

Center for Security Studies

# STRATEGIC TRENDS 2011

Key Developments in Global Affairs



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Roland Popp





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# Acknowledgments

*Strategic Trends* is an annual publication of the Center for Security Studies (CSS), ETH Zurich. It offers a concise analysis of major developments in world affairs, with a primary focus on international security. Providing succinct interpretations of key trends rather than a comprehensive survey of events, *Strategic Trends* targets a broad audience ranging from analysts to policy-makers, the media, academics, and the interested public.

*Strategic Trends 2011* is the second issue of the *Strategic Trends* series. It contains a brief overview as well as chapters on global power shifts and fractured geopolitics, changing regional dynamics in the Middle East, terrorism and counterterrorism ten years after 9/11, and narcotics as a growing security concern.

This publication series is available for download on the *Strategic Trends Analysis* website ([www.sta.ethz.ch](http://www.sta.ethz.ch)). Run by the CSS, this website also features the policy brief series *CSS Analysis in Security Policy*, as well as CSS graphics, audio and video podcasts, and media contributions. An electronic newsletter will be sent to inform subscribers about new publications.

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Zurich, 7 March 2011

**Andreas Wenger**  
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**Victor Mauer**  
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# Strategic Trends 2011: Overview

DIVERGENCE IS A KEY THEME IN OUR STRATEGIC ASSESSMENT OF THE WORLD IN 2011. With profound global and regional power shifts underway, a new multipolar international order is gradually emerging that is marked by diversity, a lack of leadership, and potentially growing instability. Managing change and finding solutions to common problems will not become any easier under such conditions.

The accelerated redistribution of global power towards Asia and changing regional dynamics in Europe and, in particular, the Middle East are defining features of 2011. Weak states and transnational threats such as jihadist terrorism and the increase in drug-related violence continue to require attention. But ‘asymmetric challenges’ are only one part of the jigsaw. As a growing number of non-Western states are gaining relative geo-economic weight, geopolitics takes centre stage again – in an international system that is increasingly complex and fragmented.

## *A new world emerging*

The most obvious divergence concerns the economic performance of

emerging and Western countries. Emerging markets have suffered less and recovered faster from the global financial and economic crisis. China is now pivotal to the global economy; whether it should still be called ‘emerging’ is a point of contention. Beijing’s commodity and trade links to non-OECD economies not only have a geoeconomic impact, but political bite. Emerging markets are no longer fully dependent on Western demand: They now have a range of options for increasing their economic and political stakes between East and West.

In contrast, the US and the EU are struggling with severe economic weakness. The US stimulus package has succeeded in preventing a long-lasting recession for now, but Washington is confronted with mounting national debt, massive budget deficits, and limited growth with few new jobs. In Europe, several countries face grave sovereign debt crises. Public-sector austerity measures are now a hallmark across the continent, with debt restructuring still a likely scenario for some countries.



As divergent economic fortunes are gradually translating into a geopolitically fragmented world, finding common ground on global challenges and the resolution of regional conflicts will become ever more difficult. The US increasingly lacks the resources and political will to unilaterally provide global stability, yet China and other rising powers are reluctant to step in. Domestic development remains their priority, which partly explains why currency and trade disputes are heating up and why collective action through the G2 (US and China), or indeed the broader G20, is not really taking off. Little progress can be expected on non-proliferation, climate change, energy, or indeed regional disputes.

#### *Europe in crisis*

Divergence is also visible at the regional level. In Europe, it manifests itself as an economic gap between a solvent core and the heavily indebted periphery. But it also applies to different political preferences as to how to resolve the debt crisis – the root problem being undercapitalised banks as much as a lack of political tenacity. Due to its economic strength, Germany's power within the EU has increased. Berlin is in the driver's seat as to how monetary union will play out, and although the euro is unlikely to be dropped, the terms

and conditions attached to financial guarantees have met with criticism from many.

Whereas EU member states have displayed solidarity as far as short-term help for highly-indebted countries is concerned, political tensions are rising in Brussels now that strategic decisions need to be taken. The outcome remains unclear. Neither regional fragmentation nor a deepening of the integration process towards a fiscal union nor, indeed, a broader multi-speed Europe can entirely be ruled out. But one thing is obvious: Europe's preoccupation with internal crisis management will hinder it from playing a major global role in the years to come. Despite the institutional improvements of the Lisbon Treaty, Europe's political efficacy will mean little in the greater scheme of things.

#### *Changing dynamics in the Middle East*

In the Middle East, the popular upheavals that surprised the world in early 2011 mirror a major divergence between rulers and ruled across large parts of the region. These domestically-driven secular revolts also underline the declining influence of the US as the regional hegemon of past decades. With US leadership waning and the Arab core long weakened, major power shifts are underway in



the Middle East. As Iran and, above all, Turkey are playing increasingly important roles, there is a rise of the non-Arab periphery, which also includes Israel as the dominant regional military power.

The future of the Arab states is ever more uncertain in light of the mass protests. The most vulnerable authoritarian Arab regimes may well be the old Arab Nationalist republics, mostly situated in North Africa, while the majority of the Gulf monarchies will likely be able to weather this storm. The geopolitical divergence between the Gulf and the western parts of the Middle East may grow as the oil-rich monarchies look increasingly to the energy-hungry rising powers in Asia, while fledging pluralist regimes in the Levant and North Africa can be expected to intensify cooperation with Europe.

The US is bound to stay involved in the Middle East to safeguard its energy interests, protect Israel, and manage non-proliferation, terrorism, and other security challenges. However, with both its dependence on Middle Eastern oil and the threat of jihadist terrorism decreasing, Washington may eventually shift its strategic focus beyond Afghanistan and Pakistan towards the Far East, where Sino-American competition for influence is becoming ever more apparent.

### *Terrorism as a manageable risk*

A diminishing US footprint in the Middle East and the fall of some of the authoritarian regimes there might also lessen the appeal of the jihadist ideology and reduce the scope of Islamist extremist violence. Such a development would reinforce the view put forward in this issue of *Strategic Trends* that jihadist terrorism should be perceived as a manageable risk rather than an existential threat to Western security. The core organisation of al-Qaida is severely weakened. Most of its affiliates in the Middle East and Africa as well as the large majority of other Islamist extremist organisations pursue predominantly local agendas. Al-Qaida's ideology of global jihad is being marginalised in Islamist discourse today. Largely as a result of al-Qaida's indiscriminate killings of fellow Muslims, Osama Bin Laden and his followers have lost much support.

Jihadist terrorism will not go away, and homegrown jihadists with ties to established terrorist organisations remain a particular concern for both Europe and the US. However, with some lessons learnt, counterterrorism works to the extent that the probability of mass-casualty attacks on Western homelands has significantly lowered. Although fighting terrorism will continue to be a cost-intensive strug-



gle, it should no longer be overemphasised at the expense of other challenges.

*Weak states and international security:  
Narcotics as a case in point*

How to deal with weak states remains an open question, given the current crisis of many international state-building missions. Threats relating to under-governed spaces continue to affect Western security negatively and need to be addressed. Whereas terrorism has received much attention as a threat linked to weak states ever since 9/11, narcotics are now rapidly becoming an international security concern too.

The global narcotics trade ought to be taken into account as an increasingly important source of political violence. The drug-financed Taliban insurgency in Afghanistan and the rise of drug-

related violence in Mexico are examples. Efforts to combat the problem aggressively in either source or transit countries for drugs have only worsened the problem. Meanwhile, terrorists are showing signs of cooperation with drug traffickers due to a convergence of interests and methods.

Unless the narcotics-insecurity cycle is met with greater counternarcotics coordination, it may spread ever further. The US as the leading counternarcotics actor has, however, not succeeded in forging an effective multilateral approach, with other states either disapproving of US policy or being complacent about the problem. As with many other issues, a joint response will not become any easier as more powers with divergent interests and views now have a seat at the global table. ●

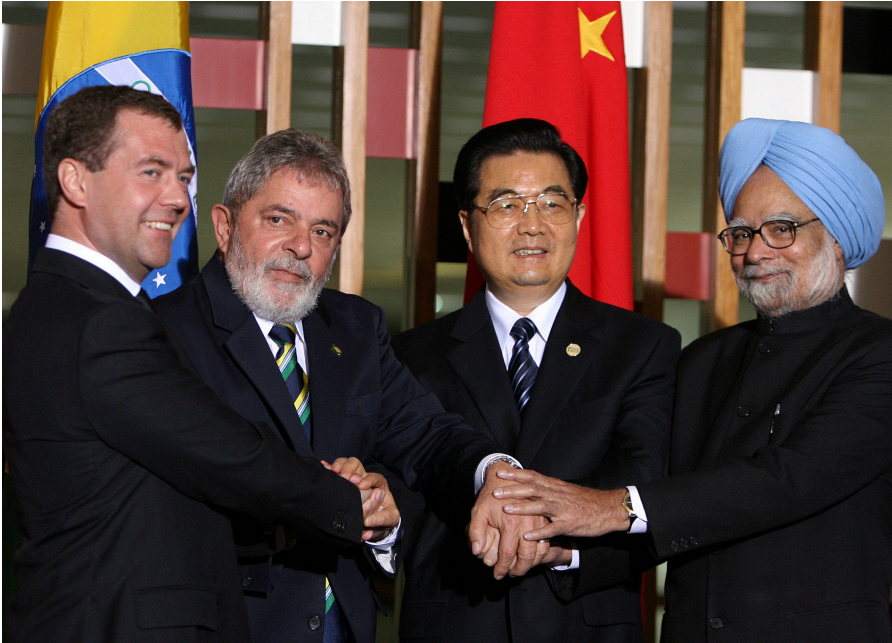


## CHAPTER 1

# Power shifts: Emerging markets emerged, geopolitics fractured

*Matthew Hulbert*

Emerging markets have recovered from the economic crisis far better than the West. As geoeconomic power is shifting East, it is questionable whether China should still be coined as 'emerging'. Yet it is not just on the geoeconomic level that emerging markets matter, but in the geopolitical realm. A debt-ridden US will stagger on, Europe will falter, new powers will rise on Beijing's commodity back. No common rule book will be found, and no cohesive blocs formed either way. Entropy will become the defining feature of a fractured international system.



Russia's President Medvedev, Brazil's (former) President Lula da Silva, China's President Hu and India's Prime Minister Singh in Brasilia, 16 April 2010



THE WORLD HAS BECOME USED TO LAZY ASSUMPTIONS WHEN IT COMES TO THINKING ABOUT EMERGING MARKETS: THAT IS IRONIC, GIVEN THAT THEY HAVE BEEN THE MAIN 'HEADLINE' ACT OF 2010/11. Faraway lands displaying rapid economic growth, favourable demographics, productivity growth, and burgeoning human capital are more or less the common criteria employed. That is before we get onto the acronyms used to 'group' emerging markets according to market potential and size. BRIC is the one that has really stuck (Brazil, Russia, India, China) after the 'Asia Tigers' lost their collective roar in the late 1990s. Others have been floated since, 'CIVET', 'N11', 'MIKT' and 'VISTA' are amongst some of those en vogue right now; more will no doubt follow.

Taken on their own, such acronyms mean absolutely nothing. They invariably do not even make compelling economic sense. But *collectively*, they underline a profound shift in the global economic balance of power, a shift that has been dramatically accelerated by the events of 2010. Goeconomic power has gravitated so far East that whether we should still term China as 'emerging' is highly debatable. Yet the real catch for 2010/11 is not so much that these markets have economically 'emerged', but that they are now cutting their geopolitical teeth as a result.

This is where the fresh thinking on emerging states must come into play: They are no longer just engines of economic growth, but catalysts of geopolitical movement. This trend will become glaringly apparent when capital accounts are made to 'pay'. As the US has long known, and the EU is viscusly finding out, debtors always needed financiers, and it is ultimately Asian creditors that will start calling the goeconomic and geopolitical shots. The clock simply cannot be turned back. The financial crisis has accelerated the long-term trend of Europe's relative decline; America is hanging on for all its worth, the 'rest' will continue to rise, with China at the helm. The 'rules of engagement' are however far from fully set.

Such tectonic shifts are already playing out at the highest level of international relations: the G2 of the US and China. What makes the G2 particularly interesting is not just that it constitutes the pinnacle of global affairs, but that other emerging markets are starting to wield more regional political clout thanks to relative US decline and a rising Middle Kingdom. Smarter states are even starting to position themselves between the US and China to optimise political gains – a dynamic that will likely persist given the need for 'third party' counselling in any dysfunctional marriage.



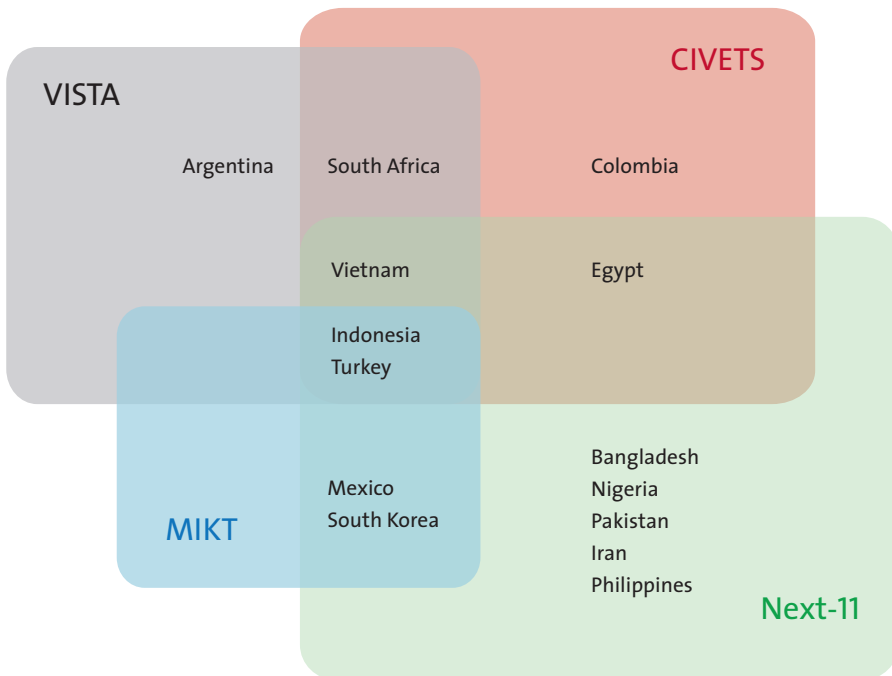
Beijing and Washington are certainly no exception to this rule. G2 matrimony is real, but it is not working out well, and that is despite having the veiled polygamy of the G20 to 'work through'.

Africa, Central Asia, the Middle East, and even Latin America are playing this 'Chimerica' game. They know US power is on the wane; they also know that their economic 'demand security' (hydrocarbon or otherwise) will increasingly emanate from Asian shores. Gulf states are more acutely aware of this than anyone; political arbitrage

with Sino-US energy interests is the order of the day for those structurally dependent on hydrocarbons. Commodities are 'geopolitical kings', for now at least. Meanwhile, the likes of Turkey and Iran are forging increasingly independent political roles from US, European, or Chinese interests.

India and Brazil also have their own foreign-policy preferences and goals. They sided with China on global climate talks, but continue to hedge their bets on currency questions. And even on critical security issues such as Iranian sanctions, the US has found

### Emerging markets: Beyond BRICs





European support a little shaky at the UN and outright obstructive from Ankara and Brasilia. Russia is claiming regional leadership once more, a boast that few Europeans can refute in the Caucasus or Eastern Europe, while Venezuela, South Africa, and Nigeria have been carving out distinctive regional niches. This might not all sound like much yet, but it is a clear indication of what we can expect in a fractured geopolitical global configuration: divergence and entropy. The West can no longer carry the weight, and emerging markets have some way to go before they fill the geopolitical vacuum. Geopolitics will be an increasingly messy business as a result.

Bracing all emerging markets in the same political bracket does not really work at this stage. Stark differentiation is still needed, not only between China and the rest of the BRICs, but the BRICs and other emerging players all riding the Chinese dragon. It is also by no means 'guaranteed' that emerging markets will be able to overcome deep-seated capacity constraints any time soon – China included. MENA turmoil has been a very loud wake-up call for anyone assuming that emerging markets are already politically home and dry. But what it also starkly illustrates is that the West, and most notably the US, can no longer singularly keep pulling all the geo-economic

and geopolitical strings. The world has changed, and it is changed for good.

### **Economics, stupid: The West weakened**

If we start with Western downside risks, it is clear that the roots of the problem are economic. Or more precisely, debt. Over the pond, the IMF thinks that US federal debt could well be equal to total GDP by as early as 2015, which marks a rapid expansion of federal balance sheets from a decade ago; debt was a far more slender 35 per cent of GDP. Macroeconomic mismanagement undoubtedly played a major role throughout the Bush Jnr years, but it is the financial crisis of 2008/9 that really inflicted the pain. Massive demand-side intervention helped to stave off the worst of the depression through unprecedented liquidity support and lax monetary policies. But the gap between spending and revenue is now huge; the US debt-to-revenue ratio is 358 per cent, according to Morgan Stanley, while the deficit hit a mammoth US\$ 1.6 tr in 2009, and is set to rise to US\$ 1.645 tr this year.

US\$ 600 bn worth of 'Quantitative Easing II' obviously has not helped, but it is the trajectory of US debt that is most scary. In the coming decade, it is entirely feasible that US federal debt



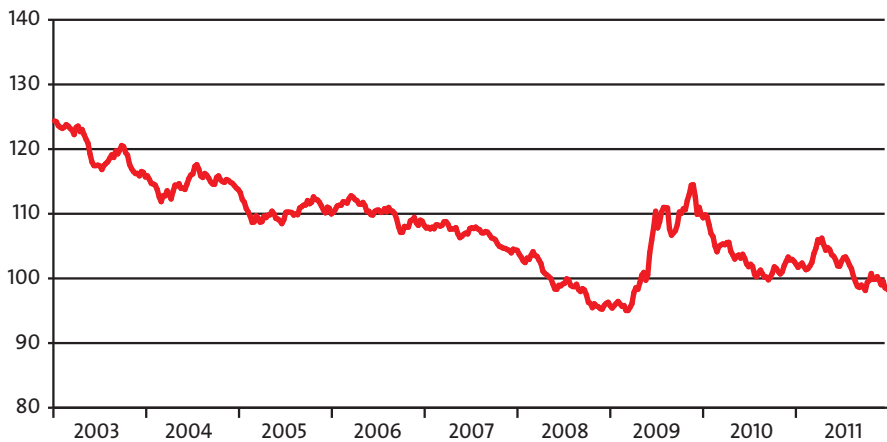
will increase by nearly 250 per cent from US\$7.500 bn to US\$20.000 bn – a scenario that would see the Treasury borrowing around US\$5.000 bn per year to refinance maturing debt and raise new money. Interest payments on that kind of borrowing would exceed all domestic discretionary spending; forget QE2, it is more like the Titanic. Once you bring in private-sector debt and municipal balance sheets into the equation guaranteed by the US tax payer, things look even worse – extrapolate that towards 2035 and you get a figure closer to 200 per cent of GDP.

### *US Titanic*

Cutting the budget deficit by US\$1.100 bn over the next decade

is therefore hardly going to tackle America's long-term debt problem. The Obama administration will be lucky to even make these reductions stick into 2012. Congress is divided, counter-cyclical measures will still be needed to prop up the recovery – and despite endless analysis that the US intends to cut defence spending, America remains remarkably bullish on military expenditure. Washington spent 50 per cent more on defence last year than at any point of the Cold War, and the Department of Defense has still tabled a US\$553 bn invoice for this year – a US\$4 bn uptick from 2010. The 'security risk' for Washington is therefore not military, but fiscal. Geoeconomic power is what matters now.

### **A weakening dollar**



Source: Federal Reserve 2011

— US\$ trade weighted exchange index: broad



While it is by no means impossible that the US will manage to combine growth with economic prudence, the signs look ominous, not least because appetite for US treasuries remains ironically strong. Dollar interest rates are pretty low, ten-year yields are healthy, and the greenback remains relatively steady as the world's reserve currency. But the chances that this state of affairs will persist are at best hopeful. Underlying conditions are unsound, and pricing is out of sync with fundamentals. When capital markets eventually call time on US debt (and they will, given the leverage we are talking about), the adjustment will be rapid and the pain severe. Whether this is born out of currency markets spilling into bond markets or vice versa does not really matter; the same question will one day be put on the table: US default?

#### *Eurozone crisis*

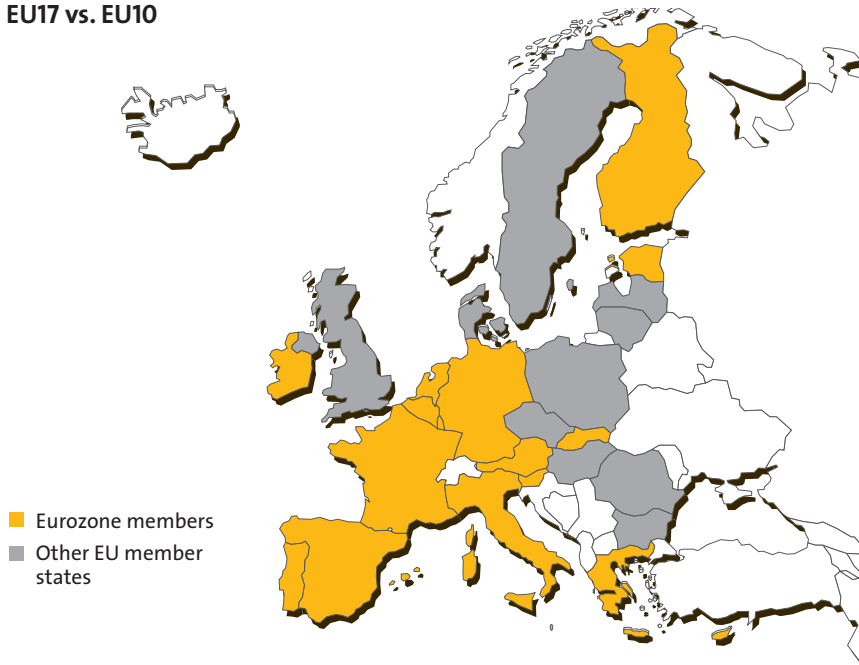
One of the main factors adding to US bond market hallucinations right now is not just trade-driven support for the dollar from abroad or low levels of investment demand, but capital flows driven by eurozone instability. If the US debt position is shaky, then the euro has been positively disastrous. Contagion from the Greek and Irish crises has spread to Portugal, Spain, Belgium, and Italy, and for many now poses serious threats to the very exist-

ence of European Monetary Union. The numbers are bad, but it has been a fundamental lack of political resolve that has turned a crisis in the periphery into a vital assault on the core.

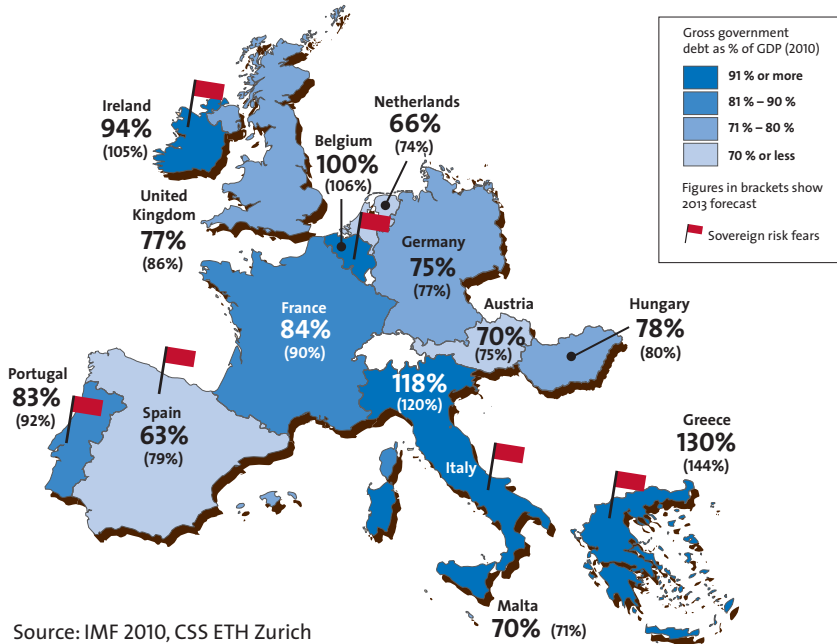
European leaders have consistently failed to quell the market by providing a political firewall to protect weakened economies against market predations. The focus is on playing local politics rather than properly recapitalising European banks or providing for a much-needed single euro bond, and indeed, fiscal union. Put simply, tax revenues from the core will be needed to backstop bad debts of the periphery – a move that will cause enormous political heartburn across European capitals, but remains a crucial antacid. This is not just a question of liquidity for a growing number of eurozone economies, but fundamental solvency. The current policy of 'lend (a little) and hope that things will turn out OK' is not only futile, it is potentially very dangerous for a destructive run on the euro. If official resources are insufficient to cover liabilities, markets know exactly which way to bet. Likewise, any restructuring inevitably required in Greece and Ireland should be done sooner rather than later. Waiting until 2013 (as currently agreed) for a



EU17 vs. EU10



EU countries with largest debt to GDP ratios



Source: IMF 2010, CSS ETH Zurich



long-term mechanism for distressed sovereigns will merely lead to disorderly defaults and massive losses for private creditors; more likely than not, such losses would end up with the tax payer anyway.

The fact that Berlin (and Paris) have now shifted ground towards 'competitiveness' rather than getting to grips with the real problems to hand, risks making matters worse. No one doubts that rekindling growth and fiscal discipline are crucial components towards a sustainable eurozone; boosting German consumption would of course be a good start down the growth track. But the prospect of an 'EU17' forging ahead on economic cooperation, while leaving ten (potentially higher-growth) markets behind, can only be interpreted in one way: a Union without a Union. Whether Franco-German plans eventually stick or not remains another question. Aligning corporate tax rates, scrapping index-linked wages, harmonising pension ages, and applying debt breaks is hardly going to be to everyone's taste, particularly if they do not gain cast-iron guarantees from Berlin to stand full square behind future bailouts, or indeed underpin a Eurobond in return. In the midst of ongoing state elections, the German gambit seems clear: It is their way or the highway as far as the future of the euro is concerned.

### *Lacking geopolitical clout*

Even if things organically pan out for the euro (at some point, yields will probably become more attractive for traders to take some heat off the European Central Bank); the political damage has been done. The broader trend is unmistakable. Europe is as internally focused as it is highly fragmented in terms of national interests and priorities.

Despite high expectations from the Lisbon Treaty and longer-term aspirations to play a significant world role, Europe remains geopolitically marginalised. Enlargement has ground to a halt, neighbourhood policy is broken – not only in MENA countries, but across Eastern Europe and the Southern Caucasus in the ill-fated 'Eastern Partnership'. Even the Balkans look increasingly insecure. Talking down to Moscow or Ankara is certainly a thing of the past, as is passing over Washington. Brussels has failed to gain a credible foothold in Central Asia to diversify natural resources, and with defence budgets being sharply cut, 'crisis management' credentials look increasingly dubious in places like Western Asia and Africa. Europe's main priority in the coming years may well be to contain protests on the streets of Lisbon, Madrid, and Rome, not piecing war-torn countries back together.

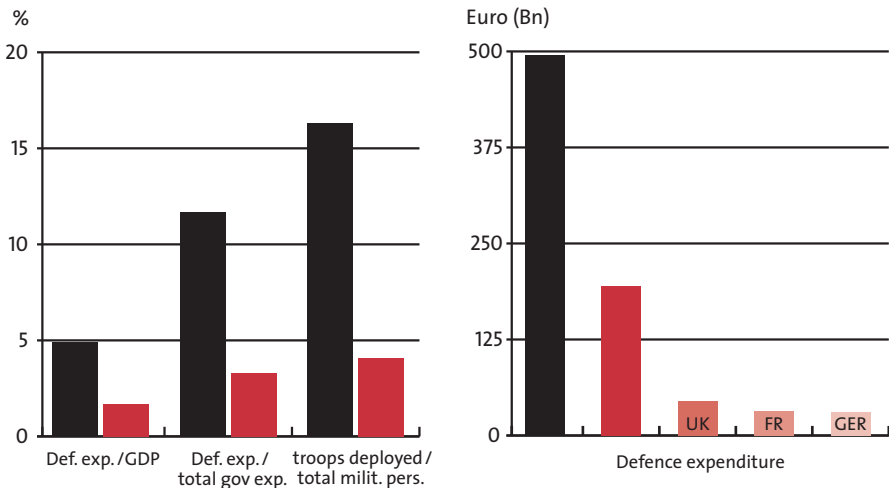




Europe's global geopolitical significance today is not so much what it does in the world, but how emerging markets bilaterally interact with European capitals. Ten years ago, leaders like Blair and Chirac measured themselves by their roles on the world stage. For their successors, attracting inward investment from Asia, the Middle East, and Latin America is the benchmark of success. Sarkozy has been on a US\$ 22 bn charm offensive with China of late and US\$ 10 bn in Delhi, while Cameron has been wooing Indian and Gulf investment. Portugal, Spain, and Greece have been grateful for any Chinese bond market interventions. Denmark is getting on remarkably well with Brazil.

But Germany is the proof in the pudding. As economic tremors from Greece, Ireland, Spain, and Portugal shook the eurozone, it was Berlin that was first on the boat to Singapore and China in search of fresh cash. Just as they were leaving, the IMF arrived in Brussels to help save some European bacon; so much for the euro supplanting the dollar any time soon as a global reserve. In times of crisis, Europe still has to look to a beleaguered Washington for help. Even now, Chancellor Merkel pointedly reminds European colleagues that German exports are going great guns in China (in large part thanks to a weakened euro), and will continue to do so thanks to Berlin's privileged

### Too much and too little: US and European defence compared



Sources: European Defence Agency 2010 (figures 2009)

■ US ■ EU26



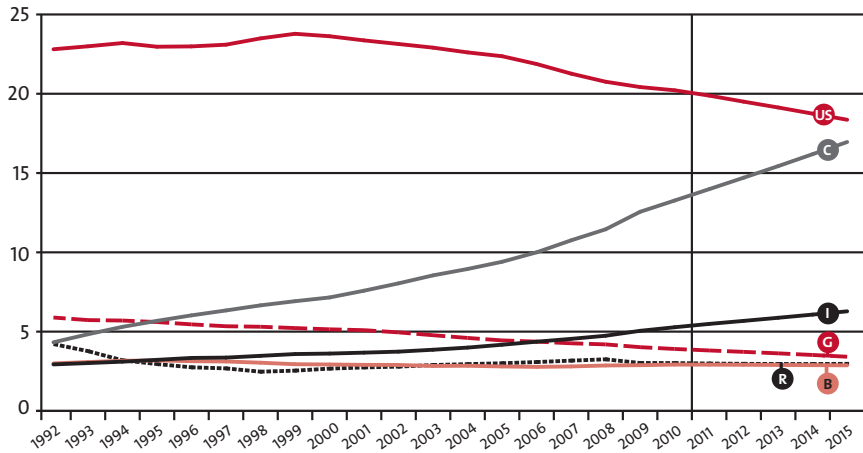
energy relationship with Russia. Political arbitrage some might say: Charlemagne it is not.

You could argue that none of this really matters. The fact that Europe has been unable to get its economic house in order sounds innocuous, at least from a geopolitical perspective. But assuming that more and more capital supporting European growth comes from emerging markets, the likes of India and China should have relatively little difficulty making their weight felt in Europe in future. Given the relatively small size of European economies, it will also be easy for Asia to 'drop' them at times of their political choosing. China's purchase of Greek

assets was clearly not economically motivated, but strategic. Piraeus port sits aside the Bosphorus and provides access to Southeastern Europe and the Black Sea region. Likewise, other emerging markets will all take greater stakes in the European game, whether it is Turkey telling France to pull their Mediterranean socks up, Brazil raising eyebrows on the Common Agricultural Policy, or Gulf states looking over their 'fractured' shoulders.

Crafting coherent European policies will be very hard in that context, as will staying aloof from emerging power tussles. It is no coincidence that in the midst of sovereign debt discussions, China has already asked the EU to

Share of global GDP: China closes on the US



Note: Graphic displays comparison of US, BRIC, and Germany as Europe's biggest economy rather than a global ranking

Source: IMF 2011

- US United States
- G Germany
- C China
- R Russian Federation
- I India
- B Brazil



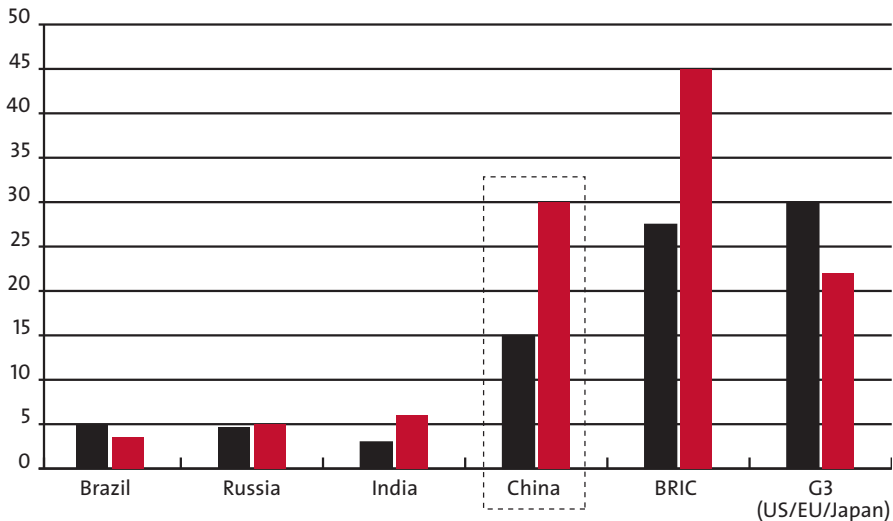
grant it 'market economy' status and to lift a long standing arms embargo. The EU remains a long way from mirroring Hillary Clinton's quip of 'how do you talk tough to your bank manager' but it is highly unlikely that Europe could, or indeed should stand in the way of a rising China, irrespective of how Washington might want things to play out. Europe cannot even stick to a consistent line when it comes to Russia and the vexed issue of gas supplies. Nor will it when it comes to persuading Ankara to play with a straight bat over tricky transit issues in future.

### Creditor catch: China emerged

The fact that Europe is not turning into the kind of serious geopolitical

partner the US has long been waiting for underlines the degree to which US power has to be measured against Asia-Pacific in future. It also draws us back to a G2 world, and the inexorable rise of China. The good news is that it is dawning on Washington that economic dependence on China could be geopolitically problematic. What if China plays up over Taiwan? What if they do not play ball on Iran? What if they start threatening Japan's maritime interests? And what of the Korean peninsula? These are some of the standard issues that tend to crop up, and on their own all have considerable merit, other than the fact that they miss the bigger point: The greatest geopolitical concern for Washing-

### Contributions to global growth: China taking the lead



Source: Goldman Sachs Global ECS Research 2011

■ 2001-2010 ■ 2011-2020



ton is not if China starts playing politics with the assets they already have, but if they start working on economic plan B to avoid US export dependency full stop.

The only thing keeping the US economy afloat right now is Chinese credit, whether measured in terms of the current account deficit or the federal fiscal deficit. China is by far the largest buyer of US treasuries ahead of Japan and the Fed. It is therefore ironic that Washington keeps telling Beijing to let the renminbi rise while Ben Bernanke is printing money like it is going out of fashion. America's global reserve status is an 'exorbitant privilege' indeed, it gives Washington the unique ability to keep financing external imbalances and live beyond their means – but one that is giving Central Banks inflationary headaches the world over.

Little wonder that every time the G20 meets, 'imbalances' become the euphemism for Sino-US currency tussles. Surplus and deficit economies take their respective sides: 'Devaluation vs. appreciation' becomes an archetypal case of 'six of one, half a dozen of the other'. 'Consumption vs. savings' sounds eerily similar. You would think that with commodity prices trading at historically high levels and a potential double-dip recession staring us in the face, the G20 could find some com-

mon ground: apparently not. Take a zero off the G'20' and you get far closer to the political reality and indeed, political dividing lines of the G2.

#### *Beijing's global economic reorientation*

Obviously, China is still dependent on US exports for the time being; it also has no truly comprehensive outlet for non-dollar securities to provide alternatives to US markets. And despite Beijing's bluster around a Special Drawing Rights vehicle pulling in currencies ranging from the euro to sterling to the yen, China is not looking to pitch the redback as any kind of reserve currency any time soon beyond ad hoc currency swap agreements and enhanced cross border trade. The renminbi is not fully convertible, and capital controls are almost certain to stay in place for now. And yes, China clearly does not want a fire sale on US dollar denominated bonds (what some term the 'nuclear option') given it holds over US\$ 1.160 bn of them.

But the assumption that China will not gradually diversify its US\$2.800 bn reserves (70 per cent of which are held in a structurally flawed greenback) away from the dollar, or reduce its exposure to Western demand in light of the financial crisis, is about as unrealistic as thinking



property prices would only ever rise. Rebalancing will assuredly come one day, but it will not be in the form that the US wants: Your bank manager has just called time on you, foreclosure is imminent.

This train is already in motion, and the US can do very little to stop it. Stoking domestic and regional demand are two key pillars in China's approach. Despite all the Keynesian headlines in the West, it was China that launched a massive US\$ 585 bn stimulus in 2009 that amounted to 8 per cent of GDP, alongside US\$ 1.5 tr of state-enforced lending to the private sector over the space of the year. The Chinese economy not only grew by 10 per cent in 2010, it surpassed Japan to become the second-largest economy in the world. Obviously, with domestic demand on the up, China's surplus will shrink to some degree (which many in Washington will see as good news), but this is not some kind of short-term tactical play, rather it is a fundamental reorientation of Beijing's global economic position. It wants to use its financial clout to stimulate a new wave of self-reinforcing growth with other emerging markets – not just keep propping up the export channels of old. China clearly thinks that more stable investments can be made beyond Western exports – not only to drive global economic growth, but to ensure Chinese

employment remains high and therefore the Chinese Communist Party (CCP) safe.

The Chinese Development Bank and the China Export-Import Bank issued loans in excess of US\$ 110 bn to developing countries over the past two years – a larger sum than the key lending arms of the World Bank. China became Brazil's largest single trade partner and investor in 2010, and saw export trade increase by a staggering 73 per cent. Exports were also sharply up to India (38 per cent) and Russia (69 per cent), which buffeted an overall export increase of 30 per cent. 'Cementing the BRICs', you might say, given China's clear economic ascendancy over its 'alphabetic allies', but Beijing also replaced the US as the key trade partner of Japan, Thailand, Malaysia, Singapore, Hong Kong, Australia, the Philippines, South Korea, and Indonesia.

Once you understand that, you start to understand why Chinese take-up of eurozone debt has been so tepid and why the dollar is on shaky ground. China has better games to play, not only with the BRIC economies, but emerging markets across the board. And nowhere more so than in commodities, which constitutes the third, and most important pillar of China's geoeconomic strategy.

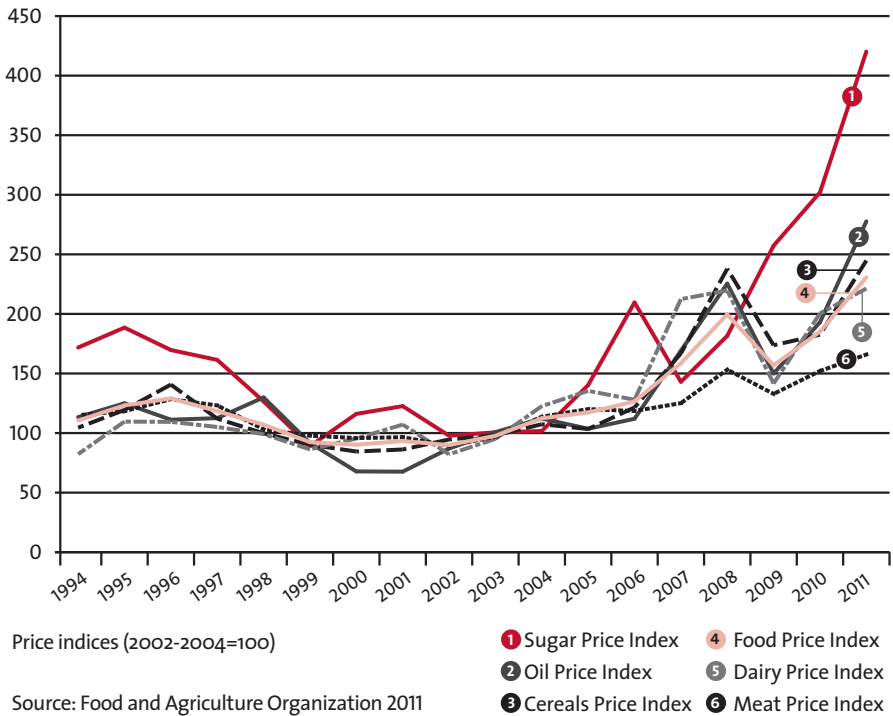


**Commodities: Strategically key**

Commodities are not just a massive hedge against the dollar (deals are invariably structured in dollar-denominated assets directly filtered from foreign exchange reserves), but loans are also linked to prevailing commodity prices. As we know, Asian demand dictates fundamentals on the trading floors of New York and London these days, which means China is basically placing a bet on its own economic performance rather than the US. It also explains why close Chinese relations with resource-rich states are the biggest geopolitical drivers of global

affairs today: ‘Economic policy is energy policy is foreign policy’. Security of supply, diversity of supply, and reducing price risk exposure are the crucial ingredients in China’s resource strategy. And it is a strategy they cannot afford to get wrong. Chinese oil import dependency will rise beyond 80 per cent over the next 20 years or so with around 40 per cent of global demand growth coming from Chinese shores alone. It already became the world’s largest consumer of energy ahead of the US in 2010, an event that should have been a further 20 years down the track according to the

**Commodity price increases**





IEA. This has inevitably facilitated far stronger Chinese links to Central Asia, Russia, Africa, Latin America, and the Middle East. Such linkages will continue to recalibrate global affairs writ large; producer supply will inexorably lean towards Asian demand.

China cannily used the economic downturn as the perfect storm to make strategic resource investments when few else could. 'Loans for oil' agreements were an easy sell for those deemed to be on the critical list of resource (mis-)management. Venezuela was falling over itself to sign a US\$20bn credit line in exchange for up to 200,000b/d for Sinopec and CNPC; Colombia looks similarly keen to provide an US\$8bn transportation outlet to China to help circumvent the Panama Canal for 'Bolivar' supplies. Russia was not much different, striking a US\$25bn oil export-backed loan agreement for Rosneft to supply China with up to 300,000b/d over the next 20 years. China nipped Central Asian supply in the bud, sourcing oil from Kazakhstan and gas from Turkmenistan and indeed, Uzbekistan. South-east Asian and Australasian supply is increasingly dominated by Chinese demand, alongside a swathe of African states joining the ranks of CCP natural resource interests. China has galvanised relations with West African producers, most notably Angola, but with

Nigeria, Guinea, and Ghana firmly on the roster. This mirrors developments in Central and East Africa. North Africa is also a going concern.

The list could easily go on; China has actually made over 200 resource investments in over 50 countries. Its upstream oil portfolio increased by over 40 per cent in the past year; equity ownership now surpasses 1mb/d, and PetroChina, CNPC, CNOOC, and Sinopec show absolutely no sign of letting up. And it is not just in 'frontier' markets where China has been investing. Brazil secured a US\$10bn loan to help finance its US\$174bn five-year strategic energy plan, quickly followed by investments in Argentina, while Canada has opened up tar sand prospects for overseas investment.

This matters economically – 5.7 per cent growth in Latin America, 4.7 per cent in sub-Saharan Africa and 9.3 per cent in East Asia and the Pacific would all be unthinkable without Chinese demand – but it also has a political edge: Resource-rich states are increasingly empowered to play off competing Western and Eastern commercial interests. This can be seen in Central Asia, where Russian, European, US, and Asian suitors all want to sit at the table; and in Africa, where resource rents invariably go to the highest, or



indeed most corrupt bidders. In Latin America, it is now an increasingly fine line between those playing the market and those draining the state, while Russia clearly wants to perfect its arbitrage potential (political and economic) by simultaneously feeding Eastern and Western markets. Removing the word 'post' from Soviet space would also be nice for the Kremlin.

*Middle East: A 'Chimerican' lake?*

Hence the old game of Western demand and producer supply is dead. More players on both sides of the oil producer and consumer ledgers will inevitably bring far greater political complexity, and nowhere more so than in the Middle East, where China has made its resource presence firmly felt. Marginal producers are exactly that for China now: marginal. Risk, or rather tolerance of risk, plays a major part when going for juicy finds.

Beijing is well aware that some of their more exotic commodity bets might not pay off, but it is no surprise that China has been leading the charge back to Iraq to make sure they can capitalise on new prospects. Baghdad sits on some of the largest reserves in the world; getting your foot in a US-opened door is a smart long-term play. Likewise, China has major energy links with Kuwait, the UAE, Qatar, Yemen, and Oman to ensure that supplies flow

East. More controversially, Beijing sees Iran as a major supply option. It has 25-year LNG supply contracts in place with Tehran, and has taken a majority stake developing the Yadavaran oil field to ship 300,000 b/d to the mainland over the next 30 years. North Pars Gas and North Azadegan are more recent additions to China's Persian collection.

On their own, such deals sound a little dry, but they could not have any sharper political resonance if you tried. It is highly unlikely that China will do much heavy lifting on international sanctions against the Iranian nuclear programme, not unless its most important regional energy supplier, Saudi Arabia, decides to call time on Tehran's nuclear ambitions and put pressure on Beijing to comply accordingly. China knows that the 1 m b/d it takes from Riyadh will be crucial to meeting long-term demand, and ultimately it is the one relationship it has to make work in the Middle East. Arab oil supplies still trump Persian output. And the US certainly gets this; it explains why the White House has been happy to let China source more and more Saudi (and Iraqi) oil to pressure Tehran.

From an energy perspective, this places Saudi-Iranian power plays at the heart of the US-China relationship





in the Middle East. What is more, the Saudis know it – China’s presence gives them considerable political leverage over Washington, Beijing, and ultimately Tehran. Which points us towards another inconvenient truth for the US: When it comes to political influence in awkward resource states – be it Iran, Sudan, or further afield in Asia, Africa, and Latin America, it is China that now has the critical voice, whether it always wants it, or not.

This begs the more fundamental question of how long the US will continue to underwrite global oil supplies through its naval dominance – and indeed, how long China will keep paying the US to maintain such a presence. The Middle East sits at the heart of this debate, and although the exact date is impossible to predict, the point at which the US relinquishes this role will basically signal the end of its superpower status. For the US, it has not been about controlling resources or consuming vast amounts of Middle Eastern oil for quite some time, but rather ensuring the safe flow of hydrocarbons to global markets, whether in the East or West.

Execute that role, and much else follows as the geoeconomic and geopolitical lynchpin of the world – lose it,

and you start to look like a distinctly ‘ordinary power’ as Britain found out in the post-war period. That is before we even consider the issue of where Gulf states decide to recycle their petrodollars in future. No security, no \$? It is certainly a question for the US to ponder – not only in terms of treasuries, but what currency oil is priced in, lest Washington decide to pander to ‘energy independence’ instincts and fall back on domestic, Canadian, American, and West African production over the Atlantic. With benchmark prices already north of US\$ 100/b in 2011 and key producers in the Middle East doing very little to quell the market, gradual US disengagement from the region might not be as farfetched as once thought.

Before we get too carried away, China has little interest in ousting the US from the Persian Gulf anytime soon, nor indeed from anywhere else where destabilising conflicts could hamper Beijing’s internal agenda, but it is at least working on some maritime insurance policies in the interim. The so-called ‘String of Pearls’ policy now spans from the Persian Gulf to the Chinese mainland via the Strait of Hormuz to the Malacca Straits with a naval presence in Cambodia, Pakistan, the South

**Saudi-Iranian power plays are at the heart of the US-China relationship in the Middle East**

flicts could hamper Beijing’s internal agenda, but it is at least working on



China Sea, and the Indian Ocean. China has also been closely eyeing Yemen's Aden port for a base at the mouth of the Red Sea and adjacent to the Horn of Africa. With the Bab al-Mandab as another key potential maritime choke point, and potential conduit for Sudanese oil supplies, a foothold in Yemen offers Beijing numerous strategic options. Likewise, China's growing trade links with Egypt over the years hold the key to the Suez Canal at the other end of the Red Sea. Closer to home, growing Chinese influence in the South China Sea is a reality that Australia, Vietnam, and Japan are starting to understand, although Beijing has also been exploring different land-based routes. Enhancing Sino-Russian, Sino-Kazakh, Sino-Turkmen, Sino-Burmese, the Pakistan corridor, and the Kra Canal (linking the Malay Peninsula to the Gulf of Thailand) are all prospective supply routes on the table.

The West should hardly be shocked by such developments; it spent most of the 20<sup>th</sup> century trying to implement a similar blue print of linking strategic presence to the flow of oil. But the issue with China

is not only that its presence provides resource-rich states with a stronger hand to resist Western pressures, but that Beijing's primary motivation is not to establish geopolitical domi-

nance over the old guard at this stage, but merely to ensure that it holds the aces over emerging market energy competitors, and most notably India. Delhi is being squeezed so tight securing new reserves that ONGC has asked the government to follow the Chinese lead and sink its US\$ 280 bn of foreign reserves to help secure resources. This might come as a 'news flash' for some, but emerging markets are no more politically aligned than the West. Not on energy, not on geopolitical interests, and certainly not on geoeconomic interests either.

### Political turbulence

That of course leaves us with a highly turbulent outlook. As much as China's rise is creating political opportunities for other emerging markets to leverage, it also comes with political risks. The obvious ones relate to East Asia, where for many in ASEAN, China looks a little too dominant. The East Asia Summit has even pulled up a chair for the US and Russia as a counterweight to Chinese influence.

**Emerging markets are no more politically aligned than the West**

Japan increasingly sees China an outright political threat in the East China Sea, and not to

be trusted on natural resources, least of all rare earths. Moans can also be heard that as the fulcrum of six-party talks, China is not doing enough on North Korea, or helping to improve



governance standards across resource-rich states. Chinese terms of trade are certainly raising African eyebrows; quips of being flooded with cheap Chinese goods can be heard from Malawi to Senegal and back. Similar messages are relayed in Asia. Even Brazil rues a low renminbi resulting in hot capital inflows and a rising real against the dollar. To be fair, complaints that China refuses to sign up to a global climate deal are a bit rich; nobody else is exactly chomping at the bit to put pen to paper, and let us not forget that the West has effectively 'outsourced' its emissions to the Middle Kingdom anyway. But the charge nevertheless stands, in some quarters at least.

*Global governance: Diversity and instability*

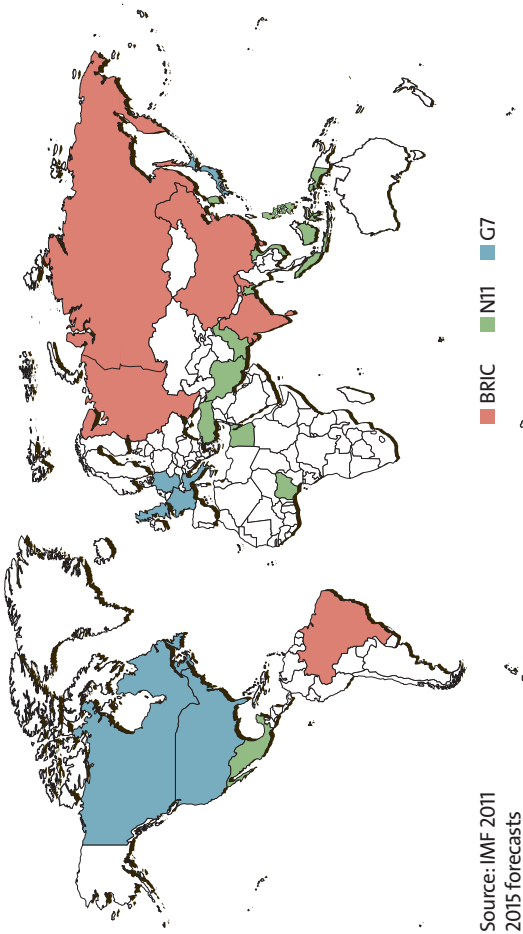
The fact that emerging markets do not see eye to eye on a range of geopolitical issues is not just significant for global governance gaps at 'the top', but actually points to the blunt fact that *this is* now global governance in action; namely China, alongside a growing number of emerging markets following their own agenda and their own interests. Whether you call that a political vacuum or merely a fleeting reflection of power shifts underway is debatable – but the trend is clear: Neither the US, nor Washington flanked by Europe and Japan will be able to underwrite regional balances indefi-

nitely. Geoeconomic muscle of the East and chronic fatigue in the West will inevitably affect both global and regional geopolitical outlooks sooner or later. The first signs of this can already be seen.

On the global level, take the 'BASIC' grouping of Brazil, South Africa, India, and China on climate issues, or indeed far larger groupings such as the G77 or WTOG20 (distinct from the newly formed G20) on global trade talks to block Europe/US proposals. Reform of the Sister Banks and UN also tends to find collective voice across emerging markets to gain a greater share of the votes, even though consensus is badly lacking as to which nations should get the plaudits. We can also see clear signs of players such as Brazil aspiring to global roles. Brasilia provided leadership for UN missions in Haiti, it backed Turkey's position over Iranian enrichment (even though this was voted down at the UNSC) and maintained its calls for reform of international financial institutions. Compared to Mexico, Venezuela, Bolivia, Chile, Argentina, and Colombia, Brazil is clearly now the leading Latin American voice in global forums. Rousseff will use this elevated status to stand above the Latino 'left-right' political fray and stake a claim to regional leadership.



BRIC, N11, G7: GDP growth 2015 (in %): 'Chindia' ahead



1. China	9,5
2. India	8,1
3. Vietnam	7,5
4. Bangladesh	7
5. Indonesia	7
6. Egypt	6,5
7. Nigeria	6
8. Pakistan	6
9. Philippines	4,5
10. Brazil	4,1
11. Russian Federation	4
12. Korea, Republic of	4
13. Turkey	4
14. Mexico	3,8
15. Iran	3
16. United Kingdom	2,6
17. United States	2,6
18. France	2,1
19. Canada	2
20. Japan	1,7
21. Germany	1,3
22. Italy	1,3



In South Asia, a rising Indian star will continue to compete with China to some degree, but has become remarkably wary not to become a US pawn in the region. Its main aim is to entrench its regional political power – albeit with some Indian blue helmets cropping up in strange places – while playing a global economic role. The latter will need infrastructure gaps to be filled, and inflationary pressures checked, but one thing is for sure: Just like China, India's natural resource footprint will rapidly grow alongside its naval forces. Do not expect it to be pretty though; neither China nor India will move to improve the situation in places like Myanmar given the political dynamics and natural resources involved. A race to the bottom will be the result unless a gentleman's agreement can be struck on upstream acquisitions.

For the smaller South Asian players, Bangladesh will continue to register growth, but will remain as politically feeble as the likes of Nepal and Sri Lanka. Little sign of improvement will be seen in Pakistan given that Islamabad now sits at the heart of the Afghanistan-Pakistan quagmire. Southeast Asia is less politically hairy, but relations between Malaysia and Indonesia tend to be tetchy; those between Cambodia and Thailand are even worse. Like Vietnam, they will all remain growth markets, but require significant struc-

tural reform. It is only really the sovereign wealth of Singapore that gives the region global geoeconomic reach; geopolitically, its main interest is not playing a global role, but trying not to be squeezed by its larger neighbours to the North and West.

In Africa, more and more economies are finding their own path towards economic growth and political niches of late, in large part on the back of Chinese natural resource investments. Nigeria and Angola will continue to vie for ascendancy in West Africa, albeit punctuated by 'tropical dictatorships' in Equatorial Guinea and extreme political instability in Ivory Coast. Kenya is rediscovering its regional feet in East Africa, even though the Horn is slipping further into anarchy. South Africa has played a more important role in the UN General Assembly, but conversely has used its regional clout to shield Zimbabwe from Western pressures in Southern Africa. Elections in Cameroon, the DRC, and Nigeria will certainly test how far Africa's democratic credentials have, or indeed have not, come. Unrest in Zimbabwe and Chad will also be important spaces to watch, particularly as many of the 'new generation' of African leaders hailed in the mid-1990s as guarantors of stability in places such as Rwanda and Ethiopia, have now become sources of concern. Although some resource-rich



states such as Botswana and Tanzania have got on with the quiet business of reform, others such as the Central African Republic and Gabon look as fragile as ever. If things go awry, it remains unlikely that you will see any significant Western cavalry coming over the horizon. A weak African Union under Cape Town's and Lagos' tutelage will have to put its own fires out – albeit with subtle Chinese help – not least because the West's biggest political priority now lies to the north east; namely to try and keep a stake in the MENA game.

US authority was already being seriously tested by Iranian regional influence after the geopolitical own goal of the Iraq War, and to a lesser extent Turkey, who with the second-largest standing army in NATO is trying to play a power broker role. Although Western powers have failed to produce a consistent line on Libya amid Russian and Turkish opposition to assertive action, broader events in Tunisia, Egypt, Bahrain, and Yemen have dealt a severe blow to the old model of Western powers turning a blind eye to decrepit regimes for the sake of notional stability. They have also revealed a serious chink in emerging market amour; the issue of succession.

#### *Emerging succession issues*

While some analysts have started counting down from 22 across the

Arab League, the chances are that the Gulf states will sit tight, try to ride out the storm and offer tactical concessions along the way to quell the Arab street. Changing the guard in Saudi Arabia, Kuwait, UAE, Bahrain, Oman, and Qatar is only a matter of time of course, but inviting further unrest at this stage is a risk that few regional or external players would want. Scrapping 'dynastic succession' full stop is even riskier, unless you are willing to put democracy above interests in the most critical oil-producing region of the world. US reticence to push the revolutionary envelope in Iran underpins the fact that notional stability still remains a better devil for Washington and Beijing to know. The common 'unspoken language' for external players in the region remains that of oil, geopolitical interests, and economic pull. If democracy can be a useful tool to deliver on that then fine, but it is certainly not a requirement. Oil and petrodollars sit at the core of the Gulf's global significance. That goes as much for Beijing and Delhi, as it does for Washington.

Reverberations from Tripoli and Cairo have not merely been confined to MENA markets, however. Central Asian states have been busy pushing through snap elections rather than constitutional stitch-ups. Kazakh,



Uzbek, and Turkmen leaders are certainly not getting any younger. And although qualitatively different beasts, larger markets such as Russia will need to think harder about economic modernisation to ensure the political underpinnings of the state remain intact rather than erecting barricades. The BRIC acronym can only carry Russia so far; if anyone can keep playing a game of political smoke and mirrors it is no doubt Moscow, but the Kremlin still needs to get off corruption and hydrocarbons and into equitable growth if it is to stay the course.

Indeed, for all the 'excitement' around Middle East democracy, the downside risk is that many states will become increasingly harsh and repressive to contain the symptoms of social unrest rather than address underlying causes. Those in office will watch their militaries far more carefully for political cohesion and support – if nothing else, that is ultimately what put pay to Mubarak and to a lesser degree, Gaddafi. Conversely, in states where the military is the dominant political force, we should expect to see more democratic dressage to paper over the cracks: Pakistan and Myanmar offer two examples. Thailand is another, once you scratch under the surface.

The irony of all this is certainly not lost on China. Beijing remains acutely

aware of its own internal problems. Inflation is worrisome, money supply needs to be controlled, labour shortages must be filled, the population is getting older, middle class aspirations are growing, and environmental degradation is showing. It also has its own 'succession' in 2012 to confront, when Xi Jinping will likely take over from President Hu Jintao – a date-line that the CCP will be desperate to maintain high levels of growth towards and beyond. China has faced these kinds of challenges before and managed to overcome them; it probably will do so again.

Unfortunately, this analysis cannot easily be shared for the US economy. China has the geoeconomic upper hand, other emerging markets will use that to great effect, either through natural resource endowments or bilateral trade. America will stagger on; Europe will fail to geopolitically matter; Asia will rise, others will ride the coattails. No common rule book will be established, and no cohesive 'blocs' formed – either across emerging markets or the West. But when the geoeconomic bite point comes and the debts are called in, emerging markets – and China in particular – will need to be ready to fully take up the geopolitical slack. The world will not wait, nor will their own domestic constituents once the world has shifted East. ●





## CHAPTER 2

# Regional dynamics in the New Middle East

*Roland Popp*

Recent turmoil in the Middle East has prompted calls for a better understanding of the driving forces in the region. The divisions between fledging new republics and old authoritarian regimes might develop into the new defining feature of the region. The wave of protests will also reinforce ongoing strategic trends such as the rise in importance of the non-Arab periphery and the weakening of the regional heartland. In the long-term, the Persian Gulf region can be expected to reorient itself towards East and South Asia.



Anti-government demonstrators at Tahrir Square in Cairo, 7 February 2011



DURING THE PAST DECADE, THE WORLD REGION COMMONLY IDENTIFIED AS THE MIDDLE EAST HAS BEEN AT THE CENTRE OF WORLD POLITICS. In the aftermath of the terrorist attacks on the US in September 2001, two wars in Afghanistan and Iraq led to a strong Western presence on the ground. The Arab-Israeli peace process continued to deteriorate, and regional tensions reappeared, culminating in Israel's military campaigns against Hizbollah in Lebanon and Hamas in Gaza. The question of Iran's nuclear ambitions has remained unresolved.

The revolts and revolutions in North Africa and the Arabian Peninsula in 2011 have added a new and potentially game-changing element to the region. With all eyes set on the Middle East once again, this unexpected development calls for a reassessment of how to interpret the region. Some of the trends detected by Western analysts in past years, such as the Islamist-terrorist threat, the growing power of non-state actors, and sectarian divisions, have been superseded by recent events. In retrospect, they seem to be of secondary importance only.

The toppling of the authoritarian governments in Tunisia and Egypt may have been the first instances of what

carries all the hallmarks of a great historical turning point. It should not be assumed, however, that all of the traditional interpretations have lost their validity. For example, the inner Arab core of the Middle East continues to lose influence while, in contrast, the non-Arab periphery perpetuates its ascendancy, if unevenly. There is also the possibility – difficult to forecast at this point – that the new transformations could well be limited to the Western part of the Middle East. In the future, a more progressive and pluralist western part of the Middle East could face an eastern Arab world still adhering to authoritarian forms of government, a division that might develop into the eminent defining element of the structure of regional relations.

Such a development would also strengthen the little noticed trend of the wider Persian Gulf region being separated from its Western Arab outposts on the Levant and along the Mediterranean, as the former region progressively orients itself towards East and South Asia. The continuation of this trend could change the established mental maps of the Middle East. The eastern part of the region – the actual *Middle East* in its original definition – might therefore soon be termed the Eurasian *Middle West*.



### **Misinterpreting the Middle East**

Before identifying the major strategic trends that can be expected to determine regional dynamics in the future, those paradigms that still tend to dominate media coverage as well as academic analysis must be critically assessed. Many observers still view the Middle East through the prism of the transnational terrorist threat, assert the ascendancy of non-state actors in the region at the expense of established states, or emphasise sectarian divisions between Shia and Sunna as a determining feature of regional politics. None of these paradigms, however, really enhances our understanding of the Middle East.

#### *The persistence of terrorism*

During the first half of the past decade, the transnational threat emanating from jihadist terrorist groups or other actors supporting or tolerating them was regarded by many analysts as the main defining feature of the contemporary Middle East. Associated with this perspective is the view that the main danger for regional stability springs from weak or failing states and ungoverned spaces. However, while it is acknowledged as a threat by many Middle Easterners, terrorism has been an (admittedly appalling) ingredient of regional politics for decades. Nevertheless, its perpetrators have not been able

to cause durable political change or coerce states to bow to their demands. Furthermore, evidence for a blanket linkage between weak governance and terrorist threats seems rather sparse. Besides, states in the Arab Middle East tend to be strong – the exceptions being Iraq, which had to weather civil strife between 2006 and 2008, and Sudan and Yemen, whose governments temporarily lost control over parts of their territory.

While terrorism and weak governance cannot explain regional dynamics and their underlying forces, these factors are the lenses through which many Western actors and observers view the region. Of course, terrorism and malfunctioning governance cannot be fully discarded as relevant factors: Over the past decade, the US obsession with terrorism provoked a number of nation-building ventures in various parts of the Middle East, legitimised close counterterrorism liaison with regional security apparatuses, and, in general, informed policies vis-à-vis the prevailing authoritarian regimes. Their main effect, however, has been in prompting and legitimising interventions by external powers.

Given the questionable success of these endeavours and the waning appetite for adventures of a similar



kind on the part of Western policy-makers and publics alike, recalibrations of national security priorities are already underway. The classification of the terrorist threat as a strategic challenge will most likely rescind (see also Chapter 3 in this publication). Remote corners of the globe could soon be viewed again as what they actually are: remote.

#### *Non-state actors vs. de-facto states*

Related to the emphasis on terrorism is the attempt to understand Middle Eastern regional dynamics by pointing to the rising influence of non-state actors, most of whom have an Islamist orientation. As in many other parts of the world, a trend towards the proliferation of armed non-state actors is also discernible in the Middle East. Protracted conflicts, transnational ideologies, political dissatisfaction, and economic frustrations have all contributed to the strengthening of this phenomenon.

However, many of these groups are either dependent on or even acting on behalf of regional states. Though some have an anti-government stance, such groups are seldom powerful enough to challenge states. Of the region's Arab states, only Sudan and Yemen are currently engaged in fighting militant insurgencies that enjoy broad-based

support among at least parts of the populace. Even these movements are hardly comparable to the Afghan insurgency led by the Taliban, which might well succeed at some point in actually taking over control of the central government.

In the context of Middle Eastern non-state armed groups, the growing influence of the Islamist organisations Hamas and Hizbollah is often held up as an example. While both entities are important political actors in their own right, they have also de facto adopted state roles by taking over

#### **Hamas and Hizbollah have de facto adopted state roles**

the administration of the Gaza Strip and by joining the

Lebanese government. Consequently, both of these Islamo-nationalist organisations now carry responsibility for the populations they govern. Being deeply embedded within these societies, they are de-facto exponents of the Western import of the nation-state, a concept thoroughly alien to terrorist organisations in the Middle East. Altogether, the binary of state and non-state actors therefore hardly contributes to an understanding of Middle Eastern dynamics.

#### *Shiites rising?*

In the course of the Iraqi civil war, a conflict plagued by sectarian divisions, a new interpretative approach

# Shia majority areas in the Middle East

## THE NEW MIDDLE EAST



Sources: CIA Factbook; CSS ETH Zurich



was invented to explain the developments in the Middle East. This new interpretation saw the decisive fault line as following the centuries-old divisions within Islam between Shiites and Sunnis. This argument has two main parts: First, as a consequence of the overthrow of Saddam Hussein's dictatorial rule in Baghdad, the Iraqi Shiites had been finally freed from oppression and marginalisation. Thus, the fall of the Baath regime gave Iraq's Shiites a political voice for the first time. Together with the fact that the holiest Shiite sites in Najaf and Karbala could again play their traditional role as centres of attraction for all believers, the conditions were deemed to be ripe for an awakening of Shiite sectarian identity in the whole region.

Second, the regional rise of Iran as *the* main Shiite power in the region and a country with a political system based on religious legitimacy led, in the words of Jordanian King Abdullah II, to the challenge of a 'Shia Crescent' stretching from Iran to Lebanon. Such a vision of a widening regional chasm between the two main Islamic denominations, combined with the rise of the strongly anti-Western Islamic Republic of Iran, certainly is worrying, given the fact that many of these long-deprived Shiite minorities live in the main oil production areas along the Gulf. Some commentators even

predicted a decade-long war between Sunna and Shia, analogous to the religious conflict between Catholics and Protestants in 17<sup>th</sup>-century Europe.

The reality, however, is much more complex. First of all, the idea of a 'Shia Crescent' passes over other – and often more significant – attributes responsible for identity formation, such as ethnicity or nationalist loyalties. Second, the argument overlooks the fact that the Shia is not monolithic. For example, the dominant branch of Shiite Islam in Yemen, the Zaidiyyah, is in many respects closer to Sunni Islam than to Iran's Shia state religion. Therefore, it is hardly susceptible to Tehran's machinations. Indeed, only about 10 to 15 per cent of all Muslims in the world are Shiites, and in the core Middle East, the Iranian variant of Twelver Shia Islam is only predominant in Iraq (ca. 60 per cent) and Bahrain (ca. 70 per cent), while constituting a minority in some other states. Furthermore, it is highly misleading to consider the Shiites in these countries as automatic proxies of the aspiring regional power Iran. Shiites in Iraq are neither a homogenous group, nor do they have any desire for a return of the costly sectarian tensions prevalent during the civil war.

Third, the doctrine of *velayat-e faqih* (Guardianship of the Jurist), on



which clerical power in Iran is based, has hardly any followers amongst Iraqi clerics or most other Shiites in the region, aside from the Iranian-created Lebanese Hizbollah. Iran's attempts to export its own political model would founder now just as they did during the 1980s. Iran's (rather limited) regional leverage is based not on a common belief, but on the popularity of its defiant posture towards Israel and the US, an attitude that resonates well with large segments of the Arab public. Its alignment – sometimes referred to as the 'axis of resistance' – with Syria, Hamas, and Hizbollah is based on shared strategic interest, and religion is actually a drawback to this alliance, given Syria's strong secular credentials and Hamas' Sunni-Islamist ideological basis. Nonetheless, pro-Western regional actors like former Egyptian president Hosni Mubarak or the Jordanian king use the alleged rise of the Shia in order to score domestic political points or extort additional Western support. In sum, attempts to explain recent Middle Eastern developments by asserting a quasi-timeless confrontation between the Shiite and Sunni denominations are misguided.

### Revolts and revolutions

Critically assessed, most of the traditional interpretative perspectives only

offer limited insight on the driving forces constituting the present Middle East. There are regional factors which can be identified as having great impact on an emerging new structure in the Middle East, some of which – such as the rise of the periphery – have already gained some attention. But at the beginning of 2011 a new factor has appeared which has the potential to drastically transform the Middle East as we have known it. This factor is the sudden introduction of fundamental change into the Middle East with the 2011 upheavals in North Africa.

The unexpected revolts in Tunisia and Egypt, leading to the ouster of long-reigning autocrats in both countries and the subsequent armed rebellion in Libya, will undoubtedly have far-reaching implications. Ironically, this came at a time when Western observers and academics alike had finally given up hopes of impending democratic revolutions and had stopped interpreting half-hearted reforms by authoritarian regimes as signs of peaceful transitions to greater accountability. The events have shown that the Middle East is not out of step with history, as has often been asserted, and that the Arab-Islamic civilisation is not as exceptional as many had previously thought.





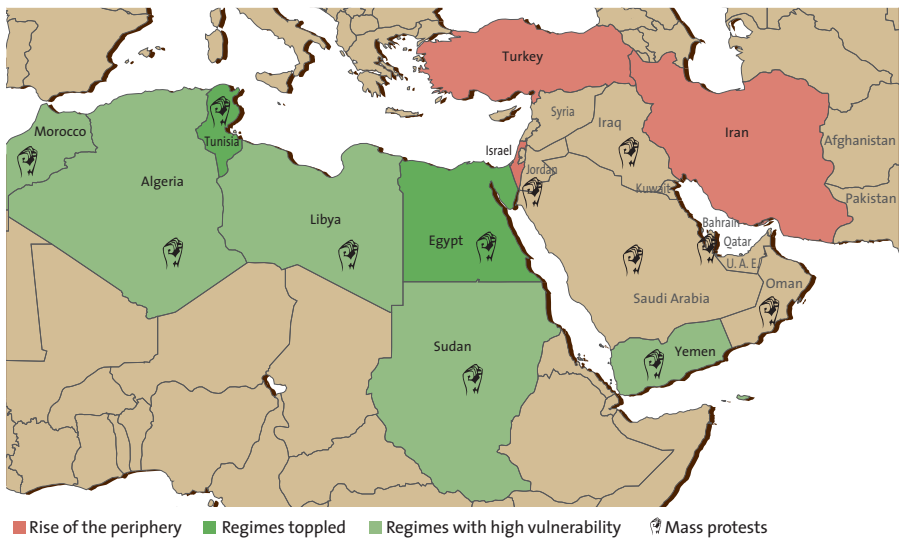
The developments that have been widely hailed as the first appearance of democratic revolutions in the Middle East are, for now at least, not much more than revolts, albeit carried through by genuine people's uprisings. It remains to be seen whether these revolts will manage to morph into authentic revolutions in a literal sense by fundamentally transforming the political and social systems of these societies.

On the one hand, the transition processes just initiated might lead to greater accountability, respect for civil rights, more just and open societies, and, in the long-term, even to economic dynamism, as old crony capitalism is replaced. On the other

hand, there is no guarantee for this. Reforms and transition to democracy could just as well be stopped in their tracks by the countervailing forces that benefited from the old regimes and are loath to lose their spoils. New openness could lead to the polarisation of the new domestic political scenes and even to violence, given the general lack of experience regarding democratic governance. Additionally, the regional and global dimensions of this unexpected cataclysm must not be ignored.

The main effect on the region is indeed that of an ongoing development. Much to the surprise of analysts, the turmoil in Tunisia had a contagious effect on other regimes.

### Changing regional dynamics in the Middle East







While many of the underlying factors generating pre-revolutionary conditions in Tunisia are also detectable in most other Arab countries – be it economic hardship, high unemployment especially for the youth, popular resentment against political repression and a general lack of freedom, abuse by the various security organisations and the omnipresent *Mukhabarat* (the intelligence services), and the flagrant enrichment of the elites – there were also important differences between those states.

Tunisia and Libya suffer(ed) from very repressive regimes. Egypt, however, was more lenient towards the opposition and allowed certain space for criticism. Both the Tunisian and the Libyan regimes neglect(ed) the regular armed forces, instead cultivating alternative security and paramilitary forces. Conversely, the regular army in Egypt has remained the dominant institution since the 1952 revolution. Nevertheless, in all three countries, the majority of the army ultimately decided to side with the people. In socio-economic terms, there are similarities between Tunisia and Egypt, while in contrast, sparsely populated and tribal-dominated Libya possesses large oil wealth. These differences notwithstanding, all three countries experienced popular revolts that brought down or decisively weak-

ened long-standing authoritarian regimes.

To explain the contagion, one probably has to refer to a new transnational Arab public and the enduring bonds between different Arab societies built on common language, cultural heritage, and religion. Indications of an emerging new Arab public replacing old and outlived forms of political Pan-Arabism could be observed for some years now. For example, Arab publics were strongly supportive of both Hizbollah and Hamas during their recent wars against Israel and near-unanimously opposed to the US war against Iraq, thereby debunking official proclamations regarding the menaces from Sunni Islamist and Shi'ite sectarian organisations and forcing numerous regional actors to challenge US actions, at least rhetorically.

Many Western observers have underestimated this dimension and misinterpreted the main sources of opposition. The conviction that the Middle East had experienced the end of ideology save Islamism was prevalent before this crisis, and was consistently used in defence of authoritarian regimes, based on the assertion that their most probable successors would have even less scruples. The recent revolts, however, demonstrate that the perception of a virtual Islamist



monopoly on opposition has been a misjudgement. Only in Libya did they play a more prominent role. There, as well as in Tunisia and Egypt, they seemed to have been as much overtaken by events as the regimes themselves. Should it come to free and fair elections in those countries, the Islamists can nonetheless be expected to fare rather well, given their organisational head start and the overall conservative sentiment in many of these societies. But the fact remains that the bulk of protesters consisted of a new – and overwhelmingly secular – generation representing the entire social stratum, constituting amorphous and networked ad-hoc communities independent of party and organisational affiliations and impossible to decapitate. Long-ignored, but also of great importance in the initiation phase of the revolts, was the role played by organised labour.

#### *Regional dominoes?*

Acknowledging that most Arab countries also contain the social, political, and economic ingredients which together formed the hotbed for the revolts in early 2011, does that mean other dominoes in the region will fall? Given the fact that two regimes have been toppled in a time span of only some weeks, such a scenario is rather likely. But, even if we acknowledge the differences between the cases, there are

some factors that might help forecast which regimes might suffer the same fate. All regimes that have been overthrown so far were late manifestations of the Arab Nationalist republics created during the 1950s and 1960s. None of them was able any more to generate the kind of popular support of the masses as it was possible in the days of former Egyptian leader Gamal Abdel Nasser. As the heirs of the golden days of (pan-)Arab nationalism, they were nonetheless capable to draw from this legitimacy, however non-democratic, for quite some time. But their eventual demise was unstoppable.

The abandonment of old Socialist experiments in favour of neoliberal reforms often translated into regime loyalists and crony capitalists taking over national assets or state monopolies through privatisation measures, while subsidisation of basic goods for the general population was abolished. Arab Nationalist credentials earned through resistance to Western policies during and after the Cold War had long been forfeited in the wake of subservience to US strategic priorities and lukewarm support for the Palestinian cause, despite contrary sentiment in their populations. In their last phase, many of the republics indeed started to resemble the Eastern European gerontocracies of the



## Middle East: Countries in comparison

Country	Population (in mn)	Leader	Date of accession	Human Development Index (rank)*
<b>Egypt</b>	80,5	in transition (previously: Hosni Mubarak)	2011 (1981)	101
<b>Turkey</b>	77,8	Recep Tayyip Erdogan	2003	83
<b>Iran</b>	76,9	Mahmoud Ahmadinejad	2005	70
<b>Sudan</b>	43,9	Omar al-Bashir	1989	154
<b>Algeria</b>	34,6	Abdelaziz Bouteflika	1999	84
<b>Morocco</b>	31,6	King Mohammed VI	1999	114
<b>Iraq</b>	29,7	Nuri al-Maliki	2006	no data
<b>Saudi Arabia</b>	25,7	King Abdullah	2005	55
<b>Yemen</b>	23,5	Ali Abdullah Saleh	1978	133
<b>Syria</b>	22,2	Bashar Assad	2000	111
<b>Tunisia</b>	10,6	in transition (previously: Zine El Abidine Ben Ali)	2011 (1987)	81
<b>Israel</b>	7,4	Benjamin Netanyahu	2009	15
<b>Libya</b>	6,5	Muammar Qaddafi	1969	53
<b>Jordan</b>	6,4	King Abdullah II	1999	82
<b>United Arab Emirates</b>	5	Sheikh Khalifa bin Zayed al-Nahyan	2004	32
<b>Lebanon</b>	4,1	Najib Mikati	2011	no data
<b>Oman</b>	3	Sultan Qaboos	1970	no data
<b>Kuwait</b>	2,8	Sheikh Sabah al-Ahmed al-Sabah	2006	47
<b>Qatar</b>	0,8	Sheikh Hamad bin Khalifa al-Thani	1995	38
<b>Bahrain</b>	0,7	King Hamad bin Isa al- Khalifa	1999	39

\* Ranking 2010, 169 countries

Source: UN Development Programme; CIA Factbook; Economist



late 1980s and some even tried – or in the case of Syria have even succeeded – to turn themselves into hereditary systems by establishing quasi-dynastic succession. All of this contributed to the crisis of legitimacy that found its expression in recent revolts.

If this analysis is correct and the old Arab Nationalist republics are indeed the regimes most threatened by this wave, there will be two main consequences for the region. First, the revolts – and perhaps even revolutions – will continue, and more regimes might well be toppled. Monarchical regimes like Morocco, Jordan, and the Gulf monarchies will also come under pressure, but will most likely be able to weather the storm by relying on their more solid legitimacy, by accommodating protesters' demands – as they already have done in some cases – or by transforming existing mock constitutionalism into something more credible and thereby tread the path of evolutionary change. Smaller vulnerable entities like Bahrain might be forced to rely on intervention by their bigger monarchical neighbours. Second, apart from always volatile Yemen, therefore, most of these revolutionary events might indeed occur along the Mediterranean or could even be confined to the North African littoral as well as, perhaps, Mauretania and Sudan.

### *A new Middle East*

The effect of such a development on the whole region would be cataclysmic. Provided that the transition phase in some of the new republics will bring about more open and pluralistic societies, potentially with a populist foreign-policy orientation, the new Middle East would then consist of traditional authoritarian regimes, most of them of monarchical character, and the new republics. The allure of the various freedoms attainable in the new systems would have a destabilising impact on the governance mechanisms within the traditional autocracies. In combination with the protracted conflicts already prevalent in the region and the possible involvement of external great powers, this situation contains all the ingredients for renewed intra-regional strife. Such a situation might even escalate into an Arab Cold War following the pattern of the 1950s and 1960s, the outcome of which is unpredictable.

Even in the absence of a new Arab Cold War, one can predict that the nascent second Egyptian republic will make changes in the foreign-policy posture inherited from the previous regime. Whatever the eventual changes will look like, taking into account Cairo's historical role as the leading Arab power, this will inevitably lead



to a broader regional realignment. This may well be the first time Arab states are compelled to pursue foreign policies that accord with the sentiments of the majority of their populations. It can be expected that – after a phase of domestic consolidation taking up to several years – this new policy will aim for a restoration of Egypt’s traditional regional role. This would probably also imply the restitution of full Egyptian sovereignty over the Sinai Peninsula and therefore a challenge to the regional order established by the Camp David accords and the Egyptian-Israeli peace treaty in 1978/79.

Together with the more confrontational rhetorical stance that is to be expected, a future estrangement or even divorce between Egypt on the one hand and Israel and the US on the other hand cannot be ruled out. Quite possibly, the future Middle East will expose the idea that democracies do not fight each other as the closest thing to superstition. Western-centric analysts of international relations have invented in the recent past.

### **Implosion of the core**

For now, the unexpected changes in Egypt, Tunisia, and Libya and their likely prioritisation of domestic issues for the foreseeable future will have the effect of amplifying a persistent trend that has been discernible since

the Iraq War of 2003: The weakening, in strategic terms and in regional influence, of the inner Arab core of the Middle East. Beyond the above-mentioned crisis of legitimacy of the old republics, the main reason for this development has been the elimination of Iraq as a significant regional player in the wake of the US invasion and the dissolution of its state institutions.

From the perspective of the Middle Eastern balance, the 2003 occupation of Iraq has finalised a regional power shift that began with the enforced withdrawal from Kuwait in 1991 and the subsequent containment of Iraqi power during the remainder of the decade. The role previously played by Iraq as the ‘citadel’ of the Arab Nation – after Egypt’s ‘desertion’ through the signing of a separate peace with Israel – and as its Eastern outpost vis-à-vis the Persian periphery always overextended Iraq’s capabilities and was actually incompatible with its inner composition. The (final) demise of Iraq as a veritable regional player in its own right, however, has now fundamentally changed the regional balance.

### *Iraq as a playing field*

The transformation of Iraq ‘from a player into a playing field’ (Gregory F. Gause) has indeed been the main



prerequisite of Iran's rise to greater regional ambition. Now that all main Iraqi communities – Sunnis, Shiites, and Kurds – have been empowered in their own right, the domination of one or two of them at the cost of the other(s) seems improbable. The installation of a pluralist system, mainly based on ethnic and sectarian divisions, together with the strong transnational bonds of all main factions, has made the Iraqi domestic system highly 'penetrated', i.e. open to foreign influence. Iraq's new role resembles Syria's stance in the 1950s, when radical Arab nationalists and conservative-monarchical forces competed in a 'Struggle for Syria', a confrontation that shaped the background for an embattled intra-regional contest for dominance.

A reoccurrence of such an intra-regional struggle, this time centred on Iraq, appeared entirely possible for a while after 2003. Some events during the civil war phase after 2006 even seemed to signal that a new regional Cold War had already started. But recent developments seem to suggest that these fears were too alarmist. At present, political power in Iraq is mostly fragmented and localised, and the central government is continuously forced to compromise with alternative power-holders in the provinces. Given the manifold ways in which outside pow-

ers can use their close relationship with groups tied to certain communities, Iraq will be turned into a microcosm of the surrounding state system. This situation could potentially provide the basis for a 'Struggle for Iraq'. But if any such struggle is taking place at all, its concrete manifestations have indeed been rather muted and do not resemble the 'all-or-nothing' antagonisms of the past.

Fears that Iranian influence on the Shiite majority in Iraq would lead to a de-facto takeover of the country have proven ungrounded. Tehran's clout in Iraq is certainly considerable, but it is consistently challenged by other external players such as the United States, the Sunni Arab states, and Turkey. There seems to be a growing awareness by all parties that none will 'control' Iraq. In sum, post-war Iraq's constitutional arrangements, ensuring political fragmentation and extensive decentralisation, but stopping short of an actual division of the country, produces an outcome mirroring the regional system inside Iraq's borders, and leads to a rather peaceful (if often covert) competition between outside powers.

#### *Syria and Saudi Arabia weakened*

With Iraq gone as a regional factor, the responsibility to balance would normally lie on the shoulders of the



other two remaining Sunni Arab states, Syria and Saudi Arabia. The Baathist regime of Bashar al-Asad faces tremendous economic and – in the wake of recent Arab uprisings – probably also political challenges. Strategically, it has positioned itself by cultivating closer relations with the peripheral powers of Iran and, more recently, Turkey. It has regained influence in its Lebanese backyard after the forced withdrawal of Syrian troops from the country in 2005.

With Syria refusing to disassociate itself from its traditional alliance with Tehran, only Saudi Arabia remains a candidate responsible for strategic weightlifting in the Mashreq. Recent arms deals with the US seem to suggest that it has indeed adopted this role. However, regional resentment against a greater Saudi role remains strong. Moreover, Riyadh is aware that it only has the financial clout, but not the demographic or – despite the fancy new equipment – military capabilities to challenge Iran. Therefore, Saudi Arabia is continuing its rapprochement with Tehran, a process dating back to the 1990s. It is a symptom of the weaknesses of the bigger Sunni Arab states that a tiny player like the Emirate of Qatar has been able to punch above its weight and to successfully adopt the role of an active mediator all over the region.

### **The (uneven) rise of the periphery**

The weakening of the Arab heartland has drawn attention to the periphery of the Middle East. A recurring feature of the history of the Middle East is that any weakening of the Arab core leads to a rise of influence of the non-Arab societies and states, normally of Iranian or Turkic origin. In some respects, this pattern has repeated itself since the 1970s. According to Western media and analysts alike, both Iran and Turkey are gaining in stature. In this context, Israel's position is often ignored. It must, however, be included in the periphery as it has never been integrated into the Arab state system. A critical assessment of the claims that the periphery is increasingly important, demonstrates that, while the general trend is undeniable, the three countries follow different trajectories and will face very different challenges.

#### *Iran's challenge...*

With no viable Arab state 'balancer' left, many perceive a rise of Iran to the position of 'regional hegemon'. In a strategic sense, Iran has been the main beneficiary of US regime change policies in Afghanistan and Iraq. These events, together with the disappearance of Russian power from its northern border in 1991, have fundamentally changed Iran's strategic environment to its advan-



tage. Some observers regard Iran as a revisionist power that aims to control the entire Middle East, to destroy Israel, and to replace US power. Such pundits are convinced that Iran's nuclear programme is geared towards the acquisition of a nuclear weapons capability. They also point out that Iran's foreign policy stance has grown more assertive since the US attempts to turn Iraq into a strategic asset have faltered after the 2003 invasion. They note that this change in Iran's outward look has been accompanied by the return of a more ideological stance since the election of Mahmoud Ahmadinejad to the presidency in 2005 and a growing influence of the Islamic Revolutionary Guard Corps in domestic politics.

Several US strategists seem to share the view of a unique challenge by Iran. The 2006 US National Security Strategy went as far as to claim that Washington 'may face no greater challenge from a single country than from Iran'. Such assessments, however, seem rather overblown and alarmist. Claims that Iran will be a 'regional superpower' are fatuous both in expression and in substance. Iran has certainly asserted itself. It quite successfully plays the role of the main antagonist of US-inspired security agendas in the Middle East. For this stance, it has drawn applause from large segments of the Arab public. Its support for anti-Israeli militant

groups in Lebanon and the Palestinian statelets has increased as well. But the limits of Iranian power are remarkable and must not be ignored.

*...and Iran's weaknesses*

As already mentioned, the idea of a 'rise of the Shia' across the region is mostly spurious. Iranian influence has grown in both Iraq and Lebanon, but demographic and political realities make a full take-over of power by Tehran's allies all but impossible. While they still adhere to a revolutionary vocabulary, Iranian leaders abandoned any visions of exporting the revolution about 25 years ago. Iran's mounting involvement in the Levant is most likely an expression of an acute awareness of its own vulnerabilities. Therefore, it should be seen more as an attempt to gain strategic depth and to devise alternative means of deterring an attack on its territory. Iran's patronage for Hamas and Hizbollah generates political rather than military advantages, as those organisations have little incentive to play the role of pure proxies or of a massive retaliatory force for Tehran. At the end of the day, Hamas and Hizbollah, as real players in their own right, will be held accountable by their local constituencies.

Iran's own military capabilities are indeed rather limited – while impres-





sive in size, its army is erratically led, factionalised, poorly equipped, its air force's fighter planes antique and its air defence capabilities limited. Iran possesses practically no power projection capabilities. With about US\$9 bn, Iran still spends less than 3 per cent of its GDP on defence, while Saudi Arabia with its much smaller population, for example, spends over US\$40 bn, about 9 per cent of its GDP. Indeed, over the last decade, all GCC states together spent about 15 times more on weaponry than Iran. Faced with a US attack, Iran would have to rely on asymmetric warfare and guerilla tactics. While it probably could organise a number of retaliatory terrorist acts using proxies and intelligence assets around the world, these would have no military effect. Iran's alleged ability to close the Strait of Hormuz and endanger Western oil supply is also overstated.

In economic terms, Iran is far from being a great power. Its GDP equals that of Greece, and it faces a number of serious economic challenges. Subjected to four rounds of UN sanctions, targeted US and European financial measures, and actions inhibiting gasoline imports, the country's already difficult situation has become worse. From a political point of view, how-

ever, the sanctions have helped the Iranian government to cast the blame on foreign powers and to legitimise the suspension of hugely costly subsidies on electricity, petrol, and basic goods. From a strategic perspective, however, the country has few hallmarks of great power potential. Inter-

**Iranian leaders abandoned visions of exporting the revolution about 25 years ago**

nally disunited and factionalised, Iran's ruling ideology is theologically chal-

lenged by nearly all Shiite religious authorities; it is ethnically heterogeneous (only 51 per cent are ethnic Persians) and now under pressure of a lively and seemingly popular 'Green' opposition movement awakened after the controversial presidential elections of 2009.

#### *Breaking out?*

While international concern is certainly understandable, Iran's nuclear programme is still far removed from an actual weapons capability. US intelligence continues to believe that the programme had been halted in 2003 and not been restarted since. The recently retired Israeli intelligence chief has stated that Iran would need at least until 2015 to develop a weapon, provided that there were no international efforts to constrain it. Nobody knows how far the Iranian leadership is willing to go, and it is rather likely that no



ultimate decision has yet been taken in Tehran.

Even if Iran went all the way rather than being satisfied with a 'break-out capability', it could nevertheless only manufacture a number of crude nuclear devices, would not possess a reliable delivery system, and could not ensure a second-strike capability. In many respects, it would be much more vulnerable than it is nowadays – it would become a legitimate target for nuclear retaliation, could well be confronted with a pre-emptive attack by another nuclear power, and would also encourage a long-term US presence in the Persian Gulf region as the Arab states would likely seek shelter under the US nuclear umbrella. The occasional claims by Western media and analysts that Tehran intends to attack Israel immediately once it possesses a nuclear bomb, insinuate strong suicidal intentions of its leadership. The current policies of Iran's leadership in the Gulf and in Iraq, however, suggest that it is guided by pragmatism rather than ideology.

Iran's rise is predominantly an effect of the changing regional environment in the wake of the Iraq War. Neither (alleged) regional clout, nor its military capabilities, nor its internal condition support the view that Iran can aspire to the role of regional hege-

mon. Even its nuclear weapons programme, from a non-eschatological vantage point, seems neither extremely urgent nor impossible to manage. But given its demographic size and its geographic position, Iran will in the future continue to play an important role in the wider Persian Gulf region, and it would be foolish to ignore its influence altogether. However, it will take some decades until this potential is fully developed.

#### *Israel's Iron Wall*

It was Israel's former prime minister David Ben-Gurion who in the late 1950s developed a theory of the regional periphery in the first place. The idea that newly founded Israel – given the circumstances of its creation – would be faced with intransigence, isolation, and violent opposition from its Arab neighbours for decades was widely believed. As acceptance in the Middle East seemed to be unachievable, Israel would establish its security with an 'Iron Wall' through military strength and deterrence. Any attempt to threaten Israel's existence would be answered by military force up to the point where the Arab neighbours would show a willingness to accept the new state as part of the Middle East and negotiate a peaceful end to the conflict.

Beyond the vital patronage of the US superpower for the young state, the



idea of an alliance with the states of the periphery like Turkey, Iran, and Ethiopia in order to balance against the Arab world took hold. The progress of time, together with a series of decisive military victories over the Arab antagonists, has led to general, if grudging, acceptance of the fact that Israel is here to stay, the fore-

**Israel's strategic elites have overlooked the frailty of the security arrangements with its neighbours**

most expression of which is the Arab Peace Initiative. The last step for Israel's integration would have been a successful conclusion of the peace process negotiations with the Palestinians as initiated by the Oslo Accords in 1993, which would have finalised the division of the territory of former Mandatory Palestine into two states. The formula 'land for peace' includes withdrawal from the territories occupied in 1967 in return for recognition of the state of Israel on 78 per cent of the former Mandate territory.

In retrospect, it is indeed hard to explain how the peace process came to be a failure and, in the future, it might well be regarded as one of the great missed opportunities in history. Instead of looking for culprits for the breakdown, the failure is probably best understood as a consequence of the huge asymmetry between the negotiating partners.

Israel today, quite unlike at the time when the idea of an 'Iron Wall' was conceived, is the dominant Middle Eastern military power and the hegemon in this sphere if one excludes US military power in the region. Israel is the only state possessing

sufficient military capabilities to pose an existential threat to

any of the larger states in the Middle East and is capable of defeating any combination of Arab states and Iran in a conventional war. The often-repeated talk about the Middle Eastern balance is therefore pointless, as in pure military terms, it is a near-total imbalance in favour of Israeli military might, a statement that would even be true if one ignores that Israel is the only nuclear-armed state in the Middle East. Beyond this dominance, Israel has the most modern economy, efficient institutions, integration into the global market and the faithful and unbending support of the sole superpower. In a short-term strategic view, there is no need to make peace with the Palestinians, as they are not and never will be a military factor at all.

#### *A false sense of security*

Even if this view of Israeli power as unassailable seems very convincing, it nonetheless ignores a number of central factors. Despite the current



near-total Israeli military dominance, there is no guarantee that it will be sustainable for decades. Israeli preponderance is, at its core, derivative of global US preponderance. While the special relationship with Washington looks unassailable for the moment and US attachment to Israel is passionate, history tells us that, at the end of the day, states have interests rather than friends. Should the US decide to disengage from the Middle East at one point, the fundament for Israeli preponderance will wane. It is unlikely that another extra-regional hegemon, provided there will be one at all, would be willing to acquire the liability then abandoned by the US.

Regional substitutes are non-existent: Revolutions in 1974 and 1979 removed the 'peripheral' allies of Ethiopia and Iran. The strategic alliance with Turkey has deteriorated, with the recent Gaza flotilla incident widely regarded as a turning point. Israel's own economic base does not suffice as a basis for the preservation of its status as the leading regional power. Nor do demographic realities. In the foreseeable future, Israel could well be dwarfed by its bigger and more populous neighbours. Israel's current military deterrent might indeed prove to be a wasting asset.

While Israel has drawn world attention to the Iranian nuclear threat, its

own strategic elites have consistently overlooked the frailty of its security arrangements with its direct neighbours. It has signed peace treaties only with Egypt and Jordan. In both countries, the peace agreements are based on the consent of detached elites and are quite unpopular with public sentiment. The Egyptian regime has come under intense pressure from the street, which has succeeded in forcing the resignation of President Mubarak. The outcome of the transition process is incalculable; but it is conceivable that a foreign policy more in resonance with public demand will seek revisions to the previous stance vis-à-vis Israel. Recent upheavals in the Arab world make for a worrisome strategic setting from an Israeli point of view.

#### *A one-state solution?*

Despite all these mid- and long-term factors compromising Israel's strategic position, the consensus view among its strategists still holds that military preponderance and US support make painful concessions unnecessary, and that a full integration into the region is neither indispensable nor desirable. It is true that current strategic advantages together with internal Palestinian divisions will, for now, ensure continued effective control of the whole area of the erstwhile Mandate of Palestine. Furthermore, any sincere



attempt to pursue a conflict-ending agreement with the Palestinians will probably prompt intense domestic divisions inside the Israeli polity, as it would involve the relocation of a large share of the about half a million settlers in the occupied West Bank and East Jerusalem into Israel proper. But the status quo is untenable.

Using the Palestinian Authority in the territories as a proxy for this purpose only accelerates the demise of Fatah and will either lead to the dissolution of Palestinian self-administration or a takeover of the West Bank by Hamas. Both would result in the return of direct rule by Israel. While both sides still publicly assert that they strive for a division of the territory into two states for two people, the reality on the ground is moving towards a one-state solution, a bi-national Israeli-Palestinian state. The Palestinian struggle for national self-determination could develop into a struggle for equal rights, which would change the conflict into a civil-rights struggle. Such a development challenges the fundamental *raison d'être* of the Jewish state.

### *A changing Turkey*

The most dynamic member of the Middle Eastern periphery club, at least in economic terms, is certainly Turkey.

Since the election of the moderate Islamist Justice and Development Party (AKP) to power in 2002, Turkey has transformed itself in remarkable ways. Having long been considered as the 'sick man' on the Bosphorus, the Turkish Republic has staged an unlikely comeback. Following a decade of unstable governments, economic volatility, ethnic conflict, and continued manipulation of the political system by the powerful Turkish military, the granting of official candidate status for EU membership in 1999 proved to be a turning point. The implementation of a number of constitutional and liberalising reforms created a political climate in which the AKP single-party government flourished. Turkey's economy grew by about 7 per cent before the financial crisis and has since rebounded, making it one of the fastest-growing economies in the emerging world. And, quite different from resource-rich countries in the Middle East, the Turkish economic miracle is built on self-sustaining, fundamental strengths.

Simultaneously, the political legacy of the military coups of the past has been overcome through reformist laws and a recent constitutional referendum in the autumn of 2010. With its con-

**The most dynamic member of the Middle Eastern periphery club is Turkey**

in 1999 proved to be a turning point. The implementation of a number



consolidation of civilian rule and democratic governance and the abolishment of military tutelage over the political system, Turkey has entered its post-Kemalist phase. The political dominance of the AKP sometimes elicits fears that the party led by Turkish Prime Minister Recep Tayyip Erdoğan is aiming for an authoritarian position or, given its ideological roots in political Islam, is trying to introduce a Sharia-based judicial system. While domestic political conflicts between the government and the secular establishment are vitriolic, these accusations seem not to be substantiated by facts. With its economic successes and steps toward genuine liberalisation, Turkey now epitomises a new pluralist democratic system in the Muslim world, secular while in consonance with Islamic values, economically dynamic and more and more independent in its foreign policies – in many ways a model to emulate for other Muslim societies and especially for the post-revolt societies in North Africa.

#### *The world of the Neo-Ottomans*

Turkey's popularity in the Middle East is predominantly derived from its recent foreign policy stance. The adoption of what many in the region perceive as a 'dignified' foreign policy by the AKP government has clearly changed the image of Turkey in the

region – indeed, to a rather surprising extent, given the burden of Ottoman history in the Middle East. An important element of this new stance is Turkey's reserved and often critical attitude towards Western, and foremost US, policies in the region. In retrospect, the decisive turning point was the Turkish parliament's refusal in 2003 to permit the use of US bases in the country for the attack on Iraq. Since then, the formerly close relations with Washington have experienced considerable strains, and Turkey's relationship with NATO has grown more ambivalent. Ankara's disassociation from the US strategic agenda in the Middle East quickly led to denunciations of Turkish foreign policy as an attempt to 'turn East' or even to join the so-called 'axis of resistance'. Some have even interpreted Turkey's new foreign policy as an attempt to recreate the Ottoman Empire.

In fact, Turkey's objectives are much more modest. Its new stance aims at achieving what its main architect, Turkish Foreign Minister Ahmet Davutoğlu, calls 'strategic depth'. In practice, this means that Turkey aims to deepen existing links with the countries in its neighbourhood in order to utilise the opportunities offered by its unique geostrategic location between Europe, the Caucasus, Central Asia, and the Middle East.



The new policy aims at ‘zero problems with neighbours’ and enables Turkey to act as a mediator in conflicts in its regional neighbourhood, from the Balkans to the Caucasus, from Gaza to the Golan, in Iraq, Afghanistan, and over the Iranian nuclear programme, albeit with varying success.

### *Growing stature*

Having neglected its Middle Eastern neighbourhood during the Cold War and the following decade, the return of Turkey as a major player has a tremendous effect on the regional system. Its economic initiatives vis-à-vis its Arab neighbours have fundamentally transformed bilateral relations and might even contain the nucleus of wider multilateral cooperation or even integration. One important achievement has been the creation of a visa-free zone comprising Jordan, Lebanon, Syria, and Turkey. There are also plans to expand the zone into an actual free trade zone of this ‘Middle East Economic Quartet’, and first steps have been undertaken for the creation of multilateral economic mechanisms modelled on the EU. These ideas have been accompanied by new plans for improving regional transportation and infrastructure as well as cooperation in the energy sector.

One of the most impressive examples of the new Turkish flexibility in for-

## **Turkey and the Middle East: New activism**

### *Economic*

Trade with MENA 22% in 2010, doubled since 2004

Fostering regional interdependence as a tool ‘to gain depth’ in the neighbourhood

- Free trade with Syria, Iraq, Jordan, Lebanon
- Aim to triple trade with Iran to US\$30 bn in 5 years
- Visa-free travel: Syria, Jordan, Lebanon, Libya
- Intra-regional infrastructure: Railway reopened with Syria and Iraq 2010

Energy: Oil deals with Sudan, 20% of gas imports from Iran

### *Political*

First strategic partner of GCC outside Gulf 2008

Observer at Arab League

High Level Strategic Cooperation Councils with Syria, Iraq, Jordan, Lebanon, Egypt

Strained relations with Israel over Hamas policy and flotilla raid

Mediation: Iran nuclear crisis (with Brazil); Syria-Israel; Syria-Iraq; Iraq; Lebanon; Israel-Palestinians; Fatah-Hamas; Afghanistan/Pakistan

eign affairs has been its growing role in the new Iraq. The precondition for this success has been a turnaround in Turkey’s relations with the Kurdistan regional government (KRG) in northern Iraq. Previously Turkish central governments had shunned the KRG because they feared that Kurdish



autonomy in Iraq might incite Turkey's own Kurdish minority. The surprising recent embrace of Erbil has led to an already impressive Turkish economic presence in Iraqi Kurdistan and the spreading of Turkish 'soft power' in the region. As a consequence of Turkey's opening, trade with Iraq has doubled in two years and promises to expand even further. Turkey also maintains close relations with Iraq's Sunni and Shiite communities and has positioned itself as a mediator in the talks on forming a new government during 2010. Expanding their networks of influence even to the Iraqi south, the Turks have managed to gain major influence in Iraq in a short amount of time. The close attachment to Erbil might even open a chance to establish wider Turkish-Kurdish reconciliation and collaboration, which could help develop the long-neglected south-eastern regions of Turkey and would also exert a strong gravitational pull on the Kurdish minorities in Syria and Iran, thereby enhancing Ankara's position further.

#### *The zero-sum of 'Zero Problems'*

Despite all the euphoria of Turkey's new activism, there is also suspicion in Arab states regarding Ankara's long-term objectives. Economic overtures have been generally welcomed, but political and military cooperation lags behind. While there has been a

limited number of military cooperation agreements with Jordan, Kuwait, and Saudi Arabia as well as joint exercises with Syria, US dominance in the military sector makes further cooperation difficult, especially in the Gulf monarchies. For now, Turkey's new approach is dominated by the economic sphere.

Despite Turkey's rapid rise to a preeminent position in the region, the sudden change in its foreign policy stance has also created new problems. The 'Zero Problems' policy has enabled much better relations with the neighbouring countries, but it was only made possible by abandoning the previous close alignment with the US strategic agenda in the region. Turkey's new activism has considerably strained relations with Washington. Turkey's attempt together with Brazil to mediate in the Iranian nuclear conflict at a time when the US was looking for support for new UN sanctions was perceived in Washington as unhelpful, and the Turkish subsequent vote in the Security Council against new sanctions was even seen as unfriendly.

There is also criticism directed at Turkey's engagement with Syria. The recent fall-out between Turkey and Israel over the war in Gaza and the Gaza Flotilla affair has considerably





contributed to the divergence between Washington and Ankara. The Obama administration had earlier demonstrated a willingness to accept a more confident and assertive role for Ankara in the Middle East, which previous administrations had repeatedly called for in the past. With the crisis in Israeli-Turkish relations, it has become extremely difficult for the administration to get domestic support for the acceptance of Turkey as a major regional player.

At the same time, Turkey's relationship with the EU has also lately experienced growing strains. Rather ironically, it was the prospect of eventual EU membership that had started the reform project and the democratic transformation in Turkey. More than five years after the start of membership negotiations, however, the accession process has stalled. Domestic opposition foremost in France and Germany, together with the intractable Cyprus question, have led to the 'freezing' of the most important negotiating chapters, and Turkish EU membership now seems rather unlikely in the near future. Turkish domestic support for joining the EU has fallen drastically. Economically, however, Europe is still dominant, as it still purchases more than half of Turkish exports, hosts several millions ethnic Turks, and also supplies the vast majority of foreign

investment. It seems as if trade relations with Europe will intensify irrespective of the accession negotiations.

With its assertive stance, Turkey has reaped substantial benefits in a short amount of time, but this posture has also led to the weakening of Ankara's traditional bonds. While unquestionably on the rise, the honeymoon phase of Turkey's new position in the Middle East will soon be over. A state of the size of Turkey will inevitably be drawn into taking sides in local conflicts, and continuing to maintain the high ground of neutrality will prove to be difficult at some point. Its new independence from Western influence will prove both an asset and a liability.

### **From Middle East to Middle West**

The rise, if uneven, of the periphery promises to fundamentally change the Middle East. The long-term effects of the events on the periphery in combination with political and social upheavals in the Arab world are already discernible. The increasing involvement of the peripheral powers in events at the Arab core has the effect of bringing the region together. At the same time, however, the growing economic drift of the Persian Gulf towards East and South Asia has the opposite effect. In the long term, this will change the way we look at the region.



When talking about the world region named *Middle East*, analysts often forget that the designation in itself presumes a Western vantage point, as the very term 'Middle East' was invented as a function of imperial strategy in the early 19<sup>th</sup> century. When the strategic centre of gravity moved further east during the later Cold War, new designations were invented. *Southwest Asia* referred to the Middle East together with the new focal points of Afghanistan, Pakistan, and the Horn of Africa. Most recently, the wider region has been referred to as the *Central Region*. Thus, the latter term, coined by US strategists, simultaneously illustrates both the geographic gaze of a non-Eurasian onlooker still informed by a Cold War framework and the ongoing strategic centrality of the region in the context of Washington's global grand strategy. The US is still the only relevant power from outside the region and is de facto a Middle Eastern power in its own right.

#### *America on the wane?*

There is an unaltered conviction in Washington that the Middle East is and will, for the time being, remain the central region. But there is also a growing conviction in both Washington and Middle Eastern capitals that US influence in the region is waning fast. The loss of US influence since the heyday of the early 1990s is undeni-

able. Its actual causes, however, are more difficult to identify. One important factor is that regional powers in the Middle East have grown bigger and therefore less reliant on US protection. US aid to Egypt, second only to Israel's in size, used to equal about 10 per cent of Egypt's GDP in 1980 – it now stands at about 1 per cent. Saudi Arabia has distanced itself – at least ostensibly – from its patron by convincing Washington to withdraw most of its troops from its territory in 2003. The strong pressure exerted on Israel by the George H.W. Bush administration ahead of the Madrid Peace Conference in 1991 seems inconceivable nowadays.

This general trend has been forcefully expedited by Washington's own strategic and tactical mistakes. As described above, the invasion of Iraq has irrevocably changed the strategic balance in the region. Antagonistic Iran has been emboldened, previously close allies such as Turkey have distanced themselves from Washington, and an isolated Israel is doing everything in its power to sabotage US attempts to engage unfriendly powers. US actions in Iraq and the massive military footprint in the region have tarnished the US image, and even Obama's popularity after his 2009 Cairo Speech has drastically suffered, as it has not been followed by concrete political steps.



Apparent successes, such as the 2005 ‘Cedar Revolution’ in Lebanon, have proven to be rather limited. In the meantime, US attempts to reinvigorate the Arab-Israeli peace process have failed.

Despite all these setbacks, the US should not be written off too hastily. While it is not indispensable any more, it is still the only relevant extra-regional player at the moment. The Obama administration has managed since 2009 to stabilise the US position in the region. It has managed to continue the drawdown of US troops from Iraq, to be concluded by the end of 2011, while supporting political stability in Baghdad. While ostensibly engaging the leadership in Tehran, the administration has managed to build an international coalition in favour

of an ongoing pressure strategy built on sanctions aimed at Iran. The strategy will hardly succeed in stopping Iranian enrichment activities, but it will, for now, keep all military options off the table, a primary US interest at present. This may also be based on the belief that the political clock in Tehran might be ticking faster than the nuclear one. The administration has deepened its strategic cooperation with the Gulf monarchies, based on arms deals worth

around US\$123bn, which have also benefited the US economy. The Obama White House has apparently opted for modest steps and in favour of managing existing conflicts instead of aspiring for grand solutions.

Nevertheless, the revolts and revolutions that began in 2011 – veritable birth pangs of a new Middle East – will certainly have an influence on the US hegemonial position. As the most important foreign supporter of the ruling authoritarian regimes in the Arab world and their close collaborator in the security and intelligence sphere, the US has the most to lose from these developments in a strategic sense. The nature of the new governments emerging from

**In a strategic sense, the US has the most to lose from the revolts in 2011**

the transition periods in Tunisia and Egypt and the developments in other Arab states

are unpredictable. But foreign policies more in accord with the consent of the governed in the new republics will lead to greater distance from the US. Open discussions of the past, trials of former officials, and opening of the archives might reveal Western collusion with the toppled regimes. This will be a burden for any US attempt to engage the new republics. Any serious attempt by the Obama administration might well be hampered by a recalcitrant Congress. If the



Arab revolts turn into revolutions, US influence might be largely confined to the Arabian Peninsula and the Gulf region, similar to what happened to Great Britain after Suez 1956 and the Iraqi Revolution of 1958.

*Fading of the imperial will?*

While many US analysts agree on the continued pre-eminent importance of the Middle East for US global interests – with East Asia as the main competitor –, they often disagree on the best way to secure those interests in the region. There is growing criticism of the US' large regional military footprint, which is regarded by some as militarily unnecessary and politically inciting. With the completion of the Iraqi and Afghan campaigns, these critics can be expected to be listened to more closely.

Disillusionment with the limits of US political influence in the Middle East is palpable inside the Beltway, and it can be expected to grow even more once the (in strategic terms) very humble gains of recent wars have become more obvious. For now, the Obama administration is continuing its predecessor's policy in Iraq to seek pervasive political influence and thereby establish itself as a long-term strategic partner of the new Iraq. It is difficult to acknowledge that, in reality, the US is only one of a number of players – including Iran, Turkey, and Saudi Arabia – seek-

ing influence in Baghdad and hardly the most successful one. Washington's repeated failures in the thankless task of promoting Arab-Israeli peace have harmed its global and regional image; and, incapacitated by domestic weaknesses, it is unable to implement the kind of steps that would make these efforts more promising. Counterterrorism is still an issue, but is increasingly seen as an ongoing duty rather than an urgent strategic threat. An activist policy in the region in pursuit of this interest might indeed increase the threat instead of reducing it.

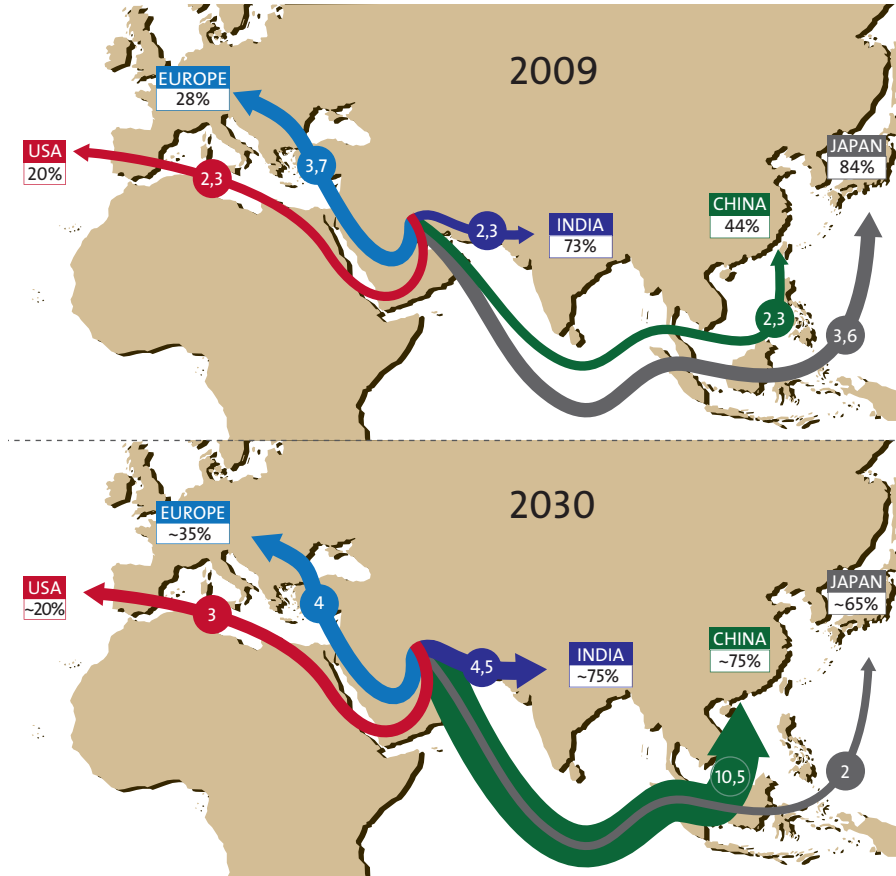
The perception of US primacy has changed quite considerably in recent years. In 2004, the US National Intelligence Council predicted continued US dominance of the global system in 2020. Four years later, it changed its prediction and forecast a global multipolar system for 2025 consisting of a number of great powers, with the US being only one, if still the strongest, of them. The main reason for this diminished self-confidence has been the global financial crisis and the strong effect it had on the US economy (see Chapter 1 in this publication). The fiscal fundament of US primacy is endangered if US federal debt hits 110 per cent in 2025 and 180 per cent in 2035, as predicted in one official forecast. In the mid-



term, this will have an effect on US global strategy as well as on its regional approach to the Middle East. The US has reduced its dependency from Middle East oil in recent years, with

only 17 per cent of its oil imports coming from the Persian Gulf (20 per cent from the whole region), less than from Africa. Strategists in the future might well wonder why the

**Oil imports from the Middle East**



- ➡ Oil flows from the Middle East (including North Africa), mio. barrels per day
- ☐ Share of Middle Eastern oil in overall oil imports

Sources: International Energy Agency (IEA), BP Statistical Review of World Energy, US Energy Information Administration (EIA)

2030 figures are analyst estimates based on multiple projections.



US should guarantee the free flow of oil from the Gulf while China and India cover over half of their crude imports from the region. The occasionally advanced argument that the US military presence prevents the de-dollarisation of oil trade is rather doubtful.

For now, there is still a consensus in Washington that the maintenance of US global hegemony is both desirable and achievable. If there is a role designated for the new powers, it is that of a 'responsible stakeholder' in an international system whose rules are still set in Washington. As long as the fiscal situation seems manageable, a fading of US imperial will is not in the cards, and even a more prudent strategic posture in the Middle East, e.g., moving back over the horizon and balancing the region from an offshore position, seems unlikely. As in the British example between 1882 and 1971, the American moment in the Middle East will end once strategic intentions are betrayed by economic and financial fundamentals.

### *Mapping the future*

These possible developments in the future will accelerate another important trend that is already discernible:

### **The Eastern part of the Middle East will reorient towards East and South Asia**

the growing orientation of the eastern part of the Middle East towards East Asia. Again, this trend is driven by economic developments. The Asia-Pacific region will account for about 60 per cent of global oil deficits in 2030. The great majority of this increased demand will be covered from the Middle East and, foremost, from the Persian Gulf region, as the latter contains about 55 per cent of proven reserves. China already gets around 50 per cent of its imported oil from the Middle East. China's oil imports from the Middle East are expected to rise five- to six-fold until 2030, and its dependency will rise to 70 or even 80 per cent. The projection for India's crude oil imports from the region is quite similar.

This expanding hydrocarbon trade is the basis for the growing interdependence between the Persian Gulf and South and East Asia. It is accompanied by growing non-hydrocarbon trade and increasing investment tying the regions closer together. The repositioning of the Gulf in the economic global order is already in the making.

For now, the Asian giants have avoided adding a security dimension to their growing economic involvement



with the Gulf. In military terms, the region, Iran excluded, is still firmly in the US camp. Both China and India used to avoid any actions that might be interpreted as a challenge to this dominance. For now, both are happy with the Western guarantee for the safety of shipping routes and supply lines. They reluctantly subscribe to the US strategic agenda in the region, the most recent example being tightening sanctions against Iran. But if history is a guide, given their growing dependency on oil imports, they will seek greater influence on their vital energy suppliers at some stage. The flag will follow the trade.

There are already some indications for such a shift. In early 2010, two Chinese warships visited a port in the Persian Gulf for the first time. China also financially supports the construction of a deep-sea port at Gwadar in Pakistan, strategically located only 250 miles from the Strait of Hormuz. In response, India is supporting the development of the Iranian port of Chabahar, even closer to the Strait. The independent policies of some states in the Middle East also enable new great powers to project their influence. In a move hardly noticed by

Western media, Turkey allowed Chinese fighter planes to visit Konya to conduct a joint exercise with the Turkish Air Force on the territory of a NATO member. These events are harbingers of future developments.

It seems inevitable that in the not so distant future, the eastern part of the Middle Eastern region will increasingly reorient towards East and South Asia. The economic interdependence will at some stage be enriched by a security dimension, at the latest once US imperial power will have diminished. Together with the fundamental political changes beginning in the western part of the region, this might have the effect of gradually dissolving the economic and political convergence of the whole Middle Eastern region, which has now been well-established for decades. The wider Persian Gulf region might then be renamed the *Middle West*, as the most relevant vantage point in a strategic sense will now be located in South or East Asia. Irrespective of when these projected developments pick up pace, the region today known as the Middle East will experience fundamental change in the age ahead. ●





## CHAPTER 3

# 9/11 ten years on: Terrorism as a manageable risk

*Daniel Möckli*

The threat of jihadist terrorism has evolved in recent years. The core organisation of al-Qaida is weakened. The large majority of other Islamist extremist organisations have not followed its call for global jihad and are pursuing more local agendas. Homegrown terrorists remain a challenge for Western security, especially if they have ties to established jihadist groups. Current counterterrorism works, however, to the extent that the probability of mass-casualty attacks in the US and Europe has diminished. Terrorism is a real but manageable risk that Western governments should no longer overemphasise.



A British police officer stands outside Victoria station in London, 7 January 2011



TEN YEARS AFTER AL-QAIDA'S COORDINATED MASS-CASUALTY ATTACKS ON THE US, MANY EFFECTS OF 11 SEPTEMBER 2001 ARE STILL VISIBLE. Islamist extremist violence continues to be widely perceived as a major threat to global security. Recurring terrorism alerts and news about successful or foiled attacks serve as forceful reminders that this is a threat that could hit anyone anytime. Aviation security and infrastructure protection remain major public concerns. Counterterrorism capabilities in law enforcement, intelligence, and the military have all been enhanced. Geopolitically, the consequences of 9/11 are still unfolding, with the Iraq War changing the balance of power in the Middle East and the war in Afghanistan reaching new levels of intensity.

For all these repercussions, 9/11 has not brought about strategic change to the international system. It illustrated the globalisation of security threats and the empowerment of non-state actors. It also had a tremendous impact on US foreign policy for several years. Yet, with the US gradually modifying its counterterrorism approach, al-Qaida has not succeeded in provoking the West into a clash of civilisations. This is notwithstanding growing anti-Muslim and anti-American sentiment in certain parts of the world. Nor has al-Qaida become a

mass movement. The core organisation of al-Qaida has been significantly weakened. Al-Qaida's ideology has lost much support in Muslim countries. The vast majority of Islamist extremist groups have not picked up the call for global jihad and continue to pursue more local agendas.

Seen from the perspective of Western security, Islamist extremist violence has not become an existential threat as was frequently predicted after 9/11. Rather, it should be perceived as an ongoing but manageable risk. Current counterterrorism policies are effective to the extent that the likelihood of complex and catastrophic attacks against the homeland of Western countries has substantially decreased. The jihadist threat to Europe and the US no doubt remains real, with 'home-grown' radicals that have ties to al-Qaida-related terror organisations being a particular source of concern. However, potential terrorist attacks are likely to be limited in scale and conventional in nature over the coming years.

Shifting from managing to resolving the problem of jihadist terrorism may be too ambitious an objective, as strategic counterterrorism is beset with major challenges. The fight against terrorism is set



to stay and will continue to require considerable resources. Yet, terrorism is a threat that should no longer be overemphasised at the expense of other security challenges. Issues relating to the transformation of the international system and regional developments in Europe, the Middle East, and elsewhere will likely top the strategic agenda of Western countries in the coming years.

### **An evolving threat**

The jihadist threat has evolved significantly in the past years. The capacity of al-Qaida Central (i.e., the core organisation around Osama Bin Laden) to launch complex and catastrophic attacks has been diminished. Al-Qaida's ideology and brand have however been taken up by some other terror organisations. These regional al-Qaida affiliates embrace the call for global jihad to some extent. But their grievances and objectives – and in most cases, also their operative range – are tied to specific local contexts.

The same holds true for most other Islamist extremist groups. Al-Qaida's concept of global jihad is being marginalised in Islamic religious and political discourse. Most of the groups that operate on the premise of jihad continue to follow the classical interpretation of a defensive struggle

against oppression in Muslim countries. Going after the 'near enemy', they still may hit not just national regimes and security forces, but also local Western targets. But they do not subscribe to al-Qaida's reinterpretation of jihad in global and more offensive terms. Hitting the 'far enemy', i.e. launching attacks against the US homeland and other Western countries, is not what they are after.

In Europe, and increasingly in the US as well, there is the additional threat of homegrown radicalisation. Evidence suggests that the damage homegrown jihadists can cause depends significantly on whether they are self-inspired and acting autonomously or trained and guided by established terrorist organisations. The most likely current scenarios of homegrown terrorism concern attacks of limited scale with traditional terrorist methods such as armed assault and improvised explosives.

Overall, the diversification of Islamist extremist violence in recent years has rendered the jihadist threat more diffuse. It has also meant that the threat for Western homelands, while still real, has been reduced. Muslim-majority countries, rather than the West, are the main target of terrorist attacks.

*Al-Qaida Central weakened*

Founded in the late 1980s, al-Qaida began to demonstrate its ability to implement devastating attacks against Western targets a decade later. The 1998 US embassy bombings in East Africa resulted in more than 300 deaths. Two years later, al-Qaida launched an attack against the US Navy destroyer USS Cole in the Yemeni port of Aden that killed 17 sailors and damaged the vessel. In the suicide attacks of 9/11, 19 al-Qaida terrorists managed to hijack four commercial airliners simultaneously, intentionally crashing two of them into the Twin Towers of the World Trade Center in New York and a third into the Pentagon outside Washington. With nearly 3,000 victims from more than 90 countries, 9/11 catapulted al-Qaida into the limelight of world public attention and put the threat of large-scale Islamist extremist violence at the top of the international security agenda.

In the years since 9/11, the core organisation of al-Qaida has continued to be involved in the planning and conduct of terrorist attacks. Its capacity to do so has diminished, however, as it has moved into the focus of counterterrorism efforts. Some

of its top leaders, including Osama Bin Laden and Ayman al-Zawahri, are still at large. Yet, they are on the run, presumably hiding in the secluded tribal belt of northwest Pakistan.

There are indications that al-Qaida Central barely functions as an effective organisation anymore. According to US government sources, there are at most 50 to 100 members

**Al-Qaida Central today largely depends on other jihadists to achieve operational effect**

left in Afghanistan, and perhaps 300 in Pakistan. Many cadre members

have been killed and are difficult to replace. Compelled to lie low, the top leadership is issuing fewer and fewer audio and video messages. Overseas funding has gone down dramatically. The facilities for training have largely been destroyed, which is why training sessions are much shorter and less sophisticated today, with trainees being asked to provide for their own funding.

Experts disagree about the extent to which the leaders of al-Qaida Central are still able to play a role in operative decisionmaking for terrorist attacks. But it seems clear that what used to be a hierarchically structured organisation has turned into a dispersed grouping that is increasingly dependent on other jihadist organisations to achieve operational effect.



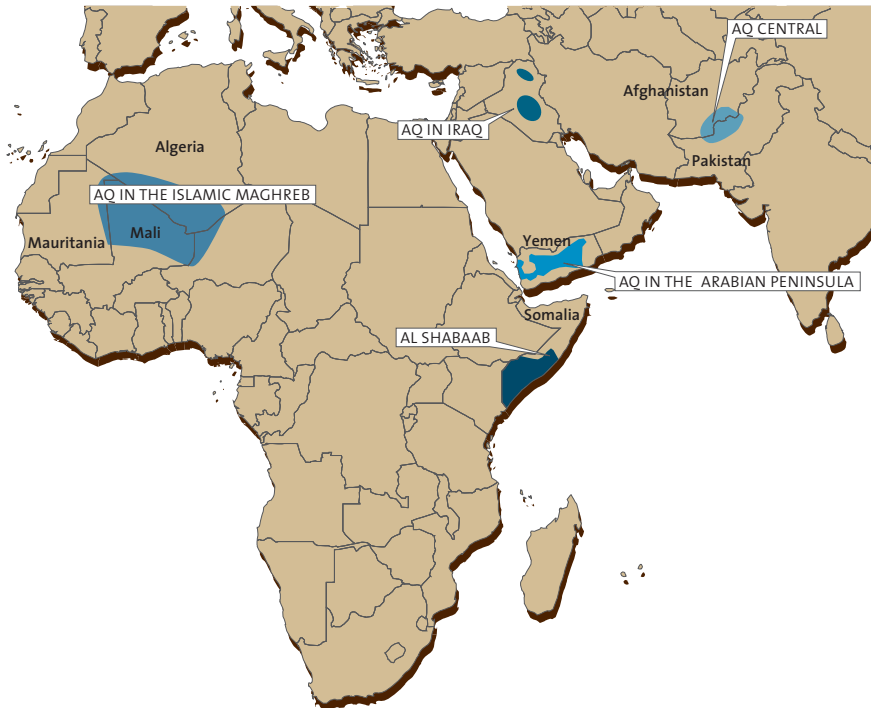
*Al-Qaida affiliates: Local insurgents with a global brand?*

In the aftermath of 9/11, a series of other jihadist organisations pledged allegiance to al-Qaida and in some cases have taken up its name. Al-Qaida in Iraq was founded in 2003 in response to the US invasion. Initially mainly consisting of foreign jihadists, it played a major role in the violent upheavals in post-Saddam Iraq. While it was substantially weakened once the Sunni tribes turned against it, the group has recently become more active again and today is a more indigenous organ-

isation run by Iraqi nationals. Also in the Middle East, al-Qaida in the Arabian Peninsula (AQAP) was formed in 2009 as a merger of two al-Qaida groupings active in Saudi Arabia and Yemen. It operates mainly from Yemeni territory and is believed to consist of several hundred fighters today.

In Africa, the Salafist Group for Preaching and Combat that emerged in Algeria in the 1990s changed its name to al-Qaida in the Islamic Maghreb (AQIM) in 2006. It operates in Algeria and the Sahel

### Al Qaida and its affiliates





region and is funding itself through kidnapping and trafficking (see also Chapter 4 in this publication). Finally, there is the Somali Islamist movement al-Shabaab that seeks to overthrow the Somali government and controls most of the southern parts of the country. Comprising both Somali insurgents and foreign jihadists, this grouping officially confirmed its alignment with al-Qaida in 2010.

The existence of such affiliates has prompted analysts to describe al-Qaida today as a 'movement' or 'network' whose centre of gravity is constantly shifting. Such notions can be misleading, though. Although the links of these regional affiliates to al-Qaida Central vary, all these organisations appear largely self-sustaining today. In some cases, such as AQIM, the alignment with al-Qaida has resulted in a shift of tactics, with suicide attacks becoming more prominent. However, in terms of ideological underpinnings and strategic objectives, there are differences between most of the affiliates and al-Qaida Central.

Affiliates in Iraq, the Maghreb, and Somalia are essentially local insurgent groups pursuing a domestic or regional agenda and fighting the 'near enemy'. They do share the anti-Western rhetoric of al-Qaida Central and indeed have all attacked not only govern-

ments, but also local Western targets within their reach. But there is little indication in practice that they are eager – or indeed able – to focus on global jihad and go after the 'far enemy' in the US or in Europe.

The case of AQAP is different. This group has tried to blow up a commercial airplane over Detroit and two cargo planes flying to the US. It also issues an English-language jihadist magazine. However, although AQAP incorporates al-Qaida's global objectives to some extent, it still seems to have predominantly local aspirations and is mainly driven by local grievances. Moreover, it has yet to demonstrate its ability to implement a successful mass-casualty attack in the West.

Although AQAP and AQIM, at least, can be described as transnational organisations, the overall impression is that most regional affiliates of al-Qaida are not really part of a global project in any extensive way. Some of them may have picked up the al-Qaida logo mainly to attract international attention and prestige. Others continue to be divided over what the al-Qaida brand should actually mean for them.

Beyond the official affiliates, there are other groups with ties to al-Qaida.



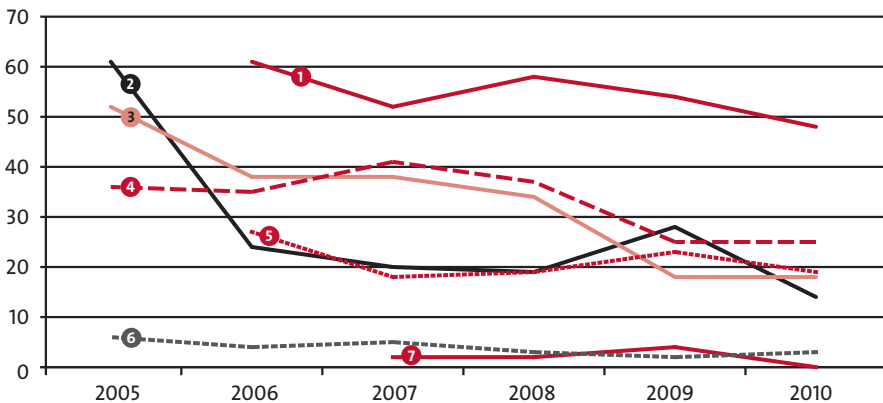
Although these groups have refrained from pledging allegiance to al-Qaida, they must be taken into account when assessing the global jihadist threat. In Pakistan, groups like the Pakistani Taliban or Lashkar-e-Taiba (LeT) are said to collaborate with al-Qaida. One reason why they have not formally aligned may simply be that the al-Qaida logo is certain to spur international counterterrorism efforts. Yet, again, these organisations are much more rooted in local contexts than al-Qaida Central. Some analysts predict that LeT has both the intention and the capacity to go global and become the 'next al-Qaida'. They point out that LeT went after Western and Jewish targets in the Mumbai attacks of 2008 (with 173 deaths), has listed more than 300 potential international targets, and is already running

logistical and funding cells outside of South Asia. The extent to which LeT is really going beyond its anti-Indian agenda remains however to be seen.

### *Decreasing appeal*

Given the concerns after 9/11 of a global jihadist mass movement, it is remarkable that an overwhelming majority of Islamist extremist organisations have kept their distance from al-Qaida's ideology and global outlook. This holds true for terrorist organisations in East Asia like Abu Sayyaf as well as for most Islamist extremist groupings in Central Asia and the Northern Caucasus. Even the Afghan Taliban have started to dissociate themselves from al-Qaida and frame their insurgency in national terms today to enhance domestic appeal.

### Confidence in Osama Bin Laden (%)



Source: Pew Research Center 2010

● 1 Nigeria    ● 3 Pakistan    ● 5 Egypt    ● 7 Lebanon  
● 2 Jordan    ● 4 Indonesia    ● 6 Turkey



Two prime examples of Islamist movements with national agendas and firm anti-al-Qaida policies concern Hizbollah and Hamas. Both organisations emerged in opposition to Israeli occupation policies. While both of them have a history of terrorist tactics, they have joined the political process to advance their national objectives. Turning increasingly into state actors in Lebanon and Gaza, they reject global jihadism and may even go after such groups on their territory. Lumping Islamo-nationalist actors together with al-Qaida fails to do justice to the variety of Islamist movements and their objectives.

Similar to the al-Qaida affiliates, some of the locally-oriented Islamist extremist groups may still attack Western targets within their reach, either for ideological reasons or to draw attention to their local grievances. It was no coincidence, for example, that the Caucasus Emirate, an Islamist militant group fighting Russia's presence in the Northern Caucasus, chose Moscow's international airport for its terrorist attack in January 2011 (36 deaths). Other groups refrain from attacking local Western targets, considering such attacks counterproductive for their national agenda. What unites all these groups is that they are not driven by global jihadism, which is why the

probability that they attack Western homelands seems rather low.

Beyond its failure to win over most other Islamist extremist organisations, al-Qaida also suffers from waning support among Muslim societies. There is much popular disaffection about al-Qaida's indiscriminate killings of Muslims. The atrocities against Muslims in Iraq and elsewhere caused tremendous damage to the al-Qaida brand. Furthermore, Bin Laden has not been able to formulate a positive vision that would appeal to the masses. The fall of the Mubarak regime in Egypt may contribute further to the loss of appeal of al-Qaida, as it has demonstrated that there is a peaceful alternative to change brought about by jihadist violence. Finally, modifications in US counterterrorism policy also contribute to the decreasing appeal of al-Qaida, though this aspect should not be exaggerated (see below).

#### *Two types of homegrown terrorists*

Improved counterterrorism efforts have made it more difficult for members of jihadist terrorist organisations to enter Western countries and launch successful attacks. But Western security is also threatened by homegrown Islamist extremist violence. The threat of terror attacks by radicalised Muslims or converts who





grew up in Western countries was first associated with Europe, following the Madrid bombings of 2004 (190 deaths) and the London bombings of 2005 (56 deaths). Since 2009, the US has also witnessed a growing number of terror plots by US citizens or legal permanent residents; the attacks in Fort Hood (Texas) and Little Rock (Arkansas) killed 14 people.

Radicalisation is a complex phenomenon. There is no single reason why young Muslims or converts in Western countries come to embrace global jihad. Identity conflicts and personal ties to other radicals have played a role in many cases. The Mohammed cartoons published by Danish newspapers are frequently listed as a reason too, as are grievances about Western policies in Iraq, Afghanistan, and other Muslim countries. Mosques, prisons, and universities have been identified as important venues of radicalisation. It has also been suggested that al-Qaida should be regarded as a 'youth movement', with recruitment factors resembling those of secular political violence groups.

There is an inconclusive debate over the extent to which homegrown terrorism consists of autonomously radicalised and independently operating jihadists and decentralised groups (bottom-up thesis) or well-trained

fighters with close links to al-Qaida and its affiliates (top-down thesis). Evidence suggests that these are simply two different types of homegrown terrorists. Self-radicalised 'lone wolf' jihadists and autonomous terrorist cells are very difficult to discover. They usually lack however the expertise and logistics to launch sophisticated large-scale attacks. Building a bomb and detonating it effectively is more complex than is often assumed.

Conversely, homegrown terrorists who receive training and guidance from terrorist groups in countries like Pakistan, Iraq, Yemen, or Somalia may have the potential to cause large-scale damage upon their return. Numerous European and US citizens have actually travelled to such conflict zones and training camps. Some of them have received lessons in bomb-making techniques, while others have even settled there and taken up operative roles within the organisations. Incidentally, the suicide bombers in the Madrid and London attacks – by far the biggest incidents of Islamist extremist violence in Europe – are now also believed to have had closer ties to al-Qaida than initially assumed. If there have not been any major successful attacks in Europe or the US since, this may partly be because the greater security risks associated with this



second type of homegrown terrorists are offset to some extent by the higher probability of the perpetrators showing up on the intelligence radar. Having said that, the man trying to detonate a bomb in Times Square in May 2010 and the Stockholm suicide bomber of December 2010 are both examples of homegrown terrorists with ties to external jihadists who had remained unnoticed by intelligence agencies.

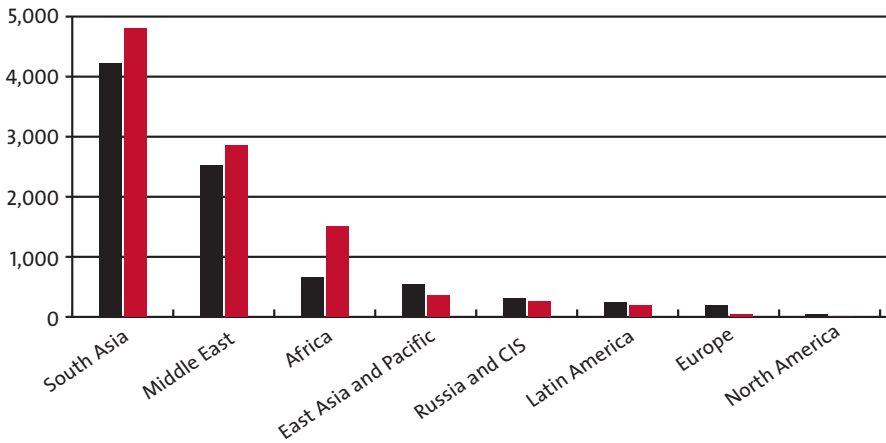
*A largely non-Western threat*

The decreasing appeal of global jihad and the limited operational capacity of jihadists willing to strike European or US targets suggest a reduced scale of threat emanating from Islamist extremist violence to Western countries overall. A typical attack in the coming

years will likely be of limited scale and sophistication, carried out with conventional weapons like assault rifles or improvised small explosive devices. In its methods, jihadist terrorism increasingly resembles traditional IRA- or ETA-type terrorism. It continues to differ, however, in that it is often aiming at indiscriminate mass casualties and may target any country, irrespective of secessionist conflicts.

It is due to this last reason that Islamist extremist violence will likely remain a major concern to Western publics and policy-makers. It works to the advantage of al-Qaida that even failed attacks arouse public attention, emotion, and fear. It is important to note, however, that it is non-OECD countries, and predominantly

**Global distribution of terrorist incidents in 2010\***



\*Data up to September 2010

Source: US National Counterterrorism Center (NCTC) 2011

■ Attacks ■ Fatalities



### Countries most affected by terrorism in 2010\*

	Attacks	Fatalities
1. Afghanistan	2,514	2,475
2. Iraq	2,016	2,704
3. Pakistan	1,032	1,680
4. India	616	624
5. Somalia	411	946

\*Data up to September 2010

Source: US National Counterterrorism Center (NCTC) 2011

Muslim-majority countries, that suffer the bulk of terrorism attacks and casualties. In 2010, the 'top five' countries in terms of both attacks and deaths were Afghanistan, Iraq, Pakistan, India, and Somalia. Collectively, they accounted for 76 per cent of all attacks and 83 per cent of all deaths.

Europe and the US rank last on this global list of terror incidents. In Europe, there have been few attacks, and the figures for arrests have been decreasing since 2006. According to Europol data covering 26 EU member states (excluding the UK), six member states reported 294 failed, foiled, or successfully perpetrated terrorist attacks in 2009. Only one of these attacks was categorised as Islamist, as opposed to 237 attacks related to ETA in Spain and France. In the figures for 2010, the number of Islamist attacks may go up slightly, but the major trend may well be a rise

in attacks by anarchist (left-wing) groups in Greece, Italy, and Spain. In the UK, there were 173 terrorism arrests in 2009/10, compared to an annual average of 216 since 2002. As for the US, few would have expected that there would 'only' be 14 homeland deaths caused by Islamist extremist violence in the decade post-9/11 – a figure that contrasts with the 168 people killed in the right-wing Oklahoma bombing of 1995.

The bottom line is that while jihadist terrorism hits hard some of the Muslim countries, it is a manageable risk in Western countries. There is of course a price tag attached to managing this risk effectively (see below). Also, new large-scale attacks on Western homelands can never be ruled out. Nevertheless, the likelihood of such an attack appears lower today than some counterterrorist bureaucracies and analysts continue to argue.

This is also why two worst-case scenarios are unlikely today: Links between anti-Western Muslim regimes and global jihadists have not materialised in any substantial way. Iran does support Hizbollah and Hamas, but has been tough on al-Qaida. Nor did Saddam Hussein cooperate with global jihadists. There are ties between the Pakistani Inter-Services Intelligence (ISI) and



al-Qaida and LeT in Pakistan. Yet, these are tactical alliances that are not geared against the West, but must be seen in the context of the ISI's strategic calculations concerning Pakistan's relations with India.

Without state sponsorship of global jihadism, the scenario of terrorism based on weapons of mass destruction (WMD) appears unlikely too. Again, there are concerns about the safety of nuclear weapons, especially should Pakistan descend into political chaos. US President Barack Obama's characterisation of nuclear terrorism as 'the most extreme threat to global security' is certainly justified, and there is no doubt that a WMD attack could be a game-changer in international relations. But it is doubtful that Obama is also right in calling this 'the most immediate threat'. Getting the materials and the know-how to launch an effective WMD attack remains exceedingly difficult. As for the use of conventional explosives to disperse radioactive materials, such 'dirty bombs' are unlikely to cause mass casualties, though they may cause mass panic.

### **More effective tactical counterterrorism**

The weakening of the global jihadist threat is linked not only to strategic

miscalculations on the part of al-Qaida. It is also the result of improved tactical counterterrorism. Three fundamentals have been at the heart of counterterrorism since 9/11: strengthened anti-terrorism legislation and expanded law enforcement powers, financial interdiction, and enhanced domestic coordination and international cooperation. On top of these fundamentals, there is a series of lessons learnt that in sum

**Many in Europe view Islamist extremist violence above all as a law enforcement challenge**

have rendered counterterrorism more effective in recent years.

These lessons concern a modified conceptual counterterrorism framework, a shift from 'hammer' to 'scalpel' military measures, and a more comprehensive approach including non-military measures.

Changes in counterterrorism policy concern mainly the US. The Europeans reacted to 9/11 with an evolution rather than revolution in counterterrorism policies. Confronted with domestic terrorism since the 1970s, they have continued to view Islamist extremist violence essentially as a law enforcement challenge. Accordingly, they focused on expanding intelligence and law enforcement powers and capabilities and made efforts to improve judicial, police, and intelligence cooperation. In the US,



by contrast, the Bush administration interpreted 9/11 as a new reality that required new approaches and provided for new opportunities, the result being a revolution in US foreign policy, a strong emphasis on military counterterrorism, and a series of legal measures that aroused much controversy. It was only towards the end of the Bush period that the US began to adapt and refine its policies, some of which had actually proven counterproductive in meeting the terrorism challenge. The Obama administration has enhanced the scale and speed of change in US counterterrorism, implementing lessons learnt since 9/11.

### *Three fundamentals*

Efforts to strengthen national counterterrorism legal frameworks and expand intelligence and law enforcement powers have been a fundamental component in the fight against terrorism of most Western countries since 9/11. While measures differ widely in scale, they usually include enhanced powers for the surveillance of communications, the observation of private spaces, and the secret screening of databases. Such a strengthening of preventive investigatory powers reflects a broader shift from a crime-resolving to a preventive logic in terrorism-related law enforcement, with, for instance, preparatory actions for terrorism being criminalised. In some

countries, intelligence agencies have taken over law enforcement tasks traditionally performed by the police. In addition to the expansion of powers, many governments have significantly increased resources and capabilities for intelligence and law enforcement institutions. US intelligence funding has doubled since 9/11.

There is an ongoing debate in Western liberal democracies as to the right balance between security and civil rights considerations in the fight against terrorism. Legal measures to detect and go after terrorists inevitably infringe upon the privacy rights of citizens. From a counterterrorism perspective, enhanced intelligence and law enforcement powers play a vital role in keeping the rate of successful attacks in Europe and the US low. Ultimately, however, each country will mark its own delineation between national security and individual freedoms, as well as between intelligence and police competences, depending on its political culture and other domestic factors in play.

Cutting off the flow of money to terrorist organisations has been a second fundamental of counterterrorism that has proven effective. Under the leadership of the UN and the US Treasury Department's



Office of Terrorism and Financial Intelligence, the vast majority of states have taken action to improve anti-money laundering and counterterrorist financing laws. Although terrorist funding emanating from countries like Saudi Arabia continues to be a major concern, the overall balance sheet of these measures is positive.

Again, issues concerning financial counterterrorism have given rise to controversies. The transparency and fairness of the terrorist designation process in the framework of the al-Qaida and Taliban Sanctions Committee under UNSCR 1267 remain disputed. The data privacy protection in the transfer to US counterterrorism authorities of information on international bank transfers through the SWIFT system has been questioned too. Yet, there is no denying that these financial counterterrorism regimes work effectively, which is why serious efforts have been made to adapt them in a way that also enhances their legitimacy.

Domestic coordination and international cooperation has been the third fundamental of counterterrorism since 9/11. Because ineffective information-sharing was a major reason why 9/11 could happen in the first place, much attention has been

given to this issue in the past decade. Domestically, numerous coordinative bodies have been set up, such as the National Counterterrorism Center in the US, the Joint Terrorism Analysis Centre in the UK, or the *Gemeinsame Terrorismusabwehrzentrum* in Germany. Some countries have also chosen integrative rather than coordinative models, with Switzerland for instance fusing its external and domestic intelligence agencies.

International cooperation has increased too, in line with the recognition that terrorism is a transnational threat that can only be met with a collective response. Cooperation still takes place mainly on the bilateral level, with the CIA being a clearing-house for information-sharing with both Western and Muslim countries. But there is also a growing degree of multilateral cooperation in counterterrorism, not just among the Europeans and between the EU and the US, but also in the framework of the UN and at the level of non-Western regional organisations.

Intelligence cooperation is still less developed than police cooperation, due to the sensitivity of the materials involved and the need to protect sources. Often, the material exchanged

**Seen from the US, intelligence cooperation with Europe often looks like a one-way street**

takes place mainly on the bilateral level, with the CIA being a clearing-



consists of broad analyses of terrorism trends rather than operationally valuable information. Moreover, seen from the US, intelligence cooperation with Europe often looks as a one-way street, as most European agencies know much about their homegrown scene, but are struggling to track developments of the global jihadist threat. Still, had it not been for the enhanced exchanges of intelligence, far fewer attacks may have been foiled since 9/11.

#### *A modified US framework*

As for the recent lessons learnt in fighting terrorism, a major change concerns the US conceptual approach to counterterrorism, which has become more focused and more nuanced. Washington has moved away from the so-called 'Global War on Terror' as an overarching framework dominating US foreign policy. In the official terrorism narrative of the US government, there has been a shift from 'war on terror' to 'war on al-Qaida and its affiliates'. The idea behind this shift is to disaggregate the threat and underline that terrorist organisations, rather than Muslim countries or Islam per se, are the objectives of US counterterrorism. Also in this context, the US now defines the threat as 'violent extremism' rather than 'radical Islam'.

In speeches in Cairo and elsewhere, President Obama has stressed the

common interests of the US and the Muslim world, in combating terrorism and beyond. Arguing that the US had gone off course in its immediate response to 9/11, he emphasised the importance of preserving the rule of law in counterterrorism and banned the use of those CIA interrogation methods widely considered torture. To be sure, the changes in the legal framework of US counterterrorism have been much more limited than many had anticipated. The Obama administration continues to apply the rule of war paradigm in its fight against global jihadism and has not abandoned practices such as indefinite detention without trial, targeted killings, rendition, and trial by military commissions. Also, Obama has failed to live up to his promise of closing the US detainment facility in Guantanamo.

Still, the conceptual modifications have been substantial enough to reduce international criticism of US counterterrorism policies. Although the US image stays weak in many Muslim countries, these modifications have likely contributed to the global decline of al-Qaida's popularity.

#### *Military scalpel*

As regards the role of the military in counterterrorism, the case of



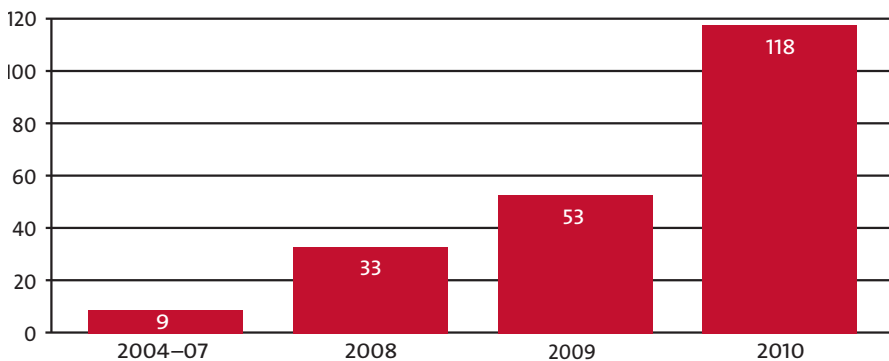
Afghanistan illustrates its limits in resolving the root causes of terrorism and stabilising fragile countries. Yet, the crisis at the Hindu Kush also demonstrates that some military measures can be quite effective in managing the terrorist threat. This has much to do with a shift from hammer to scalpel military tactics.

There are two dimensions of this shift. First, there is now a strong focus on targeted military operations and killings of al-Qaida leaders by US special operations forces and, above all, the CIA-led drone programme. The use of unmanned drones to kill militants in the border region of Pakistan and Afghanistan is increasingly perceived as a key element of counterterrorism. Reducing the need for high-risk military interventions in terrain that is difficult to access for political or topographical reasons, the covert CIA pro-

gramme has proven an effective tactical tool to diminish al-Qaida's elite and disperse the organisation. There have been negative side effects in that civilian casualties of drone attacks have driven tribesmen into militancy. But such effects have decreased as attacks have become more precise due to improved cooperation with the Pakistani intelligence services, better targeting, and the use of smaller missiles. The few polls available suggest a surprising degree of local support for drone attacks in the tribal areas.

The extent to which drone-based counterterrorism is applicable elsewhere remains disputed. Much will depend on local conditions. In the case of Yemen, the US has been reluctant to rely on drone attacks so far, following warnings that actionable intelligence and local coopera-

### US drone strikes in Pakistan



Source: New America Foundation 2011





tion are insufficient to avoid negative repercussions. Overall, however, drones are set to become an ever more important tool in US counterterrorism policy.

Second, the US is increasingly focusing on building local security and counterterrorism capacity by providing equipment, training, and other forms of security assistance. While the number of US special operations forces has been increased to that end, local capacity-building is also becoming a priority for the armed forces as a whole. It is now a major issue in places like Afghanistan, Iraq, Yemen, and North Africa. Local resistance to US counterterrorism activities, the fear of provoking national-oriented terrorist groups into global jihad as a result of US military action, US domestic fatigue about military intervention, and financial pressure on defence budgets are all prompting a growing reliance on local security actors for counterterrorism. This development also makes sense when considering the success of Muslim countries such as Saudi Arabia, Jordan, and Indonesia in reducing the domestic jihadist threat. Having said that, the empowerment of local security forces often does not go together with enhanced legitimacy, which raises larger questions concerning strategic counterterrorism (see below).

### *Beyond military measures*

In addition to refining military measures, there is a trend towards more non-military assistance in counterterrorism. Some analysts continue to dismiss the role of economic opportunity, arguing that terrorism is driven by politics rather than poverty. Others have long made the case for linking counterterrorism more closely with development to improve its effectiveness. The Obama administration is leaning towards this latter view. While keeping military counterterrorism funding high, it has increased complementary civilian assistance markedly.

In Pakistan, economic-related US aid has tripled since 2009. While it constituted less than one third of all US aid between 2002 and 2010, it is expected to be close to half in 2011, amounting to US\$1,565bn compared to US\$1,665bn in security-related funding. A major objective is to foster development in the tribal regions to counter the rise of extremism and provide for alternative livelihood opportunities. In the case of Yemen, there has been a substantial increase of aid as well. US assistance to Yemen is expected to amount to approximately US\$300mn in 2011, about half of which is earmarked for non-military purposes. Yemen's economic development is also high on the agenda of the



Friends of Yemen, a group established in 2010 that brings together representatives from 20 Arab and Western states as well as international organisations.

In parallel to widening the approach of dealing with terrorist organisations in conflict regions, there are also efforts to complement intelligence and law enforcement activities with broader measures to prevent or counter homegrown radicalisation. National approaches vary and range from integration and job-finding programmes to measures specifically targeted at delegitimising al-Qaida and global jihadism. In this latter context, there is an ongoing debate about the role of radical but non-violent Islamist organisations in preventing violent radicalisation. Whereas some countries view them as a potential safety valve against the jihadist doctrine and terrorism and seek to engage with them, others argue that they nourish Islamist parallel societies and may become a conveyor belt for jihadist groups.

The specific extent to which more comprehensive approaches or indeed any of the other trends in counterterrorism discussed here have contributed to the decrease of the jihadist threat to Western security is impossible to quantify. The net effect of

current counterterrorism efforts is positive, however, to the extent that it seems justified to describe the threat as a manageable risk. Managing this threat will continue to require considerable resources, although the overall costs will lower significantly once US expenditure for operations in Afghanistan decreases.

### Challenges of strategic counterterrorism

There are those who make the case for moving beyond containing terrorism and investing much more in changing the threat environment and tackling the underlying political and economic conditions that provide a fertile ground for Islamist extremist violence. There is certainly much legitimacy to this argument, and some of the lessons learnt in counterterrorism point in this direction. Yet, excessive expectations for strategic counterterrorism should be avoided, as the challenges involved are formidable. Managing the problem of jihadist terrorism seems a much more realistic scenario than resolving it.

#### *Dealing with weak states*

Evidence suggests that weak states provide an important home base for jihadist terrorist organisations. Their inability or unwillingness to secure

**How to deal with weak states is an unresolved question** | economic conditions that provide a fertile ground



## Obama's budget request for fiscal year 2012

Selected items concerning major counterterrorism funding schemes and actors

	US\$ bn
<b>Overseas Contingency Operations in Afghanistan and Iraq</b>	<b>126.7</b>
<i>Department of Defense contribution</i>	118
<i>Department of State contribution</i>	8.7
<b>Homeland security</b>	<b>71.6</b>
<i>incl. Department of Homeland Security</i>	37
<i>incl. Department of Defense</i>	18
<i>incl. Department of Health</i>	4.6
<i>incl. Department of Justice</i>	4.6
<b>Department of Defense (base budget)</b>	<b>553</b>
<i>incl. security sector assistance in Iraq and Afghanistan</i>	<i>not specified</i>
<i>incl. global CT 'train and equip' assistance programmes</i>	0.5
<b>Department of State and USAID (base budget)</b>	<b>47</b>
<i>incl. partnership programmes with Iraq, Afghanistan, Pakistan</i>	5.3
<i>incl. anti-terrorism, non-proliferation, demining</i>	0.7
<i>incl. foreign military finances</i>	5.5
<i>incl. development assistance</i>	2.9
<b>CIA and other civilian intelligence agencies</b>	<b>55</b>

Source: White House 2011

their territory provides safe havens for such groupings. Their failure to deliver essential services increases the potential for radicalisation. How to deal with weak states is an unresolved question. Western-driven state-building is in crisis. Stabilising states by creating effective local governance and security

capacity has proven a complex, time-consuming, controversial, and in many cases unsuccessful endeavour.

Afghanistan is a prime example. With comprehensive nation-building objectives long abandoned, the US-led coalition is now pursuing a coun-



terinsurgency strategy to achieve the counterterrorism objective of defeating al-Qaida. The main pillars of the strategy are to protect the population, sufficiently weaken the Taliban to push them into political reconciliation, and strengthen local security capacity to allow for the withdrawal of the currently almost 150,000 international troops. Yet, time is on the side of the Taliban. Ten years after the military intervention in Afghanistan, it is less certain than ever that the country will be able to provide for its security post-ISAF. A long-term light-footprint counterterrorism strategy may well be inevitable to make sure that al-Qaida will not be able to operate from Afghanistan again.

In Pakistan, going beyond managing the terrorism threat will hardly be feasible either. While there are elements in the Pakistani government willing to accommodate US counterterrorism concerns to some extent today, the military is still very selective in terms of the militant groups it fights as it seeks to preserve its relations with the Afghan Taliban to counter Indian influence in post-ISAF Afghanistan. Washington has little choice but to continue the strategy of supporting and pressuring Pakistan and relying on drones to deal with the terrorist threat emanating from the tribal areas. Drones cannot provide for a

long-term solution, but they are the best tactical means available for muddling through.

#### *Working with authoritarian regimes*

The recent focus on 'state-building light' concepts, stressing local security capacity without larger democracy and rule of law considerations, is often criticised for producing short-term tactical counterterrorism gains but long-term strategic drawbacks. For instance, there are indications that part of the enhanced US counterterrorism assistance to Yemen has been diverted by the regime of President Saleh to intensify its policy of repression against domestic rebellions in the north and the south. The net effect of strengthening such a regime may well be growing popular dissatisfaction with the government and could play into the hands of AQAP.

Yemen illustrates a general dilemma of the West: Narrow counterterrorism concerns have prompted the US and the Europeans to intensify cooperation with the security apparatus of many authoritarian regimes after 9/11. Putting stability over democracy, there was little pressure for political and economic reform in the past years. The reasoning was that while fully democratic societies would likely be long-term anchors of stability, the process of democratisation



could be marked by increased short-term instability. Moreover, with Islamist movements being the main organised opposition group in many Arab countries, there have been concerns that elections would bring to power regimes more critical of the West.

The mass protests spreading across the Arab world in 2011 have been a forceful reminder that illegitimate government can become a source of instability itself. With bottom-up pressure for change mounting, embarrassed Western countries are gradually advocating democratic change again – at least as far as developments in North Africa are concerned. The fall of authoritarian regimes may yet become a major asset for strategic counterterrorism, removing an important source of radicalisation and anti-Western sentiment. But for all the political opportunities, Western governments remain deeply worried. It is not just growing migration and a spike in oil prices that concerns them, but also the prospect of less intensive counterterrorism cooperation with some of the new governments – as well as the scenario of new jihadist safe havens emerging as a result of domestic turmoil and growing state weakness.

#### *Anti-Islam sentiments*

A third challenge of strategic counterterrorism concerns the rise of anti-

Islam sentiment, especially in Europe. Anti-Muslim slogans and warnings of an ‘Islamisation’ of Europe by right-wing populist parties are reverberating in growing parts of society in some European countries. Immigration and integration issues are increasingly framed in anti-Islam terms. Identity crises related to globalisation, rising unemployment, and the growing number of Muslims in many Western countries have all contributed to what some call ‘Islamophobia’. Terrorism likely plays a key role, however, with the ongoing threat of jihadist attacks planting seeds of distrust.

It is ironic that anti-Muslim sentiment is rising in Europe at the same time that the US tries hard to reduce anti-Americanism in the Muslim world. Measures such as banning burqas and minarets and declaring multiculturalism dead may increase the risk of alienation and radicalisation of Muslims in Europe. They may also negatively affect relations with Muslim countries, particularly as far as intelligence and security cooperation is concerned.

#### *Putting terrorism and counterterrorism into perspective*

All these challenges of strategic counterterrorism suggest that the war against al-Qaida is not a struggle that can be won. But the important message to convey is that global



jihadism is a risk the West can manage. Ten years after 9/11, the terrorist threat in the West remains real but limited. Counterterrorism works to the extent that the probability of mass-scale damage has decreased. Measures to prevent attacks will obviously have to continue. Equally important, however, will be efforts to strengthen the resilience capability of societies and infrastructures to mitigate the consequences of future attacks and avoid political overreaction. Fostering a culture of resilience seems the more urgent since challenges other than terrorism will likely dominate the international security agenda in the years ahead. ●

## CHAPTER 4

# Narcotics as a growing security concern

*Prem Mahadevan*

The global narcotics trade is gradually becoming an international security threat. The drug-financed Taliban insurgency in Afghanistan and drug-related violence in Mexico are examples. Efforts to combat the problem aggressively in either source or transit countries have only worsened it. Meanwhile, terrorists are showing signs of cooperating with drug traffickers, due to a convergence of interests and methods. Unless the narcotics-insecurity cycle is met with greater counternarcotics coordination, it may spread even further.



An Afghan man harvests opium in a poppy field, 5 May 2009



NARCOTICS ARE INCREASINGLY BEING PERCEIVED AS A SOURCE OF POLITICAL VIOLENCE AND A THREAT TO NATIONAL SECURITY. Hitherto, they have been viewed as mainly a threat to public health and human security. Only some states, including the US, have labelled the drug industry as a threat to national security. However, events in Afghanistan and Mexico have fostered a growing awareness that drugs can have a destabilising influence not just on societies where they are consumed, but also on the stability of states where they are produced and trafficked.

When the connection between drugs and political violence became first visible in Latin America during the 1980s, it was mainly perceived as a localised regional problem. Now, however, it is gradually emerging as a new security paradigm. The recognition of a link between narcotics and political violence has attained international dimensions partly owing to the ongoing war in Afghanistan, where the drug economy is an important source of instability that prevents effective statebuilding. With the resurgence of the Taliban, concerns have now focused on the possibility that drugs might bankroll anti-Western forces elsewhere in the developing world, whether insurgents or terrorist groups.

Developments in Mexico have added to the growing attention on drugs as a security issue. Since President Felipe Calderón launched his offensive against drug cartels in Mexico at the end of 2006, more than 35,000 people have died in drug-related violence. Since Mexico serves as a major transit country for cocaine, the nexus between narcotics and insecurity in this case is more complex and multifaceted than in source countries like Afghanistan and Colombia.

If transit countries are being increasingly confronted with drug-related violence today, this has much to do with a gradual shift in the counter-narcotics policy of the US government. Washington is attempting to break the drugs-violence link in Afghanistan by de-emphasising opium eradication, which alienates rural communities and aids Taliban recruitment. Instead, the US is focusing on interdicting shipments of refined drugs and dismantling cross-border smuggling networks. This shift from eradication to interdiction is not confined to South Asia. Its implementation has caused a surge in drug-related violence in Mexico, as traffickers fight to protect their turf from the government as well as to weaken rivals.

Fears of a growing drug-terrorism nexus add to the mounting relevance



of narcotics as a security challenge. Yet governments are struggling to find a way to deal effectively with this challenge. While the current focus in the US 'War on Drugs' on reducing supply by repression has shown few positive results so far, alternative policy options such as decriminalisation of both the production and consumption of drugs are highly controversial.

### **A profile of the drug industry**

The trade in narcotics consists of four main kinds of drugs: marijuana, cocaine, opiates, and amphetamine-type stimulants (ATS). The latter are also known as synthetic drugs, since they are not derived from agricultural produce. Of the four, marijuana is the most widely consumed, with the number of total users estimated at between 129 and 190 million. Accurate statistics on the drug industry, including usage levels, are virtually impossible to obtain, with the United Nations Office on Drugs and Crime (UNODC) admitting in 2010 that even basic infrastructure for gathering and analysing data on drug-related trends does not exist. Only informed guesstimates are available as to the size of the drug industry and the distribution of profits.

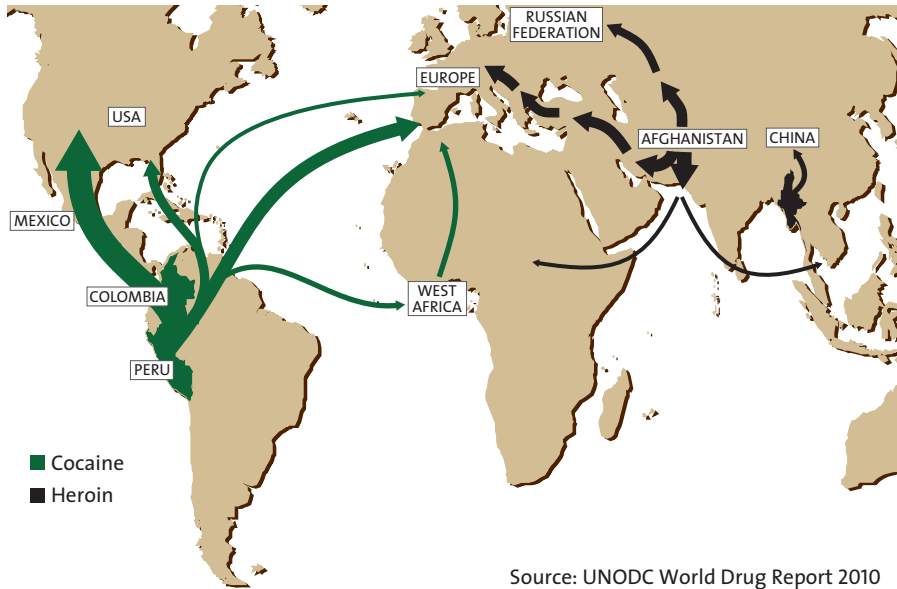
This paucity of information is due to the clandestine nature of the narcotics trade. Furthermore, as drugs are

moved down the supply chain, the increasing profitability of the transported merchandise helps traffickers purchase high-level protection from corrupt government officials. Since these officials, in turn, form the bedrock of the international prohibition regime against narcotics, they are strategically placed to close off information flows to both national and international law enforcement agencies. Lastly, there is a basic asymmetry of resources and commitment. The annual turnover of the global drug industry is conservatively estimated to be around US\$ 320 bn, which is 10,000 times the size of the UNODC budget. The US government, by far the world leader in counternarcotics efforts, spends around US\$ 50 bn annually on combating the drug trade.

There is, however, general agreement that a far larger percentage of drug profits goes to transnational traffickers than to local cultivators. It is the traffickers who run the greatest risks by moving drugs across national borders and risking interdiction at each step. The highest profits are typically made at transit points between the developing world, where most narcotics are produced, and the developed world, where they are consumed. An example of such a transit point is the densely-policed US-Mexico border, where Latin American cocaine, mari-



## Global drug flows



Source: UNODC World Drug Report 2010

juana, and heroin are smuggled into the US. At present, the US is believed to be the world's single largest cocaine consumer, while Russia is the single-biggest heroin consumer.

### *Source, transit, and consumer states*

The drug industry itself is spread across three types of countries: source, transit, and consumer. Since marijuana and amphetamines are often produced within a short distance of a consumer country, if not within the country itself, they are regarded as less of an international security concern. It is cocaine and opiates, particularly heroin, that are increasingly becoming a security problem. Both types of

drugs are produced in regions that lie some distance from their main markets, and thus must travel through a long supply chain. This automatically raises profits for those involved in handling the narcotics, as each shipment is marked up in value the closer it gets to well-guarded Western borders.

Cocaine is produced from coca farms in Colombia, Peru, and Bolivia. These three are the main source countries for the US market and Western Europe. The drug is transported via land, sea, and air, with route proportions changing depending on the focus of counternarcotics efforts.

During the 1980s, improved maritime surveillance of Caribbean shipping lanes forced Colombian drug cartels to fly cocaine into Mexico, from where it would be transported overland into the US. At the time, Mexican traffickers were already supplying the US drugs market with marijuana and heroin, both of which were locally produced in drug farms. Taking on additional responsibility for South American cocaine shipments was not a problem for them. Mexico thus became both a source and a transit state along the narcotics supply chain; a dual status that persists to this day. However, since the current narco-violence in the country is focused on the cocaine trade, Mexico's problem can be categorised as mainly that of a transit country. Other such countries in Latin America include Brazil, Venezuela, Guatemala, Ecuador, and Paraguay.

The major source country for heroin is Afghanistan, which accounts for over 90 per cent of production. The remainder is concentrated in Myanmar, scattered remnants of the erstwhile 'Golden Triangle' in Southeast Asia, and Mexico. Transit countries include Pakistan, Iran, Turkey, and the Central Asian and Balkan states. Not coincidentally, many of the countries through which drug supply routes pass are also subject to domestic conflict

and political instability. It appears as though the causal link between drugs and state weakness is bi-directional, i.e., drug trafficking appears where governments are too weak to enforce counternarcotics laws, but such trafficking also weakens the state further by providing criminal groups with greater financial resources to suborn law enforcement officials. In the process, they degrade state control to the point where under-governed spaces can emerge, providing a territorial foothold to political rebels.

### **Battle for territory in source countries**

Drug cultivation is an inherently territorial activity. Since illicit drugs are the focus of a worldwide, albeit variably enforced, prohibition regime, their production invites heavy penalties. At the earliest stages of the production process, when coca and opium is grown, the industry is at its most vulnerable to disruption. Aerial surveillance can identify drug farms, whose crops can then be eradicated by airborne and manual spraying of herbicides. Since the actual cultivators tend to be impoverished peasants, they have little capacity to resist or circumvent the government's counternarcotics efforts. Many therefore, obtain 'protection' by reaching an accommodation with armed rebel groups that operate in the area.

*Drugs and insurgency in Afghanistan*

This tendency on the part of drug cultivators to seek protection partly explains how Taliban insurgents resurrected themselves as a military force in Afghanistan after 2006. While in power, from 1994 to 2000, the Taliban had already developed close links with the drug trade. However, for a year prior to the US-led invasion in October 2001, the regime banned opium cultivation across the country. It hoped that by doing so, it would receive international aid for showing 'good behaviour'. Some analysts believe there was another, more cynical agenda: the Taliban regime hoped to drive up opium prices and make a massive profit on sales of its own buffer stocks, estimated to consist of around two years' supply. If this was the objective, it nearly succeeded – opium value increased tenfold over the following year. Had the 9/11 attacks not occurred and had the US not invaded, the Taliban would have likely earned enormous revenue from drug sales, even as sections of the Afghan peasantry rebelled at their exclusion from the market.

Although recent claims that the Taliban insurgents are mostly funded by drug money seem exaggerated, there is broad agreement that the drug-related share is still significant. Estimates range from 40 to 60 per cent of

total Taliban funding. These figures are however, believed to account for at most, 7 per cent of the US\$ 3 bn Afghan drug trade – which means that the heaviest profits are made by criminal groups that are not yet priority targets for ISAF forces or the Afghan government.

The Taliban are linked to the drug industry in two ways. First, they extort taxes from drug farms in exchange for protecting them from government agencies. The Taliban are open about this relationship with cultivators and describe it as solidarity with poverty-stricken peasants. Second, they are also believed to have close links with some trafficking networks. Although the Taliban deny this part of their relationship with the drug industry, the protection of traffickers is believed to be an important source of their income. Indeed, the Taliban seem to be competing with some warlords affiliated with the Afghan government when it comes to providing protection to the traffickers.

The fact that narcotics are nourishing the insurgency in Afghanistan would suggest that tackling the drug industry ought to be an important component in any counterinsurgency strategy to weaken the Taliban. This is easier said than done,

however. Apart from sustaining violence, narcotics have also fostered widespread corruption among government officials and undermined efforts to establish the rule of law. The combination of corruption and violence in turn poses a severe obstacle to expanding the legitimate part of the Afghan economy.

Afghanistan's structural dependence on the drug trade stems from the weakness of its legitimate economy, which has been ravaged by three decades of civil war and foreign invasion. During the 1970s, the country's biggest revenue earner was fruit export. However, the Soviet-Afghan War and subsequent conflicts during the 1990s destroyed virtually all of its orchards. Neighbouring countries such as Pakistan rushed to fill the gap in supply, ensuring that even if new trees are planted in the future, the poor connectivity of Afghanistan to the global economy means that it will likely not regain its share of the market. Since only 12 per cent of Afghan land is arable to begin with, this poses a severe economic challenge that encourages trading in narcotics.

Weakening the hold of drug cultivators over the Afghan economy would require promoting its access to international markets. For this, Afghanistan's agrarian sector would

need technical assistance in water harvesting and irrigation systems, and the road network would need to be modernised and expanded to cope with increased traffic. Such a scenario, in turn, would require that an accommodation first be reached with local Taliban factions, whereby they desist from targeting transport infrastructure in exchange for protection money.

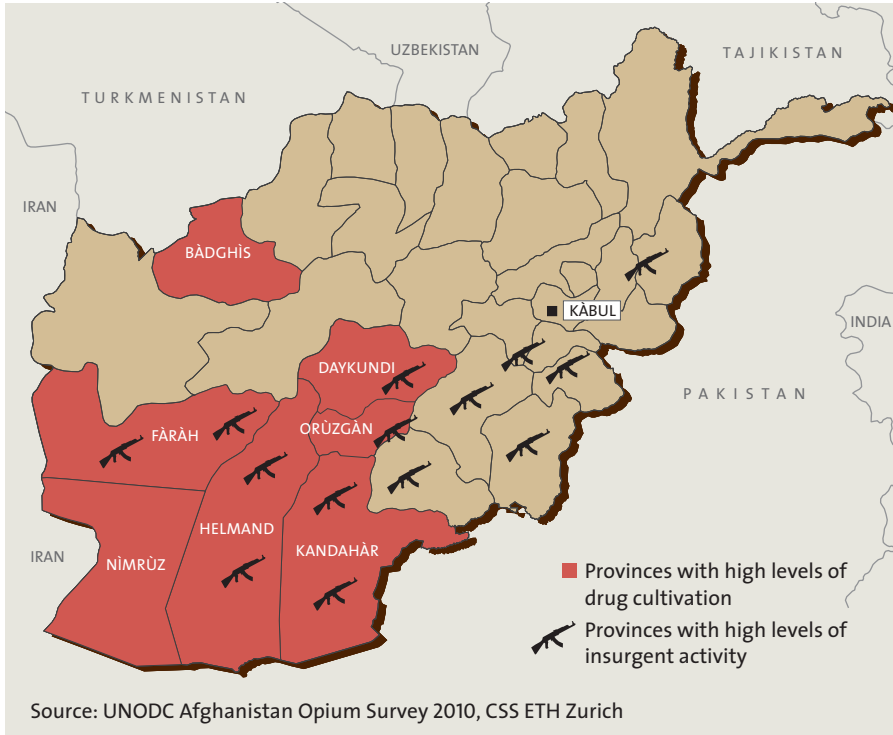
Success in counternarcotics thus depends on success in counterinsurgency. To be sure, once the process of rolling back the drug economy has begun, it will contribute significantly to the stabilisation of Afghanistan by reducing governmental corruption as well as Taliban extortion. But the difficulty is how to get there and break the vicious cycle of narcotics and insecurity.

#### *The limits of eradication*

Evidence suggests that focusing on the reduction of overall drug cultivation does not lead far in the absence of alternative livelihood opportunities and can even be counterproductive, due to what is known as the 'balloon effect'. This term is used to describe the displacement of drug cultivation through law enforcement activity to other, adjacent areas. All that counternarcotics efforts do is shift the locus of drug production



## Drug cultivation and insurgency in Afghanistan 2010



to new territory that lies beyond the jurisdiction of the responsible government agency. A case in point is Colombia, where determined law enforcement action during the 1990s and 2000s led to the dismantling of the Medellín and Cali cartels and a net decrease in cocaine cultivation. However, this was accompanied by an increase in cultivation in Peru and Bolivia. What resulted was the appearance of new trafficking routes through even more countries, potentially enlarging the area that could be adversely affected by the drug trade.

In the case of Afghanistan, opium eradication has produced the expected results. It has displaced cultivation from the government-controlled central and northern portions of the country into the Taliban-controlled southern portion. Over 90 per cent of Afghan opium is grown in just seven of the country's 34 provinces today – most of which are affected by the insurgency. The inability of the government to control these provinces means that decreases in opium cultivation elsewhere are offset by increases within Taliban territory.

The opium crop itself remains highly lucrative for farmers because it is high-value, low-weight, and non-perishable. Given the poor quality of road infrastructure within Afghanistan and rampant banditry (which drives up the cost of doing business), it is the best alternative to wheat – the other main crop which can be grown in the country's harsh climate. Depending on their respective prices, cultivation patterns in Afghanistan shift back and forth between wheat and opium. What might appear to be a decline in annual opiate production due to drug eradication might be nothing more than a market fluctuation. In January 2011, the price of opium rose to seven times that of wheat, leading to a surge in drug cultivation.

#### *Shifting focus to interdiction*

Following a review of US counternarcotics efforts in Afghanistan, the Obama administration announced a policy change in summer 2009. Having spent almost US\$3bn on counternarcotics in Afghanistan between 2001 and 2009, US officials acknowledged that eradication had backfired and mainly helped the Taliban. They decided to phase out eradication programmes and have since focused on interdiction, crop substitution, and alternative livelihood programmes instead.

The new emphasis on interdiction is not just the result of the balloon effect and the growing shift of the opium economy into Taliban hands. Rather, eradication has also had negative side-effects by throwing the local drug trade into disarray in a way that provides opportunities to drug traffickers in transit countries to move in and gain control over the means of supply. By moving up the supply chain, traffickers from Pakistan have undercut their business partners in Afghanistan and usurped their smuggling infrastructure. In the process, they are starting to create mega-cartels that are spread across several countries and are invulnerable to all but the most coordinated counternarcotics offensive. A similar development is taking place in Latin America, where traffickers from Mexico play an increasing role in the drug trade in Colombia.

There are also economic reasons for the shift in counternarcotics operations from drug eradication in source countries to drug interdiction in transit countries: Research has suggested that interdiction costs half as much as eradication. However, from a security perspective, the downside of the interdiction approach is that it risks upsetting governments in transit countries and increases drug-related violence in countries that are



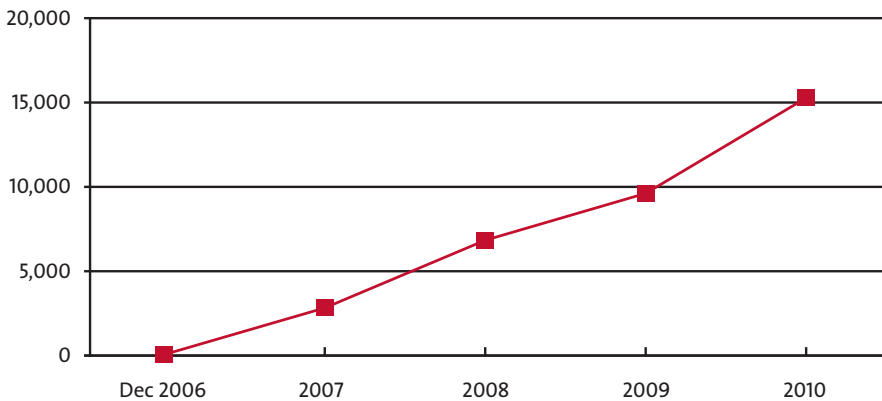
either geographically or politically close to the West.

### **Battle for legitimacy in transit countries**

Within transit countries, the increased value of drug shipments means that traffickers are more able to buy off government officials and use force against each other in order to capture a larger share of the market. This leads to turf wars, such as those occurring in Mexico. Estimates suggest that 90 per cent of those killed in drug-related violence within the country are themselves involved in the drug trade. The prizes being fought over are access points to the US, called plazas in local slang. Mexico is a transit country for up to 90 per cent of the cocaine sold in the US, as well as a supplier of heroin and some other drugs to the US market.

Drug-related violence in Mexico has escalated dramatically over the past years, as the struggle among drug cartels for control over trafficking routes into the lucrative US market has become more competitive. This has partly to do with splits within the drug-trafficking organisations involved. However, it is also the result of President Calderón's decision to launch a military-led offensive against the drug cartels at the end of 2006. With the Mexican Drug War now being conducted between the government and drug cartels as much as among rival drug cartels, the intensity and brutality have markedly increased. Despite extensive US support for the Mexican government's tough anti-drug policies, there has been no sustainable progress so far, with violence levels remaining high

### **Fatalities related to drug violence in Mexico 2006–10**



Source: Government of Mexico 2011



and interdiction efforts showing only partial success.

The reasons are not hard to fathom: Drug cartels have tremendous buying power, and this extends to key officials in the counternarcotics effort. Wealthy traffickers can thus not only acquire information about planned government action against them, but also deflect these onto their rivals. There have been suspicions, for instance, that some of the biggest cartels in Mexico such as the Sinaloa cartel are using the government's war on drugs to wipe out weaker competitors. Although such accusations cannot be verified, their persistence highlights the problem of legitimacy that affects governments in drug transit states. Since elites within many of these states have themselves encouraged drug traffic in the past, doubts persist over their ability to break away completely from the narcotics trade.

#### *Emergence of patron-client networks*

Before examining the specifics of drug-related violence in the Mexican case, it is important to look at the effect of drug trafficking in transit countries in general. The main pattern emerging in these countries is a disconnect between political elites, who are seen as complicit in criminal activity, and the citizenry. Money obtained from drug deals is laundered through legiti-

mate businesses, thus disadvantaging entrepreneurs with no connections to the narcotics industry. Patron-client networks ensure that the culture of corruption fostered by drug money restricts new entrants into profitable sectors of the economy, causing growth to stagnate. This is particularly true of the post-Soviet Central Asian states, situated as they are between the world's primary source of heroin – Afghanistan – and the world's primary consumer – Europe.

In Tajikistan, an estimated 25 per cent of the population live off revenue from drug trafficking. With the economy having been devastated by a five-year civil war in 1992–97, drug lords have found it relatively easy to buy their way into the decisionmaking process and manipulate it for their own ends. In neighbouring Kyrgyzstan, traffickers have invested a small portion of their profits into improving public amenities in their areas of operation. This, combined with the use of street thugs to intimidate political opponents, has allowed them to get elected to parliament, where they enjoy the immunity granted by public office and also the discretionary power that comes with it.

In some cases, drug traffickers infiltrate state institutions both for survival and for growth. Access to



policy-makers allows them to thwart international pressure to clamp down on the drug trade. At the same time, it provides them with leverage to create a criminal monopoly by influencing policy decisions. With government agencies being discredited through association with criminal syndicates, organised crime may embark on a process of militarisation. Rival gangs could arm themselves in anticipation of a Darwinian struggle where the state will be a partisan supporter of some syndicates, forcing others to resist encroachment on their turf through armed violence.

#### *Narco-violence in Mexico*

The situation in Mexico illustrates the challenges involved. Here, the government has opted for a crackdown on drug cartels and a militarisation of its counternarcotics policy. It has done so with much backing from Washington, which has pushed hard for tough measures against cartels trafficking drugs into the US. The Bush and Obama administrations, which have labelled Mexican drug trafficking organisations 'the greatest organised crime threat' to the US, have allocated US\$1.5bn in drug-related financial aid to the Mexican security forces since 2007 under the so-called Mérida Initiative. The situation has, however, only worsened since. The year 2010 was the bloodiest so far, with over

15,000 drug-related casualties, according to government sources. US Secretary of State Hillary Clinton even argued in September 2010 that the drug cartels were showing more and more characteristics of insurgent groups.

Shootouts, execution-style killings, and mass graves have become all too frequent features of the drug war in Mexico. Partly in reaction to government repression, traffickers are becoming ever more violent and even recruit former soldiers as hitmen and bodyguards. One particularly feared trafficking syndicate, known as Los Zetas, consists predominantly of renegade soldiers and police officers. Currently, it is considered by some analysts to be the gravest threat to Mexican security, and its elimination has been a government priority for several years. However, owing to its ruthlessness and combat skills, the group has so far survived all attacks against it, whether from the government or rival cartels. Indeed, although 50,000 troops and police officers are involved in the fight against the cartels, the government is increasingly struggling to keep order in parts of Mexican territory. In another worrying development, more than 30 journalists have been killed, intimidating many media outlets into silence.

A major part of the explanation why the crackdown on drug cartels has shown very limited positive results so far is that, in Mexico, too, the drug industry is at least partly protected by state patronage. Corruption scandals within the government that were brought to light by investigations of cartel bribery have clearly demonstrated this. Mexican cartels reportedly spend 15 per cent of their total revenue on bribing governmental officials. The scale of these bribes is alleged to be as high as US\$ 1 mn a week in some cases. Police complicity in the drug trade remains a huge problem. While efforts are underway to rebuild the Mexican police force, it is unlikely that the situation will substantially improve anytime soon.

With the death toll continuing to climb at an alarming pace, public support for the government's hard-line posture against drug cartels is waning. Many Mexicans who have so far been insulated from drug violence are starting to question whether it is good policy to sacrifice lives merely to keep narcotics from entering the US. The opposition Institutional Revolutionary Party, which has traditionally favoured a conciliatory approach towards traffickers, has begun to capitalise on war fatigue among the electorate. If elected to power in July 2012, it might be tempted to strike a deal with the major trafficking syndicates. This would certainly displease the US and lead to some tension in bilateral ties. However, Mexican

**Drug-related violence in Mexico 2010**





policy-makers find it difficult to ignore the mounting human cost of Calderón's counternarcotics efforts.

### **Trafficker-terrorist nexus**

The phenomenon of trafficking syndicates increasingly resorting to violence as a result of government repression is not limited to Mexico. In Brazil, for instance, traffickers have orchestrated large-scale civil disturbances, extending to killings of police officials and their families. The object of these disturbances has been to compel the government to desist from tightening restrictions for imprisoned drug lords, who continue to run their trafficking networks from jail via cell phone.

While narco-violence is nothing new, some analysts, particularly in the US, have recently drawn attention to the threat of narco-terrorism. While the potential confluence of criminal and terrorist actors, resources, and tactics concerns all sorts of transnational crime, it is the growing convergence of drug trafficking and terrorism that is a particular worry to some governments. The convergence can either manifest itself as a partnership between criminal and terrorist groups, or as the emulation of respective methods, with no actual exchange between the two types of actors.

With alerts being sounded across Europe, and especially Germany, about threats from jihadists based in the Afghanistan-Pakistan region, attention has focused particularly on a drug trafficking syndicate based in Pakistan. Known as 'D Company' after its leader, Indian national Dawood Ibrahim (currently thought to be operating from the Pakistani port city of Karachi), it is considered by some analysts as being the prototype of a new kind of threat that fuses organised crime and terrorism.

D Company is believed to provide logistical and intelligence support for terrorist groups such as al-Qaeda and Lashkar-e-Taiba (LeT). Indian officials suspect that it played a key role in facilitating the sea-borne attacks in Mumbai in 2008, by helping LeT exploit gaps in the Indian coastal surveillance system. Although the group's involvement in acts of transnational terrorism is difficult to track, US investigators have still uncovered enough evidence to designate Dawood Ibrahim as both a wanted drug lord and an international terrorist mastermind. At present, he is the only drug trafficker ever to be accused by the US government of direct involvement with terrorism.

### *Convergence of interests*

Beyond the prime example of D Company, there are other signs that

traditional analysis models of crime-terror interactions might need updating. Since the 1980s, these models have posited that drug traffickers and terrorists have little in common beyond overlapping tactics. Although both sets of actors use violence to intimidate adversaries, traffickers are believed to be interested in preserving the political status quo while terrorists are regarded as having a transformative agenda. Traffickers are assumed to be mercenaries, while terrorists are thought to be ideologues. Such concepts might have applied to leftist terrorists in Europe during the 1970s, but they seem inappropriate for today's Middle Eastern and South Asian jihadists. In any case, many radical Islamists believe that drug consumption is primarily a problem of 'decadent' Western societies and therefore, drug trafficking is a viable and legitimate tool for undermining such societies. This view conveniently overlooks the fact that Iran, Afghanistan, and Pakistan all have significant domestic drug addiction levels.

For terrorist organisations, the drug trade is gaining importance because funding for their activities is becoming scarce due to financial counterterrorism measures led by the US (see Chapter 3 in this publication). The number of groups that are designated

in the US as foreign terrorist organisations and are involved in the drug trade has gone up from 14 in 2003 to 19 in 2008.

As far as the traffickers are concerned, they are mainly interested in cooperation with terrorist organisations as a means of safeguarding their shipments. This has already

**West Africa has become a major transit hub for drugs**

happened with South American drug cartels, which transport cocaine to Europe via West Africa. Since many African states in the Gulf of Guinea have poorly paid and under-resourced police forces, whose members can be bought off with little difficulty, the region has become a major transit hub for drugs. From there, cocaine is transported north by al-Qaeda in the Islamic Maghreb through the Sahara Desert to Mediterranean ports. In October 2010, Moroccan police seized more than half a ton of cocaine and arrested 34 smugglers linked to the group. The arrests revealed that a formal arrangement had been reached – something analysts had warned about for some time – whereby jihadists would provide security to drug convoys in return for substantial fees, which would be used to support their anti-government campaigns.

At this stage, such formal arrangements are still the exception rather



than the rule. Even so, they are yet another indication that a long-term convergence of interests between criminals and terrorists could be taking shape. One region where such a convergence could soon become more visible is Latin America. Since some South American countries have much looser visa regimes than the US or Europe, there are growing concerns that Islamist militants might set up operational bases in the region. Support networks for jihadist groups are already known to exist there that maintain close ties with organised crime syndicates or are themselves part of such syndicates. Whether these networks are likely to progress from a logistical role to an operational one is unknown, but US and South American intelligence agencies are monitoring them.

### **A lack of good options**

Repressive measures against drug producers and traffickers have shown few positive results so far. They have not led to a significant and sustainable reduction of drug consumption. What is more, they have failed to reverse the trend of narcotics increasingly undermining national security in source and transit countries, and have in some cases actually been a major driving force behind this trend.

The current focus on traffickers in the 'War on Drugs' may prove just

as ineffective as the eradication approach. When interdiction drives up traffickers' operating costs, the latter are mostly capable of simply absorbing those added costs, since profit margins within the narcotics trade are so high. Given the generally low salaries of law enforcement officials in developing countries and the challenges of maintaining accountability, the traffickers' buying power is formidable, especially if the local currency is weak. The enormous revenues of some traffickers also allow them to conduct violent reprisals for government attacks on trafficking infrastructure. And they provide them with the means that make them attractive cooperation partners for terrorist organisations.

Transit countries are often plagued by institutional capacity deficits and unable to pursue drug traffickers effectively. A case in point is Pakistan, where the vast majority of drug-related arrests are of low-level couriers who have no political connections and can rarely afford competent legal counsel. Top traffickers, on the other hand, not only often manage to avoid being prosecuted, but even if they are, retain the ability to manipulate the legal system into securing an acquittal. Thus, the infrastructure and contacts sustaining the drug trade remain in place.

Current counternarcotics policies may even weaken states that have hitherto appeared strong, if not stable. Mexico for instance, has been flagged by the US military as being vulnerable to institutional collapse, alongside Pakistan. This is a controversial and rather extreme view, which has few takers even within the US government. State failure in Mexico is evidently less likely than in Pakistan, if only due to the absence of a political insurgency to tie down government resources. Still, the scenario of lawlessness becoming a permanent feature in close proximity to the US border is unsettling for US policymakers.

*Global power shifts and counternarcotics*

Another challenge relating to today's counternarcotics efforts concerns the cost factor. So far, the US government has taken the lead in enforcing the global counternarcotics regime. In 2010, it spent US\$500 for every second of the year towards reducing drug supply through eradication and interdiction and reducing demand through treating addicts. This colossal expense of around US\$15 bn (at just the federal level of government) is unlikely to prove sustainable over the next decade due to high unemployment, low economic growth, and a massive budget deficit in the US. The logical next step would

**Current counternarcotics policies may even weaken states**

be to seek more support from other countries. Yet, most of Washington's traditional allies have been sceptical of the US 'War on Drugs' from the start. As for emerging powers, getting them to assume part of the responsibility for global anti-drug governance is unlikely to be fruitful.

This is true not least for China. Beijing faces a significant threat from narcotics in the form of both Afghan and Myanmar heroin. However, it continues to depict the Golden Triangle (Myanmar, Laos, and Thailand) as the principal supplier of drugs to its population. While this has been true historically, since 2003, Afghanistan and Pakistan have become increasingly important to the drug scene in China. Beijing remains reluctant to formally acknowledge this trend and instead prefers to strengthen unobtrusively its policing apparatus in the disturbed province of Xinjiang, which borders Afghanistan and Pakistan. From its public stance on counternarcotics, China appears unwilling to be drawn into contributing significantly to US efforts. It is not necessarily in China's interest to assume the burden of co-directing an international prohibition regime against drugs, when it can free-ride off US initiatives in this area. By merely tightening bor-



der security in Xinjiang, China could attempt to wall itself off from the pernicious effect of Afghan heroin and leave the US to deal with the onerous task of stabilising Afghanistan. If the US is forced to uphold a unilateralist posture, its resources will be further stretched, which is not a bad scenario for a rising China.

### *Reducing profits*

If current counternarcotics policies are not promising, the question is where to go from here. One important step has already been taken: Member states of the UN have scaled down their expectations and objectives for the years 2009–19 by pledging to achieve only a substantial reduction of drug traffic. This goal, though still ambitious, is modest when compared to earlier promises of achieving a narcotics-free world within a decade. However, its implementation will likely still be hampered by the collateral benefits that drug sales offer to both transit and source countries. Pakistan, for instance, coped with financial crisis in the early 2000s due to a countervailing influx of drug money into the legitimate economy. Mexico too, is acutely aware of its dependence on the drug trade, with policy-makers reluctant to clamp down on the finances of traffickers for fear of causing capital flight that would destabilise the economy. Similar challenges

apply to Central Asian states that have grown partially dependent on the illicit sector, of which narcotics is the biggest revenue earner.

As the political instability fuelled by drug cultivation and trafficking has proven resistant to repressive countermeasures, it has been suggested that counternarcotics efforts ought to refocus on reducing the demand side rather than the supply side. After all, if it was not for the high demand in the US and Europe, the global drug trade would be far less profitable. Experience has shown, however, that reducing demand is just as difficult as going against the production and trafficking of drugs. Moreover, even with reduced demand in their primary Western markets, drug traffickers can create secondary markets in transit countries by selling surplus stock at low prices. This could even lead to increased instability in weak states and actually bring the problem of drug-related violence closer to Western borders.

The most radical alternative proposal concerns the decriminalisation of both the production and the consumption of narcotics. Such a bold policy change is sure to arouse controversy however. It would be strongly opposed by those who believe that increased social acceptance of drugs



leads to increased usage and greater social costs that will cumulatively exceed the consequent reduction in counternarcotics expenditure. It is unlikely, therefore, to become an acceptable component of any new international counternarcotics regime. Nor would violence necessarily cease immediately with such an approach. Drug traffickers rarely depend exclusively on one type of criminal activity. Many run multiple criminal businesses, in order to diversify their risks. While a decriminalisation of drugs could lead to a decrease in drug-related violence, it could also produce another sort of balloon effect, with traffickers shifting to activities like kidnapping for ransom that can be no less disruptive to society than narcotics.

The bottom line is that there is a lack of good options in counternarcotics, with drug-related violence likely to remain a relevant security concern in the foreseeable future. Nor is there even a strong international consen-

sus on the seriousness of the threat. As a first step towards strengthening the global counternarcotics regime, therefore, governments could share information about criminal groups involved with drug cultivation and trafficking. Creation of common databases between law enforcement agencies would provide a platform for the development of common threat assessments, which could then be used to mobilise political will for stronger action. A more inclusive and multilateral approach towards counternarcotics, particularly at the regional level, might yield better results than the current approach, which is essentially driven by a few committed states, but meets with relative complacency among others. Since the drug trade undermines state sovereignty and civil order, in both source and transit countries, it poses a major international security challenge. Combating it would require greater knowledge of the negative effects that it produces. ●



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