

# WHAT'S NEXT?

## ESSAYS ON GEOPOLITICS THAT MATTER VOLUME 2

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# Preface

In *What's Next*, Ian Bremmer and Wu Xinbo, together with their colleagues from the World Economic Forum's Global Agenda Council on Geopolitical Risk, address key global issues for tomorrow that demand our attention today.

In a series of essays, the authors provide a collage of many of the most volatile, powerful and misunderstood developments that are reshaping the global geopolitical space. Experts from the Council examine the growing vulnerability of public and private leaders alike, as well as the increasing impact of public opinion and protest. They explore US-China dynamics, as well as the relations between China and the Russian Federation and the rest of Asia more broadly.

The authors also address the earth-shattering shifts in the Middle East, and the unconventional energy revolution in North America that is primed to reshape global energy markets and the world's balance of power. Most importantly, this e-book provides a reminder that our world is constantly changing and some guidance on how to understand some of the key players in the evolving global game.

**What's Next?**

**Essays on Geopolitics that Matter**

**Volume 2**

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# Foreword

Since the World Economic Forum initiated its Network of Global Agenda Councils in 2008, we have witnessed dramatic upheaval in the global landscape. The vast reach of the financial crisis revealed just how interconnected our world has become. But, in the aftermath of the crisis, even as these interdependencies continue to grow, we are witnessing further fragmentation of the global agenda and a rise of regionalism as nations prioritize issues that hit closer to home. In a hyperconnected world in the midst of deglobalizing, we have been launched into turbulent, uncharted territory.

The Global Agenda Council on Geopolitical Risk is in a prime position to diagnose and categorize these game-changing trends; in recent memory, geopolitical threats have not had such potential to derail international initiatives nor have economic and security outcomes been so intertwined. The inaugural edition of *What's Next*, published last year, drew attention to these cleavages and the corresponding underappreciated risks – from the divergence of emerging markets to the fate of the Eurozone.

Today, this fragmentation manifests itself in new ways. We are seeing far more citizens capable of shaping political outcomes in their respective countries; yet, an untenable wealth gap between the rich and poor continues to widen. How can this be the case? Where will this seeming paradox take us?

New modes of communication and newly empowered middle classes in emerging markets are intensifying and accelerating the impact of popular opinion on policy. The Arab Spring demonstrated how quickly public sentiment can sharpen into an existential threat to long-standing governments. Across many of the most economically resilient emerging markets, we have seen large-scale protests shape policy from the streets rather than the polling booth.

Volume 2 of *What's Next* attempts to grapple with some of these fundamental changes and the political impact they may have. This text offers insight into the growing importance of public opinion and its impact on elites' ability to spearhead initiatives in the public and private sectors. It highlights the political ramifications of the North American unconventional energy revolution, and goes into detail on the world's two most important hotspots – the Middle East and Asia – from the perspective of the relations between power brokers in these regions.

But this collection of essays is just that: a curated assortment of significant geopolitical trends rather than an attempt to construct a holistic account of the risk landscape for the year ahead. Even so, I hope that readers will draw connections between the essays for themselves, and gain a sense of how these disparate components fit together. *What's Next* is, above all, a platform for kick-starting a discussion in which policy and business leaders must engage.

This is in keeping with the Forum's mission to nurture an environment for informed discussion and lively debate, bringing together the world's pre-eminent thinkers and actors from a wide spectrum of industries. Working with Ian Bremmer, Wu Xinbo and the entire Global Agenda Council on Geopolitical Risk has been a rewarding and invigorating experience. This assessment of global risks and opportunities will inform the agenda of the World Economic Forum Annual Meeting in Davos in January. It is my pleasure to share the collection with you.

**Professor Klaus Schwab**

Founder and Executive Chairman

World Economic Forum

# Introduction

Half a decade has passed since the financial crisis struck; its rapid transit through the global economy demonstrated just how interconnected the world has become as ideas, information, capital and new technologies have flowed across borders with increasing ease over the past decades.

But the lack of sustained crisis response has made it clear just how fractured our international political landscape has become, as developed and emerging countries' diverging interests make global coordination ever more difficult. In spite of sustained globalization – and in some instances, because of it – we are seeing a growing vacuum of global leadership, and traditional geopolitical risks are correspondingly on the rise.

In our first volume of *What's Next*, released last year, we addressed many of these concerns, with essays ranging from macro issues like the state of emerging markets, the Arab Spring and US foreign policy, to more specific regional risks: everything from Afghanistan to the Eurozone. We highlighted the rise of regionalism in a world where global governance was falling by the wayside.

These themes have only gained momentum in shaping the global landscape and, in turn, they have led to a host of new challenges that demand serious consideration. In a world where the international agenda is fracturing, local and shorter-term challenges take precedence for policy-makers and business leaders; that is an issue in and of itself as longer-term risks go unaddressed and loom larger. In addition, we have seen an increasing vulnerability of elites as a host of new voices – whether from the voting booth in developed countries, populist parties, growing middle classes in emerging markets, or through new technologies – have put added strain on leaders who are increasingly takers rather than makers of policy.

The World Economic Forum created the Global Agenda Councils in 2008 to bring together members of academia, government and the private sector from the world over to offer a new perspective on topics critical to the political and economic landscape in a rapidly changing world. The timing could not have been more apt, as events later in 2008 upended much of the conventional wisdom of how risks to our security and prosperity originate and how quickly and unexpectedly they can arise and transform.

The Global Agenda Councils work on a vast spectrum of topics, covering everything from digital health, organized crime and fiscal sustainability to the impact of ageing, advanced manufacturing, food security and urbanization. With over 80 Councils revolving around themes or regions of focus, this World Economic Forum initiative maps global risks, as well as areas for collaboration, innovation and unforeseen opportunity. The Global Agenda Councils monitor key trends, address gaps in knowledge and create a platform for informing discussion and debate at the World Economic Forum Annual Meeting in Davos-Klosters.

Our Global Agenda Council, tasked with exploring geopolitical risk, stems from a tenet that the founders of the World Economic Forum have long understood: political and economic instability feed off each other, and they have only become more interwoven in recent years. Today, it is at the intersection of politics and business that much of the Forum's most fruitful and insightful work takes place.

This e-book is not meant to provide a comprehensive analysis of the pre-eminent geopolitical risks and opportunities of 2014, nor does it seek to rank the potential impact of the topics that it does cover. Rather, this series of essays is more of a mosaic, highlighting some of the trends and challenges that we face in a noisy world where many more people are empowered to make demands on policy-makers. This leads to exciting and unprecedented opportunities, but it can also distract leaders from implementing any long-term solutions; they opt instead for reactive, piecemeal and immediate measures.

By focusing in on a handful of prevailing macro trends as well as key bilateral relationships and potential hotspots, this e-book can provide a snapshot of a rapidly changing world where political and business leaders must adapt to a new risk landscape that is changing faster than ever before.

In *What's Next* Volume 2, Tina Fordham and Matt Dabrowski provide a deep dive analysis of what they dub the *Vox Populi* risk – the game-changing consequences of a shifting and more volatile public opinion around the world. Next, Robert Johnston and Elena McGovern discuss the political implications of the North American unconventional energy revolution – who are the unexpected winners and losers, and how will their geostrategic behaviour change as these new energy supplies come online?

From there, Volker Perthes gives us an overview of the shifting power balance in the world's most volatile region: the Middle East. Nasim Zehra and Wu Xinbo discuss two of the world's most important bilateral relationships, with chapters on China-Russia relations and China-US relations, respectively. Finally, Ian Bremmer authors his updated account of the 2012-2013 Global Agenda Council on Geopolitical Risk's 2013 report on the growing vulnerability of elites, tying together many of the broader issues that the e-book's other chapters touch upon.

It is important to remind the reader that neither the ongoing work of the Global Agenda Council on Geopolitical Risk nor this book is intended to serve as an immediate call to some form of specific action. Rather, we highlight some of the most compelling global trends that we believe should inform any such decision-making – and we hope our insights prove useful. These essays serve as a reminder of how diverse and nuanced the geopolitical risk landscape has become – and how all new risks come hand in hand with emerging opportunities.

Ian Bremmer and Wu Xinbo

October 2013

# The Rise of *Vox Populi* Risk

Tina Fordham and Matt Dabrowski

*“Nec audiendi qui solent, Vox populi, vox Dei, quum tumultuositas vulgi semper insaniae proxima sit.”*

*“And those people should not be listened to who keep saying the voice of the people is the voice of God, since the riotousness of the crowd is very close to madness.”*

(from a letter from Alcuin of York to Charlemagne, 798 AD)

From the notion of the greater legitimacy of the voice of the people – the *Vox Populi* – over that of elites, to the concept of the wisdom of crowds, the increasingly evident power and influence of public opinion has gained both in importance and influence. The consequences are just beginning to be felt, for better or for worse, for world leaders, for corporates and investors, and for the international system.

Citi Research first coined the concept of *Vox Populi* risk in 2012 to identify what we observed as the emergence of a new type of risk to the investment environment and policy-making sphere: shifting and more volatile public opinion. This new risk has prompted a range of effects, from weaker elected governments, to populism, to larger, faster-growing and more volatile street protests. This phenomenon is distinct from the well-researched financial impact of macro political events such as coups and revolutions, previously confined for some decades to emerging or frontier markets countries.

Since then, developments beginning with the Arab Spring and now spreading far beyond the region have strengthened our thesis. Perhaps most notable is the wave of popular protests in a number of middle-income emerging market (EM) democracies from 2011 to the present, in many cases the largest protests in decades. Yet the *Vox Populi* phenomenon is distinguished in part in that it is not limited to EM countries.

In developed markets (DM), the weight of public opinion has acted as an obstacle to austerity and entitlement reforms. Even in the realm of geopolitics, *Vox Populi* risk is making an impact: note the failed vote in the British House of Commons and the non-vote in the US Congress on military intervention in Syria. In each case, large-scale, speedily-mobilized public opinion has surprised officials in its intensity and has constrained policy-makers.

The fact that these developments are taking place between election cycles underscores another facet to *Vox Populi* risk: disgruntled publics may not be willing to wait years for new elections before they have an opportunity to make their views known. Large-scale, issue-based political movements, rather than organized by civil society, are altering the landscape in EM and DM countries alike.

The global financial crisis – and the fact that globalization has continued despite growing public discontent with many elements of it – has been a key factor in this new, more uncertain and volatile political normal. One by-product has been the emergence of shorter-tenured governments with reduced room for policy manoeuvre and more vulnerable non-elected leaders – especially those delivering slower growth.

Other effects include the risk of state fragmentation and reduced regional and international cohesion. The implications for policy continuity, reform and security policy are largely unknown. For now, greater central bank activism has cushioned the effects through providing liquidity. But how long can this fragile equilibrium endure?

## **The Great Recalibration between Business, Government and Society**

Following decades of economic expansion, the global financial crisis served as a bookend to a post-war period defined by the convergence of macro factors, from decolonization in Africa, the end of the Latin American

dictatorships and Deng Xiaoping's reforms, to the collapse of the Soviet Union and the rise of the Washington Consensus.

The rise of the new global middle class and the emergence of a more universal set of public expectations, accelerated by unprecedented access to technology, have combined to create more influential global public opinion than in decades past. To be sure, socio-political developments, such as the 1960s civil rights and anti-war movements in the United States, the labour and student movements in Europe, and the 1989 pro-democracy protests that ultimately brought down the Soviet Union all had a significant impact on the landscape.

But in an environment less globalized than today, their influence was less impactful beyond the borders of the countries involved. Initial signs suggest leaders and business are scarcely prepared to evaluate and factor in the extent of *Vox Populi* risk, which weighs on investor sentiment, policy-making and future competitiveness. How can policy-makers avoid these risks during an era of lower growth, and how can business better anticipate them?

### **Give the People What They Want?**

Public expectations have continued to rise, even as global growth has slowed. Trust in elites – whether business, political or media – and in institutions has declined, partly in response to the proliferation of information sources and the perceived pre-eminence of individual choice over collective identity in membership-based organizations. Across the developed world, elected leaders are hamstrung by ever-shorter honeymoon periods, roller-coaster public approval ratings, fractious political party systems and austerity budgets.

Unelected leaders too face threats to legitimacy, increased demands for political and social rights, and mass demonstrations – even in cases where they have successfully delivered improved living standards. In this environment, whether illustrated by legislative gridlock or recurring protests, political risk remains almost constant. The result is new political movements, rising populism and elusive solutions for a host of policy issues, including fiscal policy, structural reform and international responses to security threats. In an era of persistent slow growth, we do not see an obvious end to these strains.

The global political environment appears to be in a state of flux in the aftermath of financial crises, with leaders unable to command sufficient political capital to mount change-oriented policies or to address challenges, but without dramatic instances of failure – so far. The politics of credit and debt is zero-sum by definition, pitting the interests of different segments of society against each other, competing for state resources rather than over competing ideology.

Polarization, gridlock and aversion to structural reform are common. In all cases, governments are pressured by outcries of popular discontent and desires for “change”. In this environment, policy-makers remain under pressure, with short political honeymoons. Where elections occur, their outcomes are often fragmented. Traditional political parties have grown increasingly irrelevant during a time of reduced political party identity, and have been joined on the scene by new and alternative movements.

### **Rise of the NEAPs – New, Extreme and Alternative Political Parties**

In the advanced democracies, new, extreme and alternative political parties (NEAPs) have gained significant ground in recent years. The number of European Union parliamentarians representing eurosceptic parties has tripled since 2011 from 225 to over 600. These new movements have won seats in all but six of the 27 EU national parliaments. The largest include Italy's Five Star Movement, Greece's Syriza, Poland's Palikot Movement and Hungary's Jobbik. On the regional level, the Netherlands' Geert Wilders has announced plans to create a bloc that would bring together eurosceptic and anti-immigrant parties after 2014's European Parlia-

ment elections.

Not all of these are specific responses to the post-crisis politics of austerity and conditionality; Poland's Pa-likot Movement, for example, drew together liberal, anticlerical, and anti-establishment opinion at a moment when Poland's centre-right-leaning political party spectrum offered no serious leftist alternatives. Outside Europe but within this category fall the Tea Party movement in the United States and the Japan Restoration Party.

These new movements influence the political debate and reduce governing majorities, resulting in weaker multi-party coalitions, more frequent government collapses and forthcoming elections marked by heightened uncertainty. In the latest surveys from Spain, mainstream political parties (the PP and the PSOE) garner only 45% of the vote, down from 73% at the 2011 election. The biggest benefactors have been separatist parties, highlighting the risk of fragmentation of countries as well as electorates.

In Greece, where Syriza is now the official opposition, the neo-fascist Golden Dawn out-pollled PASOK, the traditional major centre-left party, up until government attempts to ban it. Given all this, it is very difficult to predict today the composition of the next Spanish or Greek governments. The Five Star Movement's rise was the main driver of Italy's hung parliament following the February 2013 election. In Bulgaria's May 2013 elections, 23 seats went to the extreme-right nationalist Attack party, now a persistent presence on the scene there. That election also resulted in a hung parliament.

When considering this phenomenon as it emerges across Europe, a party like the UK Independence Party, which holds only one seat in Parliament, becomes almost an outlier. Its appeal will be tested in the upcoming 2014 European Parliamentary elections and its influence is already apparent in the Conservative Party's vow to hold a referendum on Britain's EU membership.

### ***Vox Populi* Risk and Policy Outcomes**

In advanced economies, crisis recovery requires structural economic reforms, changes to fiscal policy and modifications to the post-war welfare state. On these issues, the middle class now often constitutes an anti-reform element, punishing austerity-budget incumbents in the voting booth. A paper by the British think tank Policy Network noted that the fact that middle classes are in fact the beneficiaries of the prior fiscal order "makes pensions and welfare payments to old cohorts practically untouchable".<sup>1</sup>

In the United States, budget cuts have fallen almost exclusively on the young, with social security and Medicare largely untouched. With governments a major employer of the middle class, public sector reform may constitute a new third-rail of post-crisis politics. As traditional mainstream parties implicate themselves in the reform process, the risk increases that must-win middle class voters reject them and turn increasingly to political alternatives. Demographics further complicate the outlook, with the old able to out-vote the young in most developed market countries for decades to come.

*Vox Populi* discontent is altering the trajectory for foreign policy as well, as Western democracies have struggled to build consensus to address international security threats and global challenges. In the wake of the Iraq War, public opinion has shifted sharply against the use of military force, as both President Barack Obama and Prime Minister David Cameron discovered when they attempted to obtain legislative support to intervene in Syria. Indeed, there were more protests in European capitals in opposition to US military action in Syria than there were to decry the Assad regime's use of chemical weapons.

In the United States, public support for strikes in Syria never approached majority support in the polls, with traditional Democratic Party doves joined by a growing non-interventionist wing among Republicans. The result going forward is reduced likelihood of military intervention and declining international consensus to confront threats, a significant policy shift likely to trigger a range of geopolitical implications.

In emerging markets, rising middle classes have put new demands on government that elites have had difficulty addressing: democratic processes, civil liberties, an end to corruption, even property rights concerns. Indeed, many of these states are young or transitioning democracies, without long track records of responsiveness to public sentiment.

The weak global economic recovery has strained budgets across the world, hamstringing many regimes' ability to provide the same benefits, both to elites and to the populace, that characterized the status quo ex-ante. Some of these governments have longstanding or ageing leaderships, or are in the midst of revolutionary or post-revolutionary scenarios.

The example of large-scale protests in Turkey underscores the potential for *Vox Populi* risk to emerge suddenly and gain strength, even (or perhaps especially) in a country where living standards have been on a decade-long improving trend. In a recent report, the International Labour Organization reported that the risk of social unrest increased in 46 of 71 economies surveyed between 2011 and 2012.<sup>2</sup>

### ***Vox Populi* Risk on the Streets**

In younger democracies, or states where the ballot box is not an option, social unrest becomes the most graphic example of *Vox Populi* risk. In terms of unrest, risk can be captured in the emergence of new social movements, street demonstrations, rebellions and insurgencies, even coups d'état and revolutions. Sociologist Charles Tilly and his colleagues have noted that, rather than being entirely separate phenomena, these events fall along a continuum referred to as "contentious politics".<sup>3</sup>

The nature of mature democracy is to draw contention off the street and into the institutional world of elections, legislatures and the judiciary. But even this fact must give observers pause. The history of the 1960s in the West reminds us that the advanced democracies are not immune to social unrest and political violence. Why should younger states be immune?



In 2012 and 2013, major public protests occurred in Brazil, Bulgaria, Egypt, India, Jordan, Morocco, Pakistan, Romania, the Russian Federation, Slovenia, South Africa and Turkey, just to name a few. Whether the example is fuel hike demonstrations in Indonesia, Bahrain's Pearl Roundabout, or street protests in Bangladesh, the risk of social unrest is on the rise. Even after protest movements culminate in crises or revolutionary transformations, history suggests that they also re-emerge periodically in the subsequent months or even years. Indeed, a history of protests is a key variable suggesting future protests. Likewise with conflict relapse.

When *Vox Populi* risk presents itself on the streets, two key variables help determine the future trajectory. First is the nature of government response. A government's conciliatory posture can lower the risks resulting from social unrest, while a defiant crackdown, especially when the death of protestors is involved, will likely increase them. Compare the paths of Brazil and Turkey. Police response to the Salad Revolution on the streets of Rio swung popular support to the side of the demonstrators and with it the sympathy of the media and government officials. (Indeed many figures in the ruling Workers' Party, including President Dilma Rousseff

herself, are products of 1980s-era protest and guerrilla movements.) Eventually the Brazilian government agreed to roll back the transit fare hikes that sparked the protests and to commit to a dialogue on reform.

In the end, despite brief drops in business and consumer sentiment directly following the protest, the Brazilian economy has continued on its path. Damage may have been done to Rousseff's popularity, however. Her approval rating dropped from a high of 65% in March to 30% following protests in June according to Datafolha. Yet the effect may be temporary, as it has since risen to 36%. Even if Rousseff is the favourite for re-election in 2014, this sharp change in trend has an impact on her political calculus, that of her Workers' Party and of the opposition.<sup>4</sup>

In contrast to Brazil, Prime Minister Recep Tayyip Erdogan's hardline response to the Gezi Park protests set a different tone. There the central government aimed to limit protests with a strong response by the security services. The protests contributed to a currency crisis and increased pressure on the ruling AK Party (AKP). Erdogan's approval ratings dropped from 62% in December to 53% in June according to MetroPoll.<sup>5</sup>

Analysts have suggested that Erdogan's plans for constitutional reform may have been scuttled, as well as his hope of becoming Turkey's first elected president in 2014. Yet despite the scale of the protests, the AKP government largely retains its core support, while the opposition has failed to capitalize upon public dissent, suggesting division rather than political change may be the key outcome. As both Brazil and Turkey head into elections, there is significant potential in both cases that protest activity will return.

### **Only Connect: Can the Spread of Social Media Accelerate the Rise of Flash Mob Democracy?**

The second variable for *Vox Populi* unrest is the rise of social media. Whether in developed economies or emerging markets, advances in social media and communications technology have driven the seeming instantaneous nature of contemporary mass protest. Protests in Egypt, Turkey and Brazil were all organized online, as was the Occupy Wall Street movement.

These episodes of *flash mob democracy* can come into being overnight and place significant pressure on government elites. These tactics have been copied and re-interpreted around the world. But at the same time, Internet-driven protests – while large in number and often spreading around the country in hours or days – lack the societal networks once necessary to focus such popular discontent and convert it into concrete political outcomes.

The absence of a significant role for Turkey's opposition in the Gezi Park protests highlights this increasingly decentralized nature of protest activity. Without the establishment of such networks, the absence of leadership and well-defined policy agendas that were available to agitators who emerged from civil society may see these outbursts of popular discontent fizzle. Even so, its emergence places a strain on leaders whose room for manoeuvre is already, in many cases, highly limited.

While *Vox Populi* risk is global in scope, it is far from universal. In China, local strikes and protests – called “mass incidents” – doubled between 2006 and 2010 to 180,000 nationwide. Yet 85% of Chinese report being satisfied with their country's direction, 70% rate their living standards as higher than they were five years ago, and 67% say their personal economic situation is good – all at or near the top of more than 40 countries surveyed by Pew.<sup>6</sup>

These snapshots of public opinion suggest that, despite China's growth challenges, the risk of a Jasmine Revolution is limited. Nevertheless, Chinese authorities, judging by the crackdown on official corruption, appear mindful of the risk that corruption perceptions can pose to government legitimacy.

What next for *Vox Populi* risk? As long as global deleveraging and economic sluggishness continues, we expect the continuation of volatile public opinion and public pressure on policy-makers, and for these risk

factors to endure even after a modest pickup in growth. The World Bank forecasts global growth at 3.0% for 2014, with growth of 7.3% in Asia marking a slowdown in that region.

<b>Recent Protests in EM Countries Mark Public Discontent, Highlight Common Feature of Longstanding Party Rule</b>					
	<b>Brazil</b>	<b>Indonesia</b>	<b>The Russian Federation</b>	<b>South Africa</b>	<b>Turkey</b>
<b>Outbreak of protest</b>	June 2013	June 2013	December 2011	August 2012	May 2013
<b>Leader</b>	Rousseff	Yudhoyono	Putin	Zuma	Erdogan
<b>Tenure of party in government</b>	10 years	9 years	14 years	19 years	11 years
<b>Party orientation</b>	Social democratic	Centre-right	Conservative	Social democratic	Conservative
<b>Next elections</b>	October 2014	April 2014	December 2016	April-July 2014	March 2014
<b>Catalyst for protests</b>	Transit fare hikes	Fuel price hikes	Democracy activism	Labour disputes in mining sector	Park redevelopment in Istanbul
<b>GDP growth</b>	2.5%, improving	6.1%, stable	2.1%, below last year	2.3%, stable	4.0%, improving
<b>Unemployment</b>	5.5%	5.9%	6.5%	26.5%	9.5%
<b>Inflation</b>	6.2%	8.2%	6.1%	5.5%	7.5%
<b>Personal satisfaction</b>	59%	15%	22%	17%	21%
<b>Business climate (rank of 185)</b>	130	128	112	39	71
<b>Corruption indicator (percentile)</b>	63	29	13	59	61

With such variable economic and governance indicators between countries experiencing unrest over the past two years, it is difficult to establish a key variable in anticipating *Vox Populi* risk. Academic literature supports the notion that economic downturns, inflation and fiscal contractions – typically not merely the presence of one alone, but often the whole group – subject the state to extreme fiscal pressure, and with it increased risk of instability.

Political and socio-economic indicators include longstanding or ageing leadership, the presence of an election year, drops in infant mortality, recent coup activity or unrest, and ongoing instability either at home or in neighbouring states. In other words, instability breeds instability.<sup>7</sup>

States that mitigate or weather unrest tend to have broad-based coalitions from different segments of society engaging with the government, a strong fiscal position to support public expenditure and support from international actors, whether diplomatic, financial or military.<sup>8</sup> States that experience more acute incidence of *Vox Populi* risk tend to exhibit the opposite: deteriorating ties to traditional domestic allies, a weakening fiscal base and/or an erosion of regional or international support.

<b>Notable Elections in 2014</b>		
Belgium	Lebanon	Sweden
Brazil	Nigeria	Thailand
Hungary	Portugal	Turkey
India	Romania	United States
Indonesia	South Africa	European Parliament

Taken together, the key to anticipating *Vox Populi* risk may lie in tracking countries experiencing reversals

in growth, public budget crises, acute demographic shifts and especially long-tenured governments, and those facing election within 18 months. Of the most market-moving mass demonstrations of 2013, Brazil and Turkey, both have long-tenured ruling parties and imminent elections. Certainly the major Arab Spring countries all had longstanding leaders: 12 years in Yemen, 24 years in Tunisia, 30 years in Egypt, and 42 years in Libya, not to mention independent institutions.

In 2014, there will be elections in Belgium, Brazil, Hungary, India, Indonesia, Lebanon, Nigeria, Portugal, Romania, South Africa, Sweden, Thailand, Turkey and the United States, as well as for the European Parliament, among others. Several of these already grapple with *Vox Populi* risk in the streets. Again, history suggests that the re-emergence of protest in the run-up to elections is likely – although a change in leadership may not necessarily be.

Behind these ideas about the new relationship between public opinion on the one hand and uncertainty and instability on the other is a simple fact: uncertainty and instability curb growth and confidence. As more and more governments face intense pressure to be responsive to popular discontent and to produce sustainable economic benefits for the whole society, the *Vox Populi* will remain a force to be reckoned with and an important risk factor for some time to come.

Some suggest that democracy is in decline in the aftermath of the global financial crisis. Yet the public demand for political alternatives, the spike in protest activity and the flexibility, if lack of muscularity, found in the world's democracies refute that point. Demand for democracy, civil rights and liberties shows no signs of slowing, nor do the pressures and opportunities of globalization. It will be the ability of leaders to respond to public concerns while anticipating the shifts in the global system that will largely determine the shape of things to come.

#### Footnotes

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# How the Unconventional Energy Revolution Will Change the World – And How It Won't

Robert Johnston and Elena McGovern

Currently a lot of attention is being given to just how much regional and global energy politics are going to change as a result of the surge in new oil and gas production in North America. Yet while the shifts are profound, they do not boil down to buzzwords such as “energy independence” and claims that the United States can and should care a lot less about the fate of Middle Eastern states.

Similarly, China – the world's largest energy importer – is not going to supplant the United States as the key guarantor of energy and trade flows, as is often touted in the press. Unconventional technology will also not “democratize” energy by enabling all of the states with shale resources to develop them. Indeed, many will try but most will fail at developing any meaningful volumes of unconventional oil and gas resources.

What will happen, however, is that the majority of global hydrocarbons production will remain within the hands of a few key states, although the members of that group will shift over time. Those that see their influence over energy markets wane will be forced to fight for market share where they did not have to before, likely resulting in lower crude sales prices and all of the negative budgetary implications that come with them. There will simultaneously be countries concerned with the security of their energy supplies, while others will worry about the security of demand for their product.

The United States will continue importing crude, albeit from a smaller set of countries primarily from the Western Hemisphere. In practice, this will lead to greater American foreign policy flexibility when dealing with difficult states, as well as increased leverage from exporting increased energy security to its allies through low-priced liquefied natural gas (LNG), and in the future, crude oil.

The economic benefits to the United States will continue to magnify, as the energy revolution not only leads to significant inbound foreign investment and export revenues, but also a knock-on manufacturing renaissance as companies seek to move closer to cheap and reliable feedstock. The United States and Canada will simultaneously see their economies become even more deeply interconnected through increased bilateral energy trade and experience growing competition in global markets for both crude oil and LNG.

## What Does an Energy Revolution Look Like?

The North American unconventional energy revolution is less than a decade old, but growing domestic supply has already reduced US oil imports from 60% of total consumption in 2005 to 40% today. Gas imports have fallen by 27% over that same time period. At its core, the surge of tight oil and shale gas production in the United States and Canada is a technology story, driven by the dramatic improvements in hydraulic fracturing (fracking) and other technologies that are unlocking resources previously inaccessible or too costly to extract.

The growth has been so strong that the US Energy Information Administration (EIA) is now estimating that the United States will surpass the Russian Federation and Saudi Arabia to become the world's top producer of petroleum and natural gas hydrocarbons in 2013. The United States is also on track to be the world's third largest LNG exporter by the end of the decade.

At the moment, the outlook for natural gas production in the United States seems to be largely capped by demand, including how much power sector capacity is making the conversion from coal to gas, how many LNG export projects the government will approve, and how quickly pipelines can be built or existing import pipelines retrofitted to export gas to Mexico and Canada. Interest in natural gas vehicles is also on the rise, with the city transport and long-haul fleet trucking sectors poised for the largest adoption of them in the near term.

In terms of oil, pipeline infrastructure is being rapidly reconfigured to move surging crude production to US and Canadian refineries. Whereas the US pipeline system was originally constructed to bring imported oil from the US Gulf Coast into the country for refining and consumption, considerable effort is now being put into reversing these pipelines so that domestically produced crude can be sent to the Gulf Coast.

In areas where there isn't enough existing pipeline infrastructure to reverse, including from the Bakken in North Dakota, crude is increasingly being taken to refineries by railroads – a huge boon to the rail industry. The Mississippi River continues to see increasing volumes of crude flow south by barge.

And it is still early days in this longer-term unconventional energy story. The International Energy Agency (IEA) currently forecasts North American oil production to account for more than half of the total non-OPEC supply growth between 2012 and 2018. US shale gas production is expected to triple over the same time frame. To be sure, there are sceptics who believe that production risks falling off just as quickly as it ramped up largely due to the geology of shale formations – but this view remains out of consensus with most public and private sector forecasts.

### **The United States Will Not Abandon Its Commitment to Gulf Security (and China Does Not Want the Job, Anyway)**

One of the biggest geopolitical game-changers is the emerging narrative of growing energy self-reliance in the United States. To be sure, the memory of the 1973 Arab oil embargo (which celebrated its 40th anniversary this year) is alive and well, along with the institutions and regulatory environment it created, including the US Strategic Petroleum Reserve, fuel efficiency standards and the enduring ban on exporting crude oil.

Since then, US foreign policy has also been underpinned by the need to maintain secure and stable flows of energy from politically challenging regions, including the Middle East. One need only look at the massive military infrastructure established throughout the Gulf Cooperation Council (GCC) states, including the United Arab Emirates, Qatar and Bahrain, and the longstanding defence cooperation with countries like Jordan (and up until recently, Egypt) to see how that need has manifested itself into a set of critical security relationships.

Yet as American policy-makers' longstanding anxiety over energy scarcity fades away, questions are inevitably arising regarding whether and how the United States should reorient its foreign policy and resource allocation. Indeed, the combination of war weariness and a shrinking dependency on oil imports will make it considerably more difficult to achieve popular support for future military action (as demonstrated by Congressional and public opinion in response to Obama's push for a military response after the Syrian chemical weapons attack in August 2013).

These realities, however, do not reduce the importance of Middle East security to a broader set of key US interests. From the shared interest in containing Iranian influence in the region to counterterrorism objectives to maintaining the free flow of goods through the region and combating cyber attacks, the United States and the GCC have many well-aligned interests. Separately, the US commitment to Israeli security makes it nearly impossible for the United States to substantially back away from the region.

Yet at the same time, Chinese influence in the Middle East is on the rise. The IEA is forecasting that China will import nearly 80% of its oil by 2030, a rising percentage of which will come from the Middle East and North Africa. The same rationale for US initial intervention in the Middle East can therefore be applied to Chinese investments and strategic relationship-building within the region. Yet there have been scant indications that the Chinese are ready to commit militarily to safeguard any regional partners. Rather, the traditionally risk-averse Chinese have kept their relationships primarily economic in nature.

Indeed, the more likely outcome is actually greater foreign policy convergence between the United States and China on issues that threaten the security of global energy trade, including through the Strait of Hormuz and the Suez Canal. To be sure, the Chinese have long been opposed to the Iranian sanctions regime and remain Iran's largest customer for its crude oil.

However, in August 2013 the US and Chinese participated in a joint naval exercise in the Gulf of Aden in order to increase anti-piracy cooperation for only the second time, representing a joint commitment to the free flow of energy and goods throughout the region. In the coming years, greater issues-based cooperation like this will bring the Chinese and the US together in the Middle East, even though other geopolitical issues including the Iranian nuclear challenge may prove too difficult to reconcile barring a meaningful US-Iranian rapprochement or another fundamental policy shift.

## **US LNG Is Super-Charging Competition in Global Gas Markets**

In the next several years, the United States will likely be among the top three largest LNG exporters in terms of volume, behind only Australia and Qatar. Indeed, after a long delay in LNG project approvals in order to study the domestic price impact of exports, the Obama administration has begun approving LNG export projects to send US gas to countries with and without free trade agreements with the United States, recognizing that such exports – and the positive economic benefits that they will bring – are in the US public interest.

Beyond just the additional volumes of gas available to the market, US LNG is transformative because it is going to be priced off of the low-cost Henry Hub natural gas benchmark, rather than the traditional oil indexation schemes that incumbent LNG suppliers rely upon. Therefore the presence of significant volumes of Henry Hub-priced gas is a clear win for gas-importing countries that struggle under the current system where only a handful – or in the case of Europe, only one – supplier exerts a significant amount of control over their gas supply.

As a result, European and Asian LNG importers have already seen their bargaining positions strengthen relative to their traditional gas suppliers, several years before the first US LNG cargo even leaves the Gulf Coast.

For Europe, the presence of Henry Hub-priced LNG is an important counter to the Russian Federation's dominance over the market, which has allowed Gazprom to charge European utilities above competitive rates, while also maintaining monopolistic control over supply. It is therefore of strategic importance for Europe to diversify its gas supply away from almost complete dependence on the Russian Federation. US gas will play an important and intentional role in helping it to do so, as Gazprom will eventually be forced to offer more flexible gas pricing to European consumers as a result of the competitive threat from US LNG. Major Asian LNG importers also stand to benefit significantly from Henry Hub-priced gas.

For key US allies like Japan, access to US LNG is both a question of energy security and economic sustainability. Japanese LNG prices are currently the highest in the world, regularly exceeding US\$ 16, even though their gas demand continues to surge in the aftermath of the Fukushima nuclear disaster. US gas in the US\$ 4-5 range therefore presents a key arbitrage opportunity (the lifespan of which depends both on the trajectory of US gas prices and the response by incumbent suppliers).

US LNG is also becoming an important component of broader trade talks, including the Trans-Pacific Partnership trade agreement that is currently under negotiation. Indeed, free trade access to US LNG is likely to prove an important source of leverage within the negotiations, helping to bolster the American position at the bargaining table on other key trade issues.

## **Security of Supply Meets Security of Demand**

Fracking will not go global. Many countries will try, and most will fail, to replicate the production boom seen in North America due to insufficient policy frameworks, insufficient access to capital and technology, and difficult geology. China has the best opportunity for large-scale unconventional production, but new volumes of hydrocarbons from shale will fail to substantially minimize the role that China plays as a key energy importer.

Instead of a widespread unconventional boom, global energy markets are going to see the majority of production remain concentrated in the hands of a few key producers. What will change, however, is that set of players. First and foremost, the United States will become the only country to join the ranks of the top oil and gas producers globally.

Over the next decade, Saudi Arabia and Iraq will maintain their key positions in the oil market, but the rise of the United States will also reduce the influence that some of the legacy producers hamstrung by internal and external issues will have on supply and pricing, including Venezuela and Iran. Indeed, new winners and losers are emerging from the shakeup in global energy production that could lead to a decline in the market-setting power of OPEC.

The call on OPEC (the amount OPEC producers must produce, as a whole, to balance the market) is predicted to fall through 2015, and then increase only gradually thereafter, largely due to the growth of non-OPEC supplies, including North American volumes. In the near term, Saudi Arabia will likely maintain its role as a “swing producer”, and thus remain critical for maintaining oil price stability.

In the longer term, however, all OPEC members will likely be asked to limit their domestic production to support prices. Yet the amount of burden sharing that can be expected from OPEC members is mixed. Beyond Saudi Arabia, other Persian Gulf Arab countries including Kuwait and the UAE may make commensurate production cuts, but wider compliance by OPEC members is unlikely due to the negative impacts reduced production would have on individual country finances. This is particularly true in countries like Venezuela, where the maintenance of massive social programmes on the back of oil revenues provides the foundation for the current government’s support. As such, OPEC as an institution is likely to weaken in the age of unconventional oil production.

Within the United States, the decline of crude oil imports is making the standard campaign slogan of “energy independence” easier to promise the American public than ever before. Yet realities in the energy market make it such that, rather than the elimination of crude imports altogether, the most likely scenario is that current North American energy production trends will lead to the deepening of a smaller set of energy relationships which, aside from Saudi Arabia, are mostly centred in the Western Hemisphere. This is largely determined by the configuration of the US Gulf Coast refineries which were built specifically to process the types of heavy crudes that come from Latin America and Canada. The unconventional oil that is being produced in the United States is light in quality, and therefore not interchangeable for these imported crudes.

Topping the list of those negatively impacted by the growth of US light tight oil production have been the traditional suppliers to the United States of light oil. The biggest loser in this regard has been Nigeria, and to a lesser extent Algeria, Libya, as well as some producers in the North Sea. These crude exporters have lost one of their most important customers and are being forced to find new markets for their product. Importantly, all suppliers are aiming for the only real growth market for energy – Asia.

Similar dynamics will also affect the aforementioned Latin American heavy crude oil suppliers to the United States, including Mexico, Venezuela and Colombia. Indeed, competition between these suppliers and Canadian heavy oil for market share in the Gulf Coast will drive down the price per barrel that each country might otherwise receive. This will only intensify as additional infrastructure comes online to bring Canadian crude south, including but not limited to the highly-politicized Keystone XL pipeline. These dynamics will result in a growing portion of what would have otherwise been US-bound crude heading also to Asia to compete with other heavy oil suppliers.

Heavy oil suppliers skirmishing for customers will likely lead to significant price competition, again with negative implications for their domestic economic situations. Countries like Venezuela, Nigeria and Libya are particularly vulnerable to these shifts given their dependency on high oil prices to balance their budgets and the fragile nature of their domestic political situations. Therefore, one of the most important shifts of the unconventional energy boom is that energy security will no longer only be viewed as a security of supply issue, but also as a security of demand issue.

# The Dynamics of Disorder: Power Shifts and Geopolitics in the Middle East

Volker Perthes

Since early 2011, when two longstanding Arab rulers were toppled through popular uprisings, the Arab world and the Middle East have entered into what seems to be at least one and more likely two decades of turbulence. None of the region's countries will remain unaffected.

These turbulences may never converge into a perfect regional storm, but rather hit different parts of the region at different moments. They arise from a mixture of domestic and geopolitical contests. On the local levels, we can expect to see continued struggles for power, and shifting alliances between the young demographic majority, the educated middle class and state-bureaucratic elites – as well as between Islamists and non-Islamists and between different schools of politicized Islam.

Two protracted geopolitical conflicts – the Israeli-Palestinian conflict and the struggle for dominance in the Persian Gulf area – remain unresolved and highly explosive. A third flashpoint, the conflict in and over Syria, may actually shake the foundations of the state system in the Arab East. Add to this a renewed ideological struggle over the appropriate domestic order. Today, competition over dominance in the Gulf and in the Levant is enmeshed with competition between different models of political Islam: the Salafi Saudi-Wahhabi model, the more modern approach of the Muslim Brotherhood, the Islamic-democratic model of Turkey's AKP, and the Iranian example of an Islamic Republic.

## External Absence

Remarkably, actors in the Middle East seem more interested today than ever before in drawing extra-regional players, particularly the United States and Europe, into regional power games – certainly to an extent that goes well beyond these players' desire to get involved. Syria is very much a case in point. Not only America and Europe are wary of being dragged into a conflict they cannot control: even the Russian Federation and China seem more interested in blocking and undermining Western designs than in getting involved themselves.

US policy-makers will continue to reiterate America's unwavering commitment to the Middle East, but beneath the rhetoric, US power and engagement in the Middle East has clearly peaked. The shale-gas and non-conventional oil revolution make the United States increasingly independent of energy imports from the region.

Asia poses higher strategic risks but also offers more opportunities of immediate interest to the United States. The Obama administration's decision to pull out from wars in the Middle East rather than engage in new ones may still be accentuated with regard to Syria or other places, but a new regime-change-and-political-engineering engagement like the one in Iraq is difficult to imagine. By supporting European allies in Libya and Mali rather than initiating or leading these missions, Washington has clearly signalled that it wants Europe to take the lead in the latter's North African neighbourhood.

Europe will mainly concentrate on supporting political and economic transformations, but it might indeed step up its security involvement in the Mediterranean region. The United States will in all likelihood remain the ultimate guarantor of Israel's security and also continue to stabilize countries like Egypt and Jordan that have made – and keep – the peace with Israel. Washington will remain concerned with terrorism, the proliferation of weapons of mass destruction, and with Iran as long as it is considered a threat.

But none of this compels the United States to protect the security of Arab monarchies in the Gulf forever. As defence budgets will remain strained and energy supply interests dwindle, Washington will certainly become

less and less willing to spend its money on guaranteeing the free flow of Persian Gulf oil to customers in India or China. It is not so evident that China or India would even want to step into this role in the foreseeable future – regardless of whether or not the United States would appreciate such a burden shift.

The impression alone that the United States will decrease its engagement or even, at some point, pull out from the region, changes the calculations of regional actors. It can be safely assumed that the main geopolitical issues of the region will not be resolved within the next five years or so. At the very best, domestic upheavals, the Israeli-Palestinian conflict, Syria and security issues in the Gulf region can be managed, brought closer to a solution, or contained, but they will certainly remain on the global agenda even by the end of the decade.

With external players less willing and able to manipulate or even just influence developments, regional balances of power will gain importance. In the next part of this chapter, recent power gains and losses among regional states are examined. Then a series of still unanswerable questions about the consequences of possible developments that might or might not occur will be raised.

### **Winners, Losers, Survivors: The Fluid Balance of Hard and Soft Power**

It is no great surprise that the distribution of strengths and weaknesses across the region is highly contingent and the regional power balance is fluid. Some states have won since the beginning of the uprisings in 2010/2011, others have lost, and some are just muddling through. Some of the gains visible today may be of a short-term nature, which could lead to complacency and a failure to translate them into sustainable longer-term strength. More astonishing perhaps is that several players seem to find themselves in a much better position than had been expected after almost three years of turbulence.

Today, Egypt, Iran, Israel, Saudi Arabia and Turkey act as the main shapers of regional inter-state dynamics. One small state – Qatar – has made constant efforts to join that club; one of the former major Arab players – Iraq – still tries to recover from a long civil war rather than playing regional politics; and Syria has become the object and focal point of regional geopolitical dynamics.

Egypt remains in the centre of regional events. Its geographical position, demography and history make it a natural player in regional affairs. Success or failure of its post-Mubarak transformation will not determine – but will influence – the chances of other Arab countries to transform into more pluralistic, inclusive or perhaps even democratic polities.

Despite its weight, though, post-Mubarak Egypt has not yet re-emerged as an active shaper of regional developments. Rather, it has become the scene for the power play of others: primarily Saudi Arabia, the United Arab Emirates, Turkey and Qatar. Economic indicators point downwards and the military is occupied with political engineering and domestic policing. To put it simply, despite its substantial capabilities, Egypt is tied down. The soft power of its 2011 revolution has been spoiled both by the one-year rule of Muhammad Mursi, and by the way it ended.

The regional impact of the coup against Mursi, Egypt's first-ever freely elected president, can hardly be overestimated. Not only did it deal a strong blow to the Egyptian Muslim Brotherhood and its sister parties in other countries, but it also reaffirmed Saudi and Emirati influence in regional affairs, showed the limits of Qatar's and Turkey's clout, and even had a direct bearing on the composition of Syria's opposition leadership.

Turkey, despite various policy setbacks, will continue to play a strong role in the Middle Eastern balance of power. While Turkey's awesome military strength is of rather limited use as an instrument of regional politics, Turkey's soft power is substantial.

Turkey's attractiveness rests primarily on its economic strength and its economic footprint in neighbouring states, as well as on its deep association with the EU and its membership in NATO. Various actors in the region would want to emulate at least parts of the Turkish experience. But being seen as a role model by different players did not, as parts of Turkey's political elite had tended to assume, translate into direct influence in Syria, Iran, Egypt and other countries. Turkey also had to realize that a rupture with Israel might bring applause from some quarters, but would not increase its diplomatic clout.

Turkey seems best served by trying to advance political, economic and security cooperation in the region, but abstaining from whatever could be seen as neo-Ottoman designs. A successful reconciliation and lasting peace with its own Kurdish population would strengthen Turkey's regional position, particularly in combination with its attractiveness as an economically successful and – despite a visible authoritarian streak in its prime minister – democratic country with a moderately Islamist government.

Israel has been worried about the changes in its strategic environment. With the fall of the Mubarak regime in Egypt, it has lost an ally of sorts. Even after the overthrow of the Muslim-Brotherhood-led government in Cairo, Israel remains concerned about the stability of its largest neighbour. Israel's hard power has improved though: its economy has become stronger and it has reduced its dependence on energy imports.

The Palestinian Authority has gained some diplomatic successes, but the Palestinians do not pose an existential security risk for the short-term future. Moreover, the Arab League is disunited, and Iran will be under heavy sanctions unless it begins to compromise on its nuclear programme. Israel's deterrence, while difficult to measure, has certainly increased. Given its continued occupation of Palestinian lands, Israel's soft power in the region is close to zero. In contrast to hard-power balances, however, this is nothing Israel's leaders prioritize.

For Iran, the picture is quite different. While suffering under UN, US and EU sanctions, the country has proven its survivor skills in more than one respect. It has coped with the sanctions and their effects on the national economy, and it has been able to maintain its nuclear programme and a diplomatic process with the "5 plus 1".

Tehran has strengthened its influence in Iraq and has helped keep its Syrian ally in power much longer than was widely expected at the outset of the Syrian conflict. It also seems that any managed transition in Damascus, if it is to happen at all, will need to take Iranian influence into consideration. At the same time, Iran's once considerable soft power among the public in Arab states has given way to a reputation of backing a sectarian, murderous regime. And the increasing confessional polarization of regional politics constitutes a real danger for Tehran: the more regional conflicts are constructed as a Sunni-Shiite confrontation, the more difficult it becomes for Iranian leaders to wield any influence or even be accepted among the Sunni majority of the Arab world.

These risks and challenges will continue to shape the Iranian agenda, but they may be dealt with differently under Iran's new president, Hassan Rohani. Even though the president plays second fiddle to Ayatollah Khamenei in Iran's political hierarchy, each new president has usually opened a distinct era in Iranian politics. Most likely, we will see at least some serious attempts at détente with the West and, regionally, perhaps with Saudi Arabia. If successful, this would not only strengthen Iran's position but would also have an effect on regional dynamics in general.

Saudi Arabia could also be called a survivor. The Kingdom is seized by deep strategic insecurities, but it has once again become one of the poles in the regional field of forces. Its ruling elite is worried about the balance of power in the Gulf, about Iran's nuclear programme and quest for superiority, about the sustainability of the regimes in Bahrain and Jordan, about the force of popular uprisings in the Arab world and about regimes that fail to manage such challenges. The rise of the Muslim Brotherhood and its model of election-based Islamic rule have been seen as a threat to the Kingdom's own ideological fundamentals. Domestically, enormous

socio-political challenges – not so different from the grievances that have fuelled the revolutions in Egypt, Yemen or Syria – as well as a difficult succession process at the top need to be dealt with.

On all these fronts, the Saudi leadership has so far been able to cope, muddling through with limited domestic reforms and flexible regional and international alliances. The Kingdom's main regional efforts have been geared towards stabilizing Arab monarchies (with force if need be as demonstrated in Bahrain), containing or rolling back Iran's reach into the Arab world, and making sure that revolutions and unavoidable change in other countries do not challenge Saudi interests too much. Riyadh has therefore backed a negotiated transfer of power in Yemen. It supports the uprising against the Assad regime, but it would rather see a secular authoritarian or democratic regime emerge in Syria than a Muslim-Brotherhood-led state. And it has clearly underwritten the coup against Egypt's Islamist president Mursi.

Given its resources, Saudi Arabia remains a heavyweight in the region. Its support or lack of support for developments such as the ones in Syria, Egypt or Yemen can be decisive. Despite heavy investments into its security apparatus, however, Saudi Arabia's military power remains limited, and the Kingdom's own security depends on US protection. At the same time, adding to their strategic uneasiness, the Saudi leadership and elite have begun to distrust the United States, fearing that Washington may at some point leave them alone.<sup>9</sup>

This insecurity reached a boiling point in October 2013 when the Saudis declined their seat on the rotating United Nations Security Council, and intelligence chief Prince Bandar bin Sultan announced a “major shift” away from the United States, primarily in response to its disagreeable policies in Iran and Syria. Whether this will eventually lead to domestic structural changes or true structural shifts in Saudi Arabia's regional or international policies remains to be seen.

At the time of writing, Riyadh along with the largely like-minded United Arab Emirates have been able to reassert traditional leadership among the Gulf monarchies, which for a while seemed to be challenged by the very ambitious and more adventurous policies of *Qatar* – a micro-state that has used various means to put itself on the map for over two decades, particularly its pan-Arab TV network Al Jazeera.

In the 2011 to 2013 period, the emirate involved itself directly and vehemently in the conflicts of the region: Qatar supported the Libyan revolution financially, militarily and medially, backed the Mursi government in Egypt as well as the Hamas government in the Gaza Strip, and became the main financier of the Syrian opposition. The Qatari agenda largely overlapped with that of the Muslim Brotherhood. Given its visible and strong involvement, some observers began to portray Qatar as a new regional power; this ignored the fact that Doha was punching far above its weight.

Except for its money, the emirate has no hard power: it is heavily dependent on foreign labour and on US protection, and would be extremely vulnerable without the latter. Its regional agenda also brought it into conflict with Riyadh and Abu Dhabi. In the summer of 2013, Qatar's Emir was succeeded by his son who then replaced the activist prime minister with another family member. This orchestrated change at the helm was largely seen as an attempt to repair relations with the other Gulf monarchies and to fall in line with Saudi Arabia's regional approach.

Two other states in the Arab East, Iraq and Syria, have both at times tried to dominate their respective neighbourhoods. Today, after years of occupation and civil war, Iraq has slowly regained economic strength, but it has not been able to translate the withdrawal of US troops and its retrieval of effective sovereignty into a stronger position in the regional system. Rather, given its apparent inability to establish a viable non-sectarian political system and a workable relationship between Baghdad and the autonomous Kurdish region, the current territorial form of the Iraqi state may actually be at risk.

Syria, after more than two years of civil war, has not only lost its regional power status, it risks being lost entirely. This is so regardless of the balance of forces between the regime and the opposition. While neither the

regime nor the rebels seem able to win militarily, Syrian society is unravelling. At some point, a broad-based government may be established in Damascus and Syrians may form a new social contract, but this will take many years.

The best-case future scenario is a decentralized or federal state; the worst case is the Somalization of the country. Syria is unlikely to re-emerge as a strong, centralized state for decades. Its territorial integrity may well be threatened by secession or fragmentation. Instead of projecting power into neighbouring countries, Syria has become a proxy within which other regional forces can let their geopolitical struggles play out.

In a way, all the socio- and geopolitical factors of turbulence in today's Middle East seem to concentrate here like in a burning glass – popular revolts against corrupt, authoritarian regimes; transnational ethnic and confessional solidarities; minority fears; the polarization between Sunnis and Shiites; political Islam and the question of its compatibility with democratic governance; the conflict over the reach of Iran into the Levant, over Lebanon and, generally, over regional dominance. Syria thereby also stands in the centre of most “What ifs?” of regional politics, a host of intriguing questions that pertain to the future shape of the region. These questions are often unpopular and they cannot be answered today. But they need to be raised if only to increase the risk awareness of regional and international actors.

### **The What-ifs of Middle Eastern Geopolitics**

Not only the geopolitical, but also the political-cultural features of the Middle East will to some extent depend on the dynamics and outcome of the Syrian war. The scenario of a fragmentation or Somalization of the country doesn't need to become the reality, but is not implausible. What if, temporarily at least, an Alawi entity in the coastal region, a Kurdish administration in the North, and various warlord emirates were to emerge? If such a division of Syria on ethnic, confessional and politico-religious grounds were to happen, would this destroy the very idea of multi-ethnic or multi-confessional states in the Middle East? And, as a disintegration of Syria would likely not be containable, would this call the “Sykes-Picot borders” into question that have defined the post-Ottoman Middle Eastern state system?

Today it is already clear that the territorial contours of Lebanon have begun to evaporate under the pressure of the Syrian conflict. A zone of de-facto common Hizbullah and Syrian regime-militia control has emerged between Baalbek and Homs, East and West of the Lebanese-Syrian border. Lebanon's political cohesion is threatened by the spill-over of the war in Syria. Or could Lebanon's weakness for once become its strength if (and this is a big if indeed) local political forces begin to realize that all their respective regional patrons – Syria, Saudi Arabia, Iran – will most likely not be able to sustain and protect them in the long run?

A highly fluid geopolitical situation has to be expected in the Kurdish-majority areas of Iraq and Syria. Since the fall of Saddam Hussein, the Kurdish Regional Government (KRG) in Iraq has effectively invested into its de-facto autonomy. So what if Erbil were to declare formal independence? With its own oil income, acceptable investment conditions and good neighbourly relations (especially with Turkey), such a state could be viable. Would a new Kurdish state attempt to and succeed in extending its power, formally or informally, into the North of Syria, and thereby become a significant regional power player which eventually would be harder to ignore than Baghdad?

Regional acceptability of a Kurdish state would depend, among other things, on the way it seceded from Iraq and on the reach of its territorial ambitions. From a Turkish perspective, a confederation of Syria's North East with the KRG may actually be preferable to either enduring unrest or PKK-rule in the Kurdish belt along the Syrian-Turkish border. In contrast, any attempt by Erbil to establish a Kurdish corridor through to the Mediterranean would certainly meet resistance, not only from Turkey, but also from otherwise warring factions in Syria. To maintain its own territorial integrity, Ankara would at any rate have to continue domestic reform processes that in due course allow Turkey's Kurdish population to enjoy both equal citizenship and their national identity, rather than either the one or the other.

What, however, would Kurdish independence mean for the rest of Iraq? This is not only a question of territory, borders and oil, but also one of domestic balances. A Kurdish exit from the state of Iraq would also remove the Kurds as the third constituent element – besides Shiites and Sunni Arabs – of Iraqi politics. Would this further increase the political-confessional polarization in Baghdad? Would it encourage demands for autonomy in the Sunni-majority provinces bordering Syria, Jordan and Saudi Arabia? Or could it even lead to the emergence of tribal, jihadist or organized-crime emirates in these provinces whose de-facto authorities, given a multitude of transnational ties, would probably pay little respect to the borders with neighbouring countries? Would the border region emerge as a safe haven for jihadist terrorism?

Jordan could be threatened in its very existence. Pressures are rising from the civil war in Syria and its regional spill-over, from unfulfilled domestic reform demands and from the unresolved Israeli-Palestinian conflict. The monarchy doesn't seem to have too many options aside from tying the country as closely as possible to both the United States and Saudi Arabia and trying to re-establish a social contract that offers better governance and a certain amount of welfare in exchange for the silent acceptance of policies that may not always be in line with widely shared ideological convictions. But what if such reforms do not come about? And what if Jordan's fragile domestic balance were threatened by a definite failure of Israeli-Palestinian peace processes?

In a somewhat ironic twist of history, Israel could increasingly be accepted as a Jewish state the more other states and entities in the region define themselves on the basis of religio-ethnic and confessional identities. One precondition for such an acceptance would doubtless be an Israeli-Palestinian agreement on a two-state solution. What if, however, elements from the Israeli Right, who advocate an annexation of the West Bank and the establishment of a Palestinian state on the other bank of the river Jordan, get their way? Would such a scenario only put Jordan's political system at risk, or would it dismantle the Jordanian state altogether?

Developments in the Gulf area are less directly connected to conflict dynamics in the Levant. Saudi Arabia is itself likely to undergo a process of change within the next 10 or 15 years, which may at times become turbulent. Given, among other things, Saudi Arabia's socio-demographic development, its current political and socio-economic structures will not do for the future. It is quite possible that Saudi Arabia will embark on a gradual but steady reform process that broadens participation, allows for more individual freedom and makes the national economy less dependent on oil exports. Partial reforms of this sort have been tried, more or less wholeheartedly, in the smaller Gulf monarchies; if Saudi Arabia were to take the lead on reform, it would likely draw the others along.

But what if Saudi Arabia and the others fail to make their own systems more future-proof? What if, under such a scenario, OPEC countries and the Russian Federation were to enter into a devastating price war under the pressure of unconventional energy exports from the United States, and oil prices were suddenly to fall precipitously?

Saudi oil would still be exported, particularly to Asia, but the Kingdom would likely run into serious budget constraints that could make it extremely difficult to respond to the wishes of a growing, ever more demanding population. Would this lead to protests and uprisings, to a "Saudi Spring" as some would probably call it, and a break-up of the unwritten social contract that so far ties the House of Saud, the religious establishment and society together? Would the armed forces intervene? And whose side would they take?

Could individual provinces such as the oil-rich East with its largely Shiite population or the traditionally more liberal Hijaz seek autonomy or independence? Would warlord or jihadist emirates emerge in parts of the country and would similar events take place in other monarchies? Or could the armed forces, major tribes and the middle class (in whichever combination) depose the ruling family while maintaining a unitary state on a new basis – as a republic perhaps, a military dictatorship or a caliphate?

How would the United States, other main importers of Saudi oil or the neighbours react to any such development? It seems rather unlikely today that Washington would send an expeditionary force to quell a revolution

or a series of revolutions on the Arabian Peninsula. Neither would India, China or Iran. But neither could India and China cope without imports of oil from the Gulf Arab states.<sup>10</sup>

India, in particular, would also find itself under domestic pressure to secure the physical well-being of its diaspora in the Gulf states. The two Asian powers could thus feel impelled to assume a direct security role in the Persian Gulf. What would that involve aside from a strong naval presence? How would they react if oil exports from Saudi Arabia, the Emirates or Kuwait were suddenly disrupted? Would they go as far as to militarily secure oil fields and terminals? Would India and China meet the resistance of Iran, or be able to cooperate with Tehran and other regional and international players in establishing a maritime regime for the Persian Gulf that would guarantee the free flow of oil and other goods?

Would either of them go even farther and effectively become the protector of one or more of today's smaller oil-producing states or any new entity that may emerge, establishing, as it were, a new form of Trucial-State relationships? Would that include a political involvement of resident Indian and South Asian communities in one or several of these states where they might actually form a demographic plurality?

Iran will, at almost any rate, remain an influential player in the Persian Gulf region. The most frequently discussed "What if?" pertains to a possible escalation of the dispute over Iran's nuclear programme: What if Israel or the United States were to attack Iran? Would that lead to the fall of the Islamic regime or, on the contrary, make it more rigid and drive its nuclear programme underground? Would the regional consequences – a destabilization of both Iran and Israel's neighbourhood – possibly be more severe than those for Iran itself?

What if, in contrast, Iran were to develop a military nuclear capability without any prior military confrontation? Would a new balance arise, based on mutual deterrence? Would that reverse Washington's gradual pull-out from the region and keep it more strongly involved? Would it force the Gulf Arab monarchies to build more resilient, inclusive political systems and make more serious efforts towards economic as well as political integration?

As stated above, we should not expect Iran to remain politically stagnant. Iran finds itself under political, demographic and socio-cultural pressures that aren't so different from the ones that account for the uprisings in the Arab world. Iran's 2013 presidential elections have underlined the demands for domestic change. In a very positive scenario, the Arab monarchies in the Gulf would embark on successful reform processes and cooperate with a more open, pragmatic and status-quo oriented Iran in establishing a sustainable regional security architecture that also would involve major international players.

Any such trajectory would only be possible on the basis of a rapprochement between Tehran and Washington. So what if Western powers and Iran were to begin by cooperating on post-2014 Afghanistan and on Syria, if Tehran were to accept limitations on its nuclear programme, and sanctions were lifted? Would Washington eventually, as in pre-revolutionary times, come to rely on Iran as a pillar of regional security? Would that make Tehran the regional power, or would it even enable it to mend fences with its neighbours and act as a catalyst of regional economic integration?

### **Disorder, Transformation, People's Power**

Given the ongoing and largely unpredicted domestic, transnational and regional turbulences that have been shaking the Middle East since the beginning of 2011, it is not astonishing that regional observers have begun to mull over an impending end of the "Sykes-Picot-order". More astonishing is how many of them expect, warn against, or hope for a "new Sykes-Picot", i.e. the establishment of a new regional order in the Middle East by today's great powers.<sup>11</sup>

These expectations are hardly realistic. Rather, Europeans and Americans have learned, and China, the Russian Federation and others have witnessed from Western experiences, that external powers cannot successful-

ly engineer the domestic and regional conditions in the Middle East. Even a Dayton-type conference on Syria or a UN peacekeeping force would likely only come about if local and regional forces strongly demand and support it.

Rather than speculating over the contours of a new Sykes-Picot, the question to ask is what happens if no regional order is re-established for a long time. Would the region be torn by a series of wars and civil wars? Would a few garrison states and islands of political tranquillity be able to co-exist with a number of failed states and warlord emirates? Would, in World Bank lingo, the regional continue to be called MENA (Middle East and North Africa)? Or would the international community increasingly distinguish between a zone of disorder that reaches from the Levant to the Persian Gulf, and a North African zone of transformation stretching from, despite all difficulties, Egypt to Morocco?

The answer, in this author's judgement, depends not solely, but largely on regional actors. International players can help, assist in transformation processes, mediate and even support stabilization efforts. But they cannot and should not try to pick winners in local power conflicts, or organize regional relations.

This brings up a final set of questions about political Islam, revolutions and people's power. For the first two-and-half years after the outbreak of the Arab revolutions, mainstream political Islam, particularly the Muslim Brotherhood and its sister parties, seemed to be the biggest winner among the region's political forces. With the ouster of President Mursi in Egypt, it suddenly seemed to be the biggest loser. Both images, clearly, are snapshots.

Mainstream Islamic currents have a strong social basis across the region that will not simply disappear. At the same time, and in most countries of the region, any attempt to impose an Islamic state will meet the resistance of relevant societal forces. Regimes that already rule in the name of Islam have to meet their own challenges. The question is therefore not whether the Muslim Brotherhood and similar groups will still be present in a couple of years, but rather what they will have learned from both their successes and their failures.

Will a major part of their cadres draw the conclusion that democracy is not for them and revert either to political abstinence or to violent jihad? Or will new reformed parties, closer to the pragmatic-conservative type represented by Turkey's AKP, emerge from within the Egyptian Muslim Brotherhood and similar movements in other Arab countries? Would such parties, if they again win majorities or pluralities, pose a challenge to the monarchies, or would they find ways to co-exist?

More importantly, would they be able to cooperate with their domestic, non-Islamic contenders, establish viable social contracts and pursue inclusive political and economic transformation processes? Would the military gradually be driven out of domestic politics, akin to the trajectories of Chile or Turkey, or would regional states rather follow the path of Pakistan?

As evident from the Egyptian and the Tunisian experiences so far, post-revolutionary electoral victories may be a mixed blessing for political forces whose main experiences come from illegality, jail or exile. Not only are they expected to manage all the socio-economic problems that have caused the downfall of their predecessors, people also expect them to build democratic institutions and do not, at the same time, have much trust in their commitment to democratic rules. Ironically, therefore, they may only be able to prove their credentials and claim success in building a better state when they lose elections for the first time, and accept defeat.

While the ouster of Mursi clearly was a coup, it was indeed supported by an enormous part of the Egyptian people. The interesting lesson here is that a highly mobilized population that has tasted the flavour of people's power by overthrowing the old regimes will likely continue to challenge both elected and non-elected leaders. This in itself will make sure that the regional winds of change will not die down too soon.

## Footnotes

9. See for example, Abdulaziz Sager, "Whither GCC-US Relations?", Gulf Research Center, 29 March 2013 ([http://www.grc.net/?frm\\_action=view\\_newsletter\\_web&sec\\_code=grcanalysis&frm\\_module=contents&show\\_web\\_list\\_link=1&int\\_content\\_id=80613](http://www.grc.net/?frm_action=view_newsletter_web&sec_code=grcanalysis&frm_module=contents&show_web_list_link=1&int_content_id=80613)); N. Janardhan, "Gulf's Future Security Architecture and India", in: Ranjit Gupta, Abu Baker Bagader, Talmiz Ahmad, and N. Janardhan (eds), *India and the Gulf: What Next?*, Gulf Research Centre Cambridge, 2013, pp. 53-73 (61f.).

10. This point is heavily stressed in Gupta et al. (eds), *India and the Gulf: What Next?* (see footnote 9).

11. See for instance Walid Abi Murshid, "Geneve-2 am Sykes-Picot-2" [Geneva II or Sykes-Picot II], *Asharq al-Awsat*, 25 May 2013; "al-sharq al-awsat al-jadid ... min hurub wa-muhakamat al-ru'asa' ila istiqlalat al-umara" [The New Middle East ... from the flight and trial of the presidents to the resignation of the princes], *al-Quds al-Arabi* (online), 28 June 2013, and many similar op-eds.

# **The China Nexus: Convergence and Divergence on the Russian Federation, Energy Infrastructure and the Region Beyond**

Nasim Zehra

On the Asian chessboard, China's evolving relationship with the Russian Federation, the region's other major power, is manifesting itself in the form of increased cooperation through their shared institutions and collaborative diplomatic moves over issues like North Korea and counter-terrorism. It is possible to map China's regional integration through its energy pursuits: China's takeover of the strategically located Pakistani Gwadar seaport – another addition to China's "string of pearls" outposts in the Middle East, Africa and the Indian Ocean – is a potentially game-changing development. The China-Pakistan comprehensive plan to jointly develop a trade and energy corridor will also have a significant impact on China-Russia relations and the broader region.

With China's worldwide trade now at US\$ 3.9 trillion, Beijing's primary focus remains on developing and protecting frameworks and infrastructures for the assured supply of raw materials and energy. That's because China's sustained progress – both politically and economically – relies on its exports continuing to flow out and raw materials and energy continuing to flow in. This is the backdrop for a handful of the most pressing issues for bilateral relations between the Chinese and Central Asia going forward.

## **Shanghai Cooperation Council**

China and the Russian Federation, along with the Central Asian States (CAS), have been actively cooperating when it comes to regional security. Multilateral security cooperation, which began in 1996 with the signing of the Treaty on Deepening Military Trust in Border Regions in Shanghai, is now the Shanghai Cooperation Council (SCO), the lead strategic grouping, which seeks to limit the United States' growing influence in Central Asia and to increase cooperation among the CAS on counter-terrorism.

The SCO started as a Russia-China effort to bring Central Asia under their security rubric and protect it from radical Islam while also preventing possible drift into a US sphere of influence. The Russian Federation and the United States had actively cooperated to denuclearize Kazakhstan and later Ukraine. The Russian Federation kept its military presence on the borders of former Soviet states, especially along the periphery of Central Asian countries, and encouraged action against radical Islamist elements while it was engaged in Chechnya. China has like-minded concerns.

The SCO is highly engaged in resource issues, particularly with regard to Kazakhstan, a geological anomaly in that almost all strategic and rare earth minerals can be found in its territory. Those resources are fully secured by the Russian Federation and the West and to a lesser extent by China and Japan.

On the broader resource issue in Central Asia, there is general convergence between China and the Russian Federation, aided by the fact that China is a huge net importer of oil and gas while the Russian Federation is a colossal producer. They believe in enhanced economic cooperation and in exploiting and sharing resources – which mostly translates into China's friction-free access to oil and natural gas, and a market for the Russian Federation's exports.

China-Russia cooperation is evident well beyond the geographical confines of the SCO, particularly in putting up a united front in response to the West's inclinations that conflict with Chinese and Russian interests. At the UN, they both cooperated to confront the United States on Syria and Iraq. The Russian Federation and China have similar policies on confronting terrorism, especially in their respective majority Muslim states, like Dagestan and Xinjiang.

Any potential fallout from their different relations with significant neighbours like India and North Korea has been minimized – dealings with these two countries have not derailed the China-Russia dynamic. Indo-Russia relations continue to be security-centred while Indo-China relations have pivoted on economic interests. China views India's economic interests as a key factor in encouraging India to remain independent of the United States. A key consequence of enhanced Indo-China economic engagement is that it has helped keep India from becoming a staunch US ally.

In East Asia, Moscow has been accepting of China's lead role to facilitate cooperation between North and South Korea. China, in keeping with its posture of "peaceful rise", opposes confrontational policies within Asia. While China cooperates with the US-led diplomatic initiative to contain fallout from North Korean nuclear weapons, it fears the United States' enhanced presence in the South China Sea and the Pacific Ocean could exacerbate confrontation within the region.

### **Divergence on the United States: China and the Russian Federation**

On the United States, Chinese and Russian policies differ, particularly in emphasis. The Chinese have deeply embraced the United States commercially, incentivizing a peaceful co-existence. From US\$ 95 million in 1972, US-China trade reached US\$ 536 billion in 2012. With China's key focus on a peaceful and prosperous rise predicated on robust economic development, it remains heavily engaged with the United States.

The economic downturn in Europe and the plodding recovery in the United States – China's two main customers – has exposed Chinese exports to increased competition and decreased appetite. China has thus far been unable to sufficiently increase domestic demand, so it will remain deeply dependent on developed markets for sustainable growth for the foreseeable future.

The Moscow-Washington relationship reset is a thing of the past. Medvedev's policy of reaching accommodation with Washington for the quid pro quo of being accepted as a major global player by Washington proved futile. In recent months, the Russian Federation's foreign policy has been driven predominantly by Putin's hyper-nationalism, with Putin's KGB background and the Russia-First policy clashing directly with the United States' Eastern Europe and Human Rights policy approaches. The Russian Federation continues to look at NATO's expansion after 1990 German unification – especially offering unified Germany membership and placing missiles on the Russian Frontier – as the breaking point for a commitment that George H. W. Bush made to Mikhail Gorbachev in the Two Plus Four Treaty earlier that year.

Recently, the US-Russia relationship has eroded further. In response to Putin deciding to harbour Edward Snowden after Snowden triggered the National Security Agency (NSA) surveillance scandal, Obama snubbed Putin by cancelling a scheduled upcoming meeting meant to be attached to the G20 summit in September 2013.

When the Syrian chemical weapons crisis reached a boiling point and rhetoric from the Obama administration had the international community bracing for potential military intervention, Putin publicly positioned himself as the man countering America's "language of force" and urged a "return to the path of civilized diplomatic and political settlement". Putin labelled Obama's American exceptionalist rhetoric as "extremely dangerous" before proceeding to conclude on an egalitarian note, professing: "We are all different, but when we ask for the Lord's blessings, we must not forget that God created us equal."

Hence there is clearly no formal China-Russia framework on how to engage the United States globally; they are willing to link their voices in opposition to US action when their individual interests align, but they fall far short of any comprehensive blueprint for engagement. While Putin appears more focused on seeking opportunities for Russian assertion on the global stage, China's perception of its own well-being is intrinsically linked to an elaborate global network of markets, raw material and energy suppliers.

As a result, maritime security guaranteeing access to global sea-lanes is a must for China. The ongoing disputes with its maritime neighbours in the South China Sea and the East China Sea make for potentially destabilizing unpredictability. Furthermore, the topography of the South China Sea and the East China Sea make China relatively easy to blockade, inducing Chinese insecurity on the maritime front. US naval superiority, including the movement of its ships from the Atlantic to Pacific, only adds to China's geopolitical unease. China has begun operating its ex-Soviet carrier and is building submarines, patrol boats and other warships; in an unprecedented move, it has done so by raising around US\$ 1.4 billion in private capital.

In addition to pursuing this medium- to long-term objective of building its naval strength, Beijing has also developed alternate maritime security strategies, including an arsenal of powerful land-based missiles, the "string of pearls" strategy and diversification of its sea-based trade routes. These ports, presently of economic significance, could later facilitate the presence and expansion of the Chinese Navy in the region. Whether it is more about presence or projection remains an open question.

Having already established access to the Indian Ocean via Colombo and Hambantota in Sri Lanka, Chittagong in Bangladesh and Kyaukpyu in Myanmar, China's latest focus is Gwadar. A fully functional Gwadar port is a prime strategic acquisition for China because it would reduce China's strategic dependency on the Indian Ocean.

## **Gwadar**

The Gwadar port is located close to the two-mile-wide Strait of Hormuz, the only sea passage from the Persian Gulf to the open ocean. Between the Gulf of Oman and the Persian Gulf, with about 16 million barrels of oil moving through it daily, the Strait of Hormuz is one of the world's most strategically important choke points. In 2011, roughly 35% of all seaborne traded oil, or almost 20% of oil traded worldwide, passed through the Strait. More than 85% of these crude oil exports went to Asian markets, making it significant for China. In addition to its proximity to the Strait of Hormuz, Gwadar is also geographically significant for China because it offsets the vulnerability that Beijing's largely Indian Ocean-situated "string of pearls" strategy faces, given India's increasing naval interdiction in the Indian Ocean.

In 2002 on Pakistan's request, China invested US\$ 200 million to develop Gwadar's infrastructure. (Interestingly, in 1973 Pakistan offered Gwadar to the United States as a naval base for its fleet in exchange for developing a major seaport there through direct investment. President Nixon declined the offer.)

This strategic port is now in Chinese hands. This year, after a botched arrangement with the Port of Singapore Authority, Pakistan handed over the management of Gwadar port to a Chinese company. China has been contracted to operate and further develop the port.

China's planned upgrade of Gwadar will allow the port to triple its trade flow; two oil terminals will provide Gwadar with the capability of hosting oil tankers and moving up to 19 million tons of crude oil per year. Crude oil will be refined at Gwadar and sent to China via the planned Gwadar-Kashgar land pipeline.

Gwadar is designed to become a strategic energy hub from whence oil and natural gas from Africa and the Persian Gulf are collected and transported to China. At the moment, the only viable line of communication between the two countries is the Karakorum Highway, the highest paved road in the world.

## **The Pakistan and China Energy Corridor**

The Gwadar port has also served as the strategic peg around which an ambitious and potentially game-changing project is under way: the Pakistan-China Economic Corridor (PCEC).

After two decades of stillborn attempts to develop Gwadar and Pakistan as the gateway to Central Asia, Pakistan now believes in the China track to progress. Clearly, unless there is a hinterland for the port to serve, the port cannot pick up. Fortunately, the Chinese have huge surpluses so they can afford to upgrade and maintain Gwadar.

In July, the two countries' prime ministers signed a Memorandum of Understanding for cooperation on the development of the PCEC. It envisages comprehensive connectivity from Kashgar to Khunjab and Gwadar, through an elaborate network of roads, tunnels, bridges, rail, fibre optic cable and energy pipelines.

For China, the connectivity of this corridor to the Gwadar port would enable it to securely, cheaply and efficiently import oil. Currently, to import oil from the Gulf and the Middle East, China must transport it about 16,000 kilometres to Shanghai – China's only commercial port. Using the Gwadar port would reduce the distance to about 2,500 kilometres and would enable oil transfers to be made year-round; it would cut the travel time for a great deal of oil, raw materials and goods from 15 days to two. The PCEC infrastructure would also connect China's economically underdeveloped western regions, which host 28.8% of China's population, and would hail Gwadar as their closest port of access.

Also planned under the PCEC project is the relocation of Chinese industries in Pakistan's economic zones situated along the main arteries of the Pakistan-China corridor. To remain globally competitive by cutting production costs, China is keen to relocate industry to Pakistan.

Both China and Pakistan have moved with unusual speed on the PCEC initiative. Both countries have constituted a task force, headed in China by the Vice-Chairman of the National Development Reform Commission of China and in Pakistan by the Minister for Planning and Development. China Development Bank has announced the creation of a US\$ 10 billion special fund for investment in Pakistan by Chinese investors. The financing for the infrastructure development will come from Chinese low interest loans; private sector capital from Pakistan will be mobilized. PCEC is estimated to become operational within 10 years.

China is willing to open its purse strings given the strategic importance of Gwadar and PCEC. A direct Kashgar-Gwadar line of communication will present China with a strategic alternative – a valuable redundancy, with a ground-line and sea-line for reaching the Middle East. Along with this project, infrastructural and industrial development of the underdeveloped and politically volatile areas of Southern China, including the Xinxiang province, is a potential next step.

China's strategic need to see these projects through has made it commit to the financing, and offers an increasingly friction-free special relationship with Pakistan. Of course, risks inherent in this elaborate decade-long undertaking exist, primarily related to the security dimension, since major implementation is to take place in China and in Pakistan's politically volatile provinces, Baluchistan and Xinxiang. In Pakistan, terrorism is a far more pervasive and deep-rooted problem than related challenges in China or the Russian Federation; it poses an additional challenge to the project that cannot be ignored and one that the Chinese leadership repeatedly raises with its Pakistani counterpart.

### **Beyond Gwadar: China's "Peaceful" Way**

How peaceful the rise of Chinese power can remain depends directly on how China is able to manage competing territorial and jurisdictional claims in the resource-rich South China Sea. As the United States is a key ally of most states contesting territorial claims, the trajectory of negotiation and settlement of these disputes also depends on the United States.

China's own "cooperate and contain" mode of conflict resolution is evident in the case of India. Over the major territorial dispute of Aksai Chin, the Working Mechanism for Consultation and Coordination on China-India Border Affairs was established, along with a Border Defence Cooperation Agreement. These are

attempts to limit the potential fallout and reach a peaceful resolution to the issue, while China's trade with India continues to grow.

On the more complex issue of the Senkaku Islands, however, China has made no headway. Ties between China and Japan have repeatedly been strained by the territorial row over this group of Islands located in the East China Sea, known as the Senkaku Islands in Japan and the Diaoyu Islands in China. The long-running dispute over their ownership flared into a bitter issue in late 2012 when Tokyo nationalized some of the disputed Islands. China maintains that its position on the Diaoyu Islands dates from ancient times and is "fully proven by history and is legally well-founded".

Certain of China's repeated actions, such as sending its coastguard vessels and fishing boats into Tokyo-controlled waters, are a form of Chinese power-projection. The moves are aimed at challenging Japan's hold and to force it to the negotiating table. Japan also feels hemmed in by other territorial disputes, such as the Kurile Islands conflict with the Russian Federation, and its claim to the East China Sea Islands.

Given the extent of the dispute between China and Japan, it appears the current conflict containment mode is working. Developments, including conditional offers for talks by both sides and consultations on the Free Trade Agreement as part of an East Asian economic and trade framework, are likely to prevent a flare-up. Interestingly, the trade route to peace remains an option on the table.

Launched in November 2012, an agreement to establish a free trade zone between China, Japan and the Republic of Korea is under discussion. The combined economic strength of the three countries amounts to US\$ 14.3 trillion: about 20% of the world's gross product. Their joint import and export volume totals US\$ 5.4 trillion, or 35% of the world total. Given the economic potential, there is strong advocacy from business and media groups to strengthen bilateral trade ties. Trade thus provides an enabling environment for dispute resolution.

While local realities militate towards some settlement, the United States has the potential to exploit regional conflicts and disputes, regardless of its diminished appetite for hard conflict. It has the capacity to move military forces in large numbers to make an impact. Nonetheless, there is significant sentiment in the United States against interceding militarily on behalf of any of the parties in East and South-East Asia.

China itself will have to be careful in pushing its South-East Asian neighbours more snugly into the United States' security blanket. The United States' "pivot" is controversial and less than well defined. The realization pervades, however, that conflict must be avoided as it would only hurt the region and the global economy.

China continues to approach territorial disputes with diplomatic adroitness, simultaneously combining subtle and not-so-subtle power projection with diplomatic overtures and bilateral trade binds.

## **Conclusion**

In Asia, the continent of rising powers and unsettled disputes, a modus vivendi has been established as states work through differences, increase economic cooperation and secure energy sources and trade routes. These localized and regional responses are imperative to the coexistence of multiple major powers, many of which aspire to roles on the world stage. Unsurprisingly, China is emerging as the principal architect of this evolving web of mutually beneficial transactional collaboration and conflict containment.

The potential for conflict in the region is a biting reality, although the scale of economic cooperation and interaction among major powers in various spheres of human activity protects against such an eventuality. The United States and China's increasingly intricate economic engagement insulates the countries from initiating a cold war. The growing role of the SCO and the Russian Federation, and China's ability to consider mutual interests are other reasons for cautious optimism. China's entry into Gwadar is likely to help create a con-

ducive context for building robust global trade; this project and SCO collaboration function as local hedges against potential conflict situations.

Significantly, US President Obama's diplomatic response to the Syrian crisis signals an approach similar to the Chinese conflict resolution technique of giving primacy to diplomacy and soft power to contain conflict and promote solutions.

Poignantly, on the sidelines of the last UN General Assembly, US Secretary of State John Kerry reminded China and its Asian neighbours that dispute settlement requires "respect for international law and unimpeded lawful commerce in the South China Sea". He emphasized: "Your region is home to the world's busiest ports and the most critical sea lanes. So stability where you live matters deeply to prosperity where we live." In essence he explained the United States' commitment "to maritime security, to the freedom of navigation on the seas, and to resolving the disputes with respect to territory and achieving a code of conduct."

With Obama claiming "hard-earned humility" for the United States in global affairs, he acknowledges the dangers of deploying force to achieve global stability and peace. Asia in transition will continue to test the wisdom and capacity of major powers to facilitate this transition peacefully. For now, the signs are hopeful.

# Time for a New Beginning in Sino-US Relations

Wu Xinbo

“A good beginning is half done”, the conventional wisdom says, yet this may not be true of China-US relations judging from Obama’s presidency to date. Although the Obama administration secured a smooth transition from the George W. Bush administration and attached high priority to relations with China during its first year in office, bilateral relations began to take a downward turn over the course of Obama’s first term, leaving a legacy of growing mutual suspicion and rising competition between the two countries, especially in the Asia Pacific region.

In spite of the agreement reached between the two nations to build a “positive, cooperative and comprehensive relationship”, they missed opportunities for more cooperation while mishandling and even misguiding bilateral ties on some points.<sup>1</sup>

The next several years are crucial for Sino-US relations. China is now under new leadership that is more self-confident and more attentive to its public opinion. The further narrowing of the power gap between China and the United States will generate more anxiety in Washington. The competition between the two countries in the Asia Pacific may pick up momentum. At the same time, the world’s two largest economies will be required to coordinate to promote global governance in an era when regional and global challenges are only becoming more complicated.

## Lessons from the Past Four Years

To better manage bilateral relations in the future, both Beijing and Washington should draw lessons from the past four years. As China becomes a hub for regional economic links, it should also play a central role in regional security; therefore, Beijing needs to demonstrate both the willingness and capacity to work with others, including the United States, to effectively deal with security challenges to the region.

Meanwhile, China should also assure others that it can peacefully manage and resolve maritime disputes with some of its neighbours, just as it did over land territorial disputes during the past two decades. For its part, the United States should treat China as an important global partner not just in rhetoric and diplomatic gestures, but also in actions. This requires Washington to adjust some of its long-held practices, such as arms sales to Taiwan, the US President’s meeting with the Dalai Lama, frequent and intrusive air and maritime surveillance on China in its vicinity, etc.

Moreover, US policy-makers should avoid responding to China’s rising power and influence from a zero-sum perspective where it aims to check China’s growing capability and international clout, rather than fostering a mutually beneficial ascent.

The development of Sino-US relations in the past four years also reveal certain risks and challenges that must be overcome by both sides. One is the lack of clear and strong political leadership in both countries and, as a result, bilateral relations have fallen victim to rivalry among various interest groups and bureaucratic institutions and lost direction and momentum. Another is the gap in goals and expectations between the two parties. When one’s efforts and expectations have not been met by the other, a sense of frustration arises, leading to a more negative view of the other.

## Opportunities for a New Beginning

Fortunately, opportunities for improved Sino-US relations exist. China’s new leader, Xi Jinping, who paid a successful visit to the United States in early 2012, feels comfortable in dealing with the United States. He wants “a new type of major power relationship” with the US.<sup>2</sup> As for the US, without the pressure of re-elec-

tion, President Obama can pay greater attention to relations with China in his second term and provide necessary leadership with regard to China policy. Secretary of State John Kerry understands China's growing importance to US interests and global affairs and supports the development of close and cooperative relations with China. From the Chinese perspective, his team appears more credible than "the Clinton-Campbell axis" during Obama's first term.

Both sides have made serious joint efforts to get bilateral relations back on track. In June 2013, Xi and Obama held an informal meeting in Sunnylands, California. This unprecedented arrangement first and foremost reflects both sides' overlapping expectation of better Sino-US ties. In fact, this less formal but more substantive and candid summit meeting established a new type of interaction between the Chinese and American Presidents. Having spent eight hours together in a more relaxed environment, Xi and Obama were able to communicate with each other face to face and understand one another better; this type of casual, scaled down summit is likely to continue.

With the positive tone set by the two leaders for bilateral relations, the 5th Strategic and Economic Dialogue (S&ED) was held in Washington DC one month later, and both countries' new diplomatic and economic teams met to discuss a wide range of issues. In spite of the unanticipated impact of the Snowden episode, the two teams became better acquainted through dialogue and began to build a working relationship. This attests to the significance of political leadership coupled with both sides' more optimistic expectations.

Moreover, the concept of "a new type of major power relationship" put forward by President Xi offers both countries a useful intellectual framework from which bilateral relations should be contemplated and handled. From the Chinese perspective, the core elements of this relationship are "no conflict, no confrontation, mutual respect and win-win cooperation".<sup>3</sup>

Although the full policy implications have yet to be explored, the idea reflects an honest desire on the part of Beijing to avoid the tragedy of major power conflicts brought on by new circumstances emanating from the rapid development of globalization and the deepening interdependence of countries. The US was initially cautious and even dubious about the idea, but President Obama agreed to join efforts with China to advance this goal during the meeting in Sunnylands. This agreement not only sends good signals about both countries' intentions, but helps set a positive tone for internal policy-making on both sides.

### **New Vision and New Thinking**

The forging of a new model of relationship between China and the United States requires both a new vision and new thinking. Without a new vision, both sides may lose direction in steering through an increasingly complex bilateral agenda. From a historical perspective, since Sino-US reconciliation in the early 1970s, bilateral ties have undergone several major changes. President Nixon's visit to China allowed Beijing and Washington to become strategic partners with the aim of checking Soviet expansion.

With the end of the Cold War and the acceleration of globalization, China sought to fully join the international economic architecture and the United States welcomed and facilitated the process. In the early 21st century, due to developments such as China's rapid rise amid growing global challenges and the multipolarization of international politics, Beijing and Washington are destined to become increasingly vital partners to enhance global governance, no matter the hurdles that must be overcome. This new vision of "global partners" provides the backbone to the new model of a major power relationship.

Given its history from World War II to the collapse of the Soviet Union, the United States' perspective is saturated with realist thinking with regard to such issues as the power balance, geopolitics, military alliances and zero-sum games. Washington tends to over-accentuate national security concerns, seeking superior military might and securing hegemony. This thinking and related practices have given rise to Beijing's distrust of Washington. To be sure, the United States is an established power, yet it should not obsolesce by sticking to

outmoded thinking and practices. Rather, it should cast itself as a progressive power embracing the thinking commensurate with the international politics of the 21st century.

China has emerged as a major power in the post-Cold War era, benefitting from economic globalization and international cooperation. The country values such liberal thinking as peaceful development, mutual trust, mutual benefit, equality and coordination.<sup>4</sup> It repudiates forging military blocs and seeking military superiority as obsolete Cold War mentality actions. On the other hand, as a country that suffered at the hands of Western powers and Japan in “the era of humiliation,” China carries a bitter legacy of the past and possesses a weak state mentality.

As a result, Beijing has insisted on strict adherence to the concept of sovereignty and the principle of non-interference in the international affairs of others, which constrains its role in promoting regional and global governance. This has from time to time frustrated Washington when expectations of Beijing’s cooperation were not met. The challenge for China is to expand its ideational power along with its material power, thus allowing it to keep up with the times and play its role as a responsible power.

### **Mission Ahead**

The forging of a major power relationship between China and the United States should start with the expansion of cooperation and the management of differences over a handful of key challenges: the Korean issue, maritime disputes in East Asia, military-to-military ties, economic relations and cybersecurity.

**The Korean issue.** North Korea’s third nuclear test in February 2013 indicated that Pyongyang continues to develop its nuclear capability, and the denuclearization of the Democratic People’s Republic of Korea (DPRK) thus becomes more urgent. However, the ultimate solution to DPRK’s nuclear issue depends on Pyongyang’s policy transformation on two fronts: domestically, from military-first to economy-first and, externally, from a posture of confrontation to one of reconciliation and cooperation.

While external pressure may help prevent Pyongyang from conducting further nuclear tests aimed at enhancing its nuclear capability, the denuclearization will only occur as a result of the above transformation. Evidence suggests that since Kim Jong-un’s accession to power, the DPRK has been shifting its national agenda to economic development and the improvement of the people’s welfare. As a result of mounting international pressure (especially from China) after the DPRK’s third nuclear test, Pyongyang is softening its posture towards the Republic of Korea and the United States.

At the same time, the new President of South Korea, Park Geun-hye, is pushing a process of “trust-building” on the peninsula. Under these circumstances, the opportunity exists for Beijing, Washington and Seoul to work together to facilitate Pyongyang’s policy transformation.

From 2003 to 2008, China hosted the Six-Party Talks (China, the United States, the Russian Federation, Japan, the DPRK and the Republic of Korea) on the DPRK nuclear issue, and yet it failed to prevent Pyongyang from developing its nuclear capability. Why? Because that approach did not effectively address the DPRK’s core security concern. It is time to try an alternative. Instead of restarting the Six-Party Talks aimed at resolving the DPRK nuclear issue, the four parties to the Korean War – China, the United States and two Koreas – should restart the “Four-Party” process that ran from December 1997 to August 1999.<sup>5</sup>

The Four-Party Talks should focus on reducing the tension on the peninsula and replacing the truce treaty signed in 1953 with a formal peace mechanism. Such a mechanism, formally terminating the state of war and renouncing the use of force to solve disputes on the peninsula in the future, would provide Pyongyang with the incentive to adopt a more reconciliatory posture and abandon its nuclear programme. China and the United States have important roles to play in the process, including providing initiatives to restart the Four-Party process and helping to set the agenda, and navigating the negotiations through the turbulent wa-

ter to finally obtain the new peace treaty.<sup>6</sup>

**Maritime disputes.** The flare-up of old disputes over the Diaoyu Islands between China and Japan in the East China Sea and over the Nansha Islands among China, Vietnam, the Philippines, Malaysia and Brunei in the South China Sea have posed challenges to Sino-US relations, and that will only continue. Some of the disputants, such as US allies Japan and the Philippines, expect US support for their positions and have tried to drag the United States deeper into the disagreement. On the other hand, against the background of China's growing sea power and increased naval activities in the western Pacific as well as the Obama administration's rebalance to Asia strategy, the United States may be tempted to make use of these disputes to rein China in.

Yet Washington should understand the limits of its role in these disputes. It cannot get involved as a direct party in the disputes, nor can it support the sovereignty claim of any side, and it does not wish to see a military conflict over these disputed islands. Therefore, the United States should help calm down the situation in the East and South China Sea and facilitate a peaceful solution to the disputes by encouraging mutual restraint, dialogue and creative diplomacy, while discouraging provocative rhetoric and actions as well as the use of force.

Washington should also show care in extending support to the Philippines and Japan as Manila and Tokyo may regard such support as a blank check to adopt a stronger position in these disputes. Moreover, the growth of China's naval power and the expansion of its activities do not mean China is competing with the United States for supremacy in the Pacific; therefore Washington should resist the temptation to turn the East and South China Sea into a battlefield for Sino-US strategic rivalry.

China has successfully solved most of its land border disputes through negotiation and has accumulated rich experiences in this regard. It should have the wisdom and capacity to prevent maritime disputes from becoming hotspots between China and some of its neighbours as well as in the region.

Pertaining to the Nansha Islands, Beijing should further clarify its sovereignty claims over the area with regard to the nine-dash line. It should also conduct more flexible and creative diplomacy; for instance, instead of insisting on dealing with other claimants only bilaterally, Beijing could engage in multilateral efforts to develop agreements and arrangements conducive to the management and solution of the disputes. Even if such a multilateral approach ultimately does not work, it would demonstrate China's willingness to find a peaceful and reasonable solution.

On the Diaoyu Islands dispute, while China needs to assert its claim by maintaining regular boat patrol around the islands, it should help reduce the risk of inadvertent conflict with Japan. Meanwhile, Beijing should work to secure an agreement with Tokyo that either refreezes the disputes, or it should pursue joint-development of the islands and resources in adjacent water.

**Military-to-military ties.** Over the past several years, as Obama's rebalance strategy has given pre-eminence to the security dimension of the US Asia Pacific policy and the Air-Sea Battle Doctrine was formally adopted by the Pentagon, the US military posture in the western Pacific has focused strongly on China. Also, facing defence budgetary constraints, the US military (the navy and air force in particular) is using China as a convenient pretext for securing resources.

On the other hand, as the People's Liberation Army (PLA) pushes forward its modernization drive, dealing with the US military pressure in the western Pacific is a major task, partially reflected in the PLA's pursuit of anti-access and area-denial capabilities. As a result of these developments, growing strategic rivalry in the western Pacific has featured bilateral military relations in recent years. This bodes ill for overall Sino-US relations.

However, although the two militaries are preparing for a worst-case scenario, a major military conflict be-

tween China and the United States is highly unlikely. First, the Taiwan issue – the most likely source of serious military conflict between the two powers – is well under control and relations across the Taiwan Straits are moving in the right direction. Second, economic interdependence between the United States and China is so high that neither side can afford a rupture in bilateral ties. Third, the two sides have the political wisdom to control the negative strategic dynamics and avoid a major conflict. Given this state of affairs, the real challenge is how to secure more positive and cooperative bilateral military relations and reduce factors that give rise to distrust.

In an era when war between major powers is increasingly unlikely, the Chinese and US militaries should devote more resources to providing international public goods, such as protecting sea navigation lanes and offering disaster relief and humanitarian assistance – and rising non-traditional security challenges offer plenty of potential areas of cooperation between them. When the PLA and US army pay more attention to expanding cooperation rather than posturing for a conflict with each other, the mood between the two will surely improve.

On another front, the lasting and frequent military surveillance of China by the United States from both air and sea in China's vicinity stands as an irritant to bilateral military relations. To the Chinese, it is provocative and intolerable. In fact, it not only gives rise to the PLA's suspicion of US strategic intentions towards China, but it also runs the risk of causing unintended incidents between the two militaries in the air or on the sea, as has already occurred.

American political leaders should rethink whether they really need to conduct such intrusive surveillance of China. Also, the insatiable thirst for information about China's military developments should be balanced by a broad consideration of stable strategic relations between the two countries. Washington should exercise self-restraint and curtail such activities in China's adjacent areas – especially as Sino-US military exchanges grow and increase the transparency surrounding China's military development.<sup>7</sup>

**Economic relations.** At a time when both China and the United States are working to promote their economic transformation to secure robust and sustainable growth, cooperation between the world's two largest economies is all the more important. To ensure that economic ties steadily grow and continue to underpin the overall relationship, several aspects should be addressed over the next few years.

In terms of trade, the Chinese have long complained about the discriminatory treatment it receives in US technology export control. Although the Obama administration signalled over the past several years its intention to lessen controls of high-tech exports to China, no real progress has been made so far. Although China is America's third largest export market and also the fastest growing one, it is not treated on par with many of the US's other trading partners, such as India, in high-tech trade.

At the 5th S&ED in Washington in July 2013, the US committed to “give fair treatment to China during its export control reform process and to consider China's concerns seriously by promoting and facilitating bilateral high-tech trade with China of commercial items for civil end uses and civil end users”<sup>8</sup> – but how far and fast the Obama administration will move forward is uncertain.

If Washington can deliver something substantive on this issue in the years to come, it will not only enhance US exports to China and reduce the trade imbalance, but it will also send a positive signal to China regarding America's intentions. China, for its part, should do a better job protecting intellectual property rights; hopefully this will facilitate the adjustment of US policy regarding technology control.

The second area of concern is investment. As Chinese direct investment in the United States grows, so does Beijing's concern over the political and security influence behind the US opposition to Chinese investment, or so-called investment protectionism. This concern is deepened not only by often unreasonable and irrational voices from Capitol Hill, but also by the lack of transparency of the review process of the Committee

on Foreign Investment in the United States (CFIUS). At the 5th S&ED, both sides agreed to start negotiations on a Bilateral Investment Treaty (BIT), which should help address China's concerns.

Yet, this negotiation may take time such that, before the conclusion of the BIT, Washington should do its best to avoid allowing unwarranted security concerns to block Chinese investment. Otherwise the inflow of Chinese direct investment, which is important to US economic growth and job opportunities, could not only be discouraged, but the Chinese could retaliate against US investment in China. As for China, it should overcome local protectionism and the monopoly of state owned enterprises, and improve the environment for foreign direct investment.

The third key area of focus is Sino-US economic interaction in the Asia Pacific. As the United States pushes the Trans-Pacific Partnership (TPP) and China continues to promote East Asian cooperation such as the Regional Comprehensive Economic Partnership (RCEP), it seems the two countries are engaging in geo-economic competition in addition to their geopolitical rivalry in the region.

Given their economic importance to each other as well as to the entire region, it is crucial that China and the United States push for serious economic cooperation in the region even while separately promoting their respective favoured FTA arrangements. The Asia Pacific Economic Cooperation (APEC) forum is the right venue. Fortunately, at the 5th S&ED, China and the United States agreed to "further strengthen coordination and cooperation in the APEC forum, in order to jointly promote economic growth and prosperity in the Asia Pacific region".

As China will host the 2014 APEC Economic Leaders Meeting, both sides have committed to "seek a closer partnership" at the forum so as to promote trade and investment liberalization and facilitation, strengthen regional economic integration and coordination, and carry out capacity building.<sup>9</sup> Should concrete and effective Sino-US cooperation occur along these lines, it would send an encouraging message throughout the Asia Pacific region, which has witnessed the most vibrant economic growth over the past several decades.

**Cybersecurity.** The United States has long accused China of launching cyber attacks against its national security and against commercial targets, although China has repeatedly denied these accusations and itself claims to be a victim of cyber attacks from other countries, among which the United States ranks first. The Snowden revelation suggests that the US NSA conducted many cyber attacks against Chinese targets, confirming Chinese complaints.<sup>10</sup> While neither Beijing nor Washington would openly acknowledge their cyber espionage on each other, the Snowden episode could provide an opportunity to convert a cause for conflict into a basis for dialogue on a more equal footing.

In July 2013, China and the United States held the first meeting of the bilateral Cyber Working Group. The two sides discussed issues of mutual concern and agreed to take practical measures to enhance dialogue on international norms and principles in order to guide action in cyberspace and strengthen the CERT (the Computer Emergency Response Team). With the first meeting described as "candid, in-depth, and constructive", the two sides agreed to hold sustained dialogue on cyber issues.<sup>11</sup>

Given the fact that cyberspace is a new field in which international rules and an international oversight mechanism do not exist, many state and non-state actors have taken advantage of the situation to pursue their respective goals; this not only hurts the national interests of many countries, China and the United States alike, but also undermines the stability of cyberspace – a new but increasingly important global commons in the 21st century. Beijing and Washington should therefore not only exercise self-restraint in their respective cyber activities, but should also help promote the establishment of international rules and oversight mechanisms.

As the rise of China is rapidly changing the power balance between it and the United States, relations between the two countries have entered a decade of major transformation. The evolution of this relationship

will affect not only the two countries, but also the Asia Pacific region and the entire world. While Sino-US ties are largely driven by respective national interests, both countries' leaders also play an important role in shaping the pace and direction of developments.

While both President Xi and President Obama aim to pursue a good relationship, the challenge is whether their visions can be translated into effective actions on both sides. As certain opportunities were lost over the last several years, it is high time to grasp new opportunities and kick off a new beginning.

#### Footnotes

1. In a joint statement released during Obama's visit to China in November 2009, the two countries stated that they "are committed to building a positive, cooperative and comprehensive China-US relationship for the 21st century, and will take concrete actions to steadily build a partnership to address common challenges." "China-US Joint Statement", 17 November 2009, Beijing, <http://www.fmprc.gov.cn/eng/wjb/zjg/bmdyzs/xwlb/t629497.htm>.
2. Xi first put forward this idea when he visited the US in February 2012 as the Chinese Vice-President; in May 2012 during the fourth Strategic and Economic Dialogue held in Beijing, the Chinese further exposed this concept to the US; finally, in June 2013, during their informal meeting in California, Xi fully expounded this concept to Obama.
3. "Exploring the Path of Major-Country Diplomacy With Chinese Characteristics", Remarks by Foreign Minister Wang Yi at the Luncheon of the Second World Peace Forum, 27 June 2013, <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t1053908.shtml>.
4. "China's Peaceful Development", Information Office of the State Council, The People's Republic of China, September 2011, [http://www.gov.cn/english/official/2011-09/06/content\\_1941354.htm](http://www.gov.cn/english/official/2011-09/06/content_1941354.htm).
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6. Wu Xinbo, "Forging Sino-US Partnership in the Twenty-First Century: opportunities and challenges", *Journal of Contemporary China*, Volume 21, Issue 75, 2012, pp. 397-398.
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10. Te-Ping Chen, "Snowden Alleges US Hacking in China", <http://online.wsj.com/article/SB10001424127887324577904578562483284884530.html>; Barton Gellman and Greg Miller, "US spy network's successes, failures and objectives detailed in 'black budget' summary", [http://www.washingtonpost.com/world/national-security/black-budget-summary-details-us-spy-networks-successes-failures-and-objectives/2013/08/29/7e57bb78-10ab-11e3-8cdd-bcdc09410972\\_story.html](http://www.washingtonpost.com/world/national-security/black-budget-summary-details-us-spy-networks-successes-failures-and-objectives/2013/08/29/7e57bb78-10ab-11e3-8cdd-bcdc09410972_story.html).
11. "US-China Strategic and Economic Dialogue Outcomes of the Strategic Track", 12 July 2013, <http://www.state.gov/r/pa/prs/ps/2013/07/211861.htm>.

# The Vulnerability of Elites: Why Leaders Have Their Hands Full at Home

Ian Bremmer

As the dust finally settles after the financial crisis, the health of the global economy and major world powers seems to be normalizing. The United States is finding its economic footing with a return to modest growth. The Eurozone has put existential threats behind it. Across the world, we are witnessing some positive structural trends, like the dramatic drop-off in poverty levels over the past two decades, driven predominantly by emerging market growth, which continues to anchor the global economy.

But, at the same time, potential challenges arise as governments find themselves with less willingness and ability to address challenges beyond their immediate neighbourhoods. The United States is distracted with Washington's dysfunction and sustaining its tepid recovery. Japan is engaged in an Abenomics overhaul. The European Union is preoccupied with the daunting task of restoring competitiveness and returning to economic health.

The key emerging powers must devote their undivided attention to managing that very emergence at home; nations like China have become sufficiently big to scuttle the West's global agenda, but have not yet reached the level of development that would make them willing and able to take on a dramatically larger role internationally.

In such a world, governments are focusing more on their domestic agendas, at the expense of addressing issues of a global nature. This localization of governance will create new risks in and of itself. Leaders of all kinds are becoming more vulnerable to their constituents, generating more reactive and short-term governance.

This growing vulnerability of elites makes effective public and private leadership that much more difficult to sustain. Whether one looks at the dismal approval ratings of the US Congress or the impact that more open flows of information is having on the Chinese ruling elite, it is clear that people are becoming more and more uninspired by their governments. When it comes to unemployment, the widening disparity of wealth or environmental degradation, highly complex or even intractable issues set politicians up for failure in the eyes of their constituents.

Underperformance erodes elites' legitimacy, making it that much harder for them to lead effectively. States captured by corruption or special interests, or that exhibit a lack of transparency, growing disparity of wealth or a perceived indifference to the lives of the citizenry, will increasingly fall victim to this "legitimacy deficit".

Corporate and NGO leaders who act with impropriety can also find the ground shifting beneath their feet, sometimes overnight. Rapid news cycles and social media can allow dissident movements to arise without warning, creating new challenges for those in charge.

In this essay, we will explore many of the unexpected challenges that arise in a localized world with a lack of global leadership. We will look specifically at key emerging markets such as Brazil and Turkey, as well as the United States and China, to demonstrate the wide-ranging impact of the increasing vulnerability of elites and leaders' growing fixation on domestic and local concerns.

## The Challenge

The vulnerability of elites cuts across emerging markets and advanced economies, democracies and authoritarian states, public and private institutions, and a wide array of issues. This is the challenge: as their legitimacy is called into question, political actors struggle to react to instability, crises and opportunities in the most

effective manner. Whether it is the growing disparity of wealth or the evolving flow of information, several factors are facilitating pushback against existing policies and institutions and making governments and some private actors across the globe look increasingly fragile.

First, the Occupy movement may have run out of steam, but the slogan, “We are the 99%”, has put an end to the people’s “peaceful coexistence with inequality”. While the richest have come out on top from the economic crisis, middle classes in the developed world are experiencing reversals in their standard of living.

In many developed and emerging countries, youth unemployment rates are scandalously high. A “lost” generation of young people feel they have no stake in the existing system. And this development is occurring in a world where inequality is visible on a daily basis, both within and between societies.

The lack of economic prospects has eroded people’s trust in and support for their political leaders, whose actions are rarely understood, let alone approved. The result is a “legitimacy deficit” – leaders no longer have a story around which to rally their followers. The few who do fare better than others. We are seeing this trend across countries of vastly different stages of development.

People are less willing to tolerate corruption, crime, cronyism and other forms of inappropriate behaviour by leaders. Most societies lack a clear moral compass in the form of religion, ideology or established values. The media are quick to fill this vacuum with instant moral outrage about the latest scandal – and the news cycle is short-sighted at the expense of longer-term problems that are more pressing.

Consider some of the events that have dominated headlines of late: revelations of phone hacking by News Corp, the resignation of CIA director David Petraeus, the demonstrations that erupted after a gang rape in India or the cover-up of sexual misconduct within the BBC. Among other things, these events show that the spread of the Internet and social media has made it much harder for leaders to engage in damage control. It has given people a tool to hold their leaders to account and, in extremis, to topple them.

Nowadays, even rather innocuous private misdemeanours can end a distinguished political or corporate career overnight. Governments, companies and even large media organizations are ill-equipped to handle the “tyranny of real time”. More than ever, knowledge is power – and more than ever, knowledge has been democratized. Anyone with an Internet connection can access diplomatic cables revealing inconvenient truths about their rulers.

The continuing fallout from the Snowden leaks is the prime example – but it goes far beyond the distracting headlines. Not only can the NSA (or others) spy on elites and world leaders, but the exposure of such practices is exceedingly more likely in a world where technology bestows citizens with new modes of communication and data collection. And, importantly, citizens are more likely to respond to these revelations in a way that impacts policy. Look no further than the bitter, public responses in France and Germany once the extent of NSA surveillance became widely known.

We are witnessing a democratization of more than just technology and information. Expect a rising asymmetrical capacity among non-state actors when it comes to hard power as well. In September, a camera drone – essentially a tiny unmanned helicopter – got within seven feet of German chancellor Angela Merkel during a public meeting and took her photo. It did not garner that much international media attention, but it surely turned heads in terrorist organizations.

Improvements and miniaturization in drone technology have been explosive in the past several years. The United States remains very reluctant to discuss capabilities, use and restrictions; that makes sense so long as it remains in the lead globally on the technology. But, that edge will diminish as the technology becomes exponentially less expensive and more accessible. Increasingly, asymmetrical warfare capacity is not about nuclear weapons or even dirty bombs; it is simpler and less exotic and, therefore, much harder to track. It poses a

quite literal threat to world leaders.

In developed democracies, scandals involving leaders can distract whole nations for weeks on end, while more important business remains undone. Greater transparency may yield many important benefits, but it can also pollute short-term agendas. Growing disenchantment with political leaders may discourage the best and brightest from entering politics in the first place. Instead of imagination, conviction and leadership skills, a blemish-free past is becoming the real entry criteria for Western governments. While a longer-term generational shift could ease this phenomenon, for the foreseeable future, the trend will likely only worsen.

Overall, however, in established democracies, the damage stemming from elite vulnerability is limited by the existence of stable institutions. If a minister, general or even a president is pushed out, there is a well-rehearsed and accepted process for replacing him or her. In less democratic societies, by contrast, public scrutiny may not burden leaders quite so continuously.

But, the risks associated with elite vulnerability are considerably higher. Revelations about elite corruption and double standards can galvanize people into street action and even revolution. From Russia to China, leaders' wealth is increasingly exposed. Public anger at corruption and disparities of wealth also played a clear role in the Arab Spring, and it remains to be seen whether the region's monarchs will remain protected by tradition or end up having no clothes.

In emerging-market countries, the growing ranks of the middle class will increasingly translate into pressure on authorities to deliver everything from goods and services to property rights, freedom of information, political rights and civil liberties. Regimes that are successful in improving living standards and increasing the size of the middle class may subsequently struggle with their aspirations – and the reduced likelihood that they will remain willing to abide by the terms of the previous social contract.

Elites that are not perceived to have earned their status fairly tend to be the most fragile. If a leader in an autocratic society is forced out by public outrage, leadership battles that can destabilize the whole political system are likely to ensue.

To avoid this, vulnerable leaders often search for distractions and scapegoats. Take China, for example, where the leadership may focus on quelling transparency in its dealings at the expense of enacting much-needed governance or reform. External enemies are blown up, potential opponents are crushed and sabres are rattled. Vulnerable elites can be unpredictable. All of this takes place against the backdrop of a world with a lack of global leadership, and a growing focus on issues that are proximate and near term.

## **The New Local**

The threat to elites' legitimacy varies considerably between regions and even neighbours. Myriad local pressure points exist, with the potential for regional spillover. But, as we witnessed in 2008, the financial crisis was the rare exception that garnered a global response: it was an "umbrella" calamity that was sufficiently full of impact and urgent, and equally threatening for enough major countries. This formula allowed for an effective global response (only until the existential nature of the crisis had abated).

Welcome to the "new local" where, short of such a crisis, governments are too shackled by regional concerns and their domestic constituencies to focus on tackling larger-scale global issues that need collective leadership to solve.

Some previously global threats have gone increasingly local. Take Al Qaeda, for example. After more than a decade of the US war on terrorism, the organization's global reach has diminished dramatically. Al Qaeda still exists despite all the efforts to destroy the organization, but it is a fundamentally different threat, aimed at local countries where the organization's capacity is stronger and operations are simpler. There is a shared rev-

olutionary ideology, but it is no longer a coordinated effort against the United States (no matter how the Al Qaeda “leadership” may choose to shape its message). Al Qaeda’s presence in failed states is on the rise; Syria and North Africa are fertile ground, and the organization continues to pose a tremendously serious security risk. But the risk is increasingly localized.

The world today lacks an overarching and accepted model of development and progress. Many people believe that the global financial and economic crisis has discredited market capitalism. Institutions of global governance look weak, and regional ones are slow to take their place. The Lehman Brothers collapse, Abu Ghraib and Afghanistan have all eroded US soft power, and recent headlines are compounding this trend.

With Europe in deep crisis, the idea that there is a “Western” model that should be followed can no longer easily be sold. Many people in Asia, Africa and elsewhere do not think that democracy is a panacea. Perpetually waiting until after the next election to take action does not seem attractive or efficient. Even the Arab Spring was not so much about democracy as about transparency and accountability – ingredients that can be supplied to some extent by stable non-democratic systems.

Globalization itself is no longer the unquestioned unifier that drives global markets, nor is there a clear alternative model. For many leaders around the world, the idea that there could be economic development without the “messy business” of democracy is an appealing one. However, autocratic systems tend to be rigid and therefore likely to crack under pressure. The notion that development and happiness can come from authoritarian state capitalism hinges on little more than China’s year-on-year growth rates and exceptional experience over the past decade. Should China break, an entire world view will likely come to an end.

The deglobalization of risk exacerbates old problems – and ushers in some new ones. Paradoxically, the fact that spillovers are not global can make the outbreak of local conflicts more likely. During the Cold War years, any skirmish between the two Germanys would have escalated to a third world war. This “mutually assured escalation” functioned as a deterrent.

Today, China and Japan know that a tit-for-tat over the Senkaku/Diaoyu Islands can be pushed much further before it precipitates a broader international response. This knowledge might make actors more reckless – and cause more damage. Just look at the drop in Japanese exports in China in the wake of the recent crisis.

In Syria, Assad has discovered that more than 100,000 deaths were insufficient to trigger outside military intervention; the international community’s collective response has been limited to a plan to dismantle Syria’s chemical weapons capabilities. It has implicitly validated Assad’s continued stay in power; he has consolidated and entrenched his position, and no group of outside powers is willing to spearhead an effort to reverse this trend.

### **Brazil and Turkey: Middle Class Creates New Vulnerabilities for Leaders**

A wide selection of leaders in key emerging markets face new vulnerabilities from their citizens; while there are always unique catalysts that trigger unrest, there are some broader lessons that are more universally applicable. The 2013 protests in Turkey were the immediate product of the looming demolition of some sycamore trees in Gezi Park – and a heavy-handed police response to initial protests. In Brazil, it was a nine-cent bus fare hike in São Paulo.

These triggers were simply the straws that broke the camel’s back: they are symptoms of larger, systemic grievances playing out across many key emerging markets. So, what are the larger factors that make even best-in-class emerging markets ripe for unrest?

The protests in countries like Brazil and Turkey do not belong in the same category as the Arab Spring uprisings that began in 2011: it is more apt to classify them as the anger and frustration of newly empowered

middle and lower-middle classes, the same consumers who were the catalysts and beneficiaries of this growth in the first place. In emerging markets, vulnerabilities lead to a more direct threat to political stability than they would in developed markets, which is why these types of protests can strike unexpectedly and magnify rapidly.

Compare such protests to the Occupy Wall Street movement, for example. In a developed country like the United States, the political system is consolidated in a manner that requires fringe movements to go in one of two directions: they can go mainstream or lose steam. In emerging markets like Brazil and Turkey, which have experienced fundamental changes over the last decade, it is increasingly difficult for leaders to answer evolving demands from citizens.

From an economic and development perspective, we have long understood the growing middle class in emerging markets as an empowering force. For corporations, the reason to invest in an emerging market was all of these newly enriched consumers. But with riches come power and rising expectations, and the middle class in Turkey, Brazil and other emerging markets is beginning to make new demands. As the middle class begins to value quality of growth over sheer quantity – and in an environment where even the quantity has diminished – the stage is set for discontent.

What the middle class is demanding is, from a Western standpoint, familiar: accountability, transparency, better social services and quality of life over sheer growth. All of that isn't just understandable, it is inevitable. Despite how it looks, what is happening is a sign of emerging markets' maturation. Even though the protests themselves are about radically different things, all of them are about strengthening the rights of the body politic and airing grievances surrounding governments' inadequate responses to change.

This is how emerging markets become developed ones – democracies have to be shaken before they strengthen. But the period of turmoil is highly unpredictable, and this strengthening is contingent on sound leadership – an increasingly rare commodity. Leaders need to respond to such protests with appropriate, properly paced reforms rather than crackdowns. Even if these countries share growing pains, their specific challenges and their capacity to meet them vary immensely.

How protests take shape – and the correct antidote that leadership can provide – is quite different from one country to another. And not every emerging-market government can successfully use these tensions as an opportunity to better respond to constituents' demands.

In Turkey, protests revolve around hostility towards Prime Minister Erdoğan himself. His authoritarianism has stoked anger – and his heavy-handed response to the protests compounds it. This makes him particularly vulnerable, as the grievances are personal in nature.

In Brazil, protests are not aimed specifically against President Dilma Rousseff. They are the outpouring of citizens' consternation that we have described, aimed at the government more broadly. The billions being spent on World Cup preparations while the basic needs of the middle and lower classes are not provided does not sit well with Brazilians. They want improvements in education, infrastructure and security – and more accountability from elected officials.

So, what can we expect in the future? We'll see many more risks cropping up in emerging markets: Brazil and Turkey are just the beginning. Protests like these are very hard to predict. The things that will make middle classes happy – like better governance, more balanced and effective spending, and reduced corruption levels – are hard to implement politically until the people and, subsequently, foreign investors demand it. And that demand is only the beginning of an arduous process.

## China Case Study: Different Challenges for Elites

China may look like a strong candidate for this type of massive-scale protest that can lead to plummeting approval for leaders. After all, not only is a newly empowered middle class demanding better services and more accountability from government, but growth has also tapered off in recent quarters. At least for the time being, however, China looks better positioned than emerging markets like Brazil and Turkey to avoid this particular form of vulnerability.

Instead, China's elites face new challenges that are more unique to authoritarian regimes; public perception is increasingly important even in countries where there is no voting booth for citizens to express dissatisfaction.

Why does slowing economic growth in China not portend a substantial rise in the likelihood of large-scale protests? For years, pundits and many Chinese government officials thought that, if China's GDP growth rate ever fell below 8%, it would set off an unemployment crisis that would raise the risk of social and political instability in the country. However, in July, China's finance minister was in Washington, where he claimed that the Chinese economy could handle 7% growth – a lower rate than China has experienced in 23 years – or even less.

Unlike many other emerging markets, China views slower growth as a manageable challenge. The government recognizes that a slowdown is necessary to meet its reform and rebalancing goals, and is working to score political points among the population by arguing that it is doing so. Beijing hopes the slowdown can lead to industrial consolidation and less resource consumption, which could slow environmental degradation – which has been a major point of political vulnerability for the government.

Slower growth should also calm the real estate sector, where rising prices have been a major sticking point for urban Chinese. China's new leadership is wagering that progress on these fronts will outweigh any downside risks they will face from job losses potentially rising in the face of slower growth.

There are other economic and social pressures as well. The growing wealth gap between China's rich and poor is staggering. One in 10 Chinese lives on the equivalent of US\$ 1.50 a day or less. Meanwhile, China now has more billionaires than any other country except the United States. On top of this, there is ample corruption, as the line between the public and private sectors is decidedly blurry.

In 2012, of the 70 Chinese firms on the Fortune Global 500 list, 65 were state-owned. There are 83 billionaires in China's parliament (compare that to zero billionaires in the US House of Representatives and Senate). On top of this, pollution and environmental crises are making citizens anxious and outspoken on forums like Weibo, China's closest equivalent of Twitter. China has 16 of the world's 20 cities with the most polluted air.

But, at the helm of an authoritarian regime, China's President Xi Jinping has levers he can pull to assuage public dissatisfaction with corruption and the environment, even if it remains to be seen how much impact those actions will have over the long run. He is eagerly making a show of combating conspicuous consumption among elites that can anger the general public. Xi announced a fight against the “four forms of decadence”, which he defined as formalism, bureaucracy, hedonism and extravagance.

The party leadership may be willing to locate local and mid-level officials that are low-hanging fruit: people they can make a public example of without fundamentally impacting the top of the pyramid. Many of China's wealthiest citizens are in the midst of what can be thought of as a public relations campaign, concealing or curbing ostentatious practices. (China's foreign minister discarded his Audi and began publicly using the same domestic model that Mao used to drive around in.)

Make no mistake – these actions are largely cosmetic. They mitigate public dissent in the short term, but they do not get to the root of the problem. Why is that? China's leaders cannot fundamentally go after the problem

because it goes against their key interests: they are intrinsically tied to the country's private sector.

On environmental reforms, efforts are heading in the right direction – take China's recent legislation on air pollution – but it is a long road to lasting, substantial success, given the role that cheap (but environmentally dirty) coal plays in China's economic growth engine.

Chinese citizens may not have a voice in the ballot box, but they have other means of speaking out against leaders they do not like. A smile – and some expensive watches – spelled the demise of a safety official who fell victim to what has been called China's "human-flesh search engine". In August 2012, a highway accident left 36 people dead. Safety official Yang Dacai was at the scene, and an image of him with a smile on his face quickly went viral as Chinese citizens took issue with the discrepancy between his expression and the tragedy he was on hand to deal with.

The "human-flesh search engine" of Chinese Internet users quickly went to work unearthing photos of Yang at various public functions wearing expensive watches that were well beyond his means as a safety official; he was dubbed "Brother Watch". In September 2013, Yang was sentenced to 14 years in prison for graft, serving as a highly publicized symbol of anti-corruption.

While corruption and the blurring of the private and public sectors are too endemic to the Chinese state capitalist system to be rooted out in the foreseeable future, public opinion can rapidly turn against individual elites seemingly overnight.

There is another factor at play that keeps the ruling party as a whole in places like China relatively insulated from the destabilizing unrest seen in places like Turkey and Brazil (even if individuals can fall victim). China has a consolidated authoritarian regime that is quite capable of dictating policy changes.

On the other end of the spectrum, we see consolidated democracies with institutional structures that curb large-scale protest (think Occupy Wall Street in the US, and its limited lifespan and destabilization of government). It is the countries in the middle with "soft authoritarian" measures that are most at risk of existential shocks.

### **The United States: The Danger of Invulnerable Elites**

In the past year, we have seen high-profile evidence of the United States' waning credibility abroad, from President Obama's vacillation on a potential military strike in Syria and the fallout from the Snowden NSA revelations to the overwhelming dysfunction in Washington (most notably the government shutdown in October). All of this has prompted governments around the world to openly wonder about the extent of US commitment outside its borders.

In the United States today, we are seeing a growing invulnerability of leaders in the House of Representatives that is helping drive much of the dysfunction and lack of long-term policy-making in Washington. Many actors in US politics focus on their own individual constituencies – just like the international community, a "new local" phenomenon is playing out within the United States itself.

In a country this polarized, there are insufficient consequences back at home to impel enough stakeholders to take a different approach to policy-making and governance. As a point of reference, in 1995 to 1996 (the last time we witnessed a government shutdown in the United States), more than one-third of Congressional Republicans hailed from districts that had voted for Bill Clinton in the previous presidential election. Today, the districts of just 7% of Congressional Republicans voted for Obama last year.

There are a few main drivers of this growing polarization. A fragmented media landscape is a contributing

factor. On television, many news stations are havens for groupthink that is organized along party lines. Social media is skyrocketing as a primary news outlet, particularly among younger Americans. On social networks like Facebook and Twitter, users build out customized newsfeeds of like-minded friends and journalists, cloistering themselves from viewpoints that challenge their preconceived notions.

Media is cleaving into smaller and smaller demographics. There has also been severe gerrymandering, overlaying institutionalized divergence where it did not naturally exist. The redrawing of House districts has allowed Republicans and Democrats to hone their message for increasingly homogeneous constituencies.

Congress finds itself with record-low approval ratings, but most individual congressmen are insulated from this bitter sentiment and do not feel the vulnerabilities that traditionally come hand-in-hand with public frustration. Thus, many politicians can engage in nationally unpopular undertakings without any danger of losing their jobs, because their actions play well with the people holding them accountable back at home.

The reason that a lack of leadership and a “new local” have arrived in the US is because the consequences for individual actors are low, even if the collective stakes are high. In a wealthy nation like the United States, fiscal issues such as budgets and debt ceilings have insufficient urgency, at least until the deadline approaches (and in some cases, passes by without a deal!). Only then does public opinion severely shift. Otherwise there is a hyper-local mentality of “every constituency for itself”. That is the gap that widens the vacuum of leadership, at home and abroad.

With this backdrop in mind, it is important to remember how the United States is simply not prioritizing foreign policy, as Washington remains distracted with issues at home, and citizens do not have the stomach for international engagement.

In the 2012 election, just 5% of voters ranked foreign policy as their top priority. In this context, Barack Obama’s recent comments at the United Nations about the dangers of “a vacuum of leadership” ring all too true. The result is a “new local” with elites fixated on new or growing vulnerabilities and subglobal challenges. As governance goes local, what falls by the wayside internationally? What can governments and corporations do to navigate through this environment?

At a minimum, at least many of the shortcomings of international leadership are clearly signposted for all to see, and governments, multinational corporations and large organizations can adapt accordingly. In the world of the “new local” where increasingly vulnerable political elites have their hands full with issues in their own neighbourhoods, we won’t see resolution on big-ticket items like climate change, revamped trade built on the tenets of globalization, or a broad approach to curbing nuclear proliferation. Where leaders can diagnose this new reality, they can learn to adapt to it.

In the “new local”, finding more localized fixes to problems will prove the way forward. Political elites cannot let the perfect be the enemy of the good – partial solutions are still progress, and incremental steps are still steps in the right direction.

*(This piece is Ian Bremmer’s update and reworking of the Global Agenda Council on Geopolitical Risk’s 2013 report)*

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## **About the Network on the Global Agenda**

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