

READINGS IN EUROPEAN SECURITY
VOLUME 5

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INTRODUCTION

This fifth volume of *Readings in European Security* is published as the world enters its first global economic crisis in 70 years. The sudden onset of this defining moment in our history colours the issues we deal with in this volume – although the last session of the European Security Forum, “Policies of EU, Russia, and US towards the rise of China” held on 24 October 2008, already took into account the first consequences of the world financial crisis, if not yet of the subsequent economic recession. Therefore, in this introduction, an attempt will be made to address the issues covered in the corresponding sessions of the ESF in the light of the ongoing global crisis.

The theme “Between Baghdad, Tehran, Riyadh and Jerusalem: Is there a way for the greater Middle East”, was dealt with on 18 June 2007. The sense of desperation that characterised at least part of the proceedings would probably not be fundamentally recast with the benefit of two years’ hindsight. No doubt, there has been some good news in Iraq in the course of 2008: the isolation of al-Qaida caught between the politically decisive alliance of the ‘Sunni Awakening’ with the US forces on the one hand, and the military effectiveness of the ‘surge’ on the other hand has led to a modicum of order in Iraq. Furthermore, bad news concerning Iran has not – or not yet – loomed in the form of the bombing of Iran or the acquisition of the ‘bomb’ by Iran. Alas, the Israeli-Palestinian peace process has been further set back, notably with the political and ideological fracture of the Occupied Territories into two distinct and opposed Palestinian entities. The precipitous fall of oil prices – from \$147 a barrel in mid-2008 to less than \$40 a mere six months later – introduces new elements of instability and complexity into an equation with all-too-many unknowns. Countries both excessively dependent on oil and gas and containing large and young populations – such as Iran or Algeria – are in the front line of the oil crash. But other countries in the region such as Egypt, Yemen and Jordan will be severely hit by the global recession. What remains unchanged is the sense of interconnectedness between the various crises of the Middle East, ever since a great strategic vacuum was created in Iraq in 2003.

On 22 October 2007, the ESF discussed the question: “Does Europe Need a New Missile Defence System?”. The political, strategic and military terms of the debate that took place on that occasion continue to prevail: the actual and hypothetical assessment of the evolving ballistic missile threat

(notably from Iran); the impact of the projected US anti-missile deployment in Poland and the Czech Republic on relations with Russia; the relationship between the bilateral plans of the US and NATO's multilateral needs and projects etc. These and other factors remain unchanged. However, the invasion of Georgia by Russia in August 2008 has provided substantial ammunition to those in Central Europe who see the permanent deployment of US systems and the attendant American military personnel as a means to materialise and reinforce the American defence guarantee vis-à-vis an assertive and muscular Russia. The manner in which Russia's President, Dimitry Medvedev, 'welcomed' the election of Barack Obama by threatening to deploy ballistic missiles in the Kaliningrad enclave not only further increased the Central European quest for even stronger defence guarantees; it also made it more difficult for the US to climb down from its ABM projects: a brand-new American President of whom all and sundry (including his own Vice-President, Mr. Biden) have said that he would be tested by the Russians within six months of his inauguration, was not going to start his term by appearing to cave in under Russian bluster. It now remains to be seen how Russia's parlous economic and social prospects in 2009 and 2010 will affect its confrontational stance on this and other issues affecting its relations with the West.

"What is 'just' secession? Is Kosovo unique?" were two hot questions dealt with on 11 February 2008, some six months before Russia invoked the Kosovo case to justify its recognition of Southern Ossetia's and Abkhazia's declarations of independence. The intrinsic difficulties of defining Kosovo's status, the risks entailed and the poor prospects of an independent Kosovo come across clearly in the papers and discussions contained in this volume: they have hardly changed since. There has been some positive movement, in the sense that the EU and Serbia have been converging, a trend that has been paradoxically favoured by Russia's recognition of the Caucasian splinter entities: Russia can no longer be considered in Serbia as a reliable partner sharing common principles regarding the integrity of the borders of the post-Soviet/post-Yugoslav Republics. Serbia's full membership of the EU now appears to be only a matter of time. That is assuming that the intra-European strain caused by the world economic crisis won't freeze the EU's ability to act in a coherent manner.

The discussion of 26 May 2008 on "What prospects for a normative foreign policy in a multipolar world?" was heavily influenced by what appeared at the time as the unstoppable rise of China followed by India, with both of these powers sharing rather non-European views on the role

and content of international norms. Such a process will progressively cramp the West's ability to define and promote norms. But this is not a linear evolution. Indeed, Europe may be able to continue to punch above its weight in terms of setting some of the ground rules of the global system. The election of an open-minded internationalist and 'inclusionary' American President could lead to more common ground between the US and the EU in terms of norm-setting. Expectations in this sphere should be modest given the deep differences between American and European approaches to power: but the possibility is there. Second, the EU has proved rather adept at acting as a major force vis-à-vis the great surprises of 2008, i.e. the war in Georgia and the global financial and economic crisis: this may be the result of the fortuitous, and fleeting, combination of a hyperactive French EU President and a lame-duck administration in Washington. Still, the fact is that it happened. Third, there is, at the time of writing, still a fighting chance for the Lisbon Treaty to be ratified, with its provisions for a more stable and coherent EU governance.

Our penultimate session, in November 2008: "Policies of EU, Russia and the US towards the Rise of China" was set at the time when the global financial crisis was in its initial stage. The full extent of the reverse oil shock, the rapid depletion of Russia's currency reserves and the sharp reduction of China's growth rate had not yet taken on their current dramatic aspect: we were still in the realm of necessarily vague and unreal forecasts. Continuity, rather than radical revision, was still the name of the game.

Nevertheless, it was already apparent that the ideological stakes of the interactions between the EU, the US, Russia and China were set to rise. A normatively assertive, but strategically weak EU; a Russia in sympathy with China, but also locked into a very unequal relationship; a US retaining its superpower status oscillating between a cooperative stance with China built on deep economic interdependence and a competitive posture. These combinations may lack stability under the strains of the economic crisis. And all the less so given the uncertainties relating to China's future posture: China may be used to 'playing a long game'. However, the breakneck growth of the 1978-2008 period and now the sudden setbacks with the corresponding need for major and sharp adjustments, (including in terms of foreign relations) may not give China the sort of stability associated with 'taking the long view'.

By the time of our last session, in February 2009, "The Strategic Consequences of the Global Financial and Economic Crisis", the crisis had

deepened. World leaders were already preparing for a G20 summit two months later, which was being billed as a last chance for them to regain control over the global economy's vertiginous collapse. At our meeting, papers by the American and Chinese contributors highlighted the emergence of the colossal and perilous financial interdependence between China and the US, with China accumulating \$200 billion of US Treasury paper in the last quarter of 2008 alone. Both sides are manifestly becoming alarmed; the US at having become financially dependent on the non-democracies of China and the Middle East; and China in particular at being locked into a 'Catch 22' situation. On the one hand China is grossly overexposed to US dollar assets, yet on the other hand if they try to withdraw from this they will be instrumental in driving down the dollar and inflicting upon themselves huge financial losses. The most constructive note was struck by the Chinese scholar who advocated a massive Chinese programme of Keynesian domestic demand expansion. China is indeed acting but our debate revealed little confidence of its adequacy to get the Chinese-US imbalances on a sound glide path of correction.

At the subsequent London G20 summit in April, Gordon Brown declared the birth of a New World Order. Our debate before the event showed no such development to be in sight, and we could say the same after it. Let us look forward to Volume VI in this series to find out what will have happened in reality.

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**BETWEEN BAGHDAD, TEHRAN, RIYADH AND
JERUSALEM:**

IS THERE A WAY FOR THE GREATER MIDDLE EAST?

WITH CONTRIBUTIONS BY

MICHAEL EMERSON

ROSEMARY HOLLIS

VITALY NAUMKIN

BRUCE RIEDEL

Chairman's Summing-up

Michael Emerson*

The idea of this seminar was to look at the whole landscape of interlocking conflicts in an area that was termed the 'Greater Middle East' by the administration in the United States as it sought to follow up the invasion of Iraq with a strategic plan for peace and democratic reform in a vast region stretching from Morocco to Afghanistan. The invention of this term has in itself been controversial, with questions about whether this region has any unifying factors that warrant the suggestion of a unified foreign policy strategy on the part of the major global actors. Nonetheless, the term served our purpose, because the multiple conflicts of the region have now become so interconnected, crosscutting and overlapping, partly because of the unintended consequences of US policy and partly because of the widening reach of al-Qaeda. Put even more bleakly, some would now regard the region as the Bush administration's defining disaster.

The seminar was well-served by a set of excellent papers by Rosemary Hollis (Chatham House, London), Bruce Riedel (Brookings Institution, Washington, D.C.), Vitaly Naumkin (Centre for Strategic and Political Studies, Moscow) and Mamoun Fandy (International Institute for Strategic Studies, London).

Rosemary Hollis contributed a strategic overview, but with a sceptical message to policy-makers under the title "Competing Agendas and No Overall Winners". Her main argument was that the region represents not a dichotomy in a fight of good against evil, but a mosaic with criss-crossing fault lines. No single player can prevail across the board. Either the region will be embroiled in continuing asymmetric warfare and escalating conflict, or multilateral accommodation will have to be found in each of the interlinked crises. A grand bargain between the US and Iran looks unlikely, however, and an Arab-Israeli bargain equally so.

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Vitaly Naumkin criticised the Western blockade against Hamas, and US policy towards the Palestinian-Israeli conflict more generally. He illustrated this with a quote from a public speech to a Jewish Republican audience by Elliot Abrams, US Deputy National Security Advisor, that the current American engagement on Israel-Palestine was a “process for the sake of [a] process” intended to silence nascent European and Arab criticism. Naumkin argued that attempts to isolate political Islam and shut the door on dialogue merely foster its radicalisation. Existing Western strategies towards the region, American above all, are in need of revision. It is the failure of present strategies that exacerbates the dangerous collision between the West and the Islamic world.

Bruce Riedel’s main argument is that ‘al-Qaeda is back’ with the creation of affiliates or franchises virtually worldwide, notably in Iraq, Palestine and Algeria, with the latter providing a jumping-off point for operations in Europe. Yet al-Qaeda is increasingly critical of Hamas, which it sees sliding into collaboration with Palestinian President Mahmoud Abbas, and thus with his Western patrons. The most recent developments, with Hamas taking over Gaza after a bitter civil war with Fatah, may modify this view, and the Palestinian cause remains the centrepiece in al-Qaeda’s narrative of Western Crusader aggression. The recovery of al-Qaeda has progressed alongside the resurgence of the Taliban in Afghanistan, which has happened for three reasons: i) the Taliban were never fully defeated in 2001, ii) the US then took its eye off the Afghan ball, and iii) the Taliban benefited from a safe haven in Pakistan.

Mamoun Fandy focused on the Shia-Sunni divide, which Arabs now begin to see as the major threat, rather than the Arab-Israeli conflict. Many Arabs now view the Iranian nuclear programme as more dangerous than that of Israel, for, as the saying goes, ‘better the devil you know than the devil you do not’. Sunni Arabs are content to see a Sunni bomb in Pakistan, but not a Shia bomb in Iran. The Shia today have a very strong influence in four states (Iran, Iraq, Lebanon and Bahrain) as well as with Sunni radical groups such as Hamas and the Muslim Brotherhood in Egypt.

In the debate, there were three mini-sessions on Iraq, Iran and Palestine-Israel. On Iraq, it was questioned whether a partial withdrawal plan for the US and its allies would make sense, leaving behind a residual military presence. There were no takers for this proposition.

On Iran, Vitaly Naumkin sketched three scenarios: 1) Iran acquires the bomb; 2) Iran only wants energy security and does not intend to make the bomb; and 3) Iran goes for a ‘Japan scenario’, meaning a build-up of

nuclear capabilities sufficient to hold in reserve the possibility to make the bomb within a small number of years. Naumkin speculated that Iran would be willing to negotiate this third scenario alongside gaining full international recognition. On the hypothetical military option for the US, Bruce Riedel commented that it would need a Pearl Harbour-level of provocation to obtain backing for such an action by Congress.

On Palestine, one official commented that after the elections, which Hamas had won, President Abbas only asked the West for money and the release of some prisoners. Instead, he received weapons for Fatah and a boost to the dynamics of civil war.

In conclusion, some brave souls advanced positive proposals, but more out of desperation than real hope. Bruce Riedel advocated a return to where the Camp David negotiations of 2000 had left off. Some discussants were sceptical, in referring to changes on the ground since 2000 (further West Bank settlement construction and the separation barriers) and to the hazards of imposed solutions. Rosemary Hollis advocated a set of three overlapping but differentiated conference tables, for Iran, Iraq and Israel-Palestine. Despite the huge difficulties of implementing a grand strategy of this kind, the debate acknowledged the dramatic dangers of the status quo.

Competing Agendas and No Overall Winners

Rosemary Hollis*

During the 1990s, the European Union took several steps towards developing a comprehensive approach to its southern Mediterranean neighbours, largely in the name of promoting economic liberalisation and political reform across North Africa and the Middle East. The shock of 9/11 and the declaration of a 'war on terror' by the Bush administration then gave rise to a more pressing and overarching agenda to combat extremist elements associated with al-Qaeda and Islamist militants. European and Arab governments signed up to this new agenda, only to splinter again over the quest by the United States to force regime change in Iraq.

In the wake of the US-led invasion of Iraq, a new, ad hoc alliance or 'coalition of the willing' took shape around the objective of stabilising Iraq and the surrounding region. Thereafter the Bush administration launched a new plan to promote political and economic reform across the 'Wider Middle East', with Iraq as the centrepiece. Europe responded with its new Neighbourhood Policy in 2005. Despite some initial gains, however, neither of these initiatives has gained substantial momentum and the agenda for political reform in the Arab world has faltered in the face of the challenge posed by political Islam.

A crucial problem throughout has been the persistence of the Arab-Israeli conflict - which turned into full-scale war on the Israeli-Lebanese and Palestinian fronts in summer 2006. The slide into civil war in Iraq, meanwhile, has discredited Washington's lofty aspirations for re-shaping the political landscape of the region on the back of regime change in Baghdad. Failure of the EU-3 (Britain, France and Germany) to negotiate a halt to Iran's nuclear fuel-enrichment programme has also introduced a new source of tension.

* Rosemary Hollis is the Director of Research, Chatham House, London.

Worse still, terrorism has become an even more pressing threat for Europe and the US, with al-Qaeda regrouping, gaining strength in Iraq, rallying, along with the Taliban in Afghanistan, and striking anew, through surrogates and affiliates elsewhere, notably in Britain.

In the circumstances, it is perhaps not surprising that Tony Blair among others has attempted to galvanise support for a broad front against the terrorists that consolidates the reformist agenda with the anti-terrorist one. Nevertheless, as is argued below, the situation is so complex, with so many crosscutting currents, alignments and agendas, that there seems no realistic possibility of defining neat dividing lines between ‘them and us’, ‘good against evil’ or even moderates versus extremists. Indeed, as concluded here, it could be counter-productive to try to do so. Better, rather, to acknowledge the complexities and devise a multifaceted approach to the problems that recognises the interests of all the players and seeks some accommodation with all but the most implacable.

The Manichaeian approach

Speaking in Los Angeles in August 2006, Tony Blair called for “a complete renaissance” of foreign policy to combat “reactionary Islam”. He depicted “an arc of extremism now stretching across the Middle East and touching, with increasing definition, countries far outside the region”.¹

In Dubai on 20 December 2006, he called for an alliance of moderates across the Middle East to combat Iran and Tehran-sponsored terrorism and extremism.²

Blair’s Manichaeian depiction was no doubt intended to galvanise the supporters of stability, liberal democracy and counter-terrorism against the Islamist militants and their state supporters battling for hearts and minds across the ‘Greater Middle East’. Yet the contending forces in the region cannot be reduced to a dualistic struggle between opposites.

Certainly, there are at least two big ideas competing for adherents in the region. One is the vision of representative, accountable government, rule of law, human rights and economic development that informs the

¹ See the “Speech to the Los Angeles World Affairs Council” on 1 August 2006 (retrieved from <http://www.number10.gov.uk>).

² See Daniel Dombey, “Blair seeks closer ties with moderate Arabs”, *Financial Times*, 20 December 2006.

European Neighbourhood Policy and before that the Euro-Mediterranean Partnership initiative championed by the EU, together with parallel initiatives promoted and funded by the US and various Western non-governmental organisations and their Arab counterparts since the mid-1990s. The other is the vision of a new caliphate championed by al-Qaeda and its affiliates across the region and beyond, reaching into Europe and embracing Islamist movements in Africa and East Asia in a quest to banish Western forces and influence from the heartland of Islam.

Yet neither of these visions have much appeal for the autocratic, corrupt and militaristic governments in the Greater Middle East, South and East Asia, which have aligned themselves with the cause of the war on terror declared by the Bush administration after 9/11. And Washington has shied away from challenging such governments, since experiencing the chaotic fallout of regime change in Iraq and Afghanistan. Neither the Americans nor the Europeans have pursued totally coherent and consistent policies, and inevitably, the use of force in pursuit of any goal will temper the appeal of the cause.

A mosaic, not a dichotomy

In Iraq, the elected government features several sectarian parties, some of which were incubated in the Islamic Republic of Iran and almost all of which look to Iran for political and financial support as well as weaponry for their related militias. The balance of power in Baghdad belongs to Kurdish groups dedicated to defending Kurdish autonomy in northern Iraq, if not outright independence. Neither the Shia Muslim nor the Kurdish nationalist parties in Iraq make common cause with al-Qaeda, though some Shia militants may hope to capitalise on the challenge to US and allied forces in Iraq posed by al-Qaeda affiliates. Meanwhile, Sunni and secular Arabs in Iraq, opposed to the US presence there, have turned against al-Qaeda and related radical Salafist groups who would sacrifice Iraqi nationalism in the name of global jihad.

Ironically, the two most committed supporters of Iraq's elected government are the US and the Islamic Republic of Iran, but they have been enemies of each other, on and off, since the Iranian Revolution toppled the Shah and ended years of privileged US access and influence in that country. Even as American and Iranian diplomats were meeting in Baghdad in May 2007 for their first formal bilateral meeting in three decades, they were accusing each other of subversion and were at loggerheads over the future of Iran's nuclear programme.

If Iran and the US could make common cause in Iraq, both would face opposition from Sunni Arab elements in Iraq and their supporters elsewhere in the region. Meanwhile, Turkish forces are poised to cross their southern border in pursuit of PKK separatist Kurds operating out of Iraqi Kurdistan. The US is attempting to dissuade Turkey from such a venture, but the Turks are deterred only by lack of agreement on the ultimate objectives of a cross-border operation.

Turkey is undergoing its most serious political crisis in a decade, as the ruling Justice and Development Party (AKP) faces down its secular nationalist opponents championed by the army, who fear the popular AKP will subvert the secular nationalist tradition that dates back to the founder of the modern state, Kemal Ataturk.³ Since Turkey refused to assist the US invasion of Iraq in 2003, the traditionally close relationship between Washington and Ankara has cooled. Washington has supported Turkey's quest to gain membership of the EU, but because this goal was adopted by the AKP government, its secular nationalist detractors feel abandoned. European ambivalence and in some cases outright opposition to bringing Turkey into the EU fold has alienated all Turks.

In the circumstances, it is unclear where the Turks stand in relation to Blair's dichotomy between the good guys and the bad. Meanwhile, neither Britain nor America are ready to embrace Iran as an ally in Iraq, though both recognise that Iranian influence among the ruling parties in Baghdad and their respective followers and militias is greater than their own. Both the British and the Americans blame elements of the Mehdi army, recruited in the aftermath of the invasion by Muqtada as-Sadr, for subverting their attempts to bring some semblance of stability to Baghdad and Basra. As-Sadr is implacably opposed to the presence of foreign forces in Iraq, but is more of a nationalist than are the Shia parties that advocate autonomy for southern Iraq to match Kurdish autonomy in the north, at the expense of national cohesion and the interests of Iraq's Sunni Arab minority.

The criss-crossing fault lines that now define the civil war in Iraq are replicated elsewhere in the Middle East, rendering it impossible for either the US or the Europeans to distinguish clearly between friends and foes. The governments of the so-called 'Arab Quartet' – Saudi Arabia, Egypt, the United Arab Emirates (UAE) and Jordan – are all long-standing allies of

³ See Soli Ozel, "Turkey: Testing Democracy", *The World Today*, May 2007.

'the West', and opposed to the al-Qaeda forces in Iraq and elsewhere. They are also deeply unsettled by the rising power of Iran, manifest since the toppling of Saddam Hussein and his clan in Iraq. Their distrust of Iran is infused with both Sunni antipathy for the Shia version of Islam championed by the Islamic Republic, and Arab antipathy to Persian nationalism. Were the US to cement cooperation with Iran to stabilise Iraq, these Arab states would not only be discomfited, but would likely channel support to Iraq's Sunni Arab minority. As it is, much of the support already reaching Sunni Iraqi groups in Iraq is coming across the borders from Saudi Arabia and Jordan. It is also channelled through Syria.

Yet King Abdullah of Saudi Arabia and President Bashar al-Assad of Syria are not about to close ranks. Abdullah, a long-time friend of the late Lebanese Prime Minister Rafik Hariri, who was assassinated in February 2005, has done little to help the Syrian regime resist calls from the UN for its senior officials to be subject to investigation for Hariri's assassination. The governments of the Arab Quartet are all supporters of the Lebanese government of Prime Minister Fouad Siniora, who has defied the efforts of the Lebanese Shia movement Hizbollah, backed by Syria and Iran, to take over his cabinet.

When Hizbollah and Israel went to war in summer 2006, Saudi Arabia, Egypt and Jordan initially gave every indication of wanting Hizbollah to be defeated. As the war progressed, however, hundreds of Lebanese civilians were killed and injured and the country was devastated by bombing, they rallied to the cause of the Lebanese people and government, against the Israeli onslaught.

So too did the Europeans, except for the British government, which, along with the Bush administration, held off calling for a ceasefire resolution at the UN, seemingly in hopes that Israel would deal a fatal blow to Hizbollah first.⁴ Their stance embarrassed Siniora to the point that he refused to receive US Secretary of State Condoleezza Rice in Beirut at one stage and hostile demonstrators greeted Tony Blair when he made a trip there subsequently.⁵ Lebanese opponents of Siniora have continued to try

⁴ See Ewen MacAskill, Simon Tisdall and Patrick Wintour, "United States to Israel: You have one more week to blast Hezbollah", *Guardian*, 19 July 2007.

⁵ See Christopher Adams and Andrew England, "PM's Mideast tour marred by protests over support for US", *Financial Times*, 12 September 2006; see also "Hizbullah ministers did the right thing by publicly shunning Blair", Editorial,

to undermine him by labelling him a 'Western stooge'. All of which complicates any quest to line up Middle East 'moderates' against the forces of 'extremism'.

The governments in the Arab Quartet have also acquired this label as a result of their efforts, led by Saudi Arabia, to try to bring some semblance of order back to the region by offering a way to resolve the long-running Arab-Israeli conflict. Habitual defenders of the Palestinian cause against Israel's occupation of the West Bank and Gaza Strip, the governments of Egypt, Jordan, Saudi Arabia and the UAE were embarrassed when Hizbollah took on the Israelis in summer 2006 in solidarity with the Palestinians. That war was fought on two fronts, starting in the Gaza Strip when Palestinian militants, linked to the Palestinian Islamist movement Hamas, tunneled under the barrier around Gaza into Israel and abducted an Israeli soldier. Hizbollah began its offensive two weeks later in much the same manner, crossing the Lebanese border with Israel and capturing two soldiers, killing others.

The tactic of capturing each other's fighters and personnel, to hold as bargaining chips for prisoner exchanges has been a feature of the Arab-Israeli conflict for years. In summer 2006, Israeli Prime Minister Ehud Olmert made the mistake of declaring the rescue of the missing soldiers one of his war aims. He failed to deliver. Worse yet, a subsequent inquiry in Israel revealed that Olmert and his cabinet had launched their offensive without a clear plan of campaign. Instead of defeating the guerrilla forces of Hizbollah, who proved well prepared, elusive and armed with more sophisticated weaponry than the Israelis had imagined, the armed forces of Israel were unable to halt the rocket attacks deep into northern Israel right up to the last day of fighting before a ceasefire finally went into effect.

The psychological victors of the 2006 war were Hizbollah and their supporters, including Iran, Syria and public opinion across the Arab world and beyond. Lebanon was devastated, but Hizbollah had proved that a highly motivated, ideologically committed guerrilla force could deprive the region's most powerful conventional army of victory in the field. Hizbollah and Shia militias in Iraq taunted al-Qaeda and its affiliates with claims that they were the better defenders of the Muslim cause against 'the Zionist

Daily Star, 12 September 2006; and also Therese Sfeir, "Protests against Blair visit aim to topple government - Jumblatt", *Daily Star*, 12 September 2006.

enemy', contrasting their direct assault on the Israelis, and solidarity with the Palestinians, with al-Qaeda's mass attacks on fellow Muslims in Iraq and elsewhere.

Manoeuvres and setbacks on the Israeli-Palestinian front

After Hamas won a majority of the seats in the Palestinian legislature in January 2006, Israel refused to deal with the Palestinian Authority (PA), aside from Fatah leader President Mahmoud Abbas, unless and until Hamas renounced violence, recognised Israel and accepted agreements reached by previous PA governments with Israel. These were the principles set in March 2006 by the Middle East Quartet that groups the US, the UN, the EU and Russia. Crucially, because of their own counter-terrorism regulations and their designation of Hamas as a terrorist movement, the EU and its member states have been prevented by law from providing funds to a Palestinian administration run by Hamas.

To channel humanitarian assistance the EU set up a Temporary International Mechanism through which to pay the salaries of key workers in the Palestinian education and health sectors. Humanitarian aid from Europe to the Palestinians has actually increased in absolute terms. The US provided direct assistance to the Fatah forces around President Abbas to bolster their camp against Hamas activists. Meanwhile, the boycott of the PA contributed to the disintegration of the shaky political and administrative infrastructure that had barely survived the second intifada and Israel's forceful response in the West Bank and Gaza. In December 2006, rivalry between Hamas and Fatah officials, activists and fighters in the occupied territories turned to violence.

The prospect of a descent into chaos on the Palestinian front induced Saudi Arabia to assert leadership. First, at a meeting in Mecca, King Abdullah brokered a deal between the Palestinian factions and persuaded them to agree to form a unity government. Then he organised the re-launch of the (2002) Beirut or Arab peace initiative, at the Arab League summit in Riyadh in March 2007. In return for an end to Israeli occupation of Arab land and a resolution of the Palestinian refugee issue, the Arab states would normalise relations with Israel. On this occasion, many influential Israelis professed interest – but could not stomach acceptance of the right of return for Palestinian refugees or a total withdrawal to the status quo *ante* of the June 1967 Arab-Israeli war. So decisive action on the Arab peace initiative was not forthcoming, but the field was open for one or another of the regional or international players to make the next move.

The Palestinian factions fell to fighting again. Israel responded to renewed Palestinian rocket attacks from the Gaza Strip with a new aerial assault in May. The same month, violence erupted in and around a Palestinian refugee camp in northern Lebanon, with a previously unremarked Arab militant group calling itself Fatah al-Islam engaging the Lebanese army in what became a showdown. In the process, civilians who were unable or unwilling to flee the camp suffered death and injury.

Then came the fatal conflict between the Palestinian factions that has divided Gaza and the West Bank. Accusing the Fatah-controlled security forces of working against the Hamas leadership, in June 2007 Hamas fighters stormed the Fatah forces' premises in Gaza, killing scores and forcing the remainder to flee the Gaza Strip or go into hiding. Street battles paralysed life in the crowded Gaza neighbourhoods and refugee camps for several days, causing casualties among the civilians and terrifying the populace. Abbas reacted by declaring a state of emergency and dissolving the unity government of Prime Minister and Hamas leader Ismail Haniya. Abbas accused him of orchestrating a *coup d'état*, while Haniya countered that he had only pre-empted a Fatah coup. Within days, Israel, the US and EU leaders had pledged their support to Abbas and his hastily appointed emergency administration, headed by former Finance Minister Salam Fayad as the new Prime Minister.

With Gaza under Hamas rule and international isolation, and the West Bank more or less under the control of Abbas and his Fatah forces, speculation mounted that the US and Israel intended to capitalise on the separation to bolster their preferred Palestinian interlocutors at the expense of Hamas and the citizens of Gaza. Olmert promised to release to Abbas half the tax receipts collected on Palestinian purchases over the past year and hitherto held by Israel as part of the boycott. He also said he would release some 250 prisoners from among the thousands in Israeli detention – mostly Fatah members and associates. He did not, however, propose renewed peace negotiations, pending a consolidation of Abbas's position, notwithstanding the urgings of Egypt and Jordan.

Sidelining reform

The boycott of the PA in 2006–07 has discredited the US and European reform agendas for the Middle East. After all, both Washington and the EU had called for the Palestinian elections, which the EU subsequently funded, monitored and declared free and fair. Their subsequent refusal to deal with the elected officials because of Hamas' ideology and anti-terrorist laws of

their own opened the US and Europeans to charges of duplicity and fuelled cynicism across the Arab world. Certainly Hamas was offered accommodation provided it lived up to the three principles outlined by the Middle East Quartet, but when Hamas made some steps in that direction in the Mecca agreement, the EU made no move to reward this and the US increased support to Fatah.

Following the confrontation between Hamas and Fatah, and the split between Gaza and the West Bank, the overt support extended to Abbas to consolidate his position in the West Bank at the expense of Hamas and to the likely detriment of the 1.3 million Palestinians living in the Gaza Strip is not a tenable situation. Meanwhile, the reputation of the reform agenda has also suffered as a result of backsliding by the Egyptian government on its pledges to introduce more democracy. It did not help that Condoleezza Rice had only recently hailed Egypt as an example for the region, but made no remonstrations when progress was reversed.

Shifting alignments in Iraq

The release of the findings of the bipartisan Iraq Study Group in Washington at the end of 2006 seemed to promise a return to multilateralism by the US. Instead, the Bush administration announced a new military agenda, dubbed 'the surge' to push for victory against insurgents, terrorists and militiamen in Baghdad. As they pushed forward their offensive to clear out militants, including the Shia militia in as-Sadr's stronghold of Sadr City and separate neighbourhoods along sectarian lines, the casualty rate for US forces escalated to unprecedented levels, though the Iraqi death toll began to decline. After apparently going to ground or sheltering in Iran for a while, as-Sadr himself then resurfaced in Kufa, to preach once more against the US presence in Iraq. His supporters, as did also the small alliance of Sunni Arab parliamentarians, withdrew from the coalition government.

At the time of writing, it seems that a new alignment has formed at the centre of power in Iraq, around Dawa party Prime Minister Nouri al-Maliki. Yet, it is not clear how far he will go along with the anti-Sadr and increasingly anti-Iranian strategy of the US forces in Iraq. Reports of growing Iranian influence and supplies of weapons to various factions in Iraq have drawn strong condemnation from the Americans and the British.

In March 2007, the Iraqi government called a meeting of regional and international leaders in Baghdad that produced a broader gathering, hosted

by Egypt in Sharm el-Sheikh, in April. In May, again at Iraqi instigation, the American and Iranian ambassadors to Iraq sat down to their first formal bilateral talks in 28 years. Their agenda was limited to Iraq. In the background, Washington resumed pressure at the UN for new sanctions on Iran over its failure to accept a UN Security Council call to suspend its nuclear fuel-enrichment programme.

Apparently, the Americans deemed the moment right for diplomacy because they and Iran's other opponents had recouped some ground since the Lebanon war. The Arab peace initiative was one indication. Agreement at the UN on limited sanctions against Iran was another. Washington had also taken into custody five Iranian nationals who had been based in Irbil. But by the time the bilateral meeting took place in Baghdad, Iran had countered by arresting several Iranian-American nationals visiting Tehran. They were subsequently charged with espionage and subversion.

Seemingly, the US has shelved the idea of attacking Iran, while testing the prospects for diplomacy and sanctions. In the meantime, however, its various programmes to fund and support Iranian civil society groups and some dissident elements in Iran has fuelled anxiety in Tehran that the US has a secret agenda for regime change by stealth.

Where to now?

The Iranians think they are winning in Iraq and it is only a matter of time before the US forces are obliged to withdraw. Asked whether they could handle the chaos if this transpired, this author was told by Iranians in Tehran in late May that they were sanguine. The Americans, meanwhile, seem equally confident that a combination of pressure and dialogue can produce a change of policy in Tehran. And if not, the Iranian hardliners will be the losers. Certainly, Iranian President Mahmoud Ahmadinejad is rapidly losing popularity at home and ordinary Iranians are experiencing increased economic hardship.

Nevertheless, in these circumstances it would be folly for either the Iranians or the Americans to expect to triumph over the other in Iraq or across the region. The situation is delicate and their positions finely balanced. They are, in effect, engaged in asymmetric warfare, on several fronts. And while neither sees any need to cave in to the other, the prospects of a 'grand bargain' between Washington and Tehran do not look likely either. The appetite for such a bargain is insufficient on both sides. And even if such a rapprochement were to occur, there would be an Arab

backlash. Israel would not relish the prospect either, since it could expect to pay a price. That could be relinquishing territory or its exclusive position as the region's sole nuclear power outside South Asia (or both).

An Israeli-Arab bargain, forged as a counterweight to Iran, seems equally unlikely, since that would bear a price too. And a deal that excludes Iran would leave the US without the cooperation from Tehran needed to salvage the situation in Iraq.

The choices are stark; therefore, either asymmetric warfare and potential escalation will prevail across the Greater Middle East or multilateral accommodation on each of the interlocking crises will have to be sought. No single player can prevail across the board. Equally, potential alignments of some players against others will not be decisive, since the lines of confrontation are so muddled and fluid. A set of compromises, with some gains and some losses for all, would thus seem to be the only recourse.

To conclude, the recommendation is for a set of interconnected or overlapping dialogues to be initiated – one focusing on Iraq, one on Lebanon and one on the Palestinians. In each case, the main stakeholders or powerbrokers would need to be at the table. Conceivably, the UN could provide the umbrella, though the EU could take a lead on both Lebanon and the Palestinians, while the US would be central to making progress on the stabilisation of Iraq and would be needed in the other two dialogues as well. The point, however, is that the time has gone for Washington or any other single powerbroker to force its regional agenda on the others.

A View from Russia

Vitaly Naumkin*

The 'Greater Middle East' (GME) is a very unusual geopolitical construct. Its singularity lies in the fact that the geographical limits of the GME are uncertain, just as is the criteria for the attribution of particular countries to it. It appears that as conceived by those who coined this concept these were states in which, as Bernard Lewis put it, something had gone wrong. But these states in essence have little in common. Nevertheless, this construct has been accepted by all the main global actors, including those of the G8, in whose framework it serves as a basis for political discourse. The GME idea is understandably functional, but what task does its action plan envisage - war against terror, democracy promotion or, more widely, modernisation?

To the quadrangle specified by the European Security Forum's subject one would be well advised to add Kabul, but with this addition, the picture becomes even more disconcerting. Stuck somewhere between the GME and Europe is Turkey, for which, according to French President Nicolas Sarkozy, the road to the EU will be barred for a long time to come owing to geographical parameters alone, but which in relation to many other parameters stands out from the group of Middle Eastern states. Recent clashes between sympathisers of political (but moderate!) Islam and secularists are a characteristic collision that perhaps in future is in store for Europe as well, in whose population the share of Muslims is steadily growing.

It is common to think that the states located in the GME are doomed to engaging in catch-up development (or to increased lag), resisting modernisation, conserving archaic forms of social life and polity, being torn by conflict and remaining a source of threats to global security - primarily international terrorism and the proliferation of weapons of mass destruction. This view is only partly true. Certainly, as stated in the

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UN's first *Arab Human Development Report* in 2002, the overall population of the 22 Arab countries (280 million in 2002) had a GDP equal to the size of Spain's.¹ The prospects for the future look rather gloomy. But there are states in the region that, for instance, by the levels of GDP per capita have outstripped many developed countries (the Arabian monarchies), while Saudi Arabia, according to the available forecasts, will by 2020 enter the group of the world's most-developed countries – the G20. In a number of countries, parliamentary institutions and electoral systems are well developed, political parties (including those of the opposition) are active and the process of democratisation, albeit slow, has been underway in the region in recent years. Suffice it also to mention the local elections in Saudi Arabia, the steps towards political reform in other states of the Arabian Peninsula, the Cedar Revolution in Lebanon, etc.

Yet, as a result of free elections, the positions of Islamist forces in the region, including radical ones, have robustly consolidated. The mainstream Islamist organisations have benefited from the democracy-promotion strategies of the US. Even in Iraq, two Iran-oriented Islamist parties – al-Dawa and the Supreme Council for the Islamic Revolution – form the main pillars of the regime, which is paradoxically supported equally by Washington and Tehran. The West has imposed a blockade against Hamas, which had won the elections in Palestine. This move has sharply aggravated the situation in the zone of the Arab–Israeli conflict. The project to form a government of national unity in Palestine, as is known, has been thwarted by the renewed internecine war. Facts on the ground repeatedly convince the unbiased observer that attempts to isolate political Islam and to shut the door on dialogue with it merely foster its radicalisation.

The continuing Israeli occupation and vicious circle of violence in Palestine feeds radical Islamist mobilisation and makes the need to find a solution to this protracted conflict urgent. It seems that the efforts of the international quartet are not adequate to bring the conflicting sides back to negotiations and the global actors are not committed enough to the peace process. US Deputy National Security Advisor Elliott Abrams was recently reported to have said at a meeting of Jewish Republicans that the current American engagement on Israel–Palestine was a “process for the

¹ See the United Nations Development Programme, *Arab Human Development Report*, United Nations, New York, 2002.

sake of [a] process” intended to silence nascent European and Arab criticism.²

Obviously, the fresh round of violence in the conflict zone will put off the prospect of settlement even more. Is it possible to promote a stable Palestinian Authority (PA) unity government and can it, for its part, not only become Israel’s partner in negotiations but also achieve real results? As the Palestinian public figure Hanna Siniora believes, “neither Hamas nor Fatah, alone or combined, have learned the political culture of working together in a coalition to serve their public, the Palestinian people”.³ But in order to change the situation, global actors – Europe first of all – have to proceed to diplomatic engagement with all the parties, including Hamas, and resume financial aid to the PA. Of course, if Israel continues its strikes against the Palestinian territories and rejecting the original ceasefire, one can forget about the peace process.

It is worth referring once more to Siniora and his call for accepting the attractive Arab peace plan:

All the armed elements in the PA, clans, families, militias, Fatah and Hamas, even the PA security forces should be disarmed, and the Arab troops will be allowed to carry arms to stop lawlessness and implement law and order, and bring total security. Later, a non-factional Palestinian force, professionally trained, will be reconstituted to eventually takeover the security role.⁴

Under these provisions Israel should withdraw its troops from the occupied territories and the Arab League should place its troops in the PA (in order for Israel to comply, these troops are supposed to come from Egypt and Jordan – the two Arab countries that have diplomatic relations with Israel).

To enhance these developments political reform in Palestine is of major importance. This author cannot disagree with Nathan Brown’s observation that for a brief period, “the circumstances favoring political reform in Palestine seemed more propitious than they ever had in any

² See Daniel Levi, “If Gaza survives, Europe must act”, *Guardian*, 19 May 2007.

³ See Hanna Siniora, “Arab peace plan is key to ending Gaza violence”, *Opinion*, 18 May 2007 (retrieved from <http://www.ynetnews.com/articles/0.7340.L-3401820.00.html>).

⁴ *Ibid.*

Arab context".⁵ Indeed, the reform had begun to move ahead, and certain progress had been achieved; nonetheless, the Hamas victory brought to naught all the efforts of the bloc of secular reformers to affect a resolute change of the situation in their favour. The sad experience of Palestinian democratic reforms also makes one wonder whether that failure was inevitable. Brown believes that Arab reform advocates and their international supporters can derive five lessons from their experience: "the need to align agendas, the peril of short-term goals, the peril of personalising reforms, the long-term nature of the reform project, and the need to engage Islamists".⁶

It looks like the aggravating, disastrous situation in Iraq – unfortunately for us all – makes the final defeat of the most powerful state in the world inevitable. Or at least victory is not likely to be achievable. Some facts pertaining to this situation merit recalling:

- 1) We are still unaware of American plans for settling the situation in the country.
- 2) The Sunni–Shia strife is continuing and even growing.
- 3) The Sunnis continue to feel discriminated against.
- 4) Iran wields tremendous influence in the situation and may stand to gain in the event of American withdrawal.
- 5) The country lacks elementary security conditions.
- 6) Especially acute is the problem of refugees (2 million in Syria and Jordan) and displaced persons (no fewer than 2 million and possibly more).
- 7) There is a severe deterioration of educational, medical and communal services.
- 8) Government armed units are themselves taking part in sectarian violence.
- 9) Terrorist activity goes unabated and terrorists groups are becoming stronger.

⁵ See Nathan J. Brown, *Requiem for Palestinian Reform: Clear Lessons from a Troubled Record*, Carnegie Papers, Middle East Series, No. 81, February 2007, p. 13.

⁶ *Ibid.*, p. 14.

In analysing the current divisions between President George Bush's administration and Congress, one should note the ongoing relevance of the issue of continuing the war in Iraq. Testifying to the serious nature of the disagreement is the fact that the Democrats are insisting on the legislative definition of a withdrawal date from Iraq, deeming it a necessary condition for additional financing of the military operations in Iraq. They have twice endeavoured to pass the corresponding bill, which President Bush has vetoed, believing that such a step would only give a free hand to the extremists. Still, it is not quite clear whether a Democratic president, if elected, would seek a complete withdrawal from Iraq or if it would rather be a question of redeploying troops, cutting their strength and redirecting them out of the zones of contact with the adversary to the territory of the military bases, from where they would be able to make raids.

An idea voiced by certain politicians of Muslim states - to replace the American-British contingent in Iraq with one formed by a number of member states of the Organisation of the Islamic Conference - is hardly feasible. It is argued here that the Iraqis will not want to substitute one occupation for another. Furthermore, any Muslim contingents would be suspected of bias and of being able to fan sectarian hostilities still more, preventing national consolidation.

In Afghanistan, where the military operation bears a collective character and has been supported by the greater share of governments around the world the situation is far from stable. The positive results gained at the initial stage of reconstruction (particularly before the start of the military operation in Iraq) are continually being undermined by the present trend of events, which, among other things, is characterised by the following:

- 1) The government of President Hamid Karzai does not enjoy support in the country, nor does it control the situation in the regions.
- 2) The fact that the 'free democratic elections' held in the country were won by manifestly unpopular government forces has discredited the democratic institutions.
- 3) The Taliban movement is again growing in strength and, according to some reports, is already controlling more than half of the country's territory.
- 4) The number of civilian victims of the hostilities is skyrocketing.

- 5) Terrorists are increasingly using the same tactics as the Iraqi groups linked to al-Qaeda.
- 6) Taking part in the fighting against government forces are not only members of clans in sympathy with the Taliban, but also recruits from various strata of the population who are deeply angry, particularly on account of the civilian victims.
- 7) Drug production and trafficking continues to grow. Although during its period in power the Taliban had taken serious steps to eliminate the drug business, it now relies on the drug trade as the main source of its financing.
- 8) Iran has sharply increased its influence in the western regions of Afghanistan.
- 9) Despite the enormous funds for the recovery of Afghanistan allocated by the West, chiefly by the US, efforts to work out a mechanism for their use have not been successful so far.
- 10) It has not become possible to normalise relations between Afghanistan and Pakistan.
- 11) The Afghan refugee problem (more than 2.5 million in Iran) is as acute as before.
- 12) The emerging hopeful prospects are complicated by US preoccupations with trying to find a solution to the Iraqi problem, the crisis over the nuclear programme in Iran, the continued Sunni-Shia antagonism in the Islamic world and particularly the lack of a solution to the Israeli-Palestinian conflict. One may say that limited success could be achieved by the 'Greater Central Asia' strategy, which envisages cooperation with former Soviet Central Asian republics on transport, trade and other policy areas for the socio-economic development of Afghanistan.

Iran's key significance for the US fight against nuclear proliferation cannot be viewed out of the context of Israel. And on this question, there are virtually no differences between Republicans and Democrats. According to a British scholar, Marc Leonard, Israel is regarded by both groups as a democratic country in a sea of obscurantism and autocracy

but, by contrast, “many Europeans see Israel as militaristic, unilateral, and obsessed with killing terrorists, rather than tackling the causes of terror”.⁷ Iran – which believes that the overthrow of regimes hostile to it in Iraq and Afghanistan along with the growing need felt by the coalition forces to cooperate with it gives it a golden chance to affect a decisive strengthening of its regional role – is using resentment against Israel to win support among the population of the region. At this point, the growth of Iran’s influence cannot be deterred. The strategy of containment has generally exhausted itself. In addition, it is long since Iran ceased to be the revolutionary state that it was in the first years after the Islamic Revolution, when its leaders sought the latter’s extension to other countries. There is sufficient evidence of pragmatism on the part of Iran’s leaders, among whose behaviour nationalism looks a much stronger imperative than Islamism. The regime is undergoing a process of complex transformation and in the new balance of political forces a new generation of politicians, especially those of a conservative orientation, is playing an important role. In any case, it would be worthwhile for the US to change tack on its hopeless policy of regime change and of ostentatiously wasting millions of dollars on supporting opposition groups unable to affect the situation in any way. This policy should be replaced by one that involves diplomatic recognition of Tehran and entering into negotiations.

All this signifies that no matter what term we apply to the Middle East, the existing Western strategies with respect to it and the American one above all are in need of revision. It is the failure of these strategies that exacerbates the dangerous collision between the West and the Islamic world.

⁷ See Marc Leonard, *Divided World: The Struggle for Primacy in 2020*, Centre for European Reform, London, 2007, p. 14.

The Return of the Knights

Bruce Riedel*

Introduction

Almost six years after 9/11 al-Qaeda has spread throughout the Greater Middle East with franchises from Indonesia to the Maghreb. Thanks to the war in Iraq it survived the West's counter-attack in Afghanistan. It has a secure sanctuary in Pakistan and is building avenues of approach to attack Europe and America using the Muslim diaspora community in Western Europe. In Iraq it is the dynamic edge of the Sunni insurgency, albeit only a small minority within the movement, whose goal now is to break the Iraqi state apart and create a jihadist state in the heart of the Arab world. Al-Qaeda wants to play a larger role in the Palestinian conflict but it has had a discordant relationship with Hamas. Al-Qaeda has been very critical of Hamas' participation in electoral politics but is now supportive of the Hamas coup in Gaza. As argued below, understanding al-Qaeda's ideology and operations is the key to defeating it.

'Greater Middle East'

The phrase, the 'Greater Middle East' enjoyed brief notoriety at the end of President George W. Bush's first administration and the beginning of the second. It became a shorthand expression for the president's idea of transforming the Middle East from its violent and despotic past to a new, democratic and peaceful future. Old conflicts like the Arab-Israeli one would disappear once democracy came to the region. Senior administration officials travelled to Europe and the Middle East to explain the Greater Middle East strategy to allies as a break from the past policy of supporting stability over freedom – a policy that allegedly had failed to deliver either and created the conditions for the 11 September 2001 attack on America by al-Qaeda. The president's second inaugural address after his re-election in

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January 2005 was the apogee of this movement. He promised support to democratic movements “in every nation and culture, with the goal of ending tyranny in our world”.

By the next morning, the administration was ‘walking it back’. A senior national security official explained that this was not a new policy, but rather an “acceleration” in long-term US goals. It would not be applied precipitously to US allies in the Muslim world such as Saudi Arabia or Egypt. The next day, the president’s father, former President George Bush Sr, was brought out to explain to reporters that they should not over-stress the speech or over-interpret it.¹

Ironically, the concept of a Greater Middle East also lies at the core of the ideology of America’s enemy, al-Qaeda, but of course with a very different emphasis. Al-Qaeda sees the countries of the Greater Middle East as the Muslim community of believers, the *umma*, which has been under attack by the West for the last century or more. Al-Qaeda argues that, thanks to its leadership, the *umma* is now for the first time in more than 90 years successfully resisting the attack of the Crusaders and Zionists on the Islamic world. Not since the fall of the Ottoman Empire in 1918, al-Qaeda argues, has the Muslim world been as successful as it is now in resisting Western and American domination by defeating the West in the wars in Afghanistan and Iraq.

The al-Qaeda leadership proclaims the victory of the jihad and the ‘knights’ who lead it in their propaganda almost every day now. In May, Ayman al-Zawahiri said, “we are going through a historic period of utmost importance...the Empire of Evil is about to come to an end, and that a new dawn is about to rise over a mankind liberated from the Caesars of the White House, Europe and Zionism”.² A central key to the success of al-Qaeda’s strategy in its Greater Middle East is the creation of al-Qaeda affiliates or franchises in different parts of the region, each of which operates largely independently of al-Qaeda’s core leadership but proclaims

¹ The walk back is laid out by Carla Anne Robbins in “Bush Foreign Policy: Grand Vision and its Application”, in John C. Fortier and Norman J. Ornstein (eds), *Second Term Blues: How George W. Bush Has Governed*, Washington, D.C.: Brookings Press, 2007, pp. 89–90.

² See Al-Sahab Media Productions, “Interview with Shaykh Ayman al Zawahiri”, Open Source Center, 5 May 2007.

their allegiance to the al-Qaeda emir, Osama bin Laden, and his jihadist principles and ideology.

Indeed, al-Qaeda was established in 1998 as an alliance of several jihadist groups in Egypt, Saudi Arabia, Pakistan and Bangladesh as a World Islamic Front to “kill Americans and their allies...in order to liberate the al-Aqsa mosque [in Jerusalem] and the Holy Mosque [in Mecca] from their grip so that their armies leave all the territory of Islam, defeated, broken and unable to threaten any Muslim”.³ The use of ‘knights’ (*al Fursan* in Arabic) harkens back to the medieval Muslim warriors who fought the Crusaders in Palestine. It also reflects al-Qaeda’s self-image that it is an organisation of elite vanguards who by their acts of sacrifice will inspire the masses to take action. In less than a decade, bin Laden and his movement have established a truly global presence. Since 9/11 al-Qaeda or its affiliates, franchises and sympathisers have carried out terrorist attacks in Algiers, Casablanca, Madrid, London, Istanbul, Riyadh, Jeddah, Karachi, Sharm el-Sheikh, Taba, Mombassa, Kuwait, Mumbai, New Delhi, Bali and many other cities, not to mention the chaos and anarchy they have produced in Iraq and Afghanistan. The breadth and audacity of attacks is a mark of the movement’s success in building its local allies and surrogates throughout the Muslim world from Morocco to Indonesia, and in the Muslim diaspora in Europe.

Securing the base in the badlands

Critical to this success was al-Qaeda’s survival in late 2001 after the American intervention against its host in Afghanistan, the Taliban, on the side of the Northern Alliance forces in the Afghan civil war. Five years after the fall of the Islamic Emirate of Afghanistan, the Taliban movement has made a significant comeback with al-Qaeda. Those who placed the Taliban in the “dustbin of history” like former Secretary of Defense Donald Rumsfeld have been proven premature. Today the Taliban and al-Qaeda are the prime movers in the insurgency in southern and eastern Afghanistan.

³ Al-Qaeda’s declaration of the World Islamic Front can be found in Bruce Lawrence (ed.), *Messages to the World: The Statements of Usama bin Laden*, London: Verso, 2005, pp. 58–62.

Attacks on NATO forces in the country are a daily phenomenon. British army commanders have said that the fighting in the south is the toughest the British army has faced since Korea. Suicide attacks on Afghan government, NATO and US forces and Afghan civilians have increased dramatically. There were two suicide operations in all of Afghanistan in 2002; today one occurs every three days. And the Taliban leadership, along with the al-Qaeda leadership, is still at large, still planning attacks on its enemies in Afghanistan and globally.

All of this has developed remarkably closely to the script Taliban leader Mullah Omar, the self-proclaimed Commander of the Faithful, outlined in late 2001 and early 2002 right after the fall of Kabul and Kandahar. At the time, Omar lamented the “catastrophe” of the Emirate’s fall but said that his organisation would survive and return to challenge the coalition and its Afghan backers over time.

Mullah Omar was also quick to predict that he would not be captured by the coalition and would still be able to lead the Taliban in its war. Here is what he said as early as 26 September 2001:

I am considering two promises. One is the promise of God, the other of Bush. The promise of God is that my land is vast. If you start a journey on God’s path, you can reside anywhere and will be protected. The promise of Bush is that there is no place on earth where you can hide that I cannot find you. We will see which promise is fulfilled.⁴

Mullah Omar also put the Taliban struggle after 2001 in a wider context from the start. He associated his movement with other Islamic struggles against perceived foreign occupiers, especially in Palestine, Kashmir and after 2003, in Iraq. In a message in October 2006 at the start of the Eid festival, he praised Muslim fighters everywhere and especially those in Iraq for fighting America.⁵ A constant theme in his rhetoric is that the Taliban will defeat the US and NATO just as the Mujahideen defeated the former Soviet Union and the Warsaw Pact. This history is important. Like most people, Afghans remember who promised what – validation occurs when you are seen to be right.

There are at least three key reasons for the Taliban’s resurgence.

⁴ See “Mullah Omar in his own Words”, *Guardian*, 26 September 2001.

⁵ See “Text of Mullah Omar’s Eid Message”, *Afghan Islamic Press*, 21 October 2006.

First, the Taliban was never fully defeated in 2001. After a few defeats on the battlefield with the Northern Alliance and coalition airpower, the Taliban dispersed. It did not fight for Kabul or Kandahar; rather it followed classic guerrilla tactics and fled. It was definitely on the ropes, however, by the early months of 2002 and vulnerable to a decisive takedown. That never came.

Instead, the cadres moved to remote areas of Pashtun Afghanistan like Omar's home province of Uruzgan and went to ground. They bided their time and survived. This proved fairly easy as the new government of Afghan President Hamid Karzai and its coalition supporters had far too few security forces to secure and govern the country. And the Taliban adjusted its tactics. It adopted new battlefield tactics such as the use of suicide bombers and improvised explosive devices from the Iraq war. Almost certainly, the al-Qaeda organisation provided key help in transmitting these techniques from Iraq to Afghanistan. Indeed, according to Taliban leaders, Osama bin Laden is actively involved in planning many of their operations, including the attack on Bagram airbase when Vice-President Dick Cheney visited Afghanistan in February 2007, as well as operations in Iraq.⁶

Second, the coalition and especially the US took its eye off the Afghan ball when the invasion of Iraq began. Key US military and intelligence assets were diverted from Afghanistan and the hunt for al-Qaeda to the invasion and occupation of Iraq. Gary Schroen, the CIA officer who led the first CIA team into Afghanistan in late 2001 to topple the Taliban, notes that "as early as March 2002 the US military began to withdraw many of the key units involved in the effort [to hunt bin Laden] in order to allow them to regroup and train in preparation for the coming war with Iraq".⁷ Schroen notes the same was true for the CIA. Afghanistan was put on the back burner and given relatively little reconstruction assistance once the Iraq war began. US aid to Afghanistan, a country devastated by 25 years of war, totalled less than a billion dollars in both 2002 and 2003. Compared with other reconstruction efforts, Afghanistan was simply done on the cheap.

⁶ See Anna Johnson, "Taliban: Bin Laden Planned Cheney Attack", *Associated Press*, 20 June 2007.

⁷ See Gary Schroen, *First In: An Insider's Account of How the CIA Spearheaded the War on Terror in Afghanistan*, New York: Ballantine Books, 2005, pp. 359–60.

Lack of security and economic reconstruction not only fuelled the Taliban revival but also the return of the poppy crop and the drug culture.

Third, the Taliban benefited from a safe haven and help in Pakistan. The Taliban of course had long and well-established ties with the Pakistan's intelligence service, the ISI, and the Pakistani army. While these were broken by Pakistani President Pervez Musharraf after 9/11, the ties between the Taliban and various militant Pakistani and Kashmiri groups remained very much intact. These ties had developed over the course of the 1990s and were most dramatically illustrated during the December 1999 hijacking of Indian Air flight 814 from Kathmandu to Kandahar, when al-Qaeda, the Taliban and Kashmiris also mixed together with the ISI to carry out the plot.⁸

The Afghan government, of course, goes further and suggests that the Pakistani army and the ISI still actively assist the Taliban. Afghan authorities say Mullah Omar spends a great deal of his time in Quetta. President Musharraf says this is a lie. For his part, Omar has consistently denied any official Pakistani assistance and has called President Musharraf a traitor who should be overthrown and executed.

Where the truth lies precisely in this regard is very hard to know but there is no doubt that the Taliban has used Pakistani territory to regroup and has enjoyed assistance from fellow travellers in Pakistan. Pakistan's own internal fragility, highlighted by a Baloch rebellion in the southwest, only makes the situation more complex. As recently noted by Paul O'Sullivan, chief of Australia's intelligence service, "al-Qaeda is rebuilding both its organisational structures and operational capabilities from bases in the tribal regions bordering Pakistan and Afghanistan, and networks in the Middle East, North Africa and Western Europe".⁹

As he suggests, al-Qaeda has used Pakistan extensively as a fertile recruiting ground to penetrate the large Pakistani expatriate population in the United Kingdom for operations. The 7 July 2005 attack on London was a dramatic demonstration of this approach to attacking Europe. The British have been remarkably successful in foiling other plots, including the 2004

⁸ See Jaswant Singh, *A Call to Honour: In the Service of Emergent India*, New Delhi: Rupa and Company, 2006 is the best source on the hijacking and its perpetrators.

⁹ See "Australia's Spy Chief Says Al-Qaeda Appears to be Rebuilding", *Associated Press*, 20 June 2007.

Operation Crevice plot to use a half-tonne bomb to attack targets in London and the 2006 plot to blow up 10 jumbo jets over the Atlantic. As noted by Deputy Assistant Commissioner Peter Clarke, chief of Scotland Yard's counter-terrorism department,

[T]he fact is there are in the UK many young men who are vulnerable to be drawn into extremism and violence [in the Pakistani community]. In case after case, the hand of core al-Qaeda can be clearly seen. Arrested leaders or key players are quickly replaced, and disrupted networks will reform quickly.¹⁰

Al-Qaeda has also used the Pakistani connection to attempt attacks in Israel. The captured terrorist leader Abd al Hadi al-Iraq reportedly engineered a plan to use two Pakistanis with British passports to blow up the American embassy in Tel Aviv in April 2003; instead, they bombed a seafront restaurant nearby.¹¹

As long as NATO keeps forces in Afghanistan, the Taliban cannot march on the cities and retake the country. But that is not Osama bin Laden's or Mullah Omar's objective at this point. The Taliban leadership successfully survived the collapse of its emirate five years ago; it now seeks to demonstrate that the Karzai government and NATO cannot govern effectively in large parts of the country. As a guerrilla movement, the Taliban and al-Qaeda win in South Asia by not losing. They want NATO to bleed in Afghanistan just like the Soviet 40th army bled in Afghanistan 20 years ago.

Creating the franchises in the Greater Middle East

With a strong base of operations rebuilt in the badlands along the border between Pakistan and Afghanistan - 1,500 miles of the most desolate and difficult terrain in the world - al-Qaeda opened its post-9/11 global offensive with a number of local affiliates. Indonesia was an early example of the pattern that would emerge. Al-Qaeda had been training Indonesian jihadists in Taliban-controlled Afghanistan for several years. A close

¹⁰ See Alan Cowell, "British AntiTerrorism Chief Warns of More Severe Qaeda Attacks", *New York Times*, 26 April 2007.

¹¹ See Yoram Schweitzer, "Is al-Qaeda Closing In?", *JCSS Strategic Assessment*, Vol. 10, No. 1, June 2007. This article chronicles al-Qaeda's plots against Israel including the plot to bomb Eilat from Saudi Arabia and the attacks on Israeli tourists in Kenya.

operational link was forged with Jamaah Islamiah (JI), an extremely violent jihadist group. The JI has been responsible for a series of attacks, most notably the 12 October 2002 multiple attacks in Bali that killed over 200 persons.¹² In the last couple of years, the Indonesian authorities seem to have had some success in suppressing the JI but it is far from eradicated.

Another al-Qaeda franchise quickly became active in bin Laden's home, the Kingdom of Saudi Arabia, which has witnessed the longest and most sustained political violence and unrest in the Kingdom's history thanks to al-Qaeda. In a major sermon in early 2003 released as an audiotape, bin Laden extolled "the band of knights" that had attacked America on 11 September and urged his followers to overthrow the House of Saud. A series of attacks followed over the next three years. Western targets including the US consulate in Jeddah and compounds of Western firms were attacked, as was the Saudi interior ministry HQ in Riyadh and the Abqaiq oil-processing plant (responsible for 60% of Saudi oil).

Al-Qaeda had in mind plots that were even more devastating. According to the testimony of the captured 9/11 mastermind, Khalid Sheikh Muhammad, given on 10 March 2007, one plan was to recruit pilots in the Royal Saudi Air Force to hijack their own fighter aircraft and use them for a bombing attack on Israel's southern city of Eilat in 2003. If successful, al-Qaeda had hoped the raid would spark an Israeli counterattack and start another Arab-Israeli war. In the end, the mission was foiled before it got off the ground. Only after a series of violent gun battles did the Saudi authorities gain the upper hand over the terrorists.

Even with their successes, however, the Saudis keep uncovering new al-Qaeda cells and arresting dozens of cadres, some of whom have been trained in Iraq. In April, the Saudis uncovered several cells planning an operation to use hijacked aircraft to blow up the Saudi oil infrastructure. It is clear that the terrorists have a good understanding of the critical nodes of the system from their attack on Abqaiq. Should they succeed at hitting the vulnerable points in the system, the results could be catastrophic for the global energy market. And that is in fact exactly what Osama bin Laden and Ayman al-Zawahiri are publicly urging their followers to do.

¹² See Sadanand Dhume, "Radicals March on Indonesia's Future", *Far Eastern Economic Review*, May 2005.

Of course, al-Qaeda's most successful franchise has been in Iraq. Founded by the late Abu Musab al-Zarqawi, al-Qaeda in Mesopotamia has been spectacularly successful in attacking Western targets and in precipitating the Sunni-Shia civil war that now grips the country. Al-Qaeda in Iraq actually makes up only a small minority of the fighters within the Sunni Arab insurgency. Its extremist anti-Shia views and its brutal violence have alienated it from many Iraqis and even some of its original Sunni supporters. Nonetheless, it shows no sign of changing its strategy, which is designed to create civil war and lay the groundwork for a jihadist state in heart of the Middle East. Given its many enemies inside and outside Iraq its chances of success are probably slim in the long term. But as long as it can portray itself as leading the fight against the foreign occupation in Iraq it is likely to be a deadly and serious adversary. For now it is well funded with the proceeds from ransoms of kidnapped Iraqis and donations from sympathisers, especially in the Gulf States. Thus, despite being only a small minority of the overall Sunni insurgent movement, in Iraq al-Qaeda has been successful in accomplishing its goal of driving Iraqi society into warring factions, creating a quagmire of civil war in which the American and British armies find themselves today.

The memoirs of Paul Bremer and George Tenet have dramatically revealed how ill prepared the US was for the post-invasion occupation of Iraq. We apparently had no plan. Al-Qaeda did. As soon as the Bush administration began talking about a showdown with Iraq, al-Qaeda began to prepare. In the autumn of 2002 Ayman al-Zawahiri spoke about the need to be ready to fight in Iraq and reported that Osama bin Laden and Mullah Omar were alive and preparing for the next round. He turned US rhetoric about Iraqi weapons of mass destruction on its head and told his audience that the goal of American occupation was to "confirm Israel's uncontested monopoly over weapons of mass destruction in the region to ensure the submission of Arab and Islamic states".¹³ A few weeks later, bin Laden issued a longer message to his followers urging them to go to Iraq and prepare to fight the invaders who sought a "stooge government to follow their masters in Washington and Tel Aviv".¹⁴

¹³ See "Al Zawahiri Says Bin Laden, Mullah Omar Enjoy Good Health", *Al Jazeera*, 8 October 2002.

¹⁴ Bin Laden's message to Iraqis in Lawrence (2005), op. cit., pp. 180–85.

Zarqawi prepared the battlefield on the ground and set the trap. On 17 October 2004, Zarqawi formally proclaimed his allegiance to bin Laden and the al-Qaeda group. In his statement of allegiance he said the Crusaders and Jews “have thrown their weight around this Muslim land of Iraq deciding it would be the cornerstone in their plan which they named the ‘Greater Middle East’ in their effort to impose their infidel democracy, transform the peoples of the region and uproot Islam, however, God will shame them and forsake them”.¹⁵ Zarqawi also created a support network in Europe and the Muslim world for his war in Iraq, a network that smuggled money and martyrs to Iraq to join the jihad. According to the National Counterterrorism Centre, Zarqawi’s operational network had extended across 40 countries by 2006 and provided dozens of recruits, many of whom will someday return home with the expertise gained in the battlefields of Iraq.¹⁶

Since the death of its founder, Zarqawi, the al-Qaeda franchise in Iraq has announced the establishment of an independent Sunni state in western and central Iraq. The Islamic State of Iraq promises to be the base from which additional jihadist movements can grow in the heart of the Arab world. The emir of the new state has an impressive Islamic pedigree, Abu Omar al Qureishi al Hashimi al Baghdadi as he is known, literally means he is a descendant of the prophet’s family. In proclaiming al Baghdadi as the emir of Iraq, al-Qaeda is making a statement about its long-term plan for the creation of a caliphate in the entire *umma*.

One of al-Qaeda’s next goals after Iraq has been to create a franchise in Algeria, which can serve as a node for jihad throughout North Africa and in the Maghrebi diaspora in Western Europe. For some two years or more Osama bin Laden and his deputy Ayman al-Zawahiri negotiated with the Algerian Salafist Group for Preaching and Combat (GSPC) on the terms and conditions for its joining the movement. In late 2006, bin Laden instructed that the group be renamed al-Qaeda in the Islamic Maghreb and it began conducting attacks in that name in late 2006 and early 2007, with a series of strikes at police stations and Western oil targets.

¹⁵ See Jeffery Pool, “Zarqawi’s Pledge of Allegiance to Al-Qaeda”, *Terrorism Monitor*, Jamestown Foundation, Vol. 2, No. 24, 16 December 2004, pp. 4-6.

¹⁶ See the *New York Times*, 9 June 2006.

On 12 April 2007, 'Black Wednesday', the new group carried out multiple suicide bombings (previously unknown in Algeria) in Algiers targeting the prime minister's offices and police headquarters, killing over thirty people. Another truck bomb was apparently defused. The group later produced a martyrdom video of three suicide bombers who had died in the 'Badr raid' (as it was named, after the famous early Muslim victory).

Zawahiri has it made clear that France is a major target of the new Maghrebi franchise. In announcing the union with the GSPC and al-Qaeda's core on 11 September 2006, Zawahiri said it would be "a source of chagrin, frustration and sadness for the apostates [of the regime in Algeria], the treacherous sons of France" and urged the group to become "a bone in the throat of the American and French crusaders".¹⁷ French intelligence officials anticipate the group to stage attacks on French targets in North Africa and probably in France itself sooner or later.

Threats to attack France are not new for the GSPC. In February 2005, for example, press reports said the French domestic intelligence agency estimated that there are about 5,000 sympathisers and militants in France as part of the GSPC, grouped around 500 hard-core individuals.¹⁸ Spanish officials have also expressed concern recently; the intelligence chief of the Civil Guard noted, "there is significant activity in the Maghreb which is most worrying for us".¹⁹

Zawahiri's warning should be taken very seriously. There have been reports of planned Algerian attacks in the past on American and Israeli targets in France and Belgium, as well as on targets such as NATO or EU installations elsewhere in Europe.²⁰ The interior minister of the German state of Baden-Wurttemberg summed it up well, noting "the danger is getting more specific, the calm is deceptive". Finally, one should recall that the first-ever plot to hijack an airliner and crash it into targets on the ground was an Algerian plot in 1994 to crash an Air France jet into the

¹⁷ See *Le Monde*, 18 September 2006. The full interview was posted by Al-Sahab Media Productions on 11 September 2006.

¹⁸ See Kathryn Haahr, "GSPC Joins al-Qaeda and France becomes Top Enemy", *Terrorism Focus*, Jamestown Foundation, Vol. 3, Issue 27, 26 September 2006.

¹⁹ See *El Tiempo*, 24 April 2007.

²⁰ See *Sueddeutsche Zeitung*, 21 April 2007.

Eiffel Tower – a plot the 9/11 Commission rightly surmised may have been a role model for 11 September.

The ultimate franchise is Palestine

The franchise that bin Laden and Zawahiri would most like to attract and create would be in Palestine. In particular, it is likely they would welcome an alliance with the Hamas movement. Hamas has more credibility as a Sunni jihadist movement than any other organisation with its dozens of martyrdom attacks on Israel and its record of resistance to Israel. Thus, it is interesting to review the record of al-Qaeda's relationship with Hamas for insights into al-Qaeda's strategy and vulnerability.

Hamas's founder and spiritual leader, Sheikh Yassin, said positive things about al-Qaeda during his lifetime. Following his release from prison in 1997 following a botched Mossad assassination attempt in Amman, Yassin, he travelled throughout the region in triumph and was asked about al-Qaeda. His response was "we support and sympathise with any movement which defends the rights of its people to enjoy self governance and independence but we are not prepared to seek an alliance with those movements".²¹

There is also evidence of operational links between the two groups. Hamas operatives assisted an al-Qaeda cell in the Sinai in 2004 and 2005 to carry out attacks on Israeli and Western targets in the Sharm el-Sheikh and Taba holiday resorts. The Egyptian intelligence service uncovered these connections and was extremely angry with Hamas about this terrorism in Egypt's booming tourism centres.²² The extent of these connections is very unclear but some contact is certain, particularly between the military wing of Hamas and al-Qaeda.

Nonetheless, Hamas has always jealously guarded its independence from outsiders as Yassin indicated in his victory tour. It knows all too well the sorry history of Palestinian movements that align themselves with Arab patrons and become pawns in the inter-Arab political warfare of the Middle East. Hamas has only developed close relations with Syria and Iran in recent years, in reaction to the need for a source of military assistance

²¹ See Zaki Chehab, *Inside Hamas, the Untold Story of the Militant Islamic Movement*, New York: Nation Books, 2007, p. 108.

²² *Ibid.*, pp. 173-97.

and increased economic aid. In public, most Hamas officials have been careful to distance the organisation from the violence of al-Qaeda, especially when its targets are outside of Iraq or Afghanistan, and it has joined the electoral process in Palestine with great success.

For its part, al-Qaeda has been increasingly critical of Hamas's participation in the electoral process and its success in winning a majority in the last Palestinian parliamentary elections. Bin Laden and Zawahiri have warned Hamas against being seduced by political power and government jobs into abandoning or scaling back the jihad against Israel.

Last March, Zawahiri was particularly harsh in condemning Hamas's agreement to form a national unity government with Fatah, especially as the deal was brokered by Saudi King Abdullah in Mecca. Zawahiri, claiming to speak in sorrow and not anger, said Hamas had "fallen into the swamp of surrender" and the leadership had "sold out" to King Abdullah. He concluded,

I am sorry to have to offer the Islamic nation my condolences for the [virtual demise] of the Hamas leadership as it has fallen in the quagmire of surrender. The leadership of Hamas has committed an aggression against the rights of the Islamic nation by accepting what it called respecting international agreements [a code word for the Oslo process].²³

"Nobody, be he Palestinian or not," Zawahiri said, "has the right to relinquish a grain of Palestinian soil."²⁴ Zawahiri was particularly upset that Hamas had negotiated with Fatah security chieftain Muhammad Dahlan, whom al-Qaeda regards as a spy for Israel and America. In May, Zawahiri repeated these charges against Hamas in another interview, with maps of Palestine shown on the video demonstrating the rise of Israeli control over the country from 1948 to today. According to Palestinian journalists, al-Qaeda is now seeking to set up its own miniature franchise in Gaza and may have been behind the kidnapping of a BBC journalist there. The kidnapers had openly proclaimed their support for bin Laden and Zawahiri and the Islamic State of Iraq.

²³ See Al Jazeera, 11 March 2007; the entire text of Zawahiri's message is available from the Open Source Center, "Al Zawahiri Censures Hamas, Discusses Iraq, Sudan, Afghanistan, Other Issues", 12 March 2007.

²⁴ Ibid.

Hamas' response is to deny any moderation in its commitment to the Palestinian cause. In a formal statement, Hamas said, "we are a movement of Jihad and of resistance...We in the Hamas movement remain loyal to our positions and dream of dying as martyrs. We assure Dr al-Zawahiri and all those who remain unwavering in their attachment to Palestine that today's Hamas is the same Hamas you have known since its founding."²⁵

Since this exchange, Hamas has abandoned the Mecca process as al-Qaeda urged it to and broken with Fatah. In a well-planned and executed three-day war in June 2007, Hamas evicted Fatah from Gaza, creating in effect a three-state solution (at least temporarily) to the Palestinian-Israeli conflict. Outnumbered by Fatah, Hamas fighters used mortars and improvised explosive devices to demoralise their opponents, who had already been abandoned by their leaders including Dahlan, who had fled to the West Bank. How long this solution will last is unclear.

Al-Qaeda responded to the change in Gaza with cautious approval. Zawahiri issued a new statement urging all Muslims to rally behind the Hamas takeover in Gaza and send men and money to help defend it. He reminded Hamas that it had made serious mistakes in the past and urged it not to repeat them by accepting offers to form another national unity government with Fatah.

Al-Qaeda's attack on Hamas before the coup in June reveals important information about what really worries the al-Qaeda leadership regarding the weakness and vulnerability of its movement. The Palestinian cause is the centrepiece of al-Qaeda's narrative of Western Crusader aggression against the *umma*. The defeat of the Ottoman Empire in 1918 and the creation of the British mandate in Palestine set in train the events that would lead to the creation of Israel after the Second World War. For Zawahiri this is the West's most evil act because the "Zionist entity is a foothold for the Crusader invasion of the Islamic world. The Zionist entity is the vanguard of the US campaign to dominate the Islamic Levant. It is a part of an enormous campaign against the Islamic world in which the West, under the leadership of America, has allied with global Zionism."²⁶

²⁵ See YNETnews.com, 14 May 2007.

²⁶ See Ayman al-Zawahiri, "The Emancipation of Mankind and Nations under the Banner of the Koran", an audiotape by Al-Sahab Media Productions on 30 January 2005 on www.almjlah.net/vb/; also available from the Open Source Center.

As Zawahiri argues, “after the fall of the Ottoman Caliphate a wave of psychological defeatism and ideological collapse spread” throughout the Islamic world.²⁷ This defeatism made possible the victory of the Zionist movement in the 1948 war that is considered by Palestinians to be the great disaster of their history, the *naqba* or catastrophe. For Zawahiri the issue is profoundly personal as well, since he began his career in terror as a junior participant in the plot to assassinate Egyptian President Anwar Sadat in 1981 for making peace with Israel.

Understanding al-Qaeda’s strategy is the first key to defeating it. The West needs a ‘Grand Strategy for the Greater Middle East’ that can win the war of ideas away from al-Qaeda’s vision of the ‘Caliphate of the Greater Middle East’. Fortunately, most Muslims share that goal with us. With new leadership in the West, a more sophisticated strategy has a very good chance of winning the war with al-Qaeda.

A good place to start would be to focus with great energy on the Arab–Israeli peace process. The proposals former President Bill Clinton and his team put on the table in December 2000 can still serve as the basis for an agreement. The next American president should carefully consider the recommendation of the Iraq Study Group chaired by former Secretary of State James Baker, which suggested convening an international conference to resolve all aspects of the Arab–Israeli crisis, perhaps along the model of the Dayton peace summit that ended the Bosnian war.

The West also needs to redouble its efforts in South Asia and in Afghanistan. The stakes in Afghanistan are high. With the growing disillusionment in America and elsewhere with the Iraq war, there is a real risk that Afghanistan will all too easily be branded as just another failed adventure. Mullah Omar and Osama bin Laden are doubtless counting on that and thus encouraging the Iraqi resistance. But whatever we do in Iraq, we cannot afford to fail again in Afghanistan. Afghanistan is where al-Qaeda planned and prepared for 9/11, and its leadership is still in the area. Furthermore, Afghanistan is NATO’s first significant out-of-Europe operation, and its first-ever land war. Failure would probably consign the alliance to irrelevance.

²⁷ See the interview with Ayman al-Zawahiri on 11 September 2006 to mark the 5th anniversary of 9/11, Al-Sahab Media Productions.

DOES EUROPE NEED A NEW MISSILE DEFENCE SYSTEM?

WITH CONTRIBUTIONS BY

**WALTER SLOCOMBE
OLIVER THRÄNERT
ALEXANDER PIKAYEV**

Chairman's Summing-up

François Heisbourg*

For this meeting of the European Security Forum, we were fortunate to benefit from the papers and presentations of three highly knowledgeable analysts: Walter Slocombe, former US Undersecretary of Defense; Alexander Pikayev, Director of the IMEMO Disarmament and International Security Institute in Moscow; and Oliver Thränert, Head of the Security Research Group at the Berlin-based Stiftung Wissenschaft und Politik. We also profited greatly from the active participation of a number of well-placed officials.

Since the current plan to install ground-based interceptors (GBIs) in Poland and the corresponding battle-management X-band radar in the Czech Republic is the fruit of a purely national American initiative, there was some logic to giving the floor first to Walter Slocombe. As is customary, the Chairman put a specific question to the speaker before the presentation, in this instance asking why the United States had launched this particular initiative – after all, Slocombe states in his paper that the US maintains that the European anti-ballistic missile (ABM) element is not necessary for the defence of the US. Furthermore, no European country had asked for the deployment of the GBIs or the X-band radar.

In his oral presentation, Slocombe confirmed his general written sympathy for the currently envisaged system. He added that although there had been no formal request either from NATO or from specific states for the ABM deployment, the US had heeded European concerns about the lack of coverage of their continent by the ongoing American ballistic-missile defence programme. He stressed that there was not a great difference between successive US administrations on limited missile defences, and that Congress will probably not kill the European-based programme if Poland and the Czech Republic agree on the deployment. He indicated that what the Chairman called the “INF [intermediate-range

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nuclear forces] model of NATO involvement"¹ is a model that would be appropriate for a European-based missile defence.

Alexander Pikayev reminded us of a meeting of the European Security Forum in which he had participated seven years ago on the eve of the American withdrawal from the 1972 ABM Treaty.

He also received his questions from the Chairman: Why was Russia so loud and vigorous in its reaction to the American missile defence deployments? How seriously should the West take President Vladimir Putin's suggestion of the exchange of missile-launch early warning data? To the latter query, he reacted by indicating that this could constitute a unique chance to transform President George W. Bush's public relations difficulties on missile defence into a successful Russian-NATO dialogue. On the former question, he underscored several points. The first of these was Russia's heavy reliance on nuclear deterrence in the post-Soviet era (with the accompanying reaction to anything that could challenge that reliance). He also stressed the location of the proposed systems, holding that the reaction would not be as vociferous if the interceptors were to be placed in Bulgaria or Turkey. In addition, there were the electoral aspects: President Putin wants a resounding legislative victory and his current assertiveness plays to that end. Furthermore, there was a sense that this time something was finally "in Russian hands", which had not been the case with NATO enlargement.

Oliver Thränert was asked by the Chairman why he considered Iran's missile programme to be the country's "best-kept secret", given that missiles and their necessary testing were not particularly easy to hide (unlike some other programmes). He considered that there is a real unknown regarding the support Iran is receiving from foreign sources. That being said, he added that he very much doubted that Iran would have intercontinental ballistic missiles (ICBMs) by 2015 (a traditional US

¹ More specifically, although the Western intermediate-range nuclear forces (the Pershing II and ground-launched cruise missiles) based in Europe in 1983 were purely American in terms of ownership and funding, their deployment was undertaken based on a collective NATO decision. Notwithstanding the very short warning times involved (circa 10 minutes), which are akin to those of a missile defence system, the drafting and implementation of the rules of engagement were ensured within the NATO framework and involved the European members of NATO.

forecast). He reminded us that long-range missiles only make serious strategic sense as weapons of mass destruction if they have nuclear warheads; if Iran were to change its nuclear course and refrain from acquiring nuclear weapons, we would not need a missile defence. (Thränert exposed the important and subtle thesis developed in his paper, being that we can deter Iran without missile defence, but with missile defence, we may be able to prevent Iran from deterring us in the Middle East. Moreover, missile defence can contribute to crisis stability, notably by removing the need for us to eliminate Iran's offensive capabilities early on and by relieving Iran from a 'use them or lose them' requirement.) Thränert flagged the issue of command and control as well as the problem of southern-flank coverage. He stressed the high desirability of cooperation between NATO and Russia on a missile-launch early warning system.

In the discussion, the contribution of missile defence to crisis stability was challenged given the imperfect nature of such defences; however, Slocombe reminded us that relying on pre-emption was no less imperfect. To the question of the long-term effects of NATO enlargement, Pikayev noted its strong impact on both Russian voters and decision-makers, a situation aggravated by the widespread perception that, during his presidency, Mikhail Gorbachev had secured a commitment by the West not to enlarge NATO. Slocombe stated that the alternative to enlargement would have been the creation of a belt of resentful countries accusing the West of a new 'Yalta', yet devoid of the rationale justifying the first Yalta, i.e. the fact that Soviet forces had already been present in those countries.

A CEPS participant took issue with the views of Russian analysts as discussed in Alexander Pikayev's paper, according to whom Russia should not be deprived by American GBIs of the options of targeting Western Europe, notably France and the UK: this was truly MAD (mutually assured destruction)-era reasoning. He posed a query about an article by Judy Dempsey in the *International Herald Tribune*² concerning apparent American proposals recently made in Moscow regarding transparency in missile defence, threat-driven deployment and the use of the Gabala early warning radar in Azerbaijan.

² See J. Dempsey, "U.S. offers Russia new concessions on missile shield", *International Herald Tribune*, 20 October 2007.

To this, Pikayev reminded us of the “cannibalistic world of nuclear deterrence”. He seized the opportunity to highlight the very serious nature of Russia’s proposals for a missile early-warning joint data exchange centre (JDEC). For his part, Slocombe indicated that during the Clinton–Yeltsin years he had been involved in the crafting of the original US–Russian JDEC agreement to set up such a centre in Moscow; he could not understand why interest had been lost in actually implementing the agreement.

At this stage, a senior US official stepped into the discussion, providing what was at the time of the meeting information that had not yet been introduced into the public debate. After noting that Poland-based GBIs would be operationally incapable of intercepting Russian ICBMs, he indicated that during the early October ‘2+2’ discussions in Moscow, the American secretaries of state and defence had stated that the missile defence system in Central Europe would not go live or be activated until there was a demonstrable Iranian threat, as materialised by missile tests. The potential date of readiness, in the presence of such a threat, would be sometime between 2011 and 2015. The importance of Gabala’s role had also been emphasised, and Russian liaison officers would be present in the Czech and Polish ABM facilities to provide reassurance vis-à-vis “break-out”. This important (and at the time novel) exposition of what were called the American ‘concepts’ shaped the tone of the rest of the discussion.

A Czech official noted inter alia that in terms of command and control, there would be a human element involved, in order to exercise negative (stopping the automated computer sequence) rather than positive authority. This point drew the remark from Walter Slocombe that although the published timeline of 250 to 300 seconds for launching the interceptors was too short to take a political decision, the computer would still be unable to act entirely on its own. It would still need a human being to allow it to implement pre-determined rules of engagement and execution phases.

A US official recalled, as had his Czech colleague, that NATO had a long-term interest in missile defence. Specifically, he noted that the plan was to have an initial operating capability in 2010 for the C3 (consultation, command and control) aspect of NATO’s Active Layered Theatre Missile Defence, which would be the interface for sharing early warning data between the US and its allies. He confirmed that the exchange of data between Russia and the US had been suggested at the 2+2 meeting in Moscow, adding that this would best be done within the NATO–Russian relationship.

What were the Russian reactions? asked a European participant. Alexander Pikayev noted that Moscow had talked about a “step in the right direction”, but not more; it would now be up to the 2+2 working group discussions. He considered that Russia’s problem with the CFE (Conventional Forces in Europe) and INF Treaties were only marginally tied to the missile defence dossier.

In his concluding remarks, Oliver Thränert remarked that Russia now had to make a choice, given the US proposals: Would Moscow stop playing the ‘splitting the West’ game? Concerning the INF Treaty, he reminded us that this was the most far-reaching arms control agreement, eliminating a whole class of weapons between the signatories. Moving away from the INF Treaty would really have an impact on Russia’s relations with the US and Europe. He also expressed the view that there was a lot of talk about Moscow’s embrace of MAD, but he queried whether the Soviets had ever really believed in it.

Alexander Pikayev noted that the former Soviet Union might have been a poor pupil of MAD but Russia had become a good teacher... On the splitting of the West, he remarked that America had managed to achieve this without much help from Russia. On the INF Treaty, he added that President Putin’s proposal is to transform the Washington treaty into a global treaty, not to withdraw from it.

The US-Proposed European Missile Defence

An American Perspective

Walter Slocombe*

Ballistic missile defence has been controversial – technically, strategically and politically – almost since it was first proposed in the 1950s. The proposal by the US to add a European element to the deployment of a limited ballistic missile defence, which has been a key element of the Bush administration’s defence programme, is no exception. At one level, the US proposal is modest in scale and mission, but it has set off a major controversy because it touches on so many other issues. Among these are differences over the significance of Iranian actions and over how to respond to them, along with the growing tensions between a resurgent and assertive Russia and the US, the former satellites and the rest of Europe. In addition are the European suspicions of American unilateralism and militarism, internal strains within Europe between ‘old’ and ‘new’, long-standing controversies about ballistic missile defence and concerns about the future of arms control. There are also fears for the future of NATO, squeezed between American instincts to bypass it and act bilaterally and the EU project for a distinctly European defence capability. All of these issues are overlain by domestic political ones in practically every country concerned.

This paper attempts to address some of the main issues raised from an American, but certainly not an official administration, perspective.

What is the US project?

The installation under consideration is, in effect, an extension of the deployments the US has in train on US territory, at Fort Greely in Alaska and Vandenberg Air Force Base in California. Under the ‘third site’ initiative, first broached with the Czech and Polish governments in 2002, an

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interceptor base would be built in Poland (tentatively at Gorsko in north-western Poland) that would have launchers and ground support equipment for 10 mid-course interceptors. The interceptors would be a modified version of the ground-based interceptors that the US is deploying in Alaska and California, adapted for the more rapid European engagement by removal of the third stage. A narrow-beam X-band radar, now being used as part of the test equipment at Kwajalein Island in the Pacific, would be moved to the Czech Republic (tentatively at Brdy, just south of Prague), to provide precise mid-course tracking and engagement control for the interceptor missiles. The configuration would also include a transportable X-band radar, based on the radar used with the Terminal High Altitude Area Defence (THAAD) theatre missile defence system, at a location nearer the expected threat to provide initial warning and tracking data. This 'forward-based radar' could either be moved to a forward location as the threat developed or be placed forward more or less permanently, presumably in a country bordering on Iran. There have been rumours that the US is considering deployment in the Caucasus, but the US denies that it has made any approach to any potential host country.

The system would, according to unclassified presentations of the US Defense Department, be constructed in 2011-13 and when operational it would be capable of intercepting long-range missiles launched from Iran against targets in either the US or Europe. The system would provide coverage for targets in Europe north and west of the line running roughly from northern Greece through central Ukraine.¹ The full cost - currently estimated at about \$4 billion - would be paid by the US, and command and control of the European site would be integrated with that of the US ballistic missile defence system as a whole.

Does Europe need a missile defence system at all?

The stated purpose of the European element of the US missile defence programme - like the broader US long-range ballistic missile defence effort - is to counter the possibility that, over the next decade or so, a number of 'rogue states' will acquire both nuclear weapons and long-range missiles to

¹ The exact coverage area depends on the characteristics of the attacking missile trajectory. According to the Pentagon, the areas the system would defend against intermediate-range missiles would also include an additional belt (250 km wide) running south-east along the coverage area for longer-range missiles.

deliver them. The US has been explicit in acknowledging that the European element is specifically designed to counter Iranian missiles. Although there is no question that Iran has a military missile programme, the pace and scale of Iranian missile efforts are disputed. Iranian authorities have themselves suggested that Iran is working on a 2,000 km range variant of the Shahab-3 intermediate-range ballistic missile, which could nearly reach Rome, Prague and Warsaw, but Iran denies any intention of developing longer-range missiles. The US dismisses the Iranian self-imposed limit and projects an Iranian intercontinental missile by as early as 2015 (just after the Polish site would become operational). Others, including Russia, maintain that the Iranian work is proceeding much more slowly. Whatever the exact pace and extent of its plans, Iran is on the road to a missile capability that would be a threat to Europe, as well as to the US (and Russia, Israel and other countries that might stand in the way of Iranian ambitions). A missile defence system, it is argued, would deny Iran the option of using its nuclear and missile arsenals for a high-confidence threat to respond with devastating effect to action by the US and its allies that Iran regarded as against its fundamental interests, particularly their resistance to regional aggression by Iran.

There is debate not only over the scale and pace of the Iranian programme to build nuclear weapons and delivery systems for them, but over the appropriate response from the international community. The US administration – along with the new French government and some other nations, including Israel – warns that the Iranian programmes are nearing the point where Iran will have the capability to threaten nuclear destruction of targets in much of the world. The administration also makes the point that, whatever the actual pace of the Iranian programme, it will take time to build a defence and it is better to be a bit early than far too late. Advocates of ballistic missile defence point out that if (as seems all too possible) neither diplomacy, sanctions nor even military force deflects Iran from this course, it would be very important to have a defence and the prospect of a workable defence would provide at least a partial neutralisation of the Iranian threat without the immense risks of military action. On the other hand, some outsiders – including the Russians but by no means them alone and by no means only apologists for the Tehran regime – argue that Iran is far from having an effective (or indeed) a nuclear weapon or means to deliver it by missiles to distant targets. They maintain that any military response, including passive defence as well as active pre-emption, is more likely to harden positions and increase risks than to eliminate the danger.

Will the defence work?

Every missile defence initiative since the Nike Hercules programme in the 1950s has been met with questions about whether the defence offers a reasonable prospect of being effective at a simple technical level. The American proposal for a European site is no exception. The American position is that the interceptors to be deployed in Poland are substantially identical to the ground-based interceptors (GBIs) that have been tested with increasing success as part of the overall ballistic missile defence effort that, while still incomplete and far from fully developed, is basically on track technically. The US Missile Defense Agency, pleased with the successful July test, expresses confidence that the system to be deployed in Europe would be highly effective against the relatively primitive missiles that Iran could develop in the next decade or so and that technological improvements will keep that edge as hostile missile technology improves.

Critics point out that the US system is still far from having proved successful in tests they regard as operationally realistic, especially those whose targets employ what the critics describe as countermeasures within the capacity of an adversary able to build long-range ballistic missiles. The Missile Defense Agency replies that the system is designed to discriminate decoys and that they will begin tests against countermeasures shortly, arguing that ‘simple’ countermeasures are far from simple.

A related line of criticism is that even if the defences work quite well, they will, by definition, do nothing against alternative means of delivery that do not rely on ballistic missiles. Ballistic missiles are a particularly effective vehicle, however – they (and their nuclear warheads) can be maintained under close control in a home territory until literally a few tens of minutes before use and, assuming the missile and weapon function properly, they are certain to be effective if there is no defence. All other options, from aircraft to agents, compromise either pre-launch control or the certainty of arrival at the target or both.

Should all of this have been done through NATO?

The project is not a NATO effort, but a trilateral agreement among the US, Poland and the Czech Republic. Nor has the US committed to make it available to NATO. Rather, the US will exercise national command and control over the system and there has been no formal undertaking as to the standards by which the US would decide when and how to use the interceptors in cases where there was no direct threat to the US itself. The

Bush administration rejects claims that it is slighting or bypassing NATO, referring to its extensive briefings on the subject and its undertaking to participate actively in parallel NATO measures to provide a defence against shorter-range missiles that the GBIs' deployment could not handle. Moreover, the US has pointed out that the US would pay the whole bill for a deployment that would strengthen European security by providing a defence for much of the territory of Europe.

It is, from NATO's point of view, no doubt regrettable that a major element of the defence of the European continent requiring the cooperation of three NATO allies is not more fully integrated into the alliance, but that is by no means unusual: practically every defence procurement decision made by a NATO member is ultimately made as a unilateral choice. While agreed NATO priorities are often a factor, the degree to which NATO's complex defence-planning mechanism actually influences any individual ally's programme is limited. NATO itself has almost no military assets of its own (with NATO's Airborne Warning and Control System, and of course, the integrated command structure being the main exceptions). Virtually all of the actual military power that the alliance could muster depends, as would access to the European-based missile defence, on national decisions to commit nationally-owned assets in particular circumstances.

But the issue of missile defence presents a particular challenge – and an opportunity – for the alliance. The site in Poland could not defend all of Europe, even if it worked perfectly. Areas south and east of the coverage line, including all or part of the territory of NATO allies Turkey, Greece, Bulgaria and Romania are too close to Iran to be attacked by long-range missiles, but they could be attacked by shorter-range systems. NATO has had under consideration for many years the goal of establishing a distinctively NATO-run missile defence for deployed forces and, more recently, for protection against short- and medium-range missiles. The US has been a vocal backer of that effort, but only as a complement to and not a replacement for US programmes, and it has indicated that it would provide technology and assets to support a system that would defend those NATO allies that the Polish site could not cover. In June, NATO formally re-affirmed its commitment to these missile defence programmes. Whether these formal commitments translate into funding and hardware to make the forward defence system a reality remains to be seen.

Is the US seeking to deploy in Europe a system whose main purpose is to protect the US and not Europe?

It is sometimes claimed that the interceptors in Europe are primarily designed to fill gaps in the protection of US territory. If the Pentagon's explanations are given any credit, this claim is false. To be sure, the European radar and interceptors would be capable of intercepting Iranian missiles heading for the US as well as those aimed at targets in Europe. Still, the US maintains that a European base is not necessary for the defence of the US itself, because the interceptors already being deployed in the US (supported by radars in Greenland and the UK) can engage missiles aimed at targets anywhere in the 50 states from the Middle East as well as from North Korea (their principal mission). The implication is that the Polish-Czech-US project would not only give the US the means to protect its allies, the US would have no need to withhold interceptors for the future protection of the US.

Why is Russia opposed?

Russia, under President Vladimir Putin, has chosen to make the European element of the US missile defence plan a major issue. Were it not for the Russian opposition, it is hard to believe that the proposals would be nearly so big an issue. That opposition has a number of explicit dimensions and perhaps some hidden agendas as well.

Is Russia back and standing tall? The Russian opposition, some in the US claim, is simply muscle-flexing, which is perhaps understandable, but is not to be taken too seriously and certainly not to be encouraged by accommodation. The US initiative coincides with a sharp deterioration in US-Russian (and NATO-Russian) relations. Russia, under President Putin's robust leadership and strengthened by an influx of oil income has moved from the economic crisis, internal disorder and international weakness of the 1990s to reclaim its pride and reassert its position as a major world power. In the eyes of many Russians, one of the humiliations of the post-Soviet era was the entry of Poland and its Central European neighbours into NATO. The fact that these new military allies of the US are considering letting the US establish major military installations on their territories is, in Russian eyes, not merely a violation of promises made when a weak Russia had to acquiesce to Western insults, but also inconsistent with the respect such nations should show to a restored Russia.

Does the defence threaten the Russian nuclear force? Russian spokespersons have also advanced the far more concrete argument that the American proposal threatens the Russian nuclear deterrent, at least in the long term. If this were true, it would be a major concern, because for all its revival, Russian military power and to a considerable degree its international standing still depends heavily on its being the equal of the US in nuclear weaponry. Some Russian spokespersons, official and otherwise, have maintained that the US installations would pose a threat to Russian security because they could serve as a means of gathering intelligence² and eventually as the foundation for a larger, more capable system that would have the scale and sophistication to threaten the Russian nuclear force. On this point, the US argues that it is absurd for Russia, with many hundreds of missiles in its arsenal, to claim to see any danger in 10 interceptors, because any Russian attack could simply overwhelm the defence. The US has gone even farther and asserted that the radar and interceptors are so positioned that they would be incapable of supporting an engagement with Russian intercontinental ballistic missiles (ICBMs) because the interceptors could not catch up with the Russian missiles in the tail chase that geography would impose.³ As for the longer-term potential of a defence against the Russian force based on the current programme, the US argues that it has no intention of pursuing the 'will of the wisp' of a massive defence. Moreover, the US argues that if it tried, the current system is simply not capable of serving in any meaningful way as the base for a

² The Russian contention that the radar in the Czech Republic could monitor Russian space and missile activities is implausible technically because the narrow beam X-band radar (even if properly aimed) would be wholly unsuited to that task, for which the US has plenty of other and far better assets available.

³ Some technically well-qualified American critics of the deployment proposal have disputed this claim, maintaining that it assumes an unrealistically long delay in launching the interceptors and a 'dumbing down' of the interceptors' speed. Whether or not the assumed delay - up to five minutes - and/or the slower interceptor velocity (less than 7 km/sec) make the claims of complete incapability against Russian ICBMs misleading, the basic fact is that the numbers are tiny compared with the Russian force. Those same observers have also conducted analyses that tend to show that the system could intercept Russian missiles aimed at targets (such as British and French nuclear forces) in Western Europe. Whether the existence of a system with that capability would be a good thing or a legitimate cause for Russian complaint is, of course, a matter of opinion.

wholly hypothetical future US project to defend against Russian missiles, not just because of the numbers but also because of the technical limitations on the capacity of the radars and the capabilities of the interceptors.

Are promises being broken? The Russian government has also claimed that the deployments would violate assurances that Russia had been given when Poland and the Czech Republic joined NATO against the establishment of American military bases on their territories. The American response is that the 1999 NATO–Russian statement in question referred only to nuclear weapons and “additional permanent stationing of substantial combat forces”,⁴ neither of which are involved. Furthermore, the US argues, the 1999 statement was conditioned on the security situation remaining as it was then – a premise vitiated by Iranian nuclear and missile programmes (and perhaps by changes in Russian policies and behaviour). More broadly, the view in Washington – and in Central Europe – is that Russia cannot be permitted to assert a right to veto security cooperation between the US and sovereign countries, especially when, as the US insists, the cooperation poses no threat to Russian security.

Is this a convenient issue? President Putin and other senior Russian leaders have put forward a number of potential Russian actions to offset the supposed danger the European site poses to Russian interests. Some, like resuming long-range bomber surveillance of US Navy ships on the open ocean and reconnaissance flights near US and NATO borders seem to be primarily aspects of a Russian reassertiveness, unlinked to any specific US actions. Other ideas have been floated as ‘the’ Russian response to American plans, such as threats to withdraw from the Intermediate-Range Nuclear Forces Treaty, to put missiles in the Kaliningrad enclave or to target Europe generally (and the bases). These ideas seem calculated mostly

⁴ The 1999 Founding Act includes the following statements:

The member States of NATO reiterate that they have no intention, no plan and no reason to deploy nuclear weapons on the territory of new members, nor any need to change any aspect of NATO’s nuclear posture or nuclear policy – and do not foresee any future need to do so...NATO reiterates that in the current and foreseeable security environment, the Alliance will carry out its collective defence and other missions by ensuring the necessary interoperability, integration, and capability for reinforcement rather than by additional permanent stationing of substantial combat forces.

to appeal to European fears that Americans are always fomenting arms races and dragging Europe into their adventures and to foster US-European tensions in general. There are those in the US – and probably in other countries as well – who believe that Russian objections and particularly the brandishing of these sorts of responses have very little to do with any real concerns about Russian security, but rather derive from the realisation that criticising the US project as dragging us all back into cold war confrontation has easy payoffs for Russia. The very fact that Russia objects tends to make the project divisive within the alliance and within the domestic politics of all three partners. Linking its objections to professed doubts about the pace of the Iranian programmes helps Russia curry favour with an Iranian regime that needs advocates.

Is there any way to convince the Russians? Post-cold war discussion of missile defence with Moscow has been marked by repeated failures in hopefully-initiated efforts to build a US–Russian partnership on the subject. To Americans, and at least in the past to some Russians, missile defence looks like an ideal area for cooperation – both Russia and the US (as well as others) are threatened by rogue state missiles; only Russia and the US have any substantial, independent technological capacity to build a missile defence. Therefore, close coordination if not actual partnership should be easy to agree. But none of the specific concepts – whether the Bush 41 plan for a jointly managed defence, the Clinton team’s joint warning centre or the Bush 43 idea of cooperation against Iran – has gone much beyond the communiqué stage. All have foundered on issues of joint control, access to information and generally uneasy relations.

As the third site project has grown more controversial, the US administration has, possibly making up for lost past chances, sought to reach out to Russia. The most recent efforts are proposals outlined by US Defense Secretary Robert Gates in an otherwise frosty meeting in Moscow. These proposals include measures of transparency designed to assure the Russians of the limited and (to them) non-threatening character of the US deployments and an undertaking to not make the Polish base operational after its completion, unless and until it was clear that the Iranian threat had emerged. Although the details are vague (presumably in the hope of forestalling a quick Russian rejection), the proposals apparently involve the presence of Russian inspectors/observers at the interceptor and radar sites to enable the Russians to confirm the limited capabilities and missions of the installations. In addition is the possibility of agreeing on a set of

milestones by which to measure the progress of the Iranian threat, e.g. whether tests have been conducted to longer ranges.

Russia, for its part, has carefully held open the door to some form of cooperative resolution. President Putin's proposal that a Russian early warning radar in Azerbaijan replace the Czech radar site was no doubt calculated to gain the public relations initiative, but it also might have signalled some interest in making the project a symbol of US-Russian parity. Perhaps predictably, the US team that visited the radar site reported that it would at best be a partial supplement to the radars already included in the US plan, but the recent US offer seems to have included a proposal to set up a system to exchange data between the US and Russian sensor systems. Russia's insistence that the Azeri site replace the Czech site and American insistence that it could at most be a distinctly secondary element illustrate both the technical and the political obstacles to agreement. Nonetheless, if both sides want to find a mutually tranquillising compromise, somehow incorporating the Azeri site (possibly as one although not necessarily the only early warning site) might be a way out. Other measures of transparency, such as Russian personnel at the site, inspections, joint exercises and joint warning arrangements, have been offered, which could also provide ways to both assuage the genuine Russian concerns and afford the means for a graceful compromise by both sides.

Do the Russians have a point about the Treaty on Conventional Forces in Europe?

The one concrete step that President Putin has taken so far that he has directly linked to the missile defence proposal is his declared intention (which still has not received the State Duma approval he could presumably have whenever he wants) to 'suspend' Russian compliance with the Treaty on Conventional Forces in Europe (CFE). This action – if not its linkage to the missile defence question – reflects Russian grievances that deserve to be addressed, as NATO has conceded in principle. Russia has long regarded CFE as an anomaly and an anachronism. The collapse of the Soviet Union and the disappearance of the Warsaw Pact fundamentally transformed the geopolitical landscape for conventional arms control in Europe. NATO can, however, fairly claim to have done a good deal to accommodate Russian objections, including agreeing in 1999 on substantial modification of the terms of the Treaty, which Russia has regarded as unfair in the post-Soviet context. NATO nations have nevertheless refused to ratify those changes

until Moscow completes the withdrawal of troops in Moldova and the Caucasus to which it committed itself when the CFE Treaty changes were agreed.

Will the Czechs and Poles agree?

The project has had support from the Czech and (previous) Polish governments, as well as from some leading opposition parties. In early 2007, they agreed to start formal negotiations on such issues as the bilateral status of force agreements covering the US military personnel who would staff the installations. Still, public opinion polls indicate that a majority of the population in each country opposes the deployment, and the project has yet to receive final parliamentary approval in either country. Some of the public opposition is likely to be derived from a sense that the US has taken Central European support too much for granted and that the defence site will needlessly embroil the host countries in large geopolitical confrontations in which they have little direct interest. (Others in each country may well see their cooperation with the US on a bilateral basis as solidifying their security relationship with America, which many regard as more important than the NATO relationship per se.) It will probably take a continuing US effort – and a commitment from the new US administration in 2009 – for the project to be definitively approved. The new Polish government can be expected to review Poland's position and, assuming it decides Poland should continue to back the concept, insist on satisfactory terms. That effort in the Polish negotiations and in those with Prague as well will no doubt need to include satisfying some pending demands on bilateral issues, such as visa equality and trade, and renewed special security assurances, possibly including providing missile defences against shorter-range (i.e. Russian) attacks. (There are also some supposed concerns related to environmental issues, such as the mistaken notion that the radar will be a health hazard. The US and the two governments will need to reassure their publics on these subsidiary issues.)

Will the US Congress approve the system?

The issue has not been a highly visible one in US debates, but it is becoming so as Russian objections grow more strident, and everything to do with missile defence is to some degree a battleground. In the newly Democratic-controlled Congress, approval of any Bush administration initiative cannot be taken for granted and many of the questions raised in Europe, including by Russia, find some resonance in the relevant committees. Moreover, the

European missile defence initiative is seen by some as part of a package of initiatives: missile defence generally (including expanded cooperation with Japan and possible sales to Taiwan), the Reliable Replacement Warhead programme for a new nuclear weapon for the stockpile, the impending expiration of the Start I agreement and a plan to replace the nuclear warheads on a few Trident submarine missiles with non-nuclear warheads. Taken together, these initiatives are seen by some as a worrying (and ill-defined) overemphasis on nuclear and nuclear-related forces. In addition, the recent very troubling security failure when nuclear-armed cruise missiles were taken out of storage improperly and flown across the country, unguarded and unnoticed for many hours, will contribute to scepticism about all aspects of strategic programmes. Yet so far, the US Congress has limited itself to restricting appropriations to what is needed to keep the initiative alive, pending further tests and agreement with the host countries, while raising questions about alternative defence approaches, such as a sea-based system. Congress is unlikely to fund the project fully until there is definitive approval by the two host countries, but it is equally unlikely to kill the project if it continues to have the support of the administration. A broadly worded but non-binding resolution of support for building an effective defence of both the US and Europe against Iranian missiles was recently passed by the Senate, although the programme most probably will not need – or receive – full congressional backing until the new administration takes a position.

Why is there so much resistance from Europeans?

In a sense, it is no surprise that any initiative of the Bush administration should arouse deep scepticism in Europe, especially if, as is the case for the missile defence plan, it can be seen as yet another example of an American urge to find military solutions, needlessly exacerbating already difficult international relationships, ignoring international institutions, conjuring up exaggerated WMD threats under every bed and sabotaging arms control agreements, and doing so in the service of a long-standing ideological commitment (in this instance to ballistic missile defence schemes).

What effect does the Russian dimension have? Europeans have different views of the degree to which changes in Russia – including the establishment of the undemocratic and seemingly unchallengeable predominance of a strongly centralist, nationalist and security-focused leadership – should be met with conciliation or confrontation. A proposal

that (in Russian eyes at least) seems to suggest a military response has unsurprisingly been both welcomed and condemned on just that ground.

Is the US undermining European institutions? Quite apart from the issues of how to deal with a changed Russia, this additional instance of the US dealing directly with what former Defense Secretary Donald Rumsfeld called “new Europe” on a major military initiative raises concerns at a time when the future of NATO is uncertain and Europe is in the process of building its own multinational defence institutions. What is more, while the US maintains that it has gone to great lengths to keep all allies informed about its missile defence plans and to take their concerns into account, the fact remains that the US has made its own decisions and worked on the issue bilaterally with Poland and the Czech Republic, and not through NATO, much less the EU. Accordingly, to some in Europe the European element of the missile defence project is yet another example of American unilateralism and insensitivity to European preferences for multilateral action and decision – while to some Americans, the European reaction is simply confirmation of European fecklessness and the necessity of bilateral action if security is to be preserved.

Conclusion

The third site project has a solid military and strategic rationale. In the coming decades, it is all too likely that Europe (as well as the US and the rest of the world) will find itself living in a world in which dangerous regimes have nuclear weapons and the means to deliver them rapidly by long-range missiles. The technology exists and it can be further developed to provide a reasonably high-confidence defence against such a capability; it is hard to see a clear reason not to do so. Indeed, it could be argued that those who are (rightly) strongly opposed to an attempt to stop the Iranian programmes by military force should be the first to welcome an American idea that holds out the possibility of substantially neutralising the threat of an Iranian nuclear-armed missile capability, without a military attack or having to rely on sustained punitive sanctions.

The US has probably undertaken a good deal more consultation on this project than it gets credit for and the recent proposals will satisfy some critics. Nevertheless, the US still needs to do a vastly better job, not just of talking to allies and others about its plans in this and other regards, but also of taking into account their concerns and putting the project into a broader context of US concepts for dealing with Iran, with Russia and with nuclear weapons in the new century. The US should make clear that once

built, the system would be presumptively available as a NATO asset when needed, just as all allies' forces should be. And the US should strongly support the NATO programmes to cover those aspects of the missile defence mission that the third site would not. Russian objections are, to a large extent, overstated. Indeed, in many respects, they look contrived, but they nonetheless must be addressed by serious and bold proposals for transparency and cooperation, including a willingness to find a way to use the Azeri site as part of the package and to follow through on ideas for data exchange.

Europe's Need for a Damage-Limitation Option

Oliver Thränert*

In his speech at the Munich Conference on Security Policy in February 2007, Russian President Vladimir Putin strongly criticised US plans for constructing elements of its missile defence shield in Poland and in the Czech Republic. This missile defence system could protect both the US homeland and parts of Europe. President Putin, however, warned that these systems could cause a militarisation of outer space along with yet another arms race. Many European authors have also articulated negative views about the US missile defence project. Echoing Mr Putin's arguments, these critics point out that these US defences in Europe would pose a threat to Russia's strategic nuclear deterrence posture and therefore could cause an arms race between NATO and Russia. Paradoxically, the same analysts often doubt the technical feasibility of strategic missile defences. Moreover, many believe that Iran, as opposed to the arguments put forward by the Bush administration, would not become a major threat to Europe, even if Tehran were to develop nuclear weapons. The mullahs, so the argument goes, are not irrational and would not have any reason to attack Europe or the US. Even if they intended to do so, NATO's nuclear forces would successfully deter them.

In essence, we are witnessing a cleavage between two schools of thought. On the one hand are the traditionalists (who are more vocal in Europe), who prefer traditional approaches such as diplomacy, non-proliferation, arms control and deterrence. On the other hand are the modernists or missile-defence advocates, who believe that measures to meet new threats such as the proliferation of long-range missiles and nuclear weapons should also include missile defences. This latter line of thinking is more influential in the US and countries such as Israel and Japan, which are exposed to Iranian or North Korean missiles.

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It was very unfortunate that President Putin's Munich speech activated the current missile defence debate. As a consequence, at least the European discussion has been framed along Russian arguments. But the central question has often been overlooked: Does Europe need a missile defence shield to protect its population against possible threats arising from the Middle East?

This paper first considers potential threats originating from the Middle East. It then looks at a scenario in which Iranian nuclear-tipped missiles might become a threat to transatlantic security. The main rationale for this scenario is to explain why classic nuclear deterrence, which we experienced during the cold war, would not be sufficient to meet possible new threats in the future. That section is followed by a brief analysis of Russian arguments concerning the planned US missile shield. The paper concludes with a few questions that need further discussion.

Threat perception

When looking at the Middle East, current threat perceptions mainly focus on Iran. Indeed, Tehran has one of the most advanced missile programmes in the region. But before asking what this means for European and transatlantic security, we should first recall that missiles are not weapons of mass destruction. What is decisive is the combination of missiles and nuclear warheads. Therefore, Iranian missiles would only become really dangerous if Tehran were to pursue its current policy of aiming at having a nuclear weapon option. The jury is still out on whether the UN Security Council could convince Iran through its policy of incrementally increased sanctions to change course. If so, the entire issue of missile defence for defending Europe and the US against possible Iranian threats would look completely different.¹

Furthermore, a threat is a combination of capacity and intention. But we do not exactly know the purposes for which Iran is developing its missiles. Is Tehran seeking the capacity to deter foreign invasion, or in other words, are its intentions more defensive in nature? Or is Iran intending to become more assertive vis-à-vis its neighbours and at the same

¹ For an analysis of the negotiation process, see O. Thränert, "Sorting out the Iran Puzzle: The International Community's Coordinated Iran Diplomacy has Opened Doors", *Internationale Politik* (transatlantic edition), Vol. 7, No. 4, 2006, pp. 32–38.

time keep foreign powers at bay? At this juncture, it appears almost impossible to answer this question, not least because even if current Iranian motivations are more defensive, this stance might change once Tehran acquires a nuclear missile capability.

Finally, the future development of the Iranian missile programme is very hard to predict. The Iranian missile programme is among the best-kept state secrets. Western intelligence information is often fragmentary and controversial. Time and again, this situation causes dissensions within the intelligence community. For instance, in 2001, most US agencies argued that Iran would be able to launch an intercontinental ballistic missile (ICBM) by 2010. The CIA did not share that view. Today, US intelligence services estimate that Iran might develop an ICBM by 2015. Yet, there is an important 'known unknown' in this equation: To what extent will Iran continue to receive foreign assistance from North Korea (with which it has very close ties concerning missile development) and from Russian or Chinese technicians (apparently still working in Iran but whose exact knowledge and skills are unknown)?

The answer to this question is probably more important today than it was in the past. Iran is now at a crossroads in its ballistic missile programme. If Iran really wants to extend ranges to more than 2,000 km (its newest, single-stage Shahab-3 has a range of about 1,500 km), it needs to master the multistage technology. That phase is very complicated and ambitious. Many doubt that North Korea, which certainly benefited from the assistance of Russian technicians, was successful in this regard. While Pyongyang successfully tested a three-stage Taepo-Dong-1 on a single occasion in 1998, to the extent that the first two stages worked, a test of the Taepo-Dong-2 in 2006 was a complete failure. Considering that all current Iranian ballistic missiles are based on North Korean models, it is therefore questionable whether Iran will develop its own multistage missile in the near future. While there is no doubt that Iranian leaders are willing to extend the ranges of their missiles, it will presumably take them much longer than the US intelligence community expects. Nevertheless, as noted above, there are many uncertainties surrounding the analysis of this issue.²

² See A. Seaboyer and O. Thränert, "What Missile Proliferation Means for Europe", *Survival*, Vol. 48, No. 2, 2006, pp. 85-96.

At the same time, Europeans should not neglect the possibility that Pakistan may also become part of the equation. Islamabad already possesses about 60 nuclear weapons, although their type is unknown. The country is steadily enhancing its nuclear capabilities. Its most advanced ballistic missile, the solid-fuelled, two-stage Shaheen-2, has a range of about 2,500 km. This system, although successfully tested on repeated occasions, has not yet become operational. In the past, Pakistan has heavily benefited from Chinese assistance. Whether Beijing will continue providing support for Pakistan's missile developments remains to be seen.³

Today, the Pakistani leadership under President Pervez Musharraf is seen as a Western ally. At this time, however, his government is facing strong pressure from Islamic radicals. Therefore, many observers do not rule out the possibility that Pakistan sooner or later may become a failed state with nuclear weapons, or another Taliban-ruled (and this time nuclear-armed) country. Again, it is hard to predict what consequences this would imply for European and international security. It is possible, however, that missile defences could make sense as a damage-limitation option.

Why not simply rely upon nuclear deterrence?

Deterrence optimists such as pundits of neo-realism often take the view that a nuclear Iran could be successfully deterred just like the Soviet Union was during the cold war. Yet today, the strategic context looks completely different. In his famous debate with Kenneth Waltz on potential threats associated with the spread of nuclear weapons, Scott Sagan challenges the optimist neo-realist view. Sagan argues that further nuclear proliferation could result in small states being easily invaded by their nuclear weapon-equipped neighbours, as the latter may believe their new weapons will deter intervention by outside powers.⁴ This is exactly the situation we might face if Iran goes nuclear. Many states in the Middle East already fear that a nuclear Iran might turn more aggressive and provide a cover for

³ See R.S. Norris, "Pakistan's Nuclear Forces, 2007", Nuclear Notebook, Natural Resources Defense Council, *Bulletin of the Atomic Scientists*, Vol. 63, No. 3, May/June, 2007, pp. 71-73, p. 74.

⁴ See S.D. Sagan, "Sagan Responds to Waltz", in S.D. Sagan and K.N. Waltz, *The Spread of Nuclear Weapons: A Debate*, New York, London: W.W. North & Company, 1995, p. 129.

proxies such as Hezbollah and other terrorist organisations. Leaders in Tehran may calculate that a foreign invasion to counter what may be perceived as Shia imperialism becomes less and less likely the more Iran's nuclear and missile capacities advance. In any event, many observers believe that for Iran, nuclear weapons are weapons of deterrence *and* power projection.⁵ Against this background, the question is not whether the US, NATO or the international community could deter Iran from a nuclear attack. At stake is whether a nuclear Iran could deter international intervention aiming at re-establishing regional order against Iranian aggression or assertiveness. Observing recent history in Middle Eastern affairs, we might pose the question: Would the international community have sent troops to free Kuwait from the Iraqi invasion in 1991, if Saddam Hussein had already had nuclear-tipped missiles capable of reaching Europe or the US? ⁶

In the past, during the cold war period, the main idea of deterrence was *not to use* military force in a relatively stable situation. In the future, in a world with more nuclear powers equipped with long-range ballistic missiles, countries feeling responsible for protecting international order would need to decide whether they want *to use* their forces against aggressions in a contingency that might result in severe damage caused by the use of nuclear weapons by the aggressor.⁷

Deliberately accepting one's own vulnerability, as the West did during the cold war, does not seem the appropriate strategic approach in such a context. Nevertheless, the question arises as to whether missile defences could help the US and its European partners regain room for manoeuvre to intervene if there is a need to re-establish order in the Middle East or elsewhere. Missile defences of whatever nature will never work completely reliably. Still, even limited missile defences would have an impact on an aggressor's calculations, as he could not be certain actually to

⁵ See D. Dassa Kaye and F.M. Wehrey, "A Nuclear Iran: The Reactions of Neighbours", *Survival*, Vol. 49, No. 2, 2007, pp. 111-28, p. 117; C. Dueck and R. Takeyh, "Iran's Nuclear Challenge", *Political Science Quarterly*, Vol. 122, No. 2, 2007, pp. 189-205.

⁶ See V.A. Utgoff, "Proliferation, Missile Defence and American Ambitions", *Survival*, Vol. 44, No. 2, Summer 2002, pp. 85-102.

⁷ We should also not overlook the fact that nuclear deterrence during the cold war did not deter the Soviet Union from invading Afghanistan in 1979.

cause damage with his nuclear missiles. But for the country or coalition seeking to intervene against aggression by a nuclear newcomer, the important question is whether it could afford the damage possibly resulting from a nuclear response despite the missile defences in place, or if it decides instead that it cannot afford the risk and thus chooses not to intervene with troops, thereby avoiding nuclear retaliation by the new nuclear state in the first place.

Here it is held that there would possibly be a significant difference between the calculations of the US and those of the European allies for at least two reasons. First, before the Iranians developed missiles that could reach US territory, they would already have such weapons at hand that could threaten European cities. Therefore, in such a contingency, it might be easier for Washington to decide to send troops to the Middle East than it would be for Europeans to do so, although the US would certainly not like to see its European allies taken hostage by Iran. Second, in contrast with Europe, the US reputation as a world power would be at stake in a severe crisis in the Middle East. If a country like Iran, with its current Islamic leadership, follows an aggressive approach directed against its neighbours, and Washington is unable to protect its friends and allies and re-establish order because Iran could threaten US cities with its ICBMs, this would significantly undermine the reliability of US security guarantees in the Middle East and elsewhere. As a consequence, Washington could be in danger of losing its status as a world power.

For these reasons, even limited missile defences could be more valuable to the US than to Europe. In a scenario in which Iranian missiles could reach European but not US territory, even limited defences protecting Europe would make it much easier for Washington to go to war against Iranian aggression. Even if Tehran could hit targets in the US with missiles, the damage limitation resulting from missile defences could better enable the US to protect friends and allies in the Middle East against Iranian aggression, thereby maintaining US world leadership.

From a European perspective, the situation could look quite different. Europe is not a world power and thus does not have such a status to lose. European governments would not like to see Iran becoming a dominant power in the Middle East and undertaking proxy wars. Yet they would have a hard time convincing their populations to intervene in the Middle East against Tehran's will if this action could result in an Iranian nuclear attack in response. It is true that Tehran would need to calculate that American as well as British and French nuclear forces could strike back. But

could European governments be certain that deterrence works? More importantly, if they determine that it does, could European political leaders convince their constituencies of that view? Moreover, would European publics be convinced by the argument that if deterrence failed, the installed missile defences could limit the damage, and thus is it worth accepting the risk and participating in an invasion in the Middle East despite the possible consequences?

The argument put forward here is that missile defences are much more likely to provide Washington as a world leading power with more room for manoeuvre in the face of a crisis in the Middle East, caused for instance by a nuclear Iran, than they would for its European allies. Yet does this mean that missile defences do not make sense at all for Europe? Just because the US may have a different calculus and may intervene militarily, in such a situation it would still be perfectly appropriate for Europe to have a damage-limitation option at hand. As previously mentioned, this would also clearly be in Washington's interest, as the US needs to avoid the situation in which its European partners are taken hostage.

In addition, missile defences could contribute to stabilising crises. Iranian leaders are not irrational, but they may miscalculate in a crisis, as could any government. Given the nature of the Iranian leadership, it is also unlikely that it would establish crisis-management procedures such as hot lines or red telephones as the US and the former Soviet Union did, albeit only after their common experience of the Cuban missile crisis. Again, damage limitation through missile defences may make sense in the context of crisis mismanagement. Also, if the Iranians were to know that owing to missile defences the US or NATO (or both) would not be under great pressure to pre-emptively strike at Iran's nuclear weapons early on, Tehran might not find itself in a 'use them or lose them' situation. This prospect would again contribute to restoring stability.

Finally, missile defences can be seen as tools to support non-proliferation policies, not to weaken them. Such projects signal to countries interested in nuclear weapons and offensive long-range missiles that the states they want to threaten are capable of developing defences that could undermine the political aims the proliferators might be seeking to achieve through their weapons programmes. Therefore, missile defences would serve as disincentives to potential proliferators, thereby reducing their willingness to violate non-proliferation treaties.

To wrap up this section, missile defences are more likely to provide the US rather than Europe with more room for manoeuvre in the face of

new nuclear adversaries. At the same time, damage limitation is an important option for Europe, because the US might choose to act in a crisis in which the Europeans might hesitate to do so, and because missile defences could contribute to crisis stability. They could also support non-proliferation regimes, which are especially seen by Europeans as an important element of their policies.

US missile defence and Russia

The West has an interest in stable and reliable relations with Russia as a partner. One of the main obstacles on the way ahead is that Moscow still has not defined the role it wants to play in the world. Russia today perceives itself as a country that is back on the world scene and wishes to be respected as a great power. But what does Russia stand for, and what are its foreign policy priorities? Instead of dealing with these questions, many debates in Russian foreign policy circles currently focus on criticising the West for actions such as NATO enlargement.⁸ If the West really wants to establish a longstanding and stable partnership with Russia, it should avoid taking all the arguments put forward by Russia at face value. This situation does not facilitate Russia finding its way in the future, a precondition for a fruitful relationship between Moscow and its Western partners. The present debate about missile defence is an interesting test case in that regard.

The planned US missile defences do not pose a threat to Russia. Although Russia and the West do not always share the same interests, the cold war and with it the ideological confrontation are gone. Today, the large conventional forces facing each other in Central Europe are obsolete. There is no longer a danger that a crisis could escalate from conventional to nuclear war.

As mentioned several times by the Bush administration, its current missile defence plans are not directed against Russia. Rather, the intention is to provide protection from single long-range missiles from Iran or North Korea. While the interceptors that are already stationed in Alaska and California as part of the ground-based midcourse defence system are well suited to defend the US homeland against possible attacks from North

⁸ See D. Trenin, *Russia's Strategic Choices*, Policy Brief No. 50, Carnegie Endowment for International Peace, Washington, D.C., May 2007.

Korea, they are less well positioned to hit missiles originating from the Middle East. To that end, Washington wants to deploy 10 ground-based interceptors (GBIs) in Poland. These could intercept Iranian missiles either on their way to Central Europe or to the American east coast.

President Putin in effect accepted this line of the US argument when proposing that a Russian radar system stationed in Azerbaijan could be jointly used by Moscow and Washington in the future to detect Iranian missile launches. Such an approach would be better than using a new radar system to be built in the Czech Republic, the Russian president opined. Mr Putin also speculated about the positioning of US missile interceptors in Turkey rather than in Poland. This move would not threaten Russian interests. With these proposals, Mr Putin admitted that a missile threat from Iran could become real and that the US aim is to defend against threats originating from the Middle East, not to undermine Russia's strategic nuclear-deterrence posture.

In fact, the planned US missile defences could not fulfil such an intention with respect to Russia. To achieve the purpose of intercepting a large proportion of Russia's still numerous strategic nuclear missiles, Washington would need to deploy several hundred missile interceptors in Europe. The present US plans are based on 54 GBIs – 44 in the US and 10 in Europe – through 2013. More importantly, some of the Russian missiles would not cross Europe in order to reach US territory, but would cross the North Pole region; therefore, they could not be intercepted by systems stationed in Poland. Even if future US presidents were to decide to intensify US missile defence efforts, these would never reach a point in which missile defences could be relied upon to destroy or intercept all Russian nuclear forces in a first strike. After all, why should a US president decide to attack Russia without the certainty that New York City, for instance, could not be entirely destroyed by one large, Russian nuclear weapon in response? Indeed, if Russia were really concerned that US missile defences could endanger its second-strike capability, why has the Russian critique of US interceptors already stationed in Alaska and California thus far been rather lukewarm, while the rhetoric criticising the US plans to build up parts of its missile defences in Europe been so intense?

Prior to the June 2007 G8 summit in Heiligendamm, Russia had been escalating its campaign against the US missile shield. It warned of a possible new arms race – including the test firing of new Russian missiles. In addition, Moscow threatened to abrogate the 1987 Intermediate-Range Nuclear Forces Treaty, which bans an entire class of US and Russian

ballistic missiles, and to suspend compliance with the reductions agreed in the Treaty on Conventional Forces in Europe. These statements almost led to the point where the struggle about missile defences became more important than the other items on the original G8 agenda such as global warming. In making them, Moscow intended to underscore its importance as part of the family of the world's leading countries.

The reasons for this Russian policy are based on both Russian domestic politics and Moscow's foreign policy goals. Both are interrelated. As far as domestic politics are concerned, President Putin seeks to portray himself as a great statesman who is not to shy in confronting Western policies. In doing so, Mr Putin serves an anti-Western paranoia that is widespread not only among the Russian political elite but also among the Russian population.

In terms of foreign policy goals, President Putin aims at demonstrating that Russia is no longer as weak as it was during the 1990s. Therefore, the days of Moscow accepting Western policies that weaken the Russian position, such as NATO enlargement, are forever gone. The Russian leadership additionally wants to exploit ongoing transatlantic irritations. Furthermore, Moscow intends to negatively affect the European integration process and send a signal to new NATO members such as Poland and the Czech Republic, in whose national decision-making Russia still wants to have an influence. President Putin is aware that in Europe in general, and in Germany in particular – a country he understands very well owing to his excellent German language skills – the reputation of the Bush administration is very low. Mr Putin also realises that Washington missed explaining its missile defence intentions appropriately to European publics. By arguing that US missile defences could cause a nuclear arms race, the Russian president has hoped to diminish even further the reputation of the current US administration in Europe.

At the same time, by criticising the Polish and Czech governments, both of which are willing to allow Washington to base parts of its missile defences on their territories, President Putin has highlighted the different security policy orientations of European countries. These divergences are partly reflected in the criticism by other European governments that the new NATO members are relying too much on the US rather than being interested in developing European security and defence policies. Finally, by opposing missile defences in Poland and the Czech Republic – but not in Denmark or the UK, which have already passed decisions to contribute to respective US defence plans – and proposing that the US station these

systems in Turkey, President Putin wants to underline that there is still a difference between old and new NATO members and that Moscow continues to have a say as far as former Warsaw Pact members are concerned.

Furthermore, Russia is in the process of modernising its strategic nuclear forces, which remain a priority for Russian defence planners. Moscow continues to deploy silo-based and road-mobile Topol-M (SS-27) intercontinental missiles. Russian engineers are also working on new ballistic missile submarines armed with the new Bulava submarine-launched ballistic missile. Moreover, Moscow is pursuing programmes to develop new long-range cruise missiles. Further modernisation projects include the Igla manoeuvrable warhead and a reported hypersonic delivery vehicle. Finally, Russia is engaged in fourth-generation nuclear weapons research, such as precision low-yield nuclear weapons, clean nuclear weapons (earth penetrators and neutron weapons) and weapons tailored to create special effects such as an electro-magnetic pulse. Owing to budgetary constraints, Russia's strategic nuclear forces will decrease in numbers in the near future. Nevertheless, given the aforementioned modernisation programmes, Moscow intends to keep its forces up to date. Apparently, the goal is to have a strategic nuclear fleet that is "small, but beautiful" long into the 21st century.⁹

Some of these projects are motivated by US missile defence plans and aim at overcoming them. Yet, the main rationale for Russia to continue placing many of its defence eggs into the basket of strategic nuclear forces is different. Russian leaders are well aware of the central role these weapons play in Russia's status as a world power. Next, for Russia, modernising its strategic nuclear weapons is still less expensive than keeping its conventional forces up to date, not least because all of its plans to create an effective state-of-the-art professional army have failed so far. Russian strategic thinkers are now mimicking NATO's flexible response strategy of the cold war to the extent that they see nuclear forces as the only weapons able to counter NATO's conventional superiority. This argument has grown more influential, particularly since NATO's enlargement. This process might be pursued even into former Soviet territory. Finally,

⁹ See P.I. Bernstein, J.P. Caves, Jr. and J.F. Reichert, *The Future Nuclear Landscape*, Occasional Paper No. 5, Center for the Study of Weapons of Mass Destruction, National Defense University, Washington, D.C., April 2007, pp. 25–27.

NATO's war against Serbia in 1999 indicated to Moscow that the transatlantic alliance does not hesitate to use force. Against this background, it seems fair to conclude that Moscow, in criticising US missile defence plans in Europe and warning against another arms race, is seeking to legitimise a strategic, nuclear modernisation programme that is already underway.

As noted at the beginning of this section, the West has an interest in a cooperative partnership with Russia. In fact, missile defences could become part of such a partnership. At present, the US Missile Defense Agency, together with Russia, conducts a Theatre Missile Defense Exercise Programme. The US has also invited Russia to cooperate on the development of defence technologies and share intelligence on common threats. Washington has even offered to permit Russian officials to inspect future US missile defence bases in Europe.¹⁰ Discussions within the NATO-Russia Council to ensure transparency as well as to sort out possible joint endeavours in that regard should also be intensified. After all, the proliferation of nuclear weapons and long-range ballistic missiles, especially in the Middle East, could turn out to be a threat for Russia as much as for the West. But before common missile defence projects can materialise, Moscow needs to decide whether it wants to cooperate in this field or whether it wants to continue to use the missile defence debate as a rhetorical tool to separate the Europeans from the Americans and create divisions within Europe.

Some believe that President Putin's proposal to use the Gabala radar station in Azerbaijan jointly with the US in the future points in the right direction. This view seems questionable, however. The Gabala radar is part of the Russian early warning system. It could be useful for early warning purposes, but the Bush administration is mainly seeking an X-band radar capable of tracking and guiding defence interceptors towards Iranian offensive ballistic missiles. Therefore, it would be much better to install such a system in the Czech Republic as currently planned by Washington rather than in Azerbaijan, which is too close to the Iranian border. Many observers also believe the Gabala radar to be outmoded. Furthermore, the Gabala radar station is a significant element of Russia's national defence. Once the data from the Gabala radar as well as Russian space-based

¹⁰ See T. Shanker, "Pentagon Invites Kremlin to Link Missile Systems", *New York Times*, 21 April 2007.

surveillance systems confirm a missile attack, it would trigger nuclear retaliation. Therefore, it seems rather unlikely that Moscow would completely share all its data with other nations such as the US. By the same token, if some cooperation between the US and Russia were to take place, particularly if a crisis erupted in the Middle East, Washington could never be sure that Moscow was indeed sharing all of its data. Against this background, the US could not entirely rely upon cooperation with Russia in terms of the Gabala radar. Therefore, it could not renounce its plans for its own radar in the Czech Republic as part of its missile defence system.¹¹

Issues that need further discussion

Even if one is in favour of the Bush administration's missile defence plans, some open questions remain. One concerns the technical feasibility of missile defence. Since 2002, when the flight test programme for the ground-based midcourse defence began, three out of six tests were successful intercepts. Still, many express doubts concerning the effectiveness of the system. They argue that those tests were not undertaken under realistic conditions. The GBIs to be deployed in Poland, which will consist of two rather than three stages, have not yet been tested. Given the fact that the US began intensifying its missile defence activities during the Reagan administration of the 1980s, one might ask how long it will continue to take to develop an effective strategic missile defence. Yet, exactly because it is so difficult and time-consuming to develop effective defences, it seems inappropriate not to increase the current efforts instead of waiting until today's potential missile threats develop into real ones.

Next, there is the issue of costs. The total estimated costs for the European missile defence project are \$4.04 billion for the fiscal years 2007 to 2013.¹² Because the planned US defence systems to be deployed in Poland and the Czech Republic would not only defend Europe but would mainly be part of the US national homeland defence, Washington will cover the expenses. Should Europeans in the future be expected to share the missile

¹¹ See A. Zagorski's comment in the Russia Profile Weekly Experts Panel, "Putin's Surprise", 15 June 2007 (retrieved from <http://www.russiaprofile.org/page.php?pageid=Experts%27+Panel&articleid=a1181909384>).

¹² See S.A. Hildreth and C. Ek, *Long-Range Ballistic Missile Defense in Europe*, CRS Report for Congress, Code RL 34051, Congressional Research Service, Washington, D.C., updated 25 July 2007, p. 4.

defence bill, this could cause trouble for many European governments. Their main problem would be how to reconcile the cost-expansive transformation of conventional forces already engaged in international contingencies such as Afghanistan with the expected missile defence costs.

Moreover, the planned radar station in the Czech Republic and the GBIs to be deployed in Poland would be part of a multilayered, US national missile-defence architecture. Washington considers forward-based missile defences in Europe an additional option to other US interceptors to defend against Iranian missiles crossing European territory in their mid-course flight. These defences could also intercept Iranian ballistic missiles that are targeted against Central Europe. Washington continues to insist, however, that it remains in full control of these defences and does not intend to give the Europeans a say insofar as command and control are concerned. In other words, the US project clearly lacks a NATO component. For the Europeans this means that they will completely depend upon the US on an issue of strategic proportions (including the problem of the debris falling on European territory from missiles intercepted on their way to the US). Whether proposals to deploy two GBI bases in Europe – one controlled by the US and one by NATO – could contribute to a solution to this problem needs further discussion.¹³

Notably, the US GBIs in Poland could protect Central Europe, but not the southern flank of NATO's territory. The Atlantic alliance needs to rely upon the concept of the indivisibility of security. This means that all NATO members need to have the same protection against missiles. So far, in its own missile defence efforts NATO has focused on the Active Layered Theatre Ballistic Defense Programme, aiming at improving the protection of deployed NATO forces in out-of-area contingencies. NATO has also been deliberating strategic missile defences. A related feasibility study concluded that a long-range ballistic missile defence system to protect the alliance would be technically feasible. In June 2007, NATO defence ministers agreed to conduct a study of a complementary anti-missile capability that would protect the south-eastern part of the alliance territory, which would not be covered by the planned US interceptors. How these projects could be combined with the US GBIs in Poland, particularly in

¹³ See S. Frühling and S. Sinjen, "NATO Missile Defense: The Political and Operational Case for a Two-Base Structure", *Rusi Journal*, December 2006, pp. 58–61.

relation to command and control of a NATO-wide missile defence, remains an open question.

Finally, even if all these issues could be resolved, another central question would remain: What impact would a NATO missile defence capability providing protection for Americans as well as Europeans have on the European security and defence policy (ESDP)? If missile defence were seen as an indispensable strategic tool for Europe, operated by NATO, would that not imply a diminishing role for the ESDP? This question is especially of concern to countries such as France, which puts an emphasis on the development of Europe as a security and defence actor. Although it is true that the Bush administration has taken the initiative on missile defence and may be criticised for not consulting its European partners appropriately on the issue, the EU itself has failed to adopt a clear position on this security and defence matter.¹⁴

Conclusion

The discussion about a missile defence system that could protect both the European and American populations has just begun. Governments will have to take decisions while not exactly knowing how the missile threat, for instance from the Middle East, will evolve. The costs and technical feasibility of missile defences will also remain unclear. In any case, Europe as well as the US should continue engaging in missile defence projects because the option of damage limitation is of the essence at a time when further nuclear and missile proliferation is taking place. At the end of the day, this is a question of world order. Missile defences could provide at least the US with more room for manoeuvre to re-establish order. Cooperating with Russia in the area of missile defence should be a Western goal, but it should not be seen as a precondition. Some important questions affecting NATO, such as command and control issues, need further consideration. Still, the respective debates should not give room for a transatlantic struggle at a time when cooperation seems more needed than ever.

¹⁴ See T. Bauer and F. Baumann, *Missiles for Europe? U.S. plans expose Europe's strategic weaknesses*, CAP Policy Analysis No. 3, Centre for Applied Policy Research, Munich, July 2007.

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Russia and Missile Defences

Alexander Pikayev*

Since late 2006, the debates about US plans to deploy the third site of its national missile defence system in Poland and the Czech Republic have been perceived as a major irritant in US–Russian and Russian–NATO relations. Although the issue is indeed one of a number of serious disagreements between Moscow and Washington, its role seems exaggerated by the media and some analysts. Nevertheless, the missile defence deployments in Poland and the Czech Republic do represent one of the most serious disagreements in recent US–Russian relations. The solutions to these disagreements seem remote, and they must be carefully managed in order to prevent relations between Moscow and Washington from slipping towards confrontation.

Red line

Sergei Lavrov, Russia’s Minister for Foreign Affairs, has mentioned two red lines on which Russia will not change its position – Kosovo and missile defences. On all other controversies in the Russian–Western relationship, including Iran and the Treaty on Conventional Forces in Europe (CFE), Moscow has expressed its willingness to reach a deal. Strong and vocal Russian opposition to the plans to locate the third site of the US national missile-defence system in Poland and the Czech Republic could be explained by three major factors:

- Traditionally, missile defence systems have been the key controversy in the realm of US–Russian strategic nuclear relations, since they add uncertainty to nuclear planning and create additional pressure to increase nuclear arsenals.

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- The choice of deployment on the territories of two NATO member states located close to Russia's borders has exacerbated Russia's disappointment over NATO's eastward enlargement.
- Finally, the Kremlin might be interested in using the potential deployments as evidence of Western 'aggressiveness' in the context of Russian parliamentary and presidential electoral campaigns.

The dramatic weakening of Russia's conventional deterrent since the Soviet collapse has forced the Russian military to pay more attention to the country's still powerful nuclear forces. In contrast with the Soviet era, the nuclear forces are regarded as a deterrent not only against a potential nuclear attack, but also against large-scale conventional aggression. Therefore, the ability to inflict the 'required damage' to a potential adversary in such circumstances by nuclear forces has become a key factor in hard security calculations. As missile defences might hinder such a capability, they are thus considered threatening. In the eyes of some military planners, the US missile deployments could decrease the retaliatory capabilities of the strategic nuclear forces and enable better utilisation of conventional predominance in the European theatre of military operations.

Furthermore, the relatively rapid shrinking of Russia's strategic nuclear forces, owing to the decommissioning of older missile systems built during the Soviet era together with the very low production of new missiles (fewer than 10 per year during most of the post-Soviet period), has led to increasing concerns that missile defences could become an element of the first-strike strategy. The majority of Russia's nuclear forces could be eliminated in the first strike made by nuclear and highly accurate conventional systems; those missiles that survived could be intercepted by the missile defences during an attempted retaliation.

Even limited missile defences might make the options for a limited nuclear response not credible. It is widely considered that an all-out nuclear response with a large number of strategic missiles as a reaction to, say, conventional aggression, seems unlikely. Such a decision would be suicidal given the imminent risk of an equally devastating second strike. Therefore, the warring side might try to limit an initial nuclear attack by using a small number of missiles in an effort to diminish the scale of its adversary's unavoidable retaliation. Yet, even limited missile defences are capable of intercepting missiles during such a restricted strike. As a result, a nuclear threshold would be increased together with the self-deterrence to

cross it. A higher nuclear threshold would make it more difficult to use nuclear forces as a deterrent against conventional aggression.

The third site of the missile defence deployment would increase the general capabilities of the US national missile defence system, and therefore make the above-mentioned risks more realistic. According to some Russian experts, the potential deployments in Poland and the Czech Republic also possess some specific risks:

- The interceptors located in Poland might be capable of intercepting missiles launched from bases situated in western Russia during their flight to targets on the US east coast. Such a capability has been recognised by an authoritative non-governmental report recently published in the US.¹
- The anti-missile system to be based in Poland could also undermine the nuclear deterrence between Russia and the Western European nuclear powers – the UK and France.
- The radar to be located in the Czech Republic would further develop US capabilities to detect and track Russian missiles, which might improve the efficiency of other elements of the nuclear missile defence system located on US soil to intercept such missiles.
- The second mobile radar could be deployed to enable the earlier detection of missile launches. If deployed in the Caucasus, it would be able to monitor activities in that region, which is the most sensitive one for Russia's security.
- The planned deployments could represent a first step for the system's potential enlargement. Later, more interceptors could be deployed and their velocity might be increased as well. Currently under development, a multiple-warhead anti-missile system could also be delivered within a few years. This expanded anti-missile system would significantly raise the risk posed to Russia's strategic deterrent.
- The interceptors would be deployed in silos. Traditionally, the silos have represented launchers for surface-to-surface ballistic missiles.

¹ See T.A. Postol and G.N. Lewes, *The Proposed US Missile Defense in Europe: Technological Issues Relevant to Policy*, American Association for the Advancement of Science, Washington, D.C., 28 August 2007.

This prospect triggers concerns that the silos might be secretly converted for deploying such ballistic missiles, which would be able to reach strategic targets in western Russia, including Moscow, within minutes. Thus, the disarming capabilities of the US could rise substantially.

- Even if the planned system did indeed aim at intercepting potential missile strikes from Iran, the interception might occur over Russia's territory. Consequently, it is possible that Russia could suffer from radioactive or toxic fallout (or both), or even a nuclear explosion in the atmosphere or on the ground.

Certainly, these perceived risks are debated and some of them do not look very convincing for either the West or some Russian experts and decision-makers. Still, the pro and con arguments are usually of a complicated technical nature, and could be disputed by using similarly complex counterarguments. It is difficult for decision-makers who do not understand the technicalities to make an independent judgment. In this situation, they would likely have to base their decisions on worst-case assumptions, despite the fact that these assumptions are disputable.

The second set of concerns is linked to NATO enlargement. Russia, with its downsized conventional forces, feels insecure in the proximity of the most powerful military alliance in the world, which now directly borders Russia and in some areas is just a few hundred kilometres from its capital, Moscow, and a few dozen kilometres from its second capital, St Petersburg. The feeling of insecurity has been aggravated by the fact that the adopted CFE Treaty on limiting conventional forces in Europe, which partially alleviated Moscow's security concerns, has not been ratified by NATO countries, and the Baltic states – situated the most closely to the Russian heartland – have refused to accede to the agreement. In recent years, NATO enlargement has been followed by the move of its military infrastructure towards Russia's borders. Two US military bases have been opened in Bulgaria and Romania. Moscow believes that this represents a violation of the CFE Treaty, a charge that is rejected by NATO.

It should also be mentioned that the official US justification for the deployments – Iran – is itself controversial. This project could be viewed as sending the wrong message to Tehran at a time when the international efforts aimed at solving the Iranian nuclear issue might be entering a critical phase. The G6 countries – the US, China, Russia, France, Germany and the UK – are trying to convince the Iranians to give up the most controversial elements of their nuclear programme through a mixture of

carrots and sticks. In that context, a demonstration of 'zero tolerance' towards the programme represents an important integral component of the efforts. Yet, a decision to deploy the missile defence for protection against Iranian nuclear missiles could be considered in Tehran as a willingness by the US tacitly to accept Iran's nuclear status. Under their possible logic, if Washington is developing the second echelon of its defence against a nuclear Iran, it seems ready to adapt itself to Iranian nuclear developments if the negotiations fail. Thus, the missile defence could induce Tehran to go nuclear rather than encourage it to show restraint.

From this perspective, the deployment of missile defences in Poland and the Czech Republic, together with the strategic nature of the planned system, have become the last straw in a chain of events provoking the currently tough Russian reaction. The Kremlin thinks that it has been deceived, at least three times. First, during German re-unification, Russia allegedly received assurances that NATO would not go eastward, yet the alliance made such a decision just a few years later when the circumstances changed. Second, in the 1997 Russia-NATO Founding Act, the alliance promised not to embark on new, significant conventional deployments on the territories of new member states. Although NATO does not recognise that the US bases in Bulgaria and Romania as well as the planned missile defence deployments could be characterised as 'significant', the Russians underline the strategic nature of missile defence systems, which thus makes them a significant factor in the NATO-Russia balance of forces.

Third, after the 2002 unilateral withdrawal by the US from the Anti-Ballistic Missile (ABM) Treaty, the US and Russia signed a Memorandum on Strategic Security, wherein they are obliged to consult on major issues related to strategic stability, including missile defences. This Memorandum has never been fulfilled by the Bush administration. The Russians were allegedly vaguely informed about the US missile defence plans in Europe, but consultations only began in 2007 – after the issue had already escalated into a serious crisis in the bilateral relationship and after the US had already made the deployment decision.

The fourth and the least considerable factor is represented by an electoral campaign. The Kremlin perceives that the West is trying to interfere in Russia's domestic politics in order to provoke a Russian version of the Ukrainian Orange Revolution. To neutralise such an attempt, some might think there is a need to discredit the West in the eyes of ordinary Russian voters as an 'aggressive' anti-Russian entity.

Potential missile defence deployments in Poland and the Czech Republic are a strong public relations argument favouring such a proposition. The system, supposed to be used against Iran, will be deployed much closer to Moscow than to Tehran, immediately at the Russian western border and far away from the possible launch sites of inexistent long-range Iranian missiles. This clear geographical fact discredits US arguments in the eyes of Russia's ordinary domestic audience. The contention that Poland is an ideal position from which to defend most of Europe is technically complex and cannot compete with the simple and clear geographical argumentation. Also, that contention could be disputed by using similar technical rationales, which are difficult for non-experts to understand.

Furthermore, the deployment would be made on the initiative of the US; no European country, including Poland and the Czech Republic, had asked Washington to protect it from a perceived threat of an Iranian missile attack before the decision to deploy the system was made in the US. This further undermines the credibility of the US arguments that the system is designed to protect Europe from the missile threat. The very fact that the anti-missile interceptors would be deployed in Poland – a determined critic of Russia that seeks to undermine EU-Russian relations – further helps to make the case to the Russian public that, in fact, the system has Russia in mind.

It should be noted that the electoral context has made the issue more visible in the Russian media. It should not be considered, however, that the electoral context is the only reason for Russian opposition to the project. The strategic nuclear and security factors are perceived as far too important to forget about the system after the elections are completed next spring.

Countermeasures

Threat perceptions coming from the US nuclear missile defence system in general, and from the missile defence installations in Poland and the Czech Republic in particular, along with desires to improve the economy and a determination to protect national security make it almost inevitable that Russia will have to implement countermeasures against the future system if it really is deployed. There might be debates about the nature of the measures, those that should not be used and those that should be picked up from the available list. But some countermeasures will be implemented.

The Kremlin says that the countermeasures will be asymmetrical. Moscow wants to avoid the militarisation of the economy, which was one of the main reasons for the Soviet collapse. Therefore, it would likely concentrate on relatively inexpensive measures, aimed at neutralising the system. From the military viewpoint, the list of potential countermeasures is quite clear. Moreover, some of them have already been developed and tested.

First and most importantly, Russia will have to increase the survivability of its nuclear forces and improve their capabilities to penetrate through missile defences. There are indications that after the unilateral US withdrawal from the ABM Treaty in 2002 and Washington's refusal to go verifiably low in the levels of strategic nuclear forces, Russia has had to reconsider its own nuclear modernisation plans. Earlier, there were calculations that the Russian strategic nuclear forces might be reduced to a level of a few hundred warheads sometime in the 2010s. Now, it looks likely that Moscow would be able to maintain force numbers at the levels permitted by the 2002 US-Russian Moscow Treaty, i.e. at around 2,000. If the US-Russian agreement on strategic arms control collapses owing to the expiration of the Start I Treaty in 2009 and the Moscow Treaty in 2012, there would be no prohibition on Russia going for higher ceilings.

Reportedly, in 2001 the then US Secretary of State Colin Powell toured European capitals in an attempt to assuage criticism of the US decision to withdraw from the ABM Treaty. One of the arguments he made to try to reassure Europeans was that Russia would not be able to build up its strategic nuclear forces as a countermeasure against the missile defence deployments because of economic reasons. This information was delivered to Russian leaders. It is likely that it has strengthened their determination to make such a build-up possible.

In 2002, as a result of the US withdrawal from the ABM Treaty, another arms control agreement – the Start II Treaty – ceased to exist. Among other things, it prohibited intercontinental ballistic missiles (ICBMs) with multiple re-entry vehicles (MIRVs). Some experts believe that these represent the most effective countermeasure against missile defences. With them, it is cheaper to maintain higher nuclear ceilings than with single warhead missiles. The considerable throw weight of MIRVed ICBMs permits the deployment of a larger number of decoys in order to confuse the missile defences. Initially, to comply with the Start II Treaty, Russia developed a new single warhead ICBM – Topol-M. It did not develop new

MIRVed missiles and under the terms of the Start II Treaty, the existing systems were to be dismantled.

Yet the collapse of the Start II Treaty has permitted Moscow to start developing a new MIRVed ICBM. In 2007, it was successfully flight-tested. Under the Start I Treaty provisions, the US was informed about the new system, which was named RS-25.

Simultaneously, Russia developed and tested a new warhead, especially designed for penetrating missile defences. According to Russian officials, it is a high-speed manoeuvrable warhead. Its deployment would make the task of intercepting a missile at the final stage of its trajectory much more difficult.

Russians have also started to pay more attention to two other components of its triad – submarine-launched ballistic missiles (SLBMs) and heavy bombers. These enable missiles to be launched from unexpected azimuths, making the task of their early detection more difficult. There are reports that Moscow has begun production of Sineva SLBMs, and it has developed and tested a new Bulava missile. Although earlier there were hints that the strategic submarines would only be based in northern Russia, recently there have been accounts that bases on the Pacific coast would also remain – which would not only permit maintaining survivability but would also increase the number of potential launch sites in the ocean. As a result, an interception task would become more complicated.

In 2007, it was announced that Russia had resumed limited production of the Tu-160 Blackjack heavy bombers. It has also resumed routine flights of the Tu-95 Bear bombers to train pilots for implementing higher alert missions. Strategic airports around the Russian territory have been deactivated for permitting the strategic bombers to disperse in order to increase their survivability.

This long list should not be interpreted as a real build-up. So far, Moscow is only trying to maintain operational all the legs of its strategic triad and to make qualitative improvements. The build-up is only relative and can be termed as such solely by comparing it to the levels predicted for the situation should the US have remained in the ABM Treaty. In real life, Russia's strategic nuclear capabilities continue to diminish along with the decommissioning of a large number of old Soviet systems and the small production of new missiles.

In addition, the military forces might need the capability to destroy threatening objects on the ground. Russian leaders have warned that they

might retarget Russian nuclear missiles on European targets. They have not clarified what specific targets they have in mind, but most likely these are the components of the missile defences to be deployed in Poland, the Czech Republic and elsewhere. This retargeting might include of some strategic nuclear delivery vehicles – land- sea- and ground-based. Conventional sea- and air-based cruise missiles could also be used for implementing such a mission.

In 2007, Russia tested a new short-range, high-speed, ground-based cruise missile, which could be deployed on the Iskander missile launcher. It was further reported that the range of the cruise missile, if necessary, could be increased. If deployed in the Kaliningrad oblast or in Belarus, it could potentially destroy interceptors in Poland and even the radar in the Czech Republic.

Militarily, the Russians might also be interested in intercepting the anti-missiles on their flight in two scenarios. First, if these were launched for intercepting Russia's own missiles. Second, if the anti-missiles attempted to hit a third-country missile above Russia's airspace. In the latter case, it is especially important to have the capability to intercept the anti-missile in the air, since destruction of the facilities on the ground is infeasible.

Finally, the deployments might trigger Russia's own efforts in the area of missile defence. In 2007, it was announced that new S-400 Triumph air-defence systems had been deployed around Moscow. The systems purportedly possess a capability to hit not only airplanes, but also cruise missiles and short-range ballistic missiles. This deployment could be considered as the first step in efforts to improve the protection of vital strategic facilities if the silos in Poland were to be converted for housing surface-to-surface missiles.

The above-mentioned list of current and potential countermeasures is not complete and is based on publicly available information. New measures could be announced in the foreseeable future. Some measures remain hypothetical, while the scale of the deployment of others that have already been developed and tested remains uncertain and will depend on the state of overall political relations between Russia and the US, and Russia's relations with the West in general in the coming years.

Diplomatic context

Moscow and Washington continue to disagree over the missile defence deployments in Poland and the Czech Republic. Both sides, however, seem interested in preventing the disagreement from reaching confrontation. Russia continues to maintain an interest in becoming a part of the West, and a significant proportion of the Russian political class still believes that their country belongs to the European civilisation. The US is experiencing problems in Iraq and Afghanistan, and cannot afford a confrontation with Russia, which would considerably undermine US interests in the Middle East, Iran, Afghanistan, South Asia, the Korean peninsula and possibly in other sensitive areas.

In order to decrease the tension, the Russians have delivered a proposal for the joint use of some elements of the Russian early warning system for monitoring missile risks. Initially, at the June 2007 G8 summit in Heiligendamm, President Vladimir Putin proposed that the US jointly use the phased-array radar built by the former Soviet Union and located at Gabala in Azerbaijan. Russia operates the facility, which is rented from Azerbaijan until 2011. There is a feeling that Moscow does not have plans to continue the rent beyond 2011 and is fulfilling a plan to construct a newer early warning facility on Russian soil as a substitute. Nevertheless, Moscow has made such use conditional on eliminating plans to deploy the US defences in Poland and the Czech Republic.

During the US-Russian informal summit at Kennebunkport in Maine, President Putin further developed his proposal. Beyond Gabala, he offered the joint use of the new radar in Armavir (Krasnodar Krai), which should be completed by 2008. Also, he returned to the idea of opening a joint data exchange centre (JDEC) in Moscow. The US-Russian JDEC agreement was achieved in the late 1990s. Under the agreement, American and Russian officers, sitting alongside one another, would receive limited and filtered data from the national early-warning systems of the two countries and provide the data to their respective militaries. So far, the Russians have selected a building for the centre in northern Moscow, but the two sides have subsequently lost interest in the initiative.

According to President Putin, the data received from Gabala and Armavir could go to the JDEC, and from there to the US and Russian militaries. He also suggested establishing a similar centre in Brussels, in order to share the data with non-NATO states.

Irrespective of the reasons underlying the Putin proposal, it has opened doors for discussing potential US-Russian cooperation with respect to strategic missile defence. Previously, Moscow had only accepted consultations on non-strategic missile defences within the NATO-Russia Council. It has also participated in missile defence simulations conducted on a bilateral basis with the US. In the current political context, the proposal has helped to limit damage in the bilateral relations inflicted by the US decision to deploy missile defences in Poland and the Czech Republic.

Furthermore, in 2007 the US and Russia agreed to establish a 2+2 consultation mechanism at the level of ministers of defence and foreign affairs. Within the framework of this mechanism, several working groups have been established. One of them should deal especially with the missile defences. The groups gather on a regular basis, with the ministers meeting every six months. In fact, a permanent channel for bilateral political dialogue has been formed. It will help to maintain constant contact for discussing matters of mutual concern, including the missile defences. This contact might in turn help to manage tensions in the bilateral relationship during the electoral season in Russia and perhaps later in the US.

From its side, the US has also made some proposals aimed at alleviating Russia's militant rhetoric. During the 2+2 consultations in Moscow held in October 2007, Washington delivered a set of proposals to the Russians. Although they remain classified, it has become known that among other things, these proposals contain transparency and confidence-building measures intended to address Russia's concerns about the missile defences to be deployed in Poland and the Czech Republic. In particular, Russian inspectors would be permitted to visit the future sites. There are also hints that the deployment of the missile defences could be postponed. Some US officials have even alluded that the plans might be reconsidered if the threat from Iran does not materialise.

Obviously, a change in the US position has taken place because the Bush administration is facing difficulties in promoting the missile defence initiatives and because it needs a certain understanding with Russia on some sensitive issues, including a few regional ones. It is clear that the US is unlikely to gain unconditional permission from Prague on the radar deployment. Meanwhile, the US Congress has reduced expenditures for the missile defences and there is influential domestic opposition to the plans. Some Western European allies are far from enthusiastic about the US plans and how these have circumvented multilateral institutions and debates.

The Russian side suspects that the recent US proposals represent only a propagandistic effort aimed at reducing domestic and international opposition to the US project. First, Secretary of State Condoleezza Rice and Defense Secretary Robert Gates did not bring to Moscow any proposal in its normal diplomatic form. There were only vague oral statements, which did not permit the Russians to understand the US ideas in full detail. Washington has promised to give the Russians a written proposal, but as of 6 November 2007, it has not yet been delivered. Second, the US reportedly promised to establish only the missile defence infrastructure; the deployment of the interceptors themselves would only be undertaken upon evaluation of the threat. Again, this proposed measure could be considered meaningless. The US could receive a go-ahead for the initial works and upon their completion, Washington could unilaterally decide that the time was ripe for deployment. As such, this measure would not amount to a substantive difference from the current situation. Finally, the US might offer the Russian military an opportunity to visit the sites in Poland and the Czech Republic, if both countries accept it. This measure per se could be an important step for confidence-building and transparency. It would be hostage, however, to historical hang-ups on the part of Warsaw and Prague. They could block such visits, perhaps with tacit US acquiescence or even inducement.

Regarding the future, the Russians would be unlikely to change their opposition to these US plans. There may be calculations to buy time until a new administration comes to power in the White House, which might be less ideological about defence. Also, a weak, centre-right cabinet of Czech Prime Minister Mirek Topolanek could lose its fragile majority in parliament and be substituted by a centre-left coalition, which, together with a majority of Czech voters, opposes the US radar deployment.

The US opponents to the missile defences are also interested in a tough Russian position, and behind closed doors, they might even urge Moscow to remain firm. Russia's opposition would also force the Bush administration to pay a higher price both domestically and in US relations with some key European countries. Finally, the missile defence issue is increasing suspicions that Poland is playing the role of an American Trojan horse in European institutions and that it is pursuing the US line in order to slow down European integration.

Conclusion

The plans of the Bush administration to deploy the third missile defence site in Poland and the Czech Republic represent a premature and ill-defined measure. The decision about it has been made at a time when the US and US-led institutions, as never before, need broad international support for their efforts to stabilise Iraq and Afghanistan. In that context, the inevitable alienating of Russia as a result of that decision may bring counterproductive consequences in the short term. In the longer run, the US action could trigger a counteraction, which has been in various phases of preparation since the US unilaterally withdrew from the ABM Treaty and which might put an end to a unique situation of security that emerged in Europe with the end of the cold war. Fortunately, more recently the US and Russia have established diplomatic instruments for maintaining uninterrupted dialogue on the missile defence system and other critical issues on the bilateral agenda. This step brings with it the hope that their relations will remain manageable during the electoral campaigns in both countries, and that disagreements about the missile defence plans will not escalate into open animosity and confrontation.

**WHAT IS 'JUST' SECESSION?
(IS KOSOVO UNIQUE?)**

WITH CONTRIBUTIONS BY

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JANUSZ BUGAJSKI

DMITRI TRENIN

Chairman's Summing-up

Michael Emerson*

This 28th session of the European Security Forum, on 11 February 2008, was timed one week before the expected declaration of independence by the government of Kosovo, and not surprisingly the seminar attracted a packed audience. The widespread expectation is that the US and a progressive cascade of EU member states will recognise Kosovo, and that the EU will go ahead with a major 'rule of law' mission there without further UN resolution (arguing that the wording of the existing Resolution 1244 is sufficiently elastic to authorise this action). It is further expected that one or more EU member states (such as Cyprus) will oppose recognition, but will not prevent this mission from being launched.

The seminar was served with four excellent papers, each focusing on a different aspect.

Bruno Coppieters (Free University of Brussels) set out the six criteria that should be satisfied to 'justify' the recognition of a contested secession, based on his reading of the contributions of political philosophy and the ethics of war. These six criteria – just cause, right intentions, last resort, legitimate authority, proportionality and likelihood of success – are not codified in international law, with the exception of legitimate authority. His evaluation of the Kosovo case was that international recognition qualified under three of the criteria (just cause, right intentions, likelihood of success) but was more dubious on the other grounds. Coppieters' personal judgement was therefore that there should be continuing negotiations to find a compromise solution within the Security Council, so that Kosovo would not be only partially recognised by the international community. He observed that the peoples of other divided states have been waiting a long time, for example, the Abkhaz and Taiwanese.

Gerald Knaus (European Stability Initiative) concentrated on what is actually going to happen in Kosovo, following an inevitable declaration of

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independence and build-up of the role of the EU. Kosovo is not about to be fully independent, but a protectorate with powers retained by the international community and the EU, equivalent to those seen in Bosnia under the Dayton arrangements. Knaus is deeply pessimistic about the outlook for the long-term development of Kosovo. The EU's 'rule of law' mission will be the most ambitious and expensive crisis management operation that the EU has undertaken so far. However, problems of legitimacy and coherence loom ominously on the horizon. Even more fundamental is the problem of developing a viable economic development strategy for Kosovo, which stands to become the most isolated country in the whole of Europe by virtue of visa restrictions on the movement of its people.

Janusz Bugajski (Center for Strategic and International Studies, Washington) argued that international law, and in particular the legitimising role of the UN Security Council for any recognition of a contested secession, should not be treated as the sole and supreme arbiter of state sovereignty. Political realities often prevailed otherwise, which could either be for reasons of *realpolitik* or implicit recognition of some of the criteria presented by Coppieters. Milosevic's attempted mass expulsion or genocide of the Albanian population in 1999 deprived Serbia of its right and legitimacy to govern Kosovo. He further argued that the consequences of Kosovo's non-independence should be weighed against, for example, how this would be received by dictatorships inclined towards mass repression or genocide. Finally, Bugajski assessed the implications of Kosovo for relations between Russia and the West. He argues that the Kremlin is not interested in finding a solution for Kosovo, but rather instrumentalises disagreements over the recognition of Kosovo to undercut the efforts of the EU and NATO to pacify and democratise the Balkans.

Dmitri Trenin (Moscow Carnegie Center) argued that it must have been clear since mid-1999 that Kosovo is irretrievably lost to Serbia, but then a sad reflection on both Serbia and the EU that the opportunity to settle the future of Kosovo had been missed. While Kosovo was not the cause of the new age of great power rivalry between Russia and the West, it could become one of its symbols. The sounds of Independence Day in Pristina will reverberate in Abkhazia, Kurdistan and Taiwan, and no less in Tbilisi, Baghdad and Beijing. Russia, however, is unlikely to follow the US-EU example and retaliate by recognising Abkhazia, South Ossetia and Transnistria. The costs of such actions to Russia and the convenience of the status quo militate against such action. Nonetheless, for Trenin the

international context is not hopeless. He can conceive of a set of differentiated solutions to each of the frozen conflicts of the former Soviet space: agreement on a common state for Moldova and Transnistria, autonomy for South Ossetia within Georgia, recognition of Abkhazia but with the Gali district ceded back to Tbilisi, and the settlement of the Nagorno-Karabakh conflict based on territorial exchange and guaranteed land access corridors. However, the political context for pursuing such solutions is now characterised by the return of international power relations. Kosovo is a signal that the geo-political holiday the world had enjoyed since the end of the Cold war is now finally over.

Discussion was structured according to four themes.

First was how to view the six criteria proposed to assess the justification of a contested secession. The chair asked whether it would be advisable and realistic to try to embody more of these criteria into international law, rather than leave the field to the legal-procedural criterion of the UN Security Council's vote. Coppieters was himself dubious about this, arguing that the interpretation of how to apply such principles as a just cause would lead to impossible disagreements. He advocated their use in political debate, which could indeed help frame the political context for decisions.

Second was the question of whether Kosovo's case for independence was justified or not. To boil the discussion down to the bottom line positions of the authors: one felt that it was justified, another that it was inevitable, another that the new state would in fact be more of a protectorate than an independent state, and another that it was justified on some but not all of the criteria.

Third was the question of the likely extent of collateral impact on other cases of would-be independent states. The sense of the meeting was that the arguments would indeed reverberate around the world, and that the EU's argument that Kosovo was unique would therefore fail to convince. On the other hand there was a predominant view that scenarios of domino effects were largely exaggerated for each of the three regions under discussion. The first was Western Europe, where the idea that the Spanish Basque province, Scotland or Belgium would be affected, was roundly dismissed. The second was the Western Balkans, for which the main views expressed were that Bosnia and Macedonia were not so fragile, unless perhaps the independence of Kosovo were followed by the second order irredentist secession of Northern Kosovo to Serbia. The third was the frozen conflicts of the former Soviet Union, where (as Trenin argued)

Russia had reasons to tread carefully, rather than plunge in with its own recognition of Abkhazia etc.

Fourth was the issue of prospects for Russian relations with the EU and the West. There were some sharp differences expressed in the discussion over interpretations of Russia's motives in the positions taken in the Serbia-Kosovo affair. The classical official argument was enounced by a Russian diplomat that his country was simply upholding the rule of international law, with an analogous view also deployed by a Serbian diplomat on behalf of his country. A widely prevailing view among the independent participants was that Russia was not really interested in Kosovo, but was willing to use its veto card in the UN Security Council to advance its international geo-political presence, and to undermine the efforts of the EU and NATO in the Balkan region.

The Recognition of Kosovo: Exceptional but not Unique

Bruno Coppieters*

Ever since the option of supervised independence for Kosovo emerged as the preferred status option within the EU, its diplomats have been propagating a view of Kosovo as a unique case. The governments of countries confronted with secessionist conflicts have to be convinced that the EU policies on Kosovo will not turn against them. Countries such as Georgia and Cyprus indeed have good reason to feel nervous, but the EU message on the unique nature of the Kosovo case is clear. The recognition of Kosovo as a sovereign state should not be considered as a legal or political precedent for any other decision the EU or the US might have to take in the future.

The question of whether Kosovo is a unique case is an interesting one. It is intriguing in itself to learn why the EU keeps talking about a unique case and not about an exceptional case. A simple answer is that unique cases do not refer to general principles, whereas exceptions do. Exceptions are rule-bound. There are general rules and principles, and there are principles that may justify exceptions. We may talk about unique cases when they fall outside a general normative framework and when there are no clear principles telling us why they fall outside this framework. We may either not know these principles, we may fail to agree on their meaning or application, or we may not be interested in making them explicit. Then we would say that they fall outside the general framework for the reason that they are unique.

The EU does not know how it can justify, in general terms, why the principle of the territorial integrity of a state should be overruled in one particular case. The EU would be happy to claim that the UNSC has the legal authority to overrule the principle of territorial integrity in the case of Kosovo, but it is unable to do so, due to the position of Russia and China. It is also impossible for the EU to make the general claim that it has the

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legitimate authority itself to overrule the principle of territorial integrity on European territory. Due to the lack of clear principles justifying the recognition of a unilateral declaration of secession, it is quite understandable that the EU is talking in terms of a unique case.

My presentation concerns the recognition of a unilateral declaration of independence, in this case that of Kosovo, as an exceptional case. I will present a set of general moral principles to address the question of whether the recognition of a unilateral declaration of independence is a legitimate exception or not. But I also have to point out the limits of such an endeavour. Such moral principles may help us to address the question why, when and how the principle of territorial integrity may be overruled through the recognition of a unilateral act of independence, but it should not be expected that such an approach would resolve the contradictions among the various parties involved in this dispute. The meaning of these principles may indeed be interpreted and applied to concrete cases in contradictory ways. A set of principles can be helpful to indicate the main issues at stake in the moral debate on Kosovo but it cannot replace international law, a good compromise, the art of diplomacy or the authority of the UNSC.

Political philosophy has produced several sets of principles on the morality of secession. My personal view is that questions such as the legitimacy of the unilateral declaration of Kosovo can best be understood within the framework of the moral principles that are traditionally used in war settings. These are referred to as the *jus ad bellum* principles, or the principles regulating the justification of the use of military force. These principles are traditionally used to justify exceptions to the general rule that states have to establish peaceful relations with each other and to abstain from the use of force. We may apply a similar line of thought to the case of secession. We can assume that the general rule is that statehood and territorial integrity have to be preserved. We can further assume that the recognition of unilateral forms of secession is only justified under exceptional circumstances and if it is in accordance with a systematic set of moral principles. The six *jus ad bellum* principles are therefore useful in this context.

I will reflect on the recognition of Kosovo as an exception to the general rule of territorial integrity. But I will also analyse the extent to which Kosovo's recognition by Western governments is exceptional, as compared to other breakaway territories supported by an external power.

There is first of all the Principle of a Just Cause. It states in this context that the recognition of a declaration of independence should have a just reason if it occurs against the will of the central government and overrules the principle of territorial integrity. This means that the injustice to be prevented or remedied should be severe enough to justify recognition of a unilateral declaration of independence. The 'just cause' argument is used by the EU in reference to Kosovo. The EU points to the forced expulsion of about 700,000 Kosovo Albanians from their homes in 1998/1999. But we have to be aware that the Serbian government, for its part, also argues from the 'just cause' perspective. It considers that the events that took place under Milosevic could not be repeated under a democratic Serbian government, and therefore do not need be prevented by the creation of new injustices. The recognition of the independence of Kosovo would violate Serbian sovereignty and the principle of territorial integrity, and would furthermore threaten the rights of the Serbian minority in this territory.

The second principle to be taken into account is the Principle of Right Intentions. This means that the real motives behind the decision to recognise the declaration of independence of Kosovo should be consistent with 'just cause' and not with other objectives. Much diplomatic time and effort are expended in the name of the 'right intentions' principle. The EU is declaring that the recognition of Kosovo is in accordance with wishes of the people of this territory, the stability of the region and even with the real interests of Serbia. Those who are opposed to the recognition of Kosovo apply this principle critically. They point out that the EU - in cooperation with the US - would primarily be defending specific geopolitical interests in the region, at odds with the interests of Serbia.

The third principle to be applied in this context is the Principle of Last Resort. The UN Secretary-General's Special Envoy, Martti Ahtisaari declared in March 2007, after about a year of failed mediation attempts among Serbians and Kosovo Albanians, that he had abandoned all hope of reaching agreement between the parties. He pleaded in favour of a decision by the UNSC for supervised independence. It is of course not easy to say when you have reached the point where further negotiations are meaningless. If Mr Ahtisaari would one day have to be sent as a UN Special Envoy for Cyprus, he would surely be instructed to consider a far longer timeframe for mediation than he had in Kosovo. The question of a reasonable last resort was at the centre of the international dispute on

Kosovo. The Russian government argued that more time was needed for negotiations to achieve a positive outcome.

The fourth principle to be used in this context is the Principle of Legitimate Authority. States have their domestic origin in the popular will, but they are also recognised internationally as states by other states. This act of recognition is a political act, but it should not contravene basic principles of international law. And who, ultimately, has the right to break up other states? Would the UNSC have such a right? Or could any state in the international community claim such a right? EU governments failed to reach agreement on this issue. So they preferred to concentrate on the question of whether the EU has the right to administer a breakaway territory with no UN mandate.

The fifth principle that should inform us about the legitimacy of recognising the unilateral declaration of independence of a breakaway state is the Principle of Proportionality. The moral costs and benefits of such recognition have to be calculated at both the domestic and the international levels. What does the EU say about this?

A unilateral recognition of Kosovo's declaration of independence would help to stabilise the domestic situation in Kosovo itself. It would create sovereign equality among Kosovo and Serbia, facilitating their common integration within the EU. The EU expects that such equality would in the long term pave the way for conflict resolution. Such an objective would be excluded by all other status options, such as the autonomy of Kosovo within Serbia or the preservation of the status quo. But such optimistic perspectives of the EU are refuted by those who oppose recognition. They state that the Serbian minority in Kosovo could not be fully integrated within an independent state structure and that Belgrade's opposition to EU policies on Kosovo excludes conflict resolution within the EU.

The fact that the positive consequences of Kosovo's recognition on the reform of its state structures are more easily predictable than the negative consequences on the international level is a major reason why the EU decided to recognise the independence of Kosovo. What recognition surely has as an immediate adverse effect on the international level is the creation of new fault lines within the EU on matters of European security policy. It further worsens the diplomatic relations between the West and Russia. It will also render EU appeals to respect the authority of UNSC resolutions in other diplomatic disputes less credible, as the EU itself is

now overriding the UNSC resolution of 1999 on the international administration for Kosovo.

The recognition of Kosovo will make the international management of those secessionist conflicts in Europe where Russia plays a prominent role much more fraught. Despite all talks about a unique case, Kosovo will be at the centre of all discussions on the settlement of secessionist conflicts. The question will be raised as to why the EU favours the application of federal models in conflicts such as the one in Abkhazia if it considers these models as inappropriate for Kosovo. The fact that Kosovo is an inspiring model for the leaderships of breakaway states does not mean, however, that the external states protecting those secessionist entities will follow the Kosovo example by recognising them.

This can be more easily understood when we analyse the sixth and last principle in this series, the Principle of Likelihood of Success. The Kosovo government reckons that its declaration of independence will be recognised by about a hundred countries, or by about half of the entire world community of states. This may take some time, and such a partial recognition would not grant Kosovo a seat in the United Nations, but it would turn the independence from Serbia into an irreversible option, and thus largely fulfil the Likelihood of Success Principle.

It is primarily – but not exclusively – in respect to this last principle that Kosovo differs from other secessionist entities. The independence of the Turkish Republic of Northern Cyprus was recognised by Turkey in 1983 and the independence of Chechnya was recognised by the Afghan government under the Taliban in 2000. But these processes of recognition did not facilitate the integration of those two breakaway entities in the international community, and placed Turkey and Afghanistan at odds with the international community in respect to these conflicts.

There are no good reasons for Russia to recognise Abkhazia, South Ossetia or Transnistria, as long as it has no reasonable chance of convincing a substantial part of the international community to follow suit. Recognition of those entities would moreover reduce future diplomatic options available to the Russian government and lead to fresh discussions on the right of secession in Russia itself. Such discussions do not constitute an immediate threat to Russian territorial integrity, but they are always unpleasant and should not be favoured for no good reason. Moreover, such recognition would not be necessary to strengthen the position of the breakaway states in negotiations, since Russia holds a power of veto anyway.

The Kosovo conflict is not exceptional in respect to some of the other criteria we have examined. Northern Cyprus, Abkhazia and South Ossetia claim, for instance, that they do not have less just cause than Kosovo for independent statehood. In these cases, the external actor supporting them refers to a just cause argumentation to legitimise its policies, as the EU does in respect to Kosovo. Turkey considered past oppression of the Turkish Cypriots by the Cypriot central government as a major (but not the only) good reason for its move to recognise the independence of the Turkish Republic of Northern Cyprus in 1983. And the Russian discourse on Abkhazia and South Ossetia evokes the long history of ethnic conflict of those two communities with the Georgians, enabling it to justify its presence in South Ossetia and Abkhazia by the lack of reconciliation between the parties concerned. It defends its own peacemaking role in these conflicts as the best guarantee for the prevention of new injustices.

The aims of the EU in its support for Kosovo's supervised independence are not exceptional either, as compared to the aims pursued by Russia or Turkey when they are supporting particular status proposals for the breakaway entities in Georgia or Cyprus. All three external actors are acting here in agreement with the 'right intentions' principle. The EU considers the option of sovereign equality between Serbia and Kosovo as the optimal basis for long term conflict transformation processes. As an alternative to recognising the independence of Abkhazia, in 1997 Moscow drafted a federal model to resolve this conflict on the basis of the idea of a 'common state'. Such a peace proposal gives substantial competences to the secessionist entity. 'Common' refers here to equal rights between the parties. Equality is also seen by Turkey as the key for conflict resolution in Cyprus. Turkey made an attempt to raise the international status of Northern Cyprus in 1983 by recognising its independence. Twenty years later, it has eventually supported the view that both parts of the island could be equal in rights within a federal framework, as proposed by the so-called Annan-plan for the reunification of Cyprus. The EU, Russia and Turkey agree that their own interests in secessionist conflicts are best served by an exit strategy, where equal status among conflicting parties constitutes the basis for conflict resolution.

It may be concluded that there is no point in conceiving of the recognition of the unilateral declaration of independence of Kosovo as unique. It makes more sense to consider it as exceptional. Such an exceptional decision could in principle be justified by the EU on the basis of a set of general principles, if it is feasible or if the EU has an interest in

doing so. But the EU member states would not be able to agree on the choice of such principles, on their meaning or on their method of application to any particular case. Moreover, the EU has no interest in loosening the validity of the principle of territorial integrity, which is the inevitable result of such a normative discussion on the question of secession. The Kosovo decision of 2008 is thus very different from the Kosovo decision of 1999, where many EU members were eager to discuss a reform of the international legal framework for international humanitarian intervention, in the light of general moral principles.

The EU Kosovo policies are exceptional when compared to other exit policies employed by external actors involved in secessionist conflicts on the side of the breakaway entity, with regard to their likelihood of success. Even partial recognition will turn independence into an irreversible option. There is no reason to believe that any other breakaway state with strong external support would be able to follow such an example successfully.

My personal opinion about the EU position is that it is strong in terms of just cause, right intentions and likelihood of success but weak in terms of last resort, legitimate authority and proportionality. This decision cannot therefore be called just. As far as the principle of last resort is concerned, it has been assumed that Putin's Russia and China would swallow Western plans on supervised independence in the same way as Yeltsin's Russia accepted the creation by the UNSC of an international administration in 1999. This did not happen. Russia threatened to use its veto at the UNSC. The US, the UK and France did not appreciate being confronted at the UNSC with one more 'unreasonable veto' – which is a formulation Tony Blair used in 2003 during the discussion on the Iraq war. It seems that overruling such opposition by unilateral decisions has now replaced diplomacy.

As far as legitimate authority is concerned, partial recognition is not satisfactory for Kosovo. Partial international integration does not guarantee its development. Further negotiations are necessary to reach full agreement within the UNSC, despite the present international row over the creation of a *fait accompli* by Western governments. Only an agreement within the UNSC leading to full international recognition may change the proportionality calculation for the better.

The Balkan conflicts in the 1990s sparked an interesting scholarly debate about the question of the recognition of a right to secession in international law. Those in favour expected that internationally agreed procedures would facilitate peaceful forms of separation. The debate on

Kosovo's independence made it clear once more that such an approach is doomed to fail. Too many countries would oppose the creation of abstract international rules that challenge the principle of territorial integrity. Such formalisation would furthermore have mixed results in secessionist conflicts. International legislation on secession enshrining the just cause principle may deter certain repressive governments from harming minorities, but may also favour the escalation of ethnic conflicts if secessionist movements choose for a *politique du pire*, or a deliberate strategy to make things worse. Legislation of this nature may also have an adverse impact on negotiations. Secessionist entities will only be interested in proving that their state fulfils the legal just cause criteria in order to exercise their right to secession. This will make it more difficult to bring mutually acceptable solutions to the table.

Regulating secession is, however, an interesting option on the domestic level to avoid acts of independence taking place unilaterally, without principled negotiation and outside the existing constitutional framework. The judgement of Canada's Supreme Court on the right of secession of Quebec; the Good Friday Agreement on Northern Ireland and the Constitutional Charter of the State Union of Serbia and Montenegro indicated precisely which rules had to be followed in the case where a majority of the population of a territory makes a clear choice to secede. These rules did not focus on a just cause for secession, but rather on the question of legitimate authority. Such domestic regulations have had a positive effect on the political stability of Quebec and Northern Ireland and have also allowed the peaceful separation of Montenegro from Serbia. But these rules have to be specific to each case, and should leave sufficient room for political negotiation and compromise.

The Just Secession Criteria for the Recognition of a Unilateral Act of Independence

- 1) Secession should have a **just cause**. This means that the injustice to be prevented or remedied should be severe enough to justify the recognition of a unilateral declaration of independence.
- 2) The decision to recognise a state that has seceded unilaterally should be guided by **right intentions**. This means that the recognition of its independence should be motivated primarily by considerations consistent with the just cause for independence.

- 3) The recognition of a unilateral declaration of independence can only be a **last resort** solution. All efforts to achieve a mutual agreement between the secessionist entity and the central government have to be considered as fruitless.
- 4) A unilateral declaration of independence has to be recognised through a **legitimate authority**. Partial recognition may be granted by a limited number of states. Full recognition by the world community of states generally means entry into the UN.
- 5) The principle of **proportionality** should be respected. The anticipated costs and benefits should be calculated at both the domestic and the international levels.
- 6) The recognition of a unilateral declaration of independence should have a **likelihood of success** in achieving its aims. There should be a reasonable chance of having the new state recognised in the long run by a substantial section or even the whole of the international community.

Kosovo's Independence: Practicalities, Precedents and Power Politics

Janusz Bugajski*

We were asked to consider two questions: first, is the secession of Kosovo just or legitimate? And second, is Kosovo a unique case that will set no precedents? I would also like to add a third question: will Kosovo's independence exacerbate the East-West conflict?

Is Kosovo's Independence a Just Secession?

It would be helpful to tackle this question not only in terms of international law but also in the context of practical politics and empirical realities. Claims from some sources that the United Nations is the supreme arbiter of state sovereignty and the legitimate defender of the legal global order should be treated with considerable caution. For instance, in assessing the question of national independence, the UN Security Council remained largely silent on the illegitimacy of the Soviet bloc and Russia's unilateral dominance of captive states and subject nations for 45 years after World War II. The UN thereby implicitly supported the limitations imposed on the sovereignty of each East European country and the direct Soviet annexation of the three Baltic States. The conclusion is that UN pronouncements and the pretensions of some UNSC members to global leadership have to be balanced with the practicalities of *fait accompli* and the realities of power politics. This is the case with Kosovo, where four sets of arguments indicate that independence is both practical and realistic.

First, in terms of recent political history, under the old Yugoslav constitution, although Kosovo and Vojvodina were autonomous provinces within the Serbian republic, following the passage of the 1974 Yugoslav constitution they became federal units equal to that of the six republics in their voice and votes in all federal institutions. Kosovo possessed clear administrative borders, independent local self-government (within a

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decentralised communist structure), and other separate institutions similar to the six Yugoslav republics. Moreover, the country that Kosovo was part of (the Socialist Federal Republic of Yugoslavia, SFRY) ceased to exist in the early 1990s. The population of Kosovo was not consulted during the creation of the Milosevic-engineered Federal Republic of Yugoslavia (FRY) in 1992, consisting of Serbia and Montenegro.

The Albanian majority in Kosovo was never canvassed by Belgrade or by the EU when the FRY was dissolved and the Union of Serbia and Montenegro (USM) was established in 2003. This final Yugoslavia was dissolved when Montenegro gained independence in May 2006 and the country that UN Resolution 2244 referred to ceased to exist in both name and in its inherited borders. Since the unilateral revocation of Kosovo's autonomy in the early 1990s, Belgrade has consistently demonstrated that it principally seeks to hold the territory of Kosovo and not its majority Albanian population. Hence, over a million Albanian voters were disenfranchised and excluded from voting lists for Serbia's constitutional referendum in October 2006 and from Serbia's presidential and parliamentary elections. The overwhelming majority of Kosovo's residents are not considered Serbian citizens by the government in Belgrade.

Second, in terms of the pro-independence movement, Kosovar separatism was primarily a reaction to state repression by one of the republics of ex-Yugoslavia (Serbia), which entailed the abolition of Kosovo's autonomy and the attempted genocide or mass expulsion of the Albanian population by the regime of Slobodan Milosevic in 1999. This precipitated a NATO military intervention without a UN mandate. Kosovo's push toward statehood was not engineered or promoted by a neighbouring country, whether to forestall the independence of any republic, or to annex any part of its territory, or to maintain political pressure on a nearby state. It can also be convincingly argued that Serbia lost its right and legitimacy to govern a population (and the territory it inhabits) that its government sought to systematically expel or murder and has since excluded from the Serbian polity. Countries that lose wars invariably lose the territory that they conquered or brutalised.

Third, in terms of ethnic composition and political voice, well over 90% of the current population of Kosovo is Albanian and overwhelmingly endorses independence and statehood for the territory. Even if all the Serbian residents who fled after the NATO intervention in 1999 were to return to Kosovo, the vast majority of inhabitants would still unequivocally vote for independence in any territorial referendum. This constitutes a

legitimate form of territorial or regional democracy in line with EU standards.

Fourth, in terms of the external political presence, Kosovo is in effect an international protectorate that is developing a democratic and pluralistic political structure supervised by NATO, the European Union, and the United Nations. The democratisation process is far from complete but the major international players are committed to supervising and monitoring the emerging state, to providing internal and external security, and to offering incentives for Kosovo's eventual membership in NATO and the EU. A continuing political link between Kosovo and Serbia could obstruct the progress of both bodies towards either Union or Alliance inclusion, and could undermine the process of regional stabilisation.

The question of a 'just secession' can also be turned on its head by considering the practical impact of non-independence for Kosovo. It is worthwhile exploring some negative alternatives to an independent Kosovo state that is supervised by the EU and NATO and moving in the direction of European integration. In sum, non-independence may not only destabilise Kosovo itself as public frustration boils over, unsettle a broader region by provoking violent responses from Albanian militants in neighbouring states, set back the European project by thwarting the emplacement of an EU supervisory mission, and necessitate longer US military involvement in the Balkans. It could also serve as a negative precedent further afield.

Much has been said about the potential for state breakdown, territorial ungovernability, international incapacitation, renewed insurgency, and escalating violence if Kosovo were to be denied full independence or if the process were indefinitely delayed. However, not enough thought has been given to the negative precedents and pretexts than an incomplete and stifled Kosovo could serve in several other European conflict zones where the West maintains a strategic interest. For instance, a number of Russian officials and their political proxies or supporters in neighbouring entities such as Transnistria, Abkhazia, and South Ossetia have incessantly claimed that Kosovo's imminent independence will serve as a precedent for the secessionist entities in Georgia and Moldova to also move towards independence. What they fail to point out is the prospect that Kosovo's non-independence could send an even more powerful negative signal to these and other crisis points.

First, at a political level, separatist leaders in the post-Soviet statelets will conclude that if they are to have any prospect of gaining independence

and recognition, they should not allow any major international organisations to intervene on their territories, as was the case in Kosovo. This could significantly diminish the effectiveness of international mediation, engagement, intervention, peace-enforcement, and state reconstruction in a number of post-conflict regions.

For instance, while the EU, the UN, and the OSCE (Organization for Security and Cooperation in Europe) have been pushing for closer involvement in Moldova and Georgia, such proposals are likely to be resisted even more tenaciously by secessionist leaders. The EU border-monitoring mission along the Moldovan-Ukrainian frontier, designed to prevent illicit trade and the penetration of organised crime, will be opposed as unwarranted interference in Transnistria's internal affairs. Moves by some OSCE members to enhance the organisation's engagement in the breakaway region will be further obstructed while EU proposals to replace the Russian 'peace-keeping' force in Transnistria with a broader international mission will be resisted.

All this will serve the Kremlin's interests, encapsulated by President Vladimir Putin during his speech at the 2007 security conference in Munich. Putin argued that the activities of NATO, the EU, the US, and the OSCE in Russia's neighbourhood threaten regional stability, undermine global multipolarity, and promote Washington's unilateralist policies and expansionist objectives.

Second, the potential for violence in and around Kosovo could serve as a precedent catalyst in thawing the 'frozen conflicts' into open warfare in several former Soviet republics. Kosovo's non-statehood could spark mass protests, political radicalism, and potentially a new insurgency movement inside the unrecognised territory. The lesson thereby learned by other unrecognised entities would be self-evident: what cannot be achieved through negotiations could be more effectively won through political intransigence, the threat of violence, and the reality of open conflict.

Another possibility is that the governments in Chisinau (Moldova) and Tbilisi (Georgia) may conclude that a military assault on the breakaway regions could be successful in response to the latter's unwillingness to compromise with the central authorities or to agree to any international mediation and multi-national institutional involvement. The prospect for renewed bloodshed and 'ethnic cleansing' would thereby escalate and tensions throughout the wider region would rise sharply. Russia's direct intervention cannot be discounted and this could also pull Washington and Brussels more directly into the conflict.

Third, the Kosovo lesson of non-independence would be well received by repressive governments. The restraints on dictatorships engaging in mass repression and even genocide, because of the possibility that they would lose legitimacy over a territory and bestow credibility on internal independence movements, would further evaporate. For example, Russia's repressive policies in Chechnya would be further legitimised by any ruling over Kosovo that precludes independence. Justifications for separating populations that have been severely victimised by the central government could be effectively dismissed as a result of negative international decisions over Kosovo.

Will Kosovo Set A Precedent?

As Kosovo moves towards supervised independence, analysts and policy makers will be closely examining the implications that the emergence of a new state in the Balkans will have on neighbouring countries and entities, as well as on nearby regions. The stabilisation of the Western Balkans is manageable if NATO, the EU, and the US work in tandem to prevent radicals from exploiting latent tensions in Bosnia-Herzegovina, Macedonia, and Montenegro. Belgrade no longer possesses the capabilities to export war to neighbouring states, but a display of diplomatic and military resolve may be necessary by NATO and the EU to convince local actors that the West is serious.

Will the independence of Kosovo provoke a chain reaction of secessionist wars and collapsing states in Europe? Or will it pass into history as the culmination of another mass movement for national liberation and self-determination? Most likely, while it will not set any precedents for separatism, Kosovo's statehood may be used as a pretext by some secessionist movements, expansionist states and their proxies to pursue their political agendas.

Some EU governments have voiced fears that Kosovo's independent status will destabilise a number of multi-ethnic countries in Western and Eastern Europe. The Spanish government has warned about a potential example for Catalonia and the Basque country. But in a similar vein, the British could voice anxieties over Wales and Scotland, and the French over Brittany and Corsica. But are such apprehensions realistic? The collapse of Yugoslavia, the Soviet Union, and Czechoslovakia, and the emergence of two-dozen countries in the early 1990s did not precipitate the breakup of Western Europe's democracies, whether unitary or federal states. Similarly, the independence of another territory in the Balkans is unlikely to give

impetus to separatist nationalisms in the EU for two valid reasons: democratic context and political record.

Most of the popular sovereignty movements in the EU operate within a democratic framework, while radical and violent groups elicit only limited public support. Several pro-autonomy parties have won increasing local control for their territories within a federal or decentralised administrative structure. Full statehood is unlikely as the majority of the public continues to support membership in a larger state because of the significant economic and political benefits that this brings. Nevertheless, mechanisms do exist or will need to be established in those countries facing potential division, such as Belgium, and will be conducted in a democratic manner.

In stark contrast, there are no such loyalties among the vast majority of the Kosovar population to the central state and there are few if any economic or political benefits for Kosovars within a semi-democratised Serbia. If Serbia was on the level of Spain or Britain the situation may be different but this would also depend on the political record. Unlike the Kosovars, the Catalans, Welsh, Basques, Scots, Corsicans, and other 'ethno-nations' have not faced mass murder or expulsion in recent history at the hands of the capital that wants to maintain control over them. All of these ethnic and regional minorities are well integrated in the state structure. And there is no international security force present that has separated the constituent ethnic groups in order to preserve the peace and prevent bloodshed.

Similarly, most of the Central and East European states have settled their minority and territorial disputes as an important component of their qualifications for NATO and EU membership. Undoubtedly, renewed issues of political representation and administrative decentralisation will surface over the coming years, as they have among the older member states, but without seriously threatening European security. For instance, fears of Hungarian separatism in either Romania or Slovakia are exaggerated as Magyars do not form large territorially compact majorities and have substantial representation in parliament and in central and local governments.

Kosovo is highly unlikely to serve as a precedent for most of Europe because the circumstances in this aspiring state are markedly different. Central control by Belgrade was lost as a result of mass repression and attempted genocide, and the consequences of state aggression were NATO intervention and the creation of an international protectorate. Nevertheless,

Kosovo's independence will be exploited as a pretext by two kinds of forces – ambitious expansionist states and proxy radical movements. This may be particularly evident in the case of Russia. Moscow will seek clear advantages from the Kosovo status talks to further its regional aspirations in Moldova and the Caucasus. Pro-Moscow secessionist movements in Moldova's Transnistrian region and Georgia's Abkhazian and South Ossetian entities may use the opportunity to press for their own sovereignty, although their situations have differed from that of Kosovo.

None of these territorial units possessed federal status when the Soviet Union collapsed and the local populations were not subjected to attempted genocide by either the Moldovan or Georgian governments. Unlike in Kosovo, the separatist movements were largely directed by local power elites tied to Russian security forces. In these regions calls for self-determination and independence were not based on national self-defence from a repressive state but principally on the narrow interests of a small clique of power holders. This post-Soviet elite also promotes the Kremlin's agenda by exerting pressure on both Moldova and Georgia to remain within Moscow's orbit and desist from entering Western institutions. Nevertheless, despite all the political arguments, Kosovo's independence is likely to present an additional challenge to the reintegration of Moldova and Georgia.

Will Kosovo Exacerbate the East-West Conflict?

Why has Moscow fixed its attention on Kosovo and an issue that many in the US administration believed would be handled by the Western allies without Russia's resistance? Kosovo has evolved into more than a wedge issue for Moscow vis-à-vis the US. The wedge has widened into a valuable strategic weapon. Due to the indecision exhibited by Western powers in confirming Kosovo's final status, President Putin's administration views the issue as a boost for its regional and global ambitions. Although Kosovo is not intrinsically vital for Russia's expansionist interests, the unresolved status question serves several foreign policy objectives. By vetoing Kosovo's independence, maintaining an indefinite status quo, and opposing Pristina's declaration of independence, Russia aims to raise its international stature in several ways.

First, the Kremlin can claim that Russia is a major defender of international legality by its insistence on working through the UN Security Council. Of course, Russia would not allow the UNSC to interfere in its own neighbourhood; for example, by approving a long-term UN mission in

territories where it exercises direct influence in Moldova and Georgia. Moreover, Russia itself regularly violates the UN Charter (in Chechnya) or stations troops in neutral states without their government's approval (as in Moldova).

Second, Russia is posing as a promoter of multilateralism, where the UN process can serve its interests and undercut those of the US. Multilateral institutions such as the UN are not only slow and cumbersome in making decisions but they operate according to the lowest common denominator whereby the resistance of one capital can deny the interests of the majority. The UN Security Council could be made more effective and representative through reforms that would include more permanent members and majority voting rather than unanimity.

Third, Moscow is posturing as a staunch protector of state sovereignty and national integrity by opposing the imposed break-up of a UN member state: Serbia. Russia thereby appeals to several UN members who fear separatism. At the same time, the US is depicted by Moscow as a maverick interfering in the internal affairs and state structures of allegedly vulnerable states. This serves to disguise Moscow's own expansionist state ambitions among former satellites along its borders.

Fourth, Kosovo forms part of a wider strategic agenda that enables Russia to elevate its international position, to interpose in Balkan and European affairs, to aggravate weaknesses in Western decision-making, to promote splits within the EU, to divide the Atlantic Alliance, to gain veto powers over Europe's enlargement, and to construct a Eurasian pole of power as a counterbalance to the US.

Washington continues to demonstrate resolve over Kosovo's final status despite the difficulties in forging an EU consensus and the hesitation evident among some European states in bypassing the UNSC, whose decision for Kosovo's supervised statehood is blocked by the Kremlin. The process of independence will probably be completed by the time of the NATO summit in Bucharest in April 2008. But the recognition of Kosovo's statehood will most likely generate fresh regional and international tensions that need to be competently handled by the trans-Atlantic powers.

Containing Russian reactions outside of the Balkans may prove more problematic. According to some analysts, the Putin administration has drawn a red line across Kosovo's independence. If the West recognises the new state, Russia may pursue its neo-imperial interests more vigorously in several neighbouring regions and intensify its anti-American alliances.

Moscow has already signalled that it will fortify its economic and political ties with Iran; it will seek a closer relationship with China to counter "American expansionism;" it will develop the CSTO (Collective Security Treaty Organization) into a competitor with NATO in Central Asia and the Caucasus; and it will increase pressure on those former Soviet satellites that seek inclusion in Western institutions.

Georgia has become the most vulnerable outpost of Western interests in the Caucasus, a region that Russia is determined to dominate both for reasons of geostrategy and energy politics. Moscow's military commanders may be prepared to assist the Abkhazian and South Ossetian separatist movements and confront the Georgian military if Tbilisi attempts to regain the two enclaves. Indeed, the Kremlin may seek to draw Georgia into a military confrontation to justify an already planned intervention. The Russian authorities may also seek to apply pressure on Moldova by raising the spectre of recognising the breakaway Transnistrian region once Kosovo gains independence. They may fortify their military presence in Belarus and Kaliningrad, and they could lean more heavily on the new Ukrainian government led by Prime Minister Yulia Timoshenko to undermine the process of Western integration. Putin recently warned against Western influences in Ukraine, raising the prospect of instability and disintegration.

Russia's presidential elections in March 2008 will not significantly alter policy. President Putin's selected successor, Dmitry Medvedev, is not an independent actor with his own power base but will remain beholden to the 'chekistocracy' that controls the Kremlin. Moscow's policy will remain assertive and at times openly confrontational toward the West. Indeed, President Medvedev may seek to prove his Greater Russia credentials by heating up one or more conflicts with the US or with the EU, or with both.

The list of conflict points between Russia and the West expands almost every week. It now includes such contentious questions as the US missile defence shield in Central Europe, the CFE (Conventional Forces in Europe) treaty, ballistic missile accords, the role of the OSCE in democracy promotion, NATO enlargement, energy security, and even the ownership of the Arctic. Tensions also persist over Kremlin pressures on the three Baltic States and its escalating confrontation with the UK. It is not surprising that the EU and Russia have been unable to arrange a new enhanced 'partnership agreement' as was expected a year or so ago.

The Putin leadership has deliberately created a sense of danger through its anti-Western rhetoric. The expansion of Western alliances and the promotion of liberal democracies are depicted as direct threats to

Russia's interests. For the Kremlin the birth of new pro-American democracies such as Kosovo in former communist territories presents a long-term challenge to Russia's strategic designs. Democratic governments invariably seek membership in NATO and the EU in order to consolidate the reform process and provide permanent security and the assurance of state independence. For Moscow, such steps undercut its influences in neighbouring countries, shrink its regional power projection, and retard its ambitions as a revived superpower. Russia feels more confident in realising its aspirations, where its immediate neighbours are either predictable authoritarian states, isolated and marginalised countries with populist or neutral governments, weak states that are internally divided and therefore cannot qualify for NATO or EU membership, or countries ruled by outright anti-American governments.

The Balkans are therefore useful for Moscow in disrupting democratic expansion in the wider Europe. Serbia is a valuable bridgehead within South East Europe for Russia to pursue its economic and political interests, especially through the expansion of its energy networks and in cementing Belgrade's economic dependence. The Kremlin is not interested in finding a solution in Kosovo but prefers to maintain a 'frozen conflict' in the middle of the Balkans that it can exploit to its advantage. The UN Security Council not only blocks Kosovo's independence and may hinder the progress of Euro-Atlantic integration for the Western Balkans, it also allows Russia to restore its position as the pre-eminent anti-American power and a pretender to international leadership. The decision on Kosovo's statehood will be an early indication of whether Washington and Brussels are determined to stand by their principles of democratic governance in a wider Europe and are capable of ensuring trans-Atlantic cohesion, even at the cost of exacerbating the escalating confrontation with Russia.

It is useful to conclude with a point of logic that seems to have been missed in analysing Russia's position on the Kosovo question. Moscow claims that it will not agree to any solution for Kosovo that is unacceptable to either of the contesting parties, Belgrade and Pristina. According to the logic of this statement, the Kremlin should equally not agree to Kosovo's non-independence as this is not acceptable to one side in the conflict. Accepting indefinite delays with regard to decisions on final status is also tantamount to agreeing to a solution favoured by only one side in the conflict.

The Independence of Kosovo and its Implications

Dmitri Trenin*

It must have been clear since mid-1999 that Kosovo is irretrievably lost for Serbia. After an ethnic conflict of such intensity, and a follow-up outside intervention of such military scale and moral fervour, the Serbian leadership should have been in no doubt as to the consequences of their policies of the preceding decade. That it refused to think in terms of the new realities and chose instead to continue to revel in the images of distant memories and glorious dreams, is a sad comment on the state of current Serbian politics. The lesson of 1999 is crystal-clear: Kosovar Albanians will no longer live under Belgrade's rule.

It stands to reason that the provisional status of Kosovo, placed under international rule after the 1999 conflict, could not be extended into perpetuity. A two million-strong people, who resolutely oppose its re-attachment to its former metropolitan power, and aspire to full independence, should be given that chance, and its free status must be recognised by the international community. Composed of the sovereign states as its principal members, the international community, however, has long faced a dilemma of territorial integrity vs. national self-determination.

In Kosovo's case, an ideal way out of this dilemma should have gone through Belgrade's acceptance of the province's final separation from Serbia. Since both Pristina and Belgrade view their future in terms of integration into the European Union, the EU had a uniquely strong hand in making both sides agree to a formula of conflict resolution. It is also a sad comment on the state of the Union today, that the EU has missed that opportunity and failed to take the prime responsibility for resolving a conflict in its immediate neighbourhood. However, the Kosovo issue will remain on the agenda, and Europe will have to deal with it. Perhaps one day it can be resolved within a Union that has just taken on board both Serbia and Kosovo.

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Meanwhile, we will have to live with the consequences of a dual failure to reach agreement. On one level, between the parties to the conflict themselves, Belgrade and Pristina; on another, between the United States and its major allies, as well as Russia and China. Every conflict situation of course has consequences. After Kosovo's proclamation of independence *and* its recognition by most states, but the refusal to recognise it by some, the situation in the sphere of 'frozen conflicts' will be most directly affected. While Kosovo is not the sole cause, it could become one of the symbols of new division at the global level. Seen from that viewpoint, the post-Cold War era, including the 9/11 interlude, may be finally over, but a new age of great-power rivalry; an Era of Competing States, to use a Chinese term, may well be starting to unfold.

In the unhappy group of countries afflicted by these frozen conflicts, each case is special, but precedents count. The sounds of the Independence Day salute in Pristina will reverberate in Sukhumi, Abkhazia; Erbil, Kurdistan; and Taipei, Taiwan, as well as in Tbilisi, Baghdad, and Beijing. Again, it is not so much Kosovo's UDI as its recognition by the US and others that carries the most weight. A line will have been crossed, a taboo will have been broken. Those aspiring to independence around the world will be encouraged by the thought that what they need to do is to persuade America and Europe of the justness of their cause. Kosovo's just war has logically evolved into its just secession.

Russia is unlikely to follow the US-European example and retaliate by recognising Abkhazia, South Ossetia and Transnistria. Each of those territories declared its independence a long time ago, and has reaffirmed it in referenda ever since. Under the peacekeeping arrangements concluded in the 1990s, Moscow treats the separatist enclaves as parties to the conflicts, on a par with the governments of Georgia and Moldova. This gives Russia much latitude for all kinds of contacts and relationships in all spheres; political, economic, cultural and humanitarian. In two cases, the unrecognised entities are adjacent to Russia's own territory, and are part of its economic space; in all three, Russia has military boots on the ground, and many or even most local residents are Russian passport-holders.

At the same time, Moscow recognises the territorial integrity of Georgia and Moldova within their Soviet-era administrative boundaries. Russia's diplomacy sticks to the formula of a common state whose parameters need to be agreed by all parties to the conflict. This allows Russia to use conflict situations as pressure instruments when the going gets tough in Georgia and Moldova, and to protect its interests in an

eventual conflict settlement. A full diplomatic recognition of Abkhazia et al. would rob Moscow of the benefits of ambiguity and saddle it with open political conflicts with Georgia and Moldova, possibly leading to a resumption of violence and severe international complications. An embassy in Sukhumi would come at an exorbitant cost.

The Russian leadership is also aware that whereas Kosovo's independence will be recognised, in quick succession, by scores of states, its own recognition of Abkhazia, South Ossetia and Transnistria will not be followed up by even Moscow's nominal allies following suit. Not only Kazakhstan, but even Belarus are unlikely to break relations with Georgia over Abkhazia. What may be a sign of diplomatic strength in one case, could very well become a sign of diplomatic weakness in the other.

The option of independence as a prelude to annexation is even more far-fetched. Transnistria is a land-locked territory, whose only neighbours are Moldova and Ukraine, neither of which is particularly friendly to Russian irredentism. Abkhazia's wish is to be independent from all other states, and this includes Russia as well as Georgia. Should Russia seek to bring it into line by force, trouble will ensue. South Ossetia, of course, not being sustainable as a state on its own, might apply to join with North Ossetia, which is part of the Russian Federation. But this small case of territorial aggrandisement by Russia will have huge consequences. Kazakhstan will seek to prevent Russian encroachments into its Slav-populated industrial North, and Ukraine will have Crimea on its mind. Kiev will work even harder to gain fast-track admission into NATO, and Astana will strengthen links with Washington, Beijing and Brussels.

Thus, there is no practical need to go ahead and pay a horrendous price for formalising something that Russia has learned to live with, and even benefit from, in the absence of an official recognition. Even more importantly, Moscow fears a revitalisation of the separatist virus in the Russian Federation, and is concerned with outside support for independence of some of its own territories, particularly in the North Caucasus. Here, its interests overlap with those of Beijing, which is focused on Taiwan and concerned with Tibet.

The Russian leadership sincerely believes that Kosovo's independence, and even more so the methods used to achieve and formalise it are both a mistake (as far as the EU is concerned) and a dangerous move (on part of the US). Moscow can be expected to vehemently criticise Kosovo's independence and its international recognition. It will block Kosovo's entry into the United Nations. It will refuse to legitimate EU's activities in post-

independence Kosovo. The Russian strategy will probably be to sit and watch the West act at its own peril, without a UN mandate, and face the consequences. At the same time, Moscow will seek to benefit, politically as well as economically, from being the champion of a noble cause (upholding international law) and a genuine friend of the Serbian people. February 2008 will not close the books on the Kosovo issue. Rather, it will merely turn a chapter in that book.

Interestingly, Russia's pro-active policy is currently centred on revitalising the peace process in Moldova and closing an agreement between Chisinau and Tiraspol on the modalities of a common Moldovan state. One can only hope that Moscow has learned from the failure of the 2003 so-called Kozak plan and will deliver a public good, which, while taking account of Russia's own interests in the area, would lead to conflict resolution. The situation is now more propitious for this than it has ever been. Should Russia fail to deliver, or overplay its hand, or be undercut by the West, resentment will be far-reaching. If, however, Russia succeeds in helping the two sides come together and stitch Moldova back again, this will be a most positive and constructive development, countervailing in part the impact of the disagreement over Kosovo.

A success in Moldova could be built upon in the Caucasus. Abkhazia and South Ossetia represent, in fact, two very different cases. Abkhazia, like Kosovo, can hardly be peacefully reunited with the metropolitan state, Georgia. Imposing a solution in a Kosovo-in-reverse model is not an option for the West, given Russia's presence, proximity and obvious interest. Like the Serbian elite, the Georgian one would be better off accepting the realities rather than forever dreaming of changing them. South Ossetia, on the other hand, has demonstrated that it could live within a Georgian state, provided that its autonomy is for real and guaranteed by the international community as well as the Georgian constitution.

The international context is not hopeless. Russia needs a peaceful environment for holding the 2014 Winter Olympics in Sochi, only a few miles away from Abkhazia. The West is grappling with a way to integrate Georgia, which does not control all of its territory. The situation calls for an imaginative solution, using both the positive and negative experience gained in Kosovo and in Moldova.

In very broad terms, the solution could include:

- an agreement on the terms of South Ossetia's autonomy within Georgia, guaranteed by Russia, the EU and the US;

- Georgia's recognition of Abkhazia's independence within the borders to be determined, and most likely leaving the Georgian-populated Gali district to Georgia;
- broad international recognition of Abkhazia's independence, and its entry into the UN;
- compensation provisions to the Georgian refugees from Abkhazia, with an international fund established for the purpose, and Georgia's renunciation of property claims in Abkhazia;
- Georgia's accession to NATO with assurances to Russia with regard to foreign military presence in its territory, and to the Russian military transit to Armenia.

The confines of this paper do not allow for an in-depth discussion of the ways of solving the Nagorno-Karabakh conflict. This is not to say that it can safely be removed from the to-do-list and be allowed to fester. A new war between Azerbaijan and Armenia would destabilise the region and damage the interests of both the West and Russia. For Karabakh, neither a Moldova-style common state with Azerbaijan nor a Kosovo/Abkhazia-style independence, nor yet the proposed guaranteed-autonomy status for South Ossetia, are realistic options. One has to deal with the reality of the underlying conflict between two fully recognised states, Armenia and Azerbaijan. This recognition leads to the need to chart a new border between the two neighbours, taking account of the ethnic boundaries and the strategic interests of both. In broadest terms, a solution could be found on the basis of a territorial exchange that would attach much of Karabakh to Armenia and give Azerbaijan a land corridor to Nakhichevan.

Borders have constantly changed in the past, and will continue to change in the future. Empires will fall, ethnically-mixed states will fall apart, and new nations will emerge. Immutability of borders between states is un-historical. The issue is not the results obtained, or even the objectives pursued, but the method used. Imposed solutions are generally less stable than negotiated ones. International law is ever-changing, as is the prevailing political philosophy. The international community will no longer pretend it is united in its own midst, or happily following the leader. International power relations matter, as do the interests and inclinations of the major players. The case of Kosovo is as good a signal as any that the extended holiday much of the world has enjoyed since the end of the Cold War is finally over. International politics is back, with a long train of history behind it.

WHAT PROSPECTS FOR NORMATIVE FOREIGN POLICY IN A MULTIPOLAR WORLD?

WITH CONTRIBUTIONS BY

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LANXIN XIANG

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Chairman's Summing-up

François Heisbourg*

The XXIXth meeting of the European Security Forum was also the opportunity to launch the book “Who is a Normative Foreign Policy Actor ? The European Union and its global partners” edited by one of our speakers, Nathalie Tocci. We were therefore fortunate to be able to draw both from the presentations given at our 26 May meeting and from the work done by the contributors to this timely book.

Lanxin Xiang, Professor at the Graduate Institute in Geneva (IHED) presented his paper under the title “There is no such thing as a normative Chinese model”, underscoring that the Chinese view is ethical and temporal rather than ‘spatial’ (i.e. in which politics are polarised along left/right lines). Thus China likes Europe’s social (i.e. ethical) democracy, but not democracy as egalitarianism. China, we were reminded, takes the long view. To the chairman’s doubts about Chinese views on the non-use of force being close to those of the EU – after all, hadn’t China resorted to force to ‘teach a lesson’ to Vietnam in 1979; and didn’t China publicly state the possibility of using force to recover Taiwan? – the speaker indicated that China tended to use force defensively (as in Korea in 1950 or against India in 1962). Mention of Admiral Zheng He’s navy in the XVth century was made. Lanxin Xiang reaffirmed the view made in his paper that the post-modern EU and traditional Chinese mentality bear strong resemblances, and that EU and Chinese foreign policies could converge, notwithstanding different approaches to the central place of democratisation in EU norms.

In her oral presentation Radha Kumar of the Delhi Policy Group also drew on the long historical view, emphasising the role of Kautilya (3rd century BC) as a source of Indian foreign policy inspiration notably in defining the three pillars of state behaviour (engagement; adherence to rule-based norms supervised by judges; transparency). She noted that these

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were at some variance with enlightenment values as retailed through British colonial rule; they are closer to US approaches. She reminded us that foreign policy in Indian history had been the product of Empire (Maurya, Moghol...). In domestic terms, the constitutional emphasis is on collective rather than on individual rights; pluralism in a union composed of language-based states goes further than in the US or European constitutions. Certain rights (e.g. family law) are administered by the corresponding religion.

She noted that during the Cold War, India's policy of non-engagement was at variance with the historical record. To a question from the chair noting the disconnect between India's democratic nature and Kautilyan legacy on the one hand, and a Realpolitik approach in Sudan and Myanmar similar to that of China, she noted that:

- In Sudan, India is a profit-sharing partner in the greater Nile oil consortium, but is not physically present as an actor on the ground;
- In Myanmar, India is courting the Junta as a response to Chinese influence.

In conclusion, she remarked that the Achilles heel of Indian foreign policy was its sometimes unrealistic strand, as in the opposition of part of the body-politic (e.g. the CP-ML) against the nuclear deal with the US.

Andrey Makaryachev, Professor at the University of Nizhny-Novgorod, spoke to his paper entitled "In quest of subjectivity: Russia's normative offensive and the triple politicisation of norms", noting that Russia's foreign policy had become increasingly norm-based in terms of the arguments used, as is witnessed by the handling of the Kosovo issue. The disagreements are less on the general nature of norms (peace, security, democracy, liberty, human rights, etc.) than on their content; and there continues to be a refusal of any kind of judgement on Russia's domestic standards.

Walter Slocombe, former US Undersecretary of Defense presented the paper prepared by Daniel Hamilton on "The United States: A normative power?" (a contributor to the book edited by Nathalie Tocci). He stressed that a normative policy implies standards that are consistent, explicit and universal, noting the importance of the Enlightenment legacy. Since Kosovo had been mentioned, he underlined the tension between normative ends and normative means; the Kosovo campaign had been the opposite of an interest-driven war.

Nathalie Tocci, presenting her paper “When and Why Does the EU Act as a Normative Power in its Neighbourhood?”, focused on the question of ends and means applied to the case of the EU. She noted that it was easier to agree on norms than to act on them; that it’s easier to be normative when interests are not involved; that there is a need for mechanisms to define the collective EU interest; and that normativity tends to apply in contractual, civilian relations, whereas it ceases to be at a premium when we face coercive influences.

Given the wealth of presentations, time for debate from the floor was limited. A German participant raised the issue of the stability of a multi (or non)-polar system, as well as that of the consequences of cultural relativism for war and peace: after all, there had been a lot of cultural relativism on show between the contrasting presentations. He also wanted to draw out the panellists on the ‘tying of hands’ in a normative foreign policy, an issue much dwelt upon in Ms. Tocci’s paper. A Dutch participant wondered whether there could be agreement on universal norms between some of the rather parochial great powers. A member of the Russian mission referred to his country’s desire for deep reform of the OSCE, in terms of ODHIR (Office of Democratic Institutions and Human Rights) and the election observers.

Lanxin Xiang, in response, noted that there is no universal Chinese set of norms, that China is agnostic in this regard. He considered that multi-polarity can be stable, with a form of “democratisation of international relations”.

Radha Kumar held the view that there is a core base of principles on which there can be agreement. As for the tying of hands, she stated that the UN still remains the institution of choice, but that reform is required; unfortunately, the trend in this regard was towards fragmenting rather than universalising. China needed to become a major player in the Bretton Woods institutions as well as in the Asia context; but this would create complex reactions in the continent. Kosovo should be viewed as a specific European issue, not as a broader, global precedent, noting that Serbia in the erstwhile Yugoslav federal system had taken away Kosovo’s regional autonomy.

Andrey Makarychev was sceptical about universal norms. He posed the question: “Who are the political actors of the international system?, since we now have alongside state actors, a number of collective actors (EU, NATO...), unrecognised states, NGO’s etc. What is the meaning of

international society under these conditions, and how much multiplicity can we afford in the international society?"

Walter Slocombe refused relativism when it comes to certain fundamental rights (such as the issue of abuse of detainees). Countries can live together with vastly different internal regimes. It may be true that everybody wraps their interests in norms and values: but the proposition can work the other way around (e.g. adopting democratic norms is usually good for interests such as business and peace).

Nathalie Tocci reasserted the need for consistency. Kosovo may be small, but the way it is handled is important from the standpoint of actors of the global international system. Referring to the Chinese approaches, she also underscored the importance of the relational aspects of norms.

When and why does the EU act as a normative power in its neighbourhood?¹

Nathalie Tocci*

Introduction

Since its inception, the European Union was conceptualised as (and prided itself on being) a distinctly ‘different’ type of international actor. Over the decades, it has been described as a ‘civilian’ (Dûchene, 1973, p.19), a ‘soft’ (Hill, 1990) and most recently a ‘normative’ power in international relations (Manners, 2002, 2006). The EU’s official texts make similar claims about the Union’s role in world politics. Since the 1970s, in fact, norms and values began permeating European foreign policy documents and declarations (see Hill & Smith, 2000). At a two-day meeting of EU heads of state on 14-15 December 1973, which resulted in a declaration on Europe’s international identity, the delegates talked about building a ‘just basis’ for international relations. The 1986 Single European Act called upon the Community to “display the principles of democracy and compliance with the rule of law and with human rights” in its conduct of external relations. The 1988 Rhodes European Council called for an EU role in preserving international peace, promoting the solution to regional conflicts, demonstrating solidarity for democracy, supporting the Universal Declaration of Human Rights, strengthening the effectiveness of the United Nations and improving social and economic conditions in less developed countries. The Maastricht Treaty went further, calling for the preservation of peace and security, the promotion of international cooperation, the fight against international crime, the development of democracy and the rule of law, the respect for human rights and fundamental freedoms, and the

¹ This paper is largely drawn from N. Tocci et al. (2008), *The EU as a Normative Foreign Policy Actor*, CEPS Working Document No. 281, CEPS, Brussels.

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support for economic and social development (Article J.1). Most explicitly, the Lisbon Treaty states that in international affairs the EU would be guided by and would seek to promote the values on which the Union is founded, including democracy, human rights, fundamental freedoms and the rule of law (Title V, Article 21; Title V, Article 2c).

This paper attempts to go beyond these assertions. Rather than assuming that the EU is a normative international player simply by virtue of its declarations and its 'different' non-state nature, we take for granted that in different geographical regions and at different points in time, the Union's foreign policies have taken on dramatically different forms. If by a normative foreign policy we mean pursuing normative foreign policy goals through normatively deployed means and having a discernible normative impact, then what emerges, perhaps inevitably, is that the EU is not always normative, as is the case with any other international actor. The fact that the EU is a *sui generis* actor as opposed to states such as the US, Russia, China or India, does not fundamentally alter the reality of its foreign policy practice. As we shall see below, at times EU foreign policy has been normative, while at other times it has been status quo oriented, at other times still it has been realist and even imperialistic. For the purpose of this paper, a *realpolitik* actor is one that pursues self-interest, in violation of laws and norms; an imperial actor is one that pursues normative goals but does so in violation of existing norms in the deployment of its foreign policy instruments; a status quo actor is one that pursues self-interest in compliance with existing norms and laws.

In order to make sense of these different types of foreign policy approaches, this paper teases out the principal dynamics at work in determining why the EU acts the way it does in different cases, and draws some lessons about the nature of the EU's role in the world.

The EU as a multifaceted foreign policy actor

We can quite easily think of cases in which the EU has acted in a variety of different ways in world politics. Table 1 sets out cases in which the EU acted as a normative, *realpolitik*, imperial and status quo power, as well as cases in which the impact of EU foreign policies reflected (intended) or otherwise (unintended) the original foreign policy goals.

Table 1. The EU's role in the world: Selected sub-case studies

	Normative		<i>Realpolitik</i>		Imperialistic		Status Quo	
	Intended	Unintended	Intended	Unintended	Intended	Unintended	Intended	Unintended
Goals								
Means								
Results								
Case Study	Central & Eastern Europe	Belarus	Russia	Syria	Kosovo	Israel-Palestine	North Africa	Ukraine



Non-normative

Normative

In cases such as the eastern enlargement and policies towards neighbouring Belarus, the EU has pursued normative goals (political and economic reform) through policy instruments that were crafted and deployed within the confines of the law (the accession policy and targeted sanctions respectively). Yet while the EU succeeded in engendering democratisation and economic modernisation in Eastern Europe, its double-track strategy of sanctioning the Belarus regime while supporting civil society has, to date, failed to alter the nature and strength of the authoritarian regime in Minsk. The Belarus leadership has not reacted positively to EU sanctions, while EU actors recognise that they have been unable to convey effectively their message of support to the Belarusian population.

By contrast, in the case of Russia and Syria, the EU has behaved in an overall *realpolitik* manner. *Vis-à-vis* Russia, commercial and energy interests explain the sidetracking of EU political pressure on Moscow in the context of the Partnership and Cooperation Agreement and the Four Common Spaces; pressure has neither been exerted through dialogue nor conditionality. Likewise in Syria, realist concerns, such as preserving the regional balance of power between Israel and its neighbours, and following the line set by the US, have had a larger sway over EU policies than aims to see political transformation in Syria and a law-based agreement between Syria and Israel. In turn, the deployment of EU policy means has been rather inconsistent, ranging from un-kept promises of ratifying Syria's Association Agreement, to sporadic pressure on the regime (i.e. regarding Lebanon) without constant attention to Syria's deficient human rights record.

In Kosovo and Israel-Palestine, the EU has behaved as an imperialistic actor, meaning an actor intent on creating new norms in the violation of existing international law. While intervening in the pursuit of normative goals (i.e. the prevention and rectification of injustice in Kosovo, and a two-state solution and respect for human rights in the Middle East;), the EU has often sidelined or violated international law. In the case of Kosovo this has taken place both in the context of war, unsanctioned by the UN, in which several member states took part. In the case of the Middle East, the EU, through its bilateral cooperation with Israel, has on several occasions (related to trade and research principally) extended benefits to Israeli settlements in the occupied territories in violation of the Geneva conventions. Yet results have differed. While Kosovo's independence has been recognised, possibly leading to a revisionist setting of 'new norms', in

the Middle East, by contrast, a viable two-state solution appears to be an increasingly distant chimera (the Annapolis process notwithstanding), and violations of human rights and international law persist unabated.

Finally, the EU has acted as a status quo player in North Africa and Ukraine. In both cases, the Union has primarily pursued non-normative goals. In North Africa, the EU prioritised its trade and increasingly its security interests over the promotion of political reform. Moreover, its trade policies, while beneficial to itself, have been detrimental to the growth and modernisation of the dependent North African economies, given its refusal to liberalise trade in agricultural products. In Ukraine on the other hand, while favouring Kiev's European orientation and its reform process in principle, especially since the orange revolution, normative aims have been hollowed-out by the resistance of several member states to grant Ukraine a European perspective, not least out of fear of an eventual dilution of their power internally within the EU. In both cases, however, the means pursued by the EU were normative. Relations have been conducted through EU contractual relations, including the Association Agreements, the Partnership and Cooperation Agreements, and, more recently, the European Neighbourhood Policy. Given that the EU has been on the stronger side of these contractual ties, Brussels has ensured that the pursuit of its self-interest has been channelled through clear and transparent legal rules. The results have differed however. In North Africa, EU involvement has not opened the way for a deep process of political and economic transformation, while in Ukraine, despite widespread feelings of deception on the part of the EU and ongoing political instability and corruption, the post-revolution period has seen the consolidation of democracy.

The dynamics at work in EU foreign policy

But what do these cases tell us about the EU as a (normative) foreign policy actor? And more precisely, what are the factors determining how and why the EU acts in specific ways in different foreign policy instances? Several broad lessons can be brought to the fore.

Beginning with the goals pursued, we can contrast the normative and imperialistic cases in which the EU opts for normative goals, with the *realpolitik* and the status quo cases, in which self-interest prevails. Why did the EU prioritise normative goals in cases such as Eastern Europe, Belarus, Kosovo and Palestine; but not in Syria, Russia, North Africa and Ukraine?

Analysing these cases, it emerges that when the EU has acted as a normative or imperialistic power, pursuing normative goals, normative and self-interest objectives either have overlapped or have not contradicted each other. In the case of Belarus, the EU has been able to pursue its (limited) trade interests alongside its democracy-driven sanctions. In the case of Eastern Europe instead, in view of the paramount strategic objective of 'reuniting Europe', the EU could not tolerate the candidate countries' blatant violations of norms, insofar as these could ultimately threaten the EU from within. In this respect, enlargement policy can be seen as a special case precisely because it is not, *strictu sensu*, foreign policy. Likewise, in the two imperialistic cases, after decades (in Israel-Palestine) or years (in Kosovo) of standstill, the member states converged at the level of rhetoric, to pursue normative objectives consisting in a rights-based, two-state solution in both Israel-Palestine and Serbia-Kosovo. In both cases, discursively agreeing on normative goals has been the least controversial option for the EU, despite the fact that, particularly in the case of Kosovo, important differences between member states remain.

In the *realpolitik* and status quo cases, instead, the configuration of self-interests and intra-EU divisions has been far more pronounced, leading to a prioritisation of self-interest. On the one hand, strong and competing self-interests such as energy security (Russia), transatlantic cooperation in the Middle East (Syria), commercial interests and the management of migration flows (North Africa), and member state preservation of their internal power (Ukraine) have trumped competing normative objectives. On the other hand, the primary concern of several member states to pursue their disjointed self-interests at the expense of EU-wide objectives, and member state ability in EU foreign policy to veto collective action explains the prioritisation of self-interest in these cases.

Turning to the foreign policy means used, here normative behaviour can be found in the normative and the status quo case studies, in contrast to the *realpolitik* and imperialistic cases, in which the EU has acted in contravention of or sidelined international law and multilateral institutions. The primary, albeit not only, explanation of why this has been the case seems to lie in the EU's internal capability, although in a manner that partly contradicts the intuitive consensus about EU foreign policy. The problem in fact does not seem to lie in the fact that the EU has *insufficient* capabilities (e.g., in the military domain). Normative means tend to be deployed when the EU chooses to act within the confines of its international agreements with third states and has limited or no coercive instruments at its disposal.

Indeed, normative means have been deployed in cases where the primary vehicles of EU policy have been contractual relations, whether the accession process (Eastern Europe), the association process (North Africa), the Partnership and Cooperation process (Belarus) or the ENP (Ukraine).

By contrast, whereas the EU has disposed of contractual options in the *realpolitik* and imperialistic cases, it has either chosen not to make use of these instruments (Syria) or it has pursued its objectives beyond the blueprint and stated aims of these contracts (Russia, Kosovo and Israel-Palestine). Of course, in some cases, the EU has been strongly pressed by external actors and factors to sideline rules and law. In the Middle East, the US has induced the Union either to avoid concluding a contractual agreement (Syria), or to set aside or violate the norms, rules and laws embedded in these agreements (Israel-Palestine). In the other cases, Russia's new assertiveness has either obstructed international legal channels (Kosovo) or cornered the Union into sidelining the human rights and democracy standards spelt out in its bilateral agreements with Moscow.

Yet while important in defining or constraining foreign policy means, the external environment is critical above all in influencing the EU's foreign policy impact. Naturally, what the EU does is the primary determinant of its impact. Hence, it is far more likely that the Union will have a normative impact when it pursues normative goals and means (Eastern Europe) than when it acts in an imperialistic, *realpolitik* or status quo way. But on the one hand, the Belarus case exemplifies that this is not always the case and that the Union can fail to engender a normative result despite its pursuit of normative goals through normative means. On the other hand, the cases of Syria, Ukraine and Kosovo suggest that the EU can have a normative impact even when either its goals or policy means are not normative.

Especially in these non-intuitive cases, the role of the external environment is of the essence. A conducive external context is of primary importance for an effective normative impact. In Syria, Damascus' isolation by the West and its many internal weaknesses explain in part why, to some extent, the Ba'ath regime has abided by international norms, especially in terms of retreating from Lebanon and accepting an international presence there. Furthermore, the EU is Syria's first trading partner and is viewed as a less aggressive actor than the US. Hence, against all odds, Damascus strives to keep a door open to Brussels. In Kosovo, despite Russian resistance, the West has the power to assert the end-game and recognise secession, even if in contravention of international law. In Ukraine,

paradoxically it is the nearby pressurising influence of Moscow that has induced pro-reform actors in Kiev to latch on to the EU irrespective of what the Union says and does and in spite of the EU's lukewarm reception of Ukraine's membership ambitions. In the case of Eastern Europe however, the complementary support of the US and the international financial institutions, as well as the warm reception of EU involvement by the Eastern European countries has served to bolster the effectiveness of normative EU goals and means.

By contrast, an unfavourable external environment, coupled with EU weakness vis-à-vis third states or the wider milieu, reduces the likelihood of a normative impact. In Belarus, in the absence of free media, the Belarus leadership has divulged its own vision of reality, hardened its stance and instrumentalised Western pressure to induce a 'rally around the flag' effect. Belarus' relatively stable economic situation and its geopolitical anchorage to Russia have also made the country less dependent upon Europe. In Russia, the discovery of energy leverage and an accompanying political (re)assertiveness on the international scene have contributed to undermining the effectiveness of the EU's normative message, and allowed Moscow to play member state interests against each other. In the Middle East, the EU's acceptance of playing second fiddle to the US, its preoccupation with maintaining close ties with Israel and the hold that Israel itself has on the EU have all induced the Union to strive for a modicum of stability in the region and respect rights. Finally, in North Africa, whereas the EU has sufficiently strong bargaining power vis-à-vis the Maghreb countries, the resilience of these regimes has reduced the prospect that the EU's (secondary) normative goals will have a discernible impact on the ground.

Transforming the EU into a normative power in the world

The discussion on means and impact points to a conundrum. On the one hand, the EU is more likely to pursue normative means when power relations between the EU and a third state are relatively balanced and relations develop within the confines of mutually negotiated agreements. On the other hand, power and particularly relational power seems to be of critical importance to engendering a normative impact, given that even the best of intentions may be an insufficient condition of success (Belarus). How can the EU escape this conundrum and maximise its chances of acting as a 'normative power' (Manners, 2002), as it repeatedly proclaims its role in the world?

In so far as the EU and its member states do not live, at least not always, on Kagan's Venus (Kagan, 2003), but rather are also driven by self-interest just like any other international actor, there is little point in naively asserting that the EU should sideline its interests and goals in the name of its proclaimed norms. Desirable as it may be, simply calling for this to happen will not change the dynamics at work. Neither can the EU single-handedly affect the external environment in which its foreign policies unfold. While it can certainly influence the external context, particularly in its neighbourhood where it has real foreign policy presence, it is also bound to rely on fortuitous external circumstances to effectively assert its normative power.

One suggestion is to improve the EU's internal capabilities. This would not necessarily mean strengthening capabilities in the classic sense of the term such as for example organising greater economic leverage or building military capacity. Strengthening capabilities in these terms could, by contrast, damage the EU's normative role by generating internal EU incentives to bend the law in order to pursue foreign policy goals in the interests of the EU or its member states. Instead, the Union could strengthen its web of contractual relations with third states in a manner that would 'tie its own hands', thus reducing its ability to act non-normatively. This would entail developing further the set of rules and laws that bind EU external behaviour in relation to third states, and link these rules and norms explicitly to the obligations set under international law. It would also entail establishing or strengthening the EU's internal institutional watchdog mechanisms, ensuring that when one EU actor (such as the Council or Commission) behaves or is tempted to behave in contravention of set rules, others (such as the Parliament) are ready and able to prevent this from happening. Understanding the importance of working in this direction is predicated upon an appreciation that the EU is not necessarily normative and that its internal actors are often driven by the very same set of interests and priorities that motivate other international actors. A shift in this direction would also substantiate claims that the EU's *sui generis* nature reflects a truly novel identity as a normative actor in world politics.

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The United States: A Normative Power?

Daniel Hamilton*

The shifting centres of gravity in US foreign policy

This paper on US foreign policy summarises the conclusions of a larger study, which in turn is a contribution to a multi-country project (concerning also the EU, China, India and Russia), published by CEPS and edited by Tocci et al. This project has used a common analytical framework, consisting of several stylised foreign policy paradigms: normative, *realpolitik*, imperial, and status quo. Tocci acknowledges that the same international actor can display all these types of foreign policy in different regions and in different policy areas at different points in time. The US case study indicated that the US, at least can – and does in fact – engage in each of these ways simultaneously.

But what do these typologies really tell us? Do they help us answer the question of whether the US is a normative power? While the US may at times indulge in all of types of foreign policy, this however begs the deeper question: overall, which most closely reflects the core of US foreign policy? Which examples are representative of deeper currents in American society, and which are not? Which are exemplars and which are exceptions?

Our first finding is to refute the rather superficial claim that the US used to be a normative power but isn't today. While most 'normative power EU' theorists acknowledge, in the words of Diez and Manners (2007, pp. 170, 174, 186), that the US "has exemplified the concept of a normative power during parts of its history", particularly "in the inter-war and immediate post-war periods", they deny that this has been true more recently. As this study has shown, however, the US advanced normative and non-normative goals, and deployed normative and non-normative means, before and after World War II, just as it does today. The reality is that the relative value or cost of these options has presented itself to every

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US Administration and Congress; the US has not swung from purely normative phases to non-normative ones.

This underscores my point that the more appropriate question is not *whether* the US is a normative actor but *the degree to which* it is one. I submit that this is also the more appropriate question when it comes to analysing other countries as well. To answer this question it is necessary to determine where the real centre of gravity lies when it comes to characterising the US role in the world. This requires us in turn to assign some kind of weighting to the different paradigms.

Overall, my review of US foreign policy indicates that the United States has been and continues to be simultaneously a guardian of norms established by the international community; a norm entrepreneur challenging those norms and on balance pushing the international community toward stronger norms enshrining human rights and the rule of law and democratic societies; a norm externaliser when it tries to advance norms for others that it is reluctant to apply to itself; and a norm blocker when it comes to issues that may threaten its position, or that exacerbate domestic divisions among the co-equal branches of US government or among the fluid yet often conflicting currents of American domestic thought regarding America's role in the world.

In addition, due to shifting political constellations and the separation of powers inherent in the US constitutional system, it is not easy to predict where the US may come out on any particular normative issue. The open and rather fluid nature of the US system indicates that coalitions transcending nominal party allegiances need to be built on most issues, and the strength and durability of such coalitions depend not only on the issue at hand, but on its relationship to many other issues.¹

Moreover, the particular weight of any one of these typologies varies over time. In general it may be said that the 'normative intended' dimension carries considerable weight and is a legitimate source of pride within the US foreign policy tradition. There are of course cases in which the US seeks to advance normative goals through normative means, but with major unintended consequences, but on the whole these appear to be less weighty. Over the course of the past 90 years, the US has also exhibited

¹ The same, I would argue, can be said of the EU and individual EU member states. The exact mix changes in each state.

a strong tradition of hegemonic (as opposed to imperial) behaviour. There have been flashes of imperialism, but overall they have been subsumed within a broader pattern of hegemony. While one can certainly identify cases of US *realpolitik*, intended or unintended, overall they appear to arise on a more case-by-case, ad hoc basis and thus seem less representative than the other two categories. There are fewer identifiable cases of US status quo orientation, but here again the case study approach limits the analysis, since the US is considered widely to be a major, if not the main, custodian and steward of the current international system.

In sum, the mainstream of US foreign policy tends more often than not to reflect a varying blend of normative and hegemonic approaches. This mainstream tradition, however, has been challenged by the historically unusual Wilsonian-Jacksonian coalition that over the past six years has dominated the US executive branch, with only some countervailing influence by the legislative and judicial branches. Challenges to the mainstream in the 1990s instead came more often than not from influential Jacksonian and Jeffersonian elements in the Congress. These shifting coalitions indicate that it is premature to conclude that the US has turned from the fundamental instincts that have guided it for the past sixty years. The rhetoric of the major contenders for the presidency in 2008, in fact, seems truer to mainstream tradition than to US activities of the recent past. Clinton, McCain and Obama each essentially claim to be the person best able to pass what Henry Kissinger has called the historical test for this generation of American leaders: how to use preponderant US power to achieve an international consensus behind widely accepted norms that will protect American values in a more uncertain future.

As we have seen, there is a particularly acute tension within the normative-hegemonic approach, and that is the extent to which the US is willing or able to bind itself to the norms it advances for others. This tension has characterised US foreign policy for many decades. For instance, no country was more responsible than the United States for the creation of the United Nations, and President Harry Truman was clear from the outset what this would mean. On June 25, 1945, in his closing address to the San Francisco conference that drafted the UN Charter, he stated, '[W]e all have to recognize, no matter how great our strength, that we must deny ourselves the license to do always as we please'. This statement has not always sat comfortably with Truman's successors. As Stephen Schlesinger (2006) notes, "Washington discovered soon after the UN's birth that despite its veto power in the Security Council, it could not always control its

wayward child. As a result, ever since 1945, US leaders have approached the UN with ambivalence: hoping, on the one hand, to use it to further US national security interests, while, on the other hand, worrying that too much involvement might constrain the United States' ability to act".² This tension has characterised America's approach to most international institutions and norms, even though public opinion polls consistently record strong public support for multilateral approaches to international challenges.

The US has not always mastered this tension well. As Kalypso Nicolaidis (2004) notes, "in non-American eyes, there is a world of differences between the 'righteous might' of Roosevelt's era and the self-righteous might of George W. Bush".

On balance, however, and despite exceptions, over the past sixty years the US has sought to manage its normative-hegemonic interplay by accepting some limits on its power and being bound by broader international norms and commitments, in exchange for greater legitimacy and acceptance of its leadership by others. The unresolved question in the post-Cold War, post-September 11 world is whether the US and other key players are prepared to stick with this bargain, or whether the US will increasingly act as a 'norm externaliser', i.e. using its power to advance broad norms for others but refusing to apply such norms to itself, and whether other nations will refuse the 'followership' that leadership requires. "Nothing undermines US authority more than the perception that the United States considers itself too powerful to be bound by the norms we preach to others" notes former US National Security Advisor Sandy Berger (2004).

Comparing the US and the EU

Since this project was prompted by consideration of the EU as a normative power, and since much of the literature in this regard contains explicit or implicit references to the United States, a few points warrant consideration.

First, much of the literature on the EU's alleged 'normative power' ignores some fundamental underpinnings of European order that have enabled conceptions of normative power to develop and be exercised at all. During the first half of the 20th century, most Europeans squandered any

² See also Bull (1977).

pretension they might have had to normative leadership through two World Wars and continued colonial rule. Following World War II, the US security guarantee removed – at least for half a continent – a key source of European conflict: the perceived need by mistrustful European states to build arms and alliances against their own neighbours. The American security commitment offered west Europeans an umbrella under which they could reconcile and agree on new norms that could offer a common foundation upon which they could work together and with others. Over time, the reassurances offered by a supportive – yet comfortably distant – hegemon enabled Europeans to create a community within which they could derive their security from each other rather than against each other. The very creation of the EU and the ability of its members to domesticate their foreign policies and render them normative rested on security guarantees provided by the United States.

It is perhaps easy today to forget that NATO was the umbrella under which the European integration project could proceed, or that postwar institutions were created as much to prevent west Europeans from again dragging the world into conflict and depression as to prevent Soviet dominance or communist infiltration. Kalypso Nicolaidis (2004) notes that “[T]he creation of a quasifederation without collective security as a driving force was an aberration of history made possible to a great extent by the US”.³

Moreover, this security logic continues even today – despite the end of the Cold War, despite September 11, and despite transatlantic and inner-EU squabbles over Iraq and other issues. The US continues to provide the ultimate reassurance enabling Europeans to reconcile, build and extend their Union. This is as evident in Kosovo today as it has been throughout the Balkans for the past decade and more⁴ This logic has been particularly

³ There is perhaps a relevant historical analogy, however: the young US also enjoyed the luxury of believing in its own normative uniqueness in the 19th century because it was protected by the British navy from being dragged into inner-European conflicts. This constructed a space in which Americans could enjoy a rare vacation from harder international realities – and in which such notions as American “exceptionalism” and “the virtues of isolationism” flowered and became such powerful guiding narratives.

⁴ During the Kosovo war and its aftermath, the US used the slogan “the only exit strategy is an integration strategy” to press the EU to recognise the logic of its own

evident in the determination of Central and Eastern European states to join NATO as well as the EU. New member states have been very clear about this relationship: while they have been keen to integrate with European societies within the EU, they are ultimately reassured in doing so through their membership in NATO.

The 'normative power' Europe discourse is strangely silent on this point. I was struck that the case study of EU enlargement in the EU working paper failed to even mention the parallel process of NATO enlargement and the obvious relationship between the two. While each operates according to its own particular logic, most EU countries are NATO countries, and the same officials and populations have been addressing the same historic opportunity: to extend to as much of the European continent as possible the democratic, free-market space where war simply does not happen.

This relates to a point Diez and Manners (2007, pp. 176, 180) have made about the relationship between normative and military power. "In contrast to civilian power", they note, "normative power is *not* the opposite of military power. It is entirely conceivable that military force is used to back up the spread of normative values" and that "military capabilities may underpin normative power". I couldn't agree more. What is important to add, however, is that in some instances the military capabilities - and political commitment - that underpin the EU's ability to project normative power are provided not by the EU but by the United States.

Second, much of the literature describing "normative power EU" is highly selective, including policies of EU member states when it is convenient and excluding them when it is not. There are two dimensions to this. The first has to do with foreign policy, where authority and competence still reside largely with member states. The EU, qua EU, in fact, has little real purview over the vast range of foreign policy decisions confronting any particular EU nation. Any consideration of the EU as a normative foreign policy actor, therefore, needs to consider the actions of individual EU member states, not just examples of common EU action. This is important for our purposes because the tendency is to compare the EU

enlargement and to work with southeast Europeans to create conditions enabling them to join the larger Union, even as it agreed to extend its own security commitments to those countries willing and able to join the Atlantic Alliance.

with the United States. In one such comparison, for instance, Diez and Manners (2007, p. 182) argue that the US readily resorts to force, whereas “the fact” is that “the EU or, rather, EU member states consider the use of force a last resort”. Really? What about the British and Polish invasion of Iraq and Spanish support for it? What about German, British, French, Dutch etc. intervention in the Balkans without a UN mandate? What about French or British interventions in Africa or the British intervention in the Falklands? My point is not to criticise such decisions, it is to ask for greater analytical rigour – for this, too, is the EU.

The other dimension has to do with domestic policies, or the extent to which EU member states have coordinated and ‘domesticated’ aspects of their interactions with one another. There is no doubt that in many areas there have been historic successes, even as progress is halting in other areas. The issue is whether the EU’s ‘normative power’ is enhanced by projecting such ‘domesticated’ policies abroad or by advancing them at home. This debate, new to the EU, echoes the long-standing American debate between Jeffersonians and Wilsonians. The EU’s normative power in this regard seems to be more influential simply through its example at home – the fact that nations that regularly used violence against each other now join together in common cause in a variety of traditionally domestic policy areas. There seem to be relatively few examples where the EU has projected its ‘domesticated’ policies abroad. The death penalty seems to be a prominent one, but even here success seems limited largely to Europe and Latin America, and problems of ratification and implementation in vast parts of the world remain (Katzenstein, 2006). Nonetheless, the possibilities are intriguing.

If one looks for examples beyond treaties and international law, however, one uncovers some promising experiments in the international extension of domesticated EU policies – particularly with the US. The recently created Transatlantic Economic Council, for instance, is in essence an effort to tie the US and the EU into a consultative process that identifies and then seeks to resolve domestic regulatory or policy barriers to the deeper integration of their economies, and to consider whether common standards developed through this process could form the basis for broader international norms. Yet it is striking that most of the literature either ignores the US dimension or goes to great pains to define “normative power EU” against the US example.

These considerations lead to a third point – the role of the United States, or perhaps more accurately, stereotypes of the United States, in

European debates about 'identity politics'. Proponents of "normative power EU" refreshingly acknowledge that the notion of 'normative power' is part of the broader debate about identity politics in Europe, and as such requires an 'other' against which such identities are constructed. "Not only is the success of this representation" of normative power EU "a precondition for other actors to agree to the norms set out by the EU", state Diez and Manners (2007, pp. 173-188), "it also constructs an identity of the EU against an image of others in the 'outside world'". After reviewing the literature, however, it is hard to avoid the conclusion that the 'other', whom, the adherents of "normative power EU" are constructing their arguments 'against' is in fact the EU's closest partner, the United States.

Diez and Manners explicitly seek to draw such distinctions. They argue that the American tradition of 'exceptionalism' essentially disqualifies the US from being considered a normative power, whereas it is precisely what they believe to be Europe's 'ordinariness' that provides "normative power EU" with such strength and attraction. This represents almost wilful ignorance of the strong exceptionalist rhetoric that is part and parcel of daily European political debates. In fact, the very premise of normative power is that Europe is uniquely positioned to guide humanity to a better future.

The more compelling distinction, it seems to me, is rooted in each partner's sense of its own exceptionalism. As Kalypso Nicolaidis (2004) notes, historians trace difficulties between France and the US to their similar sense of mission, of being the upholders of political and philosophical models for the world through the avowedly universal reach of their respective 18th century revolutions. I would add that German critiques of the US are also rooted in part in a German sense of exceptionalism: since Germany had been exceptionally evil, many Germans today believe their country must be exceptionally good. Since the US helped inculcate such beliefs in German society over two generations, it is particularly grating for Germans when US achievements fail to meet US aspirations, or when US demands of solidarity force Germans to abandon black and white in favour of grey. The moralistic undertone to much German critique is inescapable, even when it is not explicit.

These dilemmas arise in part because both the US and the EU think of themselves as normative powers projecting their internal norms of democracy and human rights abroad. Nevertheless these two competing exceptionalisms are of a different kind. As Nicolaidis (2004) notes:

Their respective founding myths, the escape from despotism and the escape from nationalism, tyranny from above and tyranny from below, led both entities to elevate commitment to the rule of law as their core. But this was domestic law in the US, supranational law in the EU; this meant checks and balance between branches of government on one side, between states on the other. While the US progressively became a federal state, the EU, admittedly still in its infancy, is braced to remain a federal union of nation-states. In the last two decades, while both the US and the EU have been fertile grounds for exploring “subsidiarity”, and multilevel governance, the EU alone has explored ways of doing this without coordination by a centralized state, through methods that might one day be relevant to global governance. US exceptionalism is a national project; European a postnational one.⁵

Within this distinction lies an opportunity: to reconcile these different ‘normative’ traditions rather than to deny the legitimacy of one or the other or to ignore the common foundations upon which they are based – all in all, an attractive agenda for US-EU relations.

⁵ See also Hamilton (2004); Keohane (2002); Brimmer (2006).

In Quest of Political Subjectivity: Russia's 'Normative Offensive' and the Triple Politicisation of Norms

Andrey S. Makarychev*

Russia is usually portrayed as either a fundamentally pragmatic or a *Realpolitik* type of international actor. Yet the end of Putin's presidency was marked by what might be figuratively called Russia's 'normative offensive': surprisingly enough, Russian foreign policy discourse became – at least rhetorically – increasingly normative. In fact Moscow seems not only to accept the normative challenges thrown down by parts of Europe but even to politically counter-attack in the normative battlefield. According to a renowned Russian journalist, “pragmatism is death for Russia. Without a value-oriented positioning Russia would simply turn into a resource-rich object of alien subjects' policies”.¹

Starting from the outbreak of the 'colour revolutions' in countries of its 'near abroad' Russia, indeed, has invested heavily in the infrastructure of a soft power.² This type of reaction could be discerned, for example, in the State Duma statement of October 2nd, 2007 accusing the Saakashvili regime of violating the principles of democracy and abusing human rights, including tightening control over opposition, the media and dissidents. In the case of Ukraine, Russia's key normative argument refers to the security decisions taken without due account of public opinion as “non-democratic” (of course, the point here is the Ukrainian NATO application). In 2008 Russia proudly announced the establishment of the Institute of Democracy and Cooperation (IDC) with two key headquarters – in Paris and New

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¹ Maxim Shevchenko, interview with “*Russkii zhurnal*” online journal, 28 February 2008 (available at <http://www.russ.ru>).

² Nicu Popescu, *Russia's Soft Power Ambitions*, CEPS Policy Brief No. 115, CEPS, Brussels, October 2006, p.1.

York. This move, quite new in the tradition of Russian foreign policy, can be interpreted as a direct response to the activities of European and American foundations and think tanks in Russia and, simultaneously, as an alternative to the Western interpretations of normativity in world politics.

In theory, there are two important facets to normative behaviour. *Firstly*, a normative power has to be grounded in a certain set of ideas, as opposed to the pursuance of purely material advantages. *Secondly*, a normative power has to be based upon multilateral institutions, as opposed to unilateral actions. Only a combination of these two aspects gives a proper model of normativity in international relations. Seen from this perspective, the emergent normative framework of Russian foreign policy so far seems to be deficient. Even the cooperation within the Northern Dimension initiative, in spite of its undeniable normative background in terms of establishing multilateral trans-border mechanisms, was largely perceived by sub-national elites in Russian regions as a source of economic and financial gains. By the same token, Russia's commitments to international legal norms in the Kosovo issue were contaminated by the unveiled pursuance of economic goals as well. Russia's harsh criticism of Estonia's decision to remove the Second World War monument in 2007 did not reveal a comprehensive normative policy conduct either: it was based upon a strong ideational background but lacked both a clear institutional dimension and mechanisms of coordination with other (at least post-Soviet) countries.

Against this background one may presume that the normative turn in Kremlin foreign policy can be discussed as one of its political instruments aimed at reinstalling Russia as one of key international subjects and an organic part of the 'international society' - a status which, Moscow feels, is either disputed or directly challenged by many in the West. As the IDC Director put it, the Freedom House's ranking of Russia at the level of countries like Angola, Libya and Uzbekistan is an exclusionary and unfair move that makes Russia resist and rebut it.³ In the meantime, the sensitiveness of Russian authorities to such normative gestures from the part of an international NGO is a good proof of the understanding that the only way to gain *political subjectivity* in international society is through the

³ *Itogi*, No. 5 (p. 607), 19 March 2008.

recognition of a country's democratic credentials and, consequently, observance of *democratic procedures*.⁴

In this paper I will argue that it is exactly this political logic that sustains Russia's 'normative offensive'; it is therefore, political effects that such a turn eventually entails. More specifically, there are three modalities inherent in the politicisation of norms.

Firstly, most of Russian opinion- and policy-makers admit that there is always a certain degree of political *decisionism* in a normative type of foreign policy. This argument splits into two parts.

On the one hand, in the likely cases of collision between different norms it is a political decision that prioritises one over another. For instance, in discussing the Kosovo situation from the normative point of view, Vladimir Putin implicitly admitted that there might be a conflict between the two constitutive principles of international society - territorial integrity vs. peoples' right to self-determination. Yet, according to him, the first principle has to prevail, since the second deserves a double negative marking as a left-over of the *Soviet* strategy in times of *colonialism*.⁵

On the other hand, in many cases norms applicable to one situation might appear to be irrelevant to or questionable in other - even seemingly similar - cases. Coming back to the Kosovo incident, many Russian analysts deem that global politics are defined not by shared rules of the game but rather by sovereign decisions on the part of the pivotal actors, first of all the United States and the European Union, who most of the time tend to act in a decisionist way.⁶ This argument appears to parallel the reasoning of those European experts who suggest that "the EU has a very 'undemocratic' approach, since it tends to select its interlocutors" in a variety of issues related to human rights and democracy.⁷

⁴ Andrei Bystritskii, "Gibel' ili kontsert" (Death or concert), *Apologiya*, No. 9, 2006, p. 15.

⁵ Vladimir Putin's interview with journalists of G8 Countries, 4 June 2007 (available at <http://www.kremlin.ru/texts/appears/2007/06/132365.shtml>).

⁶ Alexander Shubin, "Kosovo: general'noe otstuplenie prodolzhaetsa" (Kosovo: total retreat in progress), APN Agency web site, posted 25 February 2008 (<http://www.apn.ru/publications/print19286.html>).

⁷ Stefania Panebianco, "Political conditionality in EU Mediterranean Policy: the EU (in)capability to favour concrete prospects of change", paper presented at the

Secondly, one “of the political effects of norms”⁸ is the perspective of *exclusion* looming large behind their implementation. Normativity presupposes an interplay between inclusion and exclusion: certain norms are referred to as ‘constitutive’, while others are ignored or marginalised. The normative appeal “is more and more marked by a frontier ... between those who succeeded in remaining ‘within’ (the ‘developed’, those to whom the rules of human rights, social security, etc., still apply) and the others, the excluded (the main concern of the ‘developed’ with regard to them is how to contain their explosive potential, even if the price to be paid is the neglect of elementary democratic principles)”⁹ Consequently, “the ‘normal’ ones are the ones born in the ‘normal’ fabric of the so-called European culture and believed to be a product of an imagined and invented European and culturally homogeneous civilization ... which is placed in contrast to the ‘deviant’, the non-native ... the one born outside Europe”¹⁰.

All this is arguably very much relevant to EU – Russian relations, since, as many European authors assume, “through its normative-power narrative, Brussels necessarily ‘others’ those international actors that lack moral fervour... Moreover, in this tradition of thought, the term ‘norm’ is a close conceptual affiliate of the term ‘legitimacy’”¹¹ As a pertinent example, one may refer to the Polish ‘Eastern Dimension’ project that introduced ‘Easternness’ not as a unifying platform for shared values but as a concept

conference “La fin du moment démocratique? Un défi pour l’Europe”, CERI, Paris, 11-12 May 2007, p. 8.

⁸ Vincent Pouliot, “The essence of constructivism”, *Journal of International Relations and Development*, Vol. 7, No. 3, October 2004, p. 324.

⁹ Slavoj Žižek, *The Universal Exception: Selected Writings, Volume Two*, edited by Rex Butler and Scott Stephens, London & New York: Continuum, 2006, p. 21.

¹⁰ Henk van Houtum & Roos Pijpers, “The European Union as a Gated Community: Two-Faced Border and Immigration Regime of the EU”, *Antipode. A Radical Journal of Geography*, Vol. 39, No. 2, March 2007, p. 296.

¹¹ Michael Merlingen, “Everything Is Dangerous: A Critique of ‘Normative Power Europe’”, *Security Dialogue*, Vol. 38, No. 4, December 2007, p. 438.

that “underlines the existence of a divide between”¹² the accession countries, on the one hand, and Russia – on the other.

Russian views – even of ostensibly liberal profile – do not seem to differ much from those mentioned above: “Under the guise of European values, the EU pursues a peculiar kind of bureaucratic imperialism that seeks to modify and partially control EU’s neighbourhood through various instruments like the ENP, the Common Spaces, the Energy Charter, etc.”, one author argues.¹³ Another Russian scholar deems that the expansion of EU’s “normative empire” represents a political challenge to Russia¹⁴ and pushes her outside the so called “new (enlarged) West”.

As a reverse side of this challenge, Russia has every reason to perceive the European normative discourse as constitutive of her own international subjecthood: in an indicative utterance of Natalia Narochitskaya, “the IDC has to make Europeans question the widely spread stereotype of Russians as a barbaric nation”.¹⁵ Thus, the Russian game is two-fold: on the one hand, Moscow does accept the normative distance with Europe, though reformulates it in her own way: “today the West is short of non-economic values”. What stems from this enunciation is that the West is in no way ‘untouchable’ on normative grounds and, therefore, its pretensions to monopolise the interpretation of democracy have to be rebuffed.¹⁶ Yet on the other hand, Russia – through a variety of discursive moves – is eager to (re)imagine a Europe she might feel

¹² Christopher Browning & Pertti Joenniemi, “The European Union’s Two Dimensions: The Eastern and the Northern”, *Security Dialogue*, Vol. 34, No. 4, December 2003, p. 471.

¹³ Sergei Medvedev, *The Crisis in EU-Russia Relations: Between “Sovereignty” and “Europeanization”*, Working paper WP14/2007/02, Moscow: Higher School of Economics, 2007, p. 13.

¹⁴ Dmitrii Trenin, “Identichnost’ i integratsiya: Rossiya i Zapad v XXI veke” (Identity and integration: Russia and the West in the 21st Century), *Pro et Contra*, Vol. 8, No. 3, 2004, p. 12.

¹⁵ Natalia Narochitskaya, “Evropa tak blizoruka” (Europe is so shortsighted), *Stoletie* Internet newspaper, 29 February 2008 (available at <http://stoletie.ru/print.php?printid=7922>).

¹⁶ Anatolii Kucherena, press conference at IDC, 28 January 2008 (available at <http://www.kucherena.ru/events/27/-/42/>).

comfortable with (“We are to defend not a Europe of gay parades, but a Europe of Mozart, Goethe and Schiller”).¹⁷

Thirdly, the normative type of international policy behaviour leaves ample space for “normative disagreements”,¹⁸ i.e. contestation and re-definition of key normative signifiers.

A major source of discursive discord between Russia and the EU could be discerned in the way both parties utilise the normative language of communication. While frequently using the same normative vocabulary, European and Russian discourse-makers deliberately infuse them with different meanings. It is exactly where the sources of misunderstanding come from, provoking - as a chain reaction to these discursive ruptures - multiple attempts to symbolize the differences. A few examples could be pertinent at this juncture, all based upon Ian Manners’ identification of key norms that shape EU policies.¹⁹ These norms, arguably, might be tackled, in terms of Ernesto Laclau, as “privileged, hegemonic signifiers which structure, as nodal points, the ensemble of a discursive formation”. Yet, in the meantime, these signifiers tend to remain vague and imprecise, and it is exactly what constitutes for Laclau “the very nature of the political”.²⁰

Peace (and, therefore, security). Here we see a clear perceptual gap: for countries like the UK it is the Kremlin that represents a security threat (and, therefore, ought to be securitized) due to its complicity in the murder of Alexander Litvinenko, while for Russia herself it is the UK, which hosts key figures of the Chechen terrorist groups that is perceived as a security problem. The Russian government has repeatedly raised similar issues in diplomatic talks with Denmark, Sweden and some other European countries.

Democracy. European discourse contains a number of arguments critical to EU democratic credentials. Some authors argue that in the Balkans, “an election is less about domestic legitimacy than about

¹⁷ Natalia Narochnitskaya, op. cit.

¹⁸ Jurgen Habermas, *The Divided West*, Cambridge, UK and Malden, US: Policy Press, 2006, p. 29.

¹⁹ Ian Manners, “Normative Power in Europe: A Contradiction in Terms”, *Journal of Common Market Studies*, No. 40(2), 2002, pp. 235-258.

²⁰ Ernesto Laclau, *On Populist Reason*, London and New York: Verso, 2005, p. 99.

international legitimacy".²¹ Others, in the meantime, deem that democracy promotion became a type of "technique of governance beyond political discussion", which faces problems wherever "the power relations are so asymmetrical that the attempts to legitimize and rationalize the projection of power through technocratic means fail".²²

Even the most liberal of Russian policy analysts side with this critique and speak of the "democratic deficit" within the European integration process.²³ Meanwhile, in Russia this argument is paralleled by an attempt to automatically project the concept of democracy - originally crafted for describing the state of domestic political regime - to the whole international area. It is within this context that one has to discuss the concept of 'democratic multipolarity', which posits that the idea of democracy, being transferred from the domestic to the international domain, is denotative of a plurality of interests whatever the nature of these interests might be. It is debatable whether a 'democratic multipolarity' model with such key actors as, for instance, Iran, North Korea, Pakistan, Libya, Nigeria or Venezuela would lead to a more secure world.

The simultaneous activation of the 'sovereign democracy' and 'democratic multipolarity' concepts renders a profound effect on the way the normative type of arguments is employed by Russian authorities. On the one hand, the Kremlin refuses to recognise the legitimacy of any attempts to assess the quality of domestic electoral or human rights norms (since Russia's democracy is a sovereign one, no foreign government can impose its standards or judge whether domestic practices correspond to any norm external to Russia). On the other hand, Russia keeps a free hand in appraising the international behaviour of other countries, expecting them to act 'democratically', i.e. respect the interests of all parties involved. In other words, having foreclosed the internal political space from external

²¹ Jacques Rupnik, "European Union's approaches to 'democracy promotion'", paper presented at the conference "La fin du moment démocratique? Un défi pour l'Europe", CERJ, Paris, 11-12 May 2007, p. 8.

²² David Chandler, "Democracy Promotion and the Simulation of the European Union", paper presented at the conference "La fin du moment démocratique? Un défi pour l'Europe", CERJ, Paris, 11-12 May 2007, p. 1.

²³ Timofei Bordachov, *Predely evropieizatsii* (Limits of Europeanisation), Moscow: Higher School of Economics Publishers, 2007, pp. 162-163.

criticism, Moscow claims to possess a full right to point a finger at those countries it thinks are 'violators' of 'international democracy' (reduced, as I have mentioned earlier, to the plurality of actors). By doing so, Russia claims that foreign policies of countries that speak of themselves as democracies are not that democratic at all: in particular, Putin referred to the European support of the 'orange revolution' in Ukraine as an intervention from the outside which, as a form of external pressure, allegedly can't be democratic.

The rule of law. Again, Russia's response to Europe in this domain redirects attention from the domestic understanding of the 'rule of law' to the international one. Putin repeatedly expressed his doubts about whether European countries are sincere in their legal commitments as soon as it comes to their foreign policies. The Kosovo debate is perhaps a good case in point.

Another line of reasoning is the questioning of the leadership of the Western countries in terms of the attractiveness of their legal culture. Thus, according to Narochnitskaya, the right of French children to denounce their parents is highly controversial for Russians. She then gives another example of legal imperfections, this time in the United States where, according to her observations, most of the time voters' identities are not being properly checked.²⁴

Liberty. There is a strong Russian conservative discourse aimed at drawing a line of distinction between the Western and the Russian versions of liberty. According to the conservative tradition of thinking, liberty is not about making individual choices, but about something more fundamental – getting rid of sin, including the alleged freedom to commit blasphemy and sacrilege.²⁵ Many Russian political thinkers are convinced of Russia's ability to confess and defend "genuinely Christian and, therefore, genuinely European values, among which the key one is the value of free human

²⁴ Natalia Narochnitskaya, *op. cit.*

²⁵ Vladimir Semenko, "Konservativnaya reaktsiya ili konets istorii?" (Conservative reaction or end of history?), *Problemy razvitiya*, No. 1 (5), 2007, pp. 26-33.

beings whose liberty is derived from its creation on the basis of the image of the Lord".²⁶

Russian official discourse seems to be more nuanced in this respect. Foreign Minister refers to Russia's eagerness to contribute to the formation of "a single Euro–Atlantic space of freedom and democracy" – a strategy that partly explains the creation of the IDC. Yet in the meantime, the numerous references to normative arguments lead Russia to criticise those Western countries that, in Russia's opinion, "are ready to forgive the friendly governments for everything – from cracking down opposition and pressuring on business to open repressions and even crimes against opponents".²⁷

Respect for human rights. In Europe, the key criticism in this domain is grounded on the presumption that "the West presents itself in a form bereft of any normative core as long as its concern for human rights only extends to promoting free markets abroad".²⁸ The key Russian argument seems to be a bit different – it points to the questioning of the universal and absolute applicability of the human rights concept. It is highly indicative that these claims come largely from religious circles. Thus, according to a key figure in the Russian Orthodox Church, in the public sphere "it is the moral norms that could be used as restrictions for human rights implementation".²⁹ Otherwise, the logic goes on, the human rights agenda might turn aggressive, as exemplified by public demands to legalise same-sex marriages, the adoption of children by homosexual couples, gays' employment in public education, etc.

There is another twist in Russia's human rights discourse – the increasing attempts to raise concerns about the state of human rights in the EU countries. As the chairman of the "United Russia" party puts it, "Russia

²⁶ Arkadiy Maler, "Pochemu ot Dmitriya Medvedeva ne iskhodit netvarniy svet?" (Why Dmitrii Medvedev is not brimming with light?), Part 2, *Russkii zhurnal*, 29 April 2008 (available at www.russ.ru).

²⁷ Sergei Lavrov, "Vneshniaya politika Rossii: noviy etap" (Russia's foreign policy: a new phase), *Expert*, No. 47, 17 December 2007.

²⁸ Jurgen Habermas, *The Divided West*, Cambridge, UK and Malden, US: Policy Press, 2006, p. 12.

²⁹ Mitropolit Kirill, speech delivered at the UNESCO Seminar "The Dialogue of Civilizations", *Problemy razvitiya*, No. 1 (5), 2007, pp. 20-22.

is very much troubled by the human rights situation in countries like Estonia and Latvia where hundreds of thousands of people are deprived of basic civil rights ... since they can't elect and be elected, and their native language can't be used for communication with authorities".³⁰ It is at this point that the human rights discourse turns into Russia's implicit - and somehow dissembling - claims to be "more European than Europe itself": "In making the case against the effacement of the Second World War memories, Russia defends European values and the future of all Europe",³¹ - the argument goes on. In continuation, Russia is eager to portray itself as a country where ethnic and cultural differences are tolerated and respected, as demonstrated by the centuries-long co-existence of the Russian and Muslim population in Russia's heartland. As Narochitskaya claims, "Europe has absolutely no right to accuse Russia of xenophobia, since in this respect Russia appears to be a much healthier nation".³²

Therefore, one may see that normative discussions are an important part of Russia - EU relations. The reasons behind the re-actualization of the normative discourse seem to stretch far beyond specific issues like, for example, the fairness of elections in Russia. Russia accepted the normative challenge because of the awareness that it is exactly the normative matters that are being used by Western countries to define how 'civilised humankind' - one facing the threats of terrorism and other security challenges - looks. In fact, Russia's newborn normative zeal is a crucial tool in her attempts to be accepted as a legitimate and constitutive member of the international community which, by and large, might be equated with the West.³³ In fact, what is at stake is the drawing of the borders of this 'international community' and the distribution of roles within it.

The normative debates between Russia and Europe mostly deal with such issues as: a) which norms should be given priority in particular situations; b) how far each of the two parties should go with internationally promoting these norms; and c) whether 'domestic' norms may be equally

³⁰ Boris Gryzlov, "Rossiya i Evropa: zadachi razvitiya" (Russia and Europe: an Agenda for Development), in *Ideologiya natsional'nogo uspekha*, Moscow: Center for Social Conservative Policy, 2007, p. 25.

³¹ Boris Gryzlov, op. cit, p. 25.

³² *RBK Daily*, 17 January 2008, No. 5 (74), p. 1.

³³ Dmitrii Trenin, op. cit, p. 206.

applicable for the international arena as well. Indeed, Russia wishes to be recognised in Europe as an equal partner in norm-setting, but this intention is not to be understood as an indication of Russia's possession of its 'own' norms that Europe, arguably, either rejects or disregards. Russia seems to be ready to offer an alternative reading of a set of norms constitutive of European identity, but definitely not to substitute them with some kind of Russia-only norms or values.

By way of conclusion, one may argue that Russia apparently accepts strong political connotations of norm-based discourse, but the politicisation described above is never complete, since on certain occasions it may be reversed by a series of implicitly de-politicised moves. One of them was Dmitry Medvedev's reference – made at the German – Russia Forum in Berlin, June 5th, 2008 – to human rights issues as a value per se, irreducible to matters of political bargaining between Russia and the West and not susceptible to any kind of political trade-offs. Another example of the same sort is Moscow's unease with NATO's insistence on a logical linkage between the normative issues (like the state of democracy in applicant countries) and security (their perspectives to join NATO). On the one hand, the Kremlin fears being excluded from the NATO-centered security domain on the basis of Russia's alleged failure to meet Western standards of democracy. On the other hand, the troublesome lesson Moscow may draw from the conflation of security and democracy arguments is that the more it supports undemocratic practices in neighbouring countries, the fewer are their chances of NATO membership. It is at this point that an inherently 'undecidable' character of Russia's normative discourse becomes obvious: it seeks to reinvent the values of democracy, human rights and the rule of law, but in the meantime seems to be succumbing to the temptation of pragmatically implementing them as (supposedly) effective foreign policy tools.

There is No Such Thing as a Normative Chinese model

Lanxin Xiang*

Misreading China's Rise?

Many key concepts currently used in the West about China's internal governance and foreign policy can no longer be valid, especially those from the fields of political science and history. We need a new conceptual framework and analytical tools.¹ The world's preoccupation with China's sudden rise as an economic superpower is a matter of some bemusement among Chinese political leaders and intellectuals. Massive trade surpluses with the rest of the world? The embrace of free markets and globalisation? The Chinese have been there before. As we see it, this is not China's rise, but rather its restoration to its historical position of global influence.

Today's restoration constitutes China's third great encounter with the West, following the Jesuit missions of the 16th century and the Opium Wars of the 1840s. The current encounter – this time between equals – will produce much more than economic competition with the West. As China's economic strength grows, no one, not even the Chinese ourselves, can prevent China's influence from spreading into politics, values and ideology. It is in those arenas that conflicts with the West, the United States in particular, can arise, and unfortunately, it is precisely in those areas that misunderstandings between China and the West run rampant.²

To come up with a normative Chinese model as regards world affairs, one must start with the simple but often neglected fact that China has no

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¹ For details, see Lanxin Xiang, *Chuantong yu Duiwai Guanxi* (Tradition and Chinese Foreign Relations), Beijing: Sanlian Press, 2007 and "Don't Use Western Language to Explain China", Op-ed page, *Global Times*, 23 April 2008, Beijing.

² See further analysis, Lanxin Xiang, "Why Washington Does Not Speak Chinese", *Outlook*, *Washington Post*, 16 May 2005.

faith in any universal value, hence has never offered any model in the past and will never do so in the future. Chinese tradition stipulates that any governance style, either domestic or external, be contingent in a historical and cultural context. A normative model would mean a value system that clamours for universal status, but China never believes in ‘universalism’ of any kind and universalism (a word synonymous to Catholicism) can never be translated accurately into the Chinese language.³

Domestic Governance

Western powers should abandon the idea that the ‘democratisation’ of China will definitely take place in the future. From the Chinese perspective, Western democracy in its post-Enlightenment form is a Gothic, pseudo-secular system. It is deeply rooted in Christian theology. The United States today holds the last defensive line of a political ideology buttressed by a three-fold theology: metaphysical interpretation of human history – the Hegelian philosophy of history, a teleological tool of analysis, and an eschatological faith. China has none of the above. “Is Confucianism or Daoism a religion?” is a question the Westerners are never in a position to answer, but the Chinese never in a position to ask.

The democratisation of China is not preordained by universalism. On the contrary, the traditional Chinese political logic remains the dominant force in China. The communist party cannot escape the same fate as all the dynasties before it. According to tradition, politics is a relationship between water and boat. Water (people) can allow the boat (government) to float but can also overturn the boat. The real issue of political legitimacy in China is thus not ‘democratic legitimacy’ (or procedural legitimacy *Chengxu Hefa*, as the Chinese call it), but ‘deeds legitimacy’ (*Zhengji Hefa*) based on the continued performance of the leadership. Most Western observers have missed this point.

The Chinese view about internal and international politics is more coherent than outsiders have realised, since it is essentially an ethical one.

³ For example, it would be most misleading to say that China has accepted at least ONE universal value by signing up to the UN “Universal declaration of Human Rights”. In fact, the Chinese version is “The World Declaration of Human Rights” (*shijie renquan xuanyan*). The difference is obvious to those who know Chinese: the world is dominated by nation states.

In Chinese tradition, a 'state' is the extension of the family, as the Chinese term '*Guojia*' (state-family, the official terminology for the 'state') indicates. Thus, only moral authority can guarantee the long-term stability of a family as well as a state. It would be misleading therefore to use Imperial Germany as a historical analogy in describing China's 'rise' today. To put it simply, there is no inherent 'power politics' logic that would automatically lead China into repressive policies at home and expansionist policies abroad. Any use of force has to be morally justifiable. Even in actual warfare, winning without engaging in battle is considered the ideal result.

National Security

The Chinese view of national security is predicated on two factors: the modern Chinese experience since the Opium War of 1840s and the traditional culture concerning armed conflict. The first factor is crucial, since modern China has been a victim rather than a beneficiary of the existing international system (the Westphalia System). Before the Opium War, the Chinese perception of national security was based on a relatively benign hegemony - a Sino-centric international relations network, known as the Tributary System, in which China received 'tribute' (i.e. a formal diplomatic gesture by foreign countries to present a gift to the Chinese emperor, symbolising the acceptance of Chinese leadership) in exchange for trade and protection.

The Westphalian conception of power and balance of power was unknown to the Chinese until the Opium War and was imposed by Western powers upon Asia to replace the Tributary System with a new 'Treaty System'. Operating through competitive principles of free trade and extraterritoriality, the Treaty System never provided China with any real sense of national security. On the contrary, these two principles inevitably turned China into a major playground of the political and economic rivalry among the Great Powers. In other words, Western imperialism created, for the first time, a malignant 'balance of power' system in Asia that had little to do with local culture. It was a miniature version of European power politics.

In the first half of the 20th century, the 'rising' Japanese made an extraordinarily bold attempt at establishing a malignant hegemony in the region - the so-called "Greater East Asian Co-Prosperity Sphere", to replace the Treaty System. But this was a short-lived adventure. After a bloody civil war in the late 1940s, the Chinese communist party was able to seize power, with popular support mobilised successfully during the war

against Japan. The dramatic ending of foreign domination means that China has obtained, for the first time in modern history, the opportunity to design a national security policy based upon its own national interests. But China's humiliating past has always cast a long shadow on any security policy. Self-reliant economic development and strong national defence have been two main pillars of the new regime.

The second factor, the influence of cultural heritage, is no less important. From the very beginning of the People's Republic, the Chinese view of security has been influenced by China's ancient tradition and attitude regarding the use of force to deal with security threats. Some Western scholars have labelled this factor as 'strategic culture'. According to Iain Johnston, the dominant Chinese strategic culture is *parabellum*, a term he used to refer to Chinese 'cultural realism' - the alleged pro-offensive approach to dealing with the threat from the enemy.⁴

This analytical framework seems useful, especially since it is designed to 'correct' the prevailing view in the West about an inherent Chinese 'pacifism'. But it is also misleading, because it suggests that war and peace can be considered separate subjects in Chinese tradition, ignoring the interactive dynamics of the two aspects of using force. The Confucian tradition dictates that the Chinese forego territorial conquest and colonial adventure; hence the traditional Chinese purpose of using force has to be fundamentally defensive, and linked to the desire of achieving a more durable peace at the frontiers through military superiority. The prevailing inclination is neither aggressive nor offensive.

More significantly, domestic stability always takes priority, since true national security requires, above all, building harmony within society, which cannot be achieved by any conquest of a foreign land. The alleged Chinese's propensity of using force is at best a pseudo-thesis, just like another pseudo-thesis: the 'Venus vs. Mars' parody, advanced by Robert Kagan,⁵ about Europe's innate unwillingness to use force in world affairs.

⁴ According to Iain Johnston, strategic culture consists of a central paradigm, designed to answer three questions: 1. what role warfare has to play in human affairs; 2. the nature of threat and enemy; and 3. how effective is the use of force in dealing with the threat? See Johnston, *Cultural Realism*, pp. 248-251, Princeton, 1995.

⁵ Robert Kagan, *Of Paradise and Power*, New York, 2001.

The Europeans, like the Chinese, are by no means allergic or oblivious to the use of force, they simply want to reduce the role of using force in international affairs and more importantly, when force is necessary, it must be used with the consent of the international community at large. The Sino-European preference for moral authority in using force should not be confused with universal pacifism. Neither China nor the EU holds a typical pacifist view that rejects the use of force under any circumstances. It is here that traditional China and 'postmodern' Europe meet.

Undoubtedly, the body that represents the moral authority of the international community has so far been the United Nations. Therefore, the EU and China share a common interest in upholding UN authority when force must be used in settling international disputes. Multilateral diplomacy is logically considered to be the foundation for seeking international consensus.

Foreign Policy and Global Governance

In the foreign policy arena, the experience of European integration is equally important, because it provides real hope for China's peaceful integration into the world. Beijing's declared foreign policy principle is to promote "peace and development" (*heping yu fazhan*). This is certainly a great leap forward from the days of Mao when ideology dominated China's external relations. However, the theme of peace and development does not have a unique operating value, because every country can make this general claim. One important, but little noticed, principle that Beijing has recently added to its grand strategy of 'peaceful rise' is a theory of "democratisation of international relations (*guoji guanxi minzhuhua*)". Uttered by an undemocratic state, such a theory has failed to be taken seriously. However, it is precisely what China may demand from and hope to contribute to the future international system.

By using the word 'democratisation', the Chinese seem to be searching for a way to embrace certain fundamental values of the cultural West. Specifically, they are eager to see an internationalised version of the key principles of the French Revolution of 1789. The principles of 'Equality, Liberty and Fraternity' inspired a whole generation of the Chinese revolutionaries in the 20th century, who established the People's Republic. But the West seemed not only to have failed to stave off its internecine wars, but also to have adopted a double standard when applying these principles to the non-European world. The European Union is in fact the

first successful experiment in applying these principles to intergovernmental relations.

In practical terms, international 'equality' is another expression for the multipolar system; international 'liberty' at least protects national independence; and international 'fraternity' requires an amicable and multilateral approach bound by international norms and regulations. This is the world China has been desperately seeking since the Opium War of 1840. It took some 160 years for China to reconcile with a system that has inflicted enormous pains on its people in the past.

As a result, Chinese diplomatic outlook and behaviour have undergone fundamental transformations. Two typical diplomatic behaviours have derived from the painful historical encounter with the West. First there was the 'G-One' behaviour of distrusting any international system and its sub-systems. For most of the Cold War, China was known as a G-One country, pursuing its own independent objectives while jealously guarding its national sovereignty. The irony is, in comparison with the United States, China had far more experience in unilateralist behaviour. Beijing never had much faith in multilateralism, let alone alliances. Its only alliance experience with the Soviet Union ended in a bitter confrontation.

Second, the 'friend or foe' mentality is gone. China never understood the European integration process until recently, because the European model of diplomatic 'muddlism' did not fit the Chinese Communist notion of an effective strategy in a revolutionary world.

Today, China is no longer a revolutionary power. The new Eurasian orientation of China's grand strategy has brought about great changes to China's foreign policy practices. Since the mid-1990s, China has abandoned the G-One posture, and begun to participate and initiate multilateral organisations. China is an active member of the ASEAN Regional Forum (ARF), a founder of the Shanghai Cooperation Organization (SCO), a recent member of the World Trade Organization (WTO) and a proactive and constructive member of the UN Security Council. But China lost no independence in multilateral diplomacy. For example, China is engaged actively in non-proliferation issues without necessarily acceding to a Western conception of its rationale. Nevertheless, China has finally stepped out of the 'Middle Kingdom Complex'.

More interestingly, in the process of rediscovering its own history, China has also discovered the unsurpassable advantage of handling its external relations with 'go-go-muddlism'. The geopolitical instinct may tell

the leadership in Beijing that the Euro-Asian orientation is far superior to a Pacific orientation when searching for a safe route to enter the world. The Euro-Asian continent is absent of major strategic confrontations; a muddling-through diplomatic approach may take long time but is safer than the water-muddying approach in the Pacific. There the potentially explosive issues are abundant, such as the real or imaginary US-China strategic rivalry, the crisis on the Korean Peninsula, a rearming Japan and last but not least, the intractable Taiwan Question. China is eager to learn from the EU experience, for the EU happens to be the shining model of muddlism in the 20th century and the current world.

In conclusion, Beijing is not seeking a place in the sun, but finding a place in the shade. The Euro-Asian continent casts a long but comfortable shadow for years to come. With a grand strategy of 'peaceful rise through Euro-Asia', a long-term peaceful Chinese foreign policy is thus on the horizon. The West should focus not on changing the nature of Chinese internal and external policies, but encourage China in a process of reclaiming traditional, Confucian values.

India as a Foreign Policy Actor – Normative Redux

Radha Kumar*

Introduction

Observers of Indian foreign policy are often puzzled by its inchoate combination of idealist rhetoric on international issues, post-modern nitpicking in negotiations and isolationist behaviour when it comes to matters of national interest. “What does India want?” they ask in frustration: “do you want to be a major power, or do you just want to score points?”

The question is a difficult one to answer. When India achieved independence in 1947, the country’s founding fathers assumed it would be a leading international player, expanding rules for normative behaviour in relation to goals as well as means. But though India’s founding fathers produced grand policy visions, such as the 1946 Asian Relations Conference for an institutional structure to buffer Asia against the Cold War, they were unable to translate their sweeping goals into action. The Chinese revolution, followed by the Korean, Vietnamese and Cambodian wars, brought the Cold War into the heart of Asia (Gonsalves 1991).

Sixty years later, India’s new policy-makers define India as ‘a rising power’ that is today beginning to match global goals and means in order to achieve the most favourable results for its citizens, and at the same time expand normative principles for inter-state and transnational behaviour. India’s steady 8-9% growth over the past decade, and the Indian government’s proactive diplomacy in the same period, allow Indian policy-makers to bring context and substance to the normative principles that their predecessors advocated – a development that one leading Indian analyst describes as “crossing the Rubicon” from idealism to pragmatism

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(Mohan, 2003), and another as “India Unbound” (Das, 2002); both phrases indicating what a large leap it is. During the Cold War, Indian policy-makers advocated principles divorced from political reality, to use Morgenthau’s definition (Morgenthau, 1982), but today they seek to combine normative principles with national interest, in the way that most states do, especially those with regional or major power ambitions.

As other papers in this series have pointed out, categories of what is normative vary from culture to culture, and are hotly debated across cultures (Tocci, 2007, pp. 2-3). The international norms that do exist do not represent an international consensus on even the lowest common denominators of normative international relations; when nations view themselves as normative foreign policy actors they are inevitably selective.

In terms of definition, therefore, this paper inclines towards Daniel Hamilton’s argument that all states behave normatively to a varying extent; what is important is the degree to which they are normative as well as the issues that elicit their normative behaviour. Thus, for example, the US and China behave least normatively when it comes to security threats (accepting that the use of force can be a normative means), while most of the EU countries and India tend to be more normative in their reactions. On the other hand, the US is most likely to come to the rescue of a persecuted state, the EU and India are less likely to and China is the least likely of all. Then again, the US and India provide far greater freedom of labour movement, including immigration, than do the EU or China; conversely, the US and China are the greatest investors in other countries’ infrastructure development.

To these distinctions we need to add another variable: regional differentiation. If regional perceptions are taken into account – how your neighbourhood views you – China would come off as less threatening than the US, EU or India, not to mention Russia. The EU pattern of pushing norms in its immediate neighbourhood is not a common foreign policy practice; less intervention is considered more normative in most parts of Asia. This may partly be due to the post-colonial heritage in which establishing sovereignty is itself a prime normative goal.

With these caveats, this paper applied Tocci’s typology to eight case studies of India’s foreign relations – with Pakistan, China, Japan, the US, Nepal, Sikkim (now an Indian state), Myanmar and the EU – to examine what kind of foreign policy actor India is, accounting for varied purposes and power. Do India’s current foreign policy actions conform to its founding fathers’ vision? If they are different, can they still be called

normative? Have Indian views on what constitutes normative foreign policy changed? What can other countries expect from India?

What do Indians consider to be normative foreign policy?

Indian views of what is normative in foreign policy are framed by the canonical 3rd-4th century text on statecraft, Kautilya's *Arthashastra* (laws of political economy), which highlighted three key pillars of normative state behaviour: engagement with the world, adherence to rule-based norms, and transparency.

Written for the most outward looking of India's several empires, the Mauryan dynasty, whose rule spanned the Indus valley and was home to one of the greatest universities of its time: the Buddhist seat of Taxila (now in Pakistan), the *Arthashastra* viewed the Mauryan empire's neighbourhood as a core foreign policy priority and defined its relations within a set of concentric circles. He also counselled more general realist precepts: greater powers should be cultivated, equal or weaker powers could be defeated through judicious alliances, and weaker powers could be attacked, patronised or ignored.

These views led to a debate on whether Kautilya was the ultimate political realist or whether the *Arthashastra* skillfully combined elements of idealism with *realpolitik* serving the national interest (Boesche 2003; Alagappa 1998, pp. 74-5). The latter characterisation is more convincing – Kautilya believed that alliances for peace were preferable to war even if war highlighted a country's primacy over others.

Had the traditional strand remained dominant in Indian foreign policy doctrine it would have been easy to classify India as a normative (although not necessarily naively idealist) international player. But British colonialism added a new element to Indian foreign policy – that of dependency. Whereas previous empires had been rooted in India and adopted foreign policies that served Indian state interests, Britain was a far-away country and India's foreign policy was adapted to suit British interests. Thus what I term '*unrealpolitik*' international action (because it subordinates national interests to that of other countries) entered into Indian foreign policy.

Indian attitudes towards norms based on Enlightenment values were also complicated by the fact that these values arrived in India as a consequence of empire. Indians have tended to view European and to some extent American references to normative behaviour with scepticism. Most

Indian policy-makers and analysts do not, for example, see a difference between European policies in Bosnia and Kosovo, and the US and allied invasion of Iraq. Humanitarian intervention, they argue, is not distinct from regime change or 'shock and awe': it is more often a cover for imperial design (Institute of Peace and Conflict Studies, 2003, pp. 44-5; Dixit, 1999; Naqvi, 1999).

In an attempt to rid itself of *unrealpolitik*, during the Cold War, India's foreign policy focus was on decolonisation and multilateral constraints over Great Power domination. Furthermore, Indian leaders sought consensus rather than using economic, political or military pressure to influence world affairs, an approach that lasted well into the 1990s.

Following the 1962 war with China – which was largely Tibet-driven and in which India suffered a crushing defeat – and Nehru's death in 1964, Indian foreign policy veered back to *unrealpolitik*, which in this case put the interests of the USSR above its own. *Unrealpolitik* reached its zenith under Indian Prime Minister Indira Gandhi (1966-75, 78-84), during which period India aligned itself firmly with the USSR and its economy became dependent on the Soviet military-industrial complex.

With the end of the Cold War, India experienced what some called an opportunity to combine normative and *realpolitik* goals (Kumar, 2006), and others defined as a conflict between the two (Mohan, 2003). But Indian policy-makers were slow to take advantage of this new opening. It was only in the early years of the 21st century that Indian policy-makers made a concerted effort to re-engage with the world; and this time it was the Kautilyan strand in Indian foreign policy that came to the fore.

In contrast to India's Cold War leaders, the country's new policy-makers came to the conclusion that if India was to pull its weight internationally it would have to become an economic and regional power (Dasgupta, 2003, pp. 92-111; Schiff, 2006). This was a view that had been cogently put by Kautilya and kept alive during most of the Mughal Empire because its rulers became native to India, but was then lost during colonial rule and the Cold War.

After the first wave of economic liberalisation in 1990-1, when many of the bureaucratic constraints on industrial growth were lifted, wave two of economic liberalisation prioritised resource and infrastructure development. The new policy-makers believed that neither could be achieved without integration into the global economy. So they swung into an active diplomatic campaign to improve relations with the major powers,

identified as the US, EU, Russia, Japan and China (Dasgupta, 2003) and implement a 'Look East' policy in the wider Asian neighbourhood, especially the ASEAN countries where the Indian 'footprint' had a long reach (Saran, 2003, p. 115).

India, which had eschewed membership of multilateral forums under Indira Gandhi, joined a slew of regional trade and security organisations in the short span of a decade, such as ASEAN, the Shanghai Cooperation Organization, the Asian Regional Forum, the Asia-Europe Meeting process and the East Asia Summit. Finally, India's new policy-makers also recognised that India would fail as a regional power until it could turn its South Asian neighbours around. As a result, the Indian government launched several new peacemaking initiatives - with Pakistan, Afghanistan, Bangladesh, China, Nepal, and Sri Lanka - hoping that these could help pull South Asia out of the slough of hostility and poverty that it had slipped into following independence from British rule.

The new diplomacy had mixed results. Overall, it yielded rich dividends for improved relations with the major powers and East Asia; but South Asia proved to be an uphill climb.

The Eight Case Studies

Indian Foreign Policy: Selected Case Studies

Type of Actor	Normative		<i>Realpolitik</i>		Imperial		Status Quo	
	Intended	Unintended	Intended	Unintended	Intended	Unintended	Intended	Unintended
Goals	Peace & regional integration	Cooperation & coexistence	Commercial	Economic & political support	Stable border	Stable relations	<i>Realpolitik</i> with normative strand	Maintain bilateral relations
Means	CBMs talks trade	Trade border talks	Naval exercises	Military cooperation Govt. to Govt. Diaspora	Annexation	Political pressure/ open borders	Political/ aid pressure	Strong bilateral/ wary EC/EP
Result	Moving to normative	<i>Realpolitik</i>	Mixed	Norm changing	Integra-tion	Greater acceptance	Status Quo	Moving to normative
Case Study	Pakistan	China	Japan	US	Sikkim	Nepal	Myanmar	EU

What kind of a foreign policy actor is India? From the cases above a mixed picture emerges, but certain general conclusions can be derived nevertheless.

Speaking at a think tank in 2007, Foreign Secretary Shivshankar Menon identified three key goals for India foreign policy: “Firstly, ensuring a peaceful periphery; secondly, relations with the major powers; and, thirdly, issues of the future, namely food security, water, energy and environment”¹ (Menon, 2007).

The means that he enlisted to pursue each goal were different. To build peace in the neighbourhood, India looks to create social partnerships, offer economic benefits such as zero tariff for the poorer South Asian countries, support cross-border infrastructure and development projects, stress ‘civilisational linkages’ that grew from the ancient flow of people and ideas, and work for intra-regional trade through SAARC, ASEAN and the East Asia Summit. Significantly, Menon described the neighbourhood, as Saran did, in the same terms as Kautilya: “expanding circles of engagement, starting with the immediate neighbourhood, West Asia, Central Asia, South-east Asia and the Indian Ocean region”.

There is, however, a slight elision of categories in this description. Looking at the eight cases, there is a clear distinction between India’s policies in South Asia and India’s policies in East Asia. In South Asia, India has increasingly engaged in peacemaking both with its neighbours (Pakistan) and between warring factions within its neighbours (Nepal). India has not been so proactive with the one South-East Asian country with which it shares a land border, Myanmar; and is gingerly in peacemaking with its most powerful neighbour, China.

Indian policy-makers, therefore, perceive a greater threat to the country’s security from instability in its South Asian neighbours, an assessment that the US and EU share. They also act with more confidence in seeking to resolve the threat, and have used a very wide range of normative means, from back channels to hotlines to tracks one and two, from military to civilian CBMs, to help develop normative neighbourhood

¹ Shri Shivshankar Menon, “The Challenges Ahead for India’s Foreign Policy”, Speech by the Indian Foreign Secretary at the Observer Research Foundation, New Delhi, 10 April 2007 (<http://meaindia.nic.in/cgi-bin/db2www/meaxpsite/coverpage.d2w/coverpg?sec=ss&filename=speech/2007/04/11ss01.htm>).

relations. The EU is in some ways a model – India seeks greater regional economic integration through SAARC as a means of peace-building in the region. It is significant that Menon’s speech was remarkably silent when it came to the peace initiatives that India launched in the late 20th and early 21st centuries. Whether this means that Indian policy-makers continue to have reservations about the scope of and for normative relations in South Asia is an open question.

Turning to the broader Asian neighbourhood, the first striking point is that India’s Look East policy indicates a new departure for India, a focus on maritime interests. India has found it easier to develop strong relations with its neighbours at sea than with its land neighbours, and these successes have entered Indian doctrine. Today Indian policy-makers see India as “at the confluence of two seas”, to use the words of the 17th century Indian ruler, Dara Shikoh, and India’s navy is involved in an increasing number of multilateral exercises to improve maritime security.

India’s Look East policy has clearly been the primary impetus to India’s recent economic growth and has deepened strategic relations with the major powers, whom Menon listed as the US, EU, Japan, Russia and China (in that order). India-US strategic cooperation was founded on maritime security in South-East Asia and the Indian Ocean, as was India-Japan strategic cooperation, and the former was accompanied by a rapid rise in trade. Up until 2005, the US was India’s largest trading partner, with a trade volume of \$32 billion that year. The EU and China have now outstripped the US as a trading partner, but arguably it was the India-US strategic partnership that prompted the India-EU and India-China partnerships, both of which gained substance only after they took off. Menon tellingly commented that the India-US partnership had a “positive effect... on our dealings with the rest of the world” (Menon, 2007).

That said, India’s goals in collaborating with the Great Powers were quite different from India’s goals with Asia; they were, in Menon’s words, “access to markets, high technology and resources crucial to our future economic growth and development”. While Indian goals thus mix *realpolitik* and normative elements, the means that India has used are by and large within the normative framework of international law (the EU-India and India-Japan strategic partnerships). But they have also on occasion sought to alter or expand international law (the US-India civil nuclear energy agreement). At the same time, India is developing institutional partnerships, for example between space, technology, defence and agricultural agencies (the EU and US), as well as through membership

of regional forums (the ASEAN Regional Forum and the East Asia Summit).

If these points indicate that India is beginning to expand as a normative foreign policy actor and has been able to bring some depth to its normative behaviour as a rising power, it is also worth noting that Indian policy-makers have encountered a surprising obstacle to achieving some of their goals, in particular the civil nuclear energy agreement – domestic political opposition. This casts doubt on whether there is internal consensus or even clarity on what constitutes the national interest, and raises the question of whether the *unrealpolitik* strand in Indian foreign policy is as strong as ever.

These factors indicate that India might remain a rising rather than an established power for a longer time than it would take if the country's political parties had an overarching and non-partisan conception of the national interest. This is unlikely to affect India's behaviour as a normative foreign policy actor, though it will dent policy-maker confidence and could mean that India's ability to be effective in its actions will be curtailed. Much depends on how well the India-EU and India-US partnerships develop on the one hand, and how steadily India's Look East policy progresses on the other hand. The potential is good: each set of relationships is based on a strong foundation of goodwill, little strategic competition and Diaspora ties. The India-China relationship is more complicated and lacks the foundation that the other three have, but it too could improve as the other three progress.

In short, India is steadily becoming a more influential as well as normative foreign policy actor, despite domestic confusion, and this trend is set to grow over the coming decade.

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**THE RISE OF CHINA:
POLICIES OF THE EU, RUSSIA AND THE US**

WITH CONTRIBUTIONS BY

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The EU and the Rise of China

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The EU should have no ideological problem in recognising the emerging power of China since it is not a major power itself (beyond the area of economics), so the rise of China should not create any particular friction within the EU.

Moreover, while both the EU and China dominate their respective 'near abroads', their two spheres of influence do not overlap, which further reduces the potential for conflict.

It is misleading to speak of an 'EU position' towards China, however. A key determinant of the European position(s!) towards the emerging economic power of China remains the incomplete internal institutional framework of the EU, which in many fields makes it very difficult to formulate and actively implement a coherent policy towards China. This has led to a distribution of roles whereby actors with little influence on actual foreign policy decisions (the EP, NGOs, national parliaments) specialise in symbolic gestures, and the actual hard policy decisions taken at the national and EU levels are mainly determined by perceived self interest.

The lack of an EU position is particularly evident in the representation of 'Europe' in international organisations, especially the IFIs, like the IMF and the World Bank. In principle it is clear that in these institutions a smaller representation of European countries and a much larger one for China is warranted. The EU institutions agree on this (in private), but member states are not yet ready to formally acknowledge their diminished global role, although in reality they recognise their limited influence.

The two exceptions to the rule that the EU does not have a China policy are in the areas of trade and (soon) the environment. China is already the biggest emitter of greenhouse gases (mainly CO₂) and given its extensive, energy-intensive growth its emissions are certain to continue

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growing. Its contribution to global warming cannot be ignored and this is one key area where the EU (together with the US) needs to engage China constructively in order to avoid an open conflict. A successful compromise will require careful diplomacy on all sides: the EU, China and the US, whose conversion to cap and trade remains a necessary condition for the EU's scheme to work properly. However, the EU's institutional set up seems to be well prepared for this particular issue.

The EU's peculiar institutional configuration also implies that European 'China bashing' comes mainly from member states where, depending on the national context, leaders find it convenient to blame China for the economic difficulties of the moment. However, since conditions vary so much across member states 'China bashing' seldom comes from a large majority of member states at the same time and thus is very much less likely to lead to action against China than in the US, where populist policy stances can be more easily picked up by the federal institutions (Congress or the President). It is thus unlikely that the EU will assume an overall confrontational stance vis-à-vis China.

Outside the area of economics there is even less reason to anticipate conflict between the EU and China for the simple reason that the EU as such does not have a great power position to defend (and its member countries have long given up the pretence of being great powers themselves). Hence it is difficult to imagine a coherent EU policy towards the rise of China. Member states will, over time, have to acknowledge that China is an increasingly important actor in many parts of the world, but they all pursue their own, national policies towards China, which are mainly determined by the national equilibrium between the interests of traders and human rights activists, with the interests of the former usually prevailing over the latter. Other national constituencies take scant interest in China.

The remainder of this note concerns the economic issues that make up most of the substance of the EU-China relationship.

Today the major sources of friction in the field of economic policy concern imports of labour-intensive products and China's large trade surplus. The first source of friction is likely to wane rapidly with the shift towards relatively capital-intensive production methods in China. However, the second source of friction is likely to persist as exports continue to be the main driver of demand and growth in China. But this seems to be more of an issue between the US and China, given that Europe

is likely to continue to run a small current account surplus for the foreseeable future.

A key peculiarity of China's economy is its extraordinary degree of openness: exports amount to about 40% of GDP, a figure closer to the average of individual EU member countries, rather than the approximate 15% one observes for large economies like Japan, or the EU and US. This implies that in many cases the outlook of China on global economic issues might be quite similar to that of most member countries.

Moreover, about 60% of Chinese exports are generated by so-called 'foreign invested enterprises' (enterprises with a large foreign participation). Over one-half of the Chinese 'export machine' is thus managed by foreigners. This suggests that while China is likely to remain stubborn in the pursuit of its perceived national interests, it is unlikely to become a disruptive element in the world economy.

Furthermore, China is already one of the biggest capital exporters (capital exports are the mirror-image of its current account surpluses). This implies that China has a stake in the stability of the global financial system, but, as the events surrounding the rescue of US government-sponsored enterprises (Fannie Mae and Freddy Mac) showed, its stance remains rather passive since the accumulation of foreign assets occurred through foreign exchange market intervention at the central bank and central banks are always extremely conservative in their foreign investments, limiting themselves mostly to government (or quasi government) debt instruments. This is likely to change over time. As large Chinese corporations emerge they are increasingly likely to use their abundant and cheap funding to buy up assets around the world. It is thus conceivable that over the next decade many of the Western enterprises with strong investments in China will in turn have a large Chinese element in their capital base. All this is likely to strengthen the interest of China not only in an open and rules-based international trading system, but also an open global capital market. As a very large investor China must be interested in a rules-based framework for international finance because it might soon become the preferred target for restrictions on international capital flows.

The EU and China should thus have a similar overall stance in global economic affairs: a general preference for an open and rules-based system. But both also dominate their respective regions. The overall multilateralism will probably be punctured by a number of regional agreements.

The table below summarises the potential for a conflict of cooperation in the main areas of economic policy.

Table 1. Areas of conflict and cooperation between EU-China

	EU interests	Chinese interests	Likely outcome
Trade			Common support for WTO
Environment	Global reductions in emissions	Avoid constraint on growth	Conflict leading to compromise over trade measures
Energy	Secure supplies without paying a moral price	Secure supplies	Competition without animosity
Finance I: regulation	More global co-operation	Indifferent	Little contact
Finance II: SWF	Control over FDI	Avoid controls	Low level conflict
Finance III: representation in IFIs		Recognition of economic size	Internal conflict in EU: MS versus Commission

Economic fundamentals: China's place in the global economy

China and India are often mentioned in one breath as representing similar challenges for the EU (and indeed all OECD countries). However, the scale of the challenge from each of these two economies is not comparable. In terms of the sheer size of trade and investment flows the differences dwarf the similarities, as shown in Table 2 below. At current prices and exchange rates, the GDP of China is about twice that of India, and China exports nine times as many goods and still almost twice as many services. In terms of inward FDI, China is more than ten times larger than India.

Table 2. China and the 'West': Comparing size (\$ billion)

	GDP		Trade (exports)		Inward
	Current exchange rates	PPP	Goods	Services	FDI
China	2,600	5,000	970	92	78
EU 27	13,000	13,700	1330	192	

Sources: WEO database, Eurostat & International Comparison Programme (ICP) (2007) of the World Bank.

The raw data suggest that China on its own is big enough to have a strong impact on the global economy (and on the EU). In the area of international trade China is now on a par with the EU and the US. The importance of China for the global economy is likely to increase as the combination of a housing bust and financial crisis weakens the transatlantic economy. If the Chinese economy were to maintain the gap in growth rates (i.e. if the slow-down in China is not stronger than that in the US or Europe) China's economy would be roughly of a similar size in less than ten years. At that point the EU, the US and China would each account for about 20-25 % of global GDP. Moreover, if Chinese exports (and imports) were to continue to grow as they have done so over the last ten years, China alone would account for roughly one half of total world trade (and would export about 3 times as much as either the EU or the US). Past trends will not continue forever, but it is clear that even if they weaken the world trading system will increasingly revolve around China.

Capital accumulation as the key driver of growth in China

Will China actually be able to continue to grow at this rapid pace and thus to catch up with the advanced economies over the next decade? The main reason for assuming that this will be the case is that the key motor behind this catching-up process is a fundamental upgrading of the human and physical capital stock in China.

Both elements are equally important, but their upgrading is proceeding at somewhat different speeds:

Physical capital

Here the catching up process is quickest due to the extraordinarily high rate of savings in China.

For an economist the key measure for the capital stock is the capital/labour ratio, which to a large extent also determines the level of productivity and thus of wages. The key factor that dominates the evolution of the capital/labour ratio in China is the very high Chinese investment rate. While there is some debate over the measurement of the denominator (GDP), it is generally agreed that China invests more than 40% of its GDP (against about 20% for the EU and the US, and 25 % for India). This must be the starting point for any assessment of this issue.

FDI plays only a minor part in determining the overall resources devoted to investment since total FDI inflows represent only around 10% of

all investment in China. The importance of FDI for China is thus not the amount of capital invested, but the transfer of technology that it brings about.

The direct consequence of the extraordinarily high rate of capital accumulation in China is that it leads to an unprecedented increase in the capital/labour ratio (a key determinant of productivity). Gros (2008) calculates that within 15 years China will have a similar capital/labour ratio as the EU, which will have major implications for economic relations between the EU and China. Most European policy-makers still seem to be under the impression that imports from China are likely to threaten mainly labour-intensive industries, such as textiles and clothing. Given the extremely high investment rates in China, however, this is likely to change rather quickly. As the difference in capital/labour ratios is shrinking rapidly, the composition of Chinese exports should shift quickly as well; with Chinese exports becoming more capital (and energy) intensive.

Human capital

While the current policy concerns focus on cheap labour, there have been a number of press reports suggesting that China is rapidly catching up in terms of innovation activity. The raw data suggest, however, that concerns about China taking the lead in innovation activity on a broad scale are exaggerated. Moreover, in this area the speed at which China can close the gap with the EU is limited by demographic factors. With a roughly constant population, the average stock of human capital per worker can change only gradually as better-educated new generations replace the older ones. This is by definition a slow process.

The starting point in terms of human capital in China is not far from the EU average, but it is still clearly behind (with an average 6 years of schooling versus 8-10 years for most EU member countries). The level China has today is widely regarded as sufficient to build up a strong industrial base, but not to become a leader in innovation.

However, human capital accumulation is also accelerating at a very rapid pace in China as one can see from the enrolment ratios, especially in higher education. An indispensable input for R&D is a workforce with the appropriate level of education. Research and development is mostly undertaken by personnel with tertiary (university level) education. In China the enrolment rates in tertiary education are increasing at a very rapid pace, but the level reached in 2005 was still only 20%, much lower

than the 56% recorded for the EU (and even further from the US ratio of 83%). Over the last 20 years there has been a jump in tertiary education in China, with enrolment ratios increasing by a factor of 7. But the starting point was so low that even today enrolment rates are below one-half of the European level.

As an aside, it is interesting to note that despite its reputation for strength in high-tech services, India has made much less progress than China (tertiary enrolment up only from 6 to 11%). The Indian software industry seems to constitute an exception that hides an average that has fallen way behind that of China.

The available data thus suggest that for some time the Chinese workforce will continue to lag behind that of the EU (and even more than that of the US) in terms of the percentage of younger cohorts that have a tertiary education.

The upgrading of the skills of the Chinese workforce is thus proceeding less quickly than is sometimes assumed. However, one needs to recall that the cohorts that are currently studying (and will soon enter the labour force) are also much more numerous in China (about 3 times as many) than in the EU. This implies that in absolute terms one should expect that China already produces as many university graduates (including engineers, which have been the focus of much attention) as the EU. Moreover, as enrolment rates are still increasing rapidly it is unavoidable that China will eventually overtake the EU (and the US) in terms of the number of scientists that graduate each year.

Table 3. Enrolment ratios, 1985-2005

	Secondary education (Net)			Tertiary education (Gross)		
	1985	1995	2005	1985	1995	2005
China	39.7	65.8	74.3	2.9	5.3	20.3
United States	91.2	90	89	60.2	80.9	82.7
India	37.9	48.8	56.6	6	6.6	11.4
EU27 (average)	82.7	97.9	100.8	26.7	44.9	56.2

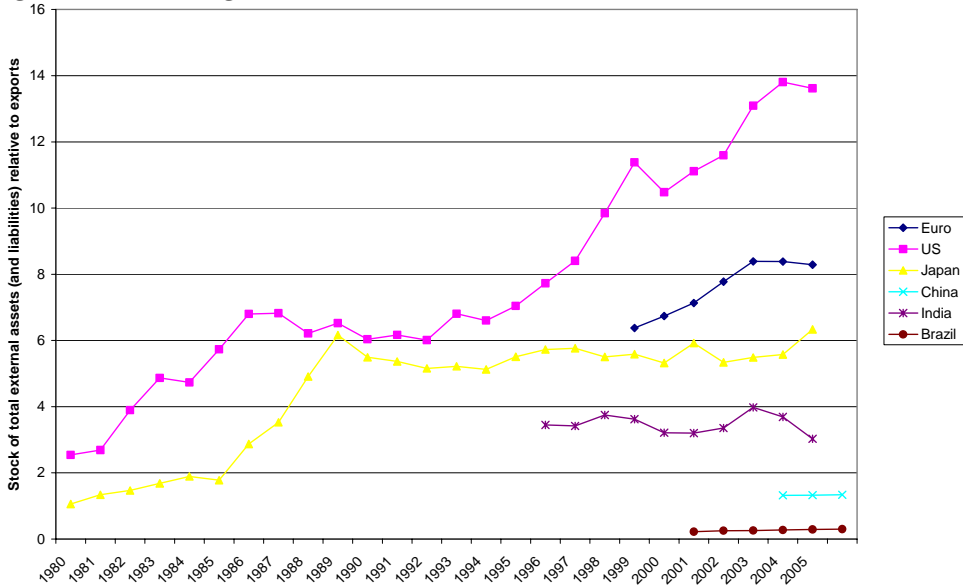
Source: World Bank.

Finance: China's absence

Although China is a giant in the field of trade it is still a dwarf in the area of finance. While China and the US are about the same size in terms of exports there is a huge difference in terms of financial openness: in absolute dollar

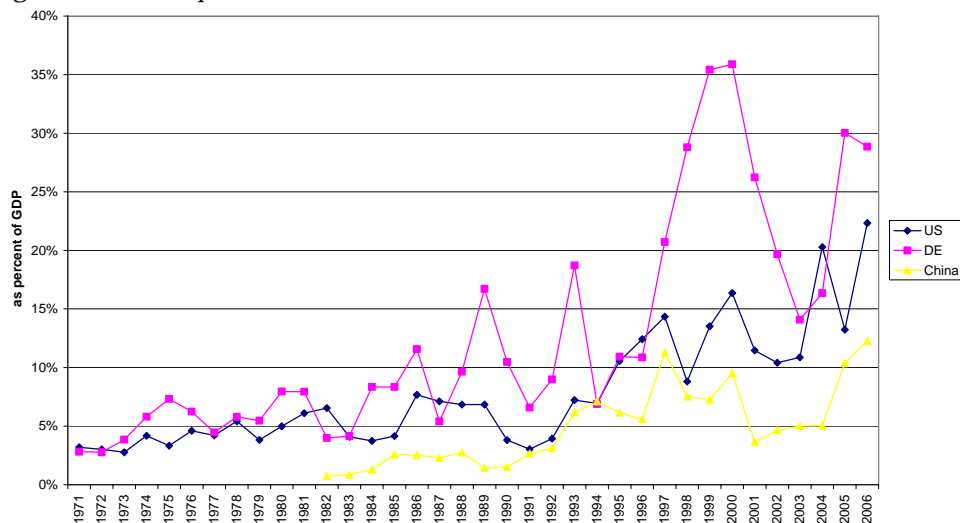
terms the external assets and liabilities of the US are about ten times greater than those of China. And even measured against exports one can see from the chart below that China is much more interested in trade issues than in financial markets.

Figure 1. Financial globalisation



That China is also much less integrated in the global capital markets can also be seen from the importance of capital flows (as opposed to the stocks of foreign assets and liabilities), which for China amount to little more than 10% of GDP, compared to about 30% of GDP for the US. China’s interest in constructing a new order for global financial markets is thus rather limited.

Figure 2. Total capital flows (inflow+outflow) as a % of GDP



Energy: China's carbon-rich economy

Another area in which China will be a dominant player on the global scene is greenhouse gas emissions. As shown in Table 4, China already consumes almost as much energy as the EU (1,700 million tonnes of oil equivalent (mtoe)/year versus 1,780), implying that its energy intensity (energy consumption per unit of output) is similar to that of the EU, at least if GDP is measured at PPP. However, the composition of China's energy consumption is quite different from that of the EU (or the US): China consumes almost four times as much coal as the EU. Moreover, if current trends continue, in 10 years China will consume 50% more energy than the EU. Most of the increase in energy demand is likely to continue to come from coal, which is relatively abundant in China.

Table 4. Energy consumption and composition (mtoe*)

	Primary energy consumption			Major fuels (2006)	
	1996	Today (2006)	Projected (2016)	Oil (net imports)	Coal (consumption)
EU	1691	1782	1878	720 (560)	320
US	2190	2326	2471	940 (608)	567
China	965	1698	2987	350 (169)	1,191
India	271	423	680	120 (80)	240

* Modification Table of Organization and Equipment.

Sources: BP (2007), World Energy Review.

China's self-sufficiency in coal has two implications:

- i) China is already the biggest source of CO₂ emissions (coal is much more intensive in CO₂ than the equivalent energy obtained through oil or gas).
- ii) China is much less dependent on hydrocarbon imports than either the EU or the US, and the price of coal has increased much less than that for either oil or gas. India resembles China in that it also has abundant coal reserves, but in terms of overall size, they are again much smaller, about one-quarter of those of China, with a total annual consumption of primary energy of about 400 mtoe.

Climate change is thus an area where considerable friction seems unavoidable. China will not be willing to accept any absolute limit on its emissions of CO₂. However, China also knows that if both the EU and the US introduce a 'cap and trade' system (which puts a visible price on carbon) its exports might be subject to 'border measures', i.e. an import tax on carbon content. Given China's huge stake in keeping its exports growing there might be room for a compromise in the sense that in exchange for keeping access to its two major markets China agrees to a specific set of other measures to limit domestic emissions of CO₂.

China will not be able to avoid a major policy clash (not only with the EU) on how to prevent global warming given that Chinese exports contain a substantial amount of all the CO₂ emitted in China (according to most estimates around one third). This implies that the EU cannot ignore the 'carbon leakage' that results if the EU puts a price on carbon, but major exporters do not do the same. This leaves the EU with only the choice to tax the carbon content of its imports. Such a policy could most probably be made WTO-compatible; implying that membership in this organisation will afford little protection to China. Furthermore, own calculations indicate that the tariff rate that would result from taxing the CO₂ content of imports would be around 8%, which would constitute a substantial hurdle for Chinese exports, which still contain large amounts of CO₂. The Chinese leadership has already indicated that it might be amenable to compromise given that exports constitute the key driver of growth in China and given that the importance of environmental concerns is also becoming self-evident in China itself, in the form of excessive levels of local pollution.

By contrast, the signs from India are that it would take a confrontational stance, taking the issue to an arbitration panel in the WTO.

Summary of economic issues

The likely Chinese and EU positions regarding major global economic policy issues can be summarised as follows:

- 1) Trade: China has been a major beneficiary of the rules-based global trading framework (WTO). It is likely to support this system, which it is anyway bound to dominate.
- 2) Climate change: this will be a key area of friction. The EU and China are on opposite sides here, but a compromise is still possible, indeed likely.
- 3) Energy: As China depends less on access to hydrocarbons than others and since it does not have political problems in the Middle East, its interest will be limited.
- 4) Global finance: China does not have a stake in financial market regulation and will resist any attempt to interfere with its exchange rate policy in the context of global surveillance. A greater role in the global financial institutions might be welcome for China, but would only be used to block interference with its own policy (much as the US has done so far).

Washington Tea Parties: Managing Problems and Imagining Solutions in US China Policy

Brantly Womack*

There are two American tea party traditions, both relevant to American attitudes towards the rise of China. The first is English-style polite; playing by the rules. Applied to China policy, its influence can be seen in constructive engagement, encouraging China to be a responsible stakeholder. The second is Boston-style dramatic unilateralism.¹ The urge to stand tall, to upset the table, is most evident in declarations about US China policy aimed at domestic American audiences. These two contrary trends are evident in their purest form at both ends of the spectrum of attitudes towards China, but the tension between them defines the general ambivalence in America's perspective on the rise of China. Since the end of the Cold War the US has generally played by the rules in managing specific problems in its relations with China, but at the same time there has been a vocal undercurrent wanting to solve the 'China problem' in various ways. Both of these trends are likely to continue for the foreseeable future. Regardless of the call for change reverberating in the current presidential campaign - and the real changes occurring in the global economy - Washington is likely to continue to be influenced by both tea parties for the time being, but with a preference for practical management at the presidential level.

Although the presidential candidates had quite different styles and emphases in their pronouncements regarding China, the tea party tensions

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¹ On 16 December 1773, citizens of Boston as the "Sons of Liberty" boarded three East India Company ships and threw 45 tons of Darjeeling tea into Boston harbour as part of a dispute over taxes and control of trade. The event, known as the "Boston Tea Party," was an important precursor to the American Revolution a few years later.

were evident in both. Their most extensive and personal statements on China policy can be found in *China Brief*, a publication of the American Chamber of Commerce in Beijing (AmCham-China).² Since the table is set in China among American businessmen, the venue favours the polite tea party approach. McCain is certainly the more Bostonian of the two. He couches his positive gestures in more general frameworks of relations with Asia and commitments to free trade, while most of his China-specific comments focus on what China needs to do in order to be an acceptable stakeholder: "The next administration should be clear about where China needs to make progress." McCain would like to see more transparency in China's military build-up and more cooperation against 'pariah states.' On the other hand, McCain claims that "China and the United States are not destined to be adversaries," and his opposition to protectionism would restrain the use of economic sanctions.

Obama's essay is more carefully crafted and more comprehensive. It touches on the major points of policy contact between the US and China, and seems designed to be well received not only by American businessmen in China, but by the Chinese themselves. He praises China's economic accomplishments and balances an admonition about sustainable growth with the admission that the United States also must make "serious adjustments." He is optimistic about the direction of relations across the Taiwan Strait and about cooperation on resolving the North Korean nuclear issue. He emphasises, unlike McCain, that Asian security requires the inclusion of China in strategic cooperation. However, Obama also indicates that he is prepared to stand up to unfair trading practices.

The context of talking to American businessmen already engaged in China is quite different from a town meeting in a union hall in Ohio. Moreover, these pieces are more likely to have been written by the candidates' China specialists than by their Ohio specialists. Both candidates are therefore showing the sunny sides of their China policies. The shadows can be seen in their silences. McCain does not mention Taiwan. Anything he would say would risk alienating either his present audience or his more

² John McCain, "US-China Policy Under a McCain Administration", *China Brief*, September 2008 (<http://www.amcham-china.org.cn/amcham/show/whatisnew.php?Id=88>); Barack Obama, "US-China Relations Under an Obama Administration", *China Brief*, September 2008 (<http://www.amcham-china.org.cn/amcham/show/whatisnew.php?Id=89>).

right-wing and defence industry supporters back home. Moreover, his emphasis on America's allies in Asia and his complaint about Chinese military opacity could fit into a Rumsfeld-Cheney view of China as the looming strategic threat. For Obama's part, his brief and mild mention of human rights as an issue in US-China relations is certainly a far cry from Bill Clinton's declamations against the "butchers of Beijing." It is either an indication of a difference with anti-China crusaders such as Speaker of the House Nancy Pelosi or its brevity is merely a prudent silence in front of a business audience. Moreover, he does not detail his advocacy of a value-based international trade system to an audience that includes critics of China's new labour law.

In general, it is impressive that neither presidential candidate used China as a scapegoat for the current economic crisis, preached a crusade against Chinese communism, or called America to arms against the China threat. I would agree with the overall assessment by Professor Shen Dingli of Fudan University that the lack of heat in China issues in the current campaign is a sign that "Sino-US relations are stabilizing."³ Of course, each of the China-hostile options remains open to a new president, regardless of campaign rhetoric. But China-bashing would be more useful as a tool of campaign rhetoric than as a basis for policy, so the restraint of both candidates is significant. Nevertheless, differences of national interests remain, as well as the domestic political appeal of future Boston tea parties.

The underlying difficulty of American ambivalence towards China is that polite problem management involves at least a formal acceptance of the legitimacy of the other side as well as the possibility that one might have to settle for less than one's maximum demands. Moreover, exceptionalism is not allowed. Everyone plays by the same rules and everyone must wait their turn.

For China, newly allowed a seat at the global table, playing by the rules is a sign of status. But for the US, the sole superpower, letting China into the game appears as a necessary condescension, especially since China is an unfamiliar newcomer, and a communist one to boot. Even the official terminology of engagement - encouraging China to become 'a responsible

³ Shen Dingli, "Beijing's Perspective: Sino-U.S. Relations and the 2008 Presidential Election", *China Brief* (Jamestown Foundation), 8, p. 18, 23 September 2008 (http://www.jamestown.org/terrorism/news/uploads/cb_008_018.pdf).

stakeholder' and to be 'socialised' into the international system – implies a status difference rather than mutual respect. It is not the rules per se that chafe, since the US wrote them, but rather the necessity of the game. And with China's rise to global presence in the new century the games appear both more necessary and more frustrating.

To a great extent the two tea parties express the tension between the necessity of managing the relationship with China and the lingering impulse to 'solve' the China problem. Since the task of managing the relationship falls to the American president, even China problem-solvers like Ronald Reagan and Bill Clinton moved towards more accommodating diplomacy once they were elected. The presidential learning process has now filtered down to the level of presidential candidates, but there are still many public voices, including congressional ones, that want to dump the tea in the harbour (this time Chinese tea) and consider any compromise or even delay as a sign of official cowardice.⁴ The premise of the latter-day Bostonians is that if only bold moves were taken, the China problem could be solved, a premise known to be false by those in charge of managing the relationship. Nevertheless, the calls from the sidelines to stand tall against China exert pressure on presidential rhetoric and on policy options.

The global economic crisis currently unfolding will add to the tensions between managing the US-China relationship and calling for solutions. Although the crisis will have negative effects on both countries, the US and China face the crisis from vastly different perspectives. For the US, the International Monetary Fund estimates a GDP growth rate of one-tenth of 1% for 2009, and it admits that this is the optimistic edge of its range.⁵ Cassandra speaks more gently to China, predicting a fall from its 2007 growth rate of 11.9% to 9.3% in 2009.⁶ Although the predicted gap in growth rates is actually smaller in 2009 than it was in 2007, the psychological effect of an American economy stagnant at best and a Chinese economy still galloping forward will be immense.

⁴ See for example "Testimony of Sophie Richardson [Human Rights Watch] before the Congressional-Executive Commission on China", 27 February 2008.

⁵ International Monetary Fund, *Global Economic Outlook: October 2008*, Washington, 2008, p. 51.

⁶ *Ibid*, p. 65.

It is almost inevitable that there will be a temptation to scapegoat China as the cause of the crisis, and to see solving the China problem as the solution to America's economic problems. China will certainly be the most inviting target for protectionist sentiments, and any concrete step that China could take will elicit from many on the sidelines the response, "Not enough!" More subtly, it is imaginable that companies and institutions with interests in military budgets for high-tech weaponry will feel doubly threatened by an economic crisis and an Obama presidency, and will therefore exaggerate the 'China threat' in order to profit from being the solution.⁷

Nevertheless, the actual magnitude and complexity of the global economic crisis are almost certain to keep the management of the US-China relationship within the bounds of mutual interest. As Henry Paulson's recent article in *Foreign Affairs* suggests, cooperation and mutual understanding between the US and China will be essential to coping with both the immediate problems caused by the collapse of institutions and expectations and the longer term problems of global economic restructuring.⁸ China's foreign reserves, its growth rate, and its centrality to Asia combine to make it a reality that cannot be imagined away. China is too important as part of the possible way out of global economic uncertainty to be dismissed as a problem.

There will of course be hard bargaining on economic issues. In 2009 no US president will be able to afford a trade and investment policy that ignores the problem of jobs at home and trade deficits. Pressures for greater protection of intellectual property and for raising the exchange rate of the renminbi (RMB) will continue regardless of China's actual accomplishments in these areas. There will be pressure for greater quality control of exports. An Obama administration is likely to emphasise environmental and labour concerns in its trade policy. These matters are not simple contradictions between national interests, however. China has already overhauled its labour law and the milk crisis has created a firestorm of popular demand for product quality control. There would be

⁷ See Jim Lobe, "Hawks looking for New and Bigger Enemies?", *Interpress Service News Agency*, 5 May 2008 (<http://ipsnews.net/news.asp?idnews=33143>).

⁸ Henry Paulson, "A Strategic Economic Engagement: Strengthening U.S.-Chinese Ties", *Foreign Affairs*, September/October 2008.

major domestic beneficiaries both to greater IP protection and to raising the exchange rate. Since the issues are not zero-sum, it should be possible to negotiate compromises.

In my opinion, the greatest danger of Bostonian disruption of the US-China relationship would come from diverging reactions to third country events rather than from an economic crisis. Although accidents in bilateral relations can never be ruled out – prime examples are the bombing of the 1999 Chinese embassy in Belgrade and the 2001 spy plane incident – these typically lead to incident-focused, temporary crises. By contrast, continued American unilateral adventurism could lead to standoffs in which China and the US could assume increasingly adversarial positions. By temperament and by policy record Obama would not be likely to continue the path of the last eight years. The same could not be said of a McCain-Palin administration given his penchant for ‘zingers’, out-of-the-box quick fixes and her moral primitivism. Intervention in Iran or North Korea would confirm a pattern of behaviour that China would find offensive and implicitly threatening. However, in the context of pressing economic problems and existing commitments in Iraq and Afghanistan, further adventures are less likely. A third-country event that is not caused by either the US or China, such as the collapse of the Myanmar government, would expose differences of national perspective but would more likely lead to issues of diplomatic management than confrontation.

The global economic crisis will slow China’s rise in absolute terms, but it is likely to increase its growth rate relative to developed economies. China is likely to be the most stable major economy in a world of global economic uncertainty. Moreover, its cautious financial policies and multilateral diplomacy are well-suited to the new environment of uncertainty. China will be a major player in the restructuring of the global economy, and it will become the decisive player in the Asian regional economy. China’s international prestige is likely to leap forward.

The United States inevitably has ambiguous feelings about the rise of China. On the one hand, it is a new reality beyond American control and economically it has been a win-win process. We may not be in a Chinese century, but we are certainly in a century with China. On the other hand, it erodes the American sense of self-importance and self-confidence in being the world’s only superpower. It is not surprising, therefore, that even as the core momentum of a stable US-China relationship builds, American attitudes will also show a tendency to imagine a solution to the ‘China problem’ and a return to happier days of unilateralism.

Variants of Russia's Policy towards the Rise of China

Alexei D. Voskressenski*

Russia and China maintain complex external relations with the rest of the world, notably in their strategies towards Asia, and both aim to exploit the potential of the other to accelerate their national modernisation projects. It is against this background that the political elites of Russia and China strive to construct a strategic partnership.¹ A number of actors explain China's well-known interest in Russia: Russia's military-technical potential, its power projection capabilities, its independent foreign policy and Russia's resources and raw materials are among the factors at play. These resources supply some of China's production chains, especially in the northern provinces of the country.² In an international and geopolitical sense Russia has become a key ally to China, helping to resolve global issues and regional questions on the northern and north-western borders of the country, from communication in the UN Security Council to a certain coordination of diplomatic activities in the Near East and Central Asia (including strengthening the joint project: the Shanghai Organization of Cooperation) etc. Russia's economic interest in China is linked to the realisation of China's military-technical and security programmes, which are undergoing forced modernisation but have limits in terms of attracting

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¹ Chikahito Harada, *Russia and North-east Asia*, Adelphi Paper No. 310, Oxford: Oxford University Press, 1997, pp. 39-40; Alexei D. Voskressenski, "The Rise of China and Russo-Chinese Relations in the New Global politics of Eastern Asia", in Iwashita Akihiro (ed.), *Eager Eyes Fixed on Eurasia: Russia and its Eastern Edge Vol. 2*, Sapporo, 2007, pp. 3-46.

² *The Sino-Russian "Strategic Partnership": Current Views from the Border and Beijing*, Sapporo: Slavic Research Center, 2003, pp. 55-75 (<http://www.ino-center.ru/Russia-China/russia-china.pdf>, p. 4).

national and international technologies for military modernisation. There are also opportunities to receive Chinese investments and relatively sophisticated but cheap technology to benefit Russia's regional economy. Some analysts also argue that Chinese labour resources could be of some interest to Russia.

Notwithstanding the intense growth of official parameters in bilateral economic activity and the internationalisation of the economy in the Russian Far East, which is becoming the main focus for Russia's political elite in Russian-Chinese relations, the intense Russian-Chinese trade turnover barely disguises serious problems, both on a regional and federal level of relations. Russian interests demand that its economic relations with foreign, especially neighbouring countries have a stabilising influence on the Russian economy as a whole. They also aim to promote its structural transformation, eliminate economic disparities between the Russian regions, strengthen the expansion of Russian state corporations and private businesses in international markets, increase the economic role of the country internationally and, finally, 'tighten' the territories of the Russian nation-state into a single whole. This reinforcement of the concept of Russian statehood should assume a special role for the regions in national development. This does not occur in reality, however.³

Since the end of the 1980s the Chinese authorities have carried out a sophisticated strategy of forced modernisation and rapid development based on importing foreign technologies and equipment and, recently, with an emphasis on strengthening export-oriented production structures in the territories of north-east and north-west China, mechanical engineering and electronic equipment. The realisation of such a strategy has coincided with the economic opening of the Russian Far East, Transbaikalia and Siberia. It also coincides with the economic crisis in Russia and, accordingly, with the massive imports into Russian regions of foreign goods to offset the consequences of the Russian economic crisis of the 1990s. Chinese strategy was later reformulated to meet domestic demand – unfettered by world market limitations. These phenomena have led to high rates of economic growth for China as a whole and in recent decades also for north-eastern

³ See A.D. Voskressenski, "Russia and China: potential, prospects, challenges and problems in regional relations" (in Russian), in *Vzaimodeistvie Rossii i Kitaya v Global'nom Kontekste* (Russian-Chinese Interaction in the Global Context), Vladivostok, 2007, pp. 70-135.

China neighbouring Russia. This recent economic growth far surpasses that of Russia as a whole, especially that of the Russian Far East and Transbaikalia territories. China's success will probably continue well into the 21st century.

A number of factors explain the relative vulnerability of Russia's Far Eastern inter-regional economic development compared to other countries and especially to China: the sparseness of the population in the Russian periphery, the uncertainty of the regional development model, infrastructural backwardness and the length of communication lines between Russian-Chinese trade and economic cooperation. These factors have promoted the resolution of trade and economic problems in north-eastern China, but not in the Russian Far East, though they have led to the increased circulation of imported technologies and products in the Russian Far East and Siberia.

These negative trends in the Russian economic territories, especially in the regions bordering China, have not really been addressed, although a number of measures have been undertaken by the Russian authorities. An analysis of regional economic development shows that despite a dynamic increase in the parameters of Russian-Chinese trade, the Russian Far East is slowly but surely losing economic ties with the rest of the country and lowering its industrial production, with no visible substitution of new spheres of economic development since the late 1990s. The population there continues to decline, the region generally continues to reorient its exports (first of all in terms of resources and raw materials) towards China, and at the same time the Russian Far East is marginalising itself within the system of regional economic relations. Such a situation, in the opinion of Russian experts, could result in further regional imbalance in Russia, especially if accompanied by certain negative events, and would result in the loosening of state control over the far eastern territories. Other Russian experts, on the other hand, consider the prospects of Russian-Chinese political and economic interaction, especially on the world stage, as a counterweight to all the problems arising within the regional relations between Russia and China.

For the most part, Chinese analysts believe that in the next 10 years Russia will not be able to wean itself off the model of exporting raw materials and hydrocarbons, and accordingly Russian raw materials will remain the basic staple of Chinese imports for the foreseeable future. However, since Russia has generated impressive economic growth over the last decade, it will need industrial and technical equipment, relatively

advanced but not too expensive pharmaceutical products and light industry goods, and consequently will import these goods from China, especially to the Far East and Siberia. From the point of view of Chinese analysts, it is necessary to establish joint Russian-Chinese enterprises in those technological spheres that are underdeveloped or non-existent in China, cooperating in those areas that are above all labour-intensive. This means that Chinese enterprises will pay extra attention to the construction industries, communication and engineering infrastructure markets in Russia, for which Chinese labour resources will be in high demand and will probably be warmly welcomed. Such an analytical vision of regional development only partially corresponds to the desire of the Russian political elite to provide industrial help to the Chinese programme of reviving the old industrial base in the north-east of China.⁴ This programme of possible Russian participation in the industrial modernisation of Manchuria is considered by some factions within Russian political and analytical circles as an important if not core part of the acceleration of social and economic development of the Russian Far East and Transbaikalia, since it gives these territories a chance to revitalise their industries.⁵

Thus today, the main sticking point in the economic relations between Russia and China and therefore the target of any Russian solution to the further rise of China is the structural imbalance in Russian-Chinese trade and economic relations and the disparity between them and their regional components. The quality and structure of bilateral economic relations, especially its regional dimension, do not match the proclaimed

⁴ Conference papers: "Russian Chinese regional cooperation: current situation and prospects" (in Russian, Beijing, 5-6 December 2006), "Prospects for the Russian-Chinese relations for the next decade" (in Russian, Beijing, 25-31 March 2007), "Russian-Chinese relations under world and regional views" (in Russian, Moscow, 25-26 May 2007), "Russian-Chinese interaction in the Eastern Asia" (in Russian, Moscow, 10 September 2007), "Russian-Chinese interaction: an experience of institutional and scientific cooperation" (in Russian, Vladivostok, 27-28 September 2007), "Russian-Chinese interaction in the Eastern Asia" (in Russian, Moscow, 10 September 2007), Second Russian-Chinese Forum of Social Sciences, Moscow, 9-10 October 2007.

⁵ S. Razov, "Russia and China are living through the unique period in their relationships" (in Russian), *Russia-China 21 Century*, September 2007, p. 5.

strategic character of relations between the two countries. In order to overcome these negative trends in the Far East and Transbaikalia, the Russian government has elaborated a multitask and multidimensional Federal programme: “Economic and social development of the Far East and Transbaikalia in 1996-2005 and till 2010”. Realisation of this programme provides the alignment of an economic situation in the Russian Far East and Transbaikalia in comparison with other regions of Russia and allows the softening or even elimination of negative factors prevalent today. The question, however, is: what role will be played by Russian-Chinese regional relations in this situation because the direction, character and intensity of the final success of the Russian federal programme “Economic and social development of the Far East and Transbaikalia in 1996-2005 and till 2010” depends on the answer to this. If the Russian authorities manage to formulate the political, legal and economic conditions, incentives and limitations necessary for a Russian-Chinese collaboration that would guarantee steady development, especially in the eastern regions of the country, there would be no need for a special solution to the issue of China rising. In my view this policy should not consist of the forced modernisation model, which only solves short-term problems under certain conditions and has many negative consequences for the economy and the population, but should be a formulation of the system of priorities; the cumulative effects of which can speed up modernisation, limit negative trends and would constitute a policy of state-business partnership.

Russia has four detailed conceptual approaches to the development of Russian-Chinese relations, including Russian-Chinese regional interaction and also the possible solution to the rise of China. The concept of open regionalism has two subvariants: the first relies on investments from the Asian-Pacific region and the regional export of Russian raw materials;⁶ the second relies mostly on Russian federal resources and a more diversified export model.⁷ Despite the administrative resources already generated by these variants, it would seem that they cannot halt

⁶ S. Darkin, *Russian Pacifica: Strategy, economy, security*, Moscow: Delo Publishers, 2007; P. Minakir, *Economic development and international cooperation in the North-Eastern Asia*, Vladivostok: Dalnauka Publishers, 2001.

⁷ V. Ishaev, “Strategy of the development of the Far East in the changing world” (<http://adm.khv.ru/invest2.nsf/AllNewsRus/ab5e4b18fa714c5cca256d1f0026d9d8>).

negative (for Russia) regional trends, probably because of insufficient coordination or the different views of the situation from the regions and the centre, where there may also be insufficient political support. The world financial crisis does not help in the implementation of these strategies either.

The Russian-Chinese co-development strategy⁸ has also been elaborated in detail and has considerable administrative resources allocated to it. The implementation of this strategy began in 2005, but has not yet led to the alignment of the rates of development, at least not in the Russian and Chinese bordering regions and did nothing to curb negative phenomena for Russia. Co-development as it was conceived would not necessarily mean equally beneficial development, though it could be based on partial, but unequally mutual benefits.

Two other approaches are also analysed in detail here. The multifactor analysis of international/regional relations and security based on energy diplomacy is the pragmatic tool of promoting Russian national interests in Greater Eastern Asia.⁹ Such an assessment of a regional azimuth is integrated within the concept of multi-factor equilibrium approach and, as a matter of fact, represents a vision of macro-regional processes within a relatively coherent macro-approach. Applied questions of economic and especially regional economic interaction have not yet been developed on the basis of the concept of multi-factor equilibrium.¹⁰ This approach steers the development of Russian-Chinese relations in conformity with the model of more balanced multilateral regional development. One of the most obvious implementation measures within the parameters of this approach is the construction of the Western Siberia–Pacific Ocean pipeline, which is aiming to bring cooperation to the competitive regional energy market and open it to all interested regional participants.

The so-called ‘guardian’ or ‘Russia as a fortress’ concept sees the army and the state safeguarding the development of Russian-Chinese

⁸ B. Kuzik and M. Titarenko, *Russia and China 2050: Strategy of codevelopment*, Russian Academy of Sciences, 2006.

⁹ A. Torkunov (ed.), *Energy dimensions of the international relations and security in the Eastern Asia*, Moscow: MGIMO-University, 2007.

¹⁰ Alexei D. Voskressenski, *Russia and China. A Theory of Inter-State Relations*, London: Routledge, 2003.

regional relations. This concept is also elaborated in detail,¹¹ but has no definite administrative support although, apparently, there are some supporters in the state and military structures, especially in the border areas. This approach has been partially implemented in the Far Eastern frontier zone, its strength consisting of the appeal to the historical experience of Russian-Chinese economic interaction where the structuring role from the Russian side was traditionally played by the state and army. This approach also has obvious weak points however, of which the first is the under-assessment of new global trends (regionalism, particularly)¹² and a reliance, first of all, on primarily non-economic actors and accordingly her *a priori* money and resources consuming character¹³ which will inevitably lead to the curtailing of regional economic interaction in the region and the reliance on only federal financial and military power resources. It is quite probable that as a result of the implementation of this concept some kind of semi-power/supramilitary opposition in an economic zone of the Russian-Chinese border-region will arise. This approach would definitely be economically detrimental in these times of economic crisis and stagnation.

What is clear is that in the future, due to the current political power restructuring in Moscow, we can envisage the synthesis of these four approaches as the effective state strategy for the development of the Russian Far Eastern territories within the limits of Russian-Chinese partnership, and the multilateral cooperation in north-east Asia. It is not yet clear however whether the assessment of the four above-mentioned approaches to ensure the steady, balanced, highly competitive, open and mutually advantageous regional development in which Russia will take a worthy place has been elaborated or not.

¹¹ K. Tatstenko, *Trends in economic interaction between the Russian Far East and the North-West of China*, Vladivostok: Dalnauka Publishers, 2006.

¹² G. Rozman, *Northeast Asia's Stunted Regionalism. Bilateral Distrust in the Shadow of Globalization*, Cambridge: Cambridge University Press, 2004.

¹³ With the exception of certain projects, like the rocket-launching station near Blagoveschensk.

THE STRATEGIC CONSEQUENCES OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS

WITH CONTRIBUTIONS BY

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Chairman's Summing-up

Michael Emerson*

This 31st session of the European Security Forum on the strategic consequences of the global economic and financial crisis took place on 20 February 2009, at a time when the crisis seemed still to be deepening. The graphs of industrial production and global trade looked as if the world economy had fallen off a cliff, without showing any signs of hitting bottom. The losses of output and trade had not yet reached 1930s proportions, but they were already way beyond any post-World War II experience in terms of gravity. No member of the panel claimed to know what was going to happen next: no-one volunteered to forecast the timing of a rebound, or to predict a sharp rebound versus a decade long (Japanese style) stagnation.

Brad Setser of the Council for Foreign Relations, New York, underlined the gravity of the current crisis, with annualized data for the fourth quarter of 2008 pointing to huge output losses for industrial production and trade, most of all in Asian economies heavily dependent on exports. As the crisis passed on from the localised US sub-prime affair of 2007 into the global crisis of 2008, new financial vulnerabilities have emerged, especially at the level of Chinese financing of US deficits, now running at the unsustainable pace of about \$400 billion a quarter. Chinese official investors are now giving priority to the comparative security of US Treasury paper, after painful experiments at investment in riskier assets. This has boosted the dollar exchange rate, but leaves the US strategically exposed to funding by non-democratic states (Gulf as well as China). Setser called this a dangerous game. The ideal scenario is for the US-Chinese current account imbalance to get onto a glide path towards reducing deficit and reliance on Chinese funding, but there was no sign of this happening.

For his part Lanxin Xiang of the Graduate Institute, Geneva and Fudan University, Shanghai, advocated a massive shift in Chinese

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economic policy, away from excessive export dependency and into social welfare and education programmes, which he called Chinese Keynesianism. If this was accompanied by dissaving by the government (i.e. deficit spending) it could indeed cut the current account surplus and get away from the huge and wasteful investment in US Treasury assets. However, there was no assurance that this was going to happen on a scale sufficient to set the US-China imbalance on a correction course.

Fyodor Lukyanov, editor of *Russia in Global Affairs*, characterised the Russian situation now as having shifted from the past decade of 'automatic growth' to a new period of 'automatic decline'. With the rise of oil and other commodity prices the Russian economy could not but grow, and now there was nothing that could prevent a very painful period. However, he portrayed Russian society as being adaptable in the sense of being able to endure hard times. So far the authorities had been reasonably successful in keeping to a stable path tactically, e.g. with a smooth and controlled depreciation of the ruble. However he speculated that the present tandem leadership would be under strain, with a possible shift of power to the Kremlin. Russia's foreign policy priorities would become more constrained, with less priority for initiatives in distant places (e.g. Latin America), but new opportunities in the former Soviet space, as these countries were coming to Moscow for economic aid, which no-one else seemed willing to supply.

Richard Youngs, of FRIDE and CEPS, saw the crisis accentuating the trend in EU foreign policy, which he characterised as pulling back from the serious promotion of a liberal democratic order. This had the effect of sacrificing the EU's comparative advantage as a global actor. The pressures for protectionism were evident, but not yet amounting to a qualitative change. He saw the emerging multi-polar world in increasingly Hobbesian terms, but raised questions nonetheless over how non-democratic regimes would fare in the adequacy of their responses to the crisis. An EU official remarked that 'maybe' Youngs was right in detecting a retreat from liberal cosmopolitanism, but noted that Europe's political values were very deeply rooted.

The deteriorating situation in Eastern Europe was described by a Commission economist. This was not just the shock impact of the global financial crisis. The transition indicators of the EBRD had been stagnant now for several years, and notably so for Ukraine. "Back to basics" was his message, i.e. an inevitable need to revert to hard adjustment policies. The emergence of Russia as supplier of financial aid to several CIS countries

including Ukraine meant that there was a new case for the coordination of EU policies in the region with those of Russia, as well as with the IMF, for which there is already experience to build on. This remark met with the agreement of the Russian diplomat, remarking that there is the need now for frank discussions over our goals for the region, and over what to do together, rather than acting in a competitive mode. The chair remarked that this would be quite a revolutionary prospect, but one to be greatly welcomed.

In discussion over the possible political impact of the crisis on the world, Youngs' supposition was that it would be bad news for fragile democracies, and would push authoritarian regimes into more repressive measures. This argument was met with sceptical comments from Lukyanov and Xiang. For Lukyanov Russia's failed democracy would continue to navigate between semi-authoritarianism and semi-democracy. For Xiang China had its own system, with its own logic. Whether or not Western democracy was better placed to face up to the crisis, he was not sure.

A number of more specific themes were touched upon. A discussant on the social consequences contrasted the situation at least in Europe with that of the 1930s. Today's advanced social security regimes and large public sectors ensured that powerful automatic stabilisers would be activated. Nonetheless large differences in labour market flexibility between European countries would see mean difficult adjustments in the most rigid of regimes, versus more organic adjustments to follow naturally in the more flexible regimes.

The structure of the presentations and debates came to take on a certain shape: one of different combinations of pairs among the four actors under consideration: the US-Chinese pair locked in a uniquely important but dangerous financial interdependence; the EU-Russia pair due perhaps to become more cooperative together with shared concerns for their common neighbourhood; and the EU-US democrats compared to the Chinese-Russian (semi-) autocrats now engaged in testing which regimes will prove best able to handle the crisis.

Strategic Implications of the Financial Crisis

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Zhou Enlai's famous response to a question about the impact of the French revolution – "It is too soon to tell" – is overused for a reason. It certainly applies to any attempt to assess the strategic impact of the financial crisis.

The crisis has already been through two very distinct phases. The collapse in prices for complex 'structures' in August 2007 ('the subprime crisis') was followed by a fall in private demand for US assets, a depreciation of the dollar, a surge in the price of oil, a surge in China's reserves and an increase in the United States' reliance on non-democratic governments for financing to support its still-large trade deficit. The US economy slowed, the world economy did not. The relative position of the US fell. The collapse of Lehman brothers – 'the Lehman crisis', though that seems too narrow to describe the 'great unwind' of financial leverage that followed – unleashed another phase of the crisis. It led to a huge surge in demand for US Treasuries from central banks and private banks alike, a rise in the dollar, a sharp fall in the price of oil and a reduction in US demand for the financial assets of the rest of the world. The US government shifted from borrowing from other central banks (through the sale of Treasury bonds) to lending to other central banks, as the Fed's swap lines supplied scarce dollars to other central banks. The US economy fell into a recession, if not something rather worse. But European output is falling at a comparable pace. The fall in output now underway in Asia looks to be steeper than the fall that accompanied Asia's own crisis.

The crisis has dimmed the lustre of the US economic and financial model – no doubt a key part of the US soft power. The US financial system, until recently considered a model of sophistication, gave rise to a crisis that infected the world. The world's willingness to adopt aspects of the US economic model has unquestionably declined. The United States itself is

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shying away from the stylised version of the US model. In other ways, though, the crisis has improved the relative position of the US: dramatic shifts in the global flow of funds and the fall in the price of oil – have worked to the advantage of the US, largely at the expense of the oil exporters. The United States' external deficit is shrinking even as the world's demand for dollars, at least temporarily, has increased. It now relies far less on non-democratic governments for financing than it did 12 months ago. However, the crisis is sure to evolve. Its long-term strategic consequences will hinge on which country proves most able to pull itself out of the current, severe, global downturn, and whether it does so by drawing on its own resources or borrowing (demand as well as funds) from the rest of the world.

This paper reviews the impact of the financial crisis on the strategic position of the US, Russia (and the Gulf), China and Europe. It is based on a key assumption: financial power tends to accrue to creditors not debtors and that thus relying on other countries' governments for financing is a strategic vulnerability. Other prisms for analysing the strategic impact of the crisis would undoubtedly lead to different conclusions. The goal of this paper is to spur discussion of the strategic impact of the crisis, not to offer a comprehensive assessment.

The United States

The US entered the current crisis with two enormous financial vulnerabilities: a leveraged financial system that had little resilience against shocks and a larger external deficit than could be financed in the private market.

The first vulnerability led directly to the current crisis. Poorly regulated banks, lightly regulated broker-dealers and the unregulated components of the shadow financial system all made an enormous, leveraged bet that the rise in US home prices would be sustained and large macroeconomic imbalances were consistent with low levels of macroeconomic and financial volatility. When home prices started to fall, the combination of leverage and financial complexity proved lethal to most major financial institutions. Some institutions initially raised capital from private investors and – to a lesser degree – from the sovereign funds of

non-democratic countries.¹ Over the course of 2008, though, it became clear that financial losses were growing not shrinking – and more and more financial institutions failed.

An overleveraged financial system that lacked resilience in the face of shocks proved to be a larger risk to US taxpayers than to the strategic position of the US. The financial system will ultimately be recapitalised by the public purse, not by the wealth funds of non-democratic governments. The losses in the European and American financial system are now estimated to exceed the assets managed by the world's sovereign funds.²

The second vulnerability posed larger long-term strategic risks. The gap between the United States' need for external financing and private demand for US assets (private inflows, net of US purchases of foreign assets) was met largely by the purchase of US bonds by emerging market central banks. The sources of financing for the rise in the United States' external deficit that accompanied the recovery from the 2000-01 recession consequently differed from the sources of financing for past rises in the US external deficit. In the early 80s, high US interest rates pulled in funds from Japan and Europe. In the latter half of the 1990s, the United States' rising stock market pulled in funds from the world – including, after 1998, funds

¹ Nearly all the investment in US and European financial institutions came from the Gulf, China and Singapore. But for every rule there is an exception: the Korean Investment Corporation (KIC) invested \$2 billion in Merrill Lynch (now part of Bank of America). Korea now regrets that investment: not only did it take large losses, but it also turned out to have a larger need for liquid financial assets than it anticipated when it set up the KIC.

² A related issue is whether relying on the sovereign funds of non-democratic countries to provide the capital for a large share of the financial system poses strategic risks. Hillary Clinton's comment about China "It is hard to enforce your trade law against your banker" presumably applies to the folks who own your bank too. Democratic change in autocratic states with large investments in the US could potentially jeopardise US financial stability; it isn't clear, for example, if a democratic Saudi Arabia would be willing to continue to hold most of its reserves in dollars. The current head of the national economic Council, Lawrence Summers, has highlighted another risk, namely that investments in regulated banks by foreign governments would necessarily turn a banking crisis into a foreign policy crisis. The decision to shut down an insolvent bank and wipe out its equity – including the equity of a sovereign fund – could easily be perceived abroad as the confiscation of its investment.

that previously had been flowing to an emerging Asia. For most of the 2000s, though, returns on US financial assets lagged returns on non-American financial assets. Not surprisingly, (net) foreign demand for US financial assets from private investors was restrained.³ However, the enormous increase in the foreign exchange reserves held by the central banks of the world's emerging economies – China in particular – provided the net inflow needed to support the US deficit. Asian economies that import oil were adding record sums to their reserves – largely because they sought to resist Asian market pressure for their currencies to appreciate against the dollar – at the same time that high oil prices were generating record growth in the reserves of the oil-exporting economies.

This relationship had aspects of mutual dependence. Asian countries rely on the US to supply demand for their products as much as the US relies on Asian central banks for financing on terms that were not available in the market. The oil-exporters rely on the United States for demand for their crude oil – and in some cases protection – as much as the US relies on the oil-exporters for financing. Any sudden interruption in the relationship would have damaged the economies of both the borrower and the lender. But the persistence of large deficits financed by the build-up of reserves implied growing underlying risks – and a large build-up of US treasury and agency bonds in the hands of foreign central banks.

The cheap financing from central bank reserves classically has been viewed as a 'good thing' – and as a source of national power. The ability to borrow allows countries to spread costs – including the costs of wars – over time. As long as other countries could not reduce their dollar reserves without risking their own financial stability, it was hard for any country to

³ For a time, the expansion of the shadow financial system – which operated offshore – masked the absence of private demand for US financial assets. The shadow financial system led to a huge increase in gross flows, as vehicles legally domiciled in London (and European banks) issued short-term dollar debt to US money market funds to finance the purchase of longer-dated US asset backed securities. This led to matched inflows and outflows, leading gross flows to increase. However, such matched flows couldn't meet the financing need associated with the US current account deficit, which required a net build-up of foreign claims on the US. The shadow financial system took the credit risk associated with lending to risky US borrowers, but not the currency risks associated with lending to the US.

translate its dollar holdings into leverage over US policy. The asymmetries in this relationship though were changing. Key countries – notably China – built up dollar reserves well in excess of what they needed to guarantee their own financial stability. The US increasingly risked finding itself in a position where it needed central banks around the world to add to their reserves more than the central banks actually needed more reserves.

Of course, no country with a large current account surplus that is adding to its reserves rapidly could stop doing so without risking its own exports. As a result, the US increasingly relied on the desire of other countries to support their own exports – not the intrinsic appeal of US financial assets – to offset its low savings rate. The current head of the national economic council, Lawrence Summers, referred to this relationship as the “balance of financial terror” back in 2004. Summers’ analogy to the balance of nuclear terror implicitly raises the question of whether the United States reliance on other countries government for financing posed a strategic threat. Even if other countries could not cut the United States off without risking their own economies, awareness of its need for financing could constrain the United States’ policy choices.

The strategic impact of other countries’ surplus reserves could express itself in other ways as well. The availability of alternative sources of large quantities of dollar financing could reduce the United States’ ability to use other countries’ need for dollars in a crisis as a strategic tool. Countries with large quantities of reserves have more strategic freedom of action; they are less likely to be deterred from taking geostrategic risks by the possibility that their actions could precipitate a financial crisis.

The United States’ strategic and financial vulnerability increased after the price of securities constructed from subprime mortgages collapsed in August 2007. The dollar had been moving down against the euro over the course of 2006, as initial downturn in residential investment pulled down US growth. After a brief rally as European institutions scrambled to find dollars to repay their dollar debt, the dollar’s fall accelerated in autumn 2007. Moreover, the dollar’s fall against the euro was simply the most visible manifestation of a broader decline in foreign willingness to hold US financial assets – and a rise in US demand for foreign financial assets. The US economy – but not the world economy – slowed, and private capital moved from the stagnant US to the fast growing parts of the world. Asian reserve growth soared, as central banks in all emerging Asian economies – not just China – added huge sums to their reserves to keep the dollar from falling against their currencies. At the same time, high oil prices pushed up

the growth in the foreign exchange reserves of many oil exporters – and allowed others to transfer large sums to their sovereign funds. Emerging markets that kept their currencies pegged to the dollar encouraged this flow, as private investors started to bet that a host of fast growing economies would eventually allow their currencies to rise. Countries that pegged to the dollar were importing loose monetary policy from the US at a point in time when their economies were generally doing well. The predictable result: an uptick in inflation in the emerging world.

During this period, the US external deficit fell as a share of US GDP, but not in nominal terms. And the US increasingly relied on central banks to make up for a shortfall of private demand for US assets. Many observers argued that financial power was shifting from West to East, as the US relied ever-more-heavily on emerging market governments for financing. Niall Ferguson wrote in the *Financial Times*:⁴

We are indeed living through a global shift in the balance of power very similar to that which occurred in the 1870s. This is the story of how an over-extended empire sought to cope with an external debt crisis by selling off revenue streams to foreign investors. The empire that suffered these setbacks in the 1870s was the Ottoman Empire. Today it is the US. The US debt crisis has taken a different form, to be sure. External liabilities have been run up by a combination of government and household dissaving. It is not the public sector that is defaulting but subprime mortgage borrowers. As in the 1870s, though, the upshot of this debt crisis is the sale of assets and revenue streams to foreign creditors. This time, however, creditors are buying bank shares not canal shares. And the resulting shift of power is from west to east.

In other words, as in the 1870s the balance of financial power is shifting. Then, the move was from the ancient oriental empires (not only the Ottoman but also the Persian and Chinese) to Western Europe. Today the shift is from the US – and other western financial centres – to the autocracies of the Middle East and East Asia.

⁴ *Financial Times*, “An Ottoman warning for America, by Niall Ferguson, 2 January 2008 (<http://www.ft.com/cms/s/0/a3679558-b8d4-11dc-893b-0000779fd2ac.html>).

.... It remains to be seen how quickly today's financial shift will be followed by a comparable geopolitical shift in favour of the new export and energy empires of the east. Suffice to say that the historical analogy does not bode well for America's quasi-imperial network of bases and allies across the Middle East and Asia. Debtor empires sooner or later have to do more than just sell shares to satisfy their creditors.

The intensification of the financial crisis that followed Lehman's default brought this unstable equilibrium to an end. It did not end though with a fall in demand for US financial assets from emerging market central banks and a dollar crisis. Rather it ended with a huge contraction in US demand for foreign financial assets - and a rise in demand for safe dollar assets from borrowers abroad who had large dollar liabilities. As the entire global economy slowed, private money was withdrawn in mass from the emerging world. Bets against the dollar were unwound. Foreign demand for US financial assets didn't really rise - no one wanted toxic US assets. Private capital flows started to contract - but they contracted in a way that increased (net) demand for dollars. Americans sold foreign assets and called their loans to Europe's banks faster than private investors abroad sold their US assets. This shift, combined with the fall in oil prices that brought the United States' external deficit down, dramatically reduced the United States reliance on foreign governments for financing.

Indeed, the basic pattern of the past six years fully reversed itself in the second half of 2008. A shortfall in private demand for US financial assets gave way to a shortage of dollars in Europe and many emerging markets as private actors that had borrowed dollars scrambled to find dollars to repay their debts. The US - and international financial institutions where the US continues to have a lot of influence - helped meet that demand. The Fed, not China's State Administration of Foreign Exchange, acted as the world's dollar lender of last resort. In the third quarter, the US government provided more financing to the rest of the world - through the Fed's large dollar loans to European central banks that needed access to dollars to help their own banks - than it received. That pattern continued in the fourth quarter.

This isn't an argument that the crisis has been good to the United States. It clearly hasn't. The fiscal cost of the financial bail-out - and the fiscal cost of a necessary Keynesian stimulus to counter a stunning contraction in private demand - will add to the United States' stock of

public debt. The burden of that debt is a limit on the United States long-run ability to project power abroad.

At the same time, a continuation of the trends that existed prior to the crisis would not have worked to the United States' advantage. During the course of this decade, the coffers of a set of countries that in general didn't fully share US strategic goals were growing – and the US increasingly came to rely on the governments of countries that were neither democracies nor US allies for financing. The intensification of the crisis in autumn 2008 reduced the funds available to the governments of these countries – oil fell, and 'speculative' outflows reduced China's reserve growth. It also reduced the United States' trade deficit – and therefore the United States' need for financing from abroad. In this respect, it reduced – at least temporarily – a key US strategic vulnerability.

The oil-exporters: Russia and the Gulf

In 2008, Russia needed \$70 oil – and comparably priced natural gas – to cover its imports. Oil averaged close to \$100, though obviously it was much higher in the middle of the year and much lower in the fourth quarter. When oil was high Russia – like many other oil exporters – received substantial capital inflows. Until the middle of 2008, Russia's private firms and banks were building up external dollar and euro debt almost as rapidly as Russia's government was building up its external reserves.

This changed last autumn. Oil fell sharply. Capital started flowing out of Russia even faster than it flowed in during the boom. The change in Russia's financial and strategic position over the past 12 months has consequently been extreme. The first phase of the financial crisis was marked by a huge rise in oil prices that worked to Russia's advantage. The second stage of the financial crisis, by contrast, has been marked by a large fall in oil prices and a collapse of private capital flows to emerging economies. Russia's reserves fell from close to \$600 billion to under \$400 billion in record time.

The crisis has had three effects:

- The government of Russia's oil and gas revenues no longer generate the funds needed to cover the government's spending commitments; it is consequently currently drawing on the fiscal stabilisation fund to cover a large fiscal deficit.
- Russian banks and firms – whether private, state-owned or owned by friends of the state – cannot refinance their maturing external debts,

let alone finance rapid growth with new credit. Russia consequently has relied on its foreign exchange reserves and the foreign exchange that was slotted for its incipient sovereign wealth fund to cover the external debts of Russian banks and companies. This has kept Russian companies in Russian hands rather than handing them over to (generally) Western bank creditors, but it also has contributed to a rapid depletion of Russia's reserves.

- Russians themselves have gone from betting on the ruble to betting against the ruble. Dollars under the mattress that turned into rubles in the banks at the peak of the boom are once again returning to the mattress. The ruble has already fallen significantly against Russia's euro-dollar basket – and it remains under pressure.

A year ago, Russia looked to be a financial rock – with enormous and growing reserves and a large external surplus. It had plenty of funds to spread around, and growing external confidence. Then Prime Minister Medvedev was talking of the ruble's eventual emergence as a global reserve currency at Russia's own version of Davos.⁵ Russia's strategic interests in Georgia likely meant it would have intervened no matter what its financial position. At the same time, Russia's \$600 billion in assets seemed to guarantee that Russia didn't have to worry too much about the impact of its foreign policy choices on its currency or its finances.

Today, Russia will need to accept large (and painful) policy shifts to reduce the drain on its reserves. Shedding \$100 billion of reserves a quarter simply isn't sustainable. Without policy change, Russia risks putting itself back in a position where it relies on external financial support. It is hard to believe that in October Iceland was exploring whether Russia might supply it with emergency financing on better terms than the IMF. Russia is still willing to deploy its reserves to support major strategic priorities – drawing

⁵ "We think the ruble could potentially aspire – as a freely convertible currency – to the role of a reserve currency to service transactions in those countries which are part of the ruble zone, which use the ruble for payments. We have yet to take a number of steps, in particular, to transfer trade in energy supplies into rubles, but in general I think this is an absolutely achievable task, it is interesting for Russia and for the CIS governments, but, in my view, it is also of interest to the entire outer world, because it can create a system based on using several reserve currencies."

(<http://www.reuters.com/article/topNews/idUSL2450096420080625>).

Ukraine back into its fold, for example. But it has to make choices now that it could avoid when its financial resources seemed virtually unlimited. Some Russian oligarchs aren't going to be bailed out, for example.

The oil-exporting economies in the Gulf are in a similar - though less dire - position.

The Gulf countries are in aggregate net lenders to the world. When oil was high, the governments of all the large oil exporters were building up large central bank reserves or adding large sums to their sovereign funds. However, the aggregate data was driven by the funds the Gulf's governments invested abroad. At the same time as the Gulf's governments were building up large foreign assets, many private banks and firms were borrowing large sums from abroad. Many Gulf banks in particular came to rely on external deposits to finance very rapid loan growth. The UAE's debt to international banks that report data to the BIS rose from a little over \$30 billion in 2005 to \$110 billion in the middle of 2008. That total leaves out a host of intra-regional debts. It also overstates the distinction between 'public' external assets and 'private' external debts, as many 'private borrowers' are closely connected to the 'palace'.

The global economic crisis has made it impossible for many borrowers in the Gulf to refinance their external debts even as the fall in global stock markets have cut into the value of the foreign investment portfolio of many Gulf sovereign funds. Sovereign funds consequently feel squeezed on both sides. They are being called on to finance domestic bail-outs just when the value of their external portfolio hit a nadir.

Moreover, the average oil price the Gulf States need to cover their import bill - and their budgets - rose during the boom. Most Gulf States now need roughly \$50 billion oil to pay for their imports. The region's public investment boom - and the ongoing expansion of government budgets - can only be sustained if the region dips into its existing external assets to meet a host of domestic needs. The viability of many of the region's more ambitious internal development projects - and a fair amount of Dubai real estate - is in question.

The Gulf countries' financial position isn't as dire as Russia's financial position: the Gulf countries 'break-even' oil price is lower and their (combined) external assets are larger. Saudi Arabia was more conservative than many of the smaller Gulf countries and is consequently in better shape. But the region is also no longer flush. The Gulf's losses from the fall in global equity markets probably offset the roughly \$300 billion windfall

the Gulf received from \$100 a barrel oil in 2008. And in 2009, the Gulf will almost certainly run current account deficits for the first time in a long time.

China: the wounded financial giant

A crisis marked by a shortage of dollar liquidity would seemingly work to the advantage of the government of the country with by far the world's largest dollar reserves. China reports \$1.95 trillion in reserves – and its true reserves, counting the dollars stashed in the state banks and the cash held at the China investment Corporation – top \$2.3 trillion. About \$1 trillion of that has been invested in US treasuries and another \$600 billion or so in the debt of Fannie, Freddie and the other US government sponsored 'agencies'. Counting its modest equity investments and corporate bonds, China's total US portfolio likely exceeds \$1.7 trillion.

The foreign assets now controlled by China's State council are, put simply, staggering. A few examples. Before the disruption of the fourth quarter of 2008, China's reserves were growing at a \$600 to \$700 billion annual clip – faster than the reserves and sovereign funds of all the oil-exporters combined. China's non-dollar reserve portfolio would top the total reserves of all countries but Japan. China could repay its \$400b in external debt and have close to \$2 trillion left over. The combination of China's large current account surplus and minimal external debt give it great potential freedom to use its reserves creatively. China is one of only a handful of countries that could lend out \$100 billion (or more) of its reserves without worrying that it might find itself short of reserves.

However, China hasn't been willing to use its reserves to extend its influence during the crisis. It has rebuffed most bilateral pleas for help. China did provide backstop financing for Korea through a network of swaps among Asia's central banks – in part because the weakness of Korea's won was a threat to China's exports and in part because it could do so through a cooperative regional framework alongside Japan. But it wasn't willing to offer Pakistan financing to prevent Pakistan from going to the IMF. Nor has China been keen to use its resources to help private firms that are short of capital and liquidity. After getting burned on its investment in Morgan Stanley, China's sovereign fund has repeatedly turned down requests from Western banks. And China, unlike Japan, hasn't been willing to provide the IMF with additional supplementary resources.

This reluctance may reflect a desire on the part of China's leadership not to disrupt the existing international system so long as the system - in China's eyes - continues to evolve in ways that work to its long-term advantage. It could also reflect a reluctance on the part of China to assume the mantle of global financial leadership, whether on its own or through the world's existing institutions for international financial cooperation. But it also likely reflects the political fallout from the financial losses China took on its initial investments in risky assets - along with China's concerns about the safety of its large holdings of the debt of Fannie Mae and Freddie Mac.

Put simply, China dipped into risky assets at the top of the market and then retreated from risk at the same time as the private financial system. Its quest to protect its portfolio from losses limited its ability to project financial power during the crisis.

The overwhelming majority of China's portfolio has been invested in safe government bonds (at least so long as the US doesn't walk away from Fannie and Freddie). As a result, China's portfolio has, in aggregate, performed far better than almost any other large investment portfolio. Only Japan - with a portfolio composed almost exclusively of Treasuries - has done better, as the crisis dramatically increased the market value of a portfolio of safe, liquid government bonds. However, Chinese politics has been dominated by the losses China took on the small share of its portfolio that was invested in risky assets in an effort to boost returns. In 2006 China began exploring new ways of managing its reserves to obtain higher returns. The state banks were allowed to borrow about \$100 billion of China's reserves in 2006 to invest abroad. And in 2007, China both created a new sovereign fund and allowed its long-time reserve manager (SAFE) to experiment with equities and other assets that carried a risk of losses. In aggregate, though, that meant that China was buying risky assets at the peak of the boom. China compounded that error with a string of specific bad bets: Chinese state banks took losses on their holdings of securities backed by subprime loans, the CIC took losses on its investment in the US private equity firm Blackstone and the US investment bank Morgan Stanley and a state investment company (CITIC) would have taken large losses from an investment in Bear Stearns if China's regulators had approved the proposed deal. The CIC even has taken losses on its safe investments: it had \$5 billion invested in the 'Reserve Primary Fund', an American money market fund that 'broke the buck' after investing in Lehman paper.

China responded to these losses – and concerns about the financial health of the Agencies – by shifting its portfolio toward the safest, most liquid bonds around: short-term Treasury bills. It likely bought close to \$200 billion of bills in the fourth quarter alone. By running to the most liquid Treasuries during a liquidity crisis, China protected itself from taking credit losses (it obviously remains exposed to large moves in the dollar). But its quest for safety also limited its ability to act as an emergency source of liquidity, and thus its political influence. The Federal Reserve – which sold its Treasuries to take on the risky assets that the markets were selling – emerged as the key actor stabilising a host of US and global markets. The Fed ended up lending \$600 billion to European central banks that needed dollars to help their own banks and stabilising the Agency market by indicating it would buy what China was selling.

The crisis has had a second impact on China: it has contributed to a sharp downturn in domestic economic activity and thus prompted China's policy-makers to focus on putting in place policies to limit the domestic downturn. China's downturn isn't totally a product of the global slump. China's property sector started to cool in the summer of 2008 – before the 'Lehman' crisis. The net result though is that one of the domestic engines of China's growth has stalled even as a sharp contraction in US and European demand has cut into the external demand for China's exports. China's exports were up 20% (y/y) in September. They were down 3% in December. And China's imports were down 20% (y/y). The latest data suggests that China's economy stalled in the fourth quarter of 2008. While that is better than the outright decline most other large economies experienced, it represents an enormous deceleration from the fast growth China enjoyed until recently.

China's leadership consequently seems to have defined its international objectives in a defensive way: it wants to avoid international commitments that might limit China's domestic freedom of action. For example, it has vetoed any international discussion of its exchange rate regime. It hasn't pushed to join other international groupings out of concern that membership would create pressure for China to give global concerns more weight in its economic decision-making. China's latent international financial power consequently hasn't been tapped.

Europe

Setting Britain – which has all of the United States financial weaknesses and few of its strengths – aside, the impact of the crisis on Europe has been ambiguous.

The first phase of the crisis was marked by the euro's strength and relatively strong European growth. Indeed, European growth has exceeded US growth – after adjusting for US population growth – for most of this decade. It far exceeded US growth in 2007 and 2008. During this period the EU was the engine of global demand growth, with the EU's growing current deficit increasingly offsetting the emerging world's current account surplus. Housing and consumption bubbles in many countries on Europe's southern (Spain, Portugal), eastern (From the Baltics down to Bulgaria) and western (Ireland, UK) periphery fuelled its growth. European banks played a key role channelling funds from high savings countries at Europe's core – and the inflows associated with global demand for euro reserves – to the fast-growing countries on the periphery. Strong growth in Asia's exports to Europe sustained Asian export growth even as the United States non-oil deficit contracted. Conversely, the strong euro was creating serious difficulties for key European industries (aircraft most obviously). Much of the financing for the EU's aggregate current account deficit and Europe's global investment came from the emerging world's growing holdings of euro reserves.

In many ways, Europe was stepping into the role of the United States had previously played in the global economic system. The combination of euro strength and dollar weakness was creating incentives that were shifting the world's macroeconomic imbalances from the US to Europe, as Europe's deficit increasingly offset the surplus in Asia and the oil-exporting economies.

The second stage of the crisis, by contrast, has been marked by the spread of the financial crisis to Europe, with the losses European banks incurred on their US book triggering a broad contraction in all lending. Banks in countries with domestic real estate booms – notably the UK, Ireland and Spain – are facing additional domestic losses. Their losses at home in turn have led eurozone (and Swedish) banks to scale back their lending to Eastern Europe.

In effect, Europe – taken as a whole – is currently facing four interlinked financial crises. First, a host of European banks that previously had borrowed in dollars in the wholesale market to finance bets on risky

US bonds have lost access to dollar financing. This liquidity shortage was addressed by the Fed's swap lines with the ECB, the Bank of England, the Swiss National Bank, Sweden's Riksbank and others. This allowed Europe's central banks to function as dollar lenders of last resort for the institutions they supervise. Second, a number of European banks have taken large losses at home and abroad. They, like their American counterparts, are effectively insolvent and in need of large scale equity injections. Third, the banks in Europe's core have dramatically scaled back lending to banks and firms in Europe's periphery, creating enormous pressure on a host of countries in Europe's East. Fourth, the economic slump, the cost of the financial bailout and a repricing of risk across a host of markets has increased the borrowing costs of some of Europe's weaker governments. New York and North Carolina aren't being asked to pick up the cost of bailing out 'their' financial institutions; European countries with large banks sometimes are.

The resulting crisis is testing Europe's collective institutions for crisis management. The ability of Europe's nations and institutions to rise to this challenge will likely determine whether the crisis strengthens or weakens Europe's strategic position. This is most obvious with the crisis on Europe's eastern periphery.

In many ways, 'Europe' created a successful model for integrating the poorer countries in the East into Europe's industrial and political core. The perceived protection offered by membership in the European Union created a portion of the world where capital was flowing in the direction most expected: the wealthier parts of Europe were financing high levels of investment in poor countries, with rapid growth in the periphery in turn creating strong demand for the exports of many countries in Europe's core. The contrast with the Pacific - where poor Asian savers financed wealthy American consumers - is obvious.

However, this model clearly got taken a bit too far. Many countries in Eastern Europe were running current account deficits of over 10% of their GDP. Many households and firms in the East were borrowing in euros, effectively betting that their local currencies wouldn't depreciate against the euro. The result: many countries in Eastern Europe were vulnerable to an interruption in financial flows. The scale of the financing needs in many Eastern European countries though are so large that they cannot easily be met even with IMF's loans of the size provided to Mexico in 95. Hungary's IMF programme was supplemented with additional financing from the

European Central Bank. Iceland's programme was augmented by additional financing from the Nordic countries and the UK.

The current crisis is consequently testing Europe's collective institutions for financial crisis management – particularly if the IMF is counted as part of 'Europe's' institutional infrastructure. Remember, European countries are heavily over-represented on the IMF's board – and with most IMF lending to European countries, it is quickly morphing into the European monetary fund. A successful response would augment Europe's strategic position; Europe would have demonstrated its capacity to manage a crisis in its own backyard – and laid the foundation for a European financial order that is less dysfunctional than the current global financial system. Capital could continue to flow downhill, to Europe's periphery and in the process facilitate the expansion of Europe's zone of democratic prosperity. Capital would just flow into the countries on Europe's periphery at a more subdued pace.

Conclusions

The United States' most serious financial crisis since the Depression has led, surprisingly, to a rally in the dollar. The crisis coincided with an enormous reversal in global capital flows. All the trends of the past several years – whether large private capital flows to the emerging world that financed stunning growth in the emerging world's reserves or huge two ways through London as the shadow financial system expanded – have gone into reverse. The United States unique ability to create dollars – and its ongoing ability to borrow in its own currency – reasserted itself as a key strategic asset. A host of countries had to turn to the US, Europe and the IMF for financing, reviving a traditional avenue for American influence. Falling oil prices dramatically reduced the United States reliance on non-democratic governments for financing. The direct strategic consequences of oil's fall from \$140 a barrel to \$40 a barrel likely exceed the direct strategic impact of the financial crisis. In the second half of 2008, the United States government even became a net lender to the rest of the world (through the Fed's swap lines). The net effect was an improvement in America's international financial position – at least if that position is defined by the US need for financing from potential geostrategic rivals – even as the global appeal of the American model of capitalism fell.

Over time, the countries – and regions – that are most able to pull themselves out of the current slump will emerge in a stronger position than those countries that cannot. But even here the analysis is ambiguous: key

countries are - appropriately - relying on government spending and tax cuts to stimulate their economies. That - plus the cost of various bank bailouts - will add dramatically to the stock of public debt that will eventually need to be offset by higher taxes or reduced spending. The governments of countries that entered into the crisis with a stronger initial fiscal position will consequently emerge from the crisis in a stronger financial position. They may also end up in a stronger strategic position if the financial world shifts from worrying about the risk that a bank will fail to the risk that a government will fail to pay its debt. The core balance then, as always, is between taking on more debt to spur a recovery and the long-term costs of additional debt.

How will the financial crisis affect EU foreign policy?¹

Richard Youngs²

Attention is beginning to turn to the broader political impact of the financial crisis. The question arises of whether the crisis will affect the EU's broader foreign policies – and if so, how.

On this a degree of consensus is evident in commentators' preliminary musings. Many voices are already suggesting that the crisis is likely to mark a turning point in international relations of the same magnitude as those produced by the fall of the Berlin Wall and the attacks of 9/11. Many predict a weakening of support for economic liberalism beyond the immediate banking crisis. And many also foresee the crisis triggering a fundamental shift in the global balance of power and even infecting the liberal political values that ostensibly lie at the heart of European foreign policies. In short, the fear is taking hold that the financial crisis will undermine the principal tenets of Western-sponsored global liberalism and encourage a retrenchment in US and European diplomacy.

With the situation still in flux, worst-case scenarios remain a distinct possibility. But it is more convincing for the present to caution against such apocalyptic reasoning.

In this regard, two arguments are advanced here. First, the financial crisis is unlikely to represent a watershed moment for EU foreign policy. It is more likely simply to reinforce a number of trends already in train. Second, it would be wrong for the EU to respond to the crisis by withdrawing into itself and abandoning the cause of liberalism – in either its economic or political dimensions. To suggest that the crisis reflects an excess of political and economic liberalism is misleading and likely to result in damaging policy responses. The EU has been shifting away from liberal

¹ An earlier, shorter version of this paper appeared as a FRIDE Policy Brief, November 2008, www.fride.org

² FRIDE, Madrid.

trade and foreign policies for a number of years. The crisis in part reflects such a trend, while also threatening to further tempt European governments away from cosmopolitan internationalism. This might seem an apparently paradoxical conclusion to draw at present, but one that would better safeguard long-term European interests.

The fate of liberalism

Some commentators have argued that the crisis risks undermining the whole appeal of free market capitalism. The EU's international leverage is based in large measure on the 'normative appeal' of its own internal market. Surely, many suggest, that influence stands to diminish now as the crisis exposes the fallacies of 'unfettered capitalism'.

Yet it is important here to take a critical view of the hyperbole that has flooded press comment. The financial crisis is clearly a cataclysmic event. On some indicators it has surpassed the gravity of the 1929 crash and has exposed the worst excesses of capitalism that have been allowed to flourish in recent years. It represents a serious case of market failure, asymmetrical regulation of different parts of the financial system and lax supervision having failed to forestall banks becoming massively over-leveraged.

Prior to the crisis economic policies were based on the West providing capital to emerging economies and supporting a liberal trading regime as a means of importing goods back into European markets. The whole geopolitical balance of this bargain has now shifted. The West is now set to export less capital, while China's unparalleled liquidity will enhance its power. It is argued that the 'liberal equation' has been undermined.³

But it is doubtful that recent events entail the kind of general crisis of liberal markets as suggested in particular by some French, German and Spanish ministers. Contrary to much media comment, the problem is not the wholesale spread of 'unfettered markets'. Government accounts for more than twice the share of GDP than it did in 1929. European states all operate a mixed economy and will continue to do so.

What has been striking is the lack of full European integration and transnational supervision in the financial sector. It is this that has produced

³ Roger Altman, "The Great Crash 2008: A Geopolitical Setback for the West", *Foreign Affairs*, Jan-Feb 2009.

responses geared towards protecting national markets rather than an overarching European plan – notwithstanding the loose coordination that has gradually taken shape at an inter-governmental level.

Extracting the foreign policy implications from this understanding of the crisis requires a finer-grained understanding of recent trends in EU external policies. The very real risk is that a crisis rooted in the malgovernance of the financial sector will encourage European states to adopt a less liberal stance on external economic policies across the board – and that a wounded Europe will retreat into a new protectionism.

To point out that the EU will now find it harder to sell a model based on the free market and governance standards outside its own borders misses a crucial fact: in recent years the EU has been circumspect in promoting such liberalism through its external trade anyway.

The EU has already done more than its fair share to sink the Doha Round. It has ended its own moratorium on bilateral trade deals to pursue talks with important Asian economies to the detriment of its supposed commitment to the multilateral trading system. The EU is seen around the world as the worst culprit of intensified ‘standards protectionism’. For several years now the rhetoric of most EU ministers and commissioners has constantly stressed what there is to fear from globalisation more than the benefits that flow from it.

While the EU has been criticised for imposing reciprocal market-opening on African states through new Economic Partnership Agreements (EPAs), it is also the case that member states have wrested control over EPA talks from the Commission’s trade directorate in order to inject a ‘development mandate’ and somewhat dilute liberalisation requirements placed on Cotonou partners. Indeed, most European donors still pursue a very statist model to development and post-conflict reconstruction. The EU has, of course, also baulked at extending EU membership. And its determination to spread standards of trade- and investment-related good governance has weakened.

Curiously, continental European politicians have been far more vociferous in declaring that the financial crisis represents ‘a defeat for the market’ and liberal economics than has the Chinese Communist Party!

It is too early to determine whether there will be a full-scale retreat into protectionism. But the early signs do not look good. Since the outbreak of the crisis European ministers have ritually promised that there will be no

slide towards protectionism. The more ardently they state this, the more they contemplate just such measures.

The trend is towards 'protection lite'. The EU has not adopted out and out trade restrictions but a series of actions that militate against international interdependence. The EU reacted vigorously against the 'Buy America' campaign launched under the new Obama presidency, but several similar 'buy national' campaigns have been supported in Europe too. State aid rules have been relaxed. Financial bail-outs have gone hand in hand with governments encouraging banks to retreat into national markets. Some accuse the UK of letting the pound fall as a protectionist measure. France has offered soft loans to companies on condition they use local suppliers. Gordon Brown lectures the world on the dangers of protectionism; but for one commentator the prime minister's own inward-looking policies render him 'hypocrite-in-chief'.⁴ In the US Democrat free traders have refused to criticise the Buy America initiative in part because they insist that European procurement rules are still far more restrictive. Middle Eastern, Russian and African interlocutors have all ironically suggested to diplomats that the European spree of bank nationalisations mirrors the statist route for which the EU has for so long admonished developing countries.

Member states such as Germany, France and Italy have introduced restrictions on Sovereign Wealth Funds. A new German law restricts access of foreign buyers, in particular big Chinese and Middle Eastern SWFs. President Sarkozy has moved ahead with creating a French fund explicitly to fend off such foreign 'predators'. The so-called Santiago principles agreed in October 2008 to open up east-to-west investment are now in doubt. EU populations now perceive open trade very much as a risk more than an opportunity. The rise of the Linke (leftist) party under Oscar Lafontaine in German polls is seen to be the result of its highly protectionist platform.

Some have welcomed the prospect of a humbled Europe, in the midst of nationalising swathes of its own financial sector no longer being able to impose IMF-style structural adjustment on developing countries. But this caricatures the nature of EU external economic policies in recent years. EU

⁴ Martin Wolf, "Why Davos man is waiting for Obama to save him", *Financial Times*, 4 February 2009, p. 11.

policies still require greater finesse to ensure that developing states are helped into global markets in a way that does not undermine local wealth generation. But even before the crisis struck, the challenge was to turn Europe away from inward-looking market protection and self-interested mercantilism much more than it was to rein in any free-trade, structural-adjustment fervour. This challenge is likely to be magnified after the autumn of 2008.

Contrary to the very thing it is supposed to excel at, the EU has failed to use a liberal concept of economic order as the basis for a strategy to support security objectives. In terms of the much-lauded (but confused) concept of EU 'normative power' one wonders how much there was to salvage from the wreckage of the 2008 financial crisis anyway.

While the crisis entailed a major failure of market mechanisms, it should at its core be understood as a crisis of bad governance rather than one of market-capitalism per se. In this sense, whatever the shortcomings exposed in the US and European economies, governance problems remain much more serious outside the West. If the crisis does spread to Asian and other markets this is likely to become painfully apparent.

The crisis may then help propel forward a broader and more assertive international focus on governance standards and regulations. The end result of the crisis may be to intensify pressure for international, and maybe even supranational, good governance regulations. This is precisely the EU's supposed niche in international relations. It is where the EU can assist in both tempering the excesses of US deregulation and improving multilateral rules and governance. The crucial thing will be to ensure that such regulations work to facilitate, rather than restrict, global trade and investment.

Power shifts

A second widespread prediction is that the financial crisis will hammer the final nail into the coffin of the 'unipolar moment'. For analysts who have long seen the liberal world order underpinned by US hegemony, this is seen as a harbinger of global instability. The journey from unipolarity to 'balanced multipolarity' will certainly be difficult to navigate without events leading the world into far less benign forms of 'competitive multipolarity.' And certainly not a voyage best undertaken in the current storm of panic and confusion.

However, that the crisis will unleash such a fundamental shift in relative power is by no means certain. Few commentators have resisted the temptation to draw parallels with 1929 and its subsequent global aftershocks. But for the current financial crisis to end up triggering serious international conflict the whole framework of collective security put in place since the 1940s would have to unravel. The cushioning effect of international institutions and cosmopolitan civic organisations simply did not exist to the same extent in the 1930s as today.

It is by no means certain that European economies will emerge stronger from the crisis than the United States. The latter retains its higher productivity and innovation base. Speculation that the time is once more ripe for the EU to challenge US leadership looks premature. As always, any decline in US relative power is anyway a mix of both boon and bane for Europe: a relative gain vis-a-vis Washington can be off-set by accompanying US introversion in promoting a broad set of global liberal values.

Conversely, it is not clear that the emerging powers will escape unscathed. Russia has been harder hit than any EU economy. Indeed it is ironic that the crisis has exposed underlying weaknesses in Russia's economy and system of governance just as the EU was fretting over how to respond to the changed European security panorama ushered in by the August 2008 Georgia conflict. Once again, this has reinforced the fact that the balance between Russian assertiveness and Russian fragility is a fine one. Still, dealing with the post-Georgia scenario may remain a greater diplomatic challenge than anything thrown up by the financial crisis. In this sense the EU's measures - a 500 million euro aid package to Georgia and a relatively weak monitoring mission - are no more than short term palliatives. In a situation where the EU's model of 'transformation through integration' has so far failed, policy-makers are bereft of long-term solutions. The positive outcome would be that the financial crisis tempers Russian adventurism while also making clearer to EU governments that engagement with Moscow cannot be based only on traditional forms of geopolitical balancing devoid of any consideration of internal Russian problems.

In general, while many have predicted a relative rise in power of resource-rich states, one of the casualties of the crisis has been the international oil price - at the time of writing this has halved since the crisis erupted. The Iranian economy is being hit hard, for example. It is true that several powers may feel emboldened in their dealings with what they

perceive to be a weakened West; but they themselves may be left feeling chastened too.

It seems likely that China will emerge a more powerful actor as a result of the crisis, by virtue of its financial assets and the fact that it was not responsible for the crisis. With the West hoping that China can re-inject liquidity back into the global economy, Beijing will likely demand a greater say in international financial institutions in return. But it also the case that Asia itself teeters on the brink. Regulatory structures were strengthened after this region's 1997 financial crisis but experts have pointed to a decline in basic governance standards in several key Asian economies. As of this writing, the crisis seems to be arriving at China's shores. This has added grist to the mill of those arguing that the sustainability of the 'China model' has begun to look increasingly questionable in recent years.

There were already compelling reasons of enlightened self-interest for Europe to cede its over-representation in international bodies before the crisis struck: if it does not emerging powers are increasingly likely to bypass such institutions. The new prominence of the G20 reflects a trend long in gestation.

Some analysts have begun to go even further and suggest that a shift in international power will undermine not just economic liberalism but a broader set of liberal *political* values. The Economist Intelligence Unit has drawn attention to the prospects of the financial crisis undermining democracy and democracy promotion in many places of the world. In terms of Europe's 'soft power' most commentators had already been making stark comments about the declining appeal of 'Western' democratic and human rights ideals. But the key will be how democracies deal with the crisis. If they succeed better than non-democratic states then pluralism's appeal could actually rise. If they demonstrate that - in the spirit of Amartya Sen - openness and robust democratic debate can help mitigate crises better than autocratic guidance it is not inevitable that the crisis will be entirely negative for democratisation.

Resource diversion

A final concern is that scarce resources will be diverted from international priorities.

The most obvious fear is that spending on development assistance could be an early casualty. Some EU member states are already intimating at cuts in the less high profile areas of aid priorities. Funding to help meet

renewable energy targets already seems to be at risk. And money for inclusive migration policies could diminish, hand in hand with a rise in populist nationalism.

But there are some reasons to hope this will not be the case across the board. Budgets for overseas development assistance (ODA) are a small percentage of the amounts of funding that European governments have found for their respective bail-out packages. Cutting back development aid would make little dent in newly-increased public debt levels, but would inflict a heavy political price on governments already under intense public scrutiny for having 'bailed out the fat-cats'. The huge amounts of money that governments have spent on rescuing banks may even make them more vulnerable to public admonishment for any cuts in development aid. Most ODA is locked into multi-annual budgets and oriented increasingly towards meeting the Millennium Development Goals in relation to which EU governments have made so many promises.

It has often been noted that rich countries may look to increase ODA when their own economies are under stress. Internal crisis heightens the concern to temper instability in and migration from the developing world. The link between development and security has been placed at the centre of EU foreign policy; European policy-makers would lose considerable credibility were they to retract from such a logic precisely when its more effective implementation is required - precisely when, that is, such a forward-looking and holistic commitment to development presents itself as one necessary part of systemic stabilisation rather than, as realists would have it, a mere 'feel-good luxury'.

Defence spending would seem to be far more at risk. It is indeed reasonable to expect defence budgets to come under more intense pressure. Cutbacks are already on the cards in the UK. Defence budgets have conspicuously not been ring-fenced from cuts in the same way as health and social spending. From a liberal, Europeanist perspective this may be no bad thing. The new juncture may provide the much-needed prompt for EU member states to cut duplication and attain better value for money from their defence budgets. Most member states maintain huge numbers of soldiers in uniform that cannot be deployed and are completely useless for 'fragile state' type interventions. Now would be a good time to cut back waste and forge a more common and economical European defence architecture, better prepared to assist in peace support operations.

Recuperation?

None of this is to minimise the seriousness of the crisis or to ignore the fact that events could still take an even more catastrophic turn. But it is to invite consideration of a paradox: that the ultimate lessons for EU foreign policies could be the opposite of what it would currently seem most sensible to argue. It should be remembered that despite the crisis and need in specific parts of the financial sector for state intervention and better market regulation, overall European economies still require more market competition and international interdependence not less.

The temptation to pull in the wrong direction will be strong. But the crisis may also provide a wake-up call. A wake-up call that Europe's already-existing drift away from global (economic and political) liberalism is part of the problem not part of the solution. If development budgets do suffer this will certainly undermine Europe's soft power, but here public pressure can help keep member states to their commitments. And while the crisis might tempt at least some member states into resisting any further EU enlargement even more fiercely, it could also raise the costs of 'non-enlargement' as European governments desperately seek out new market openings to recover growth.

The crisis may even provide a positive service if it convinces the EU that simply declaring *ad nauseam* that Europe has a wonderfully successful and progressive model of 'normative power' no longer suffices when events increasingly reveal exactly the opposite to be true – and increasingly require real effort and conviction to ensure that liberal foreign policies regain some reality.

Russia and World Recession

Fyodor Lukyanov*

The former Prime Minister of Belgium, Guy Verhofstadt wrote that:

2008 may well go down in history as a pivotal year: like 1989, when the Berlin Wall fell and the Iron Curtain was torn down; 1944-1945, when World War II ended, the United Nations was founded and the Bretton Woods Agreements signed, and when two new superpowers embarked on a fanatical race for supremacy; or 1919, 1815 or 1648 – the years, respectively, of the Treaty of Versailles, the Congress of Vienna and the Peace of Westphalia. All momentous events that marked the end of an era and at the same time heralded a new epoch in human history.¹

There is no country left in the world that has not been affected by the general economic recession. All countries suffer from the same root cause of this disease (that is, an imbalance in the global economy, which stems from ‘blowing bubbles’). But the specific diagnoses, the way in which the disease runs its course, and the treatment methods are different everywhere. Economies pegged to natural resources (Russia, Kazakhstan, Iran, Arab countries, and Venezuela) are suffering from the crisis in one way; export-oriented countries (China and other Asian states) in another way; and advanced industrial countries in yet another.

The nature of the changes and a new global alignment of forces will depend on how much the leading world actors have been affected by economic problems and, therefore, on the extent to which they will retain the ability to implement their international agenda. Most likely, everyone will have to be more economical, rethink their ambitions, and set priorities more clearly: what is imperative; what is desirable; and what is not necessary at all. This concerns every international player, but in the case of

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¹ Guy Verhofstadt, “The Financial Crisis: Three Ways Out for Europe” (http://www.bertelsmann-stiftung.de/bst/de/media/xcms_bst_dms_26640_26641_2.pdf).

Russia the contrast between the ambitions declared just a few months ago and the real opportunities available today is especially striking.

New position of Russia

The crisis has drastically changed the trend in Russia's political and economic development.

Almost throughout Vladimir Putin's rule (from August 1999 when he was appointed prime minister to the autumn of 2008), the country was in a state of **automatic growth**. In other words, whatever the authorities did, the economic situation kept improving. At first, this phenomenon was due to the effect of a sharp devaluation of the ruble in 1998, and then it stemmed from the growth of oil prices, which since 2003 turned into a real hydrocarbon boom. Measures to centralise economic management gave the government additional opportunities to consolidate its own positions.

The beginning of the global recession has put Russia in a situation of **automatic decline**: whatever the government does, the situation continues to deteriorate. All the talk in recent years about the Russian economy reducing its dependence on the raw materials sector has proved to be illusory. The dependence of the Russian economy on the external market environment has turned out to be all but absolute, and this applies both to the state in general and to the largest Russian corporations. The lack of an investment resource and the need for drastic cuts in spending at all levels have become obvious.

The political model established in Russia since last spring has no parallel in history. The ruling tandem, intended to symbolise continuity and innovation at the same time, was planned for an entirely different economic situation. In the conditions of stability, it did not really matter that the powers and responsibilities between the president and the government were blurred, as the two offices were one ruling conglomerate with a vague division of duties. However, the crisis dictates greater certainty, at least when it comes to responsibility.

Objective conditions are arising for the emergence of differences between the participants in the ruling tandem, although the existence of prerequisites does not necessarily mean that they will develop into a full-blown conflict. Ties between the president and the prime minister are so close that it would take the accumulation of very serious discord to bring about a rift in the present model. It must be borne in mind that Vladimir Putin personally was (and largely remains) the only source of legitimacy of

President Medvedev. Without him, Dmitry Medvedev could not even dream of the position he now occupies. The awareness of this, coupled with a high degree of personal loyalty developed over many years of working together, will prevent the president from initiating a conflict.

At the same time, the agenda of efforts to solve the economic problem is objectively more associated with the public image of Dmitry Medvedev than that of Vladimir Putin. Putin is a 'man of war', whom the public associates, above all, with the notion of security – national and personal. The population trusts Putin in these matters. Medvedev has from the very beginning positioned himself as a statesman who cares about quality of life, that is, with a more 'human' dimension. It is precisely the latter that concerns society today, and this factor enables the president to assert himself more often and more and more convincingly.

It is very difficult to assess the real potential of social discontent. According to the Levada Center, the most influential independent sociological agency, the Social Sentiment Index (ISN) decreased by 17% in December 2008 from September, or by 21% from the record high level of the ISN in March 2008. These rates are comparable to the peak of decline in social sentiments in September 1998, immediately after the financial collapse and the announcement of default.² Interestingly, 69% of the population believes that the crisis had been brewing for a long time.³ This contradicts the official position that the successful development of Russia has fallen victim to external factors, above all the crisis in the US.

Nevertheless, there have been no serious manifestations of social discontent in the country so far. The only instance that attracted international attention took place in Vladivostok on 14 December 2008, when police violently broke up a protest against the government's plans to raise tariffs on imported used cars. It must be borne in mind, however, that that region is the most criminalised part of the country and that the business of importing used cars from Japan is controlled by organised criminal gangs, which had a role in organising the protests. However, the events sparked such a widespread negative social reaction that police preferred not to intervene in subsequent protests in Vladivostok.

² <http://www.levada.ru/indexisn.html>

³ <http://www.levada.ru/press/2009021301.html>

The experience of the 1990s has demonstrated that Russian society has a high level of adaptability. Citizens focus their efforts, first of all, on adapting to ongoing negative processes, rather than on trying to change them by influencing the government.

At the same time one important aspect should be noted. Previous periods of Russian development were based on a kind of social contract: stability and improved living standards for the population in exchange for increased political rights for citizens. This principle can no longer be regarded as effective.

Meanwhile, the actions taken by the authorities reveal their growing concern about the situation, evident in the tone of official statements and personnel decisions. For example, President Medvedev began a purge of governors in February, after he previously lashed out at regional authorities for their inability to cope with the crisis. The way the authorities have been devaluing the ruble shows the extent to which the authorities are concerned about public reaction to the developments in the country: the first stage of the devaluation extended from November to February. The majority of economists insist that the ruble should have been devalued at once, which would have been more effective and saved considerable hard currency resources for the Central Bank. However, President Medvedev defended the stage-by-stage tactic in a recent interview:

In my view what is most important is that the weakening of the ruble was gradual, which was totally unlike the barbaric way that this was done in 1998 when people's wallets, in fact everyone's wallets, suddenly slimmed down by 300%, and this wave swept over everyone and it was very unpleasant. In this case, the drop in value that has occurred, something of the order of 30-35%, was handled with great care. And virtually all the participants in our economic dealings, our citizens and our businesses, were able to choose for themselves a sensible strategy for dealing with their savings in rubles... Some economists did recommend a rapid devaluation. According to certain economic models this presumably makes sense, but it could have a devastating effect on millions of our people and our companies.⁴

⁴ http://www.kremlin.ru/eng/speeches/2009/02/15/1110_type82916_212924.shtml

This humane approach, which really let the population, banks and businesses convert their savings into foreign currencies, cost the Central Bank of Russia dearly. The bank's international reserves have decreased by 209,672 billion dollars, or by 35.1%, from 1 August 2008, when these reserves stood at 596,566 billion dollars. This does not mean that the reserves will continue to be spent at the same rate - the authorities will obviously be much more cautious with spending. The current balance of payment has now been brought back to normal, and if oil prices stop falling, the ruble rate will be maintained at approximately the present level.

Russia managed to avoid major problems in the banking sector, nothing like the big bankruptcies in the US and EU member states took place in Russian banks. But the real economy has been greatly affected; Russia's GDP decline in January 2009 compared to January 2008 was 8.1%.

Economist Sergei Alexashenko writes that:

by the end of last year, the sum of accumulated and unfunded anti-crisis promises amounted to about 7 trillion rubles (200 billion dollars, or three-quarters of the 2009 federal budget), which exceeded the size of the Reserve Fund by 50%. If we add to this the reduction of federal budget revenues from the planned figures, which is estimated at 3.5-4 trillion rubles this year, it becomes clear that the government has lost control over the growth of its spending promises, while the implementation of all these plans will put the country on the brink of a macroeconomic collapse.⁵

Experts agree, however, that cuts in spending, including cuts to social programmes, are inevitable, although the authorities are studiously avoiding using the term 'budget sequestration'.

Much will depend on the scale of support that the government will give to large state-owned and private enterprises that have found themselves on the brink of bankruptcy. Alexashenko warns that

if the government wants to retain control over the macroeconomic situation, it will have to limit the 'size of the pie' to be divided; that is, it will have to declare the maximum amount of expenses that it is ready to fund within the framework of anti-crisis efforts.⁶

⁵ <http://www.vremya.ru/2009/21/4/222632.html>

⁶ Ibid.

Limiting the size of the pie may increase tensions within the elite, as groups of discontented will inevitably emerge. Since many large corporations will have to pay large debts to foreign creditors, the government will have to decide what industries and what owners should be saved and what industries could be ceded to repay the debts. Discussions about the protection of 'strategic industries', which have been continuing in the last few years, are now acquiring a new content.

On the whole, the impact of the crisis on the situation in Russia can be summarised as follows:

- The crisis has revealed the ineffectiveness of the existing economic model based, as before, almost entirely on raw materials and dependent on the world market environment and external sources of finance (foreign investment and corporate borrowings);
- Two structural problems of the Russian economy - corruption and monopolisation - are growing from acute to fatal in the crisis conditions;
- There emerge prerequisites for contradictions within the ruling elite due to the vague distribution of powers and responsibilities, to the emergence of interest groups deprived of their share of governmental support for businesses, and to the imbalance in economic and security agendas in favour of economic issues;
- There is a need for structural reforms, privatisation and the opening of the economy to attract domestic and foreign financial resources. Although there is a 'mobilisation' element in Russian discussions (calls for isolationism, self-reliance, and for fencing the country off from the global processes), it remains marginal and, on the whole, has no influence on political or economic decision-making;
- The potential for social discontent is not obvious yet - despite the deepening decline, the situation remains under control, and the authorities may launch 'managed liberalisation' in order to let off steam and reduce tensions. The government still has substantial financial resources that can alleviate the most acute problems.

Changes in the world situation

The economic crisis has affected the overall alignment of forces in the world arena. Yet rather than change the political reality drastically it has revealed processes that have been in latent development for a long time.

The United States is past the peak of its global influence, and this did not happen last autumn. It became clear after the Iraqi campaign that the US lacked the strength for hegemony or, most likely, that hegemony in principle is impossible in the modern world.

The relative decline of the United States (in absolute terms it will remain an actor beyond compare for a few more decades) will be accompanied by changes in tactics. Barack Obama declared that he would assign the key role to multilateral cooperation and international institutions back at the early stage of his election campaign.⁷ The crisis and the need to economise resources make the problem of 'burden-sharing' especially important.

In practice, this means that the US will seek to build up 'soft power' (in Obama's style) and opportunities for indirect influence, and will take a more flexible position on alliances. Washington will certainly try to strengthen its ties with Europe as its traditional and closest partner. Simultaneously, however, it will set its eyes on Asia, rightly believing that the 'old world' is losing its central position in the global system. The US may also place more emphasis on Africa and Latin America - partly because of Obama's African roots, and partly because the role of these continents will keep growing, at least for demographic and resource reasons.

Trans-Atlantic unity rests on the solid foundation of extensive economic ties, mutual investment, cultural and historical community, and traditional allied relations, which became particularly strong in the Cold War years.

At the same time, the focus of Washington's economic attention is gradually moving towards Asia, as has just been confirmed by the crisis, which has once again demonstrated how much the US and China depend on each other. As regards the 'strategic horizons' of the two shores of the Atlantic, they are diverging somewhat. America has not given up its global leadership ambitions and expects real support for its efforts from Europe. The old world is not ready to participate in Washington's geopolitical

⁷ Barack Obama, "Renewing American Leadership", *Foreign Affairs*, July/August 2007 (<http://www.foreignaffairs.org/20070701faessay86401/barack-obama/renewing-american-leadership.html>).

projects around the globe. This unreadiness was evident in previous years, and the crisis will most likely only consolidate this approach.

A possible loss in status of the privileged partner of the US would put Europe in an unusual position. On the one hand, the leading European nations have long wanted to move out from the US umbrella and play an independent role in world politics. On the other hand, Europeans have long been out of the habit of playing such a role; not a single EU country can play it on its own, whereas the EU as a whole is unable to work out a common policy due to its heterogeneity, even though this organisation has great potential. In addition, the US has enough levers to neutralise any attempts by the EU to get out of control, if ever they are made.

By appealing to shared values and historical commonality with Europe, the United States is trying to involve the 'old world' in its efforts to strengthen its global positions, but there is a conceptual contradiction here. In remote regions (Central Eurasia, and South and East Asia), Europe is not ready to sacrifice its interests for the sake of its Atlantic ally. But as regards adjacent territories (the Middle East, North Africa, and part of the post-Soviet space), which the European Union includes in the sphere of its immediate interests, the EU and the US often turn out to be soft competitors there.

Many analysts say that the crisis may result in regionalisation and the consolidation of individual centres of gravity, around which zones of economic growth will be formed. Guy Verhofstadt writes about the emergence of political and economic entities

potentially made up of many states and peoples, united by common structures and modern institutions, often nourished by diverse traditions and values and rooted in old and new civilizations... What matters is the political stability and economic growth that they can create at a regional level, not for one or other of them to rule the whole world. In a nutshell, this is not about nostalgia for a return to the European empires of old but rather the birth of new types of political organizations, established by open and free societies, competing with each other at a global level,

building bridges rather than walls, but each retaining its regional roots and customs.⁸

Most likely, it will be impossible to avoid a surge of protectionism while overcoming the crisis,⁹ and markets will try to protect themselves. Therefore, the desire of each market for expansion is only natural. The most illustrative examples of this are the European Union and East and Southeast Asia, where China acts as the centre. Moscow, too, is now attracting visitors from neighbouring countries – it has turned out that there is no-one to ask for help except the former metropolitan country. Even ‘rebellious’ Kiev has asked for loans.

The latter case is indicative. It would seem that the European Union and the US must support Ukraine, because the geopolitical alignment of forces in the entire post-Soviet space depends on Ukraine’s future. The crisis limits the ability of even large powers to provide financial aid. The International Monetary Fund’s reserve is not great (250 billion dollars), yet it can still be used. The IMF has always served as an instrument for strengthening American leadership, because it conditioned its assistance on compliance with recommendations of the Washington Consensus.

But first, the founders of the Consensus themselves are now the main violators of these recommendations. Second, the economic and political position of Ukraine inspires no hope that Kiev will fulfil the terms set for it. One can now hear calls for flexibility in relation to principles: “Conditionality remains necessary over the long term, but with this crisis still unfolding, the IMF is rightly moving toward temporarily suspending

⁸ Guy Verhofstadt, “The Financial Crisis: Three Ways Out for Europe” (http://www.bertelsmann-stiftung.de/bst/de/media/xcms_bst_dms_26640_26641_2.pdf).

⁹ The Buy American provision in a US economic stimulus bill, passed by the US House of Representatives on 13 February 2009, says: “None of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States”, <http://uk.reuters.com/article/economyNews/idUKTRE51C4RG20090213>. To read about the French government’s measures to support national carmakers see: http://www.bloomberg.com/apps/news?pid=20601100&sid=aMyHAf8uV_n8&refer=germany

it.”¹⁰ However, this would make the structure on which the US-centric world was based – namely, a combination of ideological integrity, an attractive political image, and the ability to project military and economic strength – lose its rigidity and stability, especially now that lively discussions are being held in the world (albeit not backed by reality) about alternative development models.

Of all great powers, the United States is the only one that in the coming decades will not be content with the status of a regional centre with its own sphere of influence. Europe, China, India, Russia, Brazil, Iran, South Africa, Japan and some other countries would be quite satisfied with such a status, (which does not mean that all the above-mentioned countries will be able to play such a role.) American hegemony is no longer possible. But the position of the only global force among many multi-sized regional forces may prove to be winning, although it would require sophisticated tactics. At the very least, this is a new situation.

Russia – temptations and reality

Russia is a natural centre of gravity for post-Soviet countries, because most of them are experiencing a severe economic decline and cannot count on support from other countries. Kyrgyzstan, Armenia, Belarus and Ukraine have already asked Moscow for help, in one way or another, and they are likely to be followed by other neighbouring countries. All spending planned by Russia, including the allocation of 7.5 billion dollars to the Anti-Crisis Fund of the Eurasian Economic Community (EurAsEC), has already exceeded 11 billion dollars. This sum does not look critical yet, compared to the remaining total reserves; however, the dynamics of both internal and external spending will limit the temptation to strengthen the country’s geopolitical positions.

Changes in the global economic situation will certainly affect the substance of Russia’s foreign policy. Moscow will have to match its desires and expectations with its reduced capabilities and to build a system of clear-cut priorities. In particular, it will have to decide what geopolitical projects must be implemented, what projects are of minor importance, and

¹⁰ Roger C. Altman, “The Great Crash, 2008: A Geopolitical Setback for the West”, *Foreign Affairs*, January/February 2009 (<http://www.foreignaffairs.org/20090101faessay88101/roger-c-altman/the-great-crash-2008.html>).

what projects can be given up. Obviously, Europe and Eurasia will remain Russia's priority areas of interest in any situation, and the desire to play a leading role in international affairs will not disappear, even if the resources shrink, because this is in line with the aforementioned general tendency towards regionalisation.

On the other hand, it is unlikely that last year's ideas of consolidating Russian presence in the western hemisphere by establishing close ties with Venezuela, Cuba and Bolivia, will retain their priority.

On the whole, the impact of the crisis on Russia's foreign policy may have a dual nature. The need for investment in economic development will cause Russia to be more open in its relations with industrialised countries. At the same time, the aggravation of general competition, amidst growing protectionism and declining global governability, will increase the isolationist/anti-globalist sentiments that are already visible in Russian politics.

The Lessons for China

Lanxin Xiang*

China caught by surprise

The financial crisis has caught the Chinese leadership by surprise. There are three reasons for the lack of psychological and policy preparation: first, over the years, the Chinese economy has become heavily reliant upon the export sector and an economic recession caused by the financial sector was not thought possible as long as consumer spending showed no sign of slowing down. The Washington Consensus created a bubble, but behind the bubble was real estate mortgage and subprime derivatives. China has little knowledge, let alone practice of this type of seemingly advanced financial market innovations in the United States. Hence, it was the backwardness of China's banking system, and its failure to understand financial innovations, that saved China from falling deeply into the current crisis.

Second, China has little knowledge and working experience in general of the Anglo-American monetary system, which has dominated the international financial scene since 1945. China was not part of the Bretton Woods system (for Taiwan had represented China in international organisations, including all UN institutions and the Security Council seat till 1971) until it collapsed in the 1970s. China hardly participated in any international financial cooperation and policy activities. After the Nixon Shock in 1972 when a floating exchange rate became a reality, the Chinese monetary system was not affected at all as long as the RMB was not convertible and trade volume was exceedingly small.

Third, the current Chinese exchange rate regime was created during the 1997 financial crisis when its currency started pegging to the US dollar, but now the RMB is no longer immune from turbulences of the international financial system not only because of China's holding of the largest dollar debt, but also because its heavy investment after the 'Going-

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Out Strategy' was launched at the beginning of the new century, especially in Latin America and Africa.

The lessons from the 1997 financial crisis do not apply

First, exchange rate pegging no longer works in coping with a sinking banking system in the West. China played a critical and responsible role during the 1997 financial crisis in East Asia, by holding its currency exchange rates steady to avoid competitive devaluations in the badly hit region. Since then, China thought that another financial crisis might come China's way, but would not impact directly on China as it did during 1997. But such a judgement has proved wrong and the magic policy of exchange rate pegging has now become a liability rather than asset, since the fair trade issue is framed precisely in terms of currency manipulation, even though such a manipulation was not initially intended during the 1997 crisis.

Second is the danger of the 'new weapons of mass destruction'. The G2 structure, or US-China condominium, publicised by Niall Ferguson as "Chimerica" does not necessarily serve China's national interest well. In the past three years, the China-US Strategic Economic Dialogue (SED) has become important for the world's two most powerful countries, the United States and the People's Republic of China, to discuss mutually related topics and try to avoid many misunderstandings. The SED was initiated in 2006 by President George W. Bush and President Hu Jintao. The format is such that top officials in charge of the economies of both countries would meet twice a year at locations alternating between China and the US. It has been described by a former US Treasury official as "sort of like the G2". The Obama Administration decided to end such a dialogue, but at the same time elevates G2 to the level of summit meetings.

What the true objective is on the part of Washington remains to be seen, but one thing is certain: the US needs China's help to overcome the domestic economic downturn. More specifically, the US definitely wants to reduce trade deficits and at the same time secure financial resources when expanding domestic spending through its huge stimulus plans. Since double deficits (trade and fiscal) have been a rather common practice in US history since the 1970s, the only way of pursuing this twin objective is to manipulate the international monetary system by printing money and attracting foreign buyers to increase or at least not decrease dollar holdings. This is what might be called 'indirect imperial tax' as compared with the direct tax levied by the Roman legions in ancient history. The friction

between China and the US is therefore inevitable, as the US clearly aims to export 'toxic assets' to China through whatever means available and as Thomas Friedman said, by using toxic assets as the new weapon of mutually assured destruction, China will have no escape.

The export-led model and the need for fundamental review

Great trade dependency has now become China's Achilles heel. China is the third largest economy in the world, China's foreign trade dependency, defined as a country's export-GDP ratio and share in total world exports, has increased considerably over the last two decades. In 1978, China's exports constituted a mere 5% of its GDP; by 1998 that figure topped 20%. The country in 2006 registered an unwholesome trade-to-GDP ratio of 69%. In many cases the economies of large countries tend to have lower degrees of trade dependency because of large domestic production and consumption. But China's trade dependency is already higher than that of the United States, Japan, India and Brazil, and a greater degree of trade dependency would result in an exodus of resources because of worsening trade terms. China now claims to be the world's largest workshop. What needs to be understood is that China produces primarily for the international market rather than the domestic market. Export overproduction cannot be easily absorbed by the internal market.

In fact, China's greatest weakness in economic development is its foreign dependency. Under the so-called East Asian development model, foreign funds and foreign economic relations are based on the economic theory of 'comparative advantage'. According to this theory, a developing nation must export goods it can produce cheaper than other nations and import goods where it is at a disadvantage. Only in this way can it maximise the efficiency of the international division of labour and use it to the benefit of its own economic development. Because of its large economic and population scales, China's growth momentum and excessive dependence on international markets is unparalleled in the economic history of the world. Singapore, South Korea, Taiwan and Hong Kong have small-scale economies, so it is relatively easy for them to catch up with the world's advanced standard of living. Some large economies, such as that of the US, also evolved from secondary developed nations into leading trading nations. But the US has a relatively stable domestic market with a relatively constant market demand. On the other hand, given the low wages of China's labourers, the purchasing power has remained low and consumption demand has not been able to meet the manufacturing supply.

For two reasons, the comparative advantage model cannot be successful in China. On the one hand, China's single-minded pursuit of comparative advantage leads to over-production in some industries and, as a result, the goods it produces become too cheap. On the other hand, China does not have a mature domestic market to create the demand to sustain its economy. China's goods must therefore be sold in overseas markets. China's imports and exports represent such an immense share of world trade that its prices distort the world market. It should be noted that China has concentrated its import and export trade to a few countries and regions, namely the US, Japan, and the EU. These three account for around 50% of its total trade volume. So, any goods that China injects into these three markets will create pressure on local producers.

As the communist leaders begin to consider downgrading manufacturing growth and export-led development strategy, the traditional measures based on GDP growth will become less emphasised. A Keynesian recipe will perhaps work better for China, given the fact that China badly needs to create a serious social welfare and health care system and revamp its entire education system. On the other hand, the long suppressed domestic consumer spending could be greatly stimulated if social welfare, health care and education savings in most households could be released and directed towards housing and other consumer spending.

China and the reform of the current international financial system

The first priority for China before any meaningful reform is attempted should be a break away from dollar hegemony.

China must cooperate with those who are willing to initiate serious reform of the international financial system. The Bretton Woods institutions are outdated. But there is no consensus as to what the international community could do next to reform the system.

In breaking away from dollar hegemony, China has to regain real sovereignty in its central banking, because in a world order of sovereign nation states, the supranational nature of central banking has been used as an all-controlling device for the world's rich nations to neutralise the sovereign rights of financially weak nations. Even in a democratic world order, central banking is inoperative within national borders, as it can be used by a nation's rich population as a device to deprive the working poor of their economic rights. Central banking, including the state-run system in China, has so far supported dollar hegemony, and operates, more often

than not, internationally against the economic interests of sovereign nation states and domestically against the economic rights of the working poor by discrediting enlightened economic nationalism.

To preserve dollar hegemony, exporting economies that accumulate large dollar reserves through trade surpluses are forced by the US to revalue their currencies upward, not to redress the trade imbalance, (which is the result of dysfunctional terms of trade rather than inoperative exchange rates), but to reduce the value, in foreign local currency terms, of US debt assumed at previously stronger dollar exchange rates.

China is therefore stuck in a double dysfunctionality. The fall in exports is expected to accelerate as any quick or sharp recovery in the US economy is not on the horizon. But a falling exchange rate causes more domestic inflation from imports denominated in dollars; and rising domestic inflation adds pressure to a falling exchange rate in a downward spiral, preventing the yuan from rising against the dollar from market forces. That is the dysfunctionality of the yuan-dollar exchange rate regime in relation to the inflation rate differentials between the two economies, when the exchange rate is set by trade imbalance denominated in dollars. This problem is caused by the flawed attempt to use exchange rates to compensate for dysfunctional terms of trade, which has been mostly caused by wage disparity.

Conclusion: Back to Keynes?

In conclusion, China must reduce its foreign trade dependency ratio and drastically expand the domestic trade market. It must also reduce dollar debt holdings and encourage the euro to become a leading international, alternative reserve currency. Keynes had three beliefs that are still valid for China. First, he argued vehemently against over reliance on foreign trade, since no-one can predict market behaviour in the 'long run', no government can guarantee full employment. Second, he preferred a fixed international exchange rate system. If this cannot be realised, international cooperation is absolutely necessary to avoid currency wars. Third, accumulating foreign exchange reserve is not for hoarding but for spending and investment.

The current Chinese policy of defending an 8% growth rate in 2009 is based on a flawed concept, as if China could spend itself out of its international dependency. There is no 'scientific' foundation for this growth rate. The only justification is China's domestic political economy, as

8% is considered the bottom-line for preventing mass unemployment, which will destabilise its internal system. By publicly announcing this target, China will become even more vulnerable since international competitors could thus make policies aimed at either blackmailing China to make trade or monetary concessions, or simply undermining China's chance of success.

For the purpose of collaborating with the EU to overcome the current financial crisis, China has a vital stake in the EU's success in passing the Lisbon Treaty and starting a serious CSFP. Despite current setbacks between China and its erstwhile best friend in Europe, France, the relations with other major EU players are dramatically improving. The new Sino-UK relationship is a good start, which is described by both London and Beijing as the 'best', especially in view of the UK's position of officially recognising China's sovereignty over Tibet. The recent publication of the British document: "The Framework of Engagement with China" marked a new beginning. This is after all the first British document regarding its strategies towards a particular country in modern times. Whether or not other countries in the EU could seize the same opportunity to elevate bilateral relations, remains to be seen.

The Social Consequences of the Economic Crisis

Jørgen Mortensen*

Drivers of globalisation will weaken

This working paper draws on an earlier study on the drivers of globalisation,¹ and considers how the current crisis may affect these trends. The discussion will follow the structure of Figure 1, below. Although the degree of weakening of the drivers of globalisation will only become clear as the depression unfolds, several of these drivers are set to slow down or be reversed.

- Trade liberalisation is already taking several blows as a result of the emergence of certain measures to save 'domestic' financial institutions protect the automobile industry and certain sub-contracting branches.
- EU enlargement and the process of integration would seem unlikely to slow down much but should certainly not be expected to accelerate except in one important area: the possible creation of an EU financial watchdog or an extension of the competences of the ECB with respect to financial surveillance and regulation.
- The costs and techniques of transportation may not be directly influenced by the financial crisis but in the short and medium term appear likely to be substantially reduced as a result of the lowering of demand and the present low oil prices. A number of cargo ships are already being laid up and more seem likely to follow. This will of course have severe knock-on effects on the shipyards.
- The liberalisation of capital movements and financial markets will no doubt slow down or be reversed as a result of the ongoing nationalisation of banks and other financial institutions, more intense scrutiny of many transactions and the enforcement of regulatory surveillance.

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¹ I. Begg, J. Draxler and J. Mortensen (2008), *Study of the Social Impact of Globalisation in the European Union*, SIMGLOBE Special Report, CEPS, Brussels, April.

- The role of ICT and the internet as drivers of globalisation should not, it seems, be expected to weaken. In fact, a more active supervision of financial institutions and transactions would probably be facilitated by the internet. However, the internet and the expansion of mobile phones and the increasing scope for financial transactions via the latter will also promote the globalisation of terrorism and the drug trade.
- Migration policy and frontier control may on the whole become more restrictive both in the short and the medium term. However, as the incentives to migrate from poor to rich countries would seem likely to strengthen, the main effect of the depression will be a rise in illegal migration.
- The role and weight of multinationals in the world economy may not change significantly. However, an important question is whether the financial crisis and its economic consequences will bring about changes in international economic and financial governance. There would at present seem to be a certain movement in favour of assigning additional responsibility in the field of financial surveillance to the IMF and, within the EU, to the ECB. The nationalisation of parts of the financial services in several OECD countries will also result in a deeper involvement of governments in the running of key financial institutions and the financial crisis will per se result in changes in the perceptions and handling of financial risks.

The process of globalisation may slow down

The direction and size of trade flows and maritime and inland transport have already weakened significantly and we cannot exclude more permanent repercussions for the structure, direction and level of trade flows and their associated transport services. Furthermore, there are good reasons to expect the financial crisis to have severe consequences for capital movements. In general the whole process of globalisation is therefore likely to slow down and possibly even be temporarily reversed.

- The direction, structure and size of trade flows have already been significantly influenced by the depression, but whether these changes are just temporary or of a more lasting nature remains to be seen. The principal factors having determined trade flows over the recent decades would seem likely to remain in force, with, however, the possibility that the liberalisation of trade may slow down or even be

reversed at least for some 'sensitive' products, such as automobiles or steel. It may also become more difficult to continue the liberalisation of world trade.

- The outsourcing and insourcing of production, which has been part and parcel of globalisation during the last couple of decades is likely to slow down in response to new perceptions of risk and uncertainty.
- Whether migration will slow down as a result of the crisis remains to be seen. On one hand there are signs that a number of the most developed countries are taking steps to tighten rules or to adopt more selective policies for admitting economic migrants. Furthermore, at least in the short run there seems to be a tendency for migrant workers in Ireland and the UK to return to their home countries. On the other hand the crisis and the depression are now extending more broadly to the developing countries and the fundamental incentives to migration would seem unlikely to weaken, rather the contrary.
- The structure of trade in services could change as a result of a considerable slowdown in the size and pattern of capital movements but also as a result of a possible slowdown in maritime transport and aviation, etc.
- A huge increase in capital movements has been one of the dominant features of globalisation since 1990 and there are good reasons to suppose that the size and flows of capital will be profoundly influenced by the financial crisis and associated depression. Net inflows of private capital, according to The Economist's special feature on Globalisation (Feb. 7th), have fallen to a fraction of the 2007 level. The perception of risks and uncertainties has been durably changed and the scope for the play of financial innovation severely reduced. Already investors and sovereign wealth funds have expressed increasing preference for government bonds and other instruments considered 'safe' but also an increasing tendency for spreads in favour of 'prudent' governments' bonds to increase.
- While there is little doubt that the financial crisis and the decline in financial and non-financial activity will lead to a narrowing of the tax base in a number of countries, this would not necessarily lead to a more permanent change in the location of activity, with, of course, the exception of a general lowering of the tax base in the branches most directly involved in the financial crisis and the slowdown of activity, such as, notably, financial services and building and construction.

Consequently, countries that have depended strongly on these branches may see a more permanent narrowing of their tax base.

Social consequences

The social consequences of the financial crisis and depression will not be uniformly and linearly dependent on the decline in activity. They will to a large extent depend on the basic features of the system of social protection and the capacity of the economy to avoid poverty traps and hysteresis.

- As the depression is largely caused by the sudden and dramatic drying up of the flow of credit, regions and branches that have benefitted most markedly from the enormous rise in credit and the decline in household saving in some countries will be the first to suffer. Whether this can be expected to lead to an increase or, on the contrary, to a lowering of regional disparities can hardly be determined without an in-depth study of the regional patterns of growth in the different countries.
- The rise in income disparities since 1990 has probably only to a minor extent been caused by the explosion of financial services and credit and more to such fundamental factors as the increasing importance of knowledge and investment in education and human capital as the key determinants of life cycle income. Similarly, the failure of EU member states and other countries to reduce poverty rates cannot be assumed to have been caused by the expansion of credit and may therefore not be much influenced (in relative terms) by the depression. This, however, is a subject that merits deeper analysis.
- On the other hand there is no doubt that the rise in employment in a number of countries such as, the US, Spain, Ireland and the UK during the last couple of decades owes a lot to the boost in easy credit and therefore has been on an unsustainable path. The depression will therefore most likely lead not only to an increase in unemployment but also be followed by structural changes in employment.
- The failure of many countries to make progress with respect to social inclusion, and this despite declared objectives and policies, would not seem to have been caused mainly by the process of globalisation. However, in countries with a high degree of segmentation and fragmentation of the labour market (for example France and Italy) the ongoing decline in activity and the resulting rise in unemployment may lead to a new process of hysteresis (permanent exclusion from employment of the 'outsiders') and thus a significant weakening of

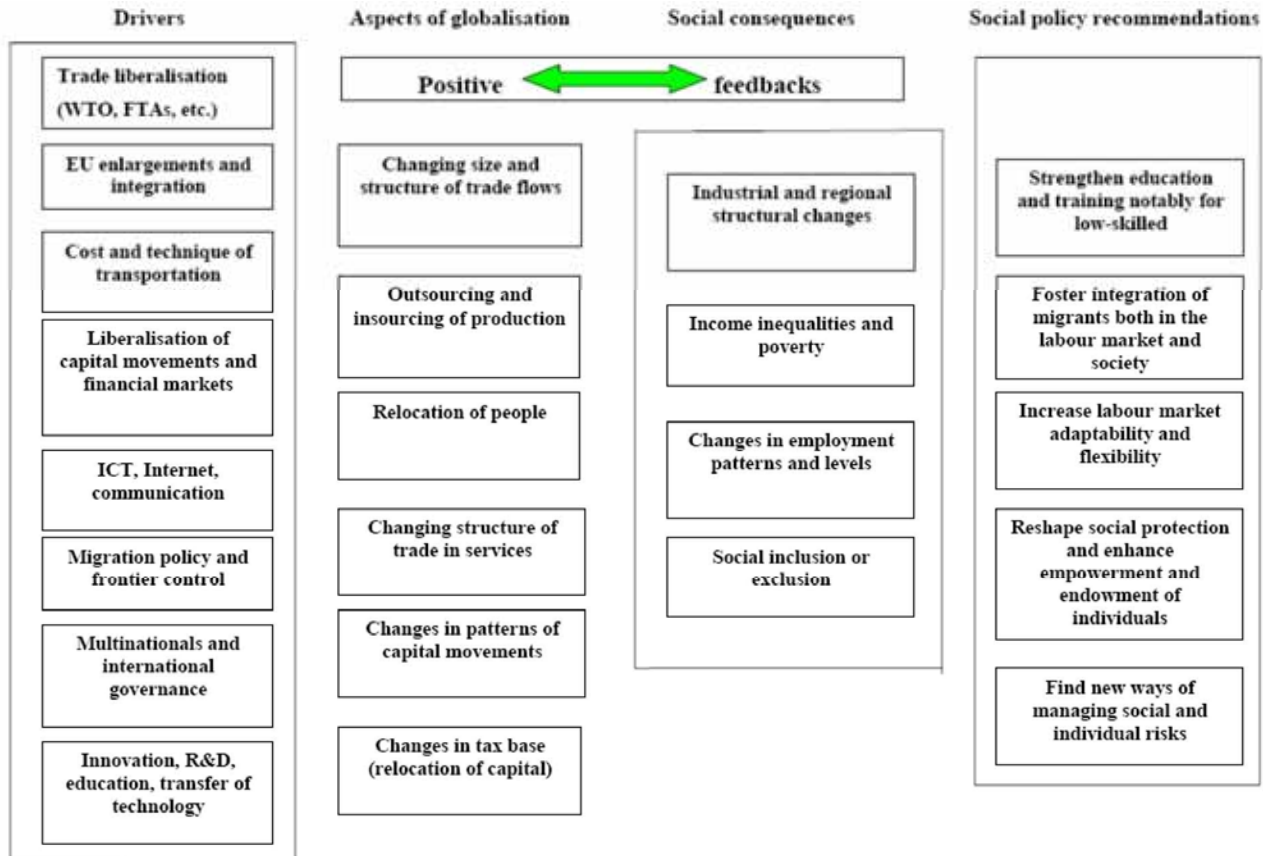
the process of inclusion. Countries with a higher degree of mobility and flexibility in the labour market will also suffer a rise in unemployment but can be expected to recover more rapidly and without severe long-term consequences for the process of inclusion.

Social policy recommendations

The policy recommendations presented in the study on the social consequences of globalisation remain valid and in some countries the depression should in fact lead to a more rapid implementation of policies to promote flexibility and adaptability.

- In a number of countries the labour market position of low-skilled groups is likely to be significantly aggravated by the depression and the need for a strengthening of education and training is even more pressing than before the emergence of the financial crisis.
- Whereas the depression is leading to increasing public resistance to immigration and, in some countries, to a return of migrants to their home country, the need for measures to foster the integration of (accepted) immigrants would not in any way be reduced by the depression. The decline in activity and increase in unemployment, including unemployment among immigrants, will, if not met by policies to foster integration, result in new social tensions and the additional fragmentation of labour markets between insiders and outsiders.
- More generally, the need for enhancing labour market adaptability and flexibility will be even more urgent than before. The association of the financial crisis and depression will not only lead to a rise in unemployment but the recovery, once it is underway, will most probably involve structural changes and the relocation of activities and employment. Consequently governments would be well-advised to initiate new policies promoting adaptability.
- The likely acceleration of structural changes (including the strengthening of climate change mitigation and environmental protection) will require the additional adaptability of individuals so there is an added need to reshape social protection and enhance the empowerment and human capital endowment of individuals.
- Consequently the need to find new ways of managing social and individual risk is in no way reduced but actually becoming more urgent by the day.

Figure 1. Schematic overview of the process of globalisation



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