay Za, “but what you get with Aureum Palace hotels is something truly of international standard,” he said.

Air Bagan, the first private airline in Myanmar, is also expected to enjoy the benefits of greater openness and tourism growth

as domestic interconnectivity not otherwise available by road becomes increasingly sought after.

Tay Za says with enthusiasm that he hopes to be able to provide more jobs to locals, a priority he shares with the government, which is eager to raise incomes and enroll more people in the emerging local economy.

Though Air Bagan has not been among the most profitable of the group’s business units and lags behind major revenue drivers such as gems, palm oil, and timber, the company still provides valuable jobs and stimulates economic activity in parts of the country cut off from major business centers by poor road infrastructure. With over twenty destinations across Myanmar, Air Bagan provides access to some of the most rural parts of the country, allowing businesspeople to meet and locals to reach their families in the economic capital without boarding notoriously slow trains or braving the dilapidated roads.

The company’s values are reflected in its mission statement, in which Air Bagan pledges “to contribute towards development of tourism and air transport industry in Myanmar.” Its website adds that Air Bagan operates to remote, non-tourist destinations to provide affordable air travel for the people.

The company has lived up to its mandate, even flying some unprofitable routes to secure connectivity for parts of Myanmar otherwise left out, and it sets aside US\$1 of every ticket sold for the philanthropic work of the Htoo Foundation.

“Look at Putao, one of the more remote parts of Myanmar. No one flies there,” says Tay Za. “Air Bagan and Myanmar Airways are the only two airlines servicing that location, and Air Bagan is the only private-sector airline. Every time we fly, we fly half-empty planes and lose

SUNTAC TECHNOLOGIES

PROVIDING ADVANCED TECHNOLOGIES SOLUTIONS

Suntac Technologies is an internationally competent engineering service and solutions provider utilizing advanced technologies.

Tel: (95-1)6552558
<http://www.suntactechnologies.com/>
 E-mail: info@suntactechnologies.com

THE FASTEST WAY TO GET YOUR PRODUCT TO MARKET

City Mart
Pa

- City Mart in Myanmar (1000+ outlets)
- Pahtama Group reaches over 10,000 points
- Pahtama Group is a leader in distribution of consumer products
- Seeking partnerships in Consumer Products, Distribution Opportunities, Logistics, I&B Franchising

supplycity.com.mm / contact@pahtama.com
www.tmk.com.mm

money, but I'm glad we do it. There are a lot of sick people there who don't have access to the health-care services of bigger cities like Yangon or Mandalay. We're their only option," he added.

Indeed, as the owner of the airline, Tay Za has gone beyond providing direct connectivity, involving his group and foundation in hands-on development, health care, and education in remote areas.

"We're already there in a big way helping the very sick and the terminally ill. In cases of major procedures, we sometimes take over the cost completely," he said.

"After the accident—this school, this work in providing health services—I find this is what is most important to me. We're glad to do it," he added.

But despite Air Bagan's humanitarian objectives, the company faces new business opportunities as sanctions are lifted, and it is affected by the same macro trends that have helped raise the fortunes of Air Asia, a regional carrier that has grown into the world's top budget airline by primarily serving destinations in the Asia-Pacific.

In fact, some believe that Myanmar could become Asia's next big aviation growth market as incomes rise and flying becomes a more accessible mode of transportation for the country's 59 million inhabitants.

International carriers are projecting a boom in air travel demand that could help benefit local airlines. One report forecasts 25 percent year-on-year growth. Malaysia, with 31 million fewer people, has an aviation market that is nearly twenty times larger.

"Currently there is a daily average of 1,500 international arrivals through the Yangon Airport. . . . This number could double at the start of next year," said a recent economic intelligence report published in the *Bangkok Post*.

BUILDING MYANMAR'S FINANCIAL FUTURE

Another area in which the Htoo Group is leading the way is in the development of a financial sector, with its Asia Green Development Bank (AGD Bank), one of the country's most modern and robust private-sector banks.

True to Tay Za's own philosophy, the company's motto reads, "We, all Myanmar, will develop together."

As the first bank in Myanmar to offer online banking, or "e-banking," services (in July 2011, for telephone bill payment), AGD Bank is leading the modernization of the country's antiquated banking and finance sector. In May 2012, AGD Bank signed an agreement with Kasikorn Bank, or K-Bank, of Thailand to develop the country's leading remittance service connecting migrants in Thailand with their loved ones and dependents at home.

With revisions to the management of the kyat, Myanmar's official currency, and increased financial knowledge and training cooperation, the modernization of the banking sector—in a country where less than 10 percent of the population has a bank account—presents yet another area in which the Htoo Group and its companies are charging ahead as a shining example of a socially minded, private-sector enterprise.

As the country continues to reform and reconnect with a world eager to do business and grow with Myanmar, Tay Za and his Htoo Group will no doubt have an important role to play—as both partners to and advocates of the international business community. There is much work to be done, and Tay Za appears ready to lead the charge.



Our Good is Better, Our Better is Best



Wah Wah Win is a rapidly growing business group based in Myanmar. We are a dominant player in property development, fisheries, trading and manufacturing. We have gained extensive experience partnering with international companies on mutual interest.

Return to Table of Contents

THE MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

Mingalaba!



WORLD STANDARD QUALITY

Office Building No.2., Naypyitaw, Myanmar.

Tel. : +95 67 407 158

www.mcpt.gov.mm

PORTS MODERNIZATION ONGOING AS MYANMAR RETURNS TO TRADE MAP

>>MYANMAR INDUSTRIAL PORT PLANS INTERNATIONAL EXPANSION

The liberalization of Myanmar's ports in the aftermath of the country's economic reforms has led to much activity in the sector. Plans for new industrial zones near waterways with access to overseas markets are intended to boost the country's trade. There are plenty of projects in the pipeline: the Japanese are studying an industrial estate-come-port at Thilawa, some 25 kilometers south of Yangon; the Thais are looking to build a US\$8.6 billion project at Daiwei; and Indian companies are joining up with the Thais in a deepwater port project in Sittwe in order to develop western Myanmar and northeastern India.

Meanwhile, in Yangon, Captain U Ko Ko Htoo is dreaming of creating a "mini-Dubai marina" in the port city. As chairman of the Myanmar Industrial Port (MIP), he plans to include offices, a hotel, cruise facilities, and a recreational area. MIP is the third-largest private port in Myanmar. Down the line, he is also looking to put Myanmar on the tourist map by connecting cruise lines with Penang and Langkawi in Malaysia and Phuket in Thailand.

In line with his international mindset, Captain Ko Ko manages "six companies for deep seafarers, trading, heavy machinery, shipping line, mining (antimony ore, manganese), construction (condominiums), and maybe in the future cruises and hotels in Myanmar," he explains to our reporters. The MIP, established in 2003, handles containers and offers port services. It is built according to International Standards Organization specifications and is currently under construction as a joint-venture project of the Ministry of Transport and Myanmar Annawa Swan Arshin Group. The work should be finished in three years. "Of the MIP's 5 berths, No. 1 and 2 will offer port services including cargo and recreational facilities around the marina area. No. 3, 4 and 5 will be upgraded to become new container terminals capable of handling 32,000 containers and 1,000 refrigerated containers. The Yangon Port has 18 berths and three container yards for international freight liners covering the areas from Hteedan to Thanhlyetsun wharves. Thilawa deep sea port, located 25 km south of Yangon, has 6 berths," reported *Eleven Myanmar newspaper* in August.

The captain reckons he will hire an additional seven thousand employees in light of the port expansion.

"In Singapore I have two companies, Continental Investment Holdings (distribution) and Continental Shipping Line. In Japan, we have the Continental Investment Holdings Company and another investment holding. We are dealing in Kobe, and buying auction escalators, lifts, etc."

More than a bridge between India and China, Captain Ko Ko sees Myanmar's position as "in the middle of a triangle, in a strategic position." The captain would be happy to cooperate with Western companies, in particular with regard to tourism and property development. 

Sponsored Section





NAVIGATING MYANMAR TO A BRIGHT FUTURE

MYANMAR INDUSTRIAL PORT

No. 7/2 (B), Strand Rd. Ahlone Township, Yangon, Union of Myanmar.
Tel: +951 221416
mip@mip.com.mm
www.myanmarindustrialport.com

ELECTRIC SECTOR SETS OUT INVESTMENT STALL

>>A WEALTH OF HYDROPOWER AND ABUNDANT NATURAL RESOURCES MAKE MYANMAR AN EASY SELL

In spite of Myanmar's abundant natural resources and hydro potential, the country is still dealing with critical electricity shortages. The 2011 electrification rate stood at 22 percent, which means that less than one-third of the population has access to electricity. This market potential could translate into billions of dollars for savvy investors.

Sources vary, but in his May 2012 report *Electricity in Myanmar: The Missing Prerequisite for Development*, professor David Dapice estimates that the country has a "potential of 40,000 megawatts (MW) hydroelectric capacity, of which only 2,560 MW have been developed. All other sources in 2011 accounted for only 900 MW more, for a total of 3,461 MW."

Fundamental for economic growth, the supply of electricity is a big challenge for the new government. Demonstrations earlier this year showed how this issue is also turning political.

Why is it, our reporters asked Ei Phyuhsin Htay, managing director of Barons Machinery & Engineering Co. Ltd (BME), that two-thirds of the population is sitting in the dark in a country with such enormous hydropower capability?

"As the second-largest country in the ASEAN area, we have

huge potential on how we can generate power . . . but there is limited access to capital and to technology in order for us not to impact the life of people living along the river basin."

The government of President Thein Sein takes the concerns about environment and local people seriously; he blocked plans for the 4,000 MW coal power plant portion of the Dawei project as well as the controversial Myitsone project, which would have meant 3,600 to 6,000 MW primarily destined for China and construction on a scale larger than China's Three Gorges.

A major issue at the moment is that foreign investors export the energy to their home countries, and "not much is left for domestic energy generation," explains Phyuhsin Htay.

"The power generation sector will grow, and we want to take a part in it. This can be the first call for many international developers looking for big power plants . . . but we know that off-grid power plants will be developed by local players."

The government is well aware of the enormous electrification task ahead and has tried to improve the situation by making foreign direct investment more attractive and by having an active policy of increasing the number of power generation projects



DRIVER OF MYANMAR'S MODERNIZATION



across the country. Regarding the latter, BME is a key partner of the Ministry of Electric Power.

The ministry is also seeking cooperation with other ministries so it can “provide solid advice on sustainable projects. BME’s role is to bring these together, which it did in the form of the first Independent Power Projects (IPP) workshop.”

“We have built transmission lines all over the country,” says Phyu-sin Htay, adding that she does not see much competition. “Regarding the power plant, we have an advantage over international players, like Caterpillar, starting from feasibility studies, local market knowledge, and civil engineering assistance. We are also interested in projects in neighboring Laos and Cambodia.”

Currently, BME is developing two big power plants of 100 MW each. The first one will be built through a Chinese-American partnership. Wärtsilä, a Finnish company that manufactures and services power sources, is building the second plant. “We aim for these projects to become benchmarks. . . . We need to showcase what we do, and that is why we are developing these projects.”

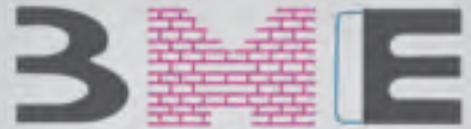
Since 2010, about 30 to 40 percent, or 790 megawatts, of Myanmar’s energy has been provided by the Yeywa Hydropower Project. The project costs add up to between US\$700 million and \$800 million. The initial plans were ready in 2001, but due to a lack of government funds, the Shwe Taung Group of Companies had to wait until 2004 for an initial Chinese investment of \$200 million.

“If you came to Myanmar in 2009, you could have felt how the situation then was. Everyday you could have half an hour, one hour [of electricity] if lucky. In some rural areas some days they could only get ten to fifteen minutes,” Chairman Aik Htun of Shwe Taung remembers. The conglomerate comprises construction, urban development and transportation, energy, water management infrastructure, and other industries.

It is hard to develop basic infrastructure without funding and with an obligation to the environment. In fact, it is impossible, claims Phyu-sin Htay: “Renewable energy sources are not sustainable for us at the moment. The country is trying to formulate a mix of how much coal, gas power, and renewable can be used to provide affordable energy for all. Although coal is regarded as dirty fuel for Myanmar . . . we can still afford some coal-fired power plants.” This could be the solution for the next five to ten years.

Phyu-sin Htay has a message for investors and newcomers: “Please be patient and understanding with the government. Supply a sincere wish list so that we can cope with you and have a fruitful relation.”

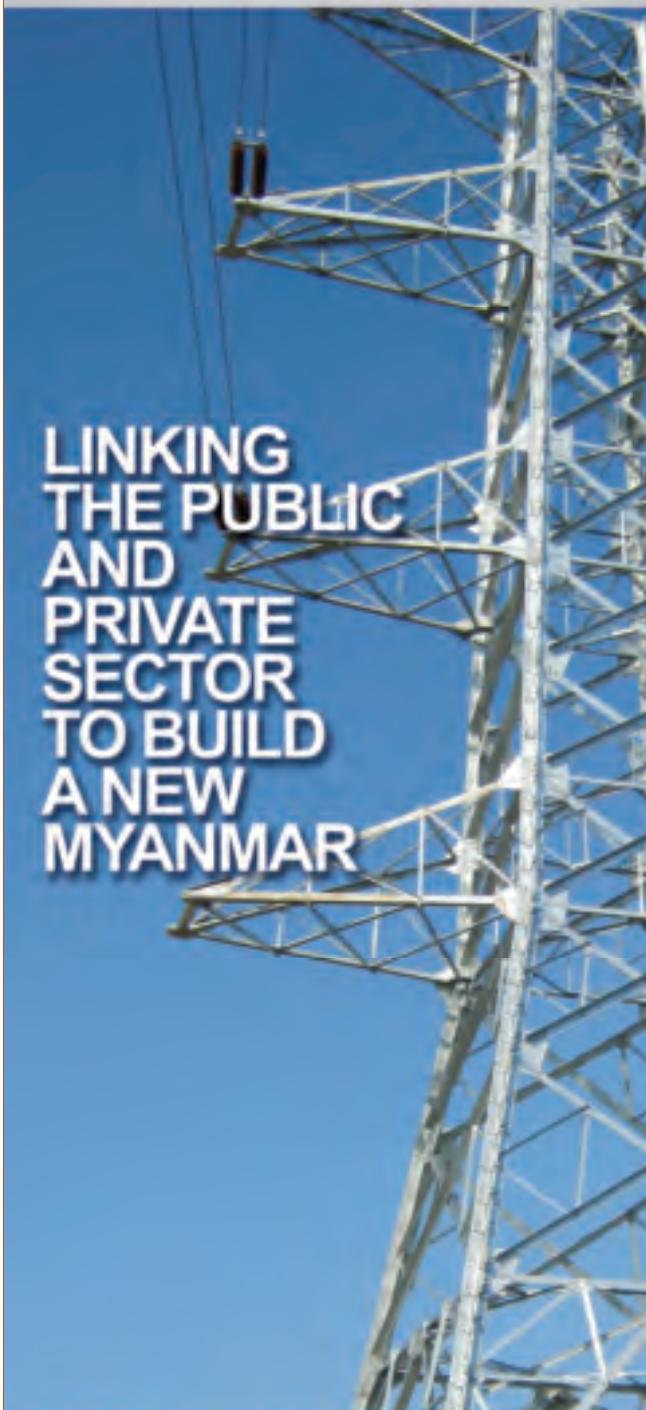
“In short,” writes Dapice, “a massive increase in electricity generation and transmission is needed very quickly. Growth rates doubling electricity output every four to five years are probably needed for a decade. These would require major investments in hydroelectricity and in gas and possibly in coal plants.”



Barons Machinery & Engineering Co.,Ltd

BARONS MACHINERY & ENGINEERING CO.,LTD

a member of Barons Group of Companies



LINKING
THE PUBLIC
AND
PRIVATE
SECTOR
TO BUILD
A NEW
MYANMAR

Country Strategic Sponsored Section

CEO/Publisher: Stephen de Vasconcellos-Sharpe

Director Conferences/Media Relations: Raquel Picornell

Project Director: Alex Morris

Editorial Coordinator: Álvaro Imberbón

Creative Directors: Anastasia Caramanis, Lisette Flores

Journalists: Nosh Sheen

For more information contact: svs@countrystrategic.com

No. C-6/54, 1st Lane
Kabaraye Villa Residence, 8th Mile
Mayangone Township, Yangon Myanmar.
Tel. (951) 667643, 667377
ei_phyu@myanmariwatani.net

WE ALWAYS GO THE EXTRA MILE....

- Oil and Gas
- Construction
- Banking & Finance



Parami Energy is an energy company with a vision; we always go the extra mile. We go the extra mile with our clients so that we can go the extra mile with our CSR program. That is why we are one of the fastest growing Oil and Gas companies in Myanmar.

We care passionately about our environment, the communities we serve and the next generation of our children. By 2015 we will have planted 500,000 trees and will be funding one third of Monastery schools across the country.

Address: 14-02 & 15-07, Sakura Tower,
Sule Pagoda Road, Yangon, Myanmar.
Tel.: +95 1 255 104, 225 106 Fax.: + 95 1 255 109
website: www.parami.biz
email: energy@parami.biz



BOOM TIMES FOR MINING SECTOR

>>PRECIOUS METALS AND GEMSTONES FUEL INVESTMENT BOOM, AS CHINA SPENDS

Myanmar has incredibly large mineral reserves, of which much remains untapped. Long known for its world-class gems—most famously rubies, jade, and sapphires—and is also rich in tin, antimony, chromium, nickel, platinum group metals, copper, gold, lead, zinc, silver, tungsten, and spinel. And the fairy-tale list of resources continues with petroleum, coal, marble, limestone, natural gas, and hydropower. But Myanmar also has a notable history of protectionism, starting in the 1500s, when the country's kings first took control of the ruby mines, rarely allowing outsiders access. And today, the international community impatiently awaits the mining business to be fully opened to foreigners.

What makes these gems so sought after? Their rarity: Myanmar's rubies are the much-vaunted dark "pigeon blood" variety and account for 90 percent of the global trade. Known for its deep green color, jadeite had a turnover of \$1.75 billion in 2010–2011, good for a fifth of Myanmar's exports, and the country is also home to the much-desired Imperial jade. The Myanmar Gems Emporium January sales accounted for \$702.66 million, making it a flourishing industry thanks to Chinese and, to a degree, Thai demand—in spite of bans by the United States and European Union.

Despite its protectionist reputation, Myanmar's government does encourage and collaborate with foreign mining companies on copper, gold, lead, zinc, iron, and steel production.

Currently, Myanmar's mining industry remains rudimentary, with limited technology and poor infrastructure. Or, put another way, for those willing to take the risk, it has space for discovery: "Just like Canada," said Jon North in an interview with the Myanmar Times, linking the state of modern-day Myanmar's mining business to an unexplored Canada a century ago. Mr. North is CEO of Canada's Northquest and a trained geologist. His company is currently exploring gold deposits in central Myanmar, and he is bullish about its prospects.

The country's number-one gem producer

is Ruby Dragon Companies, which was founded in 1992 and is one of the most successful conglomerates in Myanmar, with 3,000 employees. The original firm started in mining and got involved over the years in the jade and gem finishing and cutting, cement, winery, canning, agriculture, tourism, and hotel industries.

Chairman U Nay Win Tun is looking forward to the moment when the mining business will be fully opened to foreigners: "We have sufficient raw materials," he says. The international community should invest, and it "will be able to compete with China. The economy will be developed if there is competition."

This self-made man is not simply interested in increasing his turnover; he has invested US\$1.5 million in the Metals Foundation, which aims to educate mining engineers and technicians from all ethnic backgrounds. "Now I am helping to set up ten companies in each state with my own money." On a different note, Win Tun is also active in the eradication of opium fields, which he replaces with sugarcane. Win Tun is also the owner of Red Mountain Estate Vineyards & Winery, which he founded in 2002. A glass of Sauvignon Blanc? This proud visionary makes it all!

Delco Mining Co. operates one of the biggest mining sites in southern Myanmar. The group, founded in 2007, includes Myanmar Apex (Pang Wah) Mining Co., Natural Energy Wave Co., and Diamond Auto Services and has about three hundred employees.

Delco Mining Co. is the leader in tin-tungsten and mixed ores and has ambitious future plans to meet domestic and overseas demands. "If there is one sector in which Myanmar is a global player, it is mining... We are committed to supplying high-quality advanced materials while respecting the environment. . . . However, we cannot stop there, and that is why we are interested in offering to our customers more elaborate products to fulfill their demands. This would be beneficial for Delco, but also for the country as a whole.

We want to team up with foreign investors in mutual benefit to achieve our goals," explains Mr. Ding Ying, chairman of the company. Delco has plans for involvement in the Dawei deep-sea port's hydropower project and in the construction of a dam. "We intend to continue growing with the country." Delco has a lot to offer future foreign partners, and it is sure to consolidate its leadership in the tin-tungsten and mixed ores segment.

She Shines Gems is Myanmar's leading luxury jeweler and a proud family business, with an annual turnover of around US\$50 million, boasting customers from all over the region. It all started about fifteen years ago, when the mother of the current managing director started selling jewelry from home, with the gems from a relative's mine. Five years later, the family bought a factory and a showroom, and She Shines was born, says Soe Nan Thi, the managing director.

She Shines sells high-quality gems, such as jade, ruby, and sapphire, but doesn't fear competition. Sri Lanka, for example, produces good-quality sapphire, but, Ms. Nan Thi explains, "That is mostly heated. Burmese is never heated. When people want to buy for investment, they prefer to buy a natural stone." She estimates that her country produces about 70 percent of the world's sapphires. "Jade is good for 100 percent," she continues. "Chinese jade is in reality of Myanmar origin."

She Shines has about seventy employees, including twelve Thai gem technicians who train the locals. Ms. Nan Thi plans to open a second shop in Yangon and then go international: "I bought an office in Hong Kong. If we have the chance, we want to extend to Europe, and are looking at Switzerland at present."

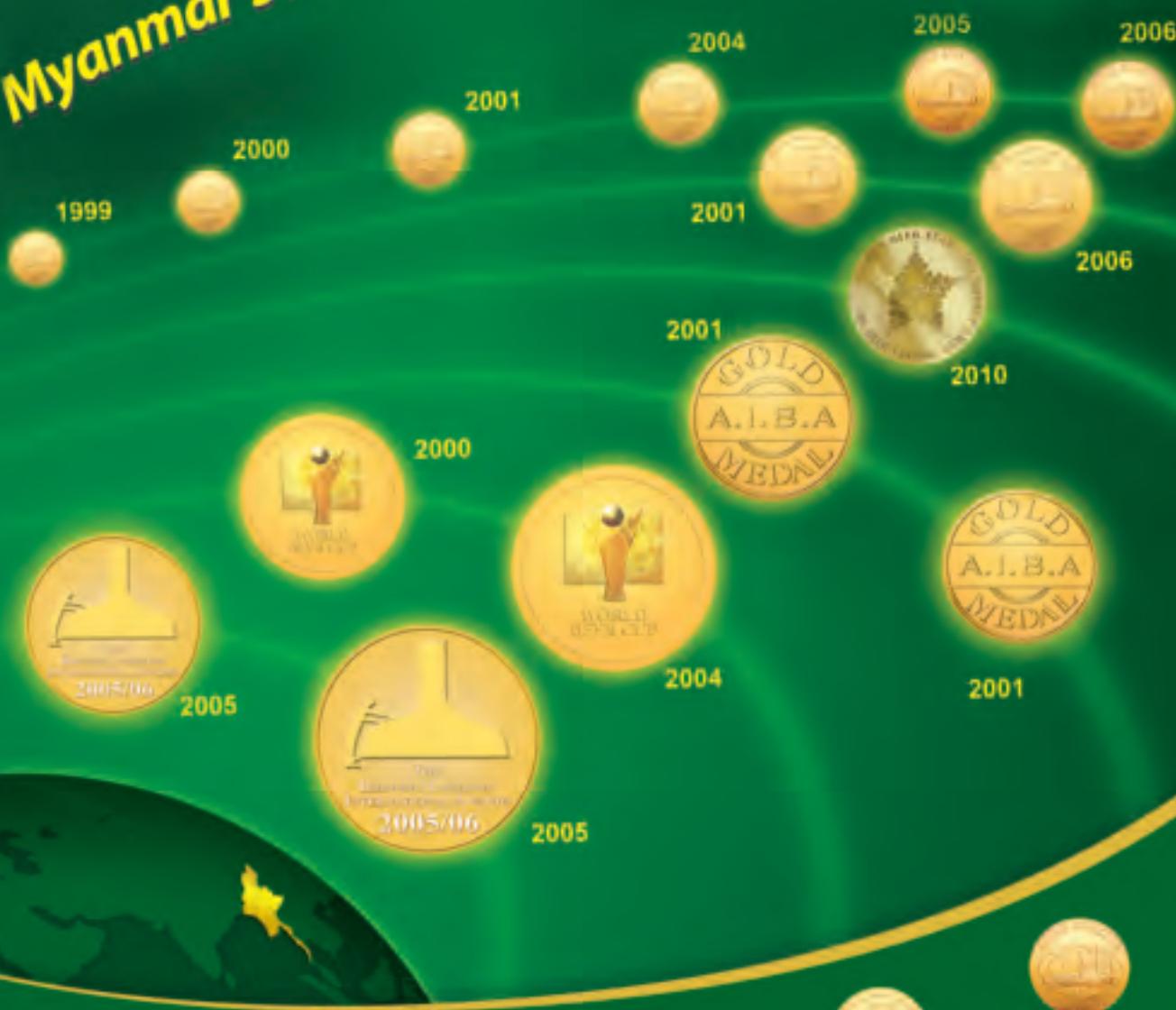
For She Shines, the future is dazzling. ●



Nay Win Tun, Chairman
Ruby Dragon Companies



Myanmar's International Championship Beer!



BIA - The Brewing Industry International Awards
 Double Gold 2001/06
 (Beer Oscar)



World Beer Cup
 Gold 2000/2004
 (Beer Olympics)



Australian International Beer Award
 Double Gold 2001



European Beer Star
 Gold 2010



High Quality Trophy
 2001/2006



Munka Selection
 Gold
 1999 to 2001/2004 to 2006

Competition for Gold, Silver, Bronze for each beer category

Competition for classifying quality standard of any product

The End of the Age of Petraeus

The Rise and Fall of Counterinsurgency

Fred Kaplan

The downfall of David Petraeus sent such shock waves through the policy establishment when it hit the news in November because the cause was so banal: the most celebrated and controversial military officer of our time compelled to resign from his dream job as CIA director as the result of an extramarital affair. Yet long after the headshaking details are forgotten, Petraeus' larger significance will remain, as his career traced one of the era's crucial strategic narratives—the rise and fall of counterinsurgency in U.S. military policy.

As recently as 2006, the country's top generals were openly scorning counterinsurgency as a concept; the secretary of defense all but banned the term's utterance. One year later, it was enshrined as army doctrine, promoted at the highest levels of the Pentagon, and declared official U.S. policy by the president. Then, five years after that, a new president and new defense secretary barred the military chiefs from even considering counterinsurgency among the war-fighting scenarios used to calculate the military's force requirements.

The swerves reflected the changing courses of the wars being fought on the ground. The George W. Bush administration had invaded Afghanistan in 2001 and Iraq in 2003 with a “light footprint” strategy, designed to defeat the enemies and get out quickly to avoid getting bogged down. That approach, however, revealed its limits as Iraq began unraveling soon after the collapse of Saddam Hussein's regime, and by mid-2006, the country had slipped into a vicious, chaotic civil war. A desperate Bush decided to gamble on counterinsurgency in a last-ditch

FRED KAPLAN is the “War Stories” columnist for *Slate* and the author of *The Insurgents: David Petraeus and the Plot to Change the American Way of War* (Simon & Schuster, 2013), from which this essay is adapted. Follow him on Twitter @fmkaplan.

Fred Kaplan

effort to head off disaster, and he picked Petraeus, the author of a new army manual on the subject, to lead the effort. The apparent success of the new approach in stanching the bleeding inspired commanders, including Petraeus himself, to apply it to the worsening conflict in Afghanistan as well. But its apparent failure there led President Barack Obama—never a huge fan—to back away from the strategy not only there but in general.

U.S. troops are now out of Iraq and being drawn down in Afghanistan, but the basic questions about counterinsurgency—or COIN, as it is widely abbreviated—remain. Did it really succeed in Iraq, and if so, how? Why did it not work in Afghanistan? Is it a viable strategy for dealing with contemporary insurgencies, and even if it is, can it be employed by a democracy, such as the United States, with little patience for protracted war?

THE ROOTS OF THE COIN CABAL

The revival of COIN in the Age of Petraeus—a brief era, but worthy of the title, so thorough was his influence and the improbable fame he attained—was in part the product of generational politics. In 1974, when Petraeus graduated from West Point, the Vietnam War was approaching its inglorious denouement, and the U.S. Army's senior leaders were determined never to fight guerrillas again, in the jungle or anyplace else. They turned their gaze instead to the prospect of a major conventional war with the Soviet Union on the wide-open plains of Europe and threw out the books on what they termed “low-intensity conflict.” By the early 1990s, army scribes had come up with a still more dismissive term: “military operations other than war,” abbreviated as MOOTW (pronounced “moot-wah”). And the feeling was, as General John Shalikashvili, former chairman of the Joint Chiefs of Staff, once muttered, “Real men don't do moot-wah.”

Many of today's officers, however, rose through the ranks fighting precisely these “other-than-war wars” (as some called them), in El Salvador, Panama, Somalia, Haiti, and the Balkans, which didn't seem so low intensity and certainly felt like wars. Petraeus himself spent the early years of his career as an airborne infantry officer in France and Italy, where he happened upon a shelf-load of books touting what the French call “revolutionary warfare”: Jean Lartéguy's novel *The Centurions*, Bernard Fall's *Street Without Joy* and *Hell in a Very Small Place*, and, most influential, David Galula's *Counterinsurgency Warfare*:

Theory and Practice. Galula, who had observed and fought in several counterinsurgencies himself, was unlike any author Petraeus had read before. “Revolutionary war,” his book stated, has “special rules, different from those of the conventional war.” It’s like a fight between a lion and a flea: the flea can’t deliver the knockout punch, and the lion can’t fly. The insurgent can sow disorder anywhere, whereas the counterinsurgent—fighting on behalf of the government—has to maintain order everywhere. Defeating fleas requires draining the swamp that sustains them;

Few U.S. military commanders detected the rise of an insurgency in Iraq; fewer still understood its implications.

defeating insurgencies requires protecting, then wooing or co-opting, the population that sustains their cause. As Galula described, a soldier in a COIN campaign must “be prepared to become a propagandist, a social worker, a civil engineer, a schoolteacher, a nurse.” Likewise, “a mimeograph machine may turn out to be more useful than a machine gun,” and “clerks [are] more in demand than riflemen.” These kinds of wars, Galula calculated, quoting Mao, are “20 percent military action and 80 percent political.”

In the mid-1980s, Petraeus spent a summer as an aide to General John Galvin, head of the U.S. Southern Command. Central America was then blazing with the sorts of insurgencies that Petraeus had previously only read about; in El Salvador, U.S. military aides were devising something close to a counterinsurgency plan. Toward the end of his stay, Petraeus ghostwrote an article for Galvin titled “Uncomfortable Wars: Toward a New Paradigm,” which called on the army to abandon its obsession with big wars and firepower and to recognize the prevalence of new kinds of warfare—subversion, terrorism, guerrilla insurgencies. When he returned to the States, Petraeus elaborated on these points in a Princeton doctoral dissertation on the army’s “myopic” post-Vietnam aversion to such conflict and its need to change its doctrine, tactics, and personnel policies accordingly.

In the mid-1990s, Petraeus served as chief of operations in the U.S.-led multinational peacekeeping force in Haiti, his first experience with full-fledged nation building. A few years later, in 2001, he was deployed to Sarajevo, as NATO’s assistant chief of staff for operations and deputy commander of a clandestine unit called the Joint Interagency Counterterrorism Task Force. A briefing for his campaign plan

Fred Kaplan

emphasized the need both to go after the terrorists directly and to address the problem's root causes, tackling unemployment, the issue of sanctuaries, and a corrupt justice system.

In 2003, the United States went to war in Iraq, and the campaign plan devised by Secretary of Defense Donald Rumsfeld and Tommy Franks, head of the U.S. Central Command, had no use for any of this. It was intended to be a "shock and awe" campaign to topple the regime quickly and then hand over responsibility for the country to somebody, anybody else—American allies, Iraqi exiles, untainted local leaders, whatever. Petraeus commanded the 101st Airborne Division during the brief but fierce drive to Baghdad.

It was after Saddam fell that Petraeus made his mark. Assigned to occupy the northern Iraqi province of Nineveh, including the city of Mosul, he applied all the lessons he had learned during his stints in Central America, Haiti, and Bosnia and from his readings

Petraeus' counterinsurgency field manual was published to much acclaim, some criticism, and a surprising level of curiosity.

of Galula and the other COIN classics (which he brought with him and consulted frequently). He sought out and worked closely with community leaders, vetted candidates for new local elections, got gas pumps working, reopened the university, even opened the province's border with Syria. Petraeus was doing all this on his own initiative. Few other commanders detected the rise of an

insurgency; fewer still understood its implications. They had not read up on counterinsurgency strategy: it hadn't been taught at West Point or any of the army's war colleges recently, and a field manual on the subject had not been published in 20 years.

In 2005, Petraeus returned home to command the U.S. Army Combined Arms Center, at Fort Leavenworth, Kansas. He was determined to get COIN into the army's official curriculum, to see that it was part of the predeployment training programs for all units, and above all to write a new counterinsurgency field manual. At the same time, under the radar, a new generation of like-minded officers was rising through the service ranks, inspired by similar experiences and imbued with similar insights. Much of the new thinking was coalescing in West Point's Department of Social Sciences, known as "Sosh," where Petraeus had taught while finishing his dissertation. Sosh had



Toss the COIN: David Petraeus in Afghanistan, April 2011

long been the army's locus of unconventional thinking, run by professors determined to turn out "very broad-gauged individuals," not just battalion commanders. For the junior officers who had returned from the MOOTW wars of the 1980s and 1990s to teach in Sosh and West Point's history department, the curriculum and discussions reinforced what they had learned on the foggy battlefields in the developing world: that such fights had at least as much to do with politics and economics as with military tactics and that most of their senior officers—still stuck on Cold War precepts stressing large maneuvers and heavy firepower—were ill equipped to command irregular wars.

This group included John Nagl, who would go on to write an influential book on counterinsurgency, *Learning to Eat Soup With a Knife*; H. R. McMaster, who would command one of the Iraq war's most successful COIN campaigns, in the city of Tal Afar; Kalev "Gunner" Sepp, who would help set up a COIN academy for all incoming soldiers in Iraq; and others. During the early years of the U.S. occupation of Iraq, as they realized that the war there had morphed into an insurgency that American military and political leaders didn't recognize or know how to fight, these peculiar officers, along with a few outsiders, wrote articles for army journals, attended workshops and conferences, and formed a nascent community—"the COIN cabal," or "the Sosh Mafia," as some called it. By

Fred Kaplan

the time Petraeus set out to write a new COIN field manual, this network was already in place for him to draw on—and with Petraeus, it gained a leader with ferocious ambition, talent, and stars on his epaulets.

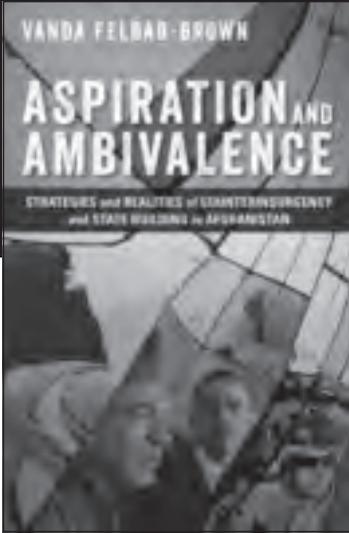
FROM FRYING PAN TO FIRE

Meanwhile, all hell was breaking loose in Iraq. The calm that Petraeus had achieved in Mosul quickly eroded when the 101st Airborne Division rotated out and was replaced by a smaller force with a conventional approach. Other parts of the country deteriorated faster and further. During the three years after the fall of Baghdad, an overtaxed U.S. civilian occupation authority, a hapless and underresourced U.S. military command, and Iraq's own fractious politics combined to produce vicious anarchy. The increasingly authoritarian national government in Baghdad was competing for power not only with insurgents led by disaffected Sunnis and radical jihadists in the west and north but also with separatist Shiites in the south. The capital itself became a killing field, with the conflict throwing up scores of mutilated bodies weekly.

On February 23, 2006—the same day that Petraeus commenced a workshop on his new COIN manual at Fort Leavenworth—Sunnī insurgents blew up the Golden Mosque, a major Shiite shrine in Samarra, sending Iraq to the brink of civil war and giving Petraeus a greater sense of urgency. Pushing the manual through a resistant army bureaucracy and corraling support for COIN among opinion leaders now appeared vital not only to shifting the military's broader view of warfare but also to avoiding catastrophe in Iraq. Petraeus had heard stirrings that in a year's time, he might be sent back to Iraq as the new U.S. commander there. To be able to impose his Nineveh strategy across all of Iraq, however, he would need the cover of officially sanctioned doctrine, which the field manual, if accepted, would provide.

General George Casey, then the U.S. commander in Iraq, had signed on to a COIN campaign plan the previous summer, influenced by his two strategic advisers, Sepp and Colonel William Hix, co-founders of the COIN academy. But by the time of the Samarra attack, Sepp, Hix, and their team of advisers—mostly think-tank Ph.D.'s, nicknamed "doctors without orders"—had rotated out. And Casey's support for COIN had always been shallow. He had served in Bosnia, but unlike Petraeus, he saw it not as a model for future wars but as a trap, in which the locals took advantage of the large and active U.S. presence to shirk their own responsibilities even

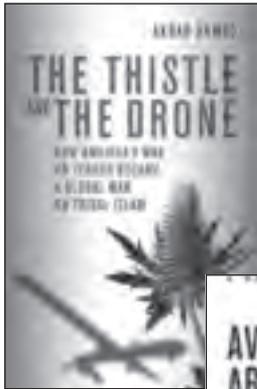
New from BROOKINGS



Aspiration and Ambivalence *Strategies and Realities of Counterinsurgency and State-Building in Afghanistan*

Vanda Felbab-Brown

358 pp., cloth & ebook, \$32.95



The Thistle and the Drone *How America's War on Terror Became a Global War on Tribal Islam*

Akbar Ahmed

300 pp., cloth & ebook, \$28.95

New in paperback

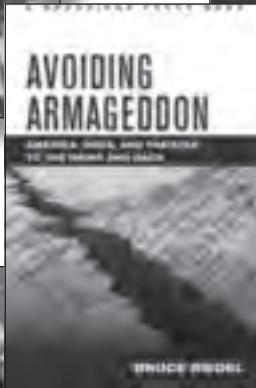


The Lingerin Conflict *Israel, The Arabs, and the Middle East, 1948-2012*

Revised edition with a new preface

Itamar Rabinovich

312 pp., paper & ebook, \$24.95



Avoiding Armageddon *America, India, and Pakistan to the Brink and Back*

Bruce Riedel

A Brookings FOCUS book

220 pp., cloth & ebook \$27.95



Mr. Putin

Operative in the Kremlin

Fiona Hill & Clifford G. Gaddy

A Brookings FOCUS book

400 pp., cloth & ebook, \$29.95



The Opportunity

*Next Steps in Reducing
Nuclear Arms*

Steven Pifer & Michael E. O'Hanlon

A Brookings FOCUS book

242 pp., cloth & ebook \$24.95

B | Brookings Institution Press

Available through booksellers or online at www.brookings.edu/press



CIRS

CENTER FOR
INTERNATIONAL
AND REGIONAL
STUDIES

GEORGETOWN UNIVERSITY
SCHOOL OF FOREIGN SERVICE IN QATAR

ABOUT CIRS

Established in 2005, the Center for International and Regional Studies (CIRS) at the Georgetown University School of Foreign Service in Qatar is a premier research institute devoted to the academic study of regional and international issues through dialogue and exchange of ideas, research and scholarship, and engagement with scholars, opinion makers, practitioners, and activists.

CURRENT RESEARCH INITIATIVES

The State and Innovation in the Persian Gulf

This initiative looks at how GCC states engage in extensive and expansive efforts to foster technical and scientific innovation in their societies to bring about knowledge-based, post-oil economies. Grants will be available for this project.

Politics and the Media in the Post-Arab Spring Middle East

This is a research project that explores the role of traditional and new media across the Middle East during and after the Arab Spring.

Arab Migrant Communities in the GCC

CIRS supports original research examining the communities of migrants and other temporary residents from across the Arab world. Grants will be available for this project.

Weak States in the Greater Middle East

This project examines the causes and consequences of the fragility of states from Afghanistan and Pakistan in the east to Sudan and Libya in the west.

Social Change in Post-Khomeini Iran

This initiative examines some of the most important topics within contemporary Iran, focusing on its social, cultural, economic, and political domains.

RESEARCH OPPORTUNITIES

Visiting Scholar

The position is open to mid- and senior-level scholars in any discipline working on any area of the Middle East, with priority given to those working on issues related to the Persian Gulf.

Post-Doctoral Fellow

CIRS offers opportunities for PhD recipients in all disciplines working on the Middle East, with priority given to those working on the Persian Gulf.

CIRS Grants

To contribute to the existing body of knowledge on issues related to the Gulf region and the Middle East, CIRS funds empirically-based, original research projects on a variety of solicited topics. Please visit <http://cirs.georgetown.edu/research/grants/>.

Books

- *Food Security in the Middle East* (Hurst, 2013)
- *Migrant Labor in the Persian Gulf* (Columbia University Press, 2012).
- *The Nuclear Question in the Middle East* (Columbia University Press, 2012).
- *The Political Economy of the Persian Gulf* (Columbia University Press, 2012).
- *The International Politics of the Persian Gulf* (Syracuse University Press, 2011).
- *Innovation in Islam: Traditions and Contributions* (University of California Press, 2011).

CALL FOR PAPERS

CIRS invites manuscript submissions for its Occasional Paper series. Papers dealing with issues of relevance to the Persian Gulf are accepted from all disciplines.

To submit a paper, or to request free copies of CIRS materials, contact cirsresearch@georgetown.edu or visit <http://cirs.georgetown.edu/publications>.

For more information, please email cirsresearch@georgetown.edu
Tel: +974 4457 8400 • Fax: +974 4457 8401 • <http://cirs.georgetown.edu>

as their resentment of the outsiders grew. Casey was also an institutional army man, and from that perspective, he saw Iraq draining the army of resources. Finally, he had his orders: Rumsfeld was telling him to lower the U.S. profile and get out of Iraq as quickly as possible.

So Casey responded to the Samarra bombing and the subsequent violence by returning to his pre-COIN position. The war, as Casey saw it, had degenerated into a battle for political and economic power among many ethno-sectarian factions, and with no single insurgency, it made no sense to pursue a counterinsurgency strategy. He reverted to the only alternative he knew, his original plan, written before Hix and Sepp joined his staff, which involved turning over authority to the Iraqi government and withdrawing rapidly.

To the COIN advocates, Casey was defining counterinsurgency too literally. Another phrase for such campaigns, after all, is “stability operations,” and Iraq in the spring of 2006 was the very picture of instability. Handing responsibility to the Shiite-dominated Iraqi government would make things worse rather than better, since the government was itself one of the warring factions. The Interior Ministry’s police weren’t guardians of public order; they were death squads assassinating Sunnis in broad daylight. The Health Ministry’s guards were refusing to treat wounded Sunnis in their emergency wards and, in some cases, were actually murdering them. Scaling back and pulling out would pour oil on the flames and possibly ignite a broader regional conflict.

The alternative put forth by the “COINdinistas” came straight from Galula. The task of a counterinsurgent army, he had written, was to push the bad guys out of one area at a time, and then to stay there, so they wouldn’t come back. Meanwhile, it also had to train the local police and soldiers, so they could secure their country by themselves, and help the local government provide basic services, thus earning the allegiance of the people and drying up, or co-opting, their support for the insurgency. The shorthand term for this strategy (taken from a similar, although brief, effort during the Vietnam War) was “clear, hold, and build”: clear the insurgents, hold the area, and build services and support.

Petraeus’ COIN field manual was published on December 15, 2006, to much acclaim, some criticism, and a surprising level of curiosity. In part because of Petraeus’ fame as the hero of Mosul and his knack for dealing with the press and Congress, 1.5 million people downloaded the manual’s online edition in its first month on U.S. Army Web sites. But army doctrine was one thing, national policy another. Before it could

Fred Kaplan

have much effect on the war or the U.S. military at large, four changes would have to take place: there would have to be a new secretary of defense in Washington, a new U.S. commander on the ground in Iraq, more troops to implement the new approach, and a clear example of practical success to light the way forward. As it happened, in the month that the manual was published, the groundwork was laid for all four.

THE STORY OF THE SURGE

On November 7, 2006, the Republican Party had lost badly in the midterm elections; as Bush noted, the voters had given his administration and party “a thumping.” In the wake of the defeat, Bush fired Rumsfeld, the chief theorist and most passionate advocate of the “light footprint” approach, paving the way for serious consideration of the alternative Iraq strategy that had been gaining ground among dissidents in various quarters.

The case for what would come to be known as “the surge” grew out of quantitative analysis but spread as a result of bureaucratic networking. During the course of 2006, the Iraq Study Group—a blue-ribbon panel appointed by Congress to give advice on the faltering war effort—held its deliberations about what the government should do next. As the fall progressed, Frederick Kagan, a defense analyst at the American Enterprise Institute, worried that the commission would recommend a rapid withdrawal rather than a commitment to stay and win. Kagan had spent the previous decade as a civilian professor of military history at West Point, teaching, among other things, the course on revolutionary warfare, the academy’s one post-Vietnam concession to COIN theory. One of his colleagues during those years, and for a time his officemate, was McMaster, the commander of the COIN campaign in Tal Afar. McMaster was now in Washington, as one of 15 colonels secretly advising the Joint Chiefs of Staff on options for Iraq. (He had been recommended by Petraeus.)

Kagan and McMaster both agreed with Casey’s critics, but Kagan needed some hard evidence to back up his case against the hand-over-and-withdraw plan. McMaster suggested that Kagan call two of his former aides from Tal Afar, Colonel Joel Armstrong and Major Daniel Dwyer, who had done the fine-tuned analysis that made the operation there a success, including crunching the numbers on how many troops were necessary, when, and where. (Both had since retired from the army.) Kagan and a few assistants had already gone through the open-

source literature to pinpoint the Iraqi neighborhoods with the most violence, mainly in Baghdad and Anbar Province. Armstrong and Dwyer now called up overhead images of those areas on the Google Earth Web site and calculated how many troops would be needed to secure—to clear and hold—each area. The conclusion: five brigade combat teams and two regimental combat teams, about 24,000 extra troops in all. Dwyer then computed how quickly those units could be mobilized to Iraq, drawing on the army’s “force generation model.” (The model was classified, but Dwyer, to his amazement, found it reprinted on Wikipedia.) It turned out that five brigade combat teams and two regimental combat teams were exactly the number that could be spared for Iraq.

Petraeus frequently said both publicly and privately that the surge was a means, not an end.

Kagan, Armstrong, and Dwyer prepared a PowerPoint briefing based on their analysis—55 slides in all—and presented it at a conference in early December. But first, Kagan showed it to Jack Keane, a retired army general who was also growing worried about Iraq. As it happened, Keane had been called to a White House meeting the following week, as one of a handful of experts to discuss Iraq with Bush. Keane brought along a copy of Kagan’s slides and gave them to Vice President Dick Cheney. During the meeting, all the experts urged Bush to fire Casey. Bush asked who should replace him. Keane mentioned Petraeus; others agreed.

Bush had recently appointed Robert Gates, a former CIA director, to be Rumsfeld’s successor, and on his first full day in the position, Gates and a handful of his staff members flew to Iraq. Eric Edelman, then undersecretary of defense, had found out about the briefing by Kagan, who had worked long ago as his intern, asked for a copy of the slides, and showed them to Gates on the flight over. “The president has seen these,” Edelman said. “You should, too.” Meanwhile, Petraeus had been tapping into his own network, including McMaster, several other colonels and generals on the Joint Staff, and, not least, Meghan O’Sullivan, Bush’s special assistant on Iraq, with whom Petraeus had established a back channel: she would use him for a reality check on Casey’s reporting, and he would use her for updates on the state of play in the White House.

By the time Bush met with his senior national security advisers in Crawford, Texas, over Christmas to discuss Iraq, the fix was in place for the surge, a change of strategies, and the appointment of Petraeus as top

Fred Kaplan

commander. In a prime-time speech on January 4, 2007, announcing his plans, Bush declared that the situation in Iraq was unacceptable and that “we need to change our strategy.” To facilitate the change, he said, he had decided to send “more than 20,000 additional troops”—five army brigades to Baghdad and another 4,000 marines to Anbar. “In earlier operations,” he noted, “Iraq and American forces cleared many neighborhoods of terrorists and insurgents, but when our forces moved on to other targets, the killers returned. This time we’ll have the force levels we need to hold the areas that have been cleared.” Counterinsurgency was now official policy.

STANCHING THE BLEEDING

While these maneuverings were playing out on the home front, something was happening in the epicenter of violence in Iraq. Seventy miles west of Baghdad, in the capital of Anbar Province, Ramadi—a city of nearly half a million people where Sunni insurgents ran free and al Qaeda gunmen enjoyed unchecked control—a mere 6,000 U.S. troops were turning the war around through classic COIN techniques, with little direction or even recognition from Baghdad or Washington.

The phenomenon came to be called the Anbar Awakening. It began when local Sunni sheiks concluded that the jihadists in their midst were stepping out of line: forcibly marrying their daughters and killing anyone who resisted, often dumping their bodies in fields rather than giving them proper Muslim burials. Sunni militiamen who had been shooting at the American occupiers a few weeks earlier now started asking them for help against a common—and more dangerous—enemy. Colonel Sean MacFarland, the army brigade commander on the ground, had been a Sosh cadet at West Point, had pored over COIN literature at Fort Leavenworth’s School of Advanced Military Studies, and, more recently, had replaced McMaster as the commander in charge of Tal Afar. McMaster had briefed him fully on what he had done there; MacFarland added his own twists and later decided to apply the same principles when he was reassigned to Ramadi.

Ramadi was a tougher nut to crack. Once McMaster had driven the insurgents out of Tal Afar, for example, he built a fence around the city to keep them out, but in Ramadi, the insurgents were living in the city. So MacFarland had to find potential allies, recruit them into a police force, and hand out money for economic development projects, all while heavy fighting was still going on.

Still, by the time Petraeus returned to Iraq, the clear, hold, build approach was showing results in Anbar, and the new commander decided to extend it throughout the Sunni regions of the country. He called the program the Sons of Iraq, recruiting former militiamen to join the fight against al Qaeda, giving them weapons, and paying them out of his commander's discretionary fund (a move of borderline legality, but he persuaded his lawyers to approve it under the rubric of "site security"). "Cash is a form of ammunition," Galula had written, and Petraeus kept it flowing.

In that first year, as the surge took hold and the strategy evolved, casualties at first rose but then subsided. The cycle of violence—the persistent pattern of Sunni attack sparking Shiite retaliation, provoking Sunni attack, and so on—broke.

The Anbar Awakening had preceded Petraeus and the surge, and it was initiated by Sunnis, not Americans. But it took an officer of MacFarland's training and disposition to grasp its potential and respond to it shrewdly. Even then, it would have remained a local phenomenon had it not been for the surge and Petraeus. The surge provided the resources to spread the Awakening across the rest of Iraq; Petraeus knew exactly how to spread it.

Petraeus' success, throughout his career, had stemmed in part from his brazen assertiveness. During the Casey era, U.S. forces often faced attacks from a Shiite militia based in the Baghdad neighborhood of Sadr City, but Iraqi Prime Minister Nouri al-Maliki barred Casey from responding, and Casey complied. By contrast, Petraeus simply ordered his troops into Sadr City without telling Maliki ahead of time, then gave him intelligence materials showing that Muqtada al-Sadr, the militia's leader, was not the reliable friend that Maliki had believed.

The 2007 turnaround in Iraq was remarkable, but it was also oversold. It was not due entirely to the surge or to COIN or to Petraeus personally. There were other factors, which had little to do with anything the Americans had done (apart from invading Iraq and thus ripping its social fabric apart in the first place). Petraeus' command and the surge came late to the civil war. Many areas of violence had

The 2007 turnaround in Iraq was remarkable, but it was also oversold. It was not due entirely to the surge or to counterinsurgency or to Petraeus personally.

Fred Kaplan

already been cleared through ethnic cleansing and the exile of hundreds of thousands of Sunnis. Moreover, the Sunnis would not have been so eager to split with the jihadists, much less ally with the Americans, had they not realized that they were losing the civil war against the Shiites. Similarly, Maliki consented to U.S. assaults on Shiite militias in part because he had no choice but also because he, too, had come to realize that his erstwhile partner Sadr was at least as much a threat as an ally.

There was also a larger issue. Petraeus frequently said both publicly and privately that the surge was a means, not an end. The idea was to give Iraq's factions a relatively calm breathing space in which they could work out a durable political settlement, one that reconciled Sunnis and Shiites so as to create truly national institutions, dealt with Kurdish claims of regional autonomy, divided up Iraq's oil wealth, and resolved property disputes in Kirkuk. Six years later, none of this has happened. The surge and the switch to COIN can be seen, in retrospect, as mere tactical successes at best. At the time, however, they were seen as much more than that, and so they helped shape decisions when it came to the next large-scale escalation.

LATHER, RINSE, REPEAT

During the 2008 presidential campaign, Obama repeatedly called for sending more troops to Afghanistan. Many thought he was playing politics: Iraq was Bush's war, therefore bad; Afghanistan was the war Bush had neglected, therefore good. There may have been something to this, but another factor was that one of Obama's foreign policy advisers was Bruce Riedel. A recently retired CIA analyst with a specialty in South Asia, Riedel possessed a deep knowledge of terrorist groups in Afghanistan and Pakistan, and the Democratic candidate heeded his briefings on their dangers.

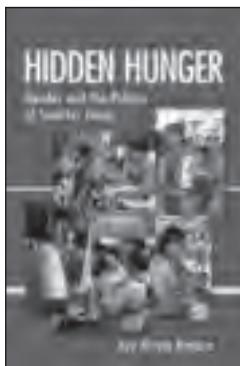
After his election, Obama set about making good on his commitment, putting Riedel in charge of a quick review of policy toward what was now called AfPak. The results of the review were announced at the end of March 2009, enshrining goals for Afghanistan—to “degrade, dismantle, and destroy al Qaeda”; accelerate training of the Afghan military; and build up the Kabul government—and arguing that the best way to accomplish them, at least in the southern part of the country, was through “a fully resourced counterinsurgency strategy.” As

Celebrating the International Fellows Program



Columbia's School of International and Public Affairs, the world's most global public policy school, has for half a century offered students a heightened understanding of international change through its International Fellows Program (IFP).

sipa.columbia.edu



Cauldron of Resistance
Ngo Dinh Diem, the United States, and 1950s Southern Vietnam

JESSICA M. CHAPMAN

“*Cauldron of Resistance* is a major addition to the growing literature on the complexities of Southern Vietnam in the 1950s. In more detail than any account I’ve yet read, Chapman offers an indispensable analysis of the daily politics of Southern Vietnam, illuminating as she goes the policies of both Vietnam and the United States.”

—MARILYN YOUNG, AUTHOR OF *THE VIETNAM WARS, 1945–1990*

\$39.95 cloth | THE UNITED STATES IN THE WORLD

New in Paperback

War on Sacred Grounds

RON E. HASSNER

“An important and engaging work. Hassner explores why sacred places are contested and then examines why the ‘indivisibility’ of sacred sites makes them more problematic to solve than common territorial disputes.”

—MIDDLE EAST JOURNAL

\$19.95 paper

What Rebels Want

Resources and Supply Networks in Wartime

JENNIFER M. HAZEN

In *What Rebels Want*, Jennifer M. Hazen challenges the commonly held view that rebel groups can get what they want, when they want it, and when they most need it. Hazen’s assessments of resource availability in the wars in Sierra Leone, Liberia, and Côte d’Ivoire lead to a better understanding of rebel group capacity and options for war and war termination.

\$45.00 cloth

Hidden Hunger

Gender and the Politics of Smarter Foods

AYA HIRATA KIMURA

“In *Hidden Hunger*, Kimura usefully points out and illustrates how government and industry persistently and nonsensically ignore the views and needs of the supposed ‘target groups’—women and children.”

—CAROL J. PIERCE COLFER,
AUTHOR OF *THE COMPLEX FOREST*

\$24.95 paper

The Politics of Timor-Leste

Democratic Consolidation after Intervention

EDITED BY MICHAEL LEACH AND DAMIEN KINGSBURY

“*The Politics of Timor-Leste* is an essential reference point for anyone concerned with the most important political issues to be addressed by the country in the coming years. Its authors provide a comprehensive overview of political parties, and the electoral and judicial systems, and describe the main aspects of development strategies implemented since independence.”

—JOHN G. TAYLOR, AUTHOR OF *EAST TIMOR: THE PRICE OF FREEDOM*

\$23.95 paper | DISTRIBUTED FOR SOUTHEAST ASIA PROGRAM PUBLICATIONS

Back in Print

Inadvertent Escalation

Conventional War and Nuclear Risks

BARRY R. POSEN

“As long as nuclear weapons exist, they may be used, and Barry Posen’s book is a valuable contribution to thinking about ways in which nuclear weapon use might come about.”

—INTERNATIONAL AFFAIRS

\$29.95 paper | CORNELL STUDIES IN SECURITY AFFAIRS

in Iraq, the new policy was accompanied by a dynamic new commander, General Stanley McChrystal, and some additional troops.

By his own admission, Riedel knew nothing about COIN beforehand and was influenced on this point by one of the members of the inter-agency group that worked on the review: Petraeus, now commander of Central Command. Most of Obama's senior advisers backed the idea, again under Petraeus' influence, but there were two major dissenters. Vice President Joseph Biden favored a "counterterrorism-plus" strategy—just going after the insurgents (using drones strikes and Special Forces raids) and training the Afghan army—on the grounds that COIN would take too long and exhaust the public's patience. The other skeptic was Gates, who had stayed on as defense secretary. He had been deputy director of the CIA when the Soviets crashed and burned on Afghanistan's forbidding terrain, and he worried that if the U.S. footprint got too large and intrusive, history might repeat itself.

By late summer, two things had changed Gates' mind. The first was an article in *The Weekly Standard* called "We're Not the Soviets in Afghanistan," by Kagan (who had made the case for the surge in Iraq), which noted that the Soviets had rolled in with brute force, that their arsenals contained no precision weapons, and that their soldiers had had no experience with COIN. The United States would do things differently. The second was a 66-page secret report by McChrystal, who had conducted his own policy review, with his own team of COINdinistas, after arriving on the scene.

The report was leaked to *The Washington Post* in September, just as the White House was in the midst of another review of its policy on Afghanistan. Obama's top aides were infuriated, seeing the leak as additional pressure from the generals to jump into a full-scale COIN campaign. At the end of the year, Obama announced a compromise decision: McChrystal would get his Afghan surge (33,000 U.S. troops plus 7,000 more from NATO allies), but they would have a brief window in which to operate; withdrawal would begin in mid-2011.

The new commander was not a newcomer to COIN theory, as some believed at the time. At West Point, where McChrystal was two years behind Petraeus, his favorite course had been the one on revolutionary warfare. But his recent experience lay in the kill-and-capture realm, which he had revolutionized during the Iraq war as head of the Joint Special Operations Command. When reintroduced to COIN as he took command in Afghanistan, he embraced it with the zeal of a convert.

Fred Kaplan

McChrystal embraced counterinsurgency with a rigid literalism, weighing down his officers with incapacitating rules of engagement.

McChrystal's tenure was not a success. He embraced COIN with a rigid literalism. Galula had defined counterinsurgencies as 80 percent political and 20 percent military action; McChrystal, in his official "COIN Guidance," put the split at 95/5, weighing down his officers with incapacitating rules of engagement. His intention was to put an end to the free-fire zones and strafing that his predecessor had encouraged. But he had an oddly mechanical view of the strategy's workings. Planning his first offensive, in Marja in early 2010, he thought the fighting would be over in a week or so, and then, as he told Dexter Filkins of *The New York Times*, "We've got a government in a box, ready to roll in." Nothing was so simple. The fighting persisted; the "government in a box" was illusory.

That summer, McChrystal resigned after *Rolling Stone* published an article quoting him and his staff making crude comments about senior U.S. officials. Obama appointed Petraeus to take his place. If anyone could make COIN work in Afghanistan, it was the general who had seemed to make it work in Iraq.

The problem was that no one could make it work in Afghanistan. Sometimes, Petraeus himself seemed to understand this. One chapter of Galula's book (which he continued to consult) is titled "The Prerequisites for a Successful Insurgency." The conditions it describes include a weak or corrupt government; a neighboring country that offers safe havens; a predominantly rural, illiterate population; and a primitive economy—precisely the traits that marked Hamid Karzai's Afghanistan. In the PowerPoint briefing that Petraeus delivered to countless delegations visiting his Kabul headquarters, he titled one slide "Storm Clouds," listing all these factors as ill omens for the war's outcome.

But Petraeus' optimism burst through all too persistently. Petraeus recognized the obstacles, but surmounting obstacles was his specialty; it was what he did, most recently, and remarkably, in Iraq. Intellectually, he understood that the two wars and the two countries were very different; his PowerPoint briefing included a slide that read, "Afghanistan Is Not Iraq." But Iraq was what he knew best, so it was natural for him to view Afghan problems through an Iraqi prism. His instinctive reaction to

each new challenge was to seek a parallel from his years in Iraq (*We solved that this way in Mosul. . . . We did this when that happened in Anbar. . . . I said this when Maliki threatened to do that*). Once he drew a comparison between Kabul and Baghdad during a conversation with Karzai himself. Afterward, one of his aides, who had worked in both countries, told him bluntly, “Don’t talk about Iraq so much,” adding, “It might be a great mental exercise for you to try not thinking about Iraq at all.” Petraeus nodded and said, “I’m working on it.”

The fact was that there were no parallels to what had facilitated COIN in Iraq: the sectarian and tribal divides were more complex; there was no foundation for, say, a Pashtun Awakening; the main enemy, the Taliban, was homegrown, not foreign. The problem wasn’t Petraeus or McChrystal or even Karzai; it was that Afghanistan was not susceptible to COIN. Eventually, Obama recognized this. He had endorsed a surge and COIN in Afghanistan provisionally, giving the policy 18 months to produce results. The generals assured him, with more hope than analysis, that this was feasible. When it proved otherwise, he pulled out the surge troops and scaled back COIN to Biden’s counterterrorism-plus. Meanwhile, he had killed Osama bin Laden and decimated al Qaeda’s ranks, so he could do all this while declaring victory.

Back in February 2006, at the workshop that Petraeus held at Fort Leavenworth to discuss the COIN field manual, some attendees had questioned the whole enterprise. Were the historical precedents for COIN—mainly, colonial wars against Maoist insurgents—relevant against messianic jihadists in failed but sovereign states? If the main goal of a COIN strategy is to help the local government attain legitimacy, what does legitimacy mean and how can it be promoted? And is the necessarily protracted nature of a true counterinsurgency campaign plausible given the U.S. political system’s demand for quick results? Petraeus had written in his dissertation that “Vietnam was an extremely painful reminder that when it comes to intervention, time and patience are not American virtues in abundant supply.” Were he to update his thesis, he might note that Iraq and Afghanistan are now such reminders as well.

THE FIRE NEXT TIME

As the Age of Petraeus comes to a close, what lessons can be learned? A COIN approach did help produce stunning results in parts of Iraq and Afghanistan, most notably Mosul, Tal Afar, and Anbar Province, whose

Fred Kaplan

Awakening then spread to many other Sunni districts. The distinctive thing, however, was that in these areas, the Americans and the local authorities—the mayor, the provincial council, or tribal elders—shared common interests or at least common enemies. But in both Iraq and Afghanistan, the central governments, which COIN was ultimately supposed to strengthen, were another matter. If the identity and interests of a government obstruct the regime’s willingness or ability to govern its people with legitimacy, and if the intervening power has little leverage to alter this fact, then a counterinsurgency campaign may be futile.

The hubbub over Petraeus and his COIN field manual was always overblown. Counterinsurgency is a technique, not a grand strategy. Field manuals are guides for officers preparing to fight in specific settings, and in that sense, a COIN field manual isn’t so different from a field manual for mountain warfare, amphibious operations, or armored combat. If the setting is appropriate and the conditions are favorable, a good field manual can provide a road map for success. But if a mountain is too steep to climb, or a beach is too turbulent to storm, or a field is too cluttered for tanks to maneuver across, then even the best manual won’t help much—and it is a commander’s responsibility to say so.

In assessing the prospects for a COIN campaign, if the insurgents are out of reach, or if the government being challenged is too corrupt to reform, or if the war is likely to take longer and cost more than a president or a nation is willing to commit, then here, too, it is the commander’s responsibility to say so. Few U.S. presidents have plunged into a counterinsurgency on purpose, yet it still tends to happen, one way or another, every generation or so—at intervals just long enough for the lessons of the last such war to be forgotten. It would be good, then, for this generation’s officers, and politicians, to set down the lessons of these COIN wars, so that next time around, the United States might not only fight them more effectively but, more important, calculate more wisely whether to intervene in the first place. 🌐



GROWTH BEYOND OIL

Currently the richest country in the Arab world, Qatar is the largest supplier of liquefied natural gas and has the third-largest supply in natural gas reserves, which are projected to last for more than fifty years.

But Qatar is also rich in ambition as it embarks on creating a future founded on a limitless resource – knowledge and innovation.

Overseen by His Highness the Emir, Sheikh Hamad bin Khalifa Al-Thani, the country has developed the Qatar National Vision (QNV) 2030, which outlines various projects to build a knowledge- and talent-based economy within seventeen years.

The Qatar Science & Technology Park (QSTP), the first of its kind, began operations five years ago as an initiative of Her Highness Sheikha Mozah bint Nasser to stimulate innovative industries.

"My whole strategy here was to work with industry because that would be the fastest way to accelerate research. More than eighty percent of our projects are co-funded," said Executive Chairman Dr. Tidu Maini.

In 2011, Chevron Qatar and GreenGulf established the country's first solar test facility at the QSTP.

"Among our first projects were large rooftop installations, the first of their kind in Qatar. We also now have a partnership with the Qatar Science & Technology Park and Chevron for testing and commer-

cializing emerging solar technologies at the QSTP. We are looking to develop large-scale solar and waste-to-energy projects throughout the Gulf," said GreenGulf CEO Omran Al-Kuwari.

"In the past, renewables were a controversial subject in the region. It was seen as a competing fuel. But now, the dynamics are changing dramatically," Al-Kuwari said. "The Gulf is now becoming a market for electricity and there is a need to diversify in order to increase energy production."

Set up in 2009, GreenGulf aims to mitigate the impact of climate change while promoting renewable energy and energy efficiency through three strands of business: advisory and consulting, project development, and investment.

"Under our investment business, we are launching the first sharia-compliant renewable energy fund based in Qatar. We're looking to invest in assets in and around the region," Al-Kuwari said.

The push for innovation is not confined to research and development as Qatari businesses contribute to the realization of QNV 2030.

Operating since 2006, the Barwa Group is a prime example of a

successful Qatari conglomerate. In just six years, it has grown to more than forty investments, with operations in thirteen other countries around the world.

With the QNV 2030 in mind, Barwa Group has embarked on a mission to help diversify Qatar's economy by focusing on local and international real estate, infrastructure services, and business and financial services.

Evidence of its commitment to a sustainable knowledge-based economy is Barwa Real Estate's recent partnership with Kahramaa and Qatar Green Building Council (QGBC) in an experiment to develop energy-efficient building standards with reduced energy and water consumption and less carbon emissions.

With all these developments within booming industries in Qatar, it has become essential to stay well informed in order to make sound business decisions and stay ahead of increasing competition.

"*TheEDGE* has introduced a new level of independent journalism to Qatar, particularly in the business realm," said Mohamed Jaidah, co-founder and CEO of Firefly Communications, which publishes the highly successful *TheEDGE* busi-

ness magazine.

Firefly Communications provides full end-to-end editorial solutions and publishes the most profitable magazines in the country – *Sur la Terre* and *TheEDGE*.

"The magazine is becoming respected for its unwavering editorial integrity and accuracy. For this reason, the magazine and its website are increasingly becoming the preferred media reference point for businessmen both inside and outside of Qatar," said Jaidah.

Set up in 2007, Firefly Communications wants to bridge the gap in smart communication and raise standards for media outfits in Doha and the rest of the Middle East and North Africa.

"Our aim is to become a platform of innovative and cutting-edge solutions, bring people together, and effect change in the GCC and beyond, all through sustainable communication platforms."

A push toward economic and environmental sustainability from all sectors is propelling Qatar's rapid growth and steering the country toward its dream and vision of having an economy leveraged on knowledge and innovation by 2030.

QATAR FACULTY OF ISLAMIC STUDIES
ORIGINALITY AND MODERNITY:
A NEW ROUTE TO CIVILIZATION

Programs 2012 - 2013

- Master of Arts in Islamic Studies with a Specialization in:
 - Contemporary Fiqh
 - Comparative Religions
- Master of Arts in Public Policy in Islam.
- Master of Science in Islamic Finance.
- Master of Science in Urban Design and Architecture in Islamic Societies.
- Master of Arts in the Study of Contemporary Muslim Societies.
- Postgraduate Diplomas in:
 - Islamic Finance
 - General Islamic Studies
 - Public Policy in Islam
- Executive and Special Programs.

www.qfis.edu.qa



GreenGulf is the first private clean technology firm in the Middle East and North Africa region. We are committed to the development of renewable energy to meet the growing need for clean power generation in the region.

GreenGulf

www.green-gulf.com



Precision writing runs like clockwork. It's all about being in the *right* place at the *write* time. Here at Firefly Publications, we produce the kind of copy you can set your watch to, time and time again.



Sur la Terre, lifestyle luxury magazine and The Edge, Qatar's catalyst for business are published by Firefly Communications.

Doha-Qatar
info@firefly-me.com
www.firefly-me.com



CAPITAL GROWTH / EDUCATION CITY

The world's next knowledge hub

As part of plans to develop a knowledge-based economy, the Qatar Foundation for Education, Science and Community Development, established in 1995, developed Education City in the capital Doha, a project that has been home to state-of-the-art education and research facilities, as well as eight branch campuses of some of the best international universities.

"Qatar Foundation was clearly looking for something to help kick-start the development of an intellectual base for developing a knowledge economy. One of the key components was bringing the top international institutions to Qatar," explains Professor Gerd Nonneman, dean of Georgetown University School of Foreign Service in Qatar.

"They went for particular fields that they wanted represented and in each of these fields. They approached the university they thought best represented international excellence. So when it came to global and international affairs, they went to the School of Foreign Service at Georgetown," he added.

Other universities in Education City include Weill Cornell Medical College, Texas A&M, and Northwestern University.

"The Qatar Foundation specifically wanted a school that would help develop media industries in their knowledge-based industries plan. Northwestern has a school of communications and journalism, and is also very strong in liberal arts," says Dr. Everette E. Dennis, dean of Northwestern University in Qatar. "So, what was developed here was a school of journalism and communications that is aimed at producing a talent pool for current and future media industries for the region."

The universities in Education City have not only improved the skills of students and faculty, but have also contributed to the advancement of Qatar and the Middle East through research and consultation projects.

The engagement has formed a strong framework to build a sustainable, talent-based economy.

Aside from working with the Qatar Society of Engineers to raise the professional standards in the country, Texas A&M has published more than 150 scientific and technical papers and obtained nearly twenty patent disclosures, one of which is due for commercialization.

Meanwhile, Northwestern University brought together members of its faculty and student body in Libya for two days to work with principals and industry experts and develop a framework for the country's media system.

"We've had projects involving freedom of expression, including our Libya Project. We've established some credibility for media industries and education in this field and in a region where there has not been a robust media scene and where freedom of expression is not part of the tradition. It's been very important just to establish the school, then get the kind of response we've had from the various local media industries, including newspapers, TV, magazines, and digital media and incubator programs. That's very exciting," said Dr. Dennis.

Alongside these top international institutions is the Qatar Faculty of Islamic Studies (QFIS), Qatar Foundation's first homegrown institution and the country's first postgraduate school, which aims to enhance research and dialogue on all issues surrounding and concerning Islam.

"In a number of ways, we are very unique. Some of our degrees are unique only to us, like our master in public policy in Islam. We are also the first strong master of science degree in Islamic finance. A number of leading institutions have followed our example. We've benefited from all our international collaborations. We have scholars from all over the world," explains Dean of Qatar Faculty of Islamic Studies Dr. Hatem El-Karanshawly.

Defying many expectations, QFIS has welcomed debate and discussion from varying perspectives to deepen mutual understanding and promote improvement and positive change.

"The degree of openness, forward thinking, and willingness to accept new ideas was essential to our foundation. As we are surrounded by leading world universities, we have an environment of collaboration and competition that encourages us to set and maintain top standards," Dr. Hatem explained.

Through its various programs, QFIS has proven that its openness goes beyond lip service.

"People are enemies of the things they don't know. We would like more exposure and exchange of faculty and perhaps of students. We started a program with a top school in South Korea, whereby it sent top law graduates here for two months for specially designed programs. We have a similar program for French magistrates. This kind of collaboration boosts our students' exposure to the world, and we are exposed as well," Dr. Hatem stressed.

Education City best embodies the Qatari 2030 vision, which brings together the best talent from the country, region, and around the world to formulate practical solutions to many of the problems around the globe.



Changing the Future of Media in the Middle East

Guided by its visionary 2030 plan charting an ambitious course for national development and its national research strategy, the State of Qatar envisions a time when knowledge-based industries surpasses the leading extractive industries of oil and natural gas on which the country is now dependent. In a country

of emerging cluster economies ranging from health and education to sport and cultural industries, there are also emerging media industries. With an array of such enterprises—publishing, broadcasting, digital media, and advertising/public relations firms—Qatar, the home of Al Jazeera and its global networks, is poised to develop a viable media sector. The reality of these enterprises and a new yearning for freedom of expression across the Middle East region are very much on the agenda of Northwestern University in Qatar.

At Northwestern's 12th school and only overseas campus, NU-Q is a media-centric program whose mission is to provide its students with a high-quality professional and liberal arts education as it contributes to the talent pool and leadership cadre for media, communications, and journalism. The newly formed research program is probing the evolving media of the Middle East with studies of satellite television, youth communication, and religious media, among others.

NU-Q carries out its work fully conscious of the tensions separating tradition and modernity. The mission requires sensitivity to local culture and traditions while building connections to the realities of a digital and global society. Outreach efforts have included a "good offices" conference that brought official representatives of Libya's government and media to the table with experts on media governance and economics. The university has also convened a Qatar Media Industries Forum aimed at encouraging media development locally and globally, and has developed a partnership with the Doha Film Institute and its Doha Tribeca Film Festival.

With its first class of students graduated in 2012, NU-Q sees its future with open eyes, cognizant of the many challenges in a region where freedom of expression has not been the norm, but confident that incremental change amid daily debates is a worthy endeavor to which a great university can contribute with honor and integrity.

Sincerely,

Everette E. Dennis
Dean and CEO,
Northwestern University in Qatar



NORTHWESTERN
UNIVERSITY
IN QATAR

Member of Qatar Foundation



GLOBAL PLAYERS / **BARWA GROUP** / www.barwa.com.qa

Supporting Qatar's National Vision 2030 through Excellence Across Its Operations



"BARWA's vision is to be a reliable real estate company recognized for its strong values, excellence and sustainable returns to its stakeholders. At Barwa, good governance is at the core of our corporate strategy and excellence is crucial to everything we do. We believe this combination of governance and excellence in operations is critical to achieve our vision."

"Since its inception in 2005, BARWA has delivered many innovative mega developments that reflect "intellectual creativity", which is our work approach in Real Estate development. BARWA aims to be one of the most successful real estate development and investment holding companies in the world, with a home in Qatar and a business operating around the globe"

- Barwa Group CEO and Board Member Abdulla Abdulaziz Al Subaie

Launched in 2005 as a company initially focused on real estate, Qatar-based Barwa Group has grown into a highly diversified conglomerate operating in real estate development, infrastructure, business and financial services in several countries, including Saudi Arabia, Turkey, Egypt, the United Kingdom, and Russia.

That geographic and sector diversification reflects Barwa Group's commitment to support Qatar's National Development Strategy and deliver solid returns to its shareholders.

"We aspire to be one of the most successful real estate development and investment holding companies in the world, with a home in Qatar but with business operating around the globe," said Group CEO and Board Member Abdulla Abdulaziz Al Subaie.

Barwa's portfolio includes seven major projects in Qatar, which include the \$1.92 billion Barwa Commercial Avenue, an iconic development that runs along an 8.5 kilometer road; Barwa Al Sadd, a luxurious mixed-use development with three office towers and three residential buildings; and the award winning Qatar Petroleum District, originally known as Barwa Financial District, a grade "A" development designed to meet the needs of local and international businesses.

Barwa Group has also established synergistic businesses to support the real estate and infrastructure industry, a decision that strengthens its competitive advantage through its presence in the entire value chain.

Qatar Project Management provides clients across the Middle East and North

Africa region with world class expertise in a full range of professional project management services.

Waseef is a real estate brokerage and asset, facility and property management arm, while Tanween provides real estate investors with a complete package of services - from concept development to completion for destination communities and landmark projects.

With all these entities expanding op-

erations internationally, the group has been "exporting Qatar's know-how globally."

In line with its ambitions and rapid growth, Qatar has capitalized on its global expertise and cooperated with leading international companies to support its infrastructure activities.

The country has clearly consolidated its position as a global business and investment hub and become a model in

Qatar Petroleum District, originally known as Barwa Financial District



forging strategic partnerships around the world, turning “any competitive disadvantage into collaborative advantage.”

Al Subaie describes the opportunities in fast growing Qatar as “immense,” and Barwa is well positioned as a local partner to international companies looking to participate in this growth story.

“Barwa already enjoys the reputation of being a preferred partner, be it for strategic investors looking to participate in Qatar’s exciting development, or for global players looking to gain a foothold in other segments of the real estate value chain.

Guidance Hotels Investment Company, one of Barwa Group’s initiatives in the sharia-compliant hospitality sector, offers a luxury five-star experience through its Shaza-branded hotels. GHIC current portfolio includes five properties in Madinah, Marrakech, Fez, Manama and Cairo.

Other investments include London-based Cavendish Capital, a financial services company with a focus on private equity and advisory services; Barwa Gazprombank Russia Real Estate Fund, a partnership with Gazprombank focused on real estate in Russia.

It also has Turkey-based Ottoman, a real estate development company and joint venture with some of the Turkey’s leading developers, as well as North Row, a property with office spaces located in the Mayfair Conservation Area of London’s West End.

Barwa’s corporate strategy seeks to capitalize on the local Qatari market opportunities and considers selective diversification internationally to leverage opportunities in the Middle East, Turkey, the United Kingdom, North America and Southeast Asia.

The strategy focuses on “building synergistic businesses that complement and are an appropriate strategic fit to its core business.

“The businesses also must demonstrate that they can deliver strong returns for the shareholders,” Al Subaie stressed.

Aside from shareholder value, Barwa’s investments strategy complements Qatar’s National Vision 2030 and National Development Strategy, which emphasizes human, social, economic and environmental development.

“We strive to ensure that every project plays a role in supporting the National Development Strategy. It is in this spirit that Barwa has not only taken on some of the country’s most ambitious projects, but also undertakes their development according to internationally award winning standards,” he said.



Ottoman - Ottomare Suites

A luxury residential development project located on ~13,500 m2 of land located on the coast of the Marmara Sea. The property is 97m high with ancillary rear building with a total of 360 units. It is located in Zeytinburnu on the European side of Istanbul.

- High visibility from coastal highway
- Project located in Zeytinburnu, 10 minute drive from Sultanhamet
- Easy accessibility to key nodes of the public transportation system

Achieving Barwa’s long term objectives will be integral to developing some of the most important projects in Qatar. Its success will strengthen prospects for

economic diversification in the country and will be viewed by many as a litmus test for the overall ambitions and capability of Qatar.

Barwa Commercial Avenue in Doha

Built with the idea of establishing a world class commercial hub in Qatar, Barwa Commercial Avenue is set to provide a combination of retail shops, showrooms, office suites and residences. In this mixed-use development, Barwa will offer 260,000 m2 of retail spaces, 460 apartment homes, and over 200,000 m2 of office space.





Now Available From the iTunes App Store

Barak's Last Battle

An Israeli Lion in Winter

Jonathan Tepperman

Ehud Barak is one of Israel's most important leaders—and also one of its most enigmatic and controversial. As defense minister in the current government, Barak prosecuted the November Gaza campaign, handles the Palestinian brief, and, along with Prime Minister Benjamin Netanyahu, gets the last word on whether to attack Iran—Israel's most pressing security concern despite the recent focus on Hamas. Given the pariah status of Israel's foreign minister, Avigdor Lieberman, Barak, a frequent presence in Washington, essentially covers that portfolio as well. Yet despite 35 years of military service and more than a decade in public life, Barak remains something of a cipher—a man one of Israel's leading columnists, Ari Shavit, compares to a stealth bomber (“the usual radar doesn't capture him”). “I don't know anyone more difficult to read,” Shavit says.

It's no wonder: to say that Barak is full of contradictions doesn't begin to do him justice. Now 70, Barak first came to national prominence in his 30s, as a hero among heroes in a security-obsessed country. An erudite, accomplished classical pianist, Barak was a special forces legend famous for actions such as planning the hostage-rescue raid on Entebbe and sneaking into Lebanon on an assassination run dressed as a woman. He finished his military career as chief of the general staff, then parachuted into politics in 1995, drafted into the left-wing Labor Party by his mentor, then Prime Minister Yitzhak Rabin. In 1999, a few years after Rabin's murder, Barak was elected prime minister himself in a landslide, promising to withdraw from Lebanon and make peace with both the Syrians and the Palestinians. Less than two years later, his peace plans were in ashes, the second intifada was raging, and Barak was out of a job after the shortest tenure of any Israeli leader in history.

JONATHAN TEPPERMAN is Managing Editor of *Foreign Affairs*. Follow him on Twitter @j_tepperman.

Jonathan Tepperman

Banished from power, he withdrew to a lucrative private life. And then he reinvented himself again. Coming back from exile, he retook the reins of Labor and reentered the government in 2007 as defense minister. When his longtime sparring partner Netanyahu was reelected in 2009, Barak became his closest confidant and most powerful adviser.

Rather than win plaudits or even grudging respect for his return to relevance and his role as “Mr. Security,” however, Barak saw his popularity fall through the floor. In a country famously unable to agree on anything, there is consensus on one issue: almost no one seems to like Barak. A 2010 survey by the independent pollster Dahlia Scheindlin ranked him the least popular major politician in Israel, with a favorability rating of only 22 percent. Although his popularity inched up during the Gaza campaign, most polls taken throughout the fall suggested that he might not even muster enough votes in the January 22 elections to keep his seat in the next Knesset. In one November survey, 60 percent of Israelis polled said they approved of his work as defense minister, but only three percent said they would vote for him. And so in late November, in a move that stunned everyone, Barak announced that he would not compete in the elections and would withdraw from political life—although he conspicuously avoided ruling out continuing to serve in some capacity if asked.

How was this former idol driven out of politics, and why is he so reviled in his homeland? How did an erstwhile champion of the left become the partner of a right-wing prime minister, so close that they are often referred to as a kitchen cabinet of two, the Batman and Robin of Israeli politics? How did this storied warrior become first a devoted peacemaker and then, later, an arch-hawk on Iran? What does Barak actually believe, and what will become of him after January? For if there's one indisputable fact about this most polarizing of figures, it's that he is hard to get rid of—and every retreat lays the groundwork for an eventual counterattack.

A COMPLICATED MAN

The best way to answer the questions surrounding Barak is to start with his history, especially the tumultuous last 13 years. When we met this past fall to discuss them, the defense minister seemed supremely relaxed. The bloodshed in Gaza had yet to begin, but it was already a hectic moment in Israel's always frenetic political life: the Knesset was

voting that day to dissolve itself ahead of the upcoming elections, and the halls were thronged with TV cameras, frantic aides, and stony-faced bodyguards. Yet inside Barak's cramped, drab parliamentary office, all was calm. Dressed in a black suit and white shirt with no tie (the dress uniform of an Israeli politician), Barak, feet on a coffee table, looked older and more tired than he does in photographs but still projected gruff confidence. Surveying his record, Barak told me he felt "neither guilt nor self-pity." He paused, then continued, "I feel kind of . . . content about every choice that I've made in the past. I don't feel the need to complain or explain too much."

Such sangfroid, real or affected, is remarkable given the number of daring and dangerous gambits Barak has attempted in his career—and even more so given how many of them have failed disastrously. The most prominent failure, of course, and the one likely to forever define Barak's legacy, was his attempt as prime minister to cut the Gordian knots binding Israel to permanent insecurity by ending the conflicts with Syria and the Palestinians and the two-decade-long occupation of Lebanon. It's hard to overstate the audacity of this triple bank shot. Aaron David Miller, a former U.S. State Department adviser who worked with Barak on the peace process, described it, with only a little hyperbole, as "a wacko agenda that bordered on the megalomaniacal."

The history of how it went wrong, in Shepherdstown, West Virginia, with the Syrians and at Camp David with Yasir Arafat, has been written and rewritten countless times from all perspectives. There is no clear consensus on who bears the lion's share of the blame for the talks' collapse, but most analysts put at least some on Barak—for his waffling (with the Syrians) and his haste and highhandedness (with Arafat). If the causes are disputable, however, the consequences are not. Instead of peace coming to the Middle East, the Syrian track stalled and the Palestinians hit Israel with a bloody uprising. Israeli troops did pull out of Lebanon, but the withdrawal was chaotic and accompanied by Hezbollah rocket fire.

As the flames mounted, Barak's electoral coalition, much of which he had alienated through careless and dictatorial management, began to crumble. Ariel Sharon, another former war hero who then led the Likud Party, offered to form a national unity government. Barak refused, deciding to take his chances in early elections—and was trounced.

Barak retreated to the business world of Tel Aviv to lick his wounds and make money—lots of it, by all accounts. He bought a flashy

Jonathan Tepperman



Hawk and dove: Ehud Barak at a press conference, November 2011

apartment for millions of dollars. He divorced his wife (and the mother of his children) and married a childhood sweetheart. Earning big and living large is not uncommon for ex-politicians in the West, but it is still deemed unseemly in Israel, which clings to the myth of its Spartan pioneer roots, and Barak was excoriated for it in the press.

But then came Israel's botched war with Lebanon in 2006, a fiasco that offered the exile an opportunity to muscle his way back into politics. Retaking control of Labor from the feckless Amir Peretz—a former trade unionist who, as defense minister, had mishandled the conflict—Barak cast himself as a more humble, experienced politician who had learned from his mistakes, telling his party he understood that “there are no shortcuts and leadership is not a one-man show.” The party bought it, and he replaced Peretz in Prime Minister Ehud Olmert's Kadima-led coalition government.

Then, in 2008, Olmert was forced to resign because of corruption allegations, and new elections brought Netanyahu and the Likud back to power. This development proved awkward for Barak, who had promised during the campaign not to join a Netanyahu government. But in one of the most striking turns in his switchback career, he pirouetted once

REUTERS / BLAIR GABLE

again, dragging a reluctant Labor into the Likud coalition. When, a few months later, Labor rebelled and prepared to bolt from the government, Barak jumped first, leading four other legislators out of Labor and into a new party, Atzmaut (Independence). The gambit worked in that it allowed the renegades to stay in the government. But it gutted Labor, reducing the parliamentary bloc of Israel's once-dominant party to a meager eight seats (out of 120), and the process cost Barak much of his remaining public support.

Barak then proceeded to forge a remarkably close working relationship with the new prime minister. Understanding how these former adversaries, the longtime standard-bearers of Israel's left and right, could evolve such an intimate alliance requires understanding two distinctive aspects of Israeli political life. The first is that the country's fractious parliamentary system, with its numerous small parties, makes coalitions among unlikely partners surprisingly common. The second is the dominance of Israel's military culture. Virtually all Israelis spend time in the army, a life-defining experience that generates profound social cohesion. Barak and Netanyahu, moreover, aren't just ordinary veterans. They served together in Sayeret Matkal, Israel's most elite commando force, an outfit so legendary that it's known in Hebrew simply as "the Unit."

Barak's eyes light up with real affection when he speaks about his former lieutenant; he describes Netanyahu (known in Israel almost exclusively as "Bibi") as "capable of deep thought and possessing a deep sense of history," explaining their relationship this way:

Israel is not a nation of 300 million. The whole elite is probably just several thousand people, and they all know each other. So Israeli politics is familial. I first met Bibi when he was only 20 years old. I was eight years older. I was the commander of his unit, and both of his brothers were also in it. That's a formative experience. The unit was very small, and we were stretched to the utmost. And I became a kind of operational mentor to Bibi. I guided him, directed him in his first missions. There has always been a mutual respect, a kind of appreciation, a basic trust.

Barak's eyes light up with real affection when he speaks about his former lieutenant; he describes Netanyahu as "capable of deep thought and possessing a deep sense of history."

Jonathan Tepperman

Indeed, most analysts who know the two men say that despite their differences and past political battles, they retain a deep and genuine bond. Barak and Netanyahu “have a high regard for themselves and each other,” explained David Makovsky, a former diplomatic correspondent for *Haaretz*. “They both see themselves as big-picture guys. They come out of the special forces culture and are far more similar than they are different.”

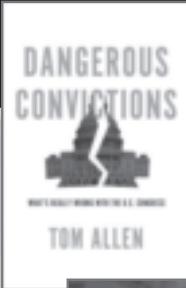
Of course, the pair’s odd-couple routine has also served both of them extremely well. Barak has given Netanyahu centrist cover, making the prime minister’s otherwise hard-right coalition look more mainstream and giving it greater legitimacy on military issues. Netanyahu, for his part, has given his old commander power and relevance that Barak, with his lack of popular support, couldn’t access otherwise. The resulting deal, as Miller described it, “is like what they say about old age: not great unless you consider the alternative.” Both sides come out ahead: “Bibi is likely to be the longest-serving prime minister in Israeli history, and Barak gets to be in the middle of the decision-making process at one of the most critical stages in Israel’s life.” Netanyahu’s strategic timidity and general risk aversion—his boldness is more apparent in words than deeds—only sweetens the bargain. Martin Indyk, a former U.S. ambassador to Israel, told me that “Bibi’s caution makes it possible for Barak to do his own thing”—an irresistible prospect for someone used to giving orders.

THE STRATEGIST

All this history and background helps explain two important things about Barak: his basic psychology and how he came to his current positions on the critical issues in his portfolio, Iran and the Palestinians.

Ask any American or Israeli analyst with firsthand experience how to make sense of Barak’s serpentine career, his successes and failures, and his unpopularity, and you’ll hear the same thing again and again: that Barak is the ultimate strategic thinker. An inveterate risk taker—one former army commander of Barak’s told me that as a soldier, the young commando devised schemes that often had him facing *tzalash* or *tarash* (commendation or demotion)—Barak still sees the world as a battlefield or a chessboard. This means that he always thinks several steps ahead. But it also means that he must make countless predictions about how other players will respond, and he then assumes that by force of will, he can ensure that they act accordingly. Indyk put it this

NEW from OXFORD



DANGEROUS CONVICTIONS

What's Really Wrong with the U.S. Congress

TOM ALLEN

"...well-informed and provocative book."

—Former U.S. Senator George J. Mitchell

2013 248 pp. Hardback \$24.95



TALIBANISTAN

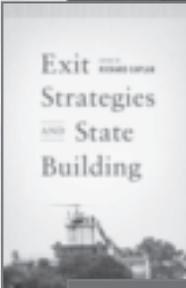
Negotiating the Borders Between Terror, Politics and Religion

Edited by PETER BERGEN

"...an essential, sophisticated, and highly readable guide, one that takes the complexity of its subject seriously but delivers deep, reliable analysis about an enduring foreign policy and security challenge."

—Steve Coll, author of *Ghost Wars: The Secret History of the CIA, Afghanistan and Bin Laden, from the Soviet Invasion to September 10, 2001*

2013 528 pp. Paperback \$24.95



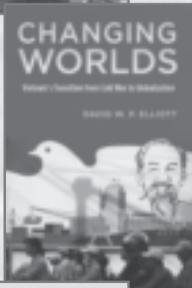
EXIT STRATEGIES AND STATE BUILDING

Edited by RICHARD CAPLAN

"This book should be compulsory reading for all concerned citizens at a time when Iraq and Afghanistan have raised major questions about the merits of interventionist policies."

—Jean-Marie Guèhenno, former UN Under-Secretary-General for Peacekeeping Operations

2012 352 pp. Paperback \$34.95



CHANGING WORLDS

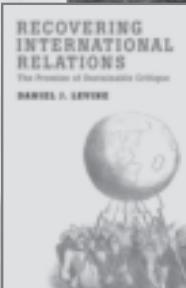
Vietnam's Transition from Cold War to Globalization

DAVID W.P. ELLIOTT

"Essential reading to understand why and how Vietnam's political elite-forged by revolution, war, and Marxist ideology-altered their thinking and policies to make the dramatic shift to a market economy."

—Richard A. Hunt, author of *Pacification: The American Struggle for Vietnam's Hearts and Minds*

2012 432 pp. Hardback \$49.95



RECOVERING INTERNATIONAL RELATIONS

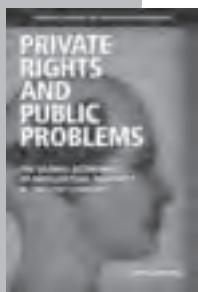
The Promise of Sustainable Critique

DANIEL LEVINE

"...an incisive meditation on the 'timeless questions' of theorizing about world politics, and a provocation to their renewed examination."

—Neta C. Crawford, Boston University

2012 352 pp. Paperback \$34.95

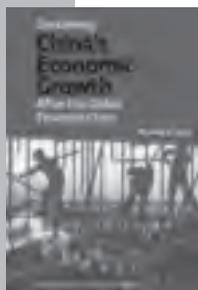


Private Rights and Public Problems

The Global Economics of Intellectual Property in the 21st Century

Keith E. Maskus

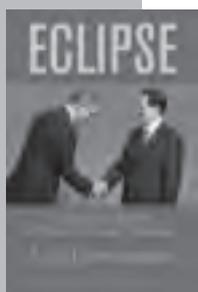
ISBN paper 978-0-88132-507-2 • \$24.95



Rising Tide *Is Growth in Emerging Economies Good for the United States?*

Lawrence Edwards and Robert Lawrence

ISBN paper 978-0-88132-500-3 • \$25.95



Sustaining China's Economic Growth after the Global Financial Crisis

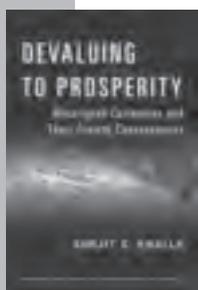
Nicholas R. Lardy

ISBN paper 978-0-88132-626-0 • \$21.95

Eclipse *Living in the Shadow of China's Economic Dominance*

Arvind Subramanian

ISBN paper 978-0-88132-606-2 • \$21.95



The Trans-Pacific Partnership and Asia-Pacific Integration
A Quantitative Assessment

Peter A. Petri, Michael G. Plummer, and Fan Zhai

ISBN paper 978-0-88132-664-2 • \$23.95

Devaluing to Prosperity *Misaligned Currencies and Their Growth Consequences*

Surjit S. Bhalla

ISBN paper 978-0-88132-623-9 • \$19.95



PETERSON INSTITUTE
FOR INTERNATIONAL ECONOMICS

Tel: 800-522-9139 • Fax: 703-996-1010
bookstore.piie.com



way: “There’s a legend about Barak that as a hobby he takes apart clocks and puts them together again. His plans are like that: always incredibly intricate and carefully thought through and drilled and drilled. But when they’re applied, they often end up being too clever by half because humans aren’t clocks.” Added Makovsky: “When you think ahead by six steps, there are at least six, if not 12, 24, or 48 assumptions you have to make. When it works, it’s brilliant. When it fails, it collapses horribly”—as did Barak’s grand peace overtures, his decision as prime minister to spurn Sharon’s offer and seek early elections, and his move to split Labor.

Barak’s history also reveals a profound lack of concern for ideological consistency, a supreme faith in pragmatic realpolitik. Critics such as Miller see this as a lack of scruples: “I think that, much like Bibi, you’re dealing with a guy whose principles are capable of being reshaped in response to political exigencies.” But Barak and his defenders explain his behavior in another way: as a willingness to do whatever’s necessary to safeguard Israel’s security, even at the risk of appearing inconsistent. As he told me the day after our first meeting, when we reconvened in his much more impressive office atop the towering Ministry of Defense building in the Kirya, in central Tel Aviv, “I am a man of action—I never hesitate to take action.” “I follow, and am very committed to, the tradition of Yitzhak Rabin and David Ben-Gurion [Israel’s founding father],” he said, pointing to their portraits on his office wall, “because their approach was to always be open-eyed and wholly realistic about the need to do what’s necessary.”

This philosophy, along with Barak’s bruising history as a policymaker, has done much to shape his thinking on current events. His current hawkishness on Iran, his readiness to strike Gaza, and even his latest position on the Palestinian peace process—he still favors a two-state solution, but one achieved by Israel’s unilaterally withdrawing from the West Bank—can seem, when contrasted with his early record as a peacemaker, like the reaction of a dove mugged by reality. But the hawk-dove divide is hard to parse in Israel, which has

Ask any American or Israeli analyst with firsthand experience how to make sense of Barak, and you’ll hear the same thing again and again: that Barak is the ultimate strategic thinker.

Jonathan Tepperman

a long history of pragmatic warriors who chose to extend an olive branch when the time seemed right—think Rabin, another ex-general, who later received the Nobel Peace Prize for his shepherding of the Oslo accords, or even Shimon Peres, who started out as the father of Israel's nuclear program but later, as foreign minister, pursued peace talks with Arafat. These same leaders also proved willing to pick up the sword again when circumstances warranted. Barak self-consciously aligns himself with this tradition, so it should be no surprise that his positions can seem to contradict one another over time.

Consider how his stance on Iran's nuclear program—which remains Israel's main strategic preoccupation—has shifted during his current tenure. After becoming, with Netanyahu, the most forceful advocate of an attack on Iran, hinting darkly all through the spring and summer of 2012 that Israel would act soon if the United States didn't, Barak suddenly seemed to relax the timeline for a strike during the fall. He told me the explanation for the change was simple: the Iranians had suddenly diverted a third of their enriched uranium fuel rods to medical research. When I pressed him on why Tehran would have done this, he conceded that it was probably because Israeli threats and U.S.-led sanctions had worked—in other words, that Iran had acted rationally and been deterred. Yet he continued to insist that deterrence wouldn't work if Iran went nuclear and that Israel had to do everything in its power to prevent such a catastrophe.

That may sound inconsistent, but Barak's basic approach to security, although he never articulated it as such, boils down to expecting the worst and acting accordingly. It's a logical position for a chastened former peacemaker. It explains why he argues in the alternative when making his case against Iran, insisting that even if the mullahs probably don't intend to attack Israel directly—"I don't believe that they're developing a nuclear capacity because of Israel per se," he told me—they just might do so anyway. (Here he pointed me to a 2001 speech by former Iranian President Ali Akbar Hashemi Rafsanjani calling Israel a "one-bomb country" and to the work of Bernard Lewis, the Princeton scholar who has compared Iran's regime to a doomsday cult willing to embrace the apocalypse.) Even if Iran never attacks, Barak continued, Iran's getting the bomb would still enable its hegemonic pretensions in the neighborhood, empower its proxies, set off a regional arms race, undermine Israel's strategic monopoly in the Middle East, and raise the risk that nuclear weapons could fall into the hands of terrorists.

Barak's pessimism also extends to the United States. It explains why he and Netanyahu were willing to push President Barack Obama to go much further in making a commitment to prevention than the White House wanted—a move Barak called “a major achievement.” This campaign has led to accusations that Barak acted in bad faith, making threats he never

Israel, Barak said, is heading into “a historic tragedy” in the West Bank.

intended to carry out merely to box Washington into a corner, forcing it to take a stronger position. Nahum Barnea, another of the country's most influential columnists, described Barak's efforts last spring and summer to me as a “\$3 billion lobbying operation,” in which Israel spent nearly its entire annual defense aid allotment from the United States on measures meant not to convince Iran of the imminence of an attack but rather to convince the United States—so that Washington would take the threat seriously and harden its own policy in order to head off a possible conflict.

Barak denies such a cynical interpretation of his actions. But even if he was trying to game Washington, his pessimism ensures that he'll never be completely assuaged by U.S. security guarantees. His skepticism stems, in part, from a clear-eyed assessment of the two countries' differing priorities. “When America looks at the Iran situation, they look at it from the other side of the globe,” he said. “They may worry about Iranian nuclear proliferation, but it appears, at most, as another blip on a big screen with other blips on it. For us, today, Iran is the only major blip; it fills the screen.”

Barak's position also owes to his reading of history. “Over the last three decades, there were six cases of nonsuperpowers who tried to turn nuclear,” he told me, gesturing at a big world map on the wall of his Kirya office. “North Korea and Pakistan succeeded. Libya and South Africa were derailed. And Iraq and Syria were physically blocked. The very fact that six tried and two succeeded tells you that anything can happen. I really trust and believe that Obama means what he says [when he talks about preventing Iran from getting a bomb], but there is a limit to what he can commit himself to doing in the future.” Later, he added, “When Pakistan was trying to get the bomb, the Americans bribed them with F-16s not to. Now, some of those same F-16s are wired to carry Pakistani A-bombs. And remember Clinton and North Korea. He was determined to stop them. But look what happened.”

Jonathan Tepperman

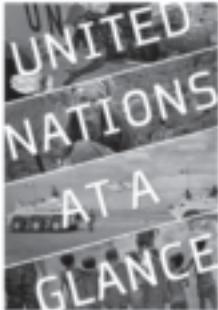
Such a jaundiced view of history also lies behind Barak's advocacy of Israel's unilateral withdrawal from most of the West Bank. Barak's motivation here has little or nothing to do with Palestinian well-being. His argument is twofold: one, that ending the occupation would strengthen Israel's moral and political standing against Iran, and two, that it would defuse the demographic time bomb facing the Jewish state. Israel, he said, is heading into "a historic tragedy" in the West Bank: "The painful reality is that between the Jordan River and the sea, we have 12 million people: 7.5 [million] Israelis and 4.5 million Palestinians. If over this ground, there is only one sovereign, called Israel, it will inevitably become either non-Jewish or nondemocratic, since there's no question that in the long run, it will have an Arab majority. So I believe we have to do something. I don't believe in waiting."

UNFORGIVEN

One might expect such positions to endear Barak to at least some of the Israeli public. After all, fear of an Iranian bomb and the determination to keep Tehran from getting one are almost universal in Israel, even on the left; that's why war remains a distinct possibility under the next government, just as it has been for the current one. Meanwhile, a clear majority of Israelis favor a two-state solution, even though they are also disgusted by the terror tactics and lack of leadership on the Palestinian side. Yet although his forceful response to missile fire from Gaza won Barak respect, instead of giving him credit for trying to solve the underlying Palestinian problem (unlike Netanyahu, who seems determined to ignore it), most Israelis accuse him of manipulating the issue for personal positioning. And they suspect something similar about his stance on Iran, an issue on which Barak stood shoulder to shoulder with the prime minister until the current campaign season.

Such charges are probably unfair. While no experienced politician ever disregards political calculations, let alone during an election cycle, Barak deserves more credit than he typically gets for advocating bold policies not always popular or in line with his own government. Indeed, he's been doing so for years, if inconsistently. He first raised unilateralism on the peace process, for example, shortly after the collapse of the Camp David talks more than a decade ago.

The fact that he's nonetheless treated with suspicion underlines what is probably the greatest of all the mysteries surrounding Barak:



UNITED NATIONS AT A GLANCE

This simple, authoritative guide provides a starting point for readers who are new to the UN. As a resource to students and teachers alike, additional features include definitions of frequently used terms, rich statistics, questions and answers, and the building blocks of international law. For anyone who wants to learn more about the world's foremost intergovernmental organization, United Nations at a Glance is the perfect place to start.

ISBN: 9789211012521 Price: \$20.00



GLOBAL ENVIRONMENT OUTLOOK 5 (GEO-5)

The Global Environment Outlook is a major publication for all those who are interested in environmental issues. It has brought together thousands of scientists and hundreds of collaborating centres. Using the integrated environmental assessment (IEA) methodology, UN Environment Programme has produced five GEO reports thus far, which have analyzed environmental state and trends at the global and regional scales, described plausible outlooks for various time frames and formulated policy options. Each GEO report builds on the assessment findings of its predecessor and draws from lessons learnt.

ISBN: 9789280731774 Price: \$80.00



THE STATE OF ARAB CITIES 2012: CHALLENGES OF URBAN TRANSITION

The Arab world has played a very important role in the history of urbanization. It is the region where urban civilization was born and where urban matters have been addressed for centuries. The Arab urban civilization, as it has evolved over the past millennium, has generated some of the most beautiful cities in the world. This publication is the first ever to comprehensively analyse urbanization processes in the Arab States through the review of its four sub-regions: the Maghreb, the Mashreq, the Gulf Cooperation Council countries and the least-developed Arab countries of the Southern Tier.

ISBN: 9789211324365 Price: \$40.00



YEARBOOK OF THE UNITED NATIONS 2008

The Yearbook of the United Nations is the most authoritative reference work available on the activities and concerns of the Organization. This latest volume, the sixty-second, highlights the attention given by the United Nations in 2008 to conflicts in the Democratic Republic of the Congo, the Georgian province of Abkhazia, and the Sudan, along with the challenges posed by the global food security crisis, severe economic recession, climate change, natural disasters, piracy and terrorism.

ISBN: 9789211012279 Price: \$175.00

Return to Table of Contents

New in



STUDIES IN SECURITY
AND INTERNATIONAL AFFAIRS



Containing Russia's Nuclear Firebirds
Harmony and Change at the International Science and Technology Center
Glenn E. Schweitzer



Slaying the Nuclear Dragon
Disarmament Dynamics in the Twenty-First Century
Edited by Tanya Ogilvie-White and David Santoro

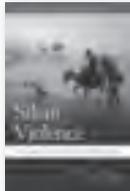


Unfinished Business
Why International Negotiations Fail
Edited by Guy Olivier Faure

New in Geographies of Justice and Social Transformation



Beyond Walls and Cages
Prisons, Borders, and Global Crisis
Edited by Jenna M. Loyd, Matt Mitchelson, and Andrew Burrige



Silent Violence
Food, Famine, and Peasantry in Northern Nigeria
With a new introduction
Michael J. Watts

The University of
GEORGIA
PRESS
www.ugapress.org

EST. 75 1938
YEARS



REISSUED WITH A NEW INTRODUCTION
The Emergence of Modern Afghanistan
Politics of Reform and Modernization
VARTAN GREGORIAN
“A tour de force in the mastering of virtually all that has been written on Afghan history.”
—*Journal of Asian Studies*

\$34.95 paper



New and Old Wars
Organized Violence in a Global Era, Third Edition
MARY KALDOR
“The richness and clarity of the overall presentation greatly strengthens Kaldor’s stature as one of the most consistently imaginative and conceptually creative thinkers of our time on the central issues of global affairs.”

—Richard Falk,
Princeton University

Polity Press
\$22.95 paper

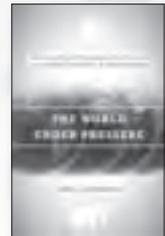
NEW IN PAPERBACK

The World Under Pressure
How China and India Are Influencing the Global Economy and Environment

CARL J. DAHLMAN

“If you want to understand what is driving the two fastest growing and most populous countries in the world, you couldn’t do better than to read this.”

—Robert E. Litan,
The Kauffman Foundation
\$29.95 paper



Stanford
University Press

800.621.2736
www.sup.org

why, exactly, the country he has fought so hard to protect holds him in such low esteem. The numbers are striking. Barak told me that he thought he would need about 120,000 votes to make it into the next Knesset. That's a tiny number, even for Israel—about as much support as one would need to become mayor of Milwaukee or Albuquerque. Yet his decision to drop out of the race suggested that he did not expect to clear even that low bar.

There's something tragic about that. For all his faults, Barak has repeatedly put his life and career on the line for his country, which he has served for 50 years. In the words of Aluf Benn, editor in chief of *Haaretz*, Barak "has one of the best analytic minds in the world, let alone Israel." Even Barak's detractors admit the man is brilliant. Indeed, Benn adds, Barak is responsible for "most of the original ideas in Israeli security and foreign policy thinking in the last 20 years." In a land of dirty politicians, furthermore, Barak is more or less clean. Yet leaders such as Lieberman and Olmert, both of whom have been convicted of criminal charges, are more popular and are seen as viable candidates while Barak, whom one commentator recently called "the man everyone loves to hate," is not. Even his most frequently cited failures were not unmitigated disasters, Shavit points out: "At the end of the day, the unilateral retreat from Lebanon was

The worst crime Barak committed in the eyes of the public is the way he exposed as a fantasy the idea that a negotiated peace with the Palestinians was possible.

messy, but it saved us. It saved us because it ended our occupation of southern Lebanon and gave legitimacy to our struggle against Hezbollah. The peace initiative in 2000, although it did not lead to peace, also saved us by giving us the internal and external legitimacy needed to fend off the Palestinian terror offensive of 2000 to 2004." That Barak gets no credit "points to something flawed and distorted in [Israel's] public life," Shavit said.

As such comments suggest, none of the conventional explanations for Barak's low standing suffice, although peers and the public have plenty of cause for frustration. The case against Barak usually starts with his abandonment of Labor—even though other Israeli leaders (such as Sharon and Olmert) have ditched their parties and not suffered for it. It then moves on to his strategic blunders—although here, too,

Jonathan Tepperman

he is hardly alone. His personal shortcomings are often cited: Barak is not a strong public speaker or even particularly smooth talking in person (he has, for example, a disconcerting habit of grabbing his gut to emphasize a point). Although charming when he wants to be, he doesn't suffer fools: when we first met, he wouldn't really engage until he'd grilled me on my professional and intellectual credentials. As he himself put it, "I'm not a great pretender. I can't pretend. I don't want to pretend." Nor does he think much about his image: on the day of our first interview, he was eating a Popsicle and didn't bother to get up when I walked into the room; for our next session, at the Defense Ministry, he wore a black Hawaiian shirt.

But such bluntness is no great sin and might even be considered endearing in another politician. More troubling is his lack of social or emotional intelligence. He's often called aloof and arrogant—not for nothing do his friends call him Napoleon—and he is infamous for acting like he's the smartest guy in the room, as though "surrounded by mental pygmies," according to Makovsky. During our conversations, Barak managed to drop references to Nietzsche, de Gaulle, Spinoza, Baudrillard, Maimonides, Milton Friedman, Jeffrey Sachs, and Copernicus. Barak suffers from having "always been told that he was the brightest guy in the class, the platoon, the military command," said one former high Israeli official who has advised several prime ministers. "He thinks so highly of himself that he cannot have a real conversation with anybody." Another official is reported to have said, "Barak can tell you everything you've ever said in your life, but he makes clear that he hasn't listened to a word of it."

Such shortcomings have cost him with colleagues, aides, and the public. "He's not a man who bears a grudge," said a former U.S. official who often dealt with Barak. "So he doesn't expect others to bear a grudge toward him, which is part of why he's so inadequate as a politician. He's all brain and no heart." Yet even these traits, like the ostentatious apartment that got him savaged in the press, shouldn't be enough to nullify his substantial public record, especially with a population not known for its social skills and full of brusque and blemished politicians.

The real explanation for Barak's struggle with the public thus probably lies elsewhere—in the way that he has managed, throughout his career, to inadvertently strike the raw nerves in Israel's collective psyche, exposing its own deepest conflicts and pathologies. Many of

Barak's boldest and most controversial actions, after all, have held up an unflattering mirror to the Israeli public, and that public, not liking what it has seen, has responded by looking away and blaming him for it.

The younger Barak represented the old Israeli ideal: a selfless warrior-intellectual, born and bred on a collectivist kibbutz, who rose to the pinnacle of power. But then he failed spectacularly, embraced consumer capitalism and started earning and spending wildly, and eventually abandoned the left entirely. His path resembles the country's own a little too closely for comfort. Rejecting him seems to help many Israelis assuage their uneasiness about following a similar trajectory.

But the worst crime Barak committed in the eyes of the public, and the one many Israelis will never forgive him for, is the way, in 2000, he exposed as a fantasy the idea that a negotiated peace with the Palestinians was possible. Barak himself blames Arafat for the collapse of the Camp David talks and says that all he did was "un-mask" the Palestinian leader. But for at least half the population, Barak's great sin was, as Barnea put it, "blowing up the myth and showing Israelis the tragic truth." Shavit agreed: "Barak has many faults, and he failed personally in many ways. But when you see that Lieberman is forgiven where Barak is not, you come to the conclusion that the Israeli left cannot forgive him for trying peace and proving that the old naive peace theory was wrong. This is a national trauma, and many demonize him for it."

STAYING ALIVE

Whatever his critics might think, Barak has no intention of simply fading away. His abrupt announcement in November of his coming exit from politics may signal the end of his career—but don't count on it. There are plenty of stories of Israeli politicians who managed to return from the political grave merely by sticking around. Miller points out that "in Israeli politics, you can be dead, or you can be dead and buried." Barak is merely the former, and he clearly draws hope from the cases of Peres, who as president at 89 has finally found the kind of public approval that long eluded him, and Rabin, who spent more than a decade in the wilderness before regaining power.

Barak could conceivably pull off a similar resurrection. The Israeli right, now represented by a new megaparty including Netanyahu's

Jonathan Tepperman

Likud and Lieberman's Yisrael Beiteinu, doesn't look likely to expand beyond its base in the elections. The center will be up for grabs if the Kadima Party—currently the largest party in the Knesset—gets wiped out, as expected. And no candidates on the left have serious national security credentials or true leadership experience. “Only Barak has the personal gravitas and foreign policy background to match Bibi,” says Benn, and Barak knows it.

Ironically, perhaps, his hopes now rest on the loyalty of his old lieutenant, Netanyahu, who is likely to win the election and could then name Barak, although not in the Knesset, defense minister through a procedure known as a personal appointment. Many Israelis suspect that is precisely what Barak is counting on. Walking away from politics as he did, riding high on his performance in the Gaza operation, has allowed him to turn certain defeat into one last shot at relevance. The resignation, ironically, “maximizes his chance of being called back into service,” says Shlomo Avineri, a veteran Israeli analyst. Amir Mizroch, an Israeli journalist and blogger, calls it “a truly Sayeret Matkal-like operation—uncanny, unpredictable, with little or no chance of success, but if pulled off, extremely brilliant.” Mizroch explains: “By exiting gracefully at the helm of a party that had zero chance of crossing the electoral threshold, Barak positions himself as . . . the elder statesman-general that any prime minister”—especially one with few other good options and desperate not to lose his best conduit to Washington—“would be wise to keep at his side.”

The daredevil strategist, it seems, is at it again. His final gambit could still fail, as so many have before. But even if it does, Ehud Barak is unlikely to vanish from Israeli life for long. 🌐

Getting to Yes With Iran

The Challenges of Coercive Diplomacy

Robert Jervis

It might be wise for the United States to resign itself to Iran's development of nuclear weapons and to focus on deterring the Islamic Republic from ever using them. But U.S. leaders have explicitly rejected that course of action. "Make no mistake: a nuclear-armed Iran is not a challenge that can be contained," U.S. President Barack Obama told the UN General Assembly last September. "And that's why the United States will do what we must to prevent Iran from obtaining a nuclear weapon." U.S. officials have also made it clear that they consider direct military action to prevent Iran from acquiring a nuclear weapon an extremely unattractive option, one to be implemented only as a regrettable last resort.

In practice, then, that leaves only two tools for dealing with Iran's advancing nuclear program: threats and promises, the melding of which the political scientist Alexander George labeled "coercive diplomacy." To succeed in halting Iran's progress toward a bomb, the United States will have to combine the two, not simply alternate between them. It must make credible promises and credible threats simultaneously—an exceedingly difficult trick to pull off. And in this particular case, the difficulty is compounded by a number of other factors: the long history of intense mutual mistrust between the two countries; the U.S. alliance with Iran's archenemy, Israel; and the opacity of Iranian decision-making.

The odds of overcoming all these obstacles are long. If Washington truly wants to avoid both deterrence and military action, therefore, it will need to up its game and take an unusually smart and bold approach to negotiations.

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.

WHY COERCIVE DIPLOMACY IS HARD

The United States' recent record of coercive diplomacy is not encouraging. A combination of sanctions, inspections, and threats led Iraqi President Saddam Hussein to freeze his weapons of mass destruction program after the Gulf War, but it did not coerce him into accepting a long-term agreement. The reasons, as researchers have learned since Saddam's ouster, had to do with his motives and perceptions. The Iraqi leader not only sought regional dominance and the destruction of Israel but also worried about appearing weak to Iran, saw his survival in the wake of the Gulf War as a victory, and was so suspicious of the United States that a real rapprochement was never within reach. All this rendered ineffective the threats issued by the George W. Bush administration during the run-up to the 2003 U.S. invasion of Iraq and would likely have made promises of a reasonable settlement ineffective as well.

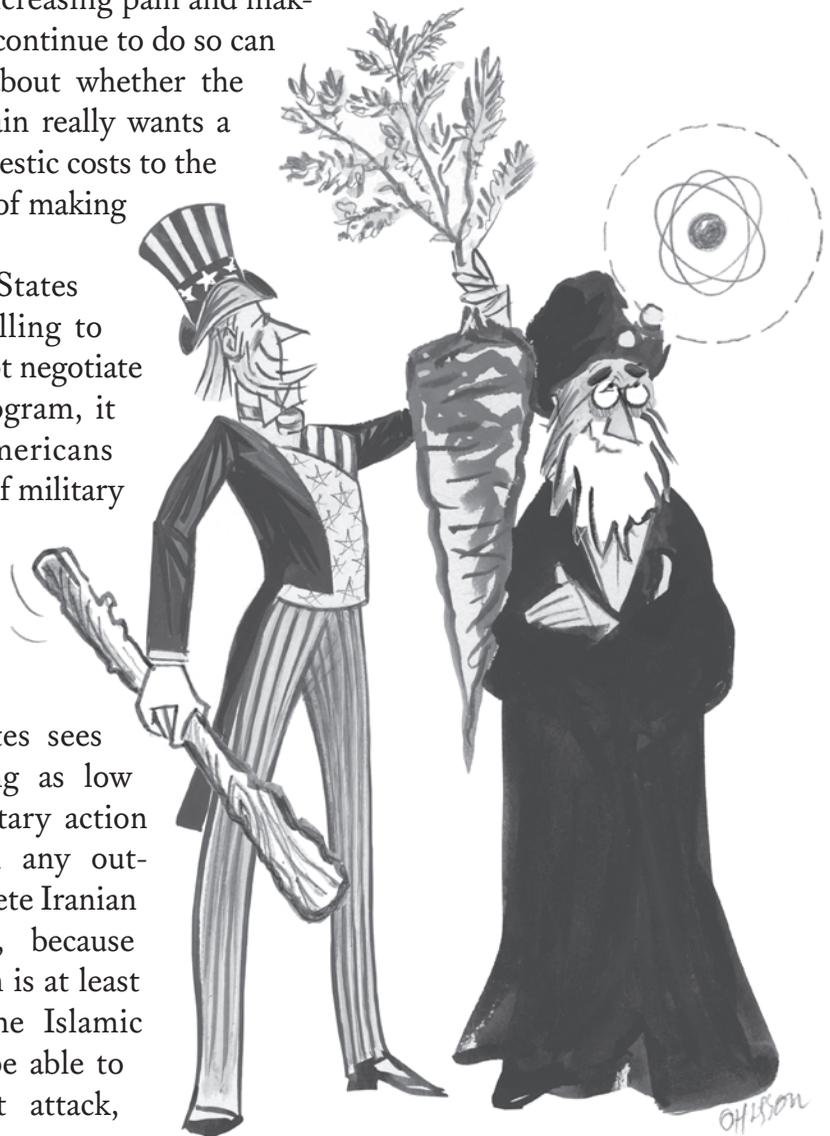
The Iraq case, moreover, is less an exception than the norm. Coercive diplomacy has worked on a few occasions, such as in 2003, when the Libyan leader Muammar al-Qaddafi chose to stop developing weapons of mass destruction partly as a result of pressure and reassurances from the United States. More often than not, however, in recent decades the United States has failed at coercive diplomacy even though it has had overwhelming power and has made it clear that it will use force if necessary. A succession of relatively weak adversaries, including Panama (1989), Iraq (1990 and 2003), Serbia (1998), and Taliban-ruled Afghanistan (2001), did not respond to American attempts at pressure, leading Washington to fall back repeatedly on direct military action. Coercive diplomacy did convince the military junta that ruled Haiti to step down in 1994, but only once it was clear that U.S. warplanes were already in the air. And today, Iran is hardly alone in its defiance: despite issuing many threats and promises, the United States has been unable to persuade North Korea to relinquish its nuclear arsenal or even refrain from sharing its nuclear expertise with other countries (as it apparently did with Syria).

The threats and promises the United States has used with Iran are not inherently incompatible: Washington has said it will punish Tehran for proceeding with its nuclear program but is willing to cut a deal with it should the program be halted. Logically, these components could reinforce each other, as the former pushes and the latter pulls

Iran toward an agreement. But the dreary history of coercive diplomacy shows that all too often, threats and promises undercut, rather than complement, each other.

Threats can prove particularly troublesome, since if they fail, they can drive the threatening party onto a path it may not actually want to follow. U.S. President John F. Kennedy learned this lesson during the 1962 Cuban missile crisis. Kennedy was mostly, but not completely, joking when he said, on learning that the Soviet Union had stationed warheads in Cuba, “Last month I said we weren’t going to [allow it]. Last month I should have said we don’t care.” More important, ramping up threats can undermine the chances that promises will be taken seriously. Inflicting increasing pain and making explicit threats to continue to do so can also raise questions about whether the party inflicting the pain really wants a deal and raise the domestic costs to the suffering government of making concessions.

When the United States suggests that it is willing to bomb Iran if it does not negotiate away its weapons program, it implies that the Americans believe that the costs of military action are tolerable. Although this increases the credibility of the threat, it could also lead Iran to conclude that the United States sees the costs of bombing as low enough to make military action more attractive than any outcome short of a complete Iranian surrender. Moreover, because Iran’s nuclear program is at least in part driven by the Islamic Republic’s desire to be able to protect itself against attack,



Robert Jervis

this U.S. threat is likely to heighten the perceived danger and so increase Iran's determination not to be swayed from its current course.

This does not mean that pressure is always counterproductive. According to U.S. intelligence agencies, the Iranians halted their development of nuclear weapons in 2003, presumably in response to the menace created by the U.S. invasion of Iraq. It appears that what a U.S. diplomat once said of North Korea also applies to Iran today: "The North Koreans do not respond to pressure. But without pressure they do not respond."

WHY THIS CASE IS EVEN HARDER

Even if pressure can work, and despite the fact that threats do not need to be completely credible in order to be effective, Washington faces daunting obstacles in trying to establish the credibility of its threat to strike Iran. What is most obvious, bombing would be very costly for the Americans (which is one of the reasons why it has not yet been done). As Tehran surely understands, Washington knows that the likely results include at least a small war in the region, deepening hostility to the United States around the world, increased domestic support for the Iranian regime, legitimization of the Iranian nuclear weapons program, and the need to strike again if Iran reconstitutes it. Given such high costs, Tehran might conclude that Washington's threat to bomb is just a bluff, and one it is willing to call.

Ironically, the success of economic sanctions could further diminish the credibility of the U.S. threat of a military strike. Iranian leaders might judge that their U.S. counterparts will continue to stick with sanctions in the hopes that the pain will ultimately yield a change in Iranian policy, or they might think that U.S. officials will hold off on the unpopular and unilateral military option to avoid disrupting the relatively popular and multilateral sanctions regime.

The credibility of Washington's threat to bomb is also affected by the perceptions and intentions of Iran's rulers. Iranian leaders might fall into the trap of basing their predictions about U.S. policy on their own expectations, which might differ from the Americans'. Those Iranians with relatively benign intentions toward the United States might expect that it would be fairly easy for the Americans to live with a nuclear-armed Iran, assume their U.S. counterparts will think similarly, and thus think a preventive U.S. military strike is unlikely. More aggressive Iranian leaders, on the other hand, might take the

U.S. threat to bomb more seriously, since they themselves see Iran's acquisition of a bomb to be significant and assume their American counterparts will, too. These Iranian hawks might thus see U.S. preventive military action as plausible and expect it, moreover, to be aimed at broader goals, such as regime change, rather than simply setting back the Iranian nuclear program.

The history of U.S. policy toward Iran over the past decade will also complicate the credibility of American threats. On the one hand, the United States has imposed unilateral sanctions and skillfully mustered support from the Europeans for severe international sanctions. Many Western observers were surprised by this, and the Iranian leadership probably was, too. On the other hand, the United States has not bombed Iran despite continuing Iranian defiance of UN resolutions and U.S. policies. Iran also cannot have failed to notice that the United States did not attack North Korea as it developed its nuclear weapons, even after having repeatedly issued strong threats that it would do so. Moreover, Washington has been trying to coerce Iran into giving up its nuclear program for ages now, to little avail, making it hard to instill a sense of urgency in its current efforts.

Of course, threatening to bomb Iran's nuclear facilities is not the only form of pressure the United States can exert. Washington can maintain the current punishing sanctions regime indefinitely or even strengthen it. It could conduct additional covert actions, especially cyberattacks, to slow down the Iranian nuclear program. Because these actions are less costly to pursue than a military strike, threatening them might be more credible. But it can be more difficult to make such threats effective. The Iranians understand that they will pay a price for moving forward on the nuclear front. To change their minds, therefore, outsiders will have to threaten or inflict even greater pain than the Iranians are expecting.

HOW TO MAKE CREDIBLE THREATS

There are various ways the United States can make its threats more credible. The first is to voice them publicly and unambiguously. Obama has already gone quite far in his public statements, so the low-hanging fruit in this area has been picked. If the confrontation continues, however, a concerted campaign to inform the American public about the impending risk of war would resonate strongly, especially if capped by a congressional resolution authorizing the

Robert Jervis

possible use of force against Iran. If those steps failed to sway the Iranians, the United States could issue an ultimatum, sending a clear signal to all parties that time was running out for a peaceful solution to the crisis, although doing so would be highly controversial at home and abroad and would mean giving up the military advantages of surprise.

U.S. policymakers could also stop publicly expressing their reluctance to use force and instead emphasize that they think an attack on Iran would benefit the United States. They could claim to expect that a U.S. strike would deal a dramatic blow to Iran's nuclear effort, serve as a powerful warning to other potential proliferators, strengthen the United States' global reputation for resolve, and possibly even trigger an Iranian revolution.

Private threats at this point would probably add little, but threats delivered confidentially by third parties close to Tehran, such as China and Russia, might have more credibility, and these states might carry

Washington has been trying to coerce Iran into giving up its nuclear program for ages now, to little avail.

the message if they were convinced that the only alternative was U.S. military action. Conversely, Israeli statements expressing skepticism that the United States will ever bomb Iran have undercut Washington's position. If Israeli leaders were to stop such talk and start claiming that they are now confident

that the United States is willing to strike if necessary (albeit not on the timetable that Israel would prefer), such a shift would be duly noted in Tehran.

The United States could also increase the credibility of its threats by specifying the Iranian actions that would trigger an attack. The fact that Obama has resisted calls to announce such "redlines" does not mean that he does not have them. It seems likely that the decision for a strike would be made if Iran got close enough to producing a nuclear weapon that it could do so quickly and stealthily, or began producing highly enriched uranium, or expelled the International Atomic Energy Agency's inspectors. Still, even if announcing specific redlines such as these would enhance U.S. credibility, it would have downsides as well. Specifying what would be prohibited would mark out what would be permitted, and Iran could take that as an invitation to move right up to the redlines.



September 2012
158 pp • 6 x 9
\$19.95 (paper) • 978-1-60127-138-9

Peace Economics

A Macroeconomic Primer for Violence-Affected States

Jurgen Brauer and J. Paul Dunne

“Essential reading for any person interested in understanding and assessing the costs of war and how to create real incentives to secure stable peace. It illuminates the political economy of war and peace brilliantly. The twelve design principles for building peaceful institutions and the four policy lessons brilliantly provide policymakers and concerned citizens with economic and social tools to rebuild trust, social capital, and cooperative harmonious social and political relationships.”

—Kevin Clements, professor and director, National Centre for Peace and Conflict Studies, University of Otago

Contents: Violence and Economic Development • Investment, Productivity, and Growth • Macroeconomic Stabilization and Dealing with Turbulence • International Trade and Finance • Designing and Promoting Peace



How Business Can Foster Peace

John Forrer, Timothy L. Fort, and Raymond Gilpin

With the right strategies in place, the business sector can foster stability in conflict-affected regions. Such strategies include initiatives to reward good corporate citizenship, promote transparency, combat corruption, and connect local economies to global supply chains.

Special Report 315



The Economics of Peace

Graciana del Castillo

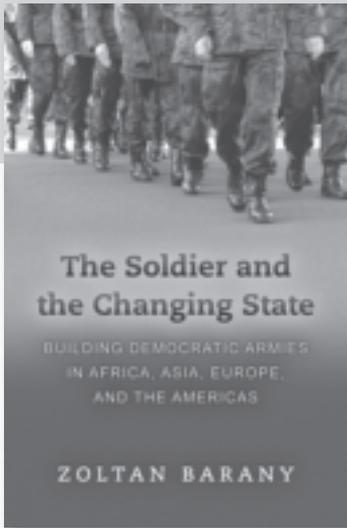
Efforts to rebuild economies in postconflict zones around the world underscore a central lesson: development practices that work in peaceful countries often don't apply to countries in transition.

Special Report 286

Special Reports available online via free download.

www.usip.org/publications-tools

Return to Table of Contents



“The most important book written on this subject in forty years.”

—Thomas Nichols, United States Naval War College

The Soldier and the Changing State is the first book to systematically explore, on a global scale, civil-military relations in democratizing and changing states. Highlighting important factors and suggesting which reforms can be expected to work and fail in different environments, Barany offers practical policy recommendations to state-builders and democratizers.

“The single most ambitious and complete analysis on civil-military relations in democratizing states.”

—Narcís Serra, chairman of the Institut Barcelona d’Estudis Internacionals and former Spanish Minister of Defense

Paper \$29.95 | Cloth \$75.00

Supported by the Frank C. Erwin, Jr., Centennial Professorship in Government at the University of Texas

 PRINCETON UNIVERSITY PRESS

See our E-Books at
press.princeton.edu

Boren AWARDS FOR INTERNATIONAL STUDY



Boren Scholarships and Fellowships provide opportunities for U.S. undergraduate and graduate students to add an important international and language component to their educations.

Boren Awards allow U.S. students to study world regions critical to U.S. interest, including Africa, Asia, Central & Eastern Europe, Eurasia, Latin America, and the Middle East.

Maximum Award Amounts

\$20,000 for the Boren Scholarships

\$30,000 for the Boren Fellowships

National Deadlines

Boren Fellowships January 31, 2013

Boren Scholarships February 13, 2013

Apply Online: www.borenawards.org

A National Security Education Program Initiative • Administered by the Institute of International Education
1-800-618-NSEP • boren@iie.org

Washington could lend its threats credibility through actions even more than through words. It could bolster its military capabilities in a way that demonstrated its seriousness, including making expensive preparations to deal with retaliation by Iran after an American attack. It could even begin military maneuvers that have some risk of provoking Iran and leading to escalation, thus showing that Washington is not frightened by the prospect of a fight developing accidentally.

U.S. threats could also be made more credible if Washington developed plans for a strike against Iranian nuclear facilities and then deliberately allowed Iranian intelligence services to learn the details. In this scenario, the Iranians would have to believe they discovered something the Americans had sought to hide from them, lest they conclude it was simply a ruse designed to impress them. This kind of maneuver is tricky: although sound in principle, in practice it has generally proved too clever by half. During the 1961 Berlin crisis, for example, the Kennedy administration provided West Germany with its plans for a military response to the standoff, knowing the West German government had been penetrated by Soviet intelligence. And in 1969, the Nixon administration staged an ostensibly secret nuclear-alert exercise designed to convey the strength of the U.S. commitment to South Vietnam. In both cases, however, the Soviets hardly noticed.

One might assume that the United States could increase the credibility of its threats in Iranian eyes by building up its defenses, seemingly in preparation for a possible conflict. But bulking up U.S. capabilities against Iranian missiles in the eastern Mediterranean and the Persian Gulf might also send the opposite signal—that the United States is preparing not to attack but rather to live with (and deter) a nuclear-armed Iran. Canceling the deployment of systems designed to defend against Iranian missiles, in fact, would be a strong and dramatic signal that the United States has no intention of allowing a nuclear Iran and is willing to strike preventively to head off such a prospect.

WHY IT'S HARD TO MAKE CREDIBLE PROMISES

In general, making promises credible is even harder than making threats credible, and that is especially true in this case because of the history of mutual mistrust and the conflicting historical narratives that each side tells itself. U.S. promises to Iran are complicated by other

Robert Jervis

Talk of “carrots and sticks” implies that Iran is an animal that the West is trying to manipulate.

factors as well. There are multiple audiences listening in on anything Washington says to Tehran: domestic constituencies, Arab states, North Korea, other states that might seek nuclear weapons, and, of course, Israel. The fear of an Israeli attack may provide a useful source of extra pressure, but Iranian perceptions of U.S.-Israeli collusion can make U.S. signaling to Iran more difficult. American promises must be seen to cover Israeli actions as well, and some promises designed to reassure Israel of U.S. protection might conflict with conciliatory messages Washington wishes to send to Tehran.

U.S. policymakers also have limited knowledge of Iranian perceptions and domestic politics. It is generally agreed that Iran’s nuclear policy rests in the hands of the country’s supreme leader, Ayatollah Ali Khamenei. But it is hard to know just what his goals are, how he perceives U.S. messages, and even which messages are accurately conveyed to him. If history is any lesson, the likelihood is that he interprets much American behavior, including promises, in ways that Americans would find utterly bizarre.

Just what various Iranian actors would perceive as a reward, moreover, might be hard to determine. Some figures in or close to the regime, for example, have built fortunes and political power bases around adapting to sanctions, so removing or loosening sanctions might actually harm rather than help them. Even the most valuable prize the West could offer—the normalization of relations and the integration of the Islamic Republic into the world community—could conflict with the worldview of dominant actors in Iran, undercut their power, and be seen by them, quite possibly accurately, as a step toward eventual regime change.

All these gaps in knowledge and trust stand in the way of the United States’ ability to make credible promises of any kind to Iran, whether minor assurances intended to serve as confidence-building measures or the more substantial promises that could lead to a durable diplomatic settlement. In the most likely deal, Iran would agree to stop designing warheads and to refrain from enriching uranium above the 20 percent level. It would retain only limited stockpiles of uranium enriched to 5–20 percent, accept limits on the capacities of its enrichment facilities,

allow robust inspections of its nuclear facilities, and agree to refrain from building facilities that the United States could not destroy. (Such a deal would permit the heavily fortified underground Fordow enrichment plant to remain open, since it is vulnerable to a U.S. strike—something that would displease the Israelis, whose own capabilities are insufficient to overcome Fordow’s defenses.)

In return, the United States would accept a limited Iranian enrichment program, promise not to try to overthrow the regime (and maybe not to undermine it), and suspend sanctions that were imposed specifically in response to the nuclear program. The United States might also restore normal diplomatic relations with Iran—although taking that step, along with lifting other sanctions, might require a larger grand bargain involving Iran’s ending its support for Hamas and Hezbollah.

To convince Iran that such a deal is possible, the United States would have to surmount four barriers. It would need to gain some measure of Israeli acquiescence, both to satisfy influential pro-Israel constituencies in the United States and to convince Iran that the deal would not be undercut by Israeli sabotage, assassinations, or attacks. Accepting a civilian nuclear program in Iran would necessitate repealing or carving out some sort of exception to various UN Security Council resolutions, because the original sanctions were applied in response to the establishment of the nuclear program itself, not to the subsequent progress Iran has apparently made.

Washington would need to convince Tehran that negotiations were not designed to weaken it and that a settlement would end American efforts at regime change. Security assurances would have to be part of any deal, and they would be hard to craft. The fact that the United States helped overthrow Qaddafi in 2011 despite his earlier agreement to abandon his weapons of mass destruction program would surely be on Iranian minds.

Finally, the United States would have to find some way of offering Iran intangible goods it truly craves: respect and treatment as an equal. Not only can the process of hard bargaining get in the way of respectful treatment, but so can even the imagery used to think about such bargaining—such as talk of “carrots and sticks,” which implies that Iran is an animal that the West is trying to manipulate. On the other hand, showing respect to Iran would not cost the United States a great deal.

GETTING TO THE TABLE

Although the United States and its European allies are talking with Iran now, these conversations seem to involve little more than recitations of unyielding opening positions. Distrust is often highest at the beginning of a negotiation process, since both sides fear that any preliminary concessions will not only be pocketed but also be taken as a sign of weakness that will embolden the other side to hold out for more.

There are standard, if imperfect, ways to deal with this problem, such as by using disavowable third parties who can float enticing ideas without exposing actual negotiating positions. Ambiguous “feelers” are also useful, since they require the other side to respond to a message before its true meaning is revealed and so limit the first state’s exposure. But the distrust between the United States and Iran runs so deep that the normal playbook is unlikely to work here. Getting through to the supreme leader and convincing him that serious negotiations are in his interest will be difficult. Appealing to him personally and directly, in both public and private, might be effective, as might sending a high-level emissary (although such steps should be reserved until close to the last possible minute, to avoid undue humiliation should they fail).

A dramatic (if unlikely) approach would be for the United States to unilaterally suspend some of its sanctions against Iran, halt all its military preparations related to Iran, or declare that the option of using force is no longer on the table. A more plausible scenario would be for U.S. leaders to try to communicate that they are ready for an agreement by letting the Iranian regime know that they are studying how to suspend sanctions in stages and developing various forms of security guarantees.

The normal negotiating procedure would be to start with small confidence-building measures and put off dealing with the central and most difficult issues for while, until some progress and mutual trust have been achieved. It is probably too late for that, however, especially since many of the standard smaller steps have been removed from consideration by the recent application of even tougher international sanctions on Iran. Until recently, for example, a freeze-for-freeze approach to confidence building might have been possible: a U.S. offer to take no further aggressive steps in exchange for a comparable Iranian move. But at this point, given the pain the sanctions are currently inflicting, modifying them or suspending

them would probably be required, which would be a much bigger concession on the part of the United States and Europe.

It will probably be necessary for Washington to sketch the broad contours of a possible final agreement before talks begin. Entering serious negotiations would carry high political costs for the White House and spark a major political struggle in Tehran—risks the leaders on each side would take only if there seemed to be good prospects of an acceptable solution. And any agreement, of course, would have to be carried out incrementally in order for each side to guard against the other's renegeing.

Still, the United States may need to put more of its cards on the table at the start. It will have to convince Khamenei that successful negotiations would greatly reduce the threat to his country posed by the United States and that Washington would be willing to accept an appropriately safeguarded Iranian civilian nuclear program. There will be a strong temptation in Washington to reserve such inducements for the final stage of hard bargaining, but holding them back is likely to greatly decrease the chance that the negotiations will reach that stage at all.

The obstacles to successful negotiations may be so great that the best the United States can achieve is a form of containment that would maintain something like the status quo, with Iran remaining at some distance from a weapon. Such a situation might not be stable, however, and what Soviet Premier Nikita Khrushchev told Kennedy at the height of the Cuban missile crisis could also prove relevant to the U.S.-Iranian confrontation: "Mr. President, we and you ought not now to pull on the end of the rope in which you have tied the knot of war, because the more the two of us pull, the tighter the knot will be tied. And a moment may come when that knot will be tied so tight that even he who tied it will not have the strength to untie it. And then it will be necessary to cut that knot."

Looking carefully at the challenges of coercive diplomacy in this case is sobering. Using threats and promises to successfully manage the problems posed by Iran's nuclear program will be difficult at best, requiring extraordinary levels of calmness, boldness, creativity, and forbearance. But if Washington is determined to avoid both military action and deterrence, those are the qualities it will need to summon. 🌐



UPS's infrastructure provides a full-service and tech-enabled gateway into China for companies that are new to or looking to expand in the market.

ON THE MOVE IN CHINA

U.S. companies in the People's Republic have an eye on the growing consumer market and, with the help of UPS, improved logistics solutions

Studying 240-plus U.S. companies active in China, the US-China Business Council recently found that "94 percent of companies are doing business in China primarily to access the domestic Chinese market, not to develop an export platform." Still, many domestic Chinese businesses do manufacture goods for export, and they are equally important to China's long-term economy.

Since 2009, U.S. exports to China have risen 32 percent, creating a greater need for efficient international shipments and expanded point-to-point service within China. Recognizing this, China's government has opted to allow foreign companies into its package and freight transport market. UPS's presence in China is extensive,

with service to 330 cities, 192 weekly flights connecting China to global markets, and 6,000-plus employees. UPS operates 89 facilities in China, including air hubs in Shanghai and Shenzhen. At its Shanghai hub, UPS boasts sorting capacity of 17,000 pieces per hour, including small packages and heavy freight. In October, UPS announced a new daily flight out of Zhengzhou, connecting the region's high-tech manufacturers with the global marketplace.

"We identified China as our No. 1 opportunity market more than a decade ago," says John Miltenis, Vice President of International Marketing for UPS. "Our aggressive investment in everything from IT to government relations to infrastructure laid the groundwork to serve China's consumer society."

UPS's infrastructure provides a full-service and tech-enabled gateway into China. Sophisticated logistics and customer service add up to high-value guidance for any would-be exporter. "Only a small percentage of American businesses that could export products actually do," Miltenis says.

"When UPS talks to a prospective customer about China, we provide tools that enable them to deal with regulatory compliance, local tariffs, warehousing options, and the like.

UPS Operates 89 facilities in China, including air hubs in Shanghai and Shenzhen. Its Shanghai hub at the city's airport can sort 17,000 pieces per hour.

What we offer goes far beyond simply moving parcels and freight from A to B."

One example Miltenis cites is Louisiana-based customer AAC Enterprises. Justin Hartenstein started out selling auto parts out of his garage. Now his company develops innovative custom lighting systems for car enthusiasts everywhere. AAC started using cross-border shipping tools such as UPS Paperless Invoice and UPS TradeAbility, which makes exporting easier. UPS showed AAC capabilities around logistics and compliance that helped them export to China and other Asian markets. Now about 20 percent of AAC's revenue is from exports.

A meeting about global distribution between UPS and a new customer will often include executives from departments other than shipping and logistics. "We have resources and information on the sourcing of raw materials and parts in foreign markets," Miltenis says, "so it makes sense for procurement people to be there. With UPS Capital®, our financial services division, as a possible financing source for finished goods, we can help a new client, in case the CFO might be part of the discussion."

Few businesses require a view from 30,000 feet plus immersion in granular detail like global package delivery. From these twin perspectives, UPS is tracking China's development as a middle-class consumer economy, and also noting its emergence as a nexus of trade within the region. The latter means opportunities for UPS to serve new markets, but it also spells opportunity for U.S. businesses that are initiating or expanding their distribution into Asia. ●



3 WAYS LOGISTICS CAN SHRINK THE WORLD.

UPS can help you benefit from the fact that 95% of today's consumers live outside the U.S. Access to them, as well as suppliers, depends on logistics. UPS is your best choice for taking advantage of new opportunities around the globe.

1) REACH GLOBAL MARKETS

With one of the world's largest air fleets, UPS delivers to more than 220 countries and territories. So your suppliers can reach you and you can reach your customers.

2) MAKE YOUR SUPPLY CHAIN

VISIBLE UPS technology lets you see what's coming and going—package

as well as freight—so your company can quickly adjust to changing customer demands. You can even have status updates sent to your mobile devices.

3) REDUCE YOUR CUSTOMS DELAYS

UPS is one of the largest customs brokers in the world. We have the experience, and just as important,

we have the technology to help you breeze through customs. With our paperless solutions, we can show you ways to reduce typical customs delays by up to 56%.

Logistics has opened up new opportunities internationally. UPS can help your company seize them, even if you are just getting started.

See more ways logistics can work for you at thenewlogistics.com/guide or snap the QR code.



WE ♥ LOGISTICS®
thenewlogistics.com/guide

Pull Back

The Case for a Less Activist Foreign Policy

Barry R. Posen

Despite a decade of costly and indecisive warfare and mounting fiscal pressures, the long-standing consensus among American policymakers about U.S. grand strategy has remained remarkably intact. As the presidential campaign made clear, Republicans and Democrats may quibble over foreign policy at the margins, but they agree on the big picture: that the United States should dominate the world militarily, economically, and politically, as it has since the final years of the Cold War, a strategy of liberal hegemony. The country, they hold, needs to preserve its massive lead in the global balance of power, consolidate its economic preeminence, enlarge the community of market democracies, and maintain its outsized influence in the international institutions it helped create.

To this end, the U.S. government has expanded its sprawling Cold War-era network of security commitments and military bases. It has reinforced its existing alliances, adding new members to NATO and enhancing its security agreement with Japan. In the Persian Gulf, it has sought to protect the flow of oil with a full panoply of air, sea, and land forces, a goal that consumes at least 15 percent of the U.S. defense budget. Washington has put China on a watch list, ringing it in with a network of alliances, less formal relationships, and military bases.

The United States' activism has entailed a long list of ambitious foreign policy projects. Washington has tried to rescue failing states, intervening militarily in Somalia, Haiti, Bosnia, Kosovo, and Libya, variously attempting to defend human rights, suppress undesirable nationalist movements, and install democratic regimes. It has also

BARRY R. POSEN is Ford International Professor of Political Science and Director of the Security Studies Program at the Massachusetts Institute of Technology.

tried to contain so-called rogue states that oppose the United States, such as Iran, Iraq under Saddam Hussein, North Korea, and, to a lesser degree, Syria. After 9/11, the struggle against al Qaeda and its allies dominated the agenda, but the George W. Bush administration defined this enterprise broadly and led the country into the painful wars in Afghanistan and Iraq. Although the United States has long sought to discourage the spread of nuclear weapons, the prospect of nuclear-armed terrorists has added urgency to this objective, leading to constant tension with Iran and North Korea.



In pursuit of this ambitious agenda, the United States has consistently spent hundreds of billions of dollars per year on its military—far more than the sum of the defense budgets of its friends and far more than the sum of those of its potential adversaries. It has kept that military busy: U.S. troops have spent roughly twice as many months in combat after the Cold War as they did during it. Today, roughly 180,000 U.S. soldiers remain stationed on foreign soil, not counting the tens of thousands more who have rotated through the war zones in Afghanistan and Iraq. Thousands of American and allied soldiers have lost their lives, not to mention the countless civilians caught in the crossfire.

This undisciplined, expensive, and bloody strategy has done untold harm to U.S. national security. It makes enemies almost as fast as it slays them, discourages allies from paying for their own defense, and convinces powerful states to band together and oppose Washington's plans, further raising the costs of carrying out its foreign policy. During the 1990s, these consequences were manageable because the United States enjoyed such a favorable power position and chose its wars carefully. Over the last decade, however, the country's relative power has deteriorated, and policymakers have made dreadful choices concerning

Barry R. Posen

which wars to fight and how to fight them. What's more, the Pentagon has come to depend on continuous infusions of cash simply to retain its current force structure—levels of spending that the Great Recession and the United States' ballooning debt have rendered unsustainable.

It is time to abandon the United States' hegemonic strategy and replace it with one of restraint. This approach would mean giving up on global reform and sticking to protecting narrow national security interests. It would mean transforming the military into a smaller force that goes to war only when it truly must. It would mean removing large numbers of U.S. troops from forward bases, creating incentives for allies to provide for their own security. And because such a shift would allow the United States to spend its resources on only the most pressing international threats, it would help preserve the country's prosperity and security over the long run.

ACTION AND REACTION

The United States emerged from the Cold War as the single most powerful state in modern times, a position that its diversified and immensely productive economy supports. Although its share of world economic output will inevitably shrink as other countries catch up, the United States will continue for many years to rank as one of the top two or three economies in the world. The United States' per capita GDP stands at \$48,000, more than five times as large as China's, which means that the U.S. economy can produce cutting-edge products for a steady domestic market. North America is blessed with enviable quantities of raw materials, and about 29 percent of U.S. trade flows to and from its immediate neighbors, Canada and Mexico. The fortuitous geostrategic position of the United States compounds these economic advantages. Its neighbors to the north and south possess only miniscule militaries. Vast oceans to the west and east separate it from potential rivals. And its thousands of nuclear weapons deter other countries from ever entertaining an invasion.

Ironically, however, instead of relying on these inherent advantages for its security, the United States has acted with a profound sense of insecurity, adopting an unnecessarily militarized and forward-leaning foreign policy. That strategy has generated predictable pushback. Since the 1990s, rivals have resorted to what scholars call "soft balancing"—low-grade diplomatic opposition. China and Russia regularly use the

rules of liberal international institutions to delegitimize the United States' actions. In the UN Security Council, they wielded their veto power to deny the West resolutions supporting the bombing campaign in Kosovo in 1999 and the invasion of Iraq in 2003, and more recently, they have slowed the effort to isolate Syria. They occasionally work together in other venues, too, such as the Shanghai Cooperation Organization. Although the Beijing-Moscow relationship is unimpressive compared with military alliances

It is time to abandon the United States' hegemonic strategy and replace it with one of restraint.

such as NATO, it's remarkable that it exists at all given the long history of border friction and hostility between the two countries. As has happened so often in history, the common threat posed by a greater power has driven unnatural partners to cooperate.

American activism has also generated harder forms of balancing. China has worked assiduously to improve its military, and Russia has sold it modern weapons, such as fighter aircraft, surface-to-air missiles, and diesel-electric submarines. Iran and North Korea, meanwhile, have pursued nuclear programs in part to neutralize the United States' overwhelming advantages in conventional fighting power. Some of this pushback would have occurred no matter what; in an anarchic global system, states acquire the allies and military power that help them look after themselves. But a country as large and as active as the United States intensifies these responses.

Such reactions will only grow stronger as emerging economies convert their wealth into military power. Even though the economic and technological capacities of China and India may never equal those of the United States, the gap is destined to narrow. China already has the potential to be a serious competitor. At the peak of the Cold War, in the mid-1970s, Soviet GDP, in terms of purchasing power parity, amounted to 57 percent of U.S. GDP. China reached 75 percent of the U.S. level in 2011, and according to the International Monetary Fund, it is projected to match it by 2017. Of course, Chinese output must support four times as many people, which limits what the country can extract for military purposes, but it still provides enough resources to hinder U.S. foreign policy. Meanwhile, Russia, although a shadow of its former Soviet self, is no longer the hapless weakling it was in the 1990s. Its economy is roughly the size of the United Kingdom's

Barry R. Posen

or France's, it has plenty of energy resources to export, and it still produces some impressive weapons systems.

FIGHTING IDENTITY

Just as emerging powers have gotten stronger, so, too, have the small states and violent substate entities that the United States has attempted to discipline, democratize, or eliminate. Whether in Somalia, Serbia, Afghanistan, Iraq, or Libya, the U.S. military seems to find itself fighting enemies that prove tougher than expected. (Consider the fact that Washington spent as much in real terms on the war in Iraq as it did on the war in Vietnam, even though the Iraqi insurgents enjoyed little external support, whereas China and the Soviet Union lent major support to the Vietcong and the North Vietnamese.) Yet Washington seems unable to stay out of conflicts involving substate entities, in part because their elemental nature assaults the internationalist values that U.S. grand strategy is committed to preserving. Having trumpeted the United States' military superiority, U.S. policymakers have a hard time saying no to those who argue that the country's prestige will suffer gravely if the world's leader lets wars great and small run their course.

The enduring strength of these substate groups should give American policymakers pause, since the United States' current grand strategy entails open-ended confrontation with nationalism and other forms of identity politics that insurgents and terrorists feed off of. These forces provide the organizing energy for groups competing for power within countries (as in Bosnia, Afghanistan, and Iraq), for secessionist movements (as in Kosovo), and for terrorists who oppose the liberal world order (mainly al Qaeda). Officials in Washington, however, have acted as if they can easily undercut the power of identity through democratic processes, freedom of information, and economic development, helped along by the judicious application of military power. In fact, identity is resilient, and foreign peoples react with hostility to outsiders trying to control their lives.

The Iraq war has been a costly case in point. Officials in the Bush administration convinced themselves that a quick application of overwhelming military power would bring democracy to Iraq, produce a subsequent wave of democratization across the Arab world, marginalize al Qaeda, and secure U.S. influence in the region. Instead, Shiites, Sunnis, and Kurds stoked the violence that the United States labored to suppress, and Shiite and Sunni factions fought not only each other

but also the U.S. military. Today's Shiite-dominated government in Baghdad has proved neither democratic nor effective. Sunni terrorists have continued to carry out attacks. The Kurdish parts of Iraq barely acknowledge their membership in the larger state.

By now, it is clear that the United States has worn out its welcome in Afghanistan, too. The Taliban continue to resist the U.S. presence, drawing their strength largely from Pashtun nationalism, and members of the Afghan security forces have, in growing numbers, murdered U.S. and other NATO soldiers who were there to assist them. Instead of simply punishing the Taliban for their indirect role in 9/11 and hitting al Qaeda as hard as possible, true to its global agenda, the Bush administration pursued a costly and futile effort to transform Afghanistan, and the Obama administration continued it.

FRIENDS WITHOUT BENEFITS

Another problematic response to the United States' grand strategy comes from its friends: free-riding. The Cold War alliances that the country has worked so hard to maintain—namely, NATO and the U.S.-Japanese security agreement—have provided U.S. partners in Europe and Asia with such a high level of insurance that they have been able to steadily shrink their militaries and outsource their defense to Washington. European nations have cut their military spending by roughly 15 percent in real terms since the end of the Cold War, with the exception of the United Kingdom, which will soon join the rest as it carries out its austerity policy. Depending on how one counts, Japanese defense spending has been cut, or at best has remained stable, over the past decade. The government has unwisely devoted too much spending to ground forces, even as its leaders have expressed alarm at the rise of Chinese military power—an air, missile, and naval threat.

Although these regions have avoided major wars, the United States has had to bear more and more of the burden of keeping the peace. It now spends 4.6 percent of its GDP on defense, whereas its European NATO allies collectively spend 1.6 percent and Japan spends 1.0 percent. With their high per capita GDPs, these allies can afford to devote more money to their militaries, yet they have no incentive to do so. And so while the U.S. government considers draconian cuts in social spending to restore the United States' fiscal health, it continues to subsidize the security of Germany and Japan. This is welfare for the rich.

Barry R. Posen

U.S. security guarantees also encourage plucky allies to challenge more powerful states, confident that Washington will save them in the end—a classic case of moral hazard. This phenomenon has caused the United States to incur political costs, antagonizing powers great

The United States' alliances have provided its partners in Europe and Asia with such a high level of insurance that they have outsourced their defense to Washington.

and small for no gain and encouraging them to seek opportunities to provoke the United States in return. So far, the United States has escaped getting sucked into unnecessary wars, although Washington dodged a bullet in Taiwan when the Democratic Progressive Party of Chen Shui-bian governed the island, from 2000 to 2008. His frequent allusions to independence, which ran counter to U.S. policy but which some Bush administration officials reportedly

encouraged, unnecessarily provoked the Chinese government; had he proceeded, he would have surely triggered a dangerous crisis. Chen would never have entertained such reckless rhetoric absent the long-standing backing of the U.S. government.

The Philippines and Vietnam (the latter of which has no formal defense treaty with Washington) also seem to have figured out that they can needle China over maritime boundary disputes and then seek shelter under the U.S. umbrella when China inevitably reacts. Not only do these disputes make it harder for Washington to cooperate with Beijing on issues of global importance; they also risk roping the United States into conflicts over strategically marginal territory.

Georgia is another state that has played this game to the United States' detriment. Overly confident of Washington's affection for it, the tiny republic deliberately challenged Russia over control of the disputed region of South Ossetia in August 2008. Regardless of how exactly the fighting began, Georgia acted far too adventurously given its size, proximity to Russia, and distance from any plausible source of military help. This needless war ironically made Russia look tough and the United States unreliable.

This dynamic is at play in the Middle East, too. Although U.S. officials have communicated time and again to leaders in Jerusalem their discomfort with Israeli settlements on the territory occupied during the 1967 war, Israel regularly increases the population and

dimensions of those settlements. The United States' military largess and regular affirmations of support for Israel have convinced Israeli hawks that they will suffer no consequences for ignoring U.S. advice. It takes two to make peace in the Israeli-Palestinian conflict, but the creation of humiliating facts on the ground will not bring a negotiated settlement any closer. And Israel's policies toward the Palestinians are a serious impediment to improved U.S. relations with the Arab world.

A NIMBLER STRATEGY

The United States should replace its unnecessary, ineffective, and expensive hegemonic quest with a more restrained grand strategy. Washington should not retreat into isolationism but refocus its efforts on its three biggest security challenges: preventing a powerful rival from upending the global balance of power, fighting terrorists, and limiting nuclear proliferation. These challenges are not new, but the United States must develop more carefully calculated and discriminating policies to address them.

For roughly a century, American strategists have striven to ensure that no single state dominated the giant landmass of Eurasia, since such a power could then muster the resources to threaten the United States directly. To prevent this outcome, the United States rightly went to war against Germany and Japan and contained the Soviet Union. Although China may ultimately try to assume the mantle of Eurasian hegemon, this outcome is neither imminent nor inevitable. China's economy still faces many pitfalls, and the country is surrounded by powerful states that could and would check its expansion, including India and Russia, both of which have nuclear weapons. Japan, although it underspends on defense today, is rich and technologically advanced enough to contribute to a coalition of states that could balance against China. Other maritime Asian countries, even without the United States as a backstop, could also make common cause against China. The United States should maintain the capability to assist them if need be. But it should proceed cautiously in order to ensure that its efforts do not unnecessarily threaten China and thus encourage the very ambitions Washington hopes to deter or prompt a new round of free-riding or reckless driving by others in Asia.

The United States must also defend itself against al Qaeda and any similar successor groups. Since such terrorists can threaten Americans' lives, the U.S. government should keep in place the prudent defensive

Barry R. Posen

measures that have helped lower the risk of attacks, such as more energetic intelligence efforts and better airport security. (A less interventionist foreign policy will help, too: it was partly the U.S. military's presence in Saudi Arabia that radicalized Osama bin Laden and his followers in the first place.) When it comes to offense, the United States must still pursue terrorists operating abroad, so that they spend

The United States should withdraw from NATO's military command structure and return the alliance to the primarily political organization it once was.

their scarce resources trying to stay alive rather than plotting new attacks. It will need to continue cooperating with other vulnerable governments and help them develop their own police and military forces. Occasionally, the U.S. military will have to supplement these efforts with air strikes, drone attacks, and special operations raids.

But Washington should keep the threat in perspective. Terrorists are too weak to threaten the country's sover-

eignty, territorial integrity, or power position. Because the threat is modest, and because trying to reform other societies by force is too costly, the United States must fight terrorism with carefully applied force, rather than through wholesale nation-building efforts such as that in Afghanistan.

Finally, a restrained grand strategy would also pay close attention to the spread of nuclear weapons, while relying less on the threat of military force to stop it. Thanks to the deterrence provided by its own massive nuclear forces, the United States faces little risk of a direct nuclear attack by another state. But Washington does need to keep nonstate actors from obtaining nuclear weapons or material. To prevent them from taking advantage of lax safeguards at nuclear facilities, the U.S. government should share best practices regarding nuclear security with other countries, even ones that it would prefer did not possess nuclear weapons in the first place. The United States does already cooperate somewhat with Pakistan on this issue, but it must stand ready to do more and ultimately to undertake such efforts with others.

The loss of a government's control over its nuclear weapons during a coup, revolution, or civil war is a far harder problem to forestall. It may be possible for U.S. forces to secure weapons in a period of

instability, with the help of local actors who see the dangers for their own country if the weapons get loose. Conditions may lend themselves to a preventive military attack, to seize or disable the weapons. In some cases, however, the United States might have to make do with less sure-fire responses. It could warn those who seized the nuclear weapons in a period of upheaval that they would make themselves targets for retaliation if the weapons were ever used by terrorists. And it could better surveil international sea and air routes and more intensively monitor both its own borders for nuclear smuggling and those of the potential source countries.

These measures may seem incommensurate with the terrible toll of a nuclear blast. But the alternative strategy—fighting preventive conventional wars against nascent nuclear powers—is an expensive and uncertain solution to proliferation. The Obama administration's oft-repeated warning that deterrence and containment of a nuclear Iran is unacceptable makes little sense given the many ways a preventive war could go wrong and in light of the redundant deterrent capability the United States already possesses. Indeed, the more Washington relies on military force to halt proliferation, the more likely it is that countries will decide to acquire the ultimate deterrent.

A more restrained America would also have to head off nuclear arms races. In retrospect, the size, composition, doctrine, and highly alert posture of U.S. and Soviet nuclear forces during the Cold War seem unduly risky relative to the strategic problem those weapons were supposed to solve. Nuclear weapons act as potent deterrents to aggression, but significantly smaller forces than those the United States now possesses, carefully managed, should do the job. To avoid a replay of Cold War-style nuclear competition, the United States should pursue a new multilateral arms control regime that places ceilings on nuclear inventories and avoids hair-trigger force postures.

RESTRAINT IN PRACTICE

A grand strategy of restraint would narrow U.S. foreign policy to focus on those three larger objectives. What would it look like in practice? First, the United States would recast its alliances so that other countries shared actual responsibility for their own defense. NATO is the easiest case; the United States should withdraw from the military command structure and return the alliance to the primarily political organization it once was. The Europeans can decide for themselves

Barry R. Posen

whether they want to retain the military command structure under the auspices of the European Union or dismantle it altogether. Most U.S. troops should come home from Europe, although by mutual agreement, the United States could keep a small number of naval and air bases on the continent.

The security treaty with Japan is a more difficult problem; it needs to be renegotiated but not abandoned. As the treaty stands now, the United States shoulders most of the burden of defending Japan, and

U.S. allies will do everything they can to persuade Washington to keep its current policies in place.

the Japanese government agrees to help. The roles should be reversed, so that Japan assumes responsibility for its own defense, with Washington offering backup. Given concerns about China's rising power, not all U.S. forces should leave the region. But the Pentagon should pare down its presence in Japan to those relevant to the most immediate

military problems. All U.S. marines could be withdrawn from the country, bringing to an end the thorny negotiations about their future on the island of Okinawa. The U.S. Navy and the U.S. Air Force should keep the bulk of their forces stationed in and around Japan in place, but with appropriate reductions. Elsewhere in Asia, the U.S. military can cooperate with other states to ensure access to the region should future crises arise, but it should not seek new permanent bases.

The military should also reassess its commitments in the Persian Gulf: the United States should help protect states in the region against external attacks, but it cannot take responsibility for defending them against internal dissent. Washington still needs to reassure those governments that fear that a regional power such as Iran will attack them and hijack their oil wealth, since a single oil-rich hegemon in the region would no doubt be a source of mischief. The U.S. military has proved adept at preventing such an outcome in the past, as it did when it defended Saudi Arabia and repelled Saddam's forces from Kuwait in 1991. Ground forces bent on invasion make easy targets for air attacks. The aircraft and cruise missiles aboard U.S. naval forces stationed in the region could provide immediate assistance. With a little advance notice, U.S. Air Force aircraft could quickly reinforce land bases maintained by the Arab states of the Gulf, as they did during the Gulf War when the regional powers opposed to

Saddam's aggression prepared the way for reinforcement from the U.S. military by maintaining extra base capacity and fuel.

But U.S. soldiers no longer need to live onshore in Gulf countries, where they incite anti-Americanism and tie the U.S. government to autocratic regimes of dubious legitimacy. For example, Bahrain is suffering considerable internal unrest, which raises questions about the future viability of the United States' growing military presence there. The Iraq war proved that trying to install new regimes in Arab countries is a fool's errand; defending existing regimes facing internal rebellion will be no easier.

Under a restrained grand strategy, U.S. military forces could shrink significantly, both to save money and to send allies the message that it's time they did more for themselves. Because the Pentagon would, under this new strategy, swear off counterinsurgency, it could cut the number of ground forces in half. The navy and the air force, meanwhile, should be cut by only a quarter to a third, since their assets take a long time to produce and would still be needed for any effort to maintain the global balance of power. Naval and air forces are also well suited to solving the security problems of Asia and the Persian Gulf. Because these forces are highly mobile, only some need be present in key regions. The rest can be kept at home, as a powerful strategic reserve.

The overall size and quality of U.S. military forces should be determined by the critical contingency that they must address: the defense of key resources and allies against direct attack. Too often in the past, Washington has overused its expensive military to send messages that ought to be left to diplomats. That must change. Although the Pentagon should continue leading joint exercises with the militaries of other countries in key regions, it should stop overloading the calendar with pointless exercises the world over. Making that change would save wear and tear on troops and equipment and avoid creating the impression that the United States will solve all the world's security problems.

LETTING GO

Shifting to a more restrained global stance would yield meaningful benefits for the United States, saving lives and resources and preventing pushback, provided Washington makes deliberate and prudent moves now to prepare its allies to take on the responsibility for their own defense. Scaling down the U.S. military's presence over a decade would give partners plenty of time to fortify their own militaries and

Barry R. Posen

develop the political and diplomatic machinery to look after their own affairs. Gradual disengagement would also reduce the chances of creating security vacuums, which opportunistic regional powers might try to fill.

U.S. allies, of course, will do everything they can to persuade Washington to keep its current policies in place. Some will promise improvements to their military forces that they will then abandon when it is convenient. Some will claim there is nothing more they can contribute, that their domestic political and economic constraints matter more than America's. Others will try to divert the discussion to shared values and principles. Still others will hint that they will bandwagon with strong neighbors rather than balance against them. A few may even threaten to turn belligerent.

U.S. policymakers will need to remain cool in the face of such tactics and keep in mind that these wealthy allies are unlikely to surrender their sovereignty to regional powers. Indeed, history has shown that states more often balance against the powerful than bandwagon with them. As for potential adversaries, the United States can continue to deter actions that threaten its vital interests by defining those interests narrowly, stating them clearly, and maintaining enough military power to protect them.

Of course, the United States could do none of these things and instead continue on its present track, wasting resources and earning the enmity of some states and peoples while infantilizing others. Perhaps current economic and geopolitical trends will reverse themselves, and the existing strategy will leave Washington comfortably in the driver's seat, with others eager to live according to its rules. But if the U.S. debt keeps growing and power continues to shift to other countries, some future economic or political crisis could force Washington to switch course abruptly, compelling friendly and not-so-friendly countries to adapt suddenly. That seems like the more dangerous path. 🌐



LYNNE RIENNER PUBLISHERS



“A compelling, wide-ranging analysis of the many facets of the financial crisis—its causes, its effect globally and regionally, and likely global scenarios for how it may develop further.”

—KENNETH P. THOMAS,
University of Missouri–St. Louis • hc \$59.95

1800 30TH ST. • BOULDER, CO 80301 • TEL: 303-444-6684
FAX: 303-444-0824 • www.rienner.com

The **Iran Social Science Data Portal** is an English- and Persian-language internet portal that hosts social science data on Iran, including socioeconomic data, electoral data, information on political parties, and translations of selected laws, as well as documentation of the constitutional debates. It aims to provide a service to journalists, academics, policymakers, and others interested in analyzing political and socioeconomic developments in contemporary Iran. The project is funded by a grant from the Social Science Research Council.

<http://www.princeton.edu/irandatportal/>



Iran Data Portal



THE HERBERT
SCOVILLE JR.
PEACE FELLOWSHIP

The Herbert Scoville Jr. Peace Fellowship invites recent college graduates to apply for six to nine month fellowships in Washington, DC, focusing on arms control, peace, and international security issues. Founded in 1987 to develop and train the next generation of leaders on a range of peace and security issues, the program has awarded 141 fellowships.

Scoville Fellows work with one of more than two dozen participating public-interest organizations. They may undertake a variety of activities, including research, writing, public education and advocacy, and may attend policy briefings, Congressional hearings, and meetings with policy experts. Many former Scoville Fellows have taken prominent positions in the field of peace and security.

The next application deadline is January 7, 2013 for the fall 2013 fellowship. For complete details, see www.scoville.org or contact (202) 446-1565 or info@scoville.org.

CALL FOR NOMINATIONS AND APPLICATIONS

Asia Society's Bernard Schwartz Fellows Program



Selected from among emerging and established thought-leaders in Asian affairs, Bernard Schwartz Fellows play a leading role in deepening the understanding of Asia in the international political and economic arena. Resident Fellows direct a research project with the aim of advancing policy solutions to address major challenges facing Asia and/or U.S.-Asia relations.

Applications accepted throughout the year.

AsiaSociety.org/SchwartzFellows



Lean Forward

In Defense of American Engagement

*Stephen G. Brooks, G. John Ikenberry, and
William C. Wohlforth*

Since the end of World War II, the United States has pursued a single grand strategy: deep engagement. In an effort to protect its security and prosperity, the country has promoted a liberal economic order and established close defense ties with partners in Europe, East Asia, and the Middle East. Its military bases cover the map, its ships patrol transit routes across the globe, and tens of thousands of its troops stand guard in allied countries such as Germany, Japan, and South Korea.

The details of U.S. foreign policy have differed from administration to administration, including the emphasis placed on democracy promotion and humanitarian goals, but for over 60 years, every president has agreed on the fundamental decision to remain deeply engaged in the world, even as the rationale for that strategy has shifted. During the Cold War, the United States' security commitments to Europe, East Asia, and the Middle East served primarily to prevent Soviet encroachment into the world's wealthiest and most resource-rich regions. Since the fall of the Soviet Union, the aim has become to make these same regions more secure, and thus less threatening to the United States, and to use these security partnerships to foster the cooperation necessary for a stable and open international order.

Now, more than ever, Washington might be tempted to abandon this grand strategy and pull back from the world. The rise of China

STEPHEN G. BROOKS is Associate Professor of Government at Dartmouth College.

G. JOHN IKENBERRY is Albert G. Milbank Professor of Politics and International Affairs at Princeton University and Global Eminence Scholar at Kyung Hee University in Seoul.

WILLIAM C. WOHLFORTH is Daniel Webster Professor of Government at Dartmouth College.

This article is adapted from their essay "Don't Come Home, America: The Case Against Retrenchment," *International Security*, Winter 2012-13.

is chipping away at the United States' preponderance of power, a budget crisis has put defense spending on the chopping block, and two long wars have left the U.S. military and public exhausted. Indeed, even as most politicians continue to assert their commitment to global leadership, a very different view has taken hold among scholars of international relations over the past decade: that the United States should minimize its overseas military presence, shed its security ties, and give up its efforts to lead the liberal international order.

Proponents of retrenchment argue that a globally engaged grand strategy wastes money by subsidizing the defense of well-off allies and generates resentment among foreign populations and governments. A more modest posture, they contend, would put an end to allies' free-riding and defuse anti-American sentiment. Even if allies did not take over every mission the United States now performs, most of these roles have nothing to do with U.S. security and only risk entrapping the United States in unnecessary wars. In short, those in this camp maintain that pulling back would not only save blood and treasure but also make the United States more secure.

They are wrong. In making their case, advocates of retrenchment overstate the costs of the current grand strategy and understate its benefits. In fact, the budgetary savings of lowering the United States' international profile are debatable, and there is little evidence to suggest that



an internationally engaged America provokes other countries to balance against it, becomes overextended, or gets dragged into unnecessary wars.

The benefits of deep engagement, on the other hand, are legion. U.S. security commitments reduce competition in key regions and act as a check against potential rivals. They help maintain an open world economy and give Washington leverage in economic negotiations. And they make it easier for the United States to secure cooperation for combating a wide range of global threats. Were the United States to cede its global leadership role, it would forgo these proven upsides while exposing itself to the unprecedented downsides of a world in which the country was less secure, prosperous, and influential.

AN AFFORDABLE STRATEGY

Many advocates of retrenchment consider the United States' assertive global posture simply too expensive. The international relations scholar Christopher Layne, for example, has warned of the country's "ballooning budget deficits" and argued that "its strategic commitments exceed the resources available to support them." Calculating the savings of switching grand strategies, however, is not so simple, because it depends on the expenditures the current strategy demands and the amount required for its replacement—numbers that are hard to pin down.

If the United States revoked all its security guarantees, brought home all its troops, shrank every branch of the military, and slashed its nuclear arsenal, it would save around \$900 billion over ten years, according to Benjamin Friedman and Justin Logan of the Cato Institute. But few advocates of retrenchment endorse such a radical reduction; instead, most call for "restraint," an "offshore balancing" strategy, or an "over the horizon" military posture. The savings these approaches would yield are less clear, since they depend on which security commitments Washington would abandon outright and how much it would cost to keep the remaining ones. If retrenchment simply meant shipping foreign-based U.S. forces back to the United States, then the savings would be modest at best, since the countries hosting U.S. forces usually cover a large portion of the basing costs. And if it meant maintaining a major expeditionary capacity, then any savings would again be small, since the Pentagon would still have to pay for the expensive weaponry and equipment required for projecting power abroad.

The other side of the cost equation, the price of continued engagement, is also in flux. Although the fat defense budgets of the past

decade make an easy target for advocates of retrenchment, such high levels of spending aren't needed to maintain an engaged global posture. Spending skyrocketed after 9/11, but it has already begun to fall back to earth as the United States winds down its two costly wars and trims its base level of nonwar spending. As of the fall of 2012, the Defense Department was planning for cuts of just under \$500 billion over the next five years, which it maintains will not compromise national security. These reductions would lower military spending to a little less than three percent of GDP by 2017, from its current level of 4.5 percent. The Pentagon could save even more with no ill effects by reforming its procurement practices and compensation policies.

Even without major budget cuts, however, the country can afford the costs of its ambitious grand strategy. The significant increases in military spending proposed by Mitt Romney, the Republican candidate, during the 2012 presidential campaign would still have kept military spending below its current share of GDP, since spending on the wars in Afghanistan and Iraq would still have gone down and Romney's proposed non-war spending levels would not have kept pace with economic growth. Small wonder, then, that the case for pulling back rests more on the nonmonetary costs that the current strategy supposedly incurs.

UNBALANCED

One such alleged cost of the current grand strategy is that, in the words of the political scientist Barry Posen, it "prompts states to balance against U.S. power however they can." Yet there is no evidence that countries have banded together in anti-American alliances or tried to match the United States' military capacity on their own—or that they will do so in the future.

Indeed, it's hard to see how the current grand strategy could generate true counterbalancing. Unlike past hegemonies, the United States is geographically isolated, which means that it is far less threatening to other major states and that it faces no contiguous great-power rivals that could step up to the task of balancing against it. Moreover, any competitor would have a hard time matching the U.S. military. Not only is the United States so far ahead militarily in both quantitative and qualitative terms, but its security guarantees also give it the leverage to prevent allies from giving military technology to potential U.S. rivals. Because the United States dominates the high-end defense industry, it can trade access to its defense market for allies' agreement

not to transfer key military technologies to its competitors. The embargo that the United States has convinced the EU to maintain on military sales to China since 1989 is a case in point.

If U.S. global leadership were prompting balancing, then one would expect actual examples of pushback—especially during the administration of George W. Bush, who pursued a foreign policy that seemed particularly unilateral. Yet since the Soviet Union collapsed, no major powers have tried to balance against the United States by seeking to match its military might or by assembling a formidable alliance; the prospect is simply too daunting. Instead, they have resorted to what scholars call “soft balancing,” using international institutions and norms to constrain Washington. Setting aside the fact that

If Washington got out of East Asia, Japan and South Korea would likely expand their military capabilities and go nuclear.

soft balancing is a slippery concept and difficult to distinguish from everyday diplomatic competition, it is wrong to say that the practice only harms the United States. Arguably, as the global leader, the United States benefits from employing soft-balancing-style leverage more than any other country. After all, today’s rules and institutions came about

under its auspices and largely reflect its interests, and so they are in fact tailor-made for soft balancing by the United States itself. In 2011, for example, Washington coordinated action with several Southeast Asian states to oppose Beijing’s claims in the South China Sea by pointing to established international law and norms.

Another argument for retrenchment holds that the United States will fall prey to the same fate as past hegemony and accelerate its own decline. In order to keep its ambitious strategy in place, the logic goes, the country will have to divert resources away from more productive purposes—infrastructure, education, scientific research, and so on—that are necessary to keep its economy competitive. Allies, meanwhile, can get away with lower military expenditures and grow faster than they otherwise would.

The historical evidence for this phenomenon is thin; for the most part, past superpowers lost their leadership not because they pursued hegemony but because other major powers balanced against them—a prospect that is not in the cards today. (If anything, leading states can use their position to stave off their decline.) A bigger problem with the warnings against “imperial overstretch” is that there is no reason

to believe that the pursuit of global leadership saps economic growth. Instead, most studies by economists find no clear relationship between military expenditures and economic decline.

To be sure, if the United States were a dramatic outlier and spent around a quarter of its GDP on defense, as the Soviet Union did in its last decades, its growth and competitiveness would suffer. But in 2012, even as it fought a war in Afghanistan and conducted counterterrorism operations around the globe, Washington spent just 4.5 percent of GDP on defense—a relatively small fraction, historically speaking. (From 1950 to 1990, that figure averaged 7.6 percent.) Recent economic difficulties might prompt Washington to reevaluate its defense budgets and international commitments, but that does not mean that those policies caused the downturn. And any money freed up from dropping global commitments would not necessarily be spent in ways that would help the U.S. economy.

Likewise, U.S. allies' economic growth rates have nothing to do with any security subsidies they receive from Washington. The contention that lower military expenditures facilitated the rise of Japan, West Germany, and other countries dependent on U.S. defense guarantees may have seemed plausible during the last bout of declinist anxiety, in the 1980s. But these states eventually stopped climbing up the global economic ranks as their per capita wealth approached U.S. levels—just as standard models of economic growth would predict. Over the past 20 years, the United States has maintained its lead in per capita GDP over its European allies and Japan, even as those countries' defense efforts have fallen further behind. Their failure to modernize their militaries has only served to entrench the United States' dominance.

LED NOT INTO TEMPTATION

The costs of U.S. foreign policy that matter most, of course, are human lives, and critics of an expansive grand strategy worry that the United States might get dragged into unnecessary wars. Securing smaller allies, they argue, emboldens those states to take risks they would not otherwise accept, pulling the superpower sponsor into costly conflicts—a classic moral hazard problem. Concerned about the reputational costs of failing to honor the country's alliance commitments, U.S. leaders might go to war even when no national interests are at stake.

History shows, however, that great powers anticipate the danger of entrapment and structure their agreements to protect themselves from

Stephen G. Brooks, G. John Ikenberry, and William C. Wohlforth

it. It is nearly impossible to find a clear case of a smaller power luring a reluctant great power into war. For decades, World War I served as the canonical example of entangling alliances supposedly drawing great powers into a fight, but an outpouring of new historical research has overturned the conventional wisdom, revealing that the war was more the result of a conscious decision on Germany's part to try to dominate Europe than a case of alliance entrapment.

If anything, alliances reduce the risk of getting pulled into a conflict. In East Asia, the regional security agreements that Washington struck after World War II were designed, in the words of the political scientist Victor Cha, to "constrain anticommunist allies in the region that might

The country's globe-spanning posture is the devil we know, and a world with a disengaged America is the devil we don't know.

engage in aggressive behavior against adversaries that could entrap the United States in an unwanted larger war." The same logic is now at play in the U.S.-Taiwanese relationship. After cross-strait tensions flared in the 1990s and the first decade of this century, U.S. officials grew concerned that their ambiguous support for Taiwan might expose them to the risk of entrapment. So the Bush

administration adjusted its policy, clarifying that its goal was to not only deter China from an unprovoked attack but also deter Taiwan from unilateral moves toward independence.

For many advocates of retrenchment, the problem is that the mere possession of globe-girdling military capabilities supposedly inflates policymakers' conception of the national interest, so much so that every foreign problem begins to look like America's to solve. Critics also argue that the country's military superiority causes it to seek total solutions to security problems, as in Afghanistan and Iraq, that could be dealt with in less costly ways. Only a country that possessed such awesome military power and faced no serious geopolitical rival would fail to be satisfied with partial fixes, such as containment, and instead embark on wild schemes of democracy building, the argument goes.

Furthermore, they contend, the United States' outsized military creates a sense of obligation to do something with it even when no U.S. interests are at stake. As Madeleine Albright, then the U.S. ambassador to the UN, famously asked Colin Powell, then chairman of the Joint Chiefs of Staff, when debating intervention in Bosnia in

1993, “What’s the point of having this superb military you’re always talking about if we can’t use it?”

If the U.S. military scrapped its forces and shuttered its bases, then the country would no doubt eliminate the risk of entering needless wars, having tied itself to the mast like Ulysses. But if it instead merely moved its forces over the horizon, as is more commonly proposed by advocates of retrenchment, whatever temptations there were to intervene would not disappear. The bigger problem with the idea that a forward posture distorts conceptions of the national interest, however, is that it rests on just one case: Iraq. That war is an outlier in terms of both its high costs (it accounts for some two-thirds of the casualties and budget costs of all U.S. wars since 1990) and the degree to which the United States shouldered them alone. In the Persian Gulf War and the interventions in Bosnia, Kosovo, Afghanistan, and Libya, U.S. allies bore more of the burden, controlling for the size of their economies and populations.

Besides, the Iraq war was not an inevitable consequence of pursuing the United States’ existing grand strategy; many scholars and policymakers who prefer an engaged America strongly opposed the war. Likewise, continuing the current grand strategy in no way condemns the United States to more wars like it. Consider how the country, after it lost in Vietnam, waged the rest of the Cold War with proxies and highly limited interventions. Iraq has generated a similar reluctance to undertake large expeditionary operations—what the political scientist John Mueller has dubbed “the Iraq syndrome.” Those contending that the United States’ grand strategy ineluctably leads the country into temptation need to present much more evidence before their case can be convincing.

KEEPING THE PEACE

Of course, even if it is true that the costs of deep engagement fall far below what advocates of retrenchment claim, they would not be worth bearing unless they yielded greater benefits. In fact, they do. The most obvious benefit of the current strategy is that it reduces the risk of a dangerous conflict. The United States’ security commitments deter states with aspirations to regional hegemony from contemplating expansion and dissuade U.S. partners from trying to solve security problems on their own in ways that would end up threatening other states.

Skeptics discount this benefit by arguing that U.S. security guarantees aren’t necessary to prevent dangerous rivalries from erupting. They maintain that the high costs of territorial conquest and the many tools

countries can use to signal their benign intentions are enough to prevent conflict. In other words, major powers could peacefully manage regional multipolarity without the American pacifier.

But that outlook is too sanguine. If Washington got out of East Asia, Japan and South Korea would likely expand their military capabilities and go nuclear, which could provoke a destabilizing reaction from China. It's worth noting that during the Cold War, both South Korea and Taiwan tried to obtain nuclear weapons; the only thing that stopped them was the United States, which used its security commitments to restrain their nuclear temptations. Similarly, were the United States to leave the Middle East, the countries currently backed by Washington—notably, Israel, Egypt, and Saudi Arabia—might act in ways that would intensify the region's security dilemmas.

There would even be reason to worry about Europe. Although it's hard to imagine the return of great-power military competition in a post-American Europe, it's not difficult to foresee governments there refusing to pay the budgetary costs of higher military outlays and the political costs of increasing EU defense cooperation. The result might be a continent incapable of securing itself from threats on its periphery, unable to join foreign interventions on which U.S. leaders might want European help, and vulnerable to the influence of outside rising powers.

Given how easily a U.S. withdrawal from key regions could lead to dangerous competition, advocates of retrenchment tend to put forth another argument: that such rivalries wouldn't actually hurt the United States. To be sure, few doubt that the United States could survive the return of conflict among powers in Asia or the Middle East—but at what cost? Were states in one or both of these regions to start competing against one another, they would likely boost their military budgets, arm client states, and perhaps even start regional proxy wars, all of which should concern the United States, in part because its lead in military capabilities would narrow.

Greater regional insecurity could also produce cascades of nuclear proliferation as powers such as Egypt, Saudi Arabia, Japan, South Korea, and Taiwan built nuclear forces of their own. Those countries' regional competitors might then also seek nuclear arsenals. Although nuclear deterrence can promote stability between two states with the kinds of nuclear forces that the Soviet Union and the United States possessed, things get shakier when there are multiple nuclear rivals with less robust arsenals. As the number of nuclear powers increases,

the probability of illicit transfers, irrational decisions, accidents, and unforeseen crises goes up.

The case for abandoning the United States' global role misses the underlying security logic of the current approach. By reassuring allies and actively managing regional relations, Washington dampens competition in the world's key areas, thereby preventing the emergence of a hothouse in which countries would grow new military capabilities. For proof that this strategy is working, one need look no further than the defense budgets of the current great powers: on average, since 1991 they have kept their military expenditures as a percentage of GDP to historic lows, and they have not attempted to match the United States' top-end military capabilities. Moreover, all of the world's most modern militaries are U.S. allies, and the United States' military lead over its potential rivals is by many measures growing.

On top of all this, the current grand strategy acts as a hedge against the emergence regional hegemons. Some supporters of retrenchment argue that the U.S. military should keep its forces over the horizon and pass the buck to local powers to do the dangerous work of counterbalancing rising regional powers. Washington, they contend, should deploy forces abroad only when a truly credible contender for regional hegemony arises, as in the cases of Germany and Japan during World War II and the Soviet Union during the Cold War. Yet there is already a potential contender for regional hegemony—China—and to balance it, the United States will need to maintain its key alliances in Asia and the military capacity to intervene there. The implication is that the United States should get out of Afghanistan and Iraq, reduce its military presence in Europe, and pivot to Asia. Yet that is exactly what the Obama administration is doing.

MILITARY DOMINANCE, ECONOMIC PREEMINENCE

Preoccupied with security issues, critics of the current grand strategy miss one of its most important benefits: sustaining an open global economy and a favorable place for the United States within it. To be sure, the sheer size of its output would guarantee the United States a major role in the global economy whatever grand strategy it adopted. Yet the country's military dominance undergirds its economic leadership. In addition to protecting the world economy from instability, its military commitments and naval superiority help secure the sea-lanes and other shipping corridors that allow trade to flow freely and cheaply. Were the United States to

pull back from the world, the task of securing the global commons would get much harder. Washington would have less leverage with which it could convince countries to cooperate on economic matters and less access to the military bases throughout the world needed to keep the seas open.

A global role also lets the United States structure the world economy in ways that serve its particular economic interests. During the Cold War, Washington used its overseas security commitments to get allies to embrace the economic policies it preferred—convincing West Germany in the 1960s, for example, to take costly steps to support the U.S. dollar as a reserve currency. U.S. defense agreements work the same way today. For example, when negotiating the 2011 free-trade agreement with South Korea, U.S. officials took advantage of Seoul's desire to use the agreement as a means of tightening its security relations with Washington. As one diplomat explained to us privately, "We asked for changes in labor and environment clauses, in auto clauses, and the Koreans took it all." Why? Because they feared a failed agreement would be "a setback to the political and security relationship."

More broadly, the United States wields its security leverage to shape the overall structure of the global economy. Much of what the United States wants from the economic order is more of the same: for instance, it likes the current structure of the World Trade Organization and the International Monetary Fund and prefers that free trade continue. Washington wins when U.S. allies favor this status quo, and one reason they are inclined to support the existing system is because they value their military alliances. Japan, to name one example, has shown interest in the Trans-Pacific Partnership, the Obama administration's most important free-trade initiative in the region, less because its economic interests compel it to do so than because Prime Minister Yoshihiko Noda believes that his support will strengthen Japan's security ties with the United States.

The United States' geopolitical dominance also helps keep the U.S. dollar in place as the world's reserve currency, which confers enormous benefits on the country, such as a greater ability to borrow money. This is perhaps clearest with Europe: the EU's dependence on the United States for its security precludes the EU from having the kind of political leverage to support the euro that the United States has with the dollar. As with other aspects of the global economy, the United States does not provide its leadership for free: it extracts disproportionate gains. Shirking that responsibility would place those benefits at risk.

CREATING COOPERATION

What goes for the global economy goes for other forms of international cooperation. Here, too, American leadership benefits many countries but disproportionately helps the United States. In order to counter transnational threats, such as terrorism, piracy, organized crime, climate change, and pandemics, states have to work together and take collective action. But cooperation does not come about effortlessly, especially when national interests diverge. The United States' military efforts to promote stability and its broader leadership make it easier for Washington to launch joint initiatives and shape them in ways that reflect U.S. interests. After all, cooperation is hard to come by in regions where chaos reigns, and it flourishes where leaders can anticipate lasting stability.

U.S. alliances are about security first, but they also provide the political framework and channels of communication for cooperation on nonmilitary issues. NATO, for example, has spawned new institutions, such as the Atlantic Council, a think tank, that make it easier for Americans and Europeans to talk to one another and do business. Likewise, consultations with allies in East Asia spill over into other policy issues; for example, when American diplomats travel to Seoul to manage the military alliance, they also end up discussing the Trans-Pacific Partnership. Thanks to conduits such as this, the United States can use bargaining chips in one issue area to make progress in others.

The benefits of these communication channels are especially pronounced when it comes to fighting the kinds of threats that require new forms of cooperation, such as terrorism and pandemics. With its alliance system in place, the United States is in a stronger position than it would otherwise be to advance cooperation and share burdens. For example, the intelligence-sharing network within NATO, which was originally designed to gather information on the Soviet Union, has been adapted to deal with terrorism. Similarly, after a tsunami in the Indian Ocean devastated surrounding countries in 2004, Washington had a much easier time orchestrating a fast humanitarian response with Australia, India, and Japan, since their militaries were already comfortable working with one another. The operation did wonders for the United States' image in the region.

The United States' global role also has the more direct effect of facilitating the bargains among governments that get cooperation going in the first place. As the scholar Joseph Nye has written, "The American military role in deterring threats to allies, or of assuring

Stephen G. Brooks, G. John Ikenberry, and William C. Wohlforth

access to a crucial resource such as oil in the Persian Gulf, means that the provision of protective force can be used in bargaining situations. Sometimes the linkage may be direct; more often it is a factor not mentioned openly but present in the back of statesmen's minds."

THE DEVIL WE KNOW

Should America come home? For many prominent scholars of international relations, the answer is yes—a view that seems even wiser in the wake of the disaster in Iraq and the Great Recession. Yet their arguments simply don't hold up. There is little evidence that the United States would save much money switching to a smaller global posture. Nor is the current strategy self-defeating: it has not provoked the formation of counterbalancing coalitions or caused the country to spend itself into economic decline. Nor will it condemn the United States to foolhardy wars in the future. What the strategy does do is help prevent the outbreak of conflict in the world's most important regions, keep the global economy humming, and make international cooperation easier. Charting a different course would threaten all these benefits.

This is not to say that the United States' current foreign policy can't be adapted to new circumstances and challenges. Washington does not need to retain every commitment at all costs, and there is nothing wrong with rejiggering its strategy in response to new opportunities or setbacks. That is what the Nixon administration did by winding down the Vietnam War and increasing the United States' reliance on regional partners to contain Soviet power, and it is what the Obama administration has been doing after the Iraq war by pivoting to Asia. These episodes of rebalancing belie the argument that a powerful and internationally engaged America cannot tailor its policies to a changing world.

A grand strategy of actively managing global security and promoting the liberal economic order has served the United States exceptionally well for the past six decades, and there is no reason to give it up now. The country's globe-spanning posture is the devil we know, and a world with a disengaged America is the devil we don't know. Were American leaders to choose retrenchment, they would in essence be running a massive experiment to test how the world would work without an engaged and liberal leading power. The results could well be disastrous. 🌐

Rebooting Republican Foreign Policy

Needed: Less Fox, More Foxes

Daniel W. Drezner

This past fall was not kind to U.S. President Barack Obama's foreign policy. It became increasingly clear that Afghan security forces were not going to be ready for the 2014 transition. *The New York Times* highlighted the administration's failure to persuade the Iraqi government to allow a residual U.S. force to stay in the country, leaving Baghdad ever more at the mercy of Tehran. Obama and Israeli Prime Minister Benjamin Netanyahu fought publicly over how to respond to Iran's advancing nuclear program. The administration's much-touted "pivot" to the Pacific seemed like more talk than action, as the United States passively watched tensions rise between China and Japan. And then, the administration tripped over itself repeatedly in trying to explain the fiasco in Benghazi, Libya.

Yet despite all this, Obama not only won the election in November but was more trusted by the public than Mitt Romney, the Republican candidate, on foreign policy and national security issues. The Pew Research Center's last preelection poll, for example, found that more voters trusted Obama than Romney on foreign affairs, by 50 percent to 42 percent, and CBS/*New York Times* and NBC/*Wall Street Journal* surveys showed similar figures. Tracking polls suggested that the foreign policy debate helped halt whatever momentum Romney had.

This was all a big change from the past. Republicans had previously possessed a decades-long advantage on foreign policy. Exit polls have shown that voters consistently trusted Republican presidential candidates over Democratic ones on foreign policy from the Vietnam

DANIEL W. DREZNER is Professor of International Politics at the Fletcher School of Law and Diplomacy at Tufts University and the editor of *Avoiding Trivia: The Role of Strategic Planning in American Foreign Policy*. Follow him on Twitter @dandrezner.

Daniel W. Drezner

era until 2012. So Obama's edge cannot be chalked up simply to incumbency. And if this exception becomes a trend, it will pose a serious problem for the Republican Party, significantly altering the political landscape. Foreign policy is rarely the decisive issue in presidential campaigns, but it does matter: even voters who profess not to care about the rest of the world need to feel comfortable that their candidate can be the next commander in chief. A candidate's command of foreign policy acts as a proxy for assessing broader leadership abilities. As of right now, far too many Republicans flunk that test.

So how did the party of Dwight Eisenhower and Ronald Reagan get itself into this mess? Simply put, GOP leaders stopped being smart foxes and devolved into stupid hedgehogs. During the Cold War, the party of Eisenhower, Richard Nixon, and Reagan was strongly anti-communist, but these presidents took foreign policy seriously and executed their grand strategies with a healthy degree of tactical flexibility. Since 9/11, however, Republicans have known only one big thing—the “global war on terror”—and have remained stubbornly committed to a narrow militarized approach. Since the fall of Baghdad, moreover, this approach has produced at least as much failure as success, leading the American public to be increasingly skeptical of the bellicosity that now defines the party's foreign policy.

Republicans need to start taking international relations more seriously, addressing the true complexities and requirements of the issues rather than allowing the subject to be a plaything for right-wing interest groups. And if they don't act quickly, they might cede this ground to the Democrats for the next generation.

BUILDING THE BRAND

Republican presidents from the 1950s through the early 1990s had variegated records, but they had one thing in common: they left behind favorable legacies on foreign policy. Eisenhower stabilized the rivalry with the Soviet Union, preventing it from escalating into a violent conflagration. He dramatically improved the U.S. foreign-policy-making process, strengthened domestic infrastructure, extricated the United States from the Korean War, and limited U.S. involvement in Vietnam. Nixon improved relations with the Soviet Union, opened relations with China, and extricated the United States from Vietnam. Reagan spoke truth to power by railing against the Soviet Union as an “evil empire,” but when faced with a genuine negotiating partner in Mikhail

Gorbachev, he did not hesitate to sign numerous treaties, reduce Cold War tensions, and cut nuclear stockpiles. George H. W. Bush adroitly seized the opportunities afforded by the end of the Cold War to expand the West's liberal order to the world at large, as well as overseeing German reunification, rebuffing Iraq's invasion of Kuwait, and locking in Mexico's path toward economic liberalization.

Each president built his reputation as a foreign policy hawk, and none was afraid to talk tough or act forcefully when dealing with adversaries.

But the key to their success was the ability to combine principled beliefs at the strategic level with prudence and flexibility at the tactical level. Eisenhower took great care to prevent small crises from distracting the United States from its main goal of containing the Soviet Union. Nixon built his political career on anticommunism but recognized the strategic advantage of opening relations with Maoist China. Reagan talked tough on terrorism, but after 241 U.S. marines

were killed in a suicide attack in Beirut, he did not hesitate to draw down U.S. forces from a peripheral conflict in Lebanon. And rather than do a sack dance at the end of the Cold War, Bush 41 took care to respond tactfully and nimbly, pocketing and building on an extraordinary strategic windfall.

To be sure, they all had their foreign policy blemishes, too. But their strengths outweighed their weaknesses, especially when compared with Democratic counterparts such as Lyndon Johnson and Jimmy Carter. Republican presidents during the Cold War skillfully combined the idealpolitik of American exceptionalism with the realpolitik necessary to navigate a world of bipolarity, nuclear deterrence, and Third World nationalism. They relied on a string of steady-handed professionals, such as John Foster Dulles, Henry Kissinger, George Shultz, James Baker, and Brent Scowcroft, to help manage their administrations. Indeed, so great was the legacy this era bequeathed that in 2000, exit polls showed that the public viewed the neophyte George W. Bush as stronger on foreign policy than Al Gore, the sitting vice president. Gore's considerable experience was neutralized by public trust in the Republican foreign policy "Vulcans" advising his opponent.

Since 9/11, Republicans have known only one big thing—the “global war on terror”—and have remained stubbornly committed to a narrow militarized approach.

... THEN SQUANDERING IT

For a brief time, it looked as though Bush 43 would be able to carry on the legacy. In the wake of 9/11, the neoconservatives in his administration supplied a clear and coherent grand strategy of using unilateral military action to destroy terrorist bases and remake the Middle East, and after quickly toppling hostile regimes in Afghanistan and Iraq, it seemed to be working.

Over the next several years, however, the Bush administration's strategic miscalculations became apparent. The administration focused on a mythical "axis of evil," lumping disparate actors into a single anti-American threat. It displayed little tactical flexibility and no ability to plan for the consequences of its actions. The initial swift success in Afghanistan was marred by a failure to capture or kill al Qaeda's senior leadership, and when the administration pivoted almost immediately to Iraq, it took its eye off the ball in South Asia and allowed a short-term victory to deteriorate into a long-term quagmire.

Iraq, meanwhile, turned into nothing short of a disaster. There, too, the invasion went well, but the postwar planning was so slapdash that it sabotaged any chance of a stable occupation. A growing insurgency crippled Washington's ability to project power in the region and consumed an appalling amount of American and Iraqi blood and treasure. And the failure to discover weapons of mass destruction—the existence of which had been the central rationale for the war—undermined the United States' reputation for both competence and honesty. Late in Bush's second term, a well-executed course correction helped stabilize the situation and ultimately permit a U.S. withdrawal with some measure of dignity. But the chief beneficiary of the whole affair turned out to be Iran—the United States' main adversary in the region.

The failures in Afghanistan and Iraq compounded other errors that the administration committed. The Bush team pushed for free and fair elections across the Middle East but seems never to have thought about what would happen if the elections were won by radical Islamists—as was the case with Hamas in Gaza in 2006. And an obsession with the "war on terror" alienated allies in Europe, Latin America, and the Pacific Rim, allowing a rising China to gain increasing influence.

The administration did have some successes—getting Libya to abandon its weapons of mass destruction, developing a warm relationship with India, and providing generous support for AIDS relief in Africa. But by the end of the Bush years, global attitudes toward the

United States had reached an all-time low, and the American public noticed. A 2008 survey by the Chicago Council on Global Affairs showed that 83 percent of Americans polled placed the highest priority on “improving America’s standing in the world”—a higher figure than for the traditional top priority of protecting American jobs.

John McCain, the 2008 Republican presidential candidate, had neither the desire nor the ability to distance himself much from Bush’s unpopular foreign policy record and was overwhelmed by the outbreak of the financial crisis during the final stages of the campaign. And after the GOP was evicted from the White House, the party’s foreign policy approach grew even more problematic, with McCain’s running mate, Sarah Palin, heralding the future.

It is always difficult for a party out of power to craft a coherent worldview, in part because of the lack of a dominant figure able to impose order on the discussion, and this time was no exception.

Freed from the burden of executive-branch responsibility after the 2008 defeat, Republicans began to lose touch with the real world of foreign policy. Some libertarians advocated a radical and impractical reduction of the United States’ overseas presence. Most others moved in the opposite direction, toward jingoism and xenophobia.

Unbowed by Iraq, prominent neoconservatives called for aggressive military action against Iran. Popular party figures strongly opposed the construction of a mosque in Manhattan. Major Republican politicians held congressional hearings about whether American Muslims could be trusted. Right-wing columnists demanded that the Obama administration resuscitate the use of torture. Leading Senate Republicans opposed any new international treaty as a matter of principle, resisting the relatively uncontroversial New START treaty with Russia and flatly opposing the Law of the Sea Treaty, despite endorsements from every living former Republican secretary of state, big business, and the U.S. Navy. A few, such as Senator Richard Lugar of Indiana, placed country over party and tried to find some common ground with Obama. The reward for his troubles was a primary challenge by a Tea Party favorite, who managed to defeat Lugar before self-destructing during the general election.

Freed from the burden of executive-branch responsibility after the 2008 defeat, Republicans began to lose touch with the real world of foreign policy.

BOTTOMING OUT

The 2012 presidential campaign devalued Republican foreign policy thinking even further. Most of the GOP candidates displayed a noxious mix of belligerent posturing and stunning ignorance. Representative Michele Bachmann of Minnesota mistakenly praised China's regulatory framework and warned against Hezbollah's role in Cuba. Representative Ron Paul of Texas insisted that the global economy could be fixed by a return to the gold standard. Former Representative Newt Gingrich of Georgia became obsessed with the minute chances of an electromagnetic pulse targeting the United States, even as he disputed the actual threats posed by climate change. The business executive Herman Cain repeatedly flubbed questions on China, Israel, and Libya and proudly defended his ignorance in interviews, explaining that it was irrelevant whether or not a candidate knew who the "president of Ubeki-beki-beki-beki-stan-stan" was.

Compared with this crew during the primaries, Romney sounded reasonable. After securing the nomination, however, his musings lost focus. Romney's primary foreign policy criticism of Obama dealt not with any actual policy dispute but with a vague tonal issue, represented by the president's alleged "apology tour" around the world. Romney claimed that Russia was the number one geopolitical threat to the United States, a statement 25 years out of date. And at various points during the campaign, Romney insulted the Japanese, the Italians, the Spanish, the British, and the Palestinians. His own campaign advisers repeatedly complained that he never engaged deeply on international affairs. The few times that he did talk about foreign policy—in reference to the case of the Chinese civil rights activist Chen Guangcheng; during his July overseas trip to the United Kingdom, Israel, and Poland; and in the aftermath of the attacks on U.S. installations in Cairo and Benghazi—Romney used rhetoric that was ham-handed and politicized. And in picking Representative Paul Ryan (R-Wis.) to be his running mate, Romney guaranteed that his ticket would have the least foreign policy gravitas of any GOP presidential campaign in 60 years.

The 2012 election was the nadir of the GOP's decadelong descent. By the time Romney was selected as the nominee, Republicans had come to talk about foreign policy almost entirely as an offshoot of domestic politics or ideology. What passed for discussion consisted of a series of tactical gestures designed to appease various constituencies in the party rather than responses to actual issues in U.S. relations

with the world. The resulting excess of unchecked pabulum and misinformation depressed not only outside observers but also many of the more seasoned members of the Republican foreign policy community who took the subject seriously. This palpable disdain of old GOP foreign policy hands helped further tarnish the Republican brand.

Increasingly, moreover, the Republican rhetoric clashed with the instincts of the public at large. Most Americans have always been reluctant to use force except in the service of vital interests, and a decade of war and recession had reinforced such feelings. A 2009

Pew survey showed that isolationist sentiments had reached an all-time high in the United States, and a 2012 PIPA (Program on International Policy Attitudes) poll found that Americans would strongly prefer to cut defense spending rather than Medicare or Social Security. A 2012 Pew survey noted that “defending against terrorism

The key to moving forward is for Republicans to stop acting like hedgehogs and start thinking like foxes again.

and strengthening the military are given less priority today than over the course of the past decade,” and the 2012 Chicago Council on Global Affairs survey showed “a strong desire to move on from a decade of war, scale back spending, and avoid major new military entanglements.” The Chicago survey also showed that independents had drifted toward Democrats and away from Republicans on most major foreign policy issues. As the GOP’s rhetoric was tacking hawkish, in other words, a war-weary public was moving in the opposite direction.

The Obama administration exploited this divergence and pushed its foreign policy advantage throughout the 2012 campaign. In response to the malapropisms of the GOP primary, Vice President Joseph Biden started taunting Republican challengers, noting, “There’s a minimum threshold any man or woman has to cross on national security and foreign policy for the American people to think you’re remotely eligible to be president. And these guys have a long way to go.” At the Democratic National Convention, speaker after speaker gleefully mocked the GOP’s ignorance and hyperbole about the rest of the world. The administration could weather its own shortcomings because it knew how the American people would judge the two parties relative to each other: the Republicans were responsible for getting the United

Daniel W. Drezner

States stuck in Afghanistan and Iraq; the Democrats were responsible for moving to close out both wars and killing Osama bin Laden.

HOW TO GET BACK ON TRACK

It is conceivable that major screwups during Obama's second term could hand the advantage on foreign policy back to the Republicans without any effort of their own, but the reverse is more likely. Every additional year the party is locked out of the executive branch, the experience and skills of GOP foreign-policy makers will atrophy, while those of their Democratic counterparts will grow. It took the Democratic Party a generation to heal politically from the foreign policy scars of Vietnam and several years in office during the Clinton administration to develop new cadres of competent midcareer professionals. And public inattention to the subject doesn't help, offering few major opportunities for rebranding. So the GOP has its work cut out for it.

The key to moving forward is for Republicans to stop acting like hedgehogs and start thinking like foxes again, moving beyond crude single-minded objectives and relearning flexibility and nuance. They need to quit overhyping threats and demanding military solutions. After 9/11, the political logic for threat inflation was clear: politicians would be punished far more for downplaying a real security threat than for exaggerating a false one. But the GOP has taken this calculation too far and twisted it to serve other party interests.

Republicans continually attempt to justify extremely high levels of defense spending, for example, on the grounds that the United States supposedly faces greater threats now than during the Cold War. Romney claimed during the campaign that the world was more "dangerous, destructive, chaotic" than ever before. And Republican hawks warn that Armageddon will ensue if defense expenditures fall below four percent of GDP, even though they are vague about the connection between such an abstract figure and actual defense policy challenges.

A reality check is necessary. Precisely because Republican presidents during the Cold War took the Soviet threat seriously, they were careful not to escalate tensions needlessly. Today's threats may be more numerous and varied, but even combined, they are significantly smaller and less grave. As Micah Zenko and Michael Cohen have argued in these pages, long-term trends suggest that the world has become more, not less, safe for the United States over the past decade. U.S. deaths

from terrorism are declining, and even with the global financial crisis, the world has not become more conflictual.

This is not to say that the United States should let its guard down. For Republicans, however, the political costs of overhyping threats now exceed the benefits. To echo Montesquieu, useless warnings weaken necessary warnings. Since the knee-jerk Republican response has been to call for military action anywhere and everywhere trouble breaks out, the American people have tuned out the GOP's alarmist rhetoric. It will be hard for any leader to mobilize a war-weary public into taking even necessary military action in the near future, and the GOP's constant crying of wolf will make this task much harder. A good grand strategy prioritizes threats and interests, and that is a habit the Republicans need to relearn.

The GOP must also develop a better appreciation for the full spectrum of foreign policy tools and stop talking only about military action. Indeed, George W. Bush's greatest foreign policy accomplishments came not in the military realm but in rethinking economic statecraft. He signed more free-trade agreements than any other president. Through the Millennium Challenge Corporation and the President's Emergency Plan for AIDS Relief, the Bush administration devised innovative ways of advancing U.S. interests and values abroad. In developing the architecture for improved financial coercion, the administration paved the way for the sanctions that are now crippling Iran's economy. Force can be an essential tool of statecraft, but it should rarely be the first tool used, and sometimes it can be most effective if never used at all. Republicans understand the power of the free market at home; they need to revive their enthusiasm for the power of the market abroad, as well.

Finally, Republicans need to avoid the problem of rhetorical blowback—being ensnared in unwanted commitments as the result of the use of absolutistic foreign policy language. Being out of power, the GOP is judged by its words rather than by its actions. And black-and-white statements on issues such as immigration, antiterrorism, and multilateralism only delegitimize the party. The best foreign policy presidents were able to combine the appealing rhetorical vision of an American world order with the realistic recognition that international relations is messier in practice than in theory.

George H. W. Bush was able to build a broad multilateral coalition, including the United Nations, to fight Iraq because he both took diplomacy seriously and could deploy the implicit threat of acting out-

Daniel W. Drezner

side UN auspices. Too many of his successors in the party, however, have embraced a “my way or the highway” approach to friends and allies. Their logic is that the rest of the world is attracted to strength, clarity, and resolve, and so if the United States projects those qualities, all will be well. But this bandwagoning logic has little basis in reality, and if anything, in recent years the rest of the world has seemed to be balancing against the GOP. A BBC poll of the populations of ten close U.S. allies during the campaign revealed that respondents preferred Obama to Romney by an average of 45 percentage points. Strength, clarity, and resolve are important foreign policy virtues, obviously, but so are an appreciation of complexity and the ability to compromise and play well with others, qualities that have been in short supply on the Republican side of the aisle recently.

TOWARD 2016

The Republican Party has a long and distinguished foreign policy lineage that currently lies in tatters. The ghosts of Iraq haunt the GOP’s foreign policy mandarins, and the antics of right-wing pundits and politicians have further delegitimized the party. As a result, the GOP has frittered away a partisan advantage in foreign policy and national security that took half a century to accumulate.

Absent an Obama foreign policy fiasco—a real one that commands the country’s attention, not the sort of trumped-up ones that resonate only on Fox News and in the fever swamps of the Republican base—the only way to repair the damage will be for the GOP to take foreign policy seriously again, in Congress and in the 2016 election. This does not mean railing against the isolationists in the party; in truth, their numbers are small. Nor does it mean purging the neoconservatives or any other ideological faction; no group has a lock on sense or wisdom, and there will and should be vigorous policy debate within both parties.

Rather, it means rejecting the ideological absolutism that has consumed the GOP’s foreign policy rhetoric in recent years. It means recognizing that foreign policy has nonmilitary dimensions as well as military ones. And it means focusing on the threats and priorities that matter, rather than hyping every picayune concern. Most of all, it means that Republican politicians need to start caring about foreign policy because it is important, not because it is a cheap way to rally their supporters. The GOP has a venerated tradition of foreign policy competence; it is long past time to discover that tradition anew. 🌐

America's Misguided Approach to Social Welfare

How the Country Could Get More for Less

Kimberly J. Morgan

Debates about the proper role and size of government dominated the 2012 U.S. presidential election. President Barack Obama; his Republican rival, Mitt Romney; and their surrogates relentlessly sparred over who should pay what taxes, who should get what benefits, and how Washington should manage major sectors of life, such as health care and education. What neither side made clear was how the United States stacks up against other developed countries. As other countries embraced big government and generous social policies in the middle of the twentieth century, the common wisdom goes, the United States sought a relatively small welfare state. And for partisans on both sides of the aisle, one of the key issues up for grabs on November 6 was whether such American exceptionalism would persist or fade away.

A closer look at U.S. social spending shows that it is indeed distinctive, but not in the ways that many believe. The United States does tax less and spend less on social programs than most of the rich democracies with which it is usually compared. But even so, the country has developed a large and complex system of social protection, one that involves a mix of government spending, tax-based subsidies, and private social spending. In its own way, the U.S. welfare system delivers many of the same benefits as the systems in other developed countries, including health insurance, pensions, housing support, and child care. And when added together, the amount of resources the public and private sectors

KIMBERLY J. MORGAN is Associate Professor of Political Science and International Affairs at George Washington University.

Kimberly J. Morgan

commit to all these forms of welfare is massive: as a percentage of GDP, for example, spending on the health and welfare of citizens is greater in the United States than in most advanced industrial economies.

Yet the American way of distributing welfare is lopsided and incomplete. Even after the Obama administration's Affordable Care Act is fully implemented in 2014, for example, the share of the population without health insurance in the United States will remain higher than in any other advanced industrial country—even as the American public spends more on health care than publics anywhere else in the world. And the United States does not guarantee the basic rights of paid parental and sick leave—rights assured to most other workers across the industrial world. In essence, Washington's reliance on private social benefits and services—often provided by businesses to their employees rather than by the government to everybody—ensures good coverage for some but poor coverage for others. Those with well-paying jobs usually get the best benefits, and those with low-paying or no jobs get worse ones. As a result, the United States' system of social protection does less to reduce poverty and inequality than that of virtually any other rich democracy.

Despite what some think, patching the U.S. social safety net need not mean setting the country on a path to socialism. The United States is on the far end of the spectrum when it comes to private social provision and tax-based benefits, but many other countries rely on a diverse mix of public and private welfare and tax subsidies, often leading to more equality and efficiency. The difference is that their systems consciously strive for those goals and are deliberately designed to ensure broad public access to benefits. It is time for Washington to take those models seriously in figuring out how to fix its own.

WHO BENEFITS?

By one common measure of social policy—direct public spending on social programs as a percentage of GDP—the United States ranks near the bottom of the list of rich democracies. Only a few such countries, including Mexico, South Korea, and Turkey, spend less. But that measure is somewhat misleading and does not fully capture the resources the United States devotes to social welfare. More comprehensive calculations, such as the one for “net social expenditure” developed by the Organization for Economic Cooperation and Development (OECD), which includes taxes, pensions, health care and insurance, parental

leave, unemployment benefits, child care, and related expenses, paint a different picture. According to the OECD figure, the United States has the fifth-highest social spending in the world, just after Sweden.

Net social expenditure provides a better account of countries' welfare efforts because it adds together direct public spending, tax-based spending, and private spending and takes into consideration the taxes people pay. Countries not only deliver benefits to their populations but tax them as well, effectively reducing the real value of benefits. Netting out taxes can make some countries' welfare states appear significantly less lavish than they might initially. As Andrea Louise Campbell

The vast majority of Americans—about 96 percent—benefit from some kind of government social program.

recently wrote in these pages, the United States taxes its population less than most advanced industrial countries—so when people in the United States do get benefits, they get to keep most of them.

The United States ranks first in one particular component of the OECD's measure of net social expenditure, "tax breaks for social purposes." It is important to consider these in any picture of the American welfare state, because, as the political scientist Christopher Howard has shown, subsidies often do the same work as direct spending programs. From the Child and Dependent Care Credit, a tax reimbursement for child care, to the tax exemption for employer contributions to health insurance, to tax deductions for home mortgages, the federal government often uses this method to subsidize the well-being of its citizenry.

The United States is not the only country to use exclusions, exemptions, and other tax reductions to achieve social goals. In France, for instance, the income tax that households pay depends on the number of children in them, costing the French state around \$18 billion in 2009, according to the Conseil des Prélèvements Obligatoires, an advisory council on taxation. In the Netherlands, parents receive a tax subsidy to help cover the cost of child care. About half of the OECD countries allow taxpayers to deduct the interest they pay on home mortgages. Many allow tax breaks for private pensions, and in Australia, Canada, Ireland, and the Netherlands, those breaks are higher than they are in the United States.

Net social expenditure also includes private spending, whether mandated by the government (such as requirements that employers pay

Kimberly J. Morgan

for sick leave) or voluntary (such as employer-provided pensions in the United States). As the scholars Jacob Hacker and Jennifer Klein have shown, the United States' reliance on voluntary private welfare is unique. Most adults in the United States receive benefits through their workplaces that include health insurance, pensions, dependent-care tax exclusions, and the like. This kind of private spending makes up nearly 40 percent of all U.S. social spending, compared with under 20 percent in the United Kingdom and about eight percent in France and Sweden.

Some think employer-provided benefits should not be included in measures of a country's social policy effort, because they do not involve the government's relations with its citizens and are thus not truly part of the public sphere. But if one wants to understand the total resources that societies devote to social welfare purposes and how those resources are allocated, one has to take such spending into consideration. And from the standpoint of households, ignoring private social benefits and tax breaks means leaving out a major source of their income security and well-being.

THE WELFARE QUEEN

One of the biggest canards about the American welfare state is that its primary function is to take from the rich and give to the poor. In reality, the vast majority of Americans benefit from some kind of government social program—about 96 percent, according to the political scientist Suzanne Mettler. And while there are some countries that do focus their social policies on helping the disadvantaged, the United States is not one of them.

Scholars have long assumed that the United States' welfare system resembles that of its English-speaking cousins in the Commonwealth of Nations, which tend to have strong strains of market liberalism and thus favor private spending over public spending. Australia, Canada, and New Zealand, for example, all fall near the bottom of the scale of public spending on social welfare. But these countries, like the United Kingdom, devote a relatively high proportion of their spending to programs that are contingent on the recipients' having low incomes. In Australia, for instance, more than a third of direct public spending goes to means-tested programs, and in Canada and the United Kingdom, almost a quarter does.

In the United States, however, only about seven percent of direct public spending goes to means-tested benefit programs. To be fair, this figure understates U.S. expenditures on low-income people because it leaves out in-kind benefits—benefits, such as health care (including Medicaid and the Children's Health Insurance Program), that are provided free or at reduced cost, as opposed to direct cash transfers. Nevertheless, according to an analysis by the Center on Budget and Policy Priorities, in 2010, 20 percent of entitlement spending in the United States went to the top ten percent of households, 58 percent of entitlement spending went to middle-income households, and 32 percent went to the bottom 20 percent.

Indirect benefits in the United States flow disproportionately to those in the middle and at the top of the income ladder. Some of the major U.S. tax breaks, such as the home mortgage interest deduction and that for charitable contributions, especially benefit those rich enough to take out a large mortgage or give large amounts of money to charity. Moreover, most tax benefits in the United States are designed as deductions—which help only those with large liabilities—rather than as possible sources of actual refunds, which would help lower-income citizens. (The Earned Income Tax Credit and the Child Tax Credit are notable exceptions, which is why they are so important to low-income parents.) In many other OECD countries, low-income families receive a much more generous and comprehensive array of tax subsidies and benefits, including family allowances, tax breaks for children, and subsidized child care.

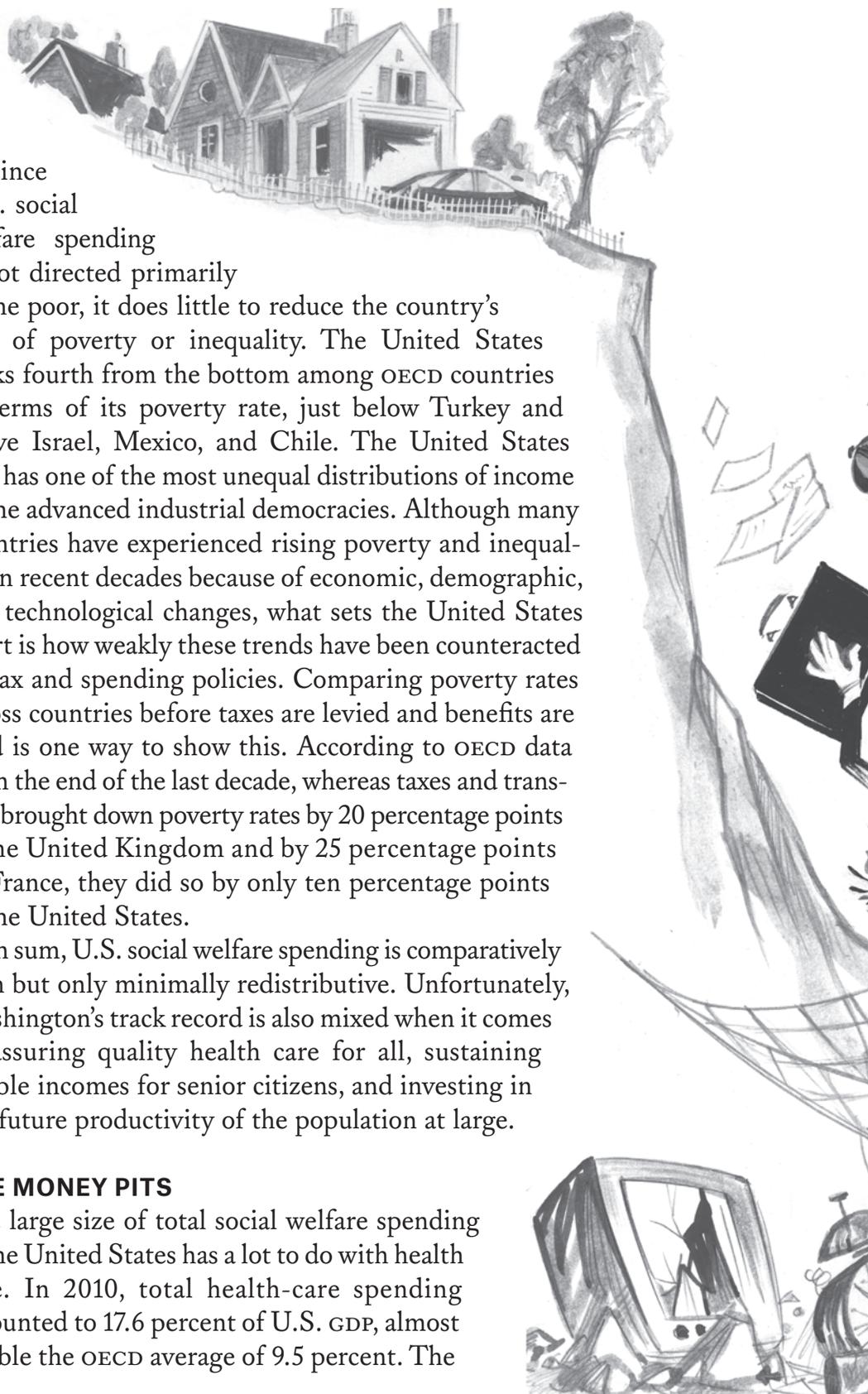
Private social benefits in the United States, finally, also tend to accrue to middle- and upper-income people, since better-paying jobs usually come with more extensive benefit packages. Figures from the U.S. Bureau of Labor Statistics' National Compensation Survey reveal that the higher the average wage at a firm, the more likely that firm is to offer health coverage, retirement accounts, and life insurance. Thus, 85 percent of private firms whose average wage is in the top 25th percentile make retirement benefits available to their employees, but only 38 percent of firms whose average wage is in the bottom 25th percentile do. And the same is true for other types of benefits: 84 percent of private firms with average wages in the top 25th percentile offer paid sick leave, whereas just 29 percent of those paying wages in the bottom 25th percentile do.

Since U.S. social welfare spending is not directed primarily at the poor, it does little to reduce the country's rate of poverty or inequality. The United States ranks fourth from the bottom among OECD countries in terms of its poverty rate, just below Turkey and above Israel, Mexico, and Chile. The United States also has one of the most unequal distributions of income of the advanced industrial democracies. Although many countries have experienced rising poverty and inequality in recent decades because of economic, demographic, and technological changes, what sets the United States apart is how weakly these trends have been counteracted by tax and spending policies. Comparing poverty rates across countries before taxes are levied and benefits are paid is one way to show this. According to OECD data from the end of the last decade, whereas taxes and transfers brought down poverty rates by 20 percentage points in the United Kingdom and by 25 percentage points in France, they did so by only ten percentage points in the United States.

In sum, U.S. social welfare spending is comparatively high but only minimally redistributive. Unfortunately, Washington's track record is also mixed when it comes to assuring quality health care for all, sustaining livable incomes for senior citizens, and investing in the future productivity of the population at large.

THE MONEY PITS

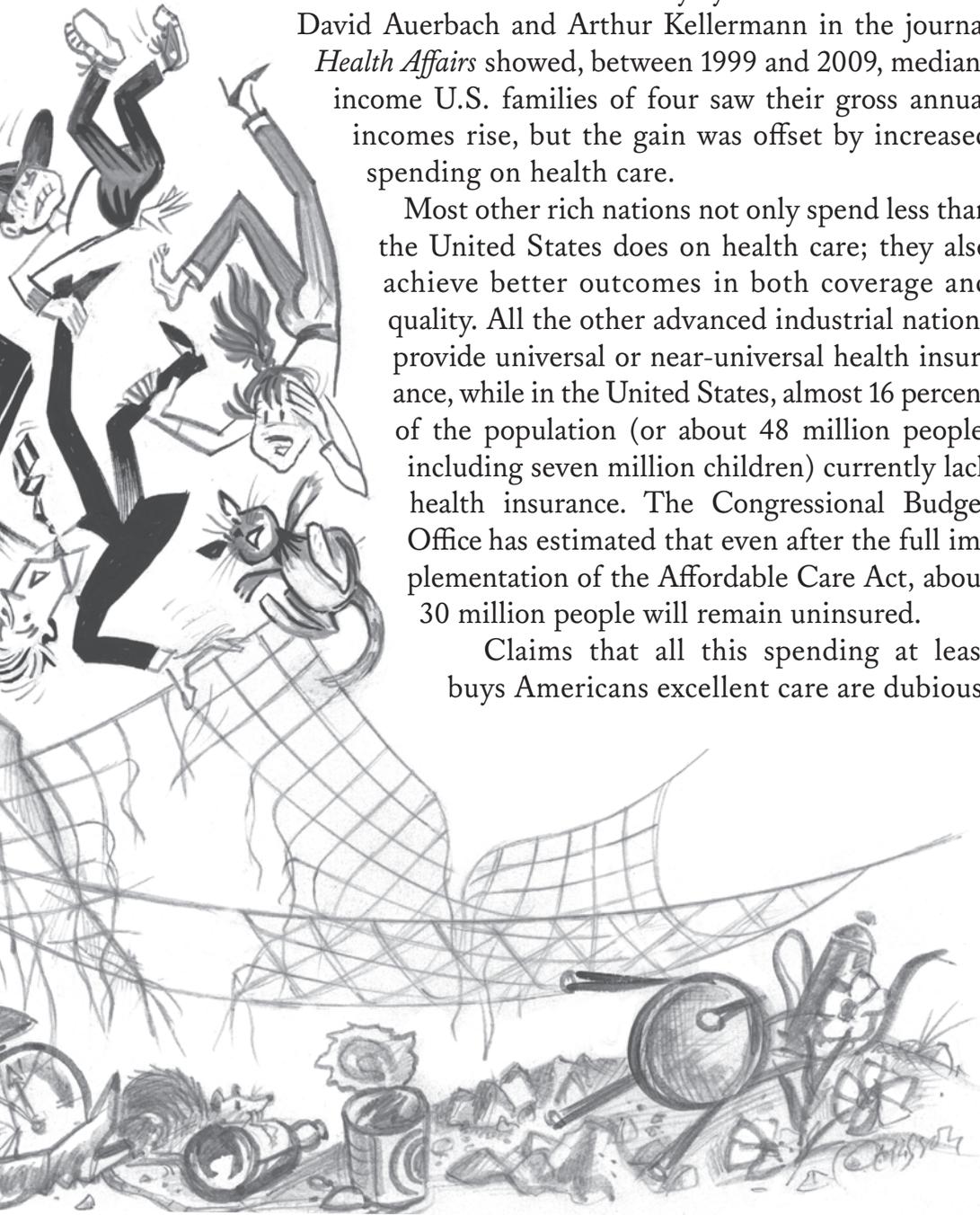
The large size of total social welfare spending in the United States has a lot to do with health care. In 2010, total health-care spending amounted to 17.6 percent of U.S. GDP, almost double the OECD average of 9.5 percent. The



next-highest spender, the Netherlands, laid out 12 percent of its GDP on health care. The United States' unusually high spending on health care not only harms the fiscal balances of federal and state governments but also diverts economic resources away from other goals. Government has less to spend on other social or economic objectives, and households end up devoting significant chunks of their incomes to health-care costs. As a 2011 study by the health economists David Auerbach and Arthur Kellermann in the journal *Health Affairs* showed, between 1999 and 2009, median-income U.S. families of four saw their gross annual incomes rise, but the gain was offset by increased spending on health care.

Most other rich nations not only spend less than the United States does on health care; they also achieve better outcomes in both coverage and quality. All the other advanced industrial nations provide universal or near-universal health insurance, while in the United States, almost 16 percent of the population (or about 48 million people, including seven million children) currently lack health insurance. The Congressional Budget Office has estimated that even after the full implementation of the Affordable Care Act, about 30 million people will remain uninsured.

Claims that all this spending at least buys Americans excellent care are dubious.



Kimberly J. Morgan

The United States does lead other nations in the availability of high-tech treatments; it ranks second in per capita availability of MRI units, for example (with almost three times as many MRI machines as the OECD average) and third in per capita availability of CT scanners (with double the OECD average). But it is well below average in per capita availability of hospital beds, doctors, and doctor consultations.

Americans like to tell horror stories about waiting lists for medical procedures in other nations, and some of those stories are true, especially

Generous, effective, and broadly accessible social welfare policies do not require large government bureaucracies staffed with armies of public servants.

when it comes to elective procedures, such as hip replacements. But the United States falls short when it comes to access to basic care: according to a 2011 study by the Commonwealth Fund, a private foundation created to promote better health care, in 2008, only 43 percent of American adults could get a same- or next-day appointment to see a doctor about a medical condition, compared with 80 percent in the Netherlands,

62 percent in France, and 61 percent in the United Kingdom. Americans report experiencing medical mistakes more than people in similarly developed countries, too. Due in part to difficulties in gaining access to care, the Commonwealth report ranked the United States at the bottom of the 16 nations it studied in “preventable mortality”—deaths that could have been prevented if timely and effective care had been provided.

Retirement pensions are the other major U.S. outlay on social welfare. In this category, the country is in the upper third of OECD nations in direct public spending. And adding in other spending on pensions and survivors’ benefits, the United States ranks well above many countries known for their largess, such as Canada, Denmark, and the Netherlands. Yet even this strongest part of the American safety net comes with some caveats. Social Security has been one of the most effective antipoverty programs in history, dramatically reducing the hardship of hundreds of millions of U.S. seniors over the decades. But it still only partially replaces retirees’ incomes, and the remaining need is often inadequately filled by private retirement plans. According to calculations by the Center for Retirement Research at Boston College, at the current retirement age of 66, only 55 percent of households

have enough savings, investments, and expected Social Security benefits combined to maintain their previous standards of living.

If expenditures on health care and Social Security are high, spending on families is low. Despite various tax subsidies aimed at this group, the United States ranks near the bottom of OECD countries when it comes to outlays on family welfare. In a study of 173 countries, Jody Heymann, founder and director of the Project on Global Working Families, and her colleagues found that the United States is one of only four in this group of countries that do not guarantee employees paid leave for childbirth. All European countries provide between 14 and 20 weeks of paid maternity leave, usually offering between 70 and 100 percent of wages, followed by a further period of paid or unpaid parental leave. By contrast, the United States mandates only that employers with 50 or more workers allow 12 weeks of unpaid family leave. And employers have not filled the gap on their own: a 2007 National Compensation Survey from the Bureau of Labor Statistics found that only about eight percent of employees in the private sector and 15 percent of those working for state or local government had access to paid family leave.

Direct and indirect public subsidies for child care are limited, moreover, and access to public or private early childhood education varies enormously by region and income group. In 2008, the percentage of American children between the ages of three and five who were enrolled in preschool was 56 percent. The percentages in Belgium, Denmark, France, Germany, Italy, New Zealand, Norway, Sweden, and the United Kingdom were between 90 and 100 percent. In other words, although the United States devotes considerable public and private resources to social welfare, it fails to effectively meet its public's needs.

THE SOCIALISM CANARD

If American politicians ever acknowledge the shortcomings of U.S. social spending, they usually assume that the only alternative is European "socialism." In such a "government-centered society," in Romney's words, centralized state bureaucracies intrude on markets and the family; limit freedom by imposing taxes, mandates, and regulations; and force people into one-size-fits-all public services of poor quality. But such views of the social welfare policies of other nations are simplistic.

Several OECD countries have found ways to ensure widespread access to benefits and services without "socializing" the sectors in question.

Kimberly J. Morgan

Australia, the Nordic countries, and most countries in southern Europe do all finance and provide health care through public agencies. However, in Canada, Japan, and much of continental Europe, although the government mostly pays for public health care, it is private actors and organizations that provide the health care itself. And in the continental European countries, private insurance either supplements a public insurance system (as in France and Germany) or is the dominant source of coverage (as in the Netherlands and Switzerland). In the Swiss system, for instance, all individuals have to buy insurance, insurers have to accept all who apply for coverage, and public subsidies ensure that coverage is affordable for all. (According to the Commonwealth Fund, about 30 percent of Swiss receive such subsidies.)

In terms of family welfare, in Germany, child care is mainly the responsibility of municipal governments, which funnel subsidies to nonprofit organizations that run daycare centers. In Australia, the Netherlands, and the United Kingdom, most child care is publicly subsidized and is provided by either nonprofit or for-profit entities. In France, publicly subsidized babysitters care for nearly one-third of children under three. Even in the Scandinavian countries, where publicly provided daycare is most common, the state offers considerable benefits to parents who care for their children at home.

The success of some public-private partnerships in Europe shows that generous, effective, and broadly accessible social welfare policies do not require large government bureaucracies staffed with armies of public servants. The government does not have to perform the work itself. But it does have to mandate its provision and monitor the agencies that perform it. Leaving social welfare up to private-sector employers without adequate public support or regulation ensures that many people will fall through the cracks. If Americans truly believe that basic social services are things that all citizens deserve, they should not be content with a social welfare system that often makes getting such services a matter of privilege or luck.

For example, rather than leaving it up to employers and individuals to take care of pension benefits, the government could mandate their provision, making them a required supplement on top of existing Social Security benefits. Washington might also consider requiring all employers to provide three months of paid family leave, with the benefits paid for by a combination of employer and employee contributions. A similar measure could mandate that employers offer paid

COUNCIL *on*
FOREIGN
RELATIONS

Transition 2012: The President's Foreign Policy Inbox

CFR's Transition 2012 is an online portal with resources on the tough decisions facing lawmakers and the administration in the immediate postelection period.

Regular features include:

- Profiles of new cabinet members
- Video Issue Briefs: Primers by CFR scholars on newsworthy topics
- Expert Briefs and Backgrounders on President Obama's agenda at home and abroad
- Material from the Renewing America initiative on the domestic underpinnings of U.S. global power
- Posts from CFR's fifteen blogs and expert guest bloggers

Visit www.cfr.org/transition2012 to join the conversation.



Browse Transition 2012 by scanning this code with your mobile device.

Kimberly J. Morgan

sick days to all employees. Or the federal government could provide incentives for states to formulate such policies themselves, encouraging local experimentation while helping families across the country get what is considered an unquestioned right almost everywhere else. California and New Jersey have adopted paid family leave funded by employee contributions, and although the benefits are fairly low, all new parents—not just those with means or generous employers—can take paid time off from work.

Those interested in effective social policy could also look closely at the activities subsidized through the tax code. When budgets are tight and poverty is high, giving rich people thousands of dollars in tax breaks so they can buy expensive homes does not seem like a wise use of public resources. There is no reason why U.S. tax-based subsidies could not be adjusted according to income, with the deductions or credits getting phased out as citizens' incomes climb. Making more tax breaks refundable (instead of in the form of deductions), moreover, would guarantee that the benefits flowed to people who truly needed them, rather than to those higher up the income-distribution scale. Even after granting such subsidies, the government could continue to rely heavily on the private sector to deliver services, but it could do so at lower cost and to greater effect for a larger share of the population.

There is no easy political path to reforming a deeply entrenched status quo. Filling in the gaps of the American social welfare system to better help the less fortunate will involve limiting or eliminating some benefits enjoyed by others, generally those who are better off and far more politically powerful. These kinds of tough choices already loom, as the cost of health care continues to balloon and public finances are spread thin. But the lesson from peer countries is that the policy challenges themselves are not insurmountable: it is possible to provide better services to more people at a lower total cost than the United States does now, without massive government intervention, a dramatic loss of freedom, or any of the other supposed dangers lurking in the background. 🌐

REVIEWS & RESPONSES

In order to fulfill their messianic missions, both communism and fascism insisted that the individual serve the state, the ruler, and the ideology—and nothing else.

—Andrew Nagorski



The Volcker Way
Austan Goolsbee

166

Smart Shift

Shawn Brimley and Ely Ratner

177

The Totalitarian Temptation
Andrew Nagorski

172

Recent Books

182

The Volcker Way

Lessons From the Last Great Hero of Modern Finance

Austan Goolsbee

Volcker: The Triumph of Persistence

BY WILLIAM L. SILBER. Bloomsbury Press, 2012, 352 pp. \$30.00.

The global economy was not the only casualty of the 2008 financial collapse. The crisis also soiled the reputations of many in the financial industry and of the regulators, political leaders, and media outlets that were supposed to keep them in check. So William Silber's new biography of Paul Volcker, one of the last remaining heroes of modern finance, could not have come at a better time.

Silber, an economist at New York University, uses his book to walk the reader through some of the important episodes in Volcker's long and storied career, during which he served in five U.S. administrations. These episodes include his stint as undersecretary for monetary affairs at the Treasury Department, from 1969 to 1974, when the United States abandoned the convertibility of the dollar into gold; his successful crusade against inflation as chair of the U.S.

AUSTAN GOOLSBEE is Robert P. Gwinn Professor of Economics at the University of Chicago Booth School of Business. He served as Chair of the U.S. Council of Economic Advisers in 2010-11. Follow him on Twitter @Austan_Goolsbee.

Federal Reserve in the 1980s; and his work following the recent financial crisis, when he backed the provision now called "the Volcker rule," which bars commercial banks from engaging in proprietary trading (investments that banks make for their own profits, not on behalf of clients).

By focusing on these moments, Silber's meticulously researched book offers useful insights into recent American economic history and the life of one of its most fascinating figures. Although the details of these episodes may seem distant, *Volcker* reminds readers just how precarious the circumstances were—and how policymakers might confront similar crises in the future.

PRESENT AT THE INFLATION

The book's first major episode begins with Volcker in the Kennedy administration's Treasury Department and follows him over several years as he became the central character in a crisis of the international monetary system. The Bretton Woods arrangements, set in place following World War II, had pegged the value of the U.S. dollar to gold and the value of other currencies to the dollar at fixed exchange rates. The system survived with only occasional hiccups for roughly two decades, but as the Vietnam War escalated, the U.S. economy began to overheat and experience inflation. Without faster productivity growth or the ability to devalue its currency, the United States saw its exports grow increasingly uncompetitive, and investors began fleeing the dollar in favor of other currencies or gold.

To prevent a bad situation from becoming worse, the United States needed to either raise interest rates—

and likely start a recession—or find some other way to keep money in the country. Over the course of a decade, in innumerable emergency meetings around the world, Washington proposed all sorts of plans to save the Bretton Woods system, from directed international government purchases of dollars to cracking down on coin collectors for taking too much gold out of circulation. But without an increase in interest rates, something policymakers did not want to happen, the status quo would have to change.

At first, Volcker defended the gold peg, but by the time he was working in the Nixon administration, he came to see that the country needed to either pursue a deeply painful monetary policy or fundamentally change its currency system. After a long series of negotiations with Europe, in August 1971, the United States ended the dollar's peg to gold and ushered in more flexible exchange rates. Thanks to close coordination among all the countries involved, fears that abandoning the fixed exchange rates would either unseat the dollar as a reserve currency or spark a full-blown financial crisis never materialized. The fact that Volcker led an orderly transition without a meltdown occurring was a signal achievement. Today, as many countries in the euro-zone struggle to cope with the problems caused by their fixed-exchange-rate system, one hopes that they have studied this moment closely.

Silber then looks at Volcker's much-celebrated fight against inflation. In the 1970s, inflation was the bane of the U.S. economy, rising from a five percent annual rate in 1976 to almost 12 percent by August 1979, the month Volcker became chair of the Federal Reserve. The Fed's unwillingness to raise interest rates to

stop inflation had destroyed its credibility and allowed what monetary economists call inflationary expectations to take hold. Businesses, unions, and employees throughout the economy began their discussions about wages and prices with the presumption that inflation would be five to seven percent per year. Such a presumption is quite dangerous, since workers then demand seven or eight percent wage increases to overcome the inflation, which in turn causes prices in those industries to rise further. This so-called wage-price spiral can drive inflation up dramatically in a short period.

The country needed someone credible to fight inflation, and Volcker was the man for the job. He attacked right away, although he knew it would mean unprecedented tightening. He designed a new approach for Fed policy that explicitly tried to slow down the growth of the money supply rather than raising interest rates directly (the central bank's normal method), knowing that the Fed governors would have a hard time raising rates as high as they needed to go. His system of targeting the money supply was indirect, and it drove rates higher than anything the Fed had ever before contemplated, to unprecedented levels of 20 percent and higher. The economy slipped into recession, with unemployment peaking at 10.8 percent in November 1982.

Volcker stuck to his guns even as he came under withering criticism from Congress and industry. He acknowledged the difficulties presented by high interest rates but insisted that the country needed to rid itself of inflation or, as he said in a 1982 speech to the National Association of Home Builders, "the pain we have suffered would have been for naught—

Austan Goolsbee

and we would only be putting off until some later time an even more painful day of reckoning.”

Volcker stayed the course until he beat inflation. Once the battle was won, he began cutting interest rates and making it easier to borrow in order to return things to normal. Unemployment fell rapidly, and conservative economists—including Milton Friedman, a regular critic of Volcker’s throughout the 1970s and 1980s—warned of the imminent return of inflation. But Volcker explained that the Fed’s worst failures had come from waiting too long to tighten monetary policy during expansions, not from loosening it too much during recessions. History would soon prove him right: although a record-breaking expansion followed, inflation never returned.

The last big episode Silber describes came during the recent debate over financial regulation, when Volcker championed a ban on proprietary investing on the part of banks. His logic was that since commercial banks in the United States are backed by the Federal Deposit Insurance Corporation and can borrow money from the Fed during a crisis (at the so-called discount window), taxpayers are ultimately on the hook for the costs of their failure. This government insurance allows financial firms to raise cheap capital, and Volcker argued that it was not appropriate for them to use that subsidy to make risky investments for their own sake, especially ones that might cause them to be even more prone to failure. Volcker also worried that proprietary investing would put banks in direct conflict with their clients.

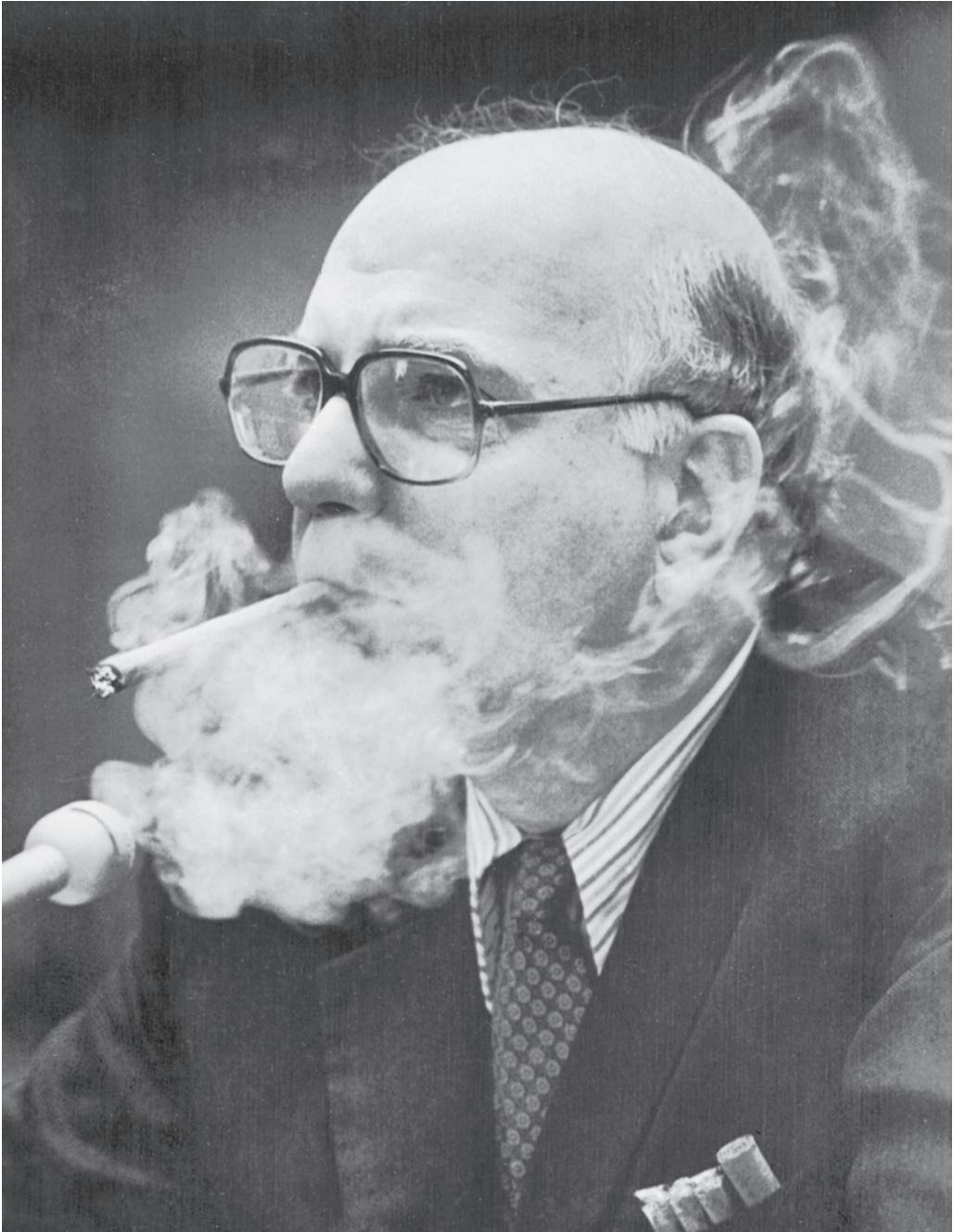
Volcker’s critics insisted that such special rules for commercial banks were untenable because these banks would

have to compete with more lightly regulated entities, such as hedge funds, international banks, or money-market funds, which would not have such restrictions. But each time the rule looked to be in jeopardy, developments such as the accusation that Goldman Sachs was knowingly shorting investments that it was selling to its clients or the revelation that JPMorgan Chase had lost billions of dollars on a single proprietary investment would seem to validate Volcker’s logic. Despite furious lobbying to remove it, the Volcker rule became part of the Dodd-Frank financial reform bill and is now the law of the land, although the battle over its implementation continues.

INCREDIBLY CREDIBLE

Volcker’s narrative reveals the drama behind some of the most important economic policy debates of the last half century. What is even more important to understand than the details of these episodes, however, is the worldview Volcker held as a consummate problem solver. Future policymakers would do well to study his approach, from how he projected confidence and credibility to his insistence on articulating clear frameworks for resolving crises.

Throughout his public career, Volcker personified toughness. He understood that the government had to establish credibility in order to give policymakers flexibility when they needed it. In both the gold crisis and the inflation crisis, the failure of authorities to make credible promises invited speculative attacks by investors, who bet that the government would back down. When policymakers undermine their own credibility, it only makes the next round of a crisis worse, because the market ceases to believe



No smoke and mirrors here: Paul Volcker testifying before the House Banking Committee in 1980

what officials say about how they will resolve it.

In the 1980s, Volcker was able to put an end to expectations of spiraling inflation only by showing that he was willing to

administer even the most painful of medicines. Once people understood that he would keep at it until prices stopped ballooning, he earned the flexibility to bring down interest rates to more normal

Austan Goolsbee

levels, which he did after 1983, without generating a return of inflation.

In the aftermath of the 2008 financial crisis, Volcker frequently seemed frustrated in his public appearances when the government would abruptly reverse its position, as when it announced that the Troubled Asset Relief Program would buy up toxic assets only to say later that the money allocated to the program would instead be used to recapitalize banks. The great fear was that such reversals would undermine policymakers' credibility and make the rescue much more difficult—a lesson proved quite relevant by Europe's chaotic response to its sovereign debt crises.

Similarly central to Volcker's approach to public policy was his insistence on finding explicit frameworks to resolve crises. That stance might sound obvious, but anyone who has spent time in Washington can tell you how common it is for the government simply to wing it instead. Volcker learned the danger of this approach during the various emergencies he dealt with, including the Latin American debt crisis of the 1980s and the failure of the Continental Illinois National Bank in 1984. In these cases, the relevant players managed to get together and hammer out ad hoc agreements. But fixing problems this way planted the seeds of future trouble, leaving people in doubt about what the government might do the next time things went wrong.

That's why, when the 2008 financial crisis unfolded, Volcker became one of the first to propose creating an institution that could buy up assets and dispense with them, as the Resolution Trust Corporation had done following the savings-and-loan crisis in the 1980s and 1990s. It's also

why he worried aloud about the dangers of waiting to confront problems until they arose; he felt that Washington could not evaluate which failing firms were worth rescuing without a clear framework. As the scope of government bailouts spread from financial institutions to AIG, Fannie Mae, Freddie Mac, and even the automobile industry, Volcker's worries seemed vindicated.

Ironically, this preference for frameworks over emergency meetings brought Volcker's thinking into line with Friedman's. In 1969, when Friedman was urging the adoption of a flexible-exchange-rate system, he argued that one of its benefits would be to "put an end to the occasional crisis, producing frantic scurrying of high government officials from capital to capital," thinking they are vitally important. If recent history has taught us anything, it's that the most serious economic crises cannot be tamed solely by improvised disaster control on the part of well-intentioned officials. It takes articulated frameworks.

Volcker's approach to regulation and oversight is also worth emulating. Volcker once told me that he had spent much of his career pushing back against the notion that the free market could govern itself if the government just got out of the way. Capital markets, he emphasized, can function only when people trust the system. A financial system ridden with conflicts of interest, creative accounting, and excessive exuberance is dangerous precisely because it can destroy the public's trust and cause people to pull out their money.

The Federal Reserve has two different jobs: to set monetary policy and to safeguard and regulate major parts of the financial system. Paradoxically, the

Fed chairs who have been toughest on inflation have tended to be the most lenient when it comes to bank supervision and the most sympathetic to the idea that the private sector can govern itself. What made Volcker so different as a Fed chair was his toughness on both inflation and regulatory oversight.

It's not that Volcker views bankers as the bad guys, as many populists who embrace his views do. He simply believes that bankers are just like everyone else: that absent oversight, they will try to take advantage of the system. Volcker has repeatedly stated his view that many practices that are considered financial innovations are actually just ways for firms to get around regulations, reduce the amount of capital they are required to hold, or avoid taxes, thus providing little benefit to consumers or the economy.

Volcker argues that regulators must be clear and direct in their oversight of banks' behavior. As he put it in an interview with Silber, "Commercial bankers understand when a bank examiner gives them a green light to lend. They also respond to a red light, whether they like it or not, but most ignore the cautionary yellow." For this very reason, in the recent debate over financial reform, Volcker pushed for the ban on proprietary trading to be made explicit and not be left to the discretion of regulators; the banks would never pay attention unless such a practice was expressly forbidden.

DUTY, HONOR, COUNTRY

When I talk to Volcker today, he speaks of a time when honor was the most important thing a person had. He notes that in the early years when he worked in government, many large trade associations didn't even have offices in Washington, D.C.,

and no banker worried more about his bonus than his reputation.

At every stage of his career, Volcker had the option to leave government and take a lucrative job in the private sector. But he chose public service. It's astounding that Washington manages to recruit professionals of Volcker's caliber while paying them modestly and putting them through all the tribulations of government work, from partisan Senate confirmation hearings to extensive rules and disclosures that they must abide by in their personal lives. Volcker still believes that public service is the most important thing someone can do, but he fears that this attitude may be a relic of a bygone era.

If we are lucky, his fears will be proved wrong. The lessons from Volcker's career and his worldview must continue to inform U.S. economic policy in the years to come if the United States is to maintain its global economic leadership. The country may never produce another figure of such towering stature, wisdom, and determination. But those who come after Volcker would be wise to heed his advice and try to follow in his admittedly giant footsteps. 🌍

The Totalitarian Temptation

Liberalism's Enemies,
Then and Now

Andrew Nagorski

The Devil in History: Communism, Fascism, and Some Lessons of the Twentieth Century

BY VLADIMIR TISMANEANU.

University of California Press, 2012,
336 pp. \$34.95.

One evening in June 1940, an excited crowd in Berlin awaited Adolf Hitler's arrival at the opera. The German army was scoring victory after victory in Europe at the time, and when the dictator finally entered the room, the audience greeted him with impassioned cries of "Sieg Heil!" "Heil Hitler!" and "Heil Führer!" With the 1939 Nazi-Soviet Nonaggression Pact still in force, one of the attendees that night was Valentin Berezhkov, an interpreter for Stalin. "As I am watching all that," he recalled in his memoirs, "I am thinking to myself—and the thought scares me—how much there is in common between this and our congresses and conferences when Stalin makes his entry into the hall. The same thunderous,

ANDREW NAGORSKI is Vice President and Director of Public Policy at the EastWest Institute and the author of *Hitlerland: American Eyewitnesses to the Nazi Rise to Power*. Follow him on Twitter @AndrewNagorski.

never-ending standing ovation. Almost the same hysterical shouts of 'Glory to Stalin!' 'Glory to our leader!'"

The parallels between communism and fascism have often been noted, fueling endless debates over whether the movements were fundamentally similar or different. *The Devil in History*, a new book by the political scientist Vladimir Tismaneanu, presents a genuinely fresh perspective on this topic, drawing enduring lessons from the last century's horrifying experiments with totalitarianism.

Instead of writing a historical treatise, Tismaneanu set out to produce "a political-philosophical interpretation of how maximalist utopian aspirations can lead to the nightmares of Soviet and Nazi camps epitomized by Kolyma and Auschwitz." Prompted by the author's personal intellectual journey, the book is an extended essay that examines the evolving interpretations of communism and fascism.

Tismaneanu touches on so many questions that he cannot possibly provide all the answers. But in doing so, he reinvigorates important debates about not only past ideologies but also present and future ones. The animus toward modern liberalism that he finds at the root of both earlier totalitarian movements has not disappeared, and the liberal world today should remain alert to its contemporary manifestations.

WHERE LEFT MEETS RIGHT

Many intellectuals who spent much of their lives behind the Iron Curtain ended up believing that communism and fascism were basically alike. After beginning his postwar career as a member of Poland's Communist Party, for example, the

philosopher Leszek Kolakowski emigrated to the West in 1968. He eventually became convinced that all movements proclaiming utopian visions, including communism, were incorrigibly evil. Kolakowski's rationale was straightforward: the problem with such ideologies was that they grounded their legitimacy in claims to own the definition of "truth," and as Kolakowski explained, "If you oppose such a state or a system, you are an enemy of truth." Under communism, those enemies were primarily defined by class; under fascism, they were usually defined by race. But in both cases, the upshot was the same: the state must ruthlessly eliminate its ideological opponents, along with anyone deemed sympathetic to them in either thought or deed. The infinite elasticity of the categorization of enemies accounted for the mass murders under both systems.

Tismaneanu's gradual disillusionment with communism closely mirrored that of Kolakowski, whom Tismaneanu considers one of his intellectual godfathers. Even the denser passages of Tismaneanu's writing on political theory are infused with the passion of someone who has lived and breathed his subject. His parents, committed Romanian Communists, fought alongside the antifascist International Brigades in the Spanish Civil War. But as a teenager living under the strictures of 1960s-era Romanian communism, Tismaneanu started seeing his country's political system for what it was, and he began furiously reading forbidden books by writers such as Kolakowski, the Yugoslav dissident Milovan Djilas, and the French philosopher and journalist Raymond Aron. "Confronted with the grotesque follies of Nicolae Ceausescu's

dynastic Communism," Tismaneanu explains, "I realized that I was living in a totalitarian regime run by a delusional leader." After his father's death, in 1981, the 30-year-old Tismaneanu took advantage of a trip with his mother to old battle sites in Spain to flee his native land.

The public disenchantment of so many intellectuals notwithstanding, many Westerners continue to operate under the assumption that communism was not nearly as horrific as fascism. Anyone who has walked the streets of Prague, Budapest, or Moscow in recent years has seen Western tourists eagerly snapping up souvenirs of the old regime. The same people who find the Nazi swastika repulsive are happy to wear the hammer and sickle on a T-shirt, hat, or military belt buckle. Having experienced communism firsthand, eastern Europeans are typically more hesitant to whitewash its record. But still, many took a long time to break with Marxist ideas and resisted the notion of directly equating the two totalitarian ideologies.

Tismaneanu explains the lengthy history of denial about the full dimensions of communism's crimes by highlighting how its leaders and theoreticians posed "as progressive, anti-imperialist, and, more important still, anti-Fascist." Although the philosophy they espoused was fundamentally flawed—and ultimately an excuse for the destruction of independent thinking—it pretended to be humane, sacrificing the individual for the good of the masses. And so for decades, even after the purging, starvation, and execution of millions, otherwise intelligent people continued to apologize for Lenin, Stalin, and Mao.

Communism's seemingly coherent doctrine helps account for the reluctance

Andrew Nagorski

of many on the left to abandon their fascination with its utopian ideals. It was not until the late 1960s and early 1970s that the majority of leftist intellectuals began accepting that communism was irreparably defective. The year 1968 was a watershed, when Poland's communist regime suppressed a wave of student protests and the Kremlin ordered tanks into Czechoslovakia to crush the Prague Spring reformers, who were attempting to introduce "socialism with a human face." As Tismaneanu points out, "The movement of 1968 was a blessing in disguise because through its failures it revitalized liberalism." By the mid-1980s, the belief that communism could be reformed was largely discredited. "What is the relationship between democracy and democratic socialism?" members of the Polish Solidarity movement jokingly asked. "The same as between a chair and an electric chair."

Nazism, in contrast, attracted some admiration from abroad in the 1930s, when Hitler seemed to be performing economic miracles and restoring Germany to strength and prominence, but any broader sympathy evaporated as the heinousness of the Nazis' crimes quickly came to light. The main reason for this was that unlike communism, Nazism was devoid of intellectual content. Communists may have deified their leaders, but they also possessed a well-established ideology; the Nazis only had *der Führer*, whose personal appeal did not survive his death.

To be sure, Hitler's party was supposedly rooted in a set of political ideas, but as Tismaneanu points out, "It would be impossible to speak seriously about Nazi philosophy." The pretense of a coherent ideology was easy to expose.

The American foreign correspondent Dorothy Thompson completely misjudged Hitler's political prospects when she interviewed him in November 1931, but she did get one thing right: "Take the Jews out of Hitler's program, and the whole thing . . . collapses." Without anti-Semitism, the Nazis had nothing to justify their existence.

GOODBYE, LENIN

The major exception to the trend of increasing disillusionment with communism was in the Kremlin itself, where in the late 1980s, the group surrounding the newly installed general secretary, Mikhail Gorbachev, still believed that salvation could come through reform. This belief would soon prove illusory, but it played a crucial role in encouraging Gorbachev to tolerate more dissent than any of his predecessors. Through his ill-fated efforts to repair an ultimately doomed system, Gorbachev unwittingly provided the political space necessary for full-throated opposition forces to gain strength across the disintegrating Soviet empire.

These opposition movements shared one common goal: exposing the fallacies of the communist perversion of truth. It was a commitment, as a slogan from the Polish Solidarity movement put it, to affirming that "two plus two always equals four." In his seminal 1979 essay "The Power of the Powerless," the Czech dissident Václav Havel had argued that there was no more potent example of dissent than ordinary citizens refusing to participate in empty rituals and summoning the courage to speak honestly about both the present and the past. Central to such efforts to "live in truth," as Havel termed it, was debunking the myth

of a pure Leninism—the notion that Stalin had hijacked and deformed an essentially decent movement. This was the line put forward by Soviet Premier Nikita Khrushchev in his so-called secret speech, delivered to a closed session of the Soviet Communist Party in 1956. Khrushchev denounced Stalin’s crimes and his “cult of personality” but maintained that these were the product of one man’s despotism, not the natural outgrowth of a fundamentally flawed system.

During the 1980s, however, more and more opponents of Soviet rule became convinced that Lenin was just as culpable as Stalin. “The problem with Leninism,” Tismaneanu explains, “was the sanctification of the ultimate ends, and thus the creation of an amoral universe in which the most terrible crimes could be justified in the name of a radiant future.” That universe found its most horrific expression under Stalin, but it existed under Lenin, too; there was a continuity between the Soviet Union’s first two leaders, not a divergence.

A comparable amoral universe, of course, existed under Hitler. Indeed, the Nazi dictator freely admitted that he had learned from Bolshevik methods. This resemblance underpins Tismaneanu’s most valuable conclusion: that more important than the battles between communism and Nazism were “their joint offensives against liberal modernity.” The Nazi-Soviet Nonaggression Pact should not have shocked the West as much as it did. Even rhetorically, communism and fascism were alike in their disdain for tendencies considered decadent and bourgeois, such as the belief in democratic values, fair elections, and personal freedoms.

CAMBRIDGE

Outstanding Scholarship

Tested by Zion

The Bush Administration and the Israeli-Palestinian Conflict

ELLIOTT ABRAMS

\$85.00: Hb: 978-1-107-03119-7: 288 pp.
\$29.99: Pb: 978-1-107-69690-7

“Elliott Abrams was at the epicenter of President Bush’s commitment to forge a sustainable solution to the Israeli-Palestinian conflict. *Tested by Zion*, Abrams’s fascinating new book, takes the reader inside the debates that took place in the Oval Office with the president and his senior advisors on Middle East peace.”

– *Dr. Henry Kissinger,*
Former United States Secretary of State

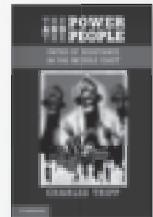


The Power and the People

Paths of Resistance in the Middle East

CHARLES TRIPP

\$80.00: Hb: 978-0-521-80965-8: 416 pp.
\$27.99: Pb: 978-0-521-00726-9



Waves of War

Nationalism, State Formation, and Ethnic Exclusion in the Modern World

ANDREAS WIMMER

Cambridge Studies in Comparative Politics

\$99.00: Hb: 978-1-107-02555-4: 384 pp.
\$34.99: Pb: 978-1-107-67324-3

“Andreas Wimmer’s *Waves of War* uses quantitative comparative-historical analysis with stunning success to address some of the biggest questions of macrosociology: the creation of large-scale ethnic communities, the birth of the nation-state, and the role of warfare in the creation of the modern political world.”

– *James Mahoney,*
Northwestern University

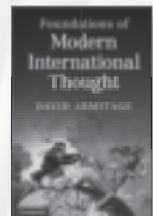


Foundations of Modern International Thought

DAVID ARMITAGE

\$85.00: Hb: 978-0-521-80707-4: 328 pp.
\$27.99: Pb: 978-0-521-00169-4

Prices subject to change.



CAMBRIDGE
UNIVERSITY PRESS

www.cambridge.org/us

Andrew Nagorski

In order to fulfill their messianic missions, both movements insisted that the individual serve the state, the ruler, and the ideology—and nothing else. In this context, individual thought, or any notion of personal conscience, became subversive by definition. It is this common denominator that explains the similar roads to Kolyma and Auschwitz. To be sure, in their emphasis on mass production, both systems were modern; but when it came to how they treated their people, they were both worse than medieval.

FREEDOM FIGHTING

No threats exist today on the scale of the two totalitarian behemoths of the last century. But there are still plenty of forces planning new offensives against liberal modernity, often invoking all-too-familiar conspiracy theories to justify the destruction of their enemies. Foremost among liberalism's adversaries today are terrorist groups such as al Qaeda and the Taliban, which claim, like the Nazis and the Soviets before them, that the path to purification is through unlimited violence. The key lesson of the last century, as spelled out by Tismaneanu, is the need to combat all movements that "dictate that followers renounce their critical faculties to embrace a pseudo-miraculous, . . . delusional vision of mandatory happiness."

Another central lesson is that the defenders of liberalism must constantly demonstrate the courage of their convictions. Just as the results of the last century's struggles were far from inevitable, there is nothing preordained about the outcome of the current struggles against radical movements, whatever ideological or pseudo-religious guise

they might assume. "The future is always pregnant with more than one alternative," Tismaneanu observes. "In other words, there is no ironclad determinism governing mankind's history."

Chance plays a role, of course: had Hitler been shot to death during the 1923 Beer Hall Putsch, for example, instead of the companion with whom he was marching arm in arm, the Nazis would likely have never risen to power. But just as it has in the past, the future of freedom will depend on the kind of determination demonstrated by those who challenged the communist regimes in eastern Europe, even when the odds looked hopelessly long. And liberalism will forever be threatened by the type of abdication of moral duty visible in the West's appeasement of Hitler after his early acts of aggression.

Political systems built on the principles of democratic participation, tolerance, and individual rights will always face challenges, and their supporters can never become complacent. The twentieth century's most enduring lesson is that the defenders of liberalism cannot waver in their commitment to these ideals, even if the cost of protecting them is extremely high. 🌐

Smart Shift

A Response to “The Problem With the Pivot”

Shawn Brimley and Ely Ratner

The shift of U.S. attention and resources to the Asia-Pacific region, a signature piece of President Barack Obama’s foreign policy agenda, enjoys considerable bipartisan support in Washington and has earned the praise of scholars and practitioners alike. Skeptics demur, however, arguing either that this “pivot”—or “rebalancing,” as administration officials now call it—is toothless rhetoric or that it is a heavy-handed policy that has unnecessarily antagonized China.

Robert Ross (“The Problem With the Pivot,” November/December 2012) has put himself in the latter camp, disparaging the strategic shift as counterproductive and destabilizing. Although he astutely urges the United States to take into account China’s insecurities, he misreads the motives behind Obama’s Asia policy and offers a misguided prescription for the way forward. The right way to respond to China’s anxieties is through sustained and deepened engagement, not

withdrawal from Asia. As the United States continues to focus more on the region, it needs to make sure that its strategy is propelled forward by a reliable commitment of money, personnel, and bureaucratic resources.

BEYOND BEIJING

In his essay, Ross misrepresents both the impetus for and the substance of the rebalancing strategy. What he characterizes as a knee-jerk response to Chinese aggression in 2009 and 2010 actually has much deeper roots. Obama came to office recognizing that the wars in Afghanistan and Iraq had led Washington to underinvest in Asia, a region central to U.S. economic and strategic interests. The first foreign leader he hosted in the White House was the Japanese prime minister, and Hillary Clinton’s inaugural trip overseas as secretary of state was to Asia, where she visited Japan, Indonesia, South Korea, and China. Meanwhile, the administration’s decisions to end the war in Iraq, begin the exit from Afghanistan, and fight al Qaeda with more precise counterterrorism efforts have enabled a greater devotion of time and resources to the Asia-Pacific. This reshuffling of priorities represents an acknowledgment of the changing geopolitical realities of the twenty-first century—not simply a response to China.

Focusing on its military dimensions alone, Ross describes the policy as “aimed at bolstering the United States’ defense ties with countries throughout the region and expanding the U.S. naval presence there.” Yet these goals make up only a sliver of the overall strategy, which in reality includes economic, diplomatic, and security objectives: strengthening relations with traditional allies; building

SHAWN BRIMLEY is a Senior Fellow at the Center for a New American Security and former Director for Strategic Planning on the U.S. National Security Council staff. Follow him on Twitter @shawnbrimley.

ELY RATNER is a Fellow at the Center for a New American Security and worked on the China Desk at the U.S. State Department as a Council on Foreign Relations International Affairs Fellow in 2011-12.

Shawn Brimley and Ely Ratner

deeper ties with emerging powers, including China; working with the region's multilateral institutions; diversifying the United States' military posture; promoting human rights and democracy; and advancing U.S. trade and business interests. The strategy aims to reallocate resources not only toward the region but also within it, by engaging more with partners in Southeast Asia. The administration has also sought to account for the rising geopolitical importance of the Indian Ocean as a key route for global trade and has supported the development of closer ties between India and countries in East Asia.

Ross' overly narrow conception of the rebalancing strategy leads him to argue that the United States has unwisely favored countries in disputes with China, such as the Philippines and Vietnam, at the expense of its cooperative relations with Beijing. Rather than trying to contain any particular country, however, Washington is seeking to construct a regional order undergirded by rules and institutions. U.S. diplomacy regarding disputes in the South China Sea, for instance, is based on principles and has sought to prevent a conflict from breaking out by encouraging all countries concerned to adhere to international law. This effort mirrors the U.S. strategy elsewhere in the world of protecting the global commons through a combination of U.S. power and international initiatives. That this approach appears to favor certain countries—and that Beijing objects to multilateral cooperation that might constrain its ability to coerce its neighbors—says more about China's preferred foreign policy than it does about any American bias.

RIGHT QUESTIONS, WRONG ANSWERS

Ross' characterization of the current U.S. approach to Asia includes an improbable accusation: that the Obama administration has "reversed Washington's long-standing policy of engagement with Beijing." This observation would come as a surprise to policymakers in the White House, the State Department, the Treasury Department, and the Pentagon. Over the last four years, U.S. engagement with China has moved faster and gone deeper than at any other point in the history of the relationship. Since 2009, Obama has met with Hu Jintao, the outgoing Chinese president, a dozen times; the two countries' vice presidents have exchanged visits; Clinton has traveled to Beijing on five separate occasions; and senior White House and State Department officials have met with their Chinese counterparts frequently.

Moreover, the Obama administration has invested substantial resources in a growing set of bilateral institutions, including the U.S.-China Strategic and Economic Dialogue, the Strategic Security Dialogue, and over 60 other issue-based and regional dialogues with Chinese government officials. After years of repeated disruptions, U.S.-Chinese military relations are back on track, and the two countries' armed forces are moving toward practical cooperation in areas such as humanitarian assistance and disaster relief.

The United States and China may not see eye to eye on every geopolitical issue, but there can be no doubt that this high level of engagement has paid off. Recent disputes between the two countries, including the diplomatic row over the Chinese dissident Chen

Guangcheng, have been resolved quickly and maturely. And even in the midst of these disagreements, the Obama administration has made clear, both publicly and privately, that a positive and constructive relationship with China is key to the success of its broader strategy in Asia.

After recommending a policy of engagement that already exists, Ross concludes by arguing that in order to assuage China's insecurities, the United States should scale back its military presence on the "East Asian mainland" and "avoid entanglement in complex sovereignty claims in the region." In practice, adopting Ross' advice would require significant departures from current policy, including the withdrawal of troops from South Korea, the removal of missile defense systems in Northeast Asia, reduced engagement with the Association of Southeast Asian Nations (ASEAN), and limits on the scope of the U.S.-Japanese alliance. There is no guarantee that taking any of these steps would even begin to resolve China's insecurity complex. But they would cause immediate damage to U.S. interests and undermine regional security. They would also reinforce China's desire for other countries to accommodate its rise without giving Beijing pause to consider the destabilizing consequences of its own actions.

Ross is right that the United States should take China's legitimate security concerns into consideration. But today's policymakers are already doing so by working with China to address the greatest sources of competition between Washington and Beijing. Going forward, the two countries should continue to search for opportunities to cooperate to address the misunderstandings and

mistrust that linger between them. U.S. policymakers can help this along by emphasizing the nonmilitary elements of its renewed focus on Asia to underscore that it is a multifaceted effort. At the same time, U.S. policy cannot be shaped solely by China's concerns, as Washington needs to account for the views and security of a number of allies and partners.

SHOW ME THE MONEY

Now that the foundation of the strategic shift to Asia has been laid, the main challenge for U.S. policymakers will be to secure the resources necessary to continue it. The United States will find it difficult to advance its interests in the region if its allies, partners, and potential adversaries doubt that its commitments will be upheld. Locking in the new approach will require Washington to set aside money and personnel and to ensure that agencies are mobilized across the U.S. government in ways that reflect an institutional commitment to its Asia policy.

"Show me your budget, and I'll describe your strategy" is a common refrain in the Pentagon. Often more focused on tethering dollars to strategy than other executive-branch agencies, the Department of Defense has devoted substantial amounts of money and attention to the rebalancing. Meanwhile, the end of the war in Iraq and the ongoing drawdown in Afghanistan are freeing up additional military resources to be directed toward the Asia-Pacific region in the form of new deployments, the repositioning of military assets, and additional locations for the U.S. military to train and exercise with long-standing allies and emerging partners.

Shawn Brimley and Ely Ratner

This shift has involved the deployment of U.S. marines to Australia and the stationing of Littoral Combat Ships in Singapore—small but significant steps that will strengthen and diversify the U.S. military's force posture in Southeast Asia. Washington was able to carry out these initiatives because they were affordable and politically sustainable, both at home and in Asia. In the years ahead, the continued evolution of the United States' force posture in the region should be complemented by efforts to strengthen partners' armed forces, carry out joint exercises, and pursue more ambitious military diplomacy. The Pentagon will need to sustain this momentum in the face of budget cuts and ensure that its small and gradual investments over the next decade ultimately add up to a meaningful strategic shift.

Although the military aspects of the rebalancing strategy have garnered the most attention in the media, civilian departments and agencies have also begun to shift their priorities and resources to Asia. Under the guidance of Clinton and Kurt Campbell, the assistant secretary of state for East Asian and Pacific affairs, the State Department has deepened U.S. diplomatic engagement throughout the region. During their tenure, the United States has joined the East Asia Summit and signed the Treaty of Amity and Cooperation in Southeast Asia, and in July 2012, Clinton announced a new assistance framework, the Asia-Pacific Strategic Engagement Initiative. These steps have demonstrated that Washington is committed to keeping the region stable and helping it prosper. The State Department has also signaled its renewed dedication to Asia policy through considerable bureaucratic reforms, adding

more than 70 new positions responsible for East Asia and the Pacific since 2009 and opening a new permanent U.S. mission to ASEAN in Jakarta.

IT TAKES A BUREAUCRACY

As different parts of the U.S. government are asked to commit larger shares of their resources to Asia, Congress must do its part by making sure that key agencies and departments have the funds in the first place. Beyond appropriating the necessary money, members of Congress also need to explain to their constituents the importance of investing U.S. resources in Asia, helping build support for the shift outside the Beltway.

The executive branch should also take several steps to guarantee that the shift toward the Asia-Pacific region is backed by the resources it needs. First, within the White House, the National Security Council staff should work closely with the Office of Management and Budget to ensure that all national security departments and agencies are prioritizing the initiatives of the rebalancing. Too often, gaps between policy guidance and budget proposals emerge late in the annual budget process, at which point they are difficult to fill. To help address this problem, the national security adviser and the director of the Office of Management and Budget should jointly pen an annual memo setting out budget priorities for the Asia-Pacific and host regular interagency meetings with senior policy and budget players. The Obama administration has already begun to take some of these steps, and it should continue to move in this direction.

Second, in this age of fiscal austerity, devoting more attention to Asia may well require the United States to scale

back its commitments elsewhere in the world. Unfortunately, policymakers at the working level are often ill positioned to consider tradeoffs that cut across geographic boundaries and bureaucratic lines. Overcoming this challenge requires serious attention at the deputy secretary level or higher. The Pentagon has already begun to address this issue by having Deputy Secretary of Defense Ashton Carter convene meetings that specifically focus on identifying resources that can be redirected toward Asia. Other agencies should follow suit, and these departmental efforts should go hand in hand with regular interagency meetings at the White House to examine findings, coordinate initiatives, and assess results.

Third, the White House should explicitly articulate the rebalancing strategy, perhaps in the form of a presidential policy directive, outlining its near- to long-term priorities and coming up with specific metrics that departments and agencies can use to track their progress in executing it. For example, policymakers ought to be aware of the number of Asia experts and capable linguists at the State Department, at the Defense Department, and in the intelligence community.

As it dedicates more of its resources to Asia, the United States should also ask its allies and partners in the region to shoulder additional responsibilities. Asia is now home to a number of wealthy and capable countries, many of which have recently gone from receiving international aid to giving it. Washington should insist that the militaries of countries such as Australia, Japan, Singapore, South Korea, and Thailand contribute to regional security at levels commensurate with their capabilities. It is also critical that the

United States continue to coordinate with these countries on diplomatic, development, and defense initiatives to maximize the efficiency and effectiveness of U.S. engagement in the region.

The glamorous aspects of the rebalancing toward Asia—the geopolitical maneuvers and machinations, the high-stakes diplomacy, the grand strategy—are only part of what will be required to make the policy successful. Just as crucial will be Washington's focus on budgets, bureaucratic institutions, and personnel decisions, as well as its ability to continually assess the policy's progress and identify areas for improvement. In an era of fiscal tightening, coming up with the necessary resources for such an ambitious program will not be easy. But because the Asia-Pacific region is fundamental to U.S. national security and the health of the U.S. economy, the rebalancing is the most valuable investment in U.S. foreign policy today. 🌐

Recent Books

Political and Legal

G. John Ikenberry

Worldviews of Aspiring Powers

EDITED BY HENRY R. NAU AND DEEPA M. OLLAPALLY. Oxford University Press, 2012, 258 pp. \$99.00.

In recent years, rising non-Western states have begun to seek greater roles in the running of the global order. But how do they understand that order? This valuable collection explores thinking about foreign policy in China, India, Iran, Japan, and Russia. The contributors demonstrate that in all those countries, vigorous debates exist among foreign policy schools that resemble the Western categories of realism, nationalism, and liberal internationalism, as well as various types of idealism. In their chapter, Nau and Ollapally argue that in most of these countries, realist and nationalist sentiments tend to dominate among foreign policy elites, leading to an emphasis on sovereignty, self-reliance, and the building of national military and economic capacities. But a strong consensus exists within all these countries—and even among the various schools of thought—on the virtues of international economic openness and integration. Moreover, apart from Iran, these rising states are not seeking to transform the global order. They want to trade and grow within the existing system while protecting their sovereignty and national power.

The Dictator's Learning Curve

BY WILLIAM J. DOBSON. Doubleday, 2012, 352 pp. \$28.95.

Democracy has spread to every corner of the world. But the authoritarian and autocratic states that have survived appear to be stubbornly dug in. In this engaging book, Dobson reports from such outposts of despotism as China, Malaysia, Russia, and Venezuela, detailing authoritarian regimes that are remarkably sophisticated in resisting the formidable forces that have put illiberal states on the defensive: Western democracy promoters, the international human rights movement, and the spread of social media. Modern autocrats increasingly eschew overtly oppressive methods of control, such as mass arrests and executions, and instead manipulate legal systems—tax rules, health codes, media regulations—to isolate and undermine opponents. Appearances increasingly matter, so today's authoritarians hold rigged elections and pay lip service to democracy to distract attention from their abuses. Dobson does not speculate on how this new phase of the grand struggle between liberal democracy and dictatorship will end. But he does make clear that modern tyrants—just like the old ones—fear nothing more than the people. And the people may yet have the last word.

Intelligent Governance for the Twenty-first Century

BY NICOLAS BERGGRUEN AND NATHAN GARDELS. Polity, 2012, 200 pp. \$19.95.

Berggruen and Gardels' central claim is that the era of American-led globalization

is giving way to a new era of more “inclusive” globalization, creating profound crises of domestic and international governance. China and other countries in the East are catching up with the West, but their technocratic, authoritarian regimes increasingly suffer from political illegitimacy and corruption. Meanwhile, the United States and other Western countries are struggling to reconcile liberal democracy with the complex demands of global economic and technological interdependence, failing to manage deficits and debt and to address growing income inequality. Berggruen and Gardels argue for a “middle way”: a synthetic approach to governance in which “China would need to lighten up while the [United States] would need to tighten up.” The book identifies virtues and defects in both the Chinese and the American systems and speculates about a hybrid model of government that would preserve Western constitutional democracy but build in more room for Eastern-style “accountable meritocracy.” Yet the authors are a bit elusive when it comes to how this model would actually function.

The Second Nuclear Age: Strategy, Danger, and the New Power Politics

BY PAUL BRACKEN. Times Books, 2012, 320 pp. \$29.00.

Bracken argues that since the end of the Cold War, a second nuclear age has begun, defined by an unstable, dangerous “multipolar nuclear order” in which the prevention of nuclear war no longer hinges exclusively on clearheaded security calculations on the part of Moscow and Washington. Nuclear weapons are

now integral to foreign and defense policies in the Middle East, South Asia, and East Asia, where governments have embraced them as necessary tools of regional stability and deterrence. Bracken argues that this emerging global nuclear system will make it impossible to eliminate nuclear weapons. The only solution is to “manage” the problem, and this requires new long-term strategic thinking and new political frameworks to deal with the regional rivalries in the Middle East and Asia that threaten to trigger nuclear escalation and proliferation. If there is a glimmer of optimism in Bracken’s analysis, it is that the major nuclear powers have largely succeeded in stabilizing their own nuclear rivalries and now share a common interest in containing regional rivalries among smaller states and in building a new global system of arms control.

Competitive Strategies for the Twenty-first Century

EDITED BY THOMAS G. MAHNKEN. Stanford University Press, 2012, 344 pp. \$100.00 (paper, \$29.95).

The growing rivalry between China and the United States is particularly complex because the two countries are simultaneously tied together as leaders of the world economy and engaged in a high-stakes struggle over the future of Asia’s security order. The authors collected here argue that the United States should pursue a peacetime “competitive strategy” by arraying defense forces in the region, staying ahead of Chinese military modernization, and looking for ways to exploit Chinese vulnerabilities and weaknesses. The

Recent Books

authors are surely correct that the United States needs a long-term strategy if it intends to remain a leader and security provider in Asia. But for all its emphasis on the need for a comprehensive approach to the rise of China, the book remains rather narrowly focused on military modernization and force strategies. As the diplomat George Kennan argued when the United States began its strategic competition with the Soviet Union, the United States' long-term success will hinge on the political, social, and economic fortunes of the West as much as on changes in military balances.

Economic, Social, and Environmental

Richard N. Cooper

One Billion Hungry: Can We Feed the World?
BY GORDON CONWAY. Cornell University Press, 2012, 456 pp. \$75.00 (paper, \$24.95).

Sharp increases in food prices in 2008 and again in 2012 reminded the world that food security cannot be taken for granted, especially for poor people. The world's population is expected to grow by 33 percent in the next three decades, and most potentially arable land, excluding rainforests, is already in use. Water sources are increasingly under strain in some densely populated regions. Can adequate food supplies be assured? Conway answers with a qualified yes. He explains that many known techniques for increasing yields have yet to be fully

applied but that doing so will require the mobilization of significant scientific, educational, and organizational resources. Conway lays out the considerable agricultural achievements of the last half century—raising global grain production from 900 million to 2,500 million tons, for instance—and accessibly presents some of the latest scientific research on how to increase productivity even further, including making genetic improvements to crops and livestock.

Doing Capitalism in the Innovation Economy
BY WILLIAM H. JANEWAY.
Cambridge University Press, 2012,
340 pp. \$34.99.

In this engaging book, Janeway, a venture capitalist who trained as an economist, combines his academic erudition with lessons learned during 40 years of working in the financial sector. His novel argument is that financial bubbles can be expected to occur from time to time in modern economies and that on balance they contribute to positive economic transformations by financing new technologies, even though many of them inevitably prove to be false starts or dead ends. Irrational exuberance, although not grounded in close assessments of balance sheets or plausible prospective earnings, is perhaps a necessary component of a dynamic economy, driving what the economist Joseph Schumpeter (following Karl Marx) famously termed “creative destruction.” Janeway also asserts that government plays three necessary roles in the development of an innovative economy. Government promotes the basic research that fuels innovation and nurtures the talent and skills to develop it:

think of the Pentagon's role in the evolution of information technology or the National Institutes of Health's contributions to contemporary medicine. It also helps stabilize the economy when private demand fails to fully employ a country's resources. Finally, government limits the damage to the economy caused by unavoidable episodic financial bubbles.

The Quest for Prosperity: How Developing Economies Can Take Off

BY JUSTIN YIFU LIN. Princeton University Press, 2012, 322 pp. \$27.95.

Lin, the former chief economist of the World Bank, makes a case for what he calls a "new structuralist" approach to economic development. Drawing on the experience of many countries, especially China, he argues for an active role for government in fostering development, not only through the traditional provision of infrastructure and the enforcement of rules but also in identifying and supporting industries that contribute to growth. But Lin's embrace of that latter, more controversial form of government involvement comes with a critical proviso, one that has too often been ignored by past development planners: the industries a government chooses to support must exploit a country's latent comparative advantage, as determined mainly by its endowments of land, labor, capital, and resources. A government can often select the appropriate industries to support by following the lead of similarly endowed countries that enjoy roughly twice the per capita income. Lin presents a thought-provoking argument. The book surprisingly contains no equations

or tables, although it draws on a rich academic literature on development.

The Knockoff Economy: How Imitation Sparks Innovation

BY KAL RAUSTIALA AND CHRISTOPHER SPRIGMAN. Oxford University Press, 2012, 272 pp. \$27.95.

The justification for creating temporary monopolies through patents and copyrights is that they encourage creative activity that would not otherwise take place. But Raustiala and Sprigman argue that imitation—which music labels and movie studios often consider theft—frequently stimulates creativity rather than discouraging it. In this engaging text, the authors draw on the experience of many industries—fashion, cuisine, finance, and open-source software, among others—to demonstrate that a lack of effective copyright protection hardly throttles innovation and in fact encourages it. They draw a distinction between "pioneers," who develop significant new designs or formulations, and "tweakers," who make incremental improvements in new concepts and who would be inhibited if intellectual property rules were more tightly drawn and enforced. Traditional music labels have decried the copying of recorded music, arguing that it discourages the composition and performance of new music. According to the authors, that is simply not the case: it is the traditional business model of the labels that is under threat, not the production of music. And copyright was conceived to protect creative activity, not particular business models.

Recent Books

Against the Odds: Politicians, Institutions, and the Struggle Against Poverty

BY MARCUS ANDRE MELO, NJUGUNA NG'ETHE, AND JAMES MANOR. Columbia University Press, 2012, 221 pp. \$40.00.

Most analyses of development and poverty alleviation focus on overall economic growth and the design of particular economic programs. In contrast, this book focuses on particular leaders who launched successful efforts to help the poorest (usually rural) members of their societies, drawing attention to the consummate political skills necessary to implement even well-conceived policies. In detailed case studies, the authors examine the records of three leaders: Yoweri Museveni, the president of Uganda since 1986; Fernando Henrique Cardoso, the president of Brazil between 1995 and 2002; and Digvijay Singh, the chief minister of Madhya Pradesh, an Indian state of 60 million people, between 1993 and 2003. Although the details of their approaches differed, all three men had been committed to alleviating poverty before they won high office and, once in power, engaged the poor in political decision-making—partly to learn what the poor most wanted and partly to increase the accountability of otherwise corrupt local politicians and government officials. All three also moved to the political center, stressed the importance of private investment, and put heavy emphasis on primary education for the poor.

Military, Scientific, and Technological

Lawrence D. Freedman

The Verdict of Battle: The Law of Victory and the Making of Modern War

BY JAMES Q. WHITMAN. Harvard University Press, 2012, 336 pp. \$29.95.

Challenging contemporary views of the law of war and the function of battle, Whitman asks readers to forget what they know about post-Napoleonic wars of annihilation and revisit a time when a battle was a momentous wager to resolve disputes by “chance of arms.” During the eighteenth century and well into the nineteenth, the side that held the field after a pitched battle could claim victory and so set the terms of peace. Battles were often bloody and vicious, but at least they produced definitive conclusions without spilling over into the rest of the country. Whitman knows it is pointless to wax nostalgic for a past form of warfare that might have worked for absolute monarchs but would hardly be suited to the modern world. Still, comparing earlier wars with contemporary “fights to the finish” allows him to ruminate about the possibilities for restraint in war and to challenge international lawyers to develop a “law of victory” that would support agreement on who had won a war and what was gained as a result.

Invisible Armies: An Epic History of Guerrilla Warfare From Ancient Times to the Present

BY MAX BOOT. Liveright, 2013, 784 pp. \$35.00.

Since ancient times, individual radicals, disadvantaged groups, and angry populations under occupation have resorted to terrorism and guerrilla warfare as the only military means available when facing stronger conventional forces. Hiding in the shadows and emerging to attack where they are least expected, they seek to cause enough pain to persuade their enemies to give up. Boot's coverage is remarkably comprehensive, taking in revolutionary movements and anticolonial resistance campaigns, special forces working behind enemy lines and large-scale counterinsurgency operations, the revolts of Bar Kokhba and Robert the Bruce, the political violence of John Brown and that of the Ku Klux Klan, and charismatic guerrillas such as T. E. Lawrence and Che Guevara. Boot sustains the reader's interest with lively writing and sharp characterizations, including detailed riffs on the personal hygiene and sex lives of guerrillas. His conclusions confirm that although guerrillas, insurgents, and terrorists have had their successes, the strong normally prevail over the weak. Invisible armies work best when they are able to build up visible political support and link up with (or become) even more visible conventional forces.

The Endgame: The Inside Story of the Struggle for Iraq, From George W. Bush to Barack Obama

BY MICHAEL R. GORDON AND BERNARD E. TRAINOR. Pantheon, 2012, 800 pp. \$35.00.

In narrating the history of the U.S. occupation of Iraq, Gordon and Trainor finish the job they started in *Cobra II*, their 2006 book on the origins of the Iraq war. Their Iraqi and American sources are extraordinary, allowing them to describe events with an enormous, and sometimes overwhelming, amount of detail. They focus on the military struggle, describing U.S. commanders coping with varied forms of violence while their civilian colleagues come to terms with the complexities of post-Saddam Iraqi politics. The Americans had to relearn the painful lessons of counterinsurgency as, gradually, the strategy and tactics that came to be known as "the surge" fell into place. Gordon and Trainor are on the side of those who believe that the surge made a crucial difference; it took advantage of developments such as the anti-jihadist Sunni Awakening movement in Anbar Province and then used the momentum gained to push aside Shiite militants. They concede, however, that the momentum was insufficient to produce the inclusive Iraqi government that the United States sought.

Recent Books

Engineers of Victory: The Problem Solvers Who Turned the Tide in the Second World War
BY PAUL KENNEDY. Random House, 2013, 464 pp. \$30.00.

This superb book is Kennedy's best. He has crafted a lucid, original take on World War II that also offers insights on broader issues of strategy and war. His simple but striking proposition is that the Allied victory rested not only on the work of grand strategists in presidential cabinets and high military commands but also on the efforts of middle managers, such as the logisticians, engineers, and operational analysts who addressed the major obstacles to success: getting convoys across the Atlantic, coping with Germany's blitzkrieg tactics, and sustaining a campaign over vast distances in the Pacific. With sound analysis of intelligence reports and a readiness to experiment with new methods and equipment, these managers made victory possible. Kennedy's argument clarifies that it was not just bravery at the frontlines or superior productivity that gave the Allies an advantage over the Axis powers but also an organizational culture—most evident in the United Kingdom, which was stretched the thinnest of the Allies—that “contained impressive feedback loops, flexibility, a capacity to learn from mistakes,” and a willingness to encourage innovation and cross institutional boundaries.

Underdogs: The Making of the Modern Marine Corps

BY AARON B. O'CONNELL. Harvard University Press, 2012, 400 pp. \$29.95.

O'Connell, a lieutenant colonel in the U.S. Marine Corps Reserve, analyzes

the development of the corps' culture from World War II to the Vietnam era. The Marine ethos was defined by a commitment to toughness ingrained at boot camp and a willingness to suffer reinforced by the high casualties the corps experienced in World War II and the Korean War. O'Connell does not shrink from describing the physical and mental toll this culture takes on individual marines and the violent behavior, drunkenness, and domestic abuse that represent its dark side. He also details the organization's relentless self-promotion, which helped turn it from the least to the most admired of the services and guaranteed its independence. The corps has a deserved reputation for assiduously cultivating politicians, journalists, and filmmakers to help burnish its public image and win bipartisan support on Capitol Hill. This is an honest, but not unsympathetic, take on the Marines and a fine contribution to the study of military culture.

The United States

Walter Russell Mead

Why Romney Lost (and What the GOP Can Do About It)

BY DAVID FRUM. Newsweek, 2012, 31 pp. \$4.99 (e-book).

Frum's message can be condensed into four words: “I told you so.” For two years, Frum, who worked as a speechwriter for U.S. President George W. Bush, has been warning

against what he sees as a destructive Republican flight from reality, as ideological purity has trumped pragmatic engagement. Frum is particularly scathing about the party's nomination of unelectable Senate candidates, arguing that grass-roots radicalism cost the GOP control of the Senate in 2010 and increased its losses in 2012. Frum's polemics will not win many hearts and minds in the Tea Party, but his goal is less to win over his critics than to sound the alarm to a GOP establishment that, in his view, too readily gave the Tea Party kids the keys to the family car. As the party begins a reappraisal, the clear and coherent arguments in this passionately argued book will help shape the debate. But the Tea Party remains formidable, and balancing the demands of party bases with the values of the American center is a perennial problem in U.S. politics, and one that has never been easily solved.

Freedom National: The Destruction of Slavery in the United States, 1861–1865
BY JAMES OAKES. Norton, 2012,
608 pp. \$29.95.

In this brilliant new look at the destruction of slavery during the American Civil War, Oakes reveals how the U.S. abolitionist movement relied not only on high-minded moral suasion but also on the small-bore legalistic strategy of the Republican Party. The party's legal minds argued that although slavery was a state institution, and therefore the federal government could not interfere with its legal status in the states, the U.S. Constitution did not recognize slavery in federal jurisdictions—in the territories and on the high seas, for

example. They also maintained that slaves did not represent a collective legal caste, but rather that slaveowners had claims only on the services of particular individuals. As “property” in service, slaves could be legally “confiscated” in wartime as a military necessity—a strange way of justifying emancipation, to be sure, but one that allowed the Union to free slaves under existing law even before the 1863 Emancipation Proclamation. Legal thinking continued to shape abolition even after the war, when a fear that Southern states would simply re-legalize the practice led Republicans to push for a constitutional amendment to ban it forever.

The Higher Education Bubble
BY GLENN HARLAN REYNOLDS.
Encounter Books, 2012, 56 pp. \$5.99.

Reynolds, a libertarian law professor and the creator of the blog Instapundit, takes on the crisis of the American academy. Rising tuitions, cuts in state funding for public universities, and the growth of outsourcing and automation in white-collar professions are driving significant changes in higher education. Law schools are on the frontlines: as traditional legal work is increasingly outsourced or performed by computers, demand for lawyers is falling, and many lower-tier law schools face declining or even collapsing enrollments. It is difficult to make generalizations about U.S. higher education, a complex social institution that includes everything from world-famous, deep-pocketed research universities to small vocational institutes and community colleges. Nevertheless, Reynolds' core argument seems correct: social and

Recent Books

technological changes are pushing higher education toward dramatic changes, including universities—and individual professors—offering classes over the Internet. Smart academics will begin to prepare now for this transformation.

A Capitalism for the People: Recapturing the Lost Genius of American Prosperity
BY LUIGI ZINGALES. Basic Books, 2012, 336 pp. \$27.99.

Zingales is an entertaining and helpful guide to the story of how the U.S. government's bailouts of Wall Street firms triggered populist resistance on both the left and the right of the U.S. political spectrum. He believes that regulatory capture—when business interests and lobbyists exercise undue influence over the bureaucracies and legal structures meant to oversee them—is creating exactly the kind of crony capitalism that sparked major populist surges in earlier eras of U.S. history. With a worried glance at Latin America, where antimarket populist leaders have led a number of countries into deep trouble, Zingales argues that pro-market populism can help fuel economic recovery in the United States and calls for policies that would foster a sense of fairness and bolster public support for capitalism and free markets. At times, the policy discussion seems a bit disjointed, and the enthusiasm Zingales has for economic theory sometimes leads him into digressions. But overall, this is an important and engaging look at some of the most consequential issues facing the United States today.

Washington and Napoleon: Leadership in the Age of Revolution

BY MATTHEW J. FLYNN AND
STEPHEN E. GRIFFIN. Potomac
Books, 2011, 272 pp. \$29.95.

In this uneven but often very lively book, Flynn and Griffin demonstrate why it is important to write about U.S. history in a global context—and why it is difficult to do so well. *Washington and Napoleon* borrows the method of comparative biography used by Plutarch in his paired biographies of Greek and Roman historical figures. George Washington and Napoleon Bonaparte are well suited to this approach. Both men were marginal figures who sought military glory as a means of social and political advancement, took power as politics were being reshaped by the Enlightenment, and sought to guide revolutionary upheavals along the path to stable systems. The contrasts are also interesting: Washington was a worse general but a more successful commander than Napoleon, who is remembered as a warrior but whose most enduring accomplishments were in civilian law and administration. Some of Flynn and Griffin's judgments seem forced, but their central contention is certainly sound: Washington's embrace of constitutionalism and Napoleon's turn to military despotism sprang not from any deep difference in their characters but from the political cultures that surrounded them and the differing sets of circumstances they faced.

Western Europe

Andrew Moravcsik

Bloody Nasty People: The Rise of Britain's Far Right

BY DANIEL TRILLING. Verso, 2012, 240 pp. \$26.95.

Hate: My Life in the British Far Right

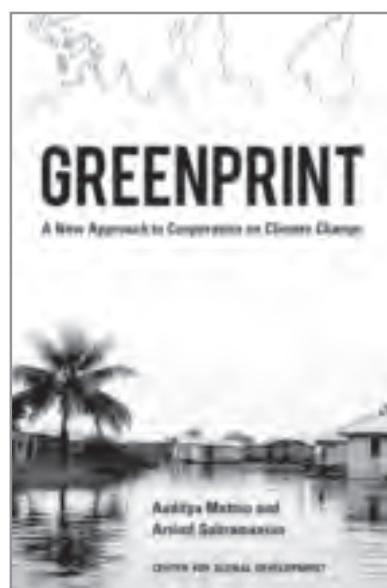
BY MATTHEW COLLINS. Biteback, 2012, 352 pp. £8.99.

What would motivate British neo-Nazi skinheads to invade a public library and beat up a reading group of retired Pakistani immigrants? And what would motivate half a million British citizens to vote for extreme right-wing parties whose rhetoric fuels such behavior? Trilling traces the rise of the radical right in the United Kingdom and condemns establishment figures for not taking it more seriously. Journalists, he argues, should not stoke prejudice against asylum seekers and multicultural policies. Politicians should not denigrate immigrants, tighten borders, or curtail government spending on housing and welfare. He believes that it is the retreat of government, not its failure, that creates an opening for radicals.

But a memoir by Collins, who spent years as a neo-Nazi and is now the director of Searchlight Educational Trust, a British foundation dedicated to fighting racism and fascism at the community level, inadvertently calls into question the idea that officials in the United Kingdom should ring alarm



Aaditya Mattoo
and
Arvind Subramanian



BUY NOW at
bit.ly/Tv1ekS

20% discount
code KCA2



Recent Books

bells about nativist radicalism. In breathless, awkward prose, he recalls spending his teen years consorting with pseudo-intellectual Holocaust deniers, profane Hitler worshipers, and violent psychopaths armed with heavy chains, hobnailed boots, and switchblades. Although the gratuitous violence is shocking, the overwhelming impression is of a bunch of cranky losers in seedy apartments and cheap pubs quarreling over nothing. Perhaps this explains why out of 100,000 local officials in the United Kingdom, only ten belong to extreme right-wing parties, and why no candidate of the extreme right has ever won office at the national level. Such parties have enjoyed success only in elections for the European Parliament, in which protest voters make up a large proportion of the few people who bother to go to the polls. Perhaps the problem, then, is not that the British have let their guard down but that commentators pay too much attention to sensational but marginal elements.

A Europe Made of Money: The Emergence of the European Monetary System

BY EMMANUEL MOURLON-DRUOL.
Cornell University Press, 2012, 368 pp.
\$55.00.

Making the European Monetary Union

BY HAROLD JAMES. Harvard
University Press, 2012, 592 pp. \$35.00.

Most analysts agree that the ongoing financial crisis in Europe stems at least in part from flaws in the design of the euro system and that stabilization will require substantial institutional reform. This raises a vital historical question:

Why did the European leaders who designed the European Central Bank and the other eurozone institutions leave out so many crucial elements? To answer this question, Mourlon-Druol considers the 1979 creation of the European Monetary System, the predecessor of the eurozone. He argues that the earlier system was weaker than it seemed, because participating governments disagreed about economic priorities—just as they do now. Germany prioritized the maintenance of anti-inflationary stability through austerity, whereas other countries sought more permissive policies. Just as today, the countries hoped to solve these conflicts by agreeing to modest monetary steps and hoping that, in the long term, their economic preferences would converge. Looking back, that was wishful thinking.

James, a colleague of mine at Princeton University, picks up the story, explaining how European governments agreed to a large-scale monetary integration in 1991 and then enacted it a decade later. Many critics now contend that European leaders did not think through the consequences of those steps or that they sought to promote the recent reunification of Germany no matter what the consequences. James shows that is not the case: the leaders did not act in response to German reunification, and they were fully aware that the system lacked essential fiscal rules and banking regulations that would encourage economic convergence, but they reckoned that these elements could be added later or might even prove unnecessary.

Both scholars make extensive use of newly available documents of the EU's monetary committees. This leads them to emphasize—perhaps overemphasize—the real-world effect of these committees'

ideas about integration. Still, both books add pieces to what is likely to be an important historiographical puzzle for some years to come.

The Official History of Britain and the European Community. Vol. 2, From Rejection to Referendum, 1963–1975
BY STEPHEN WALL. Routledge, 2012, 688 pp. \$100.00.

No diplomat could be more qualified than Wall to write an official history of how the United Kingdom became part of the EU. He served as the British ambassador to the union and as a private secretary or adviser to five British foreign secretaries and two prime ministers. As a historian, however, Wall has big shoes to fill: the author of the previous volume in this series was the late Alan Milward, the greatest academic historian of European integration, who sharply rejected conventional and official explanations of the EU's origins. What Wall presents, by contrast, is very much the view from Whitehall and No. 10 Downing Street. When it comes to explaining how British decisions were made, his account is balanced and copiously documented. Yet when he turns to the issue of why decisions were made, the story becomes murkier. British politicians seem to have thought the United Kingdom's membership was inevitable. But what role did economic, geopolitical, ideological, and more narrowly partisan considerations play in persuading them? Which justifications were fundamental, and which were just window-dressing? These issues remain for future historians to address.

The Political Economy of European Welfare Capitalism
BY COLIN HAY AND DANIEL WINCOTT. Palgrave Macmillan, 2012, 280 pp. \$42.00.

Can European countries maintain their diverse social welfare institutions? To answer this question, the authors of this readable and insightful book move beyond simplistic pessimism about generous social welfare policies. Summarizing widely accepted scholarship, they show that considerable room remains for countries to pursue idiosyncratic policies, despite a common need for some austerity measures imposed by the increasing pace of economic and demographic change. Well-designed welfare systems can coexist with and even strengthen economic competitiveness, as demonstrated by the Nordic countries. Where Hay and Wincott advance their own views, however, the results are uneven. They argue unconvincingly that the European Court of Justice imposed more neoliberal policies on the European Union than governments wanted. But they present a compelling empirical analysis showing that the current economic crisis in Europe has been exacerbated by a decline in trade, which has disproportionately hurt competitive export economies with developed social welfare systems, such as Denmark and Sweden.

Western Hemisphere

Richard Feinberg

Brazil, the United States, and the South American Subsystem: Regional Politics and the Absent Empire

BY CARLOS GUSTAVO POGGIO TEIXEIRA. Lexington Books, 2012, 172 pp. \$60.00.

Teixeira, a rising Brazilian scholar, forcefully makes the case that the United States has employed radically different policies in Mexico and the Caribbean basin than in more distant South America. Historically, heavy U.S. interventionism, so visible in nations close to the United States, has not been visited on South America—because, Teixeira demonstrates, Brazil has protected core U.S. interests there. During the nineteenth and early twentieth centuries, the United States applied the interventionist Monroe Doctrine to the Caribbean basin but not to South America, where Brazil could be relied on to maintain stability. During the Cold War, Teixeira claims, Washington could “neglect” South America because Brazil’s anticommunist military dictatorship thwarted nearby leftist regimes on its own, intervening even more decisively than the United States did to prevent the rise of leftists in Bolivia and Chile in the 1970s and even preparing to invade Uruguay early in that decade. But Brazil’s collaboration has been conditioned on U.S. respect for Brazil’s interests in its neighborhood. Consequently, when the Clinton

administration threatened Brazil’s subregional hegemony by advancing free trade throughout the Americas, Brazil pushed back, and Washington relented. Teixeira may overstate the heft of Brazilian diplomacy and the enthusiasm of other South American states for Brazilian leadership, but his inspired insights demand the revision of much conventional wisdom regarding inter-American relations.

China–Latin America Relations: Review and Analysis. Vol. 1

EDITED BY HE SHUANGRONG. Paths International and Social Sciences Academic Press, 2012, 164 pp. \$72.00.

In this collection, scholars with the influential Chinese Academy of Sciences offer some interesting but dryly presented perspectives on the surge of Chinese activities in Latin America. Their analyses range from pleasantly realistic, to contradictory, to naive. As an emerging global power, China has proudly established “strategic partnerships” with at least five Latin American states, but the scholars here profess that China presents no threat to traditional U.S. interests in the region. Rather, Chinese firms simply wish to diversify their sources of raw materials and in some cases to sell to domestic markets—and, to be sure, it is true that Latin America’s shoddy infrastructure presents profitable opportunities for Chinese construction firms. Notably, the scholars are wary of left-wing nationalist Latin American governments whose erratic economic policies create risks for Chinese firms; they also worry that “once Venezuela has a change of government, [its]

present foreign policy with China may be halted.” And despite its economic promise, Brazil nevertheless “lacks strong comprehensive national strength.” But the basic message—that China’s advance into Latin America has only just begun—is utterly credible.

Central America, Panama, and the Dominican Republic: Challenges Following the 2008–09 Global Crisis

EDITED BY MARCO PIÑÓN, ALEJANDRO LÓPEZ-MEJÍA, MARIO GARZA, AND FERNANDO L. DELGADO. International Monetary Fund, 2012, 268 pp. \$25.00.

According to these four IMF experts, the small economies of Central America deserve praise for their prudent fiscal and monetary policies, which helped them weather the recent global economic crisis with relatively little pain. Nevertheless, their per capita growth rates remain too sluggish to close the wide income gaps between them and the developed nations. Interestingly, the authors propose raising tax rates on both individuals and corporations to enable underfunded governments to increase investments in education and other public goods. Far from simply suggesting that governments get out of the way, the authors recognize the importance of strong regulatory bodies that can oversee banking, competition policies, and tax collection. But readers looking for prescriptions for even more activist government policies—to spur investment in particular industrial sectors, for instance—will be disappointed. Indeed, the IMF economists argue that reducing the level of govern-

FOREIGN AFFAIRS DIRECTORY

Subscriber Services

SUBS.foreignaffairs.com
TEL: 800.829.5539
INTERNATIONAL TEL: 813.910.3608

Academic Resources

www.foreignaffairs.com/classroom
E-MAIL: fabooks@cfr.org
TEL: 800.716.0002

Submit an Article

www.foreignaffairs.com/submit

Bulk and Institutional Subscriptions

E-MAIL: jchung@cfr.org

Advertise in *Foreign Affairs*

www.foreignaffairs.com/advertise
E-MAIL: ewalsh@cfr.org
TEL: 212.434.9526

Employment and

Internship Opportunities

www.foreignaffairs.com/jobs

INTERNATIONAL EDITIONS

Foreign Affairs Latinoamérica

www.fal.itam.mx
E-MAIL: fal@itam.mx

Rossia v Globalnoi Politike (Russian)

www.globalaffairs.ru
E-MAIL: globalaffairs@mtu-net.ru

Foreign Affairs Report (Japanese)

www.foreignaffairsj.co.jp
E-MAIL: general@foreignaffairsj.co.jp

Recent Books

ment intervention in other markets, such as agriculture and electricity, would improve efficiency and productivity.

The Sandinistas and Nicaragua Since 1979
EDITED BY DAVID CLOSE,
SALVADOR MARTÍ I PUIG, AND
SHELLEY A. MCCONNELL. Lynne
Rienner, 2011, 365 pp. \$69.95.

*The Education of a Radical: An American
Revolutionary in Sandinista Nicaragua*
BY MICHAEL JOHNS. University of
Texas Press, 2012, 142 pp. \$45.00
(paper, \$24.95).

Nicaragua is a country of active volcanoes, romantic poets, and Byzantine politics, a place where the tone is set by schizophrenic swings, from the lofty hopes of utopian dreamers to the sordid schemes of corrupt caudillos. In *The Sandinistas and Nicaragua Since 1979*, scholars sympathetic to the Nicaraguan revolution of the 1980s grapple with the transformation of the Sandinistas from youthful idealists into powerful elites enjoying unprincipled privileges. *The Education of a Radical* attributes this familiar transition to the limitations of political ideology and the inherent imperfections of human nature.

The contributors to the first book review the heady, hopeful days following the overthrow of the Somoza dynasty, locating the roots of the Sandinistas' top-down centralization in the clandestine nature of the guerrilla struggle and, perhaps, in the nation's entrenched authoritarian political culture. They lament the eventual hegemony of President Daniel Ortega and the obsessive power politics that have shaped his rule.

Yet the country has witnessed many positive changes since the 1979 revolution, including the partial democratization of political and civic life, the expansion of antipoverty programs within a stable macroeconomic framework, and the pursuit of a more balanced, smarter foreign policy. McConnell's superb essay details the ups and downs of Nicaragua's electoral system, Eduardo Baumeister examines changes in land tenure, and Rose Spalding traces the development of social policies, which are now modeled more closely on the World Bank's efficiency guidelines. After decades of disruptive and exhausting revolution and reform, Nicaragua is becoming a more normal country.

Johns' book is a coming-of-age story set against the colorful backdrop of Latin American revolution, a tale of armed militias, land expropriations, and irresistible Latinas. During the ten months he spent in Nicaragua in 1983–84 conducting research for a master's thesis on agrarian reform and searching for Che Guevara's archetypal "new man," Johns confronted "inconvenient truths" about socialism—and about himself, as he struggled with adolescent insecurities and identity crises. The student radical's youthful romanticism was upended during the course of a number of painful episodes recounted here, such as his uncomfortable confrontation with an anti-Sandinista farmer and his disillusioning interactions with ill-informed grass-roots Sandinistas. All grown up now and teaching at the University of California, Berkeley, Johns concludes his brief memoir by accepting the uncertainties of life and preaching the virtue of applying realistic standards when judging human affairs.

Eastern Europe and Former Soviet Republics

Robert Legvold

Wheel of Fortune: The Battle for Oil and Power in Russia

BY THANE GUSTAFSON. Harvard University Press, 2012, 672 pp. \$39.95.

Few have studied the Russian oil and gas industry longer or with a broader political perspective than Gustafson. The result is this superb book, which is not merely a fascinating, subtle history of the industry since the Soviet Union's collapse but also the single most revealing work on Russian politics and economics published in the last several years. Gustafson argues that beginning around 2002, as the Russian state recovered its footing and the golden goose of oil grew fat on explosive price increases, a political face-off between the oil moguls and the power elite surrounding President Vladimir Putin became more or less inevitable—as did its outcome in favor of the latter. However, he writes, oil rents are destined to shrink, and because they are the Russian system's lifeblood, the system cannot be maintained. Gustafson concludes by describing three potential responses to the perils of Russia's oil addiction: "high tech modernization," a "return to market reform," and "stay the course." Russia, he warns, can avert a grim future only if it combines elements of all three.

FOREIGN AFFAIRS

Editorial Internship

Foreign Affairs is looking for an Academic Year Intern to join our editorial team.

The Academic Year Internship is a full-time paid position offering exceptional training in serious journalism. The intern works as an assistant editor with substantial responsibility. Previous interns have included recent graduates from undergraduate and master's programs. Candidates should have a serious interest in international relations, a flair for writing, and a facility with the English language.

The Academic Year Intern works for one year, starting in July or August.

To apply for the 2013–14 academic year position, please submit a resumé, three writing samples, and three letters of recommendation by February 15, 2013.

We do not accept applications by e-mail. Only finalists will be interviewed.

Please send complete applications to:

Editorial Internships
Foreign Affairs
58 East 68th Street
New York, NY 10065
TEL: 212.434.9507

The Color Revolutions

BY LINCOLN A. MITCHELL.

University of Pennsylvania Press, 2012, 256 pp. \$65.00.

The three so-called color revolutions were doubly misnamed. First, flowers, not colors, were the symbols for two of the three: the 2003 Rose Revolution in Georgia and the 2005 Tulip Revolution in Kyrgyzstan. And if, at a minimum, “revolution” stands for discontinuity, neither those two dramas nor the 2004 Orange Revolution in Ukraine measured up. Rather than the major course corrections that many in the West hoped for, they were minor interruptions in the steady evolution away from democracy and toward deeper corruption in all three countries. Mitchell has crafted a lucid—albeit minimalist—*tour d’horizon* of the events themselves and of all three countries’ subsequent backsliding into the illiberal patterns of the past. He also situates the three “revolutions” in a brief but useful reflection on the background factors that shaped the outcome in each case. In particular, he carefully assesses how these interludes figured in U.S.-Russian relations and how U.S. and Russian policies figured in them. For those who want a clear-eyed, dispassionate analysis of cases that too often lack both, this is a good source.

Mapping Europe’s Borderlands: Russian Cartography in the Age of Empire

BY STEVEN SEEGEL. University of Chicago Press, 2012, 384 pp. \$55.00.

Maps are not merely distilled representations of geographic realities. Over time, they come to represent an organic

bundling of history: reconstructed, imagined, and manipulated. Historically, they have been the tools with which expanding empires have legitimized their conquests, imposed identities, and created administrative order, and with which victims have constructed alternative narratives and salvaged their own national memories. Never was this truer than in the period in the eighteenth and nineteenth centuries when a burgeoning Romanov empire joined Austria and Prussia in wiping Poland-Lithuania from the map and absorbing it into their swelling realms. Seegel intricately analyzes the cartography of imperial Russia and Poland-Lithuania as the science evolved and historical demands were placed on it. This is a rich and fascinating angle on history enhanced by a bounty of beautiful reproductions. Rare is a book this aesthetically pleasing and intellectually original. Seegel should be congratulated for creating it, and the University of Chicago Press, for producing it.

Iron Curtain: The Crushing of Eastern Europe, 1944–1956

BY ANNE APPLEBAUM. Doubleday, 2012, 608 pp. \$35.00.

Here is a fresh, flesh-and-blood account of the pall of Soviet power descending over the war-ravaged wreckage of Eastern Europe. Much recent attention has concentrated on how the Soviet system came apart in the late 1980s. Applebaum brings an impassioned, critical eye to its creation and maintenance: the methodical, carefully staged infiltration of key institutions, the often violent elimination of com-

peting voices, and the slow subversion of public and private institutions. The stages by which Joseph Stalin's Soviet Union established its sway over postwar Eastern Europe have been well studied, but never with this much texture or human testimonial. Applebaum pays relatively little attention to the factors explaining why this all happened, instead focusing on what happened—to millions of displaced people, to the ablest and most courageous members of these societies, to poets and civic activists, and to economies, politics, and the communist lords themselves.

The Taste of Ashes: The Afterlife of Totalitarianism in Eastern Europe
BY MARCI SHORE. Crown, 2013,
384 pp. \$27.00.

“Eastern Europe is special,” Shore writes in her opening lines. “It is Europe, only more so. It is a place where people live and die, only more so.” That sense of pathos shapes her highly intimate reflections on communism's bitter residue for Poles, Czechs, and Slovaks. That residue has much to do with the lingering burden of choices made during the era of communist rule—hard choices that harmed others, for, as the Czech dissident Václav Havel wrote, “Everyone in his or her own way [was] both a victim and a supporter of the system.” By sharing the emotional fervor of her many, often deep personal relationships with eastern Europeans, formed during ten years of travel and research in the region, Shore gets at the agony and guilt felt by some and the sublimation resorted to by others. During her visits, she also managed on more than one occasion to meet and

ruffle the feathers of those who had served the system loyally and without regrets. Shore, now on Yale's history faculty, gives depth to this searching, personalized account by weaving into her story brief but deft and unobtrusive elements of historical context.

Capitalist Diversity on Europe's Periphery
BY DOROTHEE BOHLE AND BÉLA GRESKOVITS. Cornell University Press, 2012, 304 pp. \$75.00 (paper, \$26.95).

Scholars no longer see eastern European states as traversing a path from state socialism to liberal capitalism. They now categorize these states as capitalist, although it is still unclear what kind of capitalism they practice. Bohle and Greskovits contend that the capitalism of eastern European states differs from the West's mature form, although not quite as starkly as the authoritarian capitalism some associate with post-Soviet states. The differences stem from how eastern European states deal with the tensions among market efficiency, social cohesion, and political legitimacy. Bohle and Greskovits see three distinct approaches: the “neoliberalism” that characterizes the Baltic states and favors market efficiency over the other two concerns; the “embedded liberalism” of the Czech Republic, Hungary, Poland, and Slovakia, which softens the pursuit of market efficiency and pays greater attention to welfare policies; and Slovenia's “neocorporatist” approach, which seeks to cushion the effects of marketization on particular segments of society. In this tightly argued comparative study, the authors also explore how these three clusters of

Recent Books

countries have dealt with their socialist legacies and with the imperatives imposed by a liberal global economy and the financial and economic crisis that it has lately generated.

Middle East

John Waterbury

Muslim Nationalism and the New Turks
BY JENNY WHITE. Princeton University Press, 2012, 240 pp. \$70.00 (paper, \$24.95).

Even for those already familiar with contemporary Turkey, this sometimes disturbing book will be an eye opener. Drawing on four decades of direct observation of Turkish society, White explores the complexities of evolving notions of Turkish identity. She focuses mainly on the Muslim nationalists who have emerged since 1980. They are a rambunctious lot, full of seeming contradictions: for example, according to a 2009 study that White cites, 38 percent of young people who support the ruling Islamist Justice and Development Party nevertheless describe themselves as “Kemalists”—that is, admirers of Kemal Atatürk, the stringently secularistic founder of the Turkish republic. White also explores the foibles of contemporary Turkish secularists: their obsession with racial purity, their fear of debasement through interaction with outsiders, and their sacralization of the republic’s borders. The new Muslim nationalists, in contrast,

are more open to diversity, support Turkey’s association with the EU, and seek ways to include ethnic Kurds and minority sects in the body politic. They have also embraced neoliberal economic thought to a surprising degree. Alas, all these competing visions of modern Turkey relegate women to a subordinate status.

Revolt in Syria: Eyewitness to the Uprising
BY STEPHEN STARR. Columbia University Press, 2012, 256 pp. \$20.00.

Syria: The Fall of the House of Assad
BY DAVID LESCH. Yale University Press, 2012, 288 pp. \$28.00.

Business Networks in Syria: The Political Economy of Authoritarian Resilience
BY BASSAM HADDAD. Stanford University Press, 2011, 280 pp. \$45.00 (paper, \$24.95).

The Syrian Rebellion
BY FOUAD AJAMI. Hoover Institution Press, 2012, 260 pp. \$19.95.

Syria’s contribution to the Arab revolts of 2011 began as an uprising, hardened into a rebellion, and has finally exploded into a full-fledged civil war. Taken together, these four books do not allow readers a full view of the Syrian elephant, but they come close. Starr, a journalist who lived in Damascus for five years, records his encounters with ordinary Syrians and with the state’s intelligence apparatus in an unadorned narrative of the Syrian street. Lesch, an American historian, enjoyed unusual access to Syrian President Bashar al-Assad and other regime stalwarts. But that access does not yield any dazzling insights,

instead serving only to highlight just how thoroughly Lesch's high hopes for Assad have been dashed. Haddad, a Syrian academic, analyzes the business allies of Syria's Baathist regime, a presumed core of support for Assad's authoritarian rule. Ajami is a more distant observer than the others, but his stage setting and political sketches are superb: after years of judgmental aloofness toward the Arab world, he has finally managed to get into, rather than under, the skin of his protagonists.

Ajami traces the long transformation of Syria's Alawite sect, from henchmen of the French protectorate in the first half of the twentieth century to enforcers of Baathist rule in the second half. The Alawites compensated for their minority status by claiming the mantle of secular "Arabism" and using it to batter Syria's Sunni majority into submission. Hafez al-Assad, the dictator who ruled Syria from 1971 until his death in 2000, cast himself as the standard of Arab defiance of the West, against whom the subservient Egyptian leaders and Saudi monarchs could be measured and rejected.

All four books address the capitalist allies of the Assad regime, attempting to understand their importance to the authoritarian system and speculating about what their hypothetical defection would mean. Initially, this group combined members of the Alawite military and intelligence branches with the old Sunni bourgeoisie. The latter stood by Hafez even when he brutally crushed a rebellion launched by the Muslim Brotherhood, made up of their fellow Sunnis, in the city of Hama in 1982. This became the defining moment of the authoritarian bargain the Sunni elites reached with the regime: stay

out of politics and get rich. It follows, as Starr and Haddad argue, that on major issues, Sunni cronies who are not "family" ultimately have no voice. They are not policymakers but policy-takers. Their sole weapons are capital flight and investment strikes.

Over time, according to Haddad, the old bourgeoisie began to wither, replaced by a hybrid business class made up of remnants of the Sunni bourgeoisie and the offspring of regime loyalists who feed off state-generated rents. This decline of the old elite is an interesting phenomenon, but none of the authors offers a clear sense of what it might mean for the civil war. That is partially because the Syrian revolt sprang not from the top but from the rural margins of society, which had been devastated by five years of drought. Crony capitalism and so-called market socialism have created a new elite whose lifestyle is totally at odds with the values of the rural poor, many of whom are Alawites. Hafez came from that traditional milieu; his son, Bashar, is a Damascene in style and taste. At the beginning of the Syrian revolt, Bashar's vicious and profoundly humiliating assault on Dara'a, a city on the Jordanian border and where the uprising started, sealed that divide with blood and wounded honor.

Starr, who was there at the revolt's beginning, cannot make up his mind about whether the regime had been expecting this challenge for years or was taken by surprise. Both observations may well be true. In any event, in 2011, the regime was still playing by what the journalist Thomas Friedman, in a reference to the 1982 massacre, had called Hama Rules: "no rules at all." And in

the years leading up to the revolt, the successes Bashar enjoyed blinded him to looming threats. He toughed out U.S. sanctions, UN censure, and the forced withdrawal of the Syrian military from Lebanon in 2005. He established close relations and open borders with Turkey, perhaps to remind his allies in Iran that they were not the only ones willing to do business with him.

Bashar assumed that Syria's opposition to the "U.S.-Zionist" master plan for regional dominance would spare him the fate of Egypt's Hosni Mubarak and Tunisia's Zine el-Abidine Ben Ali, now-deposed despots who had long allied themselves with the United States. And he must have felt sure that Syrians, having witnessed the chaos of Lebanon's civil war and Iraq's unending travails since 2003, would place a high premium on regime stability. The revolt proved those assumptions false. But so far, Bashar has been right to conclude that savage repression would invoke no international response beyond handwringing.

Still, Lesch maintains that the House of Assad has fallen even if Bashar clings to power, and none of the other authors sees a long horizon for him. But they also agree that Bashar is no mere puppet, controlled by shadowy brutes such as his brother Maher. No: Bashar is in control, and he believes in what he is doing.

Asia and Pacific

Andrew J. Nathan

China's Security State: Philosophy, Evolution, and Politics

BY XUEZHI GUO. Cambridge University Press, 2012, 496 pp. \$99.00.

Sorting through a flood of memoirs and histories published in China in recent years, Guo has assembled the most detailed picture yet of China's vast multiagency domestic security apparatus, neglecting only the increasingly important Central Commission for Discipline Inspection, which handles corruption investigations against senior figures in the Chinese Communist Party. The system's overlapping, competing, and evolving bureaucracies collect intelligence throughout society, use force to control errant citizens and officials, ferret out spies and dissidents, guard (and surveil) members of the central leadership, and spy on one another. Throughout the party's history, control over these agencies has been a sought-after prize during high-level power struggles. Because the system comprises a mix of party, state, and military organs with complex vertical and horizontal lines of command, it has never been able to pull together to attempt a coup against the civilian leadership. But functioning without oversight from courts, legislatures, or media, the entrenched security system has managed to maintain control over a turbulent and changing society, blocking the transition to the rule of law, which more and more Chinese regard as necessary.

The China Choice: Why America Should Share Power

BY HUGH WHITE. Black Inc., 2012, 208 pp. \$29.99.

Here is a radical idea from Down Under: the United States should share power on an equal basis with China as part of a “Concert of Asia,” which would also include India and Japan. White, a former Australian defense official, sees an era of “sea-denial” coming, when the technology for striking major warships will be so far ahead of their defensive capabilities that even small powers will be able to prevent the largest navies from projecting power at low risk. Along with other factors, this will make it impossible for the United States to dominate the region as it once did and for China to dominate it as some believe it intends to do. White fears that the current U.S. posture of pushing back against Chinese assertiveness will lead to escalation. His arguments have been controversial in Australia, where some have interpreted them as counseling that Australia tilt preemptively toward China. Even if his proposed solution to the problem of how to create a stable balance of power in Asia is a bit too neat, the book is worth reading for its plainspoken analysis of how China’s rise is undermining the confidence of U.S. allies in the region. As China grows, White argues, no one can be sure that the Chinese “will settle for as little as an equal share in the leadership of Asia.”

COUNCIL *on* FOREIGN RELATIONS

The Internship Program

The Council on Foreign Relations is seeking talented individuals who are considering a career in international relations.

Interns are recruited year-round on a semester basis to work in both the New York City and Washington, D.C., offices. An intern’s duties generally consist of administrative work, editing and writing, and event coordination.

The Council considers both undergraduate and graduate students with majors in International Relations, Political Science, Economics, or a related field for its internship program.

A regional specialization and language skills may also be required for some positions. In addition to meeting the intellectual requirements, applicants should have excellent skills in administration, writing, and research, and a command of word processing, spreadsheet applications, and the Internet.

To apply for an internship, please send a résumé and cover letter including the semester, days, and times available to work to the Internship Coordinator in the Human Resources Office at the address listed below. Please refer to the Council’s Web site for specific opportunities. The Council is an equal opportunity employer.

Council on Foreign Relations
Human Resources Office
58 East 68th Street, New York, NY 10065
TEL: 212.434 . 9400 FAX: 212.434 . 9893
humanresources@cfr.org <http://www.cfr.org>

Resistant Islands: Okinawa Confronts Japan and the United States

BY GAVAN MCCORMACK AND SATOKO OKA NORIMATSU. Rowman & Littlefield, 2012, 312 pp. \$29.95.

In recent years, the main source of friction in the U.S.-Japanese defense relationship has been local opposition to the basing of U.S. marines on the Japanese island of Okinawa. The resistance is motivated partly by the environmental and social effects of the presence of U.S. military facilities and also by public anger over crimes committed against Japanese citizens by U.S. servicemen. But McCormack and Norimatsu lay bare the resentment's deeper historical roots. Okinawans see themselves as an ethnic minority, historically separate and geographically distant from the Japanese. Japan took possession of the Okinawan island chain in the late nineteenth century and later forced its inhabitants to bear terrible burdens during World War II. From 1945 to 1972, the territory was a U.S. military colony without any form of self-rule, and many Okinawans believe that even after the islands' reversion to Japanese control, their interests have continued to be sacrificed on behalf of Tokyo's relationship with Washington. The larger frame for McCormack and Norimatsu's analysis is their sharply worded indictment of the U.S.-Japanese relationship, which they believe is constructed not so much to defend Japan as to serve a U.S. forward deployment strategy aimed at Southeast Asia and China.

Marked for Life: Songbun, North Korea's Social Classification System

BY ROBERT COLLINS. Committee for Human Rights in North Korea, 2012, 119 pp. Free online.

Coercion, Control, Surveillance, and Punishment: An Examination of the North Korean Police State

BY KEN E. GAUSE. Committee for Human Rights in North Korea, 2012, 182 pp. Free online.

The Hidden Gulag. 2nd ed., The Lives and Voices of "Those Who Are Sent to the Mountains"

BY DAVID HAWK. Committee for Human Rights in North Korea, 2012, 229 pp. Free online.

The Washington-based Committee for Human Rights in North Korea produces valuable research that sheds light on life in the "hermit kingdom." These three recent reports reveal North Korea's extraordinary system of repression. Collins describes the institution of *songbun*, under which each North Korean citizen is assigned "a heredity-based class and socio-political rank over which the individual exercises no control but which determines all aspects of his or her life." Fifty-one subcategories are clustered into three classes, defined by their level of commitment to the regime: core, wavering, and hostile. Access to jobs, housing, medical care, and even marriage depends on one's class status. Members of the lower classes are not allowed to live in relatively prosperous cities, such as Pyongyang. The regime directs foreign aid to the "core" group, while the lower groups—perhaps up to 80 percent of the population—suffer from famine and a high risk of political imprisonment.

In his revealing report, Gause explores the North Korean security bureaucracy, which is remarkable even among totalitarian states for the tight net it throws over the citizenry. Neighborhood watches make sure that even in private, no one grumbles about the regime, listens to foreign radio broadcasts, watches smuggled South Korean videos, or entertains unauthorized visitors. At a higher level, three main agencies—the State Security Department, the Ministry of People’s Security, and the Military Security Command—enforce an official system of guilt by association, under which persons are sent to prison camps if they are within three generations of a family member accused of “wrong-doing, wrong-knowledge, wrong-association, or wrong-class-background.” Each agency combines the functions of investigation, prosecution, conviction, and imprisonment, enforcing rules that are often unpublished.

Hawk has gathered a great deal of new information about the North Korean gulag, based on interviews with some 60 members of the growing North Korean refugee community in South Korea. He explains that there are differences among the several types of detention facilities, although most of them employ the technique of forced labor until death. He describes the special punishments meted out to refugees who were denied asylum in China and forcibly returned to North Korea. Especially tragic are the stories of female asylum seekers who were coerced into sexual relationships in China but then denied asylum and sent back to North Korea, where they were forced to have abortions or had their children killed at birth, owing to the Pyongyang regime’s insistence on maintaining “racial purity.”

Some believe that North Korea’s control system is eroding as small-scale private markets grow, corruption spreads, and smugglers bring in more cell phones, radios, DVDs, and USB drives from China. But these reports show that for now, the regime’s grip on the population remains firm.

Liu Xiaobo, Charter 08, and the Challenges of Political Reform in China

EDITED BY JEAN-PHILIPPE BÉJA, FU HUALING, AND EVA PILS. Hong Kong University Press, 2012, 396 pp. \$60.00 (paper, \$25.00).

Anyone pondering the choices confronting China’s recently installed new leadership will want to read this perfectly timed collection of stimulating essays by a diverse group of perceptive China watchers. That said, it will certainly discourage readers who believe that the time has come for the Chinese Communist Party to establish genuine democratic political and legal institutions. Indeed, the expert analyses presented here can lead to only one conclusion: the party will continue to rely on increasingly harsh repression to cope with the burgeoning social problems stemming from China’s prodigious economic development. That is likely to keep the lid on the boiling cauldron for the next five or ten years, but it is not a reliable path to the “harmony” and “stability maintenance” incessantly preached by party propagandists. Probing the texture and complexities of Chinese life, each of these essays helps readers understand why Chinese society has become so contentious. In their contributions, Béja, Joshua Rosenzweig, Willy Wo-Lap Lam, and a group of Chinese

Recent Books

lawyers (led by the noted defense attorney Mo Shaoping) analyze the unjust, politicized prosecutions of the Nobel Peace Prize winner Liu Xiaobo and other valiant human rights advocates. Michaela Kotyzova explains why, despite the kinship between Liu's Charter 08 and Charter 77, the manifesto written by Václav Havel when he was a young Czech dissident, one cannot expect China to follow the Czech path to freedom. And Fu, Pils, and Teng Biao relate the experiences and views of attorneys who have bravely taken on the authorities in China, a state in which, as Fu notes, "Lawyers cannot be the representatives of the people's interests; only the Party can."

JEROME A. COHEN

Africa

Nicolas van de Walle

Reforming the Unreformable: Lessons From Nigeria

BY NGOZI OKONJO-IWEALA. MIT Press, 2012, 192 pp. \$24.95.

Okonjo-Iweala is a veteran senior official at the World Bank, and she is often mentioned as a likely choice to become the bank's president if and when Western powers stop insisting that an American lead the organization. In 2003, Nigerian President Olusegun Obasanjo asked Okonjo-Iweala to return to her native Nigeria to help the country deal with its massive foreign debt. Over the next few years, she helped

persuade the country's creditors to cancel 60 percent of the debt, making good use of her personal connections within the international financial community. But her attempts to enact economic reforms were less successful, at least in part because of the ambivalence of much of the Nigerian government. Fiscal and monetary reforms have played only a supporting role in helping Nigeria and other African countries achieve a level of economic stability in recent years: rising commodity prices, growing remittances from an increasingly wealthy diaspora, and the emergence of new investors, notably from China and India, have been at least as important. Meanwhile, Nigeria has made very little progress on other pressing problems, from its woeful infrastructure, to its dysfunctional agricultural sector, to its growing social inequality and persistent poverty. Those issues receive only passing references in Okonjo-Iweala's upbeat account.

RethinkHIV: Smarter Ways to Invest in Ending HIV in Sub-Saharan Africa

EDITED BY BJØRN LOMBORG. Cambridge University Press, 2012, 383 pp. \$95.00 (paper, \$39.95).

Lomborg believes that better policies can come only from dispassionate cost-benefit analysis—which is just what his organization, the Copenhagen Consensus Center, claims to produce. In this book, he tackles the HIV/AIDS crisis in Africa. Chapters by top experts present state-of-the-art research on prevention and treatment, public health systems, and vaccines. These thorough analyses will be of interest to anyone who cares about the state of the pandemic, but they are

almost completely silent on the political and social dimensions of the crisis. Moreover, most of the contributors concede that a lack of quality data precludes the kind of cost-benefit analysis that Lomborg promotes, and they put forward few strong policy recommendations other than to call for more research. The book concludes with a brief and disappointing reaction to the preceding chapters by a group of contributors Lomborg describes as “African civil society leaders,” which serves mostly to remind the reader of the unfortunate degree to which the fight against AIDS in Africa is conceived, funded, and directed from outside the continent.

After Mandela: The Struggle for Freedom in Post-apartheid South Africa

BY DOUGLAS FOSTER. Liveright, 2012, 608 pp. \$35.00.

Foster spent the last few years interviewing South African political elites and their relatives, civil-society activists, and a handful of “street kids” in South Africa’s burgeoning cities. He explores the contradiction at the core of post-apartheid South Africa: the massive gap between the ideals of pluralist democracy articulated by the country’s exemplary constitution and the violence, corruption, and inequality that shape everyday society and politics. This analysis is not particularly original, but the book is salvaged by Foster’s ability to get his subjects to reveal themselves and shed light on their milieu and by his sharply drawn portraits of President Jacob Zuma and former President Nelson Mandela

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.

To apply for this internship, please send a résumé and cover letter including the semester, days, and times available to work to the Internship Coordinator in the Human Resources Office at the address listed below. The Council is an equal opportunity employer.

Council on Foreign Relations
Human Resources Office
58 East 68th Street, New York, NY 10065
TEL: 212.434 . 9400 FAX: 212.434 . 9893
humanresources@cfr.org <http://www.cfr.org>

Recent Books

and his family. Foster emphasizes the differences between an older generation of black elites steeped in the discipline of the struggle against apartheid and a younger generation that views South Africa in more cosmopolitan terms and is less interested in politics than in pop music and designer clothes.

Democratization in Africa: Challenges and Prospects

EDITED BY GORDON CRAWFORD AND GABRIELLE LYNCH. Routledge, 2012, 304 pp. \$125.00.

Governing Africa's Changing Societies: Dynamics of Reform

EDITED BY ELLEN M. LUST AND STEPHEN N. NDEGWA. Lynne Rienner, 2012, 243 pp. \$58.00.

These two collections assess the prospects for positive change in sub-Saharan Africa. Crawford and Lynch survey the region's political progress and generally find it wanting. Although they concede that two decades of democratization have resulted in some improvement in political and civil rights, they argue that only a few countries in the region can really be considered fully democratic; most are little more than authoritarian regimes that occasionally hold rigged elections. The region has enjoyed strong economic growth in recent years, but the growth remains uneven and fragile and has resulted in increasing inequality

and more polarized politics. The book also details the endemic state corruption, feckless political parties, growing ethnic conflict, and lack of basic security that hamstring sub-Saharan Africa, concluding that the region needs much more political reform. They criticize Western donors as mostly uninterested in deepening democracy and African elites as content with the status quo and therefore suggest that positive change is unlikely.

Lust and Ndegwa's book is considerably more optimistic. Its contributors note the region's high growth rates, rapid urbanization, and emerging middle classes, asking how such changes should influence the way outside policymakers think of the region. Their answer to that question is too vague to be entirely satisfactory, but, in its strongest sections, their book serves as an insightful survey of Africa's fast-paced sociological mutations. Particularly interesting are the chapters that examine religion and gender in West Africa and the bitter fights over land and property rights that have erupted all over the continent, a result of rising population density, the growth of national markets, and the increasing political competition that democratic governance has brought about. Although familiar, the book's theme—that change in Africa brings with it both new challenges and new opportunities—is nevertheless a welcome respite from the pessimism that suffuses so much academic writing about the continent. 🌍

Foreign Affairs (ISSN 00157120), January/February 2013, Volume 92, Number 1. Published six times annually (January, March, May, July, September, November) at 58 East 68th Street, New York, NY 10065. Subscriptions: U.S., \$44.95; Canada, \$56.00; other countries via air, \$79.00 per year. Canadian Publication Mail—Mail # 1572121. Periodicals postage paid in New York, NY, and at additional mailing offices. POSTMASTER: Send address changes to *Foreign Affairs*, P.O. Box 60001, Tampa, FL 33662-0001. From time to time, we permit certain carefully screened companies to send our subscribers information about products or services that we believe will be of interest. If you prefer not to receive such information, please contact us at the Tampa, FL, address indicated above.



COMMITTED TO
IMPROVING THE STATE
OF THE WORLD

World Economic Forum Global Leadership Fellows Programme Creating Future Global Leaders



The World Economic Forum's Global Leadership Fellows Programme develops the next generation of leaders at the world's multistakeholder organization.

The three-year Master's level programme combines a learning process developed in partnership with Columbia University, INSEAD, The Wharton School of the University of Pennsylvania, and London Business School with the hands-on experience of a full-time position within the Forum.

In addition to personal and professional knowledge development, Fellows gain practical experience working with global leaders and experts on multistakeholder solutions to some of the world's most pressing issues.

Since it began in 2005, the programme has attracted over 10,000 applications. The 20+ exceptional individuals selected every year combine their experiences in an interactive learning environment.

The programme equips Fellows for senior executive roles in business, government and international organizations, and offers access to a unique network that provides ongoing support and insight.

For more information, visit www.weforum.org/glf

The World Economic Forum is an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas.

Incorporated as a foundation in 1971, and based in Geneva, Switzerland, the World Economic Forum is impartial and not-for-profit; it is tied to no political, partisan or national interests.

Foreign Affairs Focus: An Online Video Series



Currently Featured: The Global Economy With Ray Dalio

In September, Ray Dalio—the founder of Bridgewater Associates and one of the world’s most respected financial analysts—spoke to *Foreign Affairs*. Watch the full video at [ForeignAffairs.com](https://www.foreignaffairs.com). Highlights:

ON EUROPE:

We’re going to have a contraction in balance sheets, we’re going to have a contraction in debt, and we’re going to have much worse economic conditions in Europe for a long time. It’s a classic deleveraging—what we call a lost decade.

ON EMERGING ECONOMIES:

So the question is, who has the surpluses? Emerging countries are the creditors—emerging countries are in better financial condition than the developed countries.

ON THE MARKETS:

The age of big returns is over for asset classes in general. There are going to be ups and downs, but what produces the high returns structurally is no longer there.

ON THE ROAD AHEAD:

What keeps me up at night is that we are in a one-world economy. If we hit an air pocket, there will need to be a way of reversing things. What worries me is that we don’t have the right mix of fiscal and monetary policies, because policymakers don’t have the right historical frame of reference. My fear is that there could be the absence of prudence.

Visit [foreignaffairs.com/videos](https://www.foreignaffairs.com/videos) for the full interview and other videos in the series—including Raymond Odierno on the U.S. Army, Moncef Marzouki on Tunisia, Damien Ma on China, and many more.

*Mano Yaker
for eni*

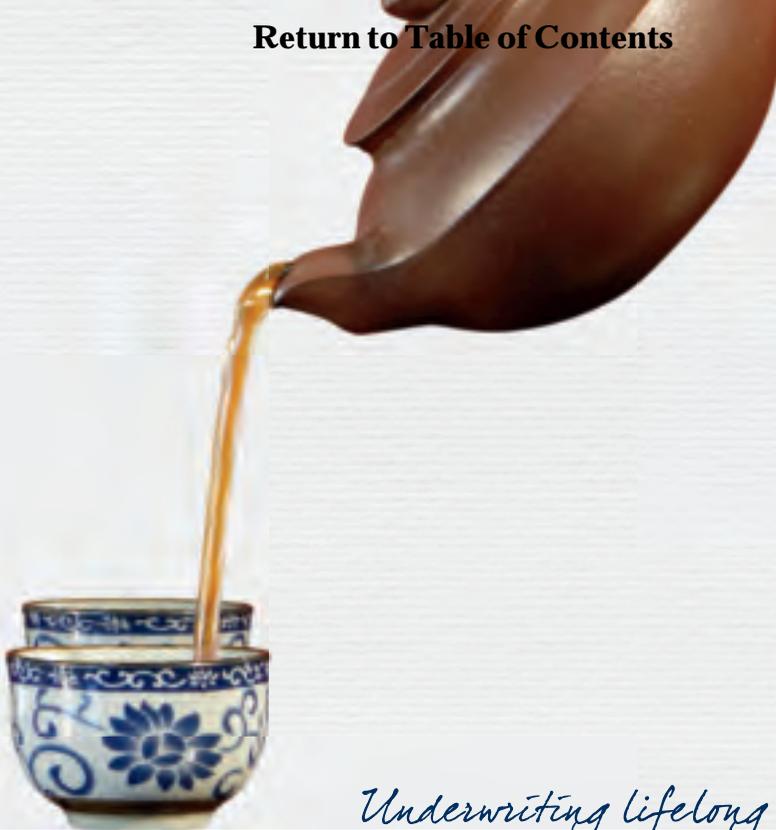
collaboration

a word that allows us to grow together



we work in more than 80 countries to bring you energy





X

Underwriting lifelong relationships.

We are Starr Companies, a global insurance organization supporting those who not only dare to reach for the farthest shores, but thrive when they get there. That is why, from the East Coast to the Far East, our exceptional teams set new standards for risk management across a broad spectrum of industries. Because we seek out the bold ones. The visionaries. The dreamers and doers. And when we find them, we don't merely stand by their side. We put our name in ink, below theirs, as they venture forth to explore, discover and achieve the amazing. Starr Companies: **Underwriting the future.**



STARR
COMPANIES

GLOBAL INSURANCE & INVESTMENTS

starrcompanies.com

Accident & Health • Aviation & Aerospace • Casualty • Construction • Crisis Management • Energy • Environmental
Financial Lines • Marine • Professional Liability • Property • Public Entity • Specialty Products • Travel Assistance