



# STRATEGIC ESTIMATE 2013

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**“...the United States is not refocusing on Asia for the moral satisfaction of promoting democracy, or even the intangible psychic benefits of protecting its brown and yellow brothers in Asia from themselves with its benevolent military might. As shown by the bloody path of human catastrophe that the United States has created and enabled in the Middle East, the United States' foreign relations are not driven by a compulsion to impose democracy or open economies.....  
.....the centre of world trade is shifting to Asia and away from the ‘Atlantic Powers,’ i.e. Europe and the United States.”<sup>1</sup>**

## **Introduction**

Strategic Estimate is Khilafah.com's annual assessment of the global balance of power. We concluded in our previous assessment the US remained the world's superpower, however it had been over-stretched in both the wars it was engaged in after the events of 9/11, this led to a number of nations taking a more confident and in some cases a much more confrontational approach to the US in the different regions of the world.

In 2012 China confirmed what many American policy makers had long believed, that the nation has its sights set on the South China Sea. The year has seen an aggressive China utilising its military to expand its influence in its own region after decades of diplomacy and commerce. The US has dominated the Pacific region since it defeated Japan in WW2, it now faces an assertive, developed and militarily strong China looking to remove US influence in the region. The year has also seen the global financial crisis catch up with China and strains are beginning to show in its economic growth. The sustainability of China's export driven economic model continued to persist in 2012 as the global economy shows very little signs of recovering.

The Arab spring in 2012 saw a number of developments with the initial euphoria giving way to victories for Islamic groups and then the reality of actually running a country. The brutal crackdown by the al-Assad regime in Syria gave way to a stalemate by the opposition. Strategic Estimate 2013 will analysis where the Arab spring stands on its second anniversary as the Muslim world attempts to re-shape its destiny.

2012 was election year in Russia. The elections unravelled the architecture Vladimir Putin and the Russian elite constructed after they emerged victorious in the struggle for the country following the chaos that gripped the nation after the collapse of the Soviet Union. Russia's internal dimensions did not stop its resurgence in its periphery and 2012 saw Russia develop its go 'East' policy of building influence in the Far East.

The global economy in 2012 saw many of the world's premier economies go into a double dip recession. The world's largest economies have struggled with stimulating their national economies through policies of austerity and stimulus packages. The political fall-out from the global economic crisis dominated 2012 as a number of governments' domination of their national politics gave way to gains for more unorthodox political parties.

The global economic situation continues to weigh upon the European sovereign debt crisis. The emergence of the left in the French presidential elections highlighted the differences on how to deal with the crisis in Europe between France and Germany. The number of struggling economies also increased where a North-South divide emerged.

Iran once again made international headlines as Israel continued with its rhetoric for military strikes. Like previous years 2012 ended with no strikes but with the US-Israeli positions becoming more distanced from each other.

What follows *inshallah* is the author's opinion and assessment of 2012 and the trends for 2013 and beyond. Like any assessment, they are estimates and forecasts.

12<sup>th</sup> Safar 1434

25<sup>th</sup> December 2012

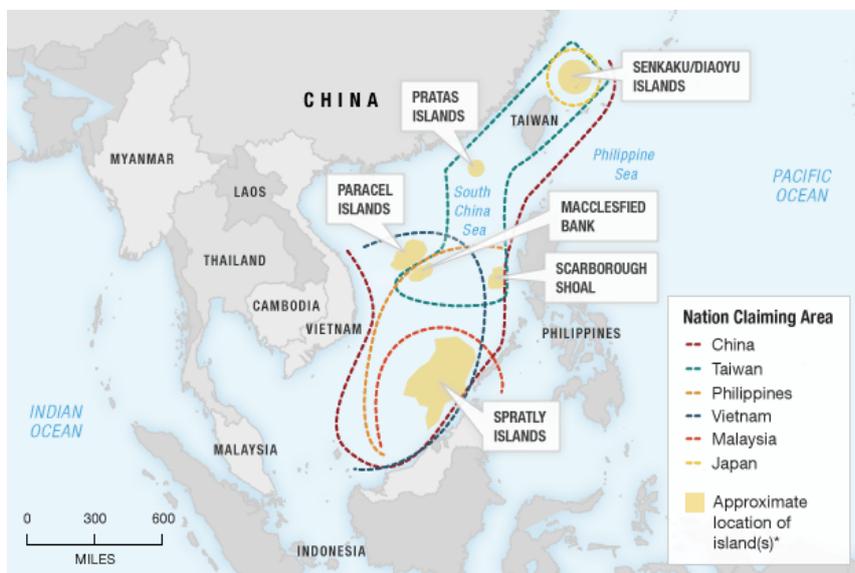
Adnan Khan

## Tensions in South East Asia

Half Moon Shoal, Scarborough Shoal, Subi Reef, the Spratlys, Macclesfield Bank and the Paracels are names most of the world has never heard of, in 2012 these along with other islands made global headlines. They do not even constitute fully fledged islands, they are so small and often below water for so many hours per day that they are merely labelled as "features" in the hotly contested South China Sea. Many islands are so tiny, they are often submerged during high tide and lack water sources of their own.

However, irrespective of these 'features' the South China Sea has become the object of naval competition and bellicose language from the region's nations and beyond. The region includes China who has laid claim to the whole South China Sea as its core national interest – something it is prepared to go to war over. The problem with this is the seas are shared by the Philippines, Vietnam, Cambodia, Thailand, Brunei, Malaysia, Singapore and Indonesia, as well as Japan, Taiwan and both South and North Korea.

The 'features' mean little in and of themselves, but ownership of them advances claims to adjacent waters where substantial quantities of oil and natural gas may lie beneath the sea floor. Experts continue to argue that the amount of energy in the seabed has been exaggerated and does not constitute enough for any of the regions states to become energy-producing nations in their own right.<sup>2</sup> This however



is not what the states in the region believe. All the countries in the region are energy poor, have large import bills and believe the oil beneath the seabed is theirs, they fear missing out on the riches and potential development.

The South China Sea constitutes a chokepoint for international commerce. The oil transported through the Malacca Strait from the Indian Ocean, en route to East Asia through the South China Sea, is triple the amount that passes through the Suez Canal. Nearly 66% of South Korea's energy supplies, nearly 60% of Japan's and Taiwan's energy supplies, and 80% of China's oil imports come through the South China Sea. Unlike the Persian Gulf where mainly energy is transported, in the South China Sea energy, finished and unfinished goods traverse the regions seas. In short the South China Sea is extremely strategic for what passes through it. This is why it is no surprise both China and the US have a deep interest in dominating the region.

During the Cold War, Vietnam, the Philippines and what is now Malaysia were wrecked internally by irregular "small" wars that went on for years. The surrounding seas were ignored only because

these nations were weak and divided and had little possibility of projecting power in the region. Now that they are all more or less at peace, they can exert themselves beyond their waters to potentially energy-rich seas.

The quest for a position in the region has led to the bare rocks in the South China Sea becoming symbols of nationhood. The passion regularly seen over territorial rights in the South China Sea are an expression of nationalism. Japan, China, Taiwan, North, South Korea, Philippines, Vietnam, Cambodia, Thailand, Brunei, Malaysia, Singapore and Indonesia all have conflicts with one another over the issue of territorial sovereignty.

These tensions reached fever pitch in 2012 initially with a naval stand-off between China and the Philippines in April 2012 when Chinese fishing vessels were caught inside the Philippines Exclusive Economic Zone (EEZ) near Scarborough Shoal. The standoff broke up after several weeks without a resolution of the underlying issues. Separately, the Philippines now intend to begin drilling for natural gas in the Reed Bank near its Palawan Island, a program to which China objects. In response Chinese warships threatened to ram a Philippine survey ship near Reed Bank.

Across the sea, and on the eve of the ill-fated Phnom Penh summit, the China National Offshore Oil Corp. (CNOOC), a state-owned oil developer, put out a list of offshore blocks for bidding by foreign oil exploration companies. The blocks were within Vietnam's EEZ, some of these blocks had already been leased by Vietnam for exploration and development.

In June 2012, the Chinese government established "Sansha City" on Woody Island in the Paracel chain, which China seized from South Vietnam in 1974. Sansha will be the administrative center for China's claims in the South China Sea, which includes the Spratly Islands near Reed Bank and Palawan, and Scarborough Shoal. China also announced plans to send a military garrison to the area.

*America's pivot and the claims by other nations in the region for the regions riches is fundamentally about China, and its rise as a power. China has been weak internally for over 200 years, for the last three decades China has been on the ascent and now believes it has the strength to project power beyond its borders.*

America's pivot and the claims by other nations in the region for the regions riches is fundamentally about China, and its rise as a power. China has been weak internally for over 200 years, for the last three decades China has been on the ascent and now believes it has the strength to project power beyond its borders. Thus, China is now claiming the bulk of the energy-rich South China Sea, and other nations such as Vietnam and the Philippines are pushing back.

One of America's pillars of global control has been her military strength. Today the US does not enjoy the same primacy as it did prior to its invasion of Iraq. Iraq and Afghanistan have impacted US power and depleted her resources. The global economic crisis further exacerbated America's standing in the world, as it turned towards Socialist intervention to prop up its economy. Because of such challenges America's presence in the world is considered overstretched and untenable. As a result of America's apparent weakness, the challenges stemming from her competitors have grown

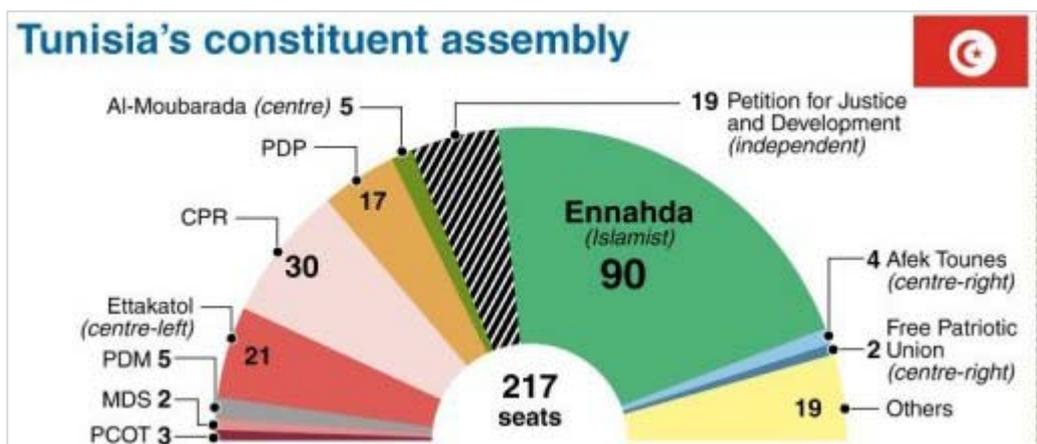
in size and scope and today are much stronger. This is why nations such as Russia and China are being much more aggressive and confident in their claims in their regions and beyond. Since the collapse of Communism in 1990 the US is facing challenges to its power, which is coming from China in its region.

## Arab spring – Two Years on

The Arab spring that started in January 2011 led to multiple uprisings that brought the brutal rule of Hosni Mubarak of Egypt, Ben Ali of Tunisia and Libya's Colonel Gaddafi's to an end. For the moment Bashar al-Assad continues to cling to power. Elections have taken place in a number of countries and in all of them the Islamic parties gained significantly, whilst the secularists performed miserably. Two years since the Arab spring began the Islamic parties still face significant hurdles in developing new constitutions. In Egypt and Tunisia the Islamic groups that emerged victorious have now been in power long enough for their rule to be analysed. Debate and discussion regarding new constitutions and the role of Islam continue to dominate the Arab spring.

### - Tunisia

The Arab spring began in Tunisia in late 2010. An interim government replaced Ben Ali, and elections took place in October 2011. The country's Islamic group



won the legislative polls, securing 90 out of 217 seats, and proceeded to form a coalition government with the secular parties that won the second and third-highest number of parliamentary seats.

2012 in Tunisia has been dominated by the writing of a new constitution for the nation. The constituent assembly dominated by Ennahda was charged with appointing a transitional government and drafting a new constitution. The constituent assembly has not published minutes of any meetings in either committee or plenary sessions. In addition, voting records and attendance have not been revealed, although observers note that only five or ten of the 20-member drafting commissions attended regularly. Absenteeism has been particularly prevalent amongst opposition parties, partly because some do not take their jobs seriously and partly because some want to see Ennahda fail.

The constitution, drafted by six assembly committees was made public in August 2012, it was then put before another coordinating committee of the assembly that prepared it for presentation to the full assembly for debate and a vote. Ennahda made it clear after running on an Islamic ticket that it will not make the shari'ah the source of legislation in the new constitution and will maintain the secular nature of the state. Ennahda insisted that it will keep the first article of the 1956 constitution in the new basic law. The article enshrines the separation of religion and state, stating that: "*Tunisia is a free, independent and sovereign state, its religion is Islam, its language is Arabic and it is a republic.*" "*We are not going to use the law to impose religion,*"<sup>3</sup> Ennahda's leader Rachid

*“The Ummah of Tunisia voted in the Islamic party due to their Islamic sentiments. Ennahda have made it perfectly clear now they are in power, that they have no plans to implement Islam. Tunisia has been the only country that witnessed the ousting of its leader and openly declare that it will maintain the existing system, albeit with some cosmetic changes, but Islam will play virtually no role”*

Ghannouchi told journalists after the Islamic parties constituent committee voted to maintain the constitutional article by 52 votes to 12. The article, he added, *“is the object of consensus among all sectors of society; preserving Tunisia's Arab-Muslim identity while also guaranteeing the principles of a democratic and secular state.”*<sup>4</sup> Islam is Tunisia's official religion and while the constitution stipulates the president should be a Muslim, the state is mostly secular. Some voiced concern that Ennahda would seek to curb women's rights and other liberties in an Arab country known for its progressive laws. But Ghannouchi said the Islamist party would not *“introduce ambiguous definitions into the constitution that risk dividing the people”*, adding that *“many Tunisians do not have a clear image of sharia and erroneous practices in certain countries have aroused fear.”* The final draft of the constitution is still to be published.

Ennahda founded in the 1980s on the model of the Egyptian Muslim Brotherhood, over the past two decades has become more comfortable with the ideas of secularism, to the point that it now has more in common with secular parties than an Islamic one. It has become similar to the AKP in Turkey which is Islamic in name only.

The Ummah of Tunisia voted in the Islamic party due to their Islamic sentiments. Ennahda have made it perfectly clear now they are in power, that they have no plans to implement Islam. Tunisia has been the only country that witnessed the ousting of its leader and openly declare that it will maintain the existing system, albeit with some cosmetic changes, but Islam will play virtually no role. Ennahda’s leader, Rachid Ghannouchi, explained with regards to establishing the Khilafah after its electoral victory: *“Definitely, we are a nation state. We desire a state for Tunisian reforms, for the Tunisian State. As for the issue of the Khilafah, this is an issue that is not one of reality. The issue of today’s reality is that we are a Tunisian State that desires reform, so that it becomes a State for the Tunisian People, not against them.”*<sup>5</sup>

## - Egypt

Mohamed Morsi was sworn in as the president of Egypt on Saturday 30<sup>th</sup> June 2012. This was a unique moment in the recent history of Egypt, for a number of reasons. Firstly Morsi was elected by the people, something none of his predecessors can claim. He is also the first civilian leader in the country’s recent history. His party the Muslim Brotherhood (MB) has been working for change for over eight decades, Mohamed Morsi took the premier seat in arguably one of the most influential and powerful countries in the region if not the Muslim world.

The MB took the reins of power in an environment, where the powers of the president were not defined and the nation’s constitution had also not been written. Both Mohamed Morsi and the MB have come face-to-face with the real-world challenges faced by any head of state.

The MB and Morsi have not presented any grand vision for the country. They have used slogans such as ‘Islam is the solution,’ which it has now been dropped. What has been notably absent is where they plan to take the people and exactly how they plan to enrich the nation. Without such a grand vision Egypt will remain a fractured nation and will be unable to move in one direction.

Whilst both Field Marshall Tantawi and Lieutenant General Sami Annan were replaced by the youngest officer in the SCAF leadership General Sisi, in effect an internal coup, the Muslim Brotherhood’s Morsi has taken numerous steps showing his moderation to the West. The MB have received an overwhelming mandate for Islam, the Ummah gave them the mandate to rule by what they campaigned for not just in this election, but for nearly a century i.e. Islam

Since the election victory the MB has gone to great lengths to demonstrate its moderation to the West. In its rush to placate so called international opinion, they abandoned all pretence to Islamic politics. In doing so, they think they are being pragmatic, smart and politically savvy. When it comes to applying Islamic politics they cite constitutional barriers and the need to keep minorities onside. When it comes to applying Islamic economics, they cite the need to avoid scaring international investors and tourists. When it comes to applying the Islamic foreign policy, they cite the need to show a moderate image and to appease the West. The current reality is that the Islamic groups that languished in the torture cells of the likes of Mubarak touting ‘Islam is the solution,’ are now actually holding the Ummah back from Islamic rule in Egypt.

The army and the civilian ruling party being at loggerheads gave way to Morsi effectively being in charge of the nation. Morsi and the MB no longer speak of ‘Islam is the solution’ Saad al-Husseini, a member of Egypt's Freedom and Justice Party executive bureau said in an interview, that tourism is very important for Egypt and stressed that drinking and selling alcohol are forbidden in Islam. However, he then added, *"Yet Islamic laws also prohibit spying on private places and this applies to beaches as well...I wish 50 million tourists would travel to Egypt even if they come nude."*<sup>6</sup>

The system the army constructed that enshrined US interests and protected the state of Israel simply has a new manager. Whilst many came onto the streets demanding change, the faces have changed, but the underlying system remains firmly in place in the country.

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## - Libya

In November 2011 the National Transitional Council (NTC) formed a government in order to become the political authority after the fall of Gaddafi. The Libyan government has spent all its transitional period, which ended in July 2012 with elections focused on acquiring nationwide political legitimacy, a prerequisite for establishing a competent security apparatus capable of dealing with threats emanating from Benghazi and elsewhere.

Mustafa Abushagur was elected prime minister in September 2012, he was a former US citizen and employee of NASA. Abushagur was only prime minister for a few weeks, having been elected on Sept 12, he was given 72 hours to name a new cabinet, and when that failed he was dismissed in a vote of no confidence. Cabinets have to be approved by the General National Assembly (GNC), who were elected in July 2012. His ouster brought Ali Zidan to power.

At the end of 2012 the Libyan regime still counts among its challenges the most basic task of state formation: establishing internal security. The on-going formation of the Libyan National Army – has been the centrepiece of the governments push to accomplish this task, but so far, all attempts at threatening the militias into subservience have accomplished next to nothing. The inability of a legitimate central authority to impose its writ on the nation has enshrined the diffusion of power to locally elected city governments and the increasing clout of local militias.

Libya's largest regional militias are in Zentan, Misurata and Benghazi. These militias, in addition to their associated city councils, remain the biggest obstacle for central government in achieving control over a unified Libyan state. The nation's security forces have been unable to prevent renegade militia attacks or to convince regional militia leaders to lay down their arms or join the council's security forces. For instance, the al-Awfeia Brigade took over the Tripoli Airport in June 2012 and held it until the next day, when the National Transitional Council negotiated a resolution. In April 2012, the council had to secure the international airport, which Zentan's militia had overtaken, and its inner-city airport, Benita, which had fallen under the control of Souq al-Jomaa, a militia that hails from the central Tripoli suburb of the same name.

Former rebel strongholds such as Benghazi and Misurata, have continued to work from their hometowns. These regional representatives continue to maintain strong ties to both their communities and local militias, building up their own patronage networks. This also led to a rise in support for locally elected city councils in former rebel bastions, where Tripoli's influence and bureaucratic institutions hold little sway. Benghazi's city council announced in March 2012 that it would take control of the city's day-to-day administrative issues, Members of the Benghazi city council manage local infrastructure projects and security issues and settle disputes with regional rivals -- independent of central government and with the support of local militias.

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Local militias also control important oil export infrastructure and have proved themselves capable of taking over vital infrastructure such as airports to exact demands from the National Transitional Council. With the central government failing to ensure security and falling short on promises to pay salaries to the militias, Western oil companies began to deal directly with the militias, local oil companies and regional civilian leaders to conduct day-to-day business. A number sources have confirmed that Western oil companies have hired local militias, specifically the Zentan militia, to protect south-western oil fields from Tuaregs.<sup>7</sup>

Libya after the ouster of Gaddafi remains in a state of flux, with both the NTC and its successor the GNC government having little central authority.

#### - **Yemen**

In Strategic Estimate 2012 our position on Yemen was:

**“Even though Saleh will be formally stepping down as president and with elections to take place in February 2012 the political transition in Yemen in no way constitutes regime change. The deal gives Saleh a dignified exit. But one must ask why Saleh has agreed to such a deal after refusing to sign the same agreement on numerous occasions previously? On this occasion it appears the deal would largely leave the regime under his family’s control.”**

Four months after the GCC power-transfer agreement was signed, and despite regular protests demanding that Saleh be stripped of his immunity and that he and his family face trial, Saleh's family continues to hold many high-level positions throughout the government, business community and security forces. In fact, Saleh himself is still the head of the ruling General People's Congress (GPC) party.

2012 has been dominated by Abd Rabbuh Mansur Al-Hadi trying to consolidate his position. After being elected as president in February 2012 Abd Rabbuh Mansur Al-Hadi began efforts to weaken Saleh's and his family's grip on power. Hadi removed various military leaders loyal to Saleh, but the former president's oldest son, Ahmed Ali Saleh, continues to serve as commander of the elite Republican Guard. Hadi attempted to unite the military and set up a 14-member military council to reform the armed forces. The council included officials who had served under Saleh as well as individuals aligned with al-Ahmar. Al-Ahmar and his soldiers in the 1st Armored Brigade have been engaged in a war with Saleh loyalists since March 2011. The aim was for Hadi to act as the chief mediator.

In August 2012 President Hadi's announced a military restructuring designed to alter the balance of military power more in his favour. This battle with army factions is leading to Yemen's tribes taking advantage of the power struggle by striking deals with competing interests in order to get the autonomy they have wanted. At the end of 2012 President Hadi is still a long way from

meaningfully consolidating power. Without a clear, centralized power base in Sanaa, neither President Hadi nor anyone else will be able to meaningfully address security problems all over the country.

The biggest problem in Yemen is foreign interference. The US used the war on terror to undermine Ali Abdullah-Saleh by accusing Yemen of being a hub for Al Qaeda. Ali Abdullah-Saleh attempted to appease the US with a host of security guarantees which allowed the US to carry out drone attacks in the country. The uprising gave the US the opportunity to remove Saleh, who however dug in his heels with the support of Britain in the face of demands by his own people to leave. He eventually agreed to a transition deal – led by the Gulf Cooperation Council (GCC) – another US has been working to strengthen Hadi, however Saleh with foreign help continues to undermine US interference.

#### - Syria

The revolution in Syria has now been raging for nearly two years. The massacres by the Al - Assad regime have almost become normalised. The Muslim Ummah rose up against the brutal rule of Bashar al-Assad in spite of the brutal tactics of suppression used to quell the uprising. With little in the way of weaponry and with massacres being carried out across the country the people of Syria caused a stalemate with the Syrian regime. The Ummah continues to show tremendous metal in the face of tanks, fighter jets and artillery.

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The uprising in Syria began in March 2011, this is when large scale demonstrations started. It was also the beginning of the brutal crackdown by the regime. As the killings escalated some in Syria turned to international help against the regime and this opened the way for international interference. The international community has to date put forward a number of solutions to the crisis. The US shifted from publically backing Assad as a ‘potential reformer’ to publicly denouncing the regime — but all the time doing nothing more than issuing statements.

As images beamed around the world of the massacres taking place an Arab league observer mission was dispatched to negotiate with all the parties in bringing an end to the conflict. This mission was always destined to fail and it is questionable how serious the international community even was about such a mission. The Ummah fought back against Al –Assad’s terror, this resilience led the international community to begin constructing a post-Al-Assad Syria. The international community turned to the Syrian National Council (SNC) and the Local Coordination Committee’s (LCC’s) in the hope of nurturing a faction that could take power after Al - Assad.

The US used Russia and China’s apparent support of the Syrian regime as one of the reasons the Syrian conflict was spreading out of control. The US presented the European nations and itself on

one side calling for al-Assad to go and Russia and China on the other side trying to maintain Al-Assad.

Then the Kofi Annan led ceasefire was announced, which was another attempt to deal with the uprising. This plan was as useless as Arab league observer mission. When this strategy was unravelling the US began calling for the Yemen model to be applied on Syria, where the rebels come to the negotiating table. The international community began promoting a "political transition" similar to the steps Ali Abdallah Saleh had taken in Yemen. This strategy fell apart on July 18 when a bombing at the National Security headquarters in Damascus eliminated several of the regime's top security bosses and possible candidates to take over. The Syrian Defense Minister Dawoud Rajha, former Defense Minister Hassan Turkmani, Interior Minister Mohammad al-Shaar, National Security Council chief Hisham Biktyar and Deputy Defense Minister Assef Shawkat (Al-Assad's brother-in-law) are all reported to have perished, whilst Al-Assad's brother Maher al Assad - the Republican Guard and Fourth Division Commander is reported to have lost both his legs.

The Assad regime failed to quell the uprisings in Homs, Hama, Idlib and the stand-off reached the districts in Damascus – the seat of the regime. This worried the US and led it to constantly highlight the prospects of civil war and the countries chemical weapons falling into the wrong hands. This led to a flurry of statements in June by US officials such as the Chairman of the US Joint Chiefs of staff, US Defence Secretary, the Secretary of State and the President himself increasing the calls for military intervention.

The situation currently in the country is that the al-Assad regime which controlled every strata of society has failed to end the uprising, employing all sorts of brutal tactics to quell the demand for change by the masses. The situation has been complicated by international powers who all have a stake in the outcome of the country and who have been manoeuvring to influence the outcome. Successive strategies by the West have failed to stem the call for change by the people of Syria. What is currently taking place is the battle for the country post Al-Assad between the Sunni Muslims of Syria and the US.

In 2012 similar to the other uprisings across the region the Ummah in Syria lost their fear of the regime and all its notorious tools and decided to take on the regime. They have improved in their coordination and tactics. The Ummah in Syria has been at war for over a year now, with experience and aid from defecting Syrian troops, their fighting acumen has improved. The sharp increase in the number of destroyed Syrian army tanks and armoured fighting vehicles attests to the capability of the Ummah. The influx of fighters from other countries as has been reported has also bolstered the Ummah. This influx includes experienced Syrian and Iraqi fighters who fought in the Iraq war against US forces. Their experience in improvised explosive devices (IED's) would appear to have had an enormous effect on the Ummah's capabilities to inflict casualties and damage on the Syrian military.

This is why the Syrian military has avoided costly armoured attacks on rebel-held urban areas where armour is more vulnerable. The regime is solely relying on air-power and shelling from afar using tanks, artillery and attack helicopter support. The Free Syrian Army (FSA) does not need to match the security forces' numbers or firepower because the rebels can force the regime to fight

everywhere at once, taking advantage of their superior mobility and flexibility to mount effective raids and ambushes where and when it suits them.

The Ummah in Syria after decades of oppression have stood tall even after a brutal crackdown by the Al – Assad regime. For the moment the struggle for Syria stands at various powers manoeuvring in order to gain influence in this strategic country. The situation in the country is still fluid and could potentially go in any direction. The Ummah's challenge in Syria is to not be lured with promises of weapons by foreign powers and compromise with their uprising.

In summary the following observations can be made on the second anniversary of the Arab spring:

- In Tunisia, Morocco and Egypt, voters in their millions have clearly expressed their opposition to secular liberal values and their strong desire for Islamic government. Yet the same parties that went to great lengths to demonstrate their Islamic credentials to the masses in their election campaigns, are now going to greater lengths to demonstrate their moderation to the West. The Islamic groups, whether Ennahda in Tunisia or the Muslim Brotherhood's freedom and Justice party (FJP) in Egypt have made one strategic mistake after the other. The Islamic parties have won elections that were flawed from the outset. The elections were for parliaments which are a relic of everything that was wrong in the Muslim world. These Islamic parties rather than change and replace such a system, have entered the corrupt system and replaced Ben Ali and Hosni Mubarak with themselves in maintaining the corrupt, secular systems.
- Whilst many of the Islamic groups who are now in power, sacrificed a lot in the past and were on the receiving end of much brutality by the dictator rulers, their political calculations are rooted in myths. They believe that an Islamic system can only be implemented gradually. Whilst the groups who have reached power lacked much in policy development they argue that Islamic solutions aren't ready to deal with problems such as poverty, unemployment and development. They also falsely believe implementing Islam will scare minorities, scare investors and scare the international community.
- There are a number of countries that have not witnessed uprisings such as Saudi Arabia, Jordan and most of the Gulf States. There are however specific reasons for this. The relationship between the rulers and the people in these countries are different when compared to the relationships between the rulers and the people in Libya, Syria and Egypt. In Libya, Syria and Egypt the rulers ruled with an iron fist, established what were police states and social cohesion was maintained through a large secret service. These factors are absent in the Gulf nations, Saudi and Jordan.
- In Jordan protests have been restricted to calls for the removal of the Prime Minister. King Abdullah has dismissed various governments on account of the street protests. Since Jordan's independence in 1946, the palace has appointed more than 60 prime ministers, including three since the Arab unrest broke out in 2011. King Abdullah dissolved the government of Prime Minister Samir Rifai and then put Marouf al-Bakhit, a former army general, in charge of forming a new Cabinet and instituting reforms. Protests still continued,

which led to King Abdullah to sack Bakhit and his cabinet, naming Awn Shawkat Al-Khasawneh to head the new government and institute new reforms. King Abdullah has for the moment successfully contained the protests by constantly dissolving the government and this has placated the people.

- Saudi Arabia has been able to present the protests in its territories as a Shi'ah uprising and this has caused the bulk of the population to support the clamp down in cities such as Qatif, al-Awamiyah, and Hofuf. In order to contain the uprising the monarchy announced a series of benefits for citizens amounting to \$10.7 billion. These included funding to offset high inflation and to aid young unemployed people and Saudi citizens studying abroad, as well the writing off of some loans. As part of the Saudi scheme, state employees saw a pay increase of 15%, and cash was made available for housing loans. No political reforms were announced as part of the package. The Grand Mufti of Saudi Arabia also issued a fatwa opposing petitions and demonstrations, the fatwa included a "*severe threat against internal dissent.*"<sup>8</sup>
- The Gulf States did not see many protests apart from Bahrain and Oman. Such city states placated the uprisings through making some reforms, changing cabinets and through economic hand-outs. Although many of them have monarchies they do not rule with an iron fist. Whilst Bahrain continues to clamp down on its Shi'ah majority population Oman was the only other Gulf nation to see significant protests. The Sultan continued with his reform campaign by dissolving some ministries, setting up some new ones, granting student and unemployed benefits, dismissing scores of ministers, and reshuffling his cabinet three times. In addition, nearly 50,000 jobs were created in the public sector, including 10,000 new jobs in the Royal Oman Police. The government's efforts have largely placated protesters, and Oman has not seen significant demonstrations since May 2011, when increasingly violent protests in Salalah were subdued.
- An uprising in Pakistan has been notably absent. Pakistan has not been a brutal dictatorship as has been the case with Libya, Syria and Egypt. Since Musharraf's era Pakistan has moved in such a direction, as can be seen with the disappearance of many people apparently linked to terrorism, this is however a relatively recent phenomena. The rule in Libya, Egypt and Syria was in the hands of brutal dictators and the only way to change this was through an uprising.

In Pakistan unlike Libya, Egypt and Syria the political system is not controlled by a single clan, there exist different centres of power, with two families who have historically dominated the political system. Feudal land owners, industrialists, rich families and the army are all centres of power who maintain Pakistan's political architecture. Alongside this opportunists, factions and many groups have entered the political process for their personal interests. The political process in Pakistan has the involvement of a much wider segment of the population compared to Libya, Egypt and Syria and this has acted as its lifeline.

For the moment in Pakistan the call for change is either making the political system more democratic or getting some Islamic laws passed. This is why there has not been an uprising

in the country even though the economy continues to teeter on the brink and electricity black outs have become the norm.

- In our assessment of the Arab spring at the end of 2011 we concluded:

**“Islam has played a central role in the uprisings. Groups such as Ennahdah in Tunisia and the Muslim brotherhood in Egypt have gained significantly in elections as their Islamic credentials resonate with the people.”**

However aside from the Syrian uprising the others that took place have all ground to a halt as those who espoused Islam are in reality maintaining the pre-revolutionary systems. They are attempting to keep the West happy with their moderation and the people that voted them in happy by making cosmetic changes, whilst all the while keeping in place the secular systems and protecting Western interests.

In 2013 and beyond the following challenges will most likely occur:

- It should now be clear that Western intervention has not taken into account the demands of the region. This is why Western contact is with very specific individuals and groups who either espouse Western ideals or can be changed to espouse such ideals. The challenge for the Muslims of the region is to ensure its revolutions are not hijacked by a foreign agenda. The intervention by the West in Egypt and Libya was the key to Western infiltration of the revolutions. Through this it expects to have a say in the region.
- The biggest debate is the system of governance for the region. All calls for Islam are being hallowed out by a global media that would like to see Western values permeate the region. This pressure has led to many Islamic groups who suffered heavily by the regions dictators to compromise their Islamic polices in order to appease the West. Building a case for political Islam is a challenge the region will need to take up.
- Many disparate groups from different leanings came together to oust the rulers of the region. This unity ended when the rulers were overthrown. Now differences have emerged on the post-regime set up and this has been used by the West to divide the people and allowed the West to cultivate surrogates who will get their support. The challenge for the people of the region is to develop a new system for the region which unifies the people and keeps Western interference out.
- Attempts by the US to interfere in the Syrian uprising continue. The US is trying to lure "vetted" activists through offering training and support so they can galvanize greater influence within the rebels inside Syria and take a leadership role. It was reported in the last week of August 2012 that the US and Britain have setup a training camp close to the Turkish border to train Syrian activists from inside Syria. The telegraph reported that: *"An underground network of Syrian opposition activists is receiving training and supplies of vital equipment from a combined American and British effort to forge an effective alternative to the Damascus regime. Dozens of dissidents have been ferried out of Syria to*

*be vetted for foreign backing.*" Recruits face "two days of vetting designed to ensure that the programme does not fall into the trap of promoting sectarian agendas or the rise of al-Qaeda-style fundamentalists." The last remaining option for the US is in infiltrating and influencing the FSA to obey a chain of command that is loyal and controlled by the US. This would steer the rebels away from their goal of bringing down the regime and to sit down at the negotiation table. The challenge of the Ummah is to keep its uprising pure, free from Western control. The outcome in Syria will impact the whole region.

# China

The rise of China continues to dominate the thoughts of Western policymakers. The nation's annual double digit growth and global export machine has led China integrating more or less most of the world into its economy. In 2012 China challenged US power after decades of unrivalled domination, it also staked its claim to the South and East China seas with its aggressive manoeuvres in the region. However with economic growth slowing, China's phenomenal rise appears to have peaked in 2012. Economic growth contained the nation's social tensions and allowed China to rapidly develop a blue sea fleet. Where is China in its trajectory? Is its economic model of development sustainable? Does China really have the military strength to project power across its region? These are some of the questions that have been on the minds of analysts in 2012.

With China's rise to power it is now facing a new set of challenges many of which became ever more apparent in 2012, some of these are:

- Distributing the nation's ever growing wealth in an equitable manner
- Internal tensions among the populace due to this new found wealth as many have not seen their lives improve. China's traditional policy of dealing with internal cohesion through full employment, via its export driven policy is now failing to maintain internal stability.
- China's economic growth has led to heightened Chinese ambitions in the region resulting in tensions with other regional nations. Maintaining such relations whilst ensuring economic stability and growth is a challenge it will need to deal with.

## Economic development

We concluded our last assessment with questions over the sustainability of China's rapid economic growth. In 2012 China attempted to deal with this. China's rapid economic development has been the most salient feature of its global rise. Central to this was the development of Special Economic Zones (SEZ), these were a hallmark of the 'Opening and Reform' period that followed Deng Xiaoping's return to power in 1978. In 1980, Beijing created the first Special Economic Zone (SEZ) in the coastal Guangdong and Fujian provinces, designed to attract foreign investment in low-end manufacturing by offering cheap land, labour and a variety of tax and other incentives. Success in southern cities compelled Beijing to expand economic reforms, first to the Yangtze River Delta area and later to cities along the Yellow and Bohai seas, such as Tianjin, Qingdao and Dalian. For most of the last 30 years, these coastal clusters acted as Beijing's experimental (and carefully monitored) interface with the outside world.



Deng hoped that such zones would generate the wealth necessary to make the development of China's vast, poor interior possible. In doing so, they would ensure social stability and, by

extension, the Communist Party's grip on power. While Beijing has made significant progress in laying the groundwork for this process, it still faces enormous challenges, including inadequate infrastructure in many parts of the country's interior, low levels of education and endemic corruption.

These SEZ's allowed foreign investment and technology into the country and became a new source of wealth for China. Today the country is an export oriented economy and dependent on foreign countries to continue importing from it. Therefore whatever the size of China's currency reserves, no matter how cheap it's labour force or its technological developments, China relies on foreign nations to import from it and physically ship them – a naval blockade would cripple China. The world imports from China at the cost of closing down their own factories, as long as no other nation produces the world's goods cheaper than China, China will remain the world's workshop. This fragile model of development is totally dependent upon the world continuing to buy from China rather than anyone else, putting the future of China in the hands of others.

The global economic crisis is now beginning to show the strains of this model of economic development. The economic downturn in Europe and the US - China's two main customers, has led to a drop in consumption and exposed China's need for continued exports. China has been unable to find alternative markets to replace such a fall in demand or increase



domestic demand. This economic stress is having an impact on China's domestic situation. Whilst the exterior of China is only now faltering after years of rapid economic growth, China's interior remains impoverished and has seen little of the nation's wealth.

China focused on developing the coastal cities as engines of economic growth for three decades. The hope was in the future the coastal cities would lead to the development of China's interior. China is now at the point in its trajectory where it needs to distribute the wealth generated in the exterior to the interior of the country. The challenge here is that the coastal cities developed due to their direct access to global shipping lanes. This combined with China's export orientated growth developed them into mega economic centres. The geographic position of China's interior and distance from the coast makes exports much less attractive. It is both slower and more costly to ship goods from inland Hunan or Anhui, than from Zhejiang or Guangdong.

Progress has created a problem for China – how to distribute this wealth across the country so all benefit not just the coastal cities and the Communist Party. As long as China's economy is geared towards exports rather than domestic consumption, it will be difficult to fully integrate central provinces as an economically feasible manufacturing base. But greater domestic consumption, seen by Beijing as the ultimate goal of economic restructuring and reform, will require both continued growth on the coast and development of the interior. Beijing is therefore trying to shift the economy

inward by laying the groundwork for a domestic consumption base that does not yet exist.

## **Social Cohesion**

For centuries, China has attempted to hold together a vast multi-cultural and multi-ethnic nation despite periods of political centralization and fragmentation. But cultural and linguistic differences have worsened due to uneven growth and a massive misdistribution of wealth. Physical mistreatment, imprisonment, lax labour laws, pitiful pay and the fact that the Chinese government is seen not to have addressed the economic needs of the vast bulk of the population is causing internal strife and calls for political succession. In 2005 China handled 87,000 cases of social unrest; that is public disturbances, demonstrations and civil strife.<sup>9</sup> In 2010, China was rocked by 180,000 protests, riots and other mass incidents, more than four times the tally from a decade earlier. That figure was reported by Sun Liping, a professor at Tsinghua University, rather than official sources.<sup>10</sup> Professor Yu director of social issues research at the Chinese Academy of Social Sciences' Institute of Rural Affairs, who advises the top leaders of China and conducts surveys on social unrest, has cited statistics showing the number of recorded incidents of "mass unrest" grew from 8709 in 1993 to more than 90,000 in each of the past three years.<sup>11</sup> Domestically China is a very unstable society.

A large chunk of China today remains largely agrarian, has little infrastructure and lives in poverty. According to the Boston Consulting Group 2008 worldwide study of household wealth 70% of China's wealth is controlled by only 0.2% of its population.<sup>12</sup> This has created China's massive internal cohesion problem.

China has attempted to deal with this through ensuring full employment. China is an export driven economy, built to produce goods which are exported around the world. For China profit is not the real concern but territorial cohesion is what drives its currency policy, it must keep the costs of its exports down which is why it makes virtually no profit on its exports, it achieves this by enforcing low wages for its populace.

China has a long history of large scale societal upheaval. Regularly through its 4000 year history everything comes crashing down as each attempt at development unravels at the seams. The current method of development of an export driven economy and guaranteed employment has covered the cracks, however with the economic downturn the Communist Party is finding social unrest increasing dramatically every year. The Communist party may find its power challenged by over a billion people, many of which never benefited from the countries rapid economic development.

*“China has a long history of large scale societal upheaval. Regularly through its 4000 year history everything comes crashing down as each attempt at development unravels at the seams. The current method of development of an export driven economy and guaranteed employment has covered the cracks”*

The Chinese leadership has not presented any clear policies on how it plans to deal with domestic tensions. All trends point to the continued use of nationalism historically the method favoured by the Chinese leadership when dealing problems of social cohesion. Chinese nationalism has in the modern era been about China's 4000 years of glorious history and its modern humiliation by Japan

and the West. Today, Chinese nationalism is characterized by the relationship between the population's feelings of pride, disappointment and hope for China's future. This policy has in reality been a tool by the Communist Party for social management and securing party control. However nationalism is a volatile strategy for social cohesion and for unifying a populace which can lead to violence quickly spiral out of control.

Whilst China may lay claim to its region, it is internally where it faces its biggest challenge.

## **Military Ascent**

In 2012 China was very aggressive on its claims to its region. After decades of diplomacy and economic driven policies, China is much more confident in its claims. Beijing has been buying smart, investing in submarines, ballistic missiles, space and cyber warfare as part of a general defence build-up.

China's economic ascent has been in parallel to its military ascent. Militarily China's has undergone considerable development. Mao's doctrine of 'human wave attacks' - having more soldiers than your enemy has bullets has been replaced with a smaller armed force (relatively) emphasizing new technologies. China's military development has been driven by the need to protect itself and its supply lines in the region. The Chinese military is currently seeking to project naval power well beyond the Chinese coast, from the oil ports of the Middle East to the shipping lanes of the Pacific, where the US has long reigned as the dominant force.

Strategic Estimate 2012 analysed China's first aircraft carrier – the Varyag and its first stealth fighter jet – the J20 and the impact these developments will have on China's military capability. China quantitatively and qualitatively lags behind the US and Russia and much of its military equipment was developed during the Vietnam War. Whilst China is making rapid advances it is still a number of generations away from a military capability that can go beyond its region. China still maintains a reliance on Russian weapons systems and still cannot make reliable jet engines. In light of its generational deficiencies cyber warfare provides China with an asymmetric advantage to deter aggression from stronger military powers as they catch up in traditional military capabilities.

*“In light of its generational deficiencies cyber warfare provides China with an asymmetric advantage to deter aggression from stronger military powers as they catch up in traditional military capabilities”*

The development of a blue sea navy is how China plans to defend itself in its region, as it needs to protect its shipping lanes, project an image of strength, especially towards US. However effective and meaningful, carrier aviation is the product of decades of extensive first-hand experience at sea. The establishment of a trained cadre of naval aviators, efficient flight-deck operations and naval doctrine cannot be reverse engineered, and further investment will be necessary for China to even begin to adequately explore these competencies.

Its rapid navel development to protect its borders has worried the region. Whilst China has just rolled out its first aircraft carrier it has more than 60 submarines and is projected to have around 75

in the next decade, more than the US. Whereas most of China's submarines are diesel-electric and all of America's are nuclear, the latest Yuan-class diesel-electric models are reportedly equipped with air independent propulsion and increasingly difficult to detect.<sup>13</sup> Because the Western Pacific constitutes China's home waters, China's submarines do not have to travel from half way across the world to get to the Asian military theatre as America's must. In the event of war, the US may only arrive at the theatre when the war is over.

Similarly China is rapidly developing its airpower. China has increased the number of its modern, fourth-generation aircraft from 50 to 600 since 2000, even as it has reduced the size of its overall air force from 3,000 combat aircraft to 2,000. Military modernization is about smaller but more up-to-date force structures and this is what China has been pursuing.

*“China’s army - The People's Liberation Army (PLA) is primarily configured as a domestic security force, which has been a necessity due to the counties history of internal tensions. Having been designed for internal security, the PLA is doctrinally and logistically disinclined toward offensive operations. Using a force trained for security as a force for offensive operations leads either to defeat or very painful stalemates”*

China's biggest challenge is shifting from internal security to external expansion. China's army - The People's Liberation Army (PLA) is primarily configured as a domestic security force, which has been a necessity due to the counties history of internal tensions. Having been designed for internal security, the PLA is doctrinally and logistically disinclined toward offensive operations. Using a force trained for security as a force for offensive operations leads either to defeat or very painful stalemates. The PLA was built to control China, not to project power outwards. It should be noted that since the 1980s the Chinese have been attempting to transfer internal security responsibilities to the People's Armed Police, the border forces and other internal security forces that have been expanded and trained to deal with social instability. But despite this restructuring, there remain enormous limitations on China's ability to project military power on a scale sufficient to challenge the US directly.

## **Conclusions**

Our previous assessment concluded the manner in which China navigates US plans in the region, to contain it, is central to China's position in the future. Whilst 2012 was election year and a new generation of politicians have taken the helm. China's leadership transition will not change the nation's overall direction as governance in China is built upon consensus and leaders are chosen well in advance – this was the same with new premier Xi Jinping.

Whilst 2012 will go down as the year China challenged US hegemony in South East Asia, this is also where its problem lies – China's ambition remains within its region and are not global. Many of China's regional tensions have been exacerbated by the US to keep China contained within its region.

China's preoccupation with its territorial issues means the US does not have to take account of China in global issues as it does not pose a threat to US interests in Europe, Palestine, Iran or South

America. The Communist party has historically been misled by the notion that China's interests are best served in her region. If China had global aspirations she would compete with the US around the world and this would give more space for China to solve its regional tensions and partake in global issues further afield.

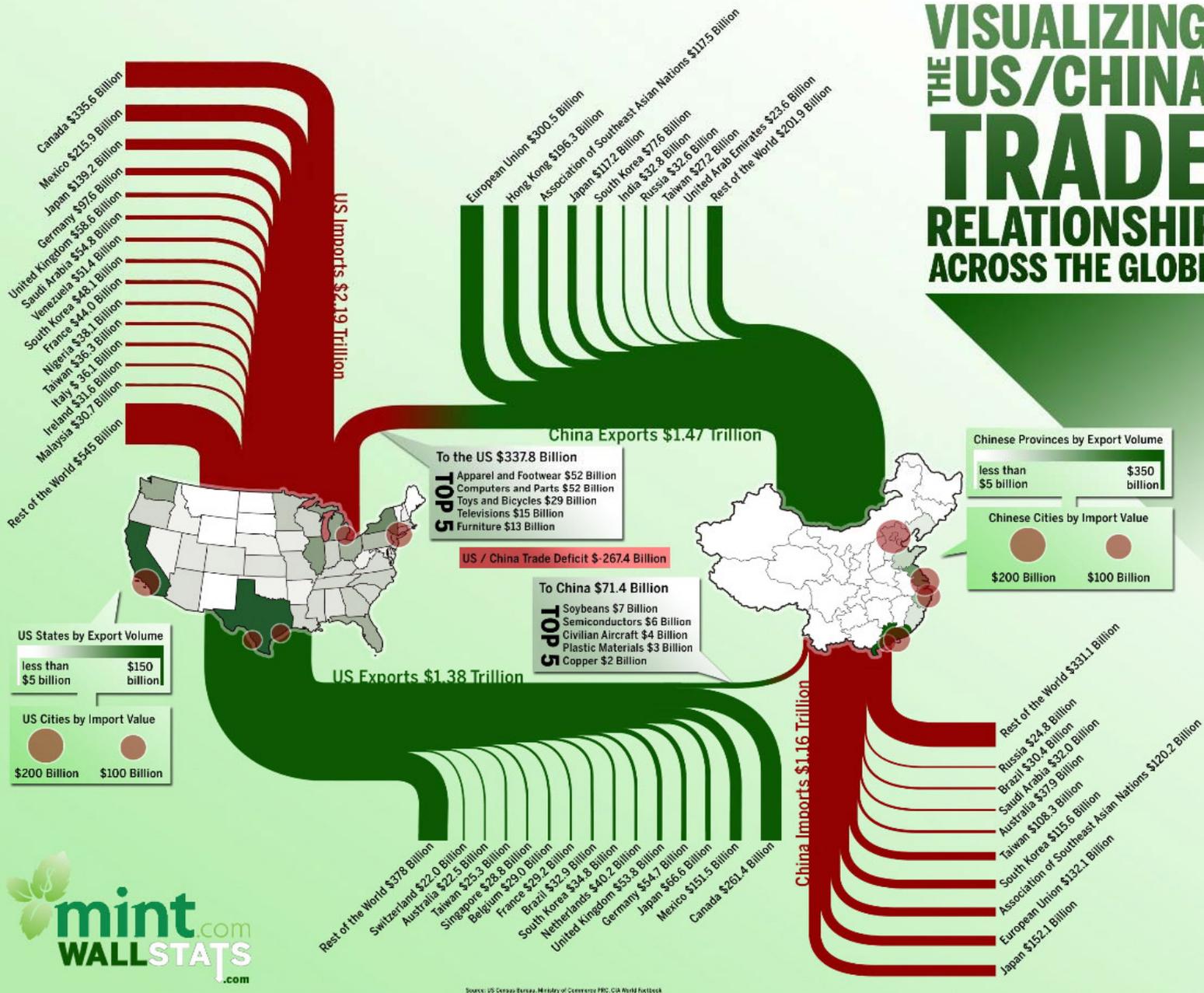
With all the developments of 2012, our net assessment of China remains unchanged, and whilst there have been developments that show change is afoot, these are unlikely to alter the balance of power for the moment. This is because China's economic sustainability is questionable.

## **2013**

**Strategic challenges** - In 2013 and beyond there are significant strategic issues China's new generation of leaders will have to contend with. China's rapid economic growth, which generated wealth from coastal towns, exporting to the world, is running out of steam and the new leadership will need to develop plans to recycle this wealth to the more central provinces. Social unrest is getting worse, as the economy slows and regional tensions need to be navigated.

**Factions** - In 2013 the Chinese leadership will need to balance the two factions that dominate the Communist Party. The two factions are the youth leaguers, who are more concerned about the growing inequalities between the rich and poor and providing a better social safety net for those areas in China negatively impacted by the quick economic rise. Then there is the 'Shanghai Clique' that stress economic development, high GDP and continue with the countries integration into the global economy. The Communist Party has for decades operated upon consensus, but 2012 highlighted a number of corruption cases and with the fall of Bo Xilai, all this indicates a growing internal factionalism.

# VISUALIZING THE US/CHINA TRADE RELATIONSHIP ACROSS THE GLOBE



Source: US Census Bureau, Ministry of Commerce PRC, CIA World Factbook

## USA

The US ended 2011 with its economy struggling to grow and create jobs and with its military draw down in Iraq and Afghanistan, (which dominated US policy makers for the last decade) in full swing. In 2012 China made clear it plans to dominate the Asia-Pacific region and made good on this with its aggressive moves on disputed islands and territories.

Our assessment of the US previously concluded:

**“In 2012 and ahead the US will need to contend with its domestic economy, which has for long been its strength. As the US wraps up its presence in regions which have dominated its attention for the last decade, it will find an assertive Russia dominating Eurasia and an aggressive China looking to expand its influence.”**

### Asia-pacific

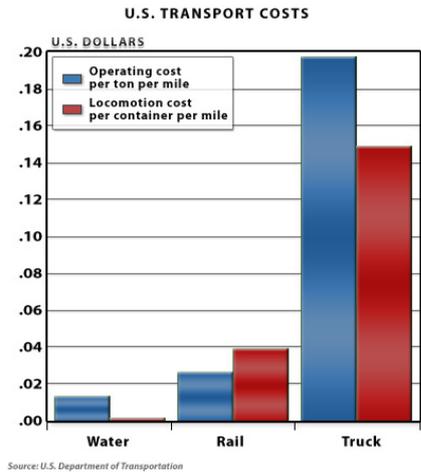
In June 2012 the US Secretary of Defence, Leon Panetta, announced at a security conference in Singapore that, *“the United States will keep six aircraft carriers in the Asia-Pacific region and will shift 60% of its warships to the region, over the coming years until 2020.”* He explained that the *“transfer of the US fleet comes in the context of the implementation of a new US strategy designed to raise the level of US military presence in the Asia-Pacific.”*<sup>14</sup>

This was on the back of Secretary of state Hilary Clinton’s Asia pivot policy announcement in 2011 to the CNN, she said: *“Our enduring interests in the region [Asia Pacific] demands our enduring presence in this region ... The United States is a Pacific power and we are here to stay ... As we end today’s wars [i.e. the defeats and retreats from Iraq and Afghanistan]... I have directed my national security team to make our presence and missions in the Asia Pacific a top priority ... As a result, reduction in US defence spending will not ... come at the expense of the Asia Pacific”*<sup>15</sup> This policy change regarding the Western Pacific, which focuses’ US attention away from the Middle East has dominated US military and diplomatic planners. The new strategy has several components, including diplomatic and economic deals but its most important aspect involves the US military.

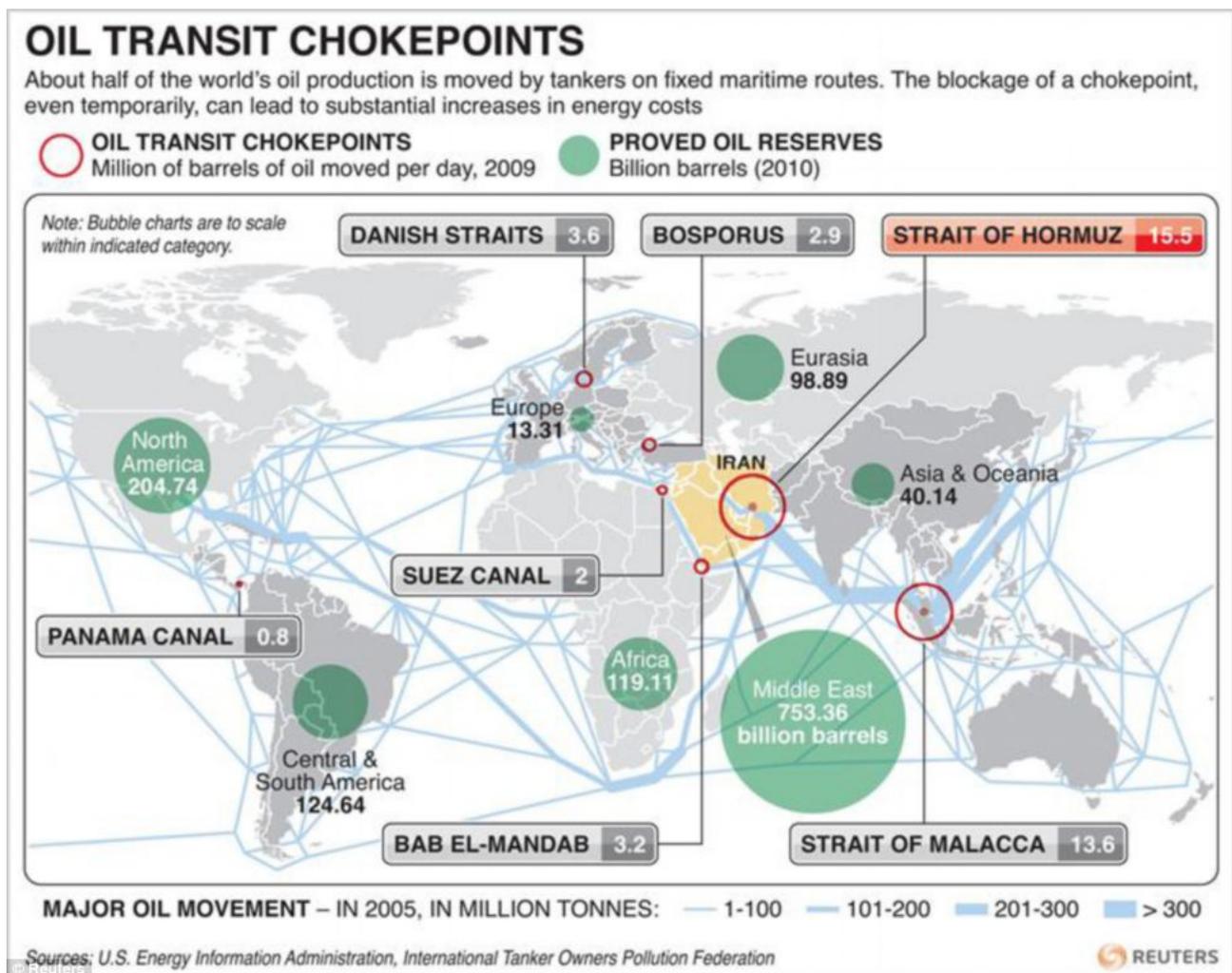
The US in 2011 worked to shape multilateral regional institutions in the Asia-pacific region, this was to unify some countries against China and to prevent a powerful regional coalition from taking shape that did not involve the US. In 2012 the US backed this up with military deployments to the region as China has staked its claim in the region.

The US has been involved in the region since WW2. Throughout the Cold War, the US intervened in the region to halt the spread of Communism. During the Cold War the US deployed over 600 warships to the region. As the Cold War ended due to the fall of Communism and with the disintegration of the Soviet Union the US reduced the number of its warships, bringing the number to around 279. In 2008 there were 285 warships in the region. The US has maintained a permanent military presence in the region through military bases in Japan and South Korea, both located on the shores of the East China Sea, as well as in the Philippines

The Asia-Pacific region and the Pacific Ocean with its sea lanes are critical for the US. The Asia-Pacific market represents 55% of global GDP and 44% of world trade. Sea lanes are considered to be more important than land routes because they can carry larger volumes of goods via ships cost less and ships can avoid the checkpoints at the borders of states. Today 90% of goods are transferred through sea routes by ships despite the development of land routes, large lorries and air transport. Whilst it is expensive, land routes cannot transport the volume the sea routes can.



65% of oil transportation is conducted via sea, despite the development of pipelines. The Pacific extending to the Indian ocean, carries 70% of the oil and gas supplies from the Persian Gulf region to the countries of the region. Moreover, the need for oil will double within the next decade in the region, particularly in China and India. The Straits of Malacca are an important route between the two oceans, extending for 800 km between Malaysia Peninsular and the Indonesian island of Sumatra. 40% of global trade (goods) pass through it, as well as half of global gas and oil, which is important for both China and India, for the transit of goods to the east and the west. Therefore this region has great importance in terms of the sea routes for the US.



The rise of an alternative power in the region means the loss of critical sea routes for trade and energy directly linked to the US economy and the loss of key tools for containing other nations reliant upon the routes in the region for their economies such as India, Japan, Indonesia and China.

The US military has various military systems to deal with any Chinese aggression, however China has a presence in the region, whilst the US just has a coast line thousands of miles away from the Asia-pacific region. As the region is far from the US, operations require long lines of communication, multiple logistical hubs and forward-positioned supplies. Because the Western Pacific constitutes China's home waters, China's military assets do not have to travel from half way across the world to get to the Asian military theatre as America's must.

Whilst the US has military assets which are technologically more advanced than those of China, China's developments in its navy, submarines and communications reduces America's edge in a conflict with China. For the first time since the collapse of the Soviet Union the US faces a challenge to its hegemony. This challenge, whilst not to its global position, raises questions about its domination in one region of the world. All this at a time when China views the US to have weakened by a decade of war.

To counter China the US has developed its Air-Sea battle concept, the central tenet of which involves very close coordination of US Air Force and Navy capabilities. The Pentagon has already created an Air-Sea Strategy office to manage the plan. The Pentagon hopes to outmatch sophisticated anti-access capabilities by developing platforms that can penetrate enemy defences with stealth technology or by conducting strikes from beyond the range of the defences. In the long term the US is developing weapons such as the next-generation bomber and the Prompt Global Strike mission, which would allow Washington to strike distant targets over a short time span.

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In the meantime, the US military must rely on forces and capabilities designed to operate in the Western Pacific. While the Air-Sea Battle concept focuses on the close coordination of naval and air assets, it does not eliminate the importance of ports and air bases across the region.<sup>16</sup> \$12 billion is being spent to upgrade the military base in Guam, thousands of soldiers and advanced military facilities are to be based in Darwin, Australia, and six aircraft carriers would be deployed in the Pacific Ocean. Implementing the new strategy, the US has also largely enhanced military ties and cooperation with its allies in Asia, especially Japan, the Philippines and South Korea, through reaffirming their shared defence responsibilities, carrying out joint military exercises and selling advanced weapons to them.

## Arab Spring

It was during WW2 America's policy makers realised the riches in the Middle East. The US abandoned its political isolation and began the process of partaking in global affairs. The US State Department described as the Middle East at the time as *"a stupendous source of strategic power and one of the great material prizes in world history."*<sup>17</sup> America was successful through its military, diplomatic and espionage tools to edge both Britain and the French from the region. The Arab Spring however has challenged US hegemony in the region as the people of the region decided to take their destiny into their own hands. The US has attempted to shape the uprisings as they continued, and in 2012 this was seen primarily in Egypt and Syria.

### - Egypt

The US viewed Egypt as a critical ally after WW2. Through the CIA, she moved to depose the Pro-British King Farook in a coup in 1952, bringing into power the Free Officers who were to be led by Gamal Abdul-Nasser. The CIA worked on a project in 1951 known as "The Search for a Moslem Billy Graham." Miles Copeland the CIA operative, published classified information in his memoirs in 1989, 'The Game Player,' about the CIA backed coup d'état that ousted the British puppet King Farook. Copeland, who activated the project, explained that *'the CIA needed a charismatic leader who would be able to divert the growing anti-American hostility that was building up in the area.'* He explained both the CIA and Nasser were in agreement on Israel. For Nasser talk of war with Israel was irrelevant. Much more of a priority was British occupation of the Suez Canal Zone. Nasser's enemy was Britain.

The military since Nasser took power in 1952 constructed the political architecture in Egypt. This system kept the army in charge of key strategic issues such as Foreign policy and Defence. On some occasions some aspects of domestic policy were left to parliament to deal with however Nasser, Sadat and Hosni Mubarak remained firmly in charge. The US armed the military and provided consistent aid – enriching senior generals in return for protecting US interests in the region, which were primarily to protect the Jewish entity.

Once the US decided to turn its back on Hosni Mubarak it was just a matter of time before he was physically forced from power. What occurred in Egypt was that the architecture Mubarak and his predecessors constructed remained untouched. Effectively an 82-year-old man, who wanted to have his son appointed as his successor, was booted out by the army. Except for Mubarak, the army remained in charge of Egypt. The Supreme Council of the Armed Forces (SCAF) leaders: Chief of Staff Lt.Gen. Sami Annan and Field Marshal Mohamed Hussein Tantawi were in constant contact with the US throughout the uprising, as was highlighted by the Pentagon.<sup>18</sup>

The US has maintained deep relations with the Egyptian military and can replace generals with other generals due to its deep links within the military. The retiring of both Tantawi and Sami Annan did not take place without the US. The removal of these senior generals was not an independent affair when the US state department confirmed it knew about the changes within the military establishment before they happened as was reported by a US spokeswoman: *"Hilary Clinton knew of ongoing discussions about a new defence team and was told during talks with*

*President Morsi in Cairo last month that the change would be made 'at an appropriate moment.'*"<sup>19</sup> This would indicate the decision was taken to reshuffle the army in this meeting. Commenting on the newly appointed personnel for the defence ministry and army, the Wall Street Journal published the US administration position: *"Egypt's new top military officer is a known commodity in Washington."*<sup>20</sup>

US military contacts with Gen. Abdel-Fattah el-Sissi, who was appointed defense minister on 13 August 2012, date back more than 30 years to a US infantry basic training course he took at Fort Benning in Georgia in 1981. He has more recently met with senior US officials including President Barack Obama's top counter-terrorism adviser as was highlighted by the Wall street journal in August 2012.<sup>21</sup>

The US strategy in Egypt has been to juggle the nation's military and hope this will appease the peoples demand for change. America's deep links into the army means it is able to call upon many generals in times of crisis and juggle one general with another.

## - Syria

The US has been forced to change its position on Syria due to not having deep relations with Syrian officials. The US historically maintained relations through the CIA with the Baath party. During the Bush era relations with Syria were conducted through the Pentagon, which was heavily influenced by the Neo-cons who severed the lines of communication by the orders of Secretary of Defence Donald Rumsfield.

The US initially backed al-Assad believing he could stem the uprising with his brutal methods. The US initially even presented al-Assad as a reformer.<sup>22</sup> As the uprisings spread the US realised he may not survive and began the process of searching for alternatives. It turned to a number of foreign dissidents who become the Syrian National Council (SNC) and the Local coordination Committees (LCC's), this strategy failed as they were never able to gain any credibility amongst the populace.

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The US has been trying to lure "vetted" activists through offering training and support so they can galvanize greater influence within the rebels inside Syria and take a leadership role. It was reported in the last week of August 2012 that the US and Britain have setup a training camp close to the Turkish border to train Syrian activists from inside Syria. The telegraph reported that: *"An underground network of Syrian opposition activists is receiving training and supplies of vital equipment from a combined American and British effort to forge an effective alternative to the Damascus regime. Dozens of dissidents have been ferried out of Syria to be vetted for foreign backing."*<sup>23</sup> Recruits face *"two days of vetting designed to ensure that the programme does not fall into the trap of promoting sectarian agendas or the rise of al-Qaeda-style fundamentalists."*

The loss of communication channels with Baath party officials and military personnel and the problems this created was highlighted by the Los Angeles times: *“Critics say the CIA’s absence from Syria is a missed opportunity to influence the fractured rebel movement. We should be on the ground with bucket loads of money renting the opposition groups that we need to steer this in the direction that benefits the United States,” said a former CIA officer who spent years in the Middle East. Despite a dire need for intelligence about the groups fighting to overthrow the Syrian government, the CIA has little if any presence in the country, seriously limiting its ability to collect information and influence the course of events, according to current and former U.S. officials.*”<sup>24</sup>

Without control over the opposition forces, the US will not be able to reach its preferred settlement, which saves the regime’s military and security apparatus and brings in a unity transitional government that will stabilize Syria for the future. The US wants to keep as much of the old machinery and has been trying to gain loyalty in return for weapons.

The US strategy for protecting its interests in the Middle East is through proxies and Special Operation Forces (SOF’s), if the circumstances require it. For the moment the US is relying on using individuals who the US has cultivated relationships with over many years.

## Energy

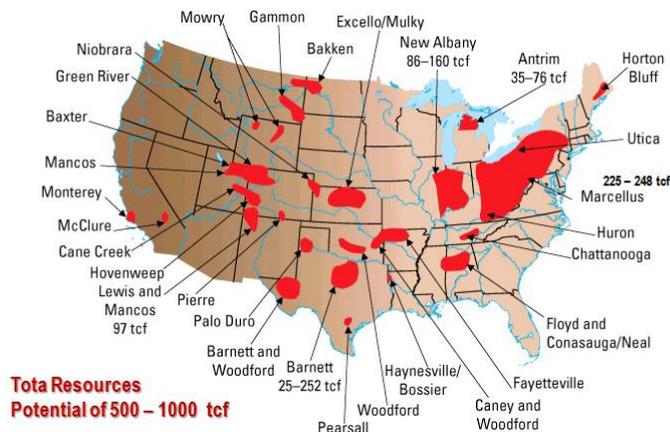
The 2012 annual energy review by the world’s foremost energy watchdog, the International Energy Agency (IEA) outlined that the US would benefit from so-called unconventional sources of oil and gas, including shale gas and shale oil, derived from fracking – blasting dense rocks apart to release the fossil fuels trapped within. These sources the IEA believed could fuel the US energy independence, and make the country the world’s biggest oil producer by 2017.<sup>25</sup>

US energy dependency has long dominated successive administrations. The US today consumes around 19 million barrels of oil a day (bpd), domestic production from US oil fields accounts for only 10 million (bpd), the remainder is imported. The US has significantly increased its natural gas production since 2005, largely because of advancements in extraction technology.

The US is one of the world’s largest producers and consumers of natural gas. It produces more than 600 billion cubic meters (bcm) of natural gas annually. Since 2006, shale gas production has increased by around 50% in the US due to new technologies coming online, this is also leading to the development of shale energy deposits.

‘Shale oil and gas’ and ‘oil and gas shale’ refer to two completely different resources. ‘Oil shale’ is not shale and does not contain oil, but is instead a rock that at great cost can yield organic compounds that could eventually be made into oil. By contrast ‘shale oil

**Shale Gas Basins In The United States**



and gas" is tight oil and gas that refer to rock formations that do contain oil and gas and that sometimes might actually be shale. The defining characteristic is that the rock is not sufficiently porous or permeable to allow oil and gas by drilling into it. However new techniques and advances in technology through a process called fracking, enterprising drillers have discovered fissures by drilling into rocks by injecting water (along with sand and some chemicals to facilitate the process) at high pressure along horizontal pipes through the formation, oil and gas can seep back through the cracks and be extracted.

Shale gas has become an increasingly important source of natural gas in the US over the past decade, and interest has spread to potential Gas Shale's in the rest of the world. In 2000 shale gas provided only 1% of US natural gas production; by 2010 it was over 20% and the US government's Energy Information Administration (EIA) predicts that by 2035 46% of the US natural gas supply will come from shale gas.

As a result of these new technologies, domestic natural gas prices have decreased rapidly as production levels have risen. The benchmark price of natural gas in the US was about \$88 per thousand cubic meters (mcm) in March 2012, down from about \$135 per mcm the previous year and much lower than the prices in the European markets (\$409 per mcm) or Japanese markets (\$589 per mcm). Low natural gas prices are harming US domestic producers, which need prices to hover around \$140 per mcm to remain profitable.

To remain profitable, US companies are making plans to begin exports in the form of liquefied natural gas (LNG), which could lead the US to become a net exporter of natural gas in the next few years. With prices for natural gas higher in East Asia and Europe, the US can use these exports as an effective economic and political tool.

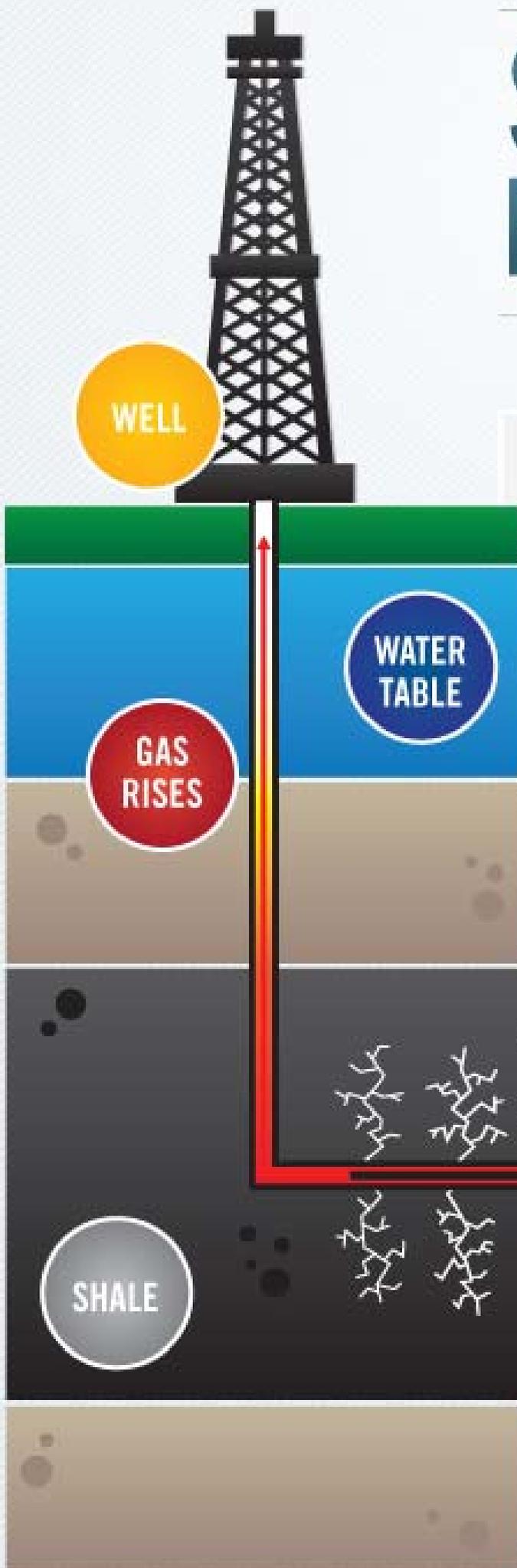
In July 2011 US EIA released a Review of Emerging Resources, total US recoverable natural gas resources (includes conventional, unconventional in lower 48, Alaska and offshore) totals 4.244 quadrillion cubic feet according to the Institute for Energy Research, enough natural gas to meet US electricity demand for 575 years at current fuel demand for generation levels, enough natural gas to fuel homes heated by natural gas in the United States for 857 years and more natural gas than Russia, Iran, Qatar, Saudi Arabia, and Turkmenistan combined.

By 2020 the US will in all likelihood have excess natural gas. Exporting natural gas would be the next logical step. Natural gas is easily transported via a pipeline, but the US is a far distance from the energy markets in Europe and Asia, making exporting to these regions difficult. Liquefied Natural Gas (LNG) is the only other option for export, but

*The planning and construction of an LNG export facility can take between three to seven years. Natural gas when cooled to -126.7 degrees Celsius, becomes a liquid that is easier to store and transport. Liquefied natural gas takes up about 1/600<sup>th</sup> the volume of natural gas in its gaseous state. It can then be transported in a supertanker, much like oil. Currently, this is the easiest way to move natural gas over long distances. LNG exports are limited to countries with the capability to re-gasify the product. Approximately 20 new LNG import facilities are currently under construction worldwide, most in East Asia and Europe.*

the US currently has only one, small, old liquefaction plant, inconveniently located in Alaska. At least seven new sites have applied to the Department of Energy to be allowed to liquefy and export natural gas, and two of these, in Freeport, Texas, and Sabine Pass, La., could be partially online by 2015 or 2016.

# SHALE GAS EXTRACTION



A drill is used to bore into the ground, to about 50-100 meters below the water table

The hole is lined with a steel casing

A perforating gun is lowered down the pipe which punctures holes through the steel casing and into the rock

A combination of water, sand and chemical agents is forced down the hole at high pressure to cause fractures in the shale

Gas escapes through the fractures and travels up the pipe, making the well productive

The success of LNG exports is dependent on the continued success of shale gas and oil production, but the US has overcome the technological obstacles to efficient production from these fields. While these technological improvements are new and it is speculative to predict their exact long-term impact on US natural gas production, evidence suggests that the US will become a major LNG exporter in the near future.

## Conclusions

Our conclusion of America's position in the world at the end of 2011 was the following:

**“For the US to be replaced as the world's superpower, this requires the rise of other powers. The countries that will define American foreign policy for the next decades are Russia and China. These two heavyweights have interests most at odds with those of the US and the power to do something about it. How they deal with waning US prowess and how the US curtails them will determine the global balance of power in the foreseeable future.”**

By the end of 2012 China began challenging US hegemony in South East Asia, which is the only challenge the US has faced to its power since the fall of the Soviet Union. America's control of the international situation since WW2 has been built upon her military strength. Today the US does not enjoy the same primacy as it did prior to its invasion of Iraq. Iraq and Afghanistan have impacted US power and depleted her resources. The global economic crisis further exacerbated America's standing in the world. Because of such challenges America's presence in the world is considered as overstretched and untenable.

As a result of America's apparent weakness, the challenges stemming from her competitors have grown in size and scope and today are much stronger. In 2012 China, after three decades of growth and military development is challenging US prowess in its region. Whilst this is not a challenge to the US globally, it challenges US hegemony nevertheless.

The state of the USA economy will also impact US influence abroad and is already being seen in military budget cuts. US global plans will be impacted by the state of the economy at home and these will have to be adjusted as prioritise change due to pressure on budgets.

The boom in energy will strengthen the US in the foreseeable future. Protecting its global sea lines of communication needed a strong military presence globally due to Americas need for global energy. The developments in shale energy should see the end of US dependency on global energy production and even make it a global exporter. This places the US in a much stronger position in 2012 then it was in 2011.

America in 2012 remains the world's superpower and the nation that all the other countries of the world compete with. Whilst America is weaker then it was at the turn of the century, no nation has been able to fully take advantage of this for the moment. China has shown the propensity to challenge US hegemony in its region and this is something the US will need to contend with alongside the multiple global issues it is involved in.

## 2013

**Syria** - The opposition forces in Syria, who lack heavy weapons, have successfully created a stalemate with the regime. The regime has been unable to successfully lead attacks deep into rebel held territory due to the decentralised nature of the uprising. The US has given the regime ample time to quell the uprisings through solutions which realistically were never going to placate the opposition. Currently the regime has set up defensive positions in Aleppo and Damascus. Opposition forces have focused on Aleppo and have had success in attacking the regime supply lines from Damascus to Aleppo and are not far away from cutting Aleppo off from the regime. When this occurs the regime in Damascus can only hold out for so long and the very real prospect of the overthrow of the regime and replacement by someone who represents the people will likely unfold.

**Islam** - Since the events of 9/11 the ideological divide between the US and the Muslim world have become more and more obvious. With issues constantly taking place which are ideological in nature, add to this the Arab spring where the Muslim world is taking its destiny into its own hands the US is losing support all over Muslim world faster than even they could have predicted. The film which insulted the Prophet (saw) and resulting reaction clearly shows that the US has lost the Muslim street.

Human rights and the free market which for so long have been the aspirations for the Muslim world are no longer values that Muslims globally are aspiring to. US occupation of Muslim lands, Guantanamo Bay, Abu Gharib and the constant attacks on Islam in the name of freedom have polarised the world. Ideological Muslims globally are calling for Islam, the Arab spring has shown they can rise up to change the status quo, in 2013 and beyond the US will have to contend with the political aspirations of the Muslim world.

**Energy** - With the energy boom in shale technology in full swing there are various obstacles the US faces in becoming self-sufficient in energy that it will need to deal with in 2013. US transport is by far the largest consumer of energy and has developed with the use of oil as fuel. Railways, trams, airplanes, automobiles and public transport are all fully dependent upon oil as a source of fuel. The bonanza in gas and shale gas particularly could bring the whole future of America to a standstill unless transport transfers to gas. The problem is that gas is a storage headache, which was never the case with oil. This bonanza is also leading to a fall in gas prices which is making development of this field not cost effective. In 2013 there will need to be some type of state intervention to ensure this area develops, otherwise the US energy bonanza could end before it even starts.

## **Russia**

The last decade has seen Russia go through a period of internal consolidation to secure its periphery – the former Soviet Republics. As the US was busy in its two wars Russia was able to reverse the colour revolutions that had effectively rolled back Russian influence in its region. In 2011 Russia consolidated the gains it had made and was about to begin its modernisation programme of diversifying the domestic economy and bringing its Soviet era military into the 21<sup>st</sup> century.

In 2012 the architecture Vladimir Putin and the security establishment crafted fell apart and those that have lost out in the last decade came out in large numbers to protest against the regime in Moscow. Internal cohesion is a historical issue Russia has been unable to deal with fully and this has always been the case whoever ruled Russia. The United Russia party's grip on the country is being challenged and maintaining internal stability is critical for Russia's resurgence.

Externally Russia in 2012 faced challenges which will grow in scope such as Europe's diversification of energy imports. Russia's large energy reserves have been its ace card in international relations and with the rapid development of shale oil and gas and Liquefied Natural Gas (LNG) on the European continent Russia's political use of its energy resources may be about to lose its edge.

### **Internal Cohesion**

In December 2011 a number of large protests swept across Russia and people in the hundreds of thousands took to the streets. These demonstrations continued for months and had a very overt undertone of being anti-Kremlin. Presidential elections took place in late 2011 and parliamentary elections took place in early 2012 and the possible and eventual outcome led to these large protests.

In our previous assessments of Russia we have stated that the demise of the Soviet Union resulted in the decline of Russia. Then in 1999 Vladimir Putin rose to power and he began the project to bring all of the former Soviet republics under Russian influence, re-nationalise the nation's assets and resources and deal with those who were looting the nation.

This was a meticulous task led by Putin. An array of factions fought for control of the country's wealth, industries and assets. The Slovaks, Russian nationalists who were mostly former KGB and security service personnel, controlled the Foreign and Interior ministries and the KGB's successor, the Federal Security Service (FSB). Then-President Boris Yeltsin feared the group would overthrow him and, in a pre-emptive move, restructured the FSB, military and other security institutions - thus keeping them out of real power. Then there was the liberals who were Western-leaning technocrats who kept foreign investment flowing into the Russia, this faction controlled the Finance and Economic ministries and came to be known as the St. Petersburg Brigade. The oligarchs ruled most of Russia's vital business sectors. Most of these individuals rose to power during the Yeltsin economic reforms which led to confusion over who owned what following the Soviet collapse and to a mad scramble for the pieces.

The Slovaks under the leadership of Putin worked to counter the strength of the liberals and the influential elite during the era of Boris Yeltsin either by resorting to assassinate them or through a policy to lure them into submission by toppling some and drawing others into the Kremlin orbit. When Putin became president in 1999 the Oligarchs had their wings clipped.

The recentralisation of Russia was necessary to radically halt the decline that had overtaken the nation and the ability of the security services to permeate most sections of society allowed Putin to stop the decline of the nation and reverse the course of the country. The challenge Putin and the security establishment now face is in fact the result of success – ensuring all of Russia benefit from the revival of the nation’s fortunes.

The Kremlin has for over a decade contended with internal battles, however the results of the parliamentary elections in early 2012 and the parallel demonstrations shows there are a number of individuals and groups who do not see Putin’s authority as a saviour for the country. These groups are also increasing in numbers. Such opposition groups are composed mainly of middle class citizens from Moscow who lost out to the security establishment and all those linked to the Kremlin. Moscow in 2012 had to deal with a vacillating domestic political scene.

These internal divisions have always been played upon by the US. Washington has not hidden its desires for the country with both Ambassador Michael McFaul and Secretary of State Hillary Clinton taking time to meet with opposition leaders in 2012. US support of such groups in reality runs much deeper. Putin accused the US state department of orchestrating the mass protests that swept Moscow ever since he announced his intention to run for the Presidency in September 2011. The main target of his ire has been Golos, an independent election monitoring group that receives the bulk of its funding from USAid and was key in stating electoral fraud in the December parliamentary vote that brought tens of thousands of protesters on to the streets. USAid has been operating in Russia since the Soviet Union’s collapse. The bulk of its funding goes to civil society groups focused on building democracy and human rights in the country, including Golos, human rights NGO Memorial and corruption watchdog Transparency International. Similarly the notorious National Endowment for Democracy (NED) who played a central role in the colour revolutions that beset Central Asia and Eastern Europe in the 2000’s. The NED is financing key parts of the Russian “independent” polling and election monitoring, a crucial part of being able to claim election fraud.<sup>26</sup>

*“Washington has not hidden its desires for the country with both Ambassador Michael McFaul and Secretary of State Hillary Clinton taking time to meet with opposition leaders in 2012”*

The US is using these internal tensions to weaken Putin’s regime, it was such a strategy that emboldened many, eventually leading to the collapse of the Soviet Union. When protests first started the Kremlin allowed the protest movement to rally, avoiding the massive crackdowns that were seen in previous years. Surprisingly a brutal crackdown did not transpire. Putin then gave into some demands including calls to resume direct elections in some regions, something Putin repealed in 2004. As the months went on and international media focus waned the protests also died down. The Kremlin then took harsher measures and passed legislation that regulated how protesters can gather with harsher penalties for libel and slander.

## The Cohesion problem

The fundamental problem was summed up in August 2012 when Russian President Vladimir Putin met with regional ombudsmen - intermediaries between the government and the people over social welfare, human rights, ethnic identity and overall relations. At the meeting, Putin said the ombudsmen should think of ways to help consolidate Russian society. Putin compared his proposal to Russian identity during previous eras, saying, *“In the Soviet period a lot was done that was not very good, but a lot of good things were invented. For example, there was the concept of the Soviet people, a new historical community.”*<sup>27</sup> Putin described the fundamental challenge his regime is facing which is leading to internal tensions.

*“Russia is a large, diverse and socially unstable country. Today, Russia has more than 185 different ethnic groups, 21 national republics and 85 regional subjects that span nine time zones”*

Russia is a large, diverse and socially unstable country. Today, Russia has more than 185 different ethnic groups, 21 national republics and 85 regional subjects that span nine time zones. Every Russian leader - be they Czarist, Soviet or post-Soviet - has struggled to consolidate this disparate population. The Czars divided the people of the Russian Empire into various subjects to try to keep them segregated, but this led to constant uprisings among specific regional subjects against the Czars. The Soviet strategy was to unite all citizens by referring to them as ‘Soviets,’ creating an identity that would supersede divisions created by ethnicity, religion and political ideology. The ‘Soviet’ classification tied together people throughout the union - from Tajik villages to Baltic cities to the Caucasus Mountains and at every point in between. The Soviet identity was united in language, literature, institutions, culture and ideology. Overall, it was a tool the Kremlin used to control a large and unwieldy land, and it remained in place for nearly 70 years.

This changed when Putin was elected president in 2000; he started to consolidate the Russian peoples under his leadership. Putin was very heavy-handed in his tactics. He united the majority of the people under one political party, he clamped down on dissidence, political or ethnic, and he purged foreign influence. Under Putin’s leadership the country began to not only stabilize but to thrive. For most Russians the important issue was that under Putin, Russia was a strong, globally important country once again.

Twelve years have passed since Putin first came into power and the inherent fractures that plague Russian unity are starting to surface once again. Issues of ethnic identity, particularly ethnic Russian versus Muslim are becoming more polarized. On the one side there is a generation who fought to survive throughout the fall of the Soviet Union and its following period of chaos, and on the other a population that has lived for more than a decade under Putin’s strong and stable Russia.

Putin in the 2000s united the peoples of Russia in order to build a stronger country, but he never created a new identity for those peoples like the Soviets did. So the inherent divisions were bound to resurface. Such divisions have already led to mass protests, escalating conflict between Russians and Muslims, and the rise of new social and political groups hostile to Kremlin control. As Russia expands it will in all likelihood have more and more non-ethnic Russians in its territory. How Russia

## RUSSIA'S ETHNIC REPUBLICS AND GROUPS



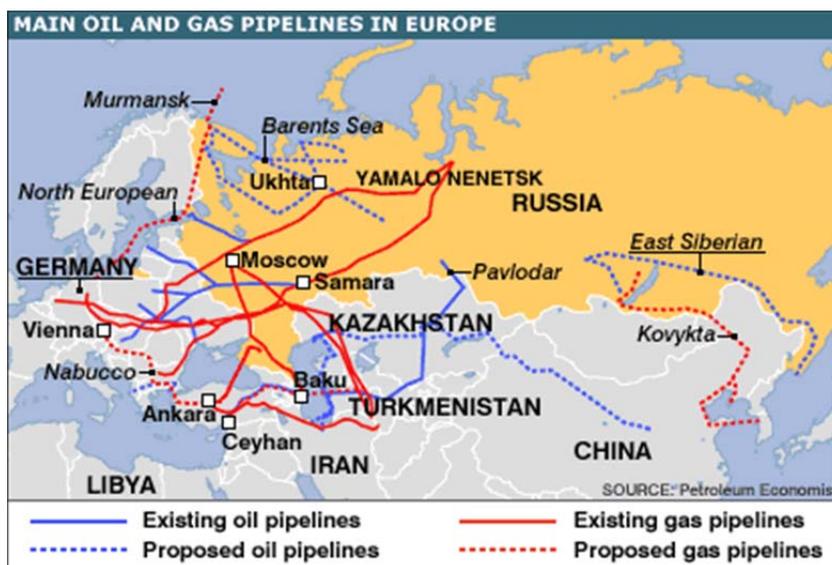
integrates them will impact is territorial cohesion. As the largest country in the world in terms of land area, Russia is comprised of a vast amount of territory that is home to a number of distinct ethnic groups. This means that to survive as a major power, Russia must control these groups - this is to ensure an external power does not gain influence over them.

The protests that took place in 2012 are in reality just the tip of the iceberg. They conceal a much deeper problem, which Russia has always faced of integrating diverse ethnic groups spread across a geography which spans the world. Historically this has been through brute force such as the KGB, however this is not a permanent solution and in fact creates fissures which foreign powers have always taken advantage of.

### Far East

Russia's energy infrastructure has traditionally been geared towards Europe. This has allowed Russia to use its energy resources as a political tool. With Gas fields in close proximity to Europe the Soviet Union developed the necessary infrastructure into the Soviet republics in Eastern Europe and this has remained the same through the 21<sup>st</sup> century. The Russian heartland, which runs from the Volga region to Moscow, lies in western Russia. Its capital, agricultural belt and 80% of its population are located there. Moreover, the greatest threat to Russia in the Cold and post-Cold War eras came from NATO, whose members were concentrated to Russia's west.

This has led Russia to almost neglect its Eastern flank. As the US shifts its attention to the Asia-Pacific region and with increased competition among a host of powerful Pacific Rim countries, this region of the world will only grow in importance. Russia will need to develop its sparsely populated but resource rich Eastern region. In 2012 Russia has been busy re-assessing its position and relationships in the Far East.



In September 2012 an agreement between Russia and North Korea was reached over North Korea's \$11 billion debt to Russia. Russia agreed to write off 90% of the debt amount. The remaining \$1 billion would be used in a "debt for aid exchange plan". Moscow and Pyongyang have struggled with the issue of debt for years without resolution.

As East Asia's importance grows, so does many of its large players' demand for energy, particularly China, Japan and South Korea. Russia is the second-largest natural gas producer and the largest oil producer in the world. It now plans to send oil east to China and its Pacific coast through pipelines that are currently under construction. Russia also has a liquefied natural gas export facility on the island of Sakhalin, and plans another for Vladivostok to be built.

Russia's Far East policy became much clearer in 2012. Whilst in the West Russia is mostly tied to its Western customers, which make up nearly all of its export market. In East Asia suppliers from the Middle East are competing to meet the region's demand for natural gas and Russia just cannot gain the same leverage it has in the West in the East.

Russian Foreign Minister Sergei Lavrov said going into the Asia-Pacific Economic Cooperation summit in September 2012 *"There can be no talk about reorientation, because we are already oriented toward the West, the East, the South, and the North due to our fate, geography and history and due to our predecessors' activities... We are not talking about doing all this [in the Far East] and forgetting what takes place in our relations with our European partners."* This shows Russia is looking for strategic influence in the region, not to become an East Asian power as Russia's geography locks it into a European orientation.

## Conclusions

Russia has undergone a decade of resurgence with much of the chaos that dominated the country either resolved or quashed. As the US draws down in the Middle East, Russia has been able to reverse US influence in its region and this has allowed it to project power in its region. The challenge facing Russia is internal rather than external. 2012 has shown that domestically Russia is

anything but stable. Historically Russia has dealt with this through brute force or using its secret service to purge society. This policy is now causing more problems.

Globally 2012 was a quiet year for Russia, due to presidential elections in late 2011 and parliamentary elections in early 2012, as well as regional elections in September 2012. Putin has focussed on re-jigging key posts and developing policies for the next 5 years.

Whilst China made the headlines in 2012, Russia in our view remains the number one challenger to US hegemony globally. Russia has global ambitions, has the means and the history to challenge the US, it however does face domestic challenges to its global role. This has been the case for most of Russian history, the Soviet Union competed with the US even though it was an economic wreck domestically. The difference between China and Russia is that Russia is competing with the US in Central Asia, Europe and the Middle East, whilst China is only competing in South East Asia.

## **2013**

**The Baltics** - The Baltic States still remain a problem for Russia. This region is where Russia has had difficulty projecting influence. Despite the large ethnic Russian populations in Latvia and Estonia, political parties that represent their interests have consistently been unable to make it into these countries' ruling coalitions. All three Baltic States are committed EU and NATO members, and Estonia is also a member of the Eurozone. Even on energy issues - one of Russia's favourite tools for power projection – Moscow's position has begun to steadily weaken as the Baltic States pursue energy diversification away from Russia. Russia's position in the region's energy markets will continue to weaken as these countries progress in their plans to diversify away from Russian energy and proceed in their legal challenges against Gazprom.

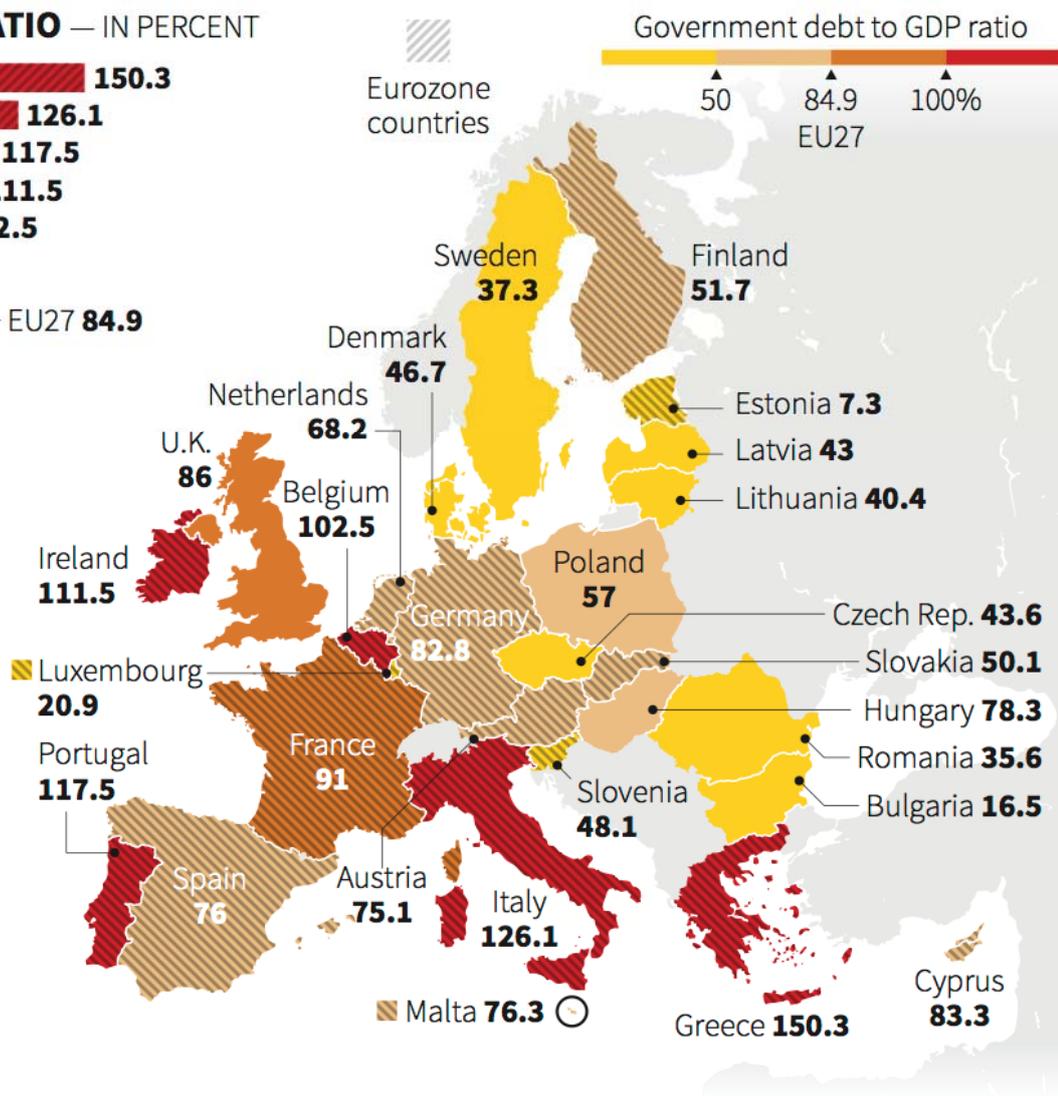
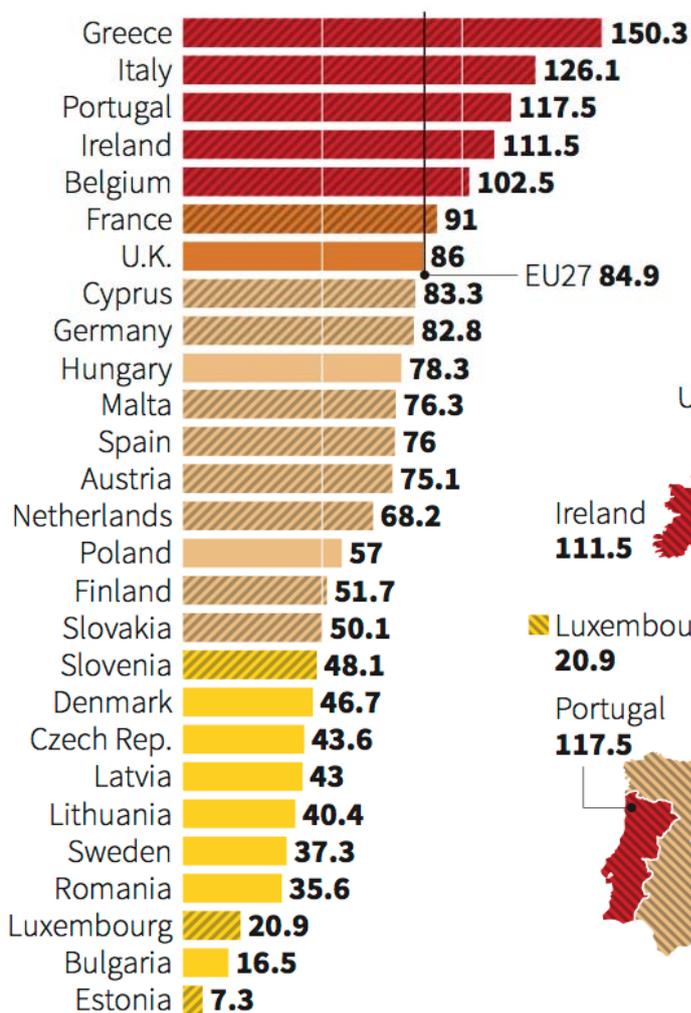
**Energy** - Russia's huge energy resources have for long been its ace card in international relations. It has used its abundant energy to integrate European markets to itself by constructing pipelines deep in Europe and then using these as political tools. As LNG terminals are completed and as America's shale energy comes online Russia's energy card may be coming to an abrupt end. Russia's energy has been ideal for Eastern and Central Europe due to the Soviet infrastructure that still exists, however LNG terminals can circumvent this. In 2013 Russia will need to review using energy as a political tool and develop other tools which may be more potent.

**Military Modernisation** - Russia has a very sizable arsenal, but it suffers from deep rooted problems due to the slow pace of modernisation. The army's inventory consists of tens of thousands of armoured vehicles with more than 70% in storage and non-operational. Similarly the air force has an estimated 4,000 aircraft in active service, but as with the army's equipment, vast numbers of these are aging platforms first built during the Cold War. Russia's navy also has a sizable number of warships, but most are obsolescent designs. As the equipment continues to age, maintenance becomes more expensive, taking up more of the defence budget. Military modernisation in 2013 and beyond is critical for Russia if it plans to play a role in the world.

# European government debt

At the end of the second quarter of 2012, the government debt to GDP ratio in the euro area stood at 90 percent, compared with 88.2 percent at the end of the first quarter of 2012. In the EU27, the ratio increased from 83.5 percent to 84.9 percent.

## GOVERNMENT DEBT TO GDP RATIO — IN PERCENT



Source: Eurostat

## European Union

Our assessment of the EU at the end of 2011 was the following:

**“Due to the investment made by Europe’s heavyweights it is more likely they will defend the EU rather than let it collapse. For the moment the crisis is economic, it has not spread to the political arena. This is significant as the EU is a political union.”**

During 2012 the EU created various tools to control the sovereign debt crisis that continues to engulf the continent. These tools were all temporary measures to contain the crisis and ensure the survival of the Eurozone. Countless EU summits to deepen integration and alleviate the crisis took place however growing divergence between key nations France and Germany and with member states only exacerbated the crisis.

The expansion of Europe eastwards was marked by the expansion of the EU, this is now grinding to a halt. European structures are faltering as the Continent struggles through a deep economic crisis marked by weak growth prospects and a grim demographic outlook.



Deeper integration has been central to the solution to Europe’s crisis, centralising oversight, having EU member states agree to fiscal rules and introducing strict rules for countries in need of bailouts. What continues to plague the union is the fact, deep economic and political divisions exist. In 2012 political and economic divisions between the EU and eurozone got wider. The 10 EU members outside of the monetary bloc had vastly divergent views on the banking union and the overall trajectory of the European Union and eurozone. As agreeing to such measures involves giving up sovereignty on such macroeconomic tools. As the European Union continues in trying to resolve the financial crisis, efforts at deeper integration among the eurozone states will be high on the EU agenda in 2013.

Germany has been the strongest advocate for centralized supervision and austerity in the crisis. Berlin has however relaxed austerity measures in troubled eurozone countries and given further bailouts after stringent conditions have been agreed. Southern EU member states have called for more integration to ensure a continued flow of financial assistance, while the more economically stable northern countries have called for additional integration to assert more control over member nations and to protect the common market from their exports.

Differences between Berlin and Paris became wider once François Hollande settled into his position as the head of France. Hollande continued with his support for stronger intervention by the

European Central Bank to suppress borrowing costs. His election campaign centred on stimulus as the solution to ride out the crisis and this was the French position in 2012. Berlin on the other hand, has been primarily concerned with the health of its exporting industry and argued austerity – slashing government budgets and reigning in budget deficits as a method to solve the European debt crisis.

In an attempt to solve the economic crisis two issues dominated the EU in 2012. These were the European Banking Union and the Fiscal Compact.

### **Banking Union**

Germany proposed in 2011 that a sound banking union was fundamental to achieving the economic and monetary union that can remedy the current crisis. The creation of a banking supervisor over all 6,000 banks in Europe by the end of 2013 is what continues to be debated at the end of 2012. Due to the legal complexity of such an agreement every aspect needs to be finalised and agreed, including the introduction of new treaties, as such an oversight mechanism will have wide ranging powers. The agreement which was debated throughout 2012 will allow the European Central Bank (ECB), the right to intervene in the event of crisis or potential default and seize control of any bank when it wants to.

*“The banking union is Germany’s attempt to control how member states run their economies. There is distance on many issues and it will take many conferences and summits to iron out the finer details, but the struggling economies in the EU will need to integrate their banking structures into this agreement if they expect any future bailouts”*

What was agreed in 2012 was a timetable for the set-up and the legal foundations of a single supervisory mechanism – a new eurozone bank regulator. This would be the first of several steps towards a full banking union – a process that will take many years to complete. Powers for the European Commission to veto national budgets continues to be discussed.

Germany, the largest economy in Europe and the guarantor of the EU has been called upon on multiple occasions to bail out member countries. Countries such as Greece will never be able to repay their debts and will drag the whole union down if allowed to default. The banking system has been the central institution to the crisis in Europe. The banking union is Germany’s attempt to control how member states run their economies. There is distance on many issues and it will take many conferences and summits to iron out the finer details, but the struggling economies in the EU will need to integrate their banking structures into this agreement if they expect any future bailouts.

### **Fiscal Compact**

25 EU leaders except the UK and the Czech Republic signed the treaty on March 2<sup>nd</sup> 2012 committing eurozone members to increased fiscal responsibility. The ‘fiscal compact,’ as it is known, requires signatory eurozone members to enact constitutional amendments or equally binding national legislation enforcing EU-mandated budget constraints. The legislation must also

stipulate corrective mechanisms to be automatically enacted at a national level if a country deviates significantly from these constraints.

Germany heavily pushed for the fiscal compact, demanding it in exchange for continued financial assistance to the rest of Europe. Germany benefits greatly from the eurozone's common market and single currency, and this was another attempt by Germany to hold the bloc together.

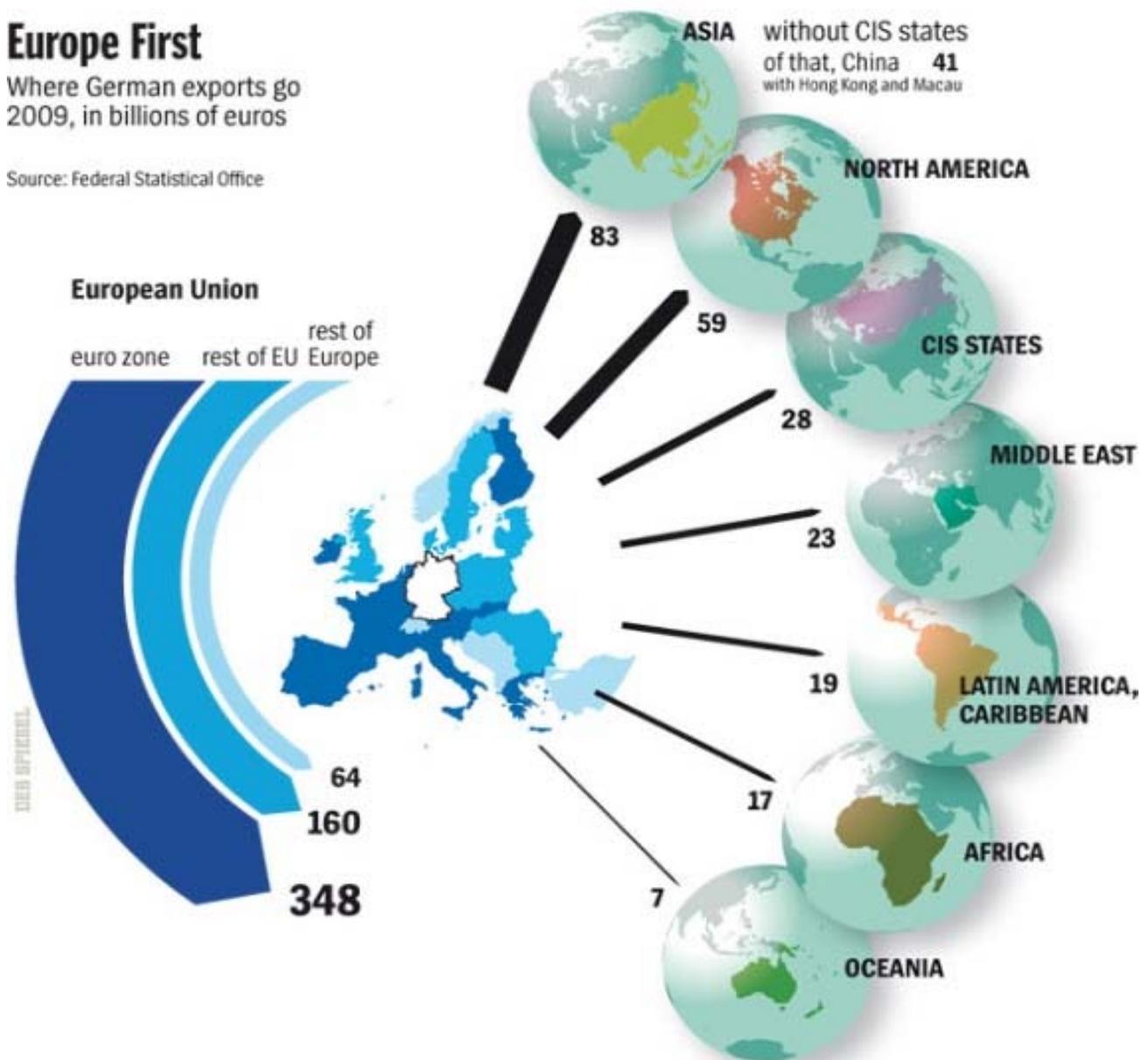
The differences that emerged were the scope of economic reforms and the implementation timeframe. The European Commission required Southern European countries to cut expenditures and increase the efficiency of their fiscal and administrative systems. Germany backed many of these proposals.

Germany was able to institutionalise how member states run their economies and will now have a say over budget deficits and bring them in line with what Germany considers adequate. On both agreements divergent interests emerged between the Northern Economies of Europe.

## Europe First

Where German exports go  
2009, in billions of euros

Source: Federal Statistical Office



## Political Crisis

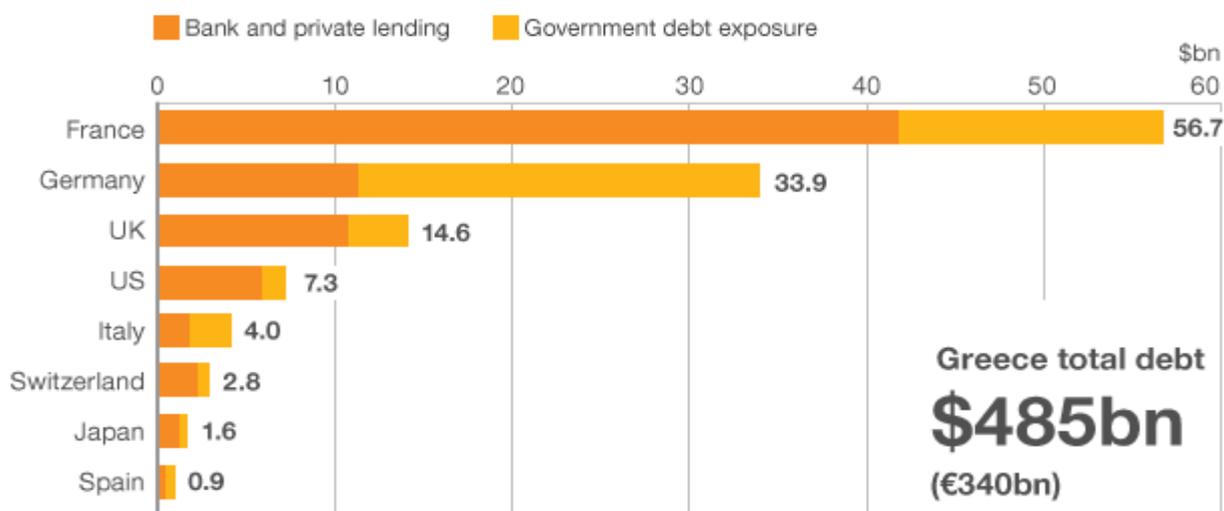
In 2012 elections took place in key countries in Europe and incumbent governments suffered heavy losses, these results highlighted Europe's frustrations with traditional parties and growing support for less conventional political parties.

In France the incumbent failed to win the elections in May 2012 for the first time in 30 years, whilst in Germany the pirate party – a party without a fully developed political programme won 8% of the vote in regional elections giving them a stake in national politics. Their message was simply being anti-establishment. In Greece the two dominant parties suffered their worst losses ever. The Greeks have become so disillusioned with the mainstream political parties they resorted to more radical parties, who have traditionally been on the fringe, for radical solutions.

Twelve governments in the Eurozone out of the seventeen have collapsed or been voted out in the last two years. This phenomenon proved the impossibility of implementing austerity without losing popular support. As traditional opposition parties offer little different to those in power Europe is turning to less conventional parties that were previously marginalised by the dominant ruling parties. Even Germany the more economically sound of the EU nations has not been immune from this and fringe radical parties are seeing electoral success. The German Chancellor had hoped to kick out a weak Red-Green coalition in the state of North Rhine-Westphalia but the region's 13 million voters decided otherwise. North Rhine-Westphalia or "NRW" is Germany's most populous state, with a large share of the German economy - the largest on the continent - and a history of setting trends in national politics.

Greece continues to be squeezed to virtual breaking point. With its national debt more than its economy and with a quarterly debt bill going into the billions Greece in reality will never be able to repay its bills. The cost of turning to the EU is bailouts with stringent conditions attached, such as slashing spending and cutting the civil service. The Greek budget is now being determined by Germany, who expects its repayments to take priority over the countries priorities. Every time Greece turns to Europe for help, further stringent conditions are placed on it for receiving a bailout. Interestingly Greek debt repayments are mainly to German, French and Spanish banks. Greece is teetering on the brink of collapse, due to the political considerations of Germany and France.

### Countries most exposed to Greek debt



## Case study: Greek departure from the Euro?

Greece, the cradle of Western civilisation continues to teeter on the brink of collapse. The emergence of political parties which campaigned on the basis of ripping up the agreement the nation has with Brussels alongside the reality that Greece practically cannot repay its debts as it exceeds its national output, brings the possibility of Greece leaving the EU even closer. There are various ramifications and issues Greece will have to navigate in order to free itself from the burdens of the union.

There is no mechanism for leaving the euro. The euro was created after 50 years of economic and political integration of the different member states. Countries want to join the union, leaving was never envisioned or even part of the agreement. So effectively there is no official, institutionalised mechanism to leave the euro. The Maastricht Treaty from 1992, which led to the creation of the euro states "*The treaty doesn't foresee an exit from the eurozone without exiting the EU.*" So Greece would have to leave the EU if it wanted to leave the euro.

Greece could simply default and stop repaying its debts. This is when a country for whatever reason no longer makes debt repayments. Greece has already negotiated a 50% write-off of its debts with its creditors, so in effect it has already defaulted.

For all practical purposes Greece's exit would be straightforward, it would notify the European Council - the leaders of EU countries that it wants to go and the Council would then agree the terms of the exit.

As the euro will no longer be its currency Greece would need to introduce a new currency - the new Drachma. It would need to produce new notes and coins as everything in Greece from food, cars, mortgages, shoes and

electronics will need to be redenominated into the new currency – this would take at least four months.

A temporary national currency would need to be used in this interim period. The problem that would arise is a unit of euro purchased a certain amount of goods and services, the new currency will not be able to purchase the same amount of goods and services. This would mean that overnight the people of Greece will find their pensions, wages, savings and prices dramatically reduced in value. Financial transactions such as mortgages would have to be redenominated. People would find that the value of their homes has drastically fallen.

As Greece would have defaulted on its debts, Greece would have to start from the bottom and devalue its currency to rock bottom, this means society will need much more of the new currency to purchase basic goods, which previously a few units of the euro did.

Greek assets internally and abroad would have to be redenominated and it would be extremely unlikely anyone will lend to Greece as repayments cannot be guaranteed.

Greece would then be in a position where it could start afresh and begin building its economy. The challenge it will face unlike defaulters such as Russia, Brazil and Argentina, in the past, who have abundant mineral wealth. Greece just has tourism and a shipping industry due to its location in the Mediterranean. It will be a mammoth task to reconstruct an economy from such a position.

Greece's departure may also lead to other countries to leave the euro, which explains why Germany continues to bail out the PIIGS economies even after it says it will never provide bailouts.

## **Iran**

Nuclear negotiations in Moscow between Iran and the P-5+1 group (Britain, China, France, Germany, Russia and the US) came to a close on June 19<sup>th</sup> 2012 with little progress. Late 2011 and the beginning of 2012 saw a wave of speculation regarding the prospects of a military strike on Iran's nuclear installations. The November 2011 report from the International Atomic Energy Agency (IAEA) found that the Tehran regime had computer models that could only be used to develop a nuclear weapon. This led to a frenzy, driven largely by Israel, that Iran would imminently enrich Uranium to over 90% and be able to load the enriched Uranium on a deliverable warhead towards Israeli cities. The drums of war were still beating from Tel Aviv as many in the West celebrated the start of 2012.

For the first 6 months of 2012 the drums of war subsided as other international events dominated the global headlines, only to once again take centre stage in August 2012. The 2012 report by the International Atomic Energy Agency (IAEA) detailed how Iran used the summer to double the number of centrifuges installed deep under a mountain near the city of Qum. The report was used by Benjamin Netanyahu of Israel in September 2012, during a speech at the United Nations to step up pressure on the Obama administration to establish "red lines" of intolerance for Iran's nuclear activities. Netanyahu warned that Iran's capability to enrich uranium must be stopped before the spring or early summer of 2013.

### **US v Israel**

Whilst the US and Israel share much in common and work together on achieving their many interests, the US' primary aim is to protect and maintain America's positions globally. Israel is just another nation with which the US has relations with a view to achieving its interests in the Middle East.

Israel was serious about launching strikes on Iran, the American news agency UPA on November 2<sup>nd</sup> 2011 reported that: "*The Britain's Chief of Staff Gen. David Richards paid a secret 3-day visit to Israel, while the Israeli Defence Minister Ehud Barak visited Britain on the evening of 2<sup>nd</sup> November, 2011 at a time when Israel's military attack on Iran was being discussed intensively.*" The Israeli media report also said in early November 2011 that the Israeli Air force carried out an aerial exercise at one of the NATO's bases in Italy which included all possible types of air force formations which possibly may participate in an attack.

The US however acted as an obstacle to this. The Wall Street Journal confirmed that the Barak Obama, Leon Panetta and other senior US officials sent a series of secret messages to the Israeli leadership warning them of the dire repercussions of any possible attack. They also informed Israel about the long standing US position which has always been giving time to the sanctions regime to bear fruit.

In implementing the US plan and subduing Israel, talks were called for by Iran in March 2012 to deal with the stand-off. Talks took place in Istanbul in April 2012 between the P5+1 group and Iran, the meetings conclusion was to meet again, for more talks, this time in Baghdad the following

month. The meeting in Baghdad took place on 25 May 2012, with nothing conclusively agreed, aside from another meeting to discuss matters, this time in Moscow in June 2012.

The talks in Moscow proved to be even more inconclusive and with more sanctions looming, Iran as well as the US were not reacting at the level of urgency that the Israeli's had hoped for. By September the Iranian currency was in crisis and Obama argued that the sanctions were taking effect.

The US was able to successfully neutralise the Israeli attack and European attempts at inciting Israel.

## **US-Iran Relations**

The US has long argued that Iran should not possess nuclear weapons and that it is prepared to negotiate with Iran and offer incentives for it to abandon such a pursuit. However the rhetoric that comes out from the US has always been contradictory. At times the US has been aggressive in order to influence Tehran's behaviour whilst on other occasions it sabotaged the negotiations which lead to a breakdown in the negotiations. However since the end of the Bush term and the emergence of Obama in the White House the political language adopted by Barack Obama and his foreign policy team has called for the use of diplomacy and soft power, not only to normalise US relations with Iran, but also to bolster Iran and encourage it to play an active role in the region. Writing in *Foreign Affairs* in July 2007, Obama stated: *'Throughout the Middle East, we must harness American power to reinvigorate American diplomacy. Tough-minded diplomacy, backed by the whole range of instruments of American power - political, economic, and military-could bring success even when dealing with long-standing..... adversaries such as Iran and Syria.'*<sup>28</sup>

The US has exploited the negotiations to achieve its wider interests in the region. By doing so, America has gained a strategic advantage by persuading the Gulf Arab countries to acquire nuclear energy and by nudging the Israelis into a security pact further integrating Israel's security with that of America. With the US withdrawal in full swing in Iraq, it will be Iran who will prop up whichever government is in Baghdad, the political architecture the US created in the country is dominated by Iranian proxies. Strafor highlighted in an analysis: *"After the 9/11 attacks, Iran played an important role in helping the United States oust the Taliban regime through intelligence sharing and by prompting its allies to work with the United States. There were several rounds of extensive direct talks between U.S. and Iranian officials."*<sup>29</sup> Whilst both Iran and the US take aggressive public positions, in reality they have been working together on both Iran and Afghanistan for the last decade.

*"Whilst both Iran and the US take aggressive public positions, in reality they have been working together on both Iraq and Afghanistan for the last decade"*

With regards the threat of crippling sanctions, no sanctions regime is water tight. The Russians as an example do not participate in sanctions. The sanctions that began in July 2012 were to tighten US financial sanctions, while the EU is supposed to impose a so-called embargo on Iranian crude imports. The EU is was also expected to deny insurance to vessels carrying Iranian crude, meaning that Iran's biggest crude buyers would theoretically lose access to the London-based insurance

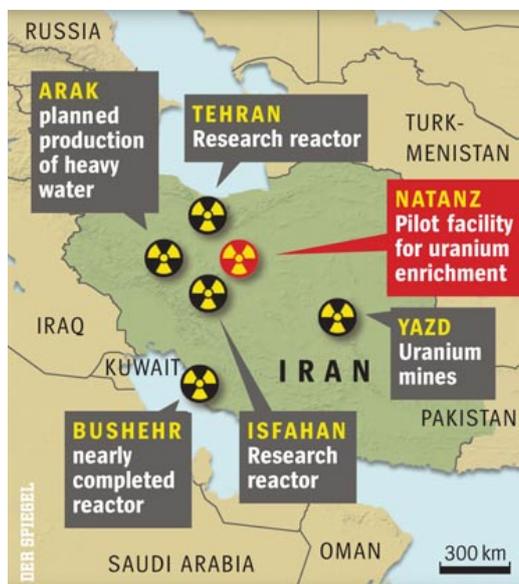
market. There are both overt and covert loopholes embedded in any sanctions regime. The US has exempted India, Malaysia, South Korea, South Africa, Sri Lanka, Turkey, Taiwan, Japan and 10 European countries from the sanctions after intense lobbying from them.

## Military Strikes

Israel has consistently taken an aggressive stance towards Iran, as an Iranian state with nuclear weapons completely alters the balance of power in the region. It is for these reasons the drums of war constantly beat from Tel Aviv.

The State of Israel has always had a single defence goal - to ensure the existence of Israel and the security of its citizens. Israel is very small when compared to its Arab neighbours. More pointedly, it lacks strategic depth. A hostile fighter could fly across all of Israel (40 nautical miles wide from the Jordan River to the Mediterranean Sea) within four minutes. Israel is unable to field a large standing force and must rely on its reserves. Israel's small population also increases its sensitivity to civilian and military losses. To make up for quantitative disadvantages, Israel maintains as large a qualitative lead as possible. The Israeli defence forces - IDF makes up for its lack of size by superior manoeuvrability and firepower, and by relying on intelligence. According to Janes intelligence – the military publishing specialist Israel's conventional weaponry, much of it purchased from the US includes nearly 600 combat airplanes, 200 attack helicopters, 3,600 tanks, over 9,000 armoured personnel carriers, and 360 ballistic missiles. Its navy operates three Dolphin-class submarines believed capable of launching an estimated 200-300 (though not confirmed as Israel follows a policy of denial) nuclear warheads.

Any attack on Iran would require a surprise attack (not the very public statements constantly coming from Tel Aviv), cover a large area and circumvent Iranian reprisals. An Israeli airstrike on the Iranian nuclear program would be a complicated and an operationally demanding task, a strike package of fighter-bombers and associated support aircraft would be needed to carry out most of the attack. The first challenge Israel has is actually getting to Iranian territory with enough fire power. A successful Israeli attack would require up to 1000 sorties, which would need over 100 military aircraft, according to retired US Air Force General Charles Wald, in an interview with the New York Times.<sup>30</sup> That high number alone would stress the capabilities of Israel's air force. Alongside this Israel's military would face several logistical problems, the Israeli military would need to locate Iran's nuclear facilities, which have been spread out all over the country. Iran's nuclear complex is large, carefully concealed, and spread extensively throughout the country, with multiple pathways. Several nuclear sites are believed to be buried deep underground, making them hard to spot



Iran is around 1000 miles from Israel, each jet would have a 2000 mile round trip. Israel's 460 combat-capable aircraft consist of 168 fighters, including 100 F-16I, 27 Boeing F15A Eagle, seven F15B and 90 F16A Fighting Falcons. Due to their conformal fuel tanks they can fly longer distances as they have additional fuel tanks, but will nevertheless need aerial refuelling to make it home. Fuel use will also be affected by altitude, speed and payload, to effectively strike Iran's nuclear facilities each jet would need large payloads to make a difference, which means more fuel use, more demand on aerial refuelling assets. According to Scott Johnson, an analyst at the defence consulting firm IHS Jane's "Israel had eight KC-707 American-made tankers, although it is not clear they are all in operation."<sup>31</sup> These would not be enough for the 100 plus fighter jets making round trips of 2000 miles. Any number of tankers would need to be protected by ever more fighter planes, this would stretch Israel beyond its capabilities and hence the need for US participation. This is even without taking into account Iran's response.

Israel will also need the participation of numerous Muslim rulers as it does not share a border with Iran. Israel can go north, along the Syria-Turkey border, it could fly over Jordan and Iraq - the more direct route, or it can go south and fly over Northern Saudi Arabia. Without the active participation of the rulers in these countries, Israel will not be able to traverse the airspace of these countries. Israel's military capability is not strong enough to completely end Iran's nuclear programme, this is why it will need US participation in any strikes



Any attack on Iran would require a surprise attack covering a large area. The problem with any attack on Iran is that the offensive would also need to circumvent Iranian reprisals. Iran has numerous tools at its disposal. Iran can cause significant problems for the US in Iraq through its proxies especially as the US attempts to withdraw its troops. Iran's ballistic missiles can target both American and Israeli targets across the region and many missiles will likely be launched before all their mobile launchers could be pinpointed and destroyed by the US let alone Israel.

Iran's best deterrent is its ability to conduct guerrilla warfare in the Persian Gulf and the Strait of Hormuz. Iran can deploy naval mines, shore-based anti-ship missiles and small boat swarms. This would have a much wider impact than a military conflict because when 40% of the world's oil trade is disrupted the financial markets would go into freefall, ushering in another global recession. This is Iran's real nuclear option.

Large scale operations against Iran would stretch the Israel Air Force's resources, As one Israeli analyst put it: "Would such an attack by Israel be likely to succeed even in doing maximum damage

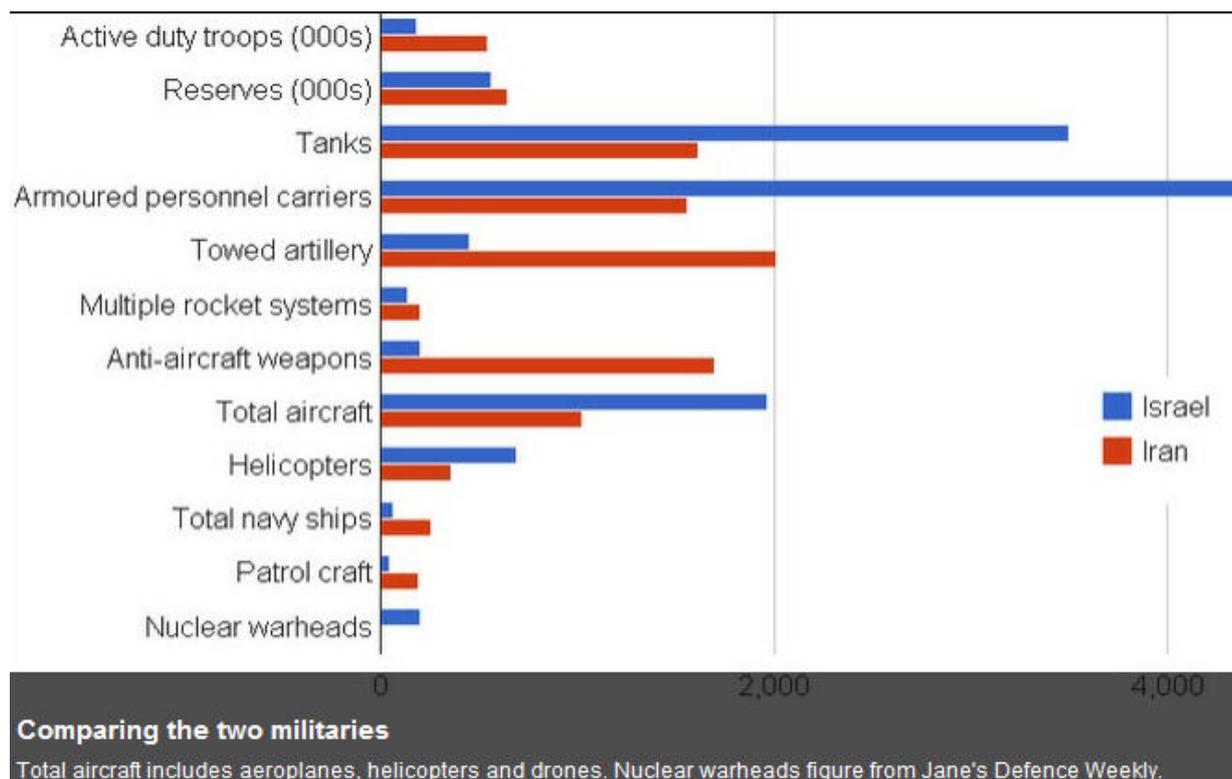
to Iranian facilities? No, a great deal could go wrong, especially against multiple hardened targets at the planes' maximum range. Planes could get lost or crash or have to turn back. Planes arriving over the targets could miss, or accidentally drop their bombs on civilians, or simply not do much damage. Many targets would remain unscathed."<sup>32</sup>

## Conclusions

As the dominant power in the Persian Gulf the US needs Iran to implement its strategies in the region, it also needs Iran to balance other powers in the region such as Saudi Arabia, Egypt and Israel. Iran has become even more important for the US as it withdraws from Iraq. Israel with European incitement and believing Iran's possession of a nuclear device would completely alter the military-security landscape. The region was gearing for war in 2012, however the US was able to placate it, and in turn protect its interests and obstruct any military conflict in the region. Fundamentally for all the rhetoric against Iran by the US, it was the Obama administration that ensured military strikes did not take place.

Most of the so-called diplomacy with Iran has been "*predicated on intimidation, illegal threats of military action, unilateral 'crippling' sanctions, sabotage, and extrajudicial killings of Iran's brightest minds,*" wrote Reza Nasri at PBS Frontline's Tehran Bureau. These postures have made it more difficult to resolve the issue.

The closest the parties have come to a settlement was a deal in which Iran would halt 20% uranium enrichment in exchange for swapping enriched uranium for foreign-made fuel rods. Iran initially rejected the deal, but reluctantly agreed after Brazil and Turkey joined in the discussions. By that point, the Obama administration rejected Iranian acquiescence, in favour of sanctions. Similarly after the failed talks in 2009 and 2010, wherein Obama ended up rejecting the very deal he demanded the Iranians accept.



## Revisiting the Palestinian Issue

In the turbulent history of the Muslim world, perhaps no struggle has captivated the people then Palestine. The Gaza episode in November 2012 and subsequent UN vote for non-observer status shows that Palestine remains an issue for over 1.6 billion Muslims as well as the wider world.

Israel's continued expansion and constant support and financial aid from the US and other Western countries has allowed Israel the necessary cover to legitimise its presence in the Middle East. With all the developments in 2012 this would be an apt moment to revisit the Palestinian issue.

### Creating Israel

Theodor Herzl is credited with founding political Zionism, a movement which sought to establish a Jewish state, by elevating the Jewish question onto the international scene. In 1896, Herzl published *Der Judenstaat (The Jewish State)*, offering his vision of a future state; the following year he presided over the first World Zionist Congress. Ever since the establishment of the Zionist movement, the Jews have been aiming to achieve economic and political dominion over the Middle East.

The establishment of a Jewish homeland had been proposed by British Prime Minister Henry Bannerman in 1906: *"There are people (the Muslims) who control spacious territories teeming with manifest and hidden resources. They dominate the intersections of world routes. Their lands were the cradles of human civilizations and religions. These people have one faith, one language, one history and the same aspirations. No natural barriers can isolate these people from one another ... if, per chance, this nation were to be unified into one state; it would then take the fate of the world into its hands and would separate Europe from the rest of the world. Taking these considerations seriously, a foreign body should be planted in the heart of this nation to prevent the convergence of its wings in such a way that it could exhaust its powers in never-ending wars. It could also serve as a springboard for the West to gain its coveted objects."*

Britain declared its support for a Jewish homeland in the infamous Balfour declaration in 1917. Israel was created on the basis of fulfilling a British interest by being placed in the middle of the Muslim world; however British weakness after WW2 led to the US to organise the region. The US took an interest in the region after WW2 after tasting the benefits of Gulf oil and decided that it could no longer remain isolated and began manoeuvring in the area. In 1944 the State Department described the Arabian Peninsula as constituting *"A stupendous source of strategic power and the greatest material prize in the world's history."* The United States was aware that control of the region's oil supply was a lever to control the world. As George Kennan, the influential planner of the containment of the Soviet Union put it in 1949: *"If the US controlled the oil, it would have veto power over the potential actions in the future of rivals like Germany and Japan."* Realising the potential of the Middle East, the US set forward multiple plans and strategies to control the region.

The US came up with the two state solution when Britain had been pushing one state with Palestinians and Jews living side by side. The US looked towards Israel, within defined and secure boundaries, even though it was established with dreams of Eretz Israel (a greater Israel). This was

the first difference between the US and Israel - the position of Israel has always been to never define its borders.

The primary representatives of the Palestinian cause in 1948 – when Israel was created were King Abdullah of Transjordan, King Farook of Egypt and the Mufti of Palestine, all of them were extremely weak rulers subject to constant manipulation by the British. King Abdullah’s portrayal of himself as a defender of the Palestinian cause was a façade. It was known that he and Ben Gurion (Israel’s first Prime Minister) were students together in Istanbul and that in clandestine meetings Abdullah had offered to accept the establishment of Israel in return for Jordanian control of the Arab populated parts of Palestine.

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King Abdullah had the Arab Legion at his disposal, a highly trained unit of 4,500 men, with General John Glubb an Englishman as its commanding officer. Glubb in his memoirs recounted that he was under strict orders from the British, not to enter areas under Jewish control.<sup>33</sup> Egypt further weakened the attack against Israel when Nakrashi Pasha, the Prime Minister, initially did not use existing military units but sent an army of volunteers that had only been organised in January of that year. Jordan also delayed the passage of Iraqi troops across its territory thus thwarting any attack on Israel.

Israel biggest problem upon establishment was it was surrounded by Muslim nations. Egypt as an example is the largest country in the region and had a population 11 times the size of Israel and could field a military that would outnumber Israel. For this reason the State of Israel had a single defence goal - to ensure its continued existence in the face of any attack. However Israel was and remains very small country that lacks strategic depth. A hostile fighter could fly across all of Israel (40 nautical miles wide from the Jordan River to the Mediterranean Sea) within four minutes. Unable to field a large army due to its small population it must be forced to rely on its reserves. To make up for quantitative disadvantages, Israel developed a high level of unpredictability and aggressive posture in its policies. The Israeli defence forces - IDF were established and made up for its lack of size by superior manoeuvrability and firepower. Israel’s fundamental challenge was and remains that it is surrounded by Muslims and in any war the lack of strategic depth would mean significant fighting and losses within Israeli territory.

## **Nasser**

As Gamal Abdul Nasser came to the leadership of the Young officers regime in Egypt in 1952, he proceeded to seize the moral leadership of the Arab world and capture its sentiments. The Israeli occupation of Palestine, sanctioned by the United Nations, had led to the dispersion of the Muslims of Palestine throughout the surrounding region, in particular to Jordan Lebanon and Gaza in Egyptian held territory. Nasser's support amongst the Palestinians in particular was bolstered by the fact that he provided funding and a certain amount of training to the Palestinians in Gaza, which led the Palestinians to regard Nasser as an ally.

Nasser being an independent was a façade. The US saw Egypt as a critical ally if America was to gain influence in the Middle East. Through the CIA, she moved to depose the Pro-British King Farouk in a coup in 1952, bringing into power the Free Officers who were to be led by Gamal Abdul-Nasser. The CIA worked on a project in 1951 known as “The Search for a Moslem Billy Graham.” Mike Copeland the CIA operative, published classified information in his memoirs in 1989, ‘The Game Player,’ about the CIA backed coup d’état that ousted the British puppet King Farouk. Copeland, who activated the project, explains that *‘the CIA needed a charismatic leader who would be able to divert the growing anti-American hostility that was building up in the area.’* He explains both the CIA and Nasser were in agreement on Israel. For Nasser talk of war with Israel was irrelevant. Much more of a priority was British occupation of the Suez Canal Zone. Nasser’s enemy was Britain.

In 1956 Nasser nationalised the Suez Canal. The response of Britain was to lure France and Israel into the struggle. This was outlined by historian Corelli Barnett, who wrote about the Suez in his book, ‘The Collapse of British Power’: *‘France was hostile to Nasser because Egypt was helping the Algerian rebels, and attached to the canal for historical reasons. After all, a Frenchman built it. Israel was longing to have a go at Nasser anyway because of Palestinian fedayeen attacks and the Egyptian blockade of the Straits of Tiran. so Sir Anthony Eden (British Prime Minister) concocted a secret tripartite plot with France and Israel.’*<sup>34</sup> He further explained *‘that Israel would invade Egypt across the Sinai Peninsula.’ ‘Britain and France would then give an ultimatum to the parties to stop fighting or they would intervene to ‘protect’ the canal.’*<sup>35</sup>

For Israel the acquisition of Russian armaments by Nasser led to alarm amongst the Israeli leadership. An opportunity arose for Israel to escalate tensions when Nasser nationalised the Suez Canal, creating the pretext for Israel to engage in a strike against Egypt. This conflict however was never a war for the liberation of Palestine but rather a struggle between America and Britain for control over the strategically important Suez Canal.

Acting with Britain and France, Israel attempted to deal a significant blow to Egypt's military, but the intervention of the US and the USSR, and the subsequent threats against Europe and Israel by the respective superpowers forced Israel to back down.

### **The 1967 Six Day War**

Britain had been surpassed as the region's dominant force 11 years earlier, but still retained some influence through its agents in Jordan, Syria and Israel. In an attempt to weaken Nasser, Britain sought to lure Israel to drag Egypt into a war whereby Israel would seize territory and use it as a bargaining tool in any future peace settlement; a means through which to achieve the security which the Israelis so desperately sought. On 5<sup>th</sup> June 1967 Israel launched a pre-emptive strike destroying 60% of Egypt's grounded air force and 66% of Syrian and Jordanian combat aircraft.

*The difficulties experienced by Egypt during the Suez crisis and the 6 days war contributed to a waning of support for the Palestinian cause. Nasser had opened a channel of communication with the Israelis through the respective delegates of Egypt and Israel to the United Nations to explore the possibility of a permanent peace settlement.*

The Israelis seized the West Bank and east Jerusalem from Jordanian control. King Hussein, prior to the battle, had positioned his troops in different areas from where the main battle was taking place. In a matter of 48 hours the Israelis seized the major West Bank towns. In a similar manner the Israelis seized the strategically important Golan Heights on the 6th day of the war. The Syrian troops occupying the Golan Heights heard news of Israel's capture of the heights through their own State radio despite the Syrian troops clearly occupying them. Israel also dealt America's Nasser a blow by capturing *Sharm al Sheikh* and securing the waterway of the Straits of Tiran. The objective of weakening the regime of Nasser was achieved, thus indirectly aiding British interests within the region. Israel was able to seize more land and use it as a bargaining asset in any land for peace negotiations, which today is still used as a basis for negotiations rather than the status of 1948. The United Nations established the UN Partition plan in 1947, which gave 57% of territory to Israel with Palestine becoming 42% of its former self. In the 1967 war Israeli occupation increased further with its territorial gains of up to 78% of historic Palestine.

The difficulties experienced by Egypt during the Suez crisis and the 6 days war contributed to a waning of support for the Palestinian cause. Nasser had opened a channel of communication with the Israelis through the respective delegates of Egypt and Israel to the United Nations to explore the possibility of a permanent peace settlement.

### **The Emergence of the PLO**

It was under this air of frustration with a lack of progress in the Palestinian struggle, at a time when the Arab regimes had all but abandoned the Palestinian cause, that the movement for the National Liberation of Palestine was formed. It used the acronym HATF, which was rearranged to FATH meaning victory. Amongst the founders of FATH was Yasser Arafat, a graduate of the Cairo University working in Kuwait as an engineer. FATH carried out numerous raids against Israel directly, but soon realised that these raids were ineffective in achieving anything without the support of the armies from at least one of the major Arab countries. This led FATH to pursue a path of political dialogue with the other Arab countries.

During the Cairo conference of 1964, the Arab League instructed its Palestinian representative Ahmed Shukeiri to form a Palestinian political body. Shukeiri then organised a meeting of the first Palestinian National Council, attended by 350 delegates who met in East Jerusalem. At this meeting, the delegates formed the Palestinian Liberation Organisation (agency), which was comprised of various groups including FATH. Ahmed Shukeiri became the chairman of the PLO but stepped down in favour of Yasser Arafat in 1969.

The establishment of the PLO detached the Arab states from being directly involved, placing further emphasis on the Palestinian nature of the issue. The PLO very quickly became the sole representatives of the Palestinians, even though it was in effect a non-state actor. It initially entered into armed struggle but unable to face-off with Israel's large military (relatively) very quickly turned to negotiations.

Unable to impose any type of settlement on the Palestinian issue, the PLO compromised and gave up more and more land in the hope of getting a Palestinian state. In 1993 in a Letter from Arafat to Yitzhak Rabin, the Prime Minister of Israel, Arafat said: *"The PLO recognises the right of the State of Israel to exist in peace and security. The PLO commits itself to the Middle East peace process, and to a peaceful resolution of the conflict through negotiations. The PLO considers that the signing of the Declaration of Principles constitutes a historic event, inaugurating a new epoch of peaceful coexistence, free from violence and all other acts which endanger peace and stability."* The PLO in reality strengthened Israel by entering into negotiations and compromising with everything that it stood for.

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By the time Arafat died the PLO in the form of the Palestinian Authority conceded Palestine of 1948 and only demanded the borders of 1967. Then it demanded of the majority rather than all of Palestine of 1967. In 2003 the PA, signed the Geneva document and gave up the right of return for all those who lost their homes when Israel was created.

## **1973 War**

An examination of the October 1973 war launched by Egypt and Syria against Israel shows that the aims were limited and never included the liberation of Palestine. The aims never even included the liberation of the Golan Heights which were designed to be restored as part of a peace treaty between Syria and Israel. The aims were to solidify the positions of Anwar Sadat and Hafez al-Assad who were relatively new leaders in countries prone to military coups. Sadat in particular was vulnerable given the fact that he had succeeded the charismatic Nasser.

Mohammed Heikal the respected editor of Al Ahram from 1957 – 1974, who witnessed the war, explained the extent of Anwar Sadat's underlying motives in his book 'The Road to Ramadhan' where he cites Sadat's mood in the run up to the war. Heikal quotes one of Sadat's generals, Mohammed Fouwzi who gave the analogy of a samurai drawing two swords - a long one and short one in preparation for battle. Fouwzi said that this battle would be a case of the short sword, signifying a limited battle for certain motives.

Anwar Sadat had no intention of having a protracted war of liberation with Israel. This is why he sought peace with Israel whilst commanding a winning position in the war. In the first 24 hours of

the war Egypt smashed through Israel's much heralded Bar-Lev fortifications east of the Suez Canal with only 68 casualties. Meanwhile 2 Syrian divisions and 500 tanks swept into the Golan Heights and retook some of the land captured in 1967. In two days of fighting Israel had lost 49 aircraft and 500 tanks. In the midst of this Sadat sent a message to US Secretary of State Henry Kissinger in which he said that the objective of the war was '*the achievement of peace in the Middle East and not partial settlements.*' The message went on to state that if Israel withdrew from all occupied territories Egypt would be prepared to participate in a Peace conference under UN or neutral auspices.

Thus despite having an immense strategic advantage Sadat was in the mood for negotiations at such an early stage. Sadat's refusal to press home his initial advantage and his delay in launching the second Sinai offensive allowed Israel to mobilise, with aid from the US and she began to seize back lost territory. Hostilities formally came to an end on 25<sup>th</sup> October 1974.

### **The Peace process**

Prior the 1991 Gulf war the US attempted to impose and push ahead with the peace process due to Israel's expansion into the West bank through its settlements. FATAH individually and through the PLO failed in containing Israel and thus after the first Gulf war the US gathered all the countries involved in the Middle East issue to the Madrid Peace Conference in order to impose the two state solution on them. It was also the first time both Israel and the PLO negotiated directly. The Israelis wanted Arafat to give up areas of the West Bank where settlements had been constructed, which Arafat refused to agree to, leading to long negotiations which effectively never went anywhere.

Britain had been pushed out of the region earlier, but still attempted to complicate America's plan for the region. Britain managed to conclude Oslo accords in 1993 between the PLO and Israel. This accord was Britain's attempt to bypass the resolutions of the Madrid conference. The US however managed to change this accord into time-consuming negotiations, which eventually fell apart. By 1994 the US concluded negotiations between, king Hussein of Jordan and Rabin, the prime minister of Israel under the auspices of Clinton that terminated the state of war between Israel and Jordan. Later on, Wadi Arabah agreement was signed, which officially finished the state of war between the two states.

From this period until today Israel has pursued a tit-for-tat policy which is termed "reciprocity," whereby Israel would not engage in the peace process if the PLO continued with what it defined as the Palestinian revolving door policy, i.e., incitement and direct or indirect support of terrorism.

When George W. Bush became us president the events of 9/11 created priorities other than the Israeli-Palestinian struggle. This struggle was low priority in the sight of the Bush administration, as they prepared to invade the Middle East. Israel used this opportunity to reoccupy the areas, which were put under the PA administrative authority, such as Jericho, Jenin, city of Gaza and Arrabah. Israel used excessive violence against the Palestinians. Bush's need for Israeli support in the wars, and Jewish support to get re-elected meant the resolutions of the peace process could not be imposed upon Israel, especially with the Neocons dominated the administration.

Under Obama's first term no progress was made on the peace process, as the drawdowns in Iraq and Afghanistan and the financial crisis dominated the administration. All of this allowed Israel to increase and expand settlements.

## **US Policy**

Over a period of 50 years the US policy on the Israeli-Palestinian issue has become clear. America rejects the idea of substituting European influence with Jewish influence, and she also rejects the idea of sharing power with any other country in the region. America is committed to securing Israel, guaranteeing her security and ensuring a prosperous standard of living for the Jews living there. However, she refuses to allow Israel to share the influence with her.

*“US policy is centred around establishing a Palestinian state to act as an instrument of containment; by establishing a host of international guarantees and by bringing multinational forces to be deployed along the borders between Israel and the neighbouring Arab countries - Jordan, Syria, Egypt and the future Palestinian State”*

In order to prevent Israeli expansion and the spread of Israeli influence in the region, American policy has been based on isolating Israel from the rest of the region in an attempt to curtail her and minimise her role in the quest to solve the Palestinian issue and the Middle Eastern issue. US policy is centred around establishing a Palestinian state to act as an instrument of containment; by establishing a host of international guarantees and by bringing multinational forces to be deployed along the borders between Israel and the neighbouring Arab countries - Jordan, Syria, Egypt and the future Palestinian State. The American policy has also been based on working towards the internationalisation of Jerusalem, as America sees this internationalisation as a solution to the sensitive crisis of Jerusalem that would please the Christians and guarantee a strong American presence through the presence of the United Nations. The US plans defined Israeli borders alongside a Palestinian state.

In order to achieve this the US will need to impose this upon the Israelis and balance this with arming Israel to counter balance the other powers in the region such as Egypt, Saudi Arabia and Iran.

## **Israeli policy**

Israel historically has pursued a number of policies in order to influence a final outcome. Israel has worked to protect US interests in the region in order to make itself relevant to the US. It has taken an aggressive posture and ensured it remained unpredictable in order to deal a fatal blow by any of the majority Muslim regimes in the region. It has also never defined its borders and used this as a pretext to expand settlements and thus Israel and influence in any future settlement.

What has complicated Israeli policy is two views exist within the Israeli ruling elite on how the final outcome will be achieved. The Likud party which has been the party of power for most of Israel's history attempted to unilaterally define the borders by building settlements and expelling Muslims. The endeavour to continually expand is complicated by the fact that the Labour party in Israel believes in giving up land for permanently defined borders. It believes this is a price worth paying for the security it needs.

*“Israel has taken an aggressive posture and ensured it remained unpredictable in order to deal a fatal blow by any of the majority Muslim regimes in the region. It has also never defined its borders and used this as a pretext to expand settlements and thus Israel and influence in any future settlement”*

Israel has continued to alter the facts on the ground. In Al-Quds she has carried out extensive changes by building large Jewish settlements in East Jerusalem, a Palestinian populated area Israel has always worked to define the final borders by altering the facts on the ground. As the West Bank is large compared to the Gaza strip expanding settlements is a policy to expand Israel. However, Israel still needs the US for any final settlement and for these reasons it has organised lobbying in the US and the world's media in order to achieve a favourable outcome.

In conclusion the West created the problem in the Middle East in order to protect its interests, they have then rushed to solve it by putting forward policies that will enshrine their presence. Israel continues to work within the two state solution but by influencing where the final boundaries will be. Syria, Egypt and Jordan gave up the people of Palestine a long time ago. As a result the PLO dominated by FATAH emerged as well as HAMAS. The PLO never stuck to any principles, whilst FATAH is just too small to impose anything on the issue, aside from altering some small facts.

## Map of Occupation Palestinian Lands



## **Global Economy**

The end of 2012 marks over five years since the global financial crisis began. The UK and EU in 2012 officially went into a recession, again, the infamous double dip recession. 2012 was dominated by high unemployment across the world's largest economies and the Atlantic divide of how to solve the global financial crisis after five years. Whilst Europe pursued austerity to solve the financial crisis the US pursued stimulus. The stimulus-austerity divide continues to impact the world's premier economies.

An analysis of the solutions to date show that none of the factors that caused the crisis have been dealt with, in fact Western governments have attempted to keep Capitalism afloat at all costs.

1. Initially Western government's attempted to solve the crisis with a combination of stimulus plans and nationalisations of failed institutes. In the UK Northern Rock a regional bank was taken over by the British government, whilst other banks were provided with bailouts, similar actions took place in Germany, France and the US. Whilst this stopped the banks from collapsing it in no way dealt with the issue of economic growth and the negative sentiment regarding the future of the global economy. Many criticised such actions as bankers were being bailed out whilst a recession in Western societies grew deeper.
2. At the peak of the economic crisis many Western states developed stimulus packages in order to save their economies from collapse, the most infamous being the US \$1.2 trillion stimulus package in 2008. However any stimulus was always a high-octane boost and a temporary measure. They were designed to kick-start stalled economies, not to fuel sustained economic growth. Government initiatives such as Car Scrappage schemes, the reduction in the general sales tax in the UK and tax credits for first-time home buyers as seen in the US and France, all were attempts to kick start economic growth, as these programs ended, so did their contribution to the global economy.
3. Western governments also resorted to Quantitative Easing (QE), a new development which was an electronic method of printing money. This unconventional policy was used by central banks to stimulate the national economy when conventional policy had failed. A central bank implements Quantitative Easing (QE) by buying financial assets to inject a pre-determined quantity of money into the economy. This is achieved by purchasing financial assets from banks with new electronically created money. This action increases the reserves of banks.

All of these solutions have not dealt with debt fuelled growth, whilst debt caused the problem more debt was thrown at it, Western governments attempted to treat the patient with the disease itself.

## **US Economy**

The US economy, which is larger than the economies of China, Germany and Japan combined, dragged the global economy down with it when its housing bubble burst in 2007. As the US economy constitutes 22% of global output, a recession in the US would impact the global economy.

# U.S. NATIONAL DEBT

A VISUAL PRESENTATION

MAR 2012

# \$15,418,000,000,000

(that's fifteen trillion)



DEBT PER FAMILY  
**\$684,330**



DEBT PER CITIZEN  
**\$180,913**



SAVINGS PER FAMILY  
**\$4,417**



## U.S. NATIONAL DEBT IN PENNIES

# 1,541,800,000,000,000



PENNY DEBT IN TONNES  
**3,854,500,000**

PENNY WEIGHT = 2.5g



EIFFEL TOWERS  
385,450



747 BOEING'S  
23,734,606



STATUE'S OF LIBERTY  
18,885,350



ELEPHANTS  
350,409,091

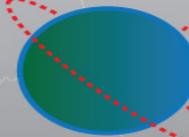


STACKED PENNY DEBT IN KM  
**2,389,790,000**

PENNY THICKNESS = 1.55mm

TRIPS TO THE MOON  
**6217**

TRIPS AROUND THE SUN  
**546**



TRIPS TO THE SUN **16**

TRIPS AROUND THE EARTH  
**59,633**



PENNY DEBT SURFACE AREA KM<sup>2</sup>  
**559,523**

THE PENNY'S WOULD COVER



JOHANNESBURG  
340 TIMES



NEW YORK CITY (urban)  
64 TIMES



MOSCOW  
513 TIMES



TOKYO  
256 TIMES



CITY OF SYDNEY  
22,381 TIMES



PARIS (urban)  
197 TIMES

## LAST YEAR THE U.S. GOVERNMENT BORROWED \$41 THOUSAND EVERY SECOND

### SPEND \$1 > EVERY SECOND

IT WOULD TAKE THIS LONG TO SPEND THIS AMOUNT

12 DAYS = \$1 MILLION DOLLARS

32 YEARS = \$1 BILLION DOLLARS

31,710 YEARS = \$1 TRILLION DOLLARS

WHO DOES THE U.S. OWE?

CHINA  
**\$1.16 TRILLION**



JAPAN  
**\$912 BILLION**



UNITED KINGDOM  
**\$346 BILLION**



BRAZIL  
**\$211 BILLION**



TAIWAN  
**\$153 BILLION**



HONG KONG  
**\$121 BILLION**



RUSSIA  
**\$109 BILLION**



# 105.6km

THE HEIGHT OF U.S. DEBT IN PENNIES IF STACKED ACROSS THE GROUND FOOTPRINT OF THE EMPIRE STATE BUILDING

SOURCES

<http://www.usdebtclock.org/>  
[en.wikipedia.org/wiki/United\\_States\\_public\\_debt](http://en.wikipedia.org/wiki/United_States_public_debt)  
[dailymail.co.uk/news/guardian.co.uk/business](http://dailymail.co.uk/news/guardian.co.uk/business)  
[en.wikipedia.org](http://en.wikipedia.org)

[bloomberg.com](http://bloomberg.com)  
[whitehouse.gov](http://whitehouse.gov)  
[businessinsider.com](http://businessinsider.com)  
[bbc.co.uk](http://bbc.co.uk)  
[economist.com](http://economist.com)

The \$15.7 trillion US economy is overwhelmingly driven by services which constitute 80% of the economy.

America's economy is dominated by consumer spending and is heavily dependent on the American population's appetite to continually consume. The collapse of the sub-prime market and then the whole real estate market in the US led to consumer spending to drop as many lost their homes, this drop in spending led to a fall in spending in wholesale trade and retail – the twin engines of the US economy. As these are key engines for the US economy, the whole economy stalled and thus the US economy went into recession. This then spread globally due to the sheer size of US imports from other countries.

Sector	GDP
Real estate	£1.8t
Manufacturing	\$1.5t
Finance and Insurance	\$1.1t
Health	\$1.0t
Retail trade	\$819b
Wholesale trade	\$780b
US Census, 2012	

There have been 3 clear solutions to kick start the US economy, all have failed to stimulate the US economy.

1. Initially the then Secretary of the US Treasury, Henry Paulson and George W. Bush proposed legislation for the government to purchase up to \$700 billion of “troubled mortgage-related assets” from financial firms in the hope of improving confidence in the mortgage-backed securities markets and the financial firms participating in it. This package was in reality a bailout and saved many banks from collapsing but had virtually little impact on the wider economy.
2. One of the first policies of the Obama administration in January 2009, was the stimulus plan to revive the economy. The cost of this initial recovery plan was \$825 billion (5.8% of GDP). The plan included expenditure on major policy and reform of the health system, tax rebates to be redistributed to households and firms, investment in renewable energy, social assistance for the unemployed and families, direct assistance to states to help them finance health expenditures of Medicaid and expenditure on schemes to improve access to digital technologies.
3. The ‘green economy,’ Obama vowed has also not materialised. The Energy Department has handed out \$35.2 billion in stimulus money to jumpstart the clean energy industry. Green technology accounts for a mere 2% of employment in the US and thus would have had little impact on the US economy overall.

The US administration continued with stimulus plans in the hope of reviving the US economy. Today, 12.8 million Americans are unemployed, 8.2 million cannot find enough work, and 1.1 million have given up looking for work altogether. For 38 straight months, unemployment has been higher than what the US administration promised.

These plans were meant to stop the recession in the US and lead to growth. However the present economic conditions differ from past recessions, in, that, many tenets of the American economy

such as manufacturing, textiles, and technological development have been outsourced to other countries.

The \$1.25 trillion spent over the years by the Democrats on tax cuts, infrastructure spending and social security and the hundreds of billions pumped into the markets by the US central bank has failed to stimulate the economy. Dean Baker at the Center for Economic and Policy Research outlined: *“with an economy as bad as this, Obama would normally lose the election, and were he facing anyone less useless than Romney – Reagan, Dubya, anyone – he almost certainly would lose.”*<sup>36</sup>

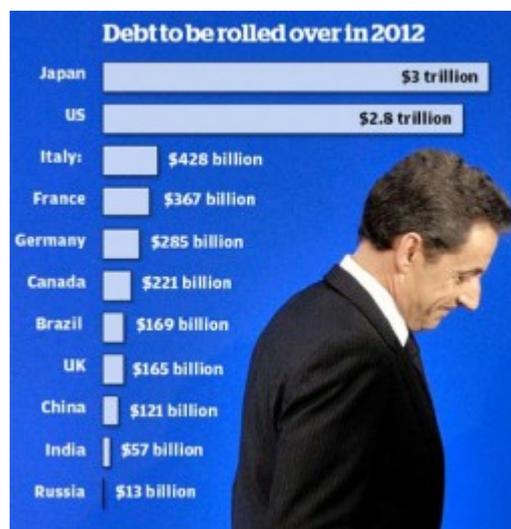
### **Austerity v Stimulus**

In 2012 two approaches dominated the world’s premier economies, as they attempted to halt the economic crisis and return to growth. Austerity continued to be pursued by Europe whilst the US continued with stimulus.

Stark exchanges between the Germans and the Americans have taken place previously on what is the best route for the future of the global economy. Angela Merkel along with the majority of the other countries including China and Japan suggested the unsustainable growth model of the US with its cheap credit and debt fuelled growth from the government’s perspective using stimulus funds was obsolete.

The need to control national deficit levels needs to be separated from general debt. In simple terms, deficit is the difference between what a government spends and what it generates, in a one year period. For example, if a man was to earn £30,000 a year, but spend £40,000, then he would be in deficit of £10,000.

So when the ConDem government came to power in May 2010 David Cameron spoke with regards to trying to bring the UK deficit down, he was not talking about bringing down the debt, just the amount the UK will need to borrow above what it generates in income! At the start of 2012 the world’s largest economies had £4.9 trillion in debt due for repayment during the year. This is a combination of previous debts and deficits. Such debts like always were rolled over by purchasing more debt to repay previous debts.



The problem with the austerity approach is such a policy in reality is not geared towards growth, which would create jobs and income for society and thus lead to overall economic growth but towards cutting the government debt. Austerity measures are typically taken if there is a threat that a government cannot honor its debt liabilities. This is a very specific objective and different to economic growth. With the threat to the credit ratings of most of the world’s largest economies many resorted to austerity i.e. reducing the government deficit to please the financial markets.

Hence austerity in reality is to please the financial markets as the world's largest economies will always need to borrow and in order to maintain their credit ratings, austerity is being undertaken to maintain a position of economic strength. Austerity – which in reality is another name for government cuts is compounding the economic crisis.

The US approach of pursuing stimulus has fared no better. Stimulus entails increasing government spending using money that is borrowed primarily from abroad in the case of the US from countries such as China, or simply created by central banks literally by entering digits into a computer – now known as Quantitative Easing.

Any stimulus was always a high-octane boost and a temporary measure. They are designed to kick-start stalled economies, not to fuel sustained economic growth. The growth that has been achieved is really the inflated results of stimulus measures achieving their intended effect to be temporary.

Hence stimulus just props up government and service industry jobs which die off when the stimulus ends, leaving an economy in much the state it was when the stimulus started.

*“Any stimulus was always a high-octane boost and a temporary measure. They are designed to kick-start stalled economies, not to fuel sustained economic growth. The growth that has been achieved is really the inflated results of stimulus measures achieving their intended effect to be temporary”*

## **Conclusions**

After five years of economic crisis, the West is in no better a situation. In fact we are witnessing economic nationalism as each country fights for its own survival. The smaller economies are being held hostage by the larger economies of the world.

There are really only two outcomes which may eventually lead to economic recovery:

- The first is the double dip recession turns into a depression, prices hit rock bottom and this leads to property, loans and commodity prices being seen as cheap and this kick starts economic growth as such assets are then purchased.
- The second possibility is China bails out the West. China's vast trade and financial surpluses are causally linked to the unsustainably large debts of the US, UK and a swathe of the Eurozone. It would be in their interests to bail out the West. This would also mean the Western world will have to accept Chinese global leadership. Here the issue is not whether the West will accept such a bailout but rather will China pursue such a policy.

## **2013**

**Growth** - For the moment the recession stricken countries have stuck to throwing more money at their financial sectors in the hope they will start to function again. There are no plans by any nation

to restructure their economies and move away from financial driven economies to say manufacturing etc. the challenge in 2012 for the global economy is to address the fundamental causes of this economic crisis, every other solution is temporary and just a stop gap for ensuring the global economy doesn't collapse.

**Unemployment** - Unemployment is reaching worrying levels in nearly all of the world's largest economies. Add to this the austerity from Europe social tensions are likely to rise. In Spain different regions are attempting to secede and establish their region as independent countries with their own monetary policies. With many of the mainstream parties no longer in power, xenophobia, riots and social breakdown are a real possibility. In 2013 and beyond creating jobs in an environment where the economies are shrinking or just flat is the challenge for the global economy.

# **India**

India has been analysed by economists, geopolitical experts, intelligence agencies and futurologists. India today is recognised as a BRIC nation, a nation rapidly developing due to embracing global Capitalism. It has become difficult to not notice India whether this is for its successful unmanned lunar mission, the creation of the world's cheapest car - the Tata Nano, or the fact that India is home to many of the world's call centres. Combined with the development of nuclear weapons and a population of 1.2 billion with a workforce of 500 million, for many India has all the ingredients to become a future power.

## **Indian: Past and Present**

After partition India implemented a number of five year plans along Socialist lines in order to achieve economic development and prosperity. By aligning with the USSR during the cold war, technology flowed into India and the territories of the USSR become India's key export market. Until the liberalisation drive in the 1990's India's economy was termed 'Licence Raj,' this was the elaborate licenses, regulations and the accompanying red tape that were required to set up and run a businesses in India. India's economy was characterised with protectionism, public ownership and corruption.

It was the fall of the Soviet Union that forced India to change its direction. The collapse of the Soviet Union, which was India's major trading partner, caused an economic crisis. At the same time the Gulf war also led to oil price rises, causing a financial crisis and forcing India to turn to the IMF. India was given a \$1.8 billion bailout loan from IMF, which in return required many stringent reforms. For nearly 50 years successive Indian leaders closed the Indian economy to the outside world, the IMF demanded India to open its huge domestic market. With strong rhetoric directed towards India by the US administration due to the stalemate on Kashmir, Narasimha Rao began the liberalisation of the Indian economy allowing foreign multinational companies to enter the Indian market and heralding India's embracement of the global Capitalism.

The liberalisation, privatisation and opening of the Indian economy were handed to a finance minister who was at the time an unknown economist – Manmohan Singh. He instituted reforms through opening Indian markets to foreign investment, opening India's capital markets to foreign investment banks, deregulating domestic businesses and reforming the trade regime. Liberalisation got rid of Licence Raj and ended many public monopolies, allowing automatic approval of foreign direct investment (FDI) in many sectors.

## **India Today**

In July 2012 India's economic rise almost derailed. 680 million people in country were without electricity for two days, the power grid outages in northern and eastern India crippled cities, caused chaos to public transport, hospitals, schools and industry causing the biggest blackout in world history. Whilst many have analysed the concept of a 'Shining India' - the idea that a well-educated,

English speaking, cheap and large labour pool could allow India to emerge as a major player on the global stage, this disaster of epic proportions shows there are some deep issues India's still needs to overcome.

After nearly 20 years of implementing reforms cities such as Bangalore have risen in prominence and economic importance and have become centres for foreign investment. On the eve of reform India's economy was a mere \$317 billion, today the Indian economy has grown to a whopping \$1.2 trillion, the 12th largest economy in the world and after China and the world's fastest growing economy.

The liberalisation of India's economy has resulted in India transforming from an economy that was dominated by agriculture to one where the service sector generates 54% of the nation's wealth. Business services such as IT and business process outsourcing contribute 33% to the total output of services. Several Indian firms were listed among the top 15 technology outsourcing companies in the world in 2009. The growth in India's IT sector has been a result of increased specialisation and an availability of a large pool of low cost, but highly skilled and educated workers. However the share of India's IT industry to the Indian economy is still relatively small and is currently only 7% of the economy. Annual revenues from outsourcing operations in India currently stand at \$60 billion and this is expected to increase to \$225 billion by 2020.

India's industry generates 29% of India's wealth but is still dominated by simple household manufacturing. Whilst advances have been made in software development India's industry is still dominated by oligopolies of old family firms who have used political connections to prosper in the face of foreign competition. Government policy is centred on promoting the designing of new products and relying on low labour costs and technology.

Agriculture generates 17% of India's wealth, however it employs the vast majority of India's workforce, 2 out every 3 Indians work in India's agricultural sector. India is the world's largest agricultural producer after China and produces more Bananas, Sapotas, Milk, Cashew nuts, Coconuts, Tea, Ginger, Turmeric and black pepper than any nation in the world. India has the world's largest cattle population of 193 million and produces 10% of the world's fruit.

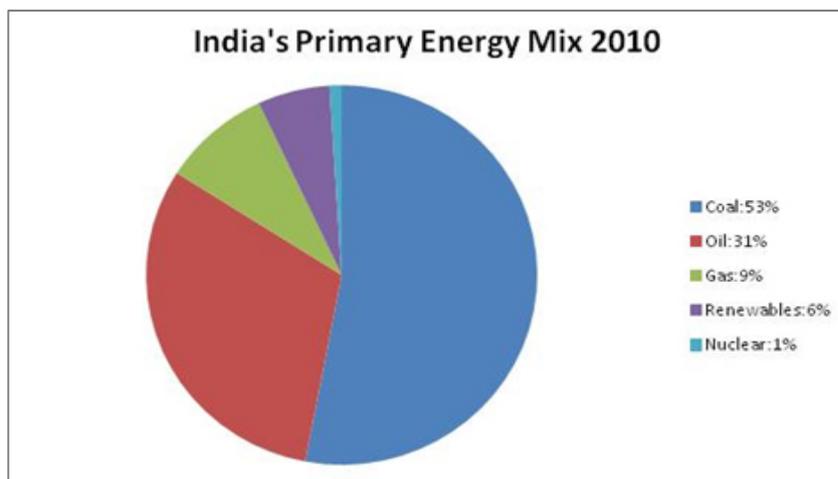
## **Current issues**

India is now two decades into its liberalisation drive, it is already well behind the level China reached at the same milestone. India faces many challenges the most critical of these, in order to become a world power, are summarised below:

### **1. Energy**

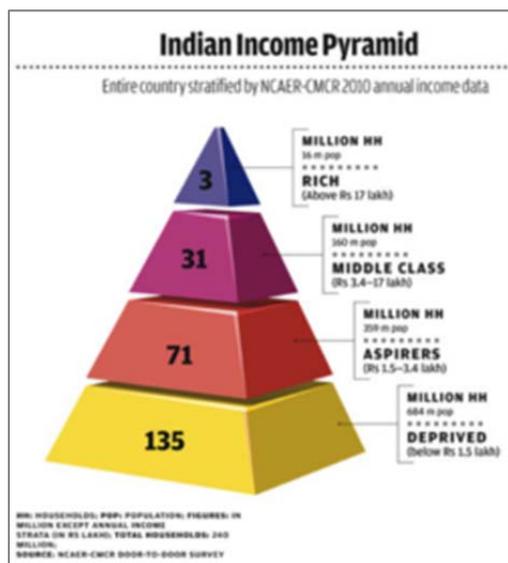
For any nation to develop a stable and secure supply of energy is crucial. India has severe problems in this area, While 80% of Indian villages have at least an electricity line some 600 million Indians have no mains electricity at all, just 44% of rural households have access to electricity. In India's case rising energy demand due to economic development has created a perpetual state of energy crunch. India is poor in oil resources and is currently heavily dependent on coal and foreign oil

imports for its energy needs. Although India is rich in certain energy resources which promise future potential such as renewable energy resources like solar, wind and biofuels (jatropha, sugarcane) such sources however are still in their early stage of development and can in no way provide sufficient energy for industrial scale development.



## 2. Wealth Distribution

India's development for the last two decades has been anything but equal. The benefits of liberalisation and globalisation are still restricted to certain geographical areas of the country and certain economic sectors. The IT boom is concentrated in the Southern metros of India while the petrochemicals sector is thriving mostly in Gujarat, in Western India. Large parts of Northern and Eastern India are severely lagging in economic development. The traditionally poor and populous BIMARU states - Bihar, Madhya Pradesh, Rajasthan, Uttar Pradesh - are still largely agrarian economies.



Whilst the Indian economy has grown fourfold over the last two decades, this new wealth has remained in the hands of a small minority of the population. 85% (930 million) of the Indian population lives on less than \$2.50 a day, this is more than Sub-Saharan Africa. 75% (822 million) of the Indian population lives on less than \$2 a day. 24% (300 million) of the Indian population live on less than \$1 a day. This means 41% (444 million) Indians live below the international poverty line of \$1.25. 33% of the world's population that lives in poverty, resides in India.

## 3. Infrastructure

For any nation to have any kind of global power projection capabilities it needs to develop domestic infrastructure of roads, ports, electricity grids, water supply and telecommunications in order to join the nation together. Indian infrastructure has come to be characterised with crumbling roads, jammed airports, and power blackouts and rampant corruption in mega projects. Indian technology firm Infosys Technologies Ltd has confirmed that with virtually no mass transit in Bangalore it spends \$5 million a year on buses, minivans, and taxis to transport its 18,000 employees to and from its offices and factories. It also confirmed that traffic jams mean workers can spend upwards of four hours commuting each day.<sup>37</sup> India's spending in this area is only \$31 billion. India has only

1% of the world's vehicles, but it accounts for 8% of the world's vehicle fatalities. Estimates by Goldman Sachs have shown that India will need to spend \$1.7 trillion on infrastructure projects over the next decade to deal with its rapid economic development.

India at the same time has many other problems that it will need to overcome if it has any ambitions of becoming a superpower, among these are:

- 1000 Indian children die of diarrhoea sickness every day
- 40% of children under the age of three are malnourished (underweight)
- 100,000 villages have never heard a telephone ring
- According to the World Bank it takes an entrepreneur 35 days to start a business, 270 days to obtain various licenses and permits, 62 days to register a property, nearly 4 years to enforce contracts, and a shocking 10 years to close a business
- One in every three urban Indians lives in homes too cramped to exceed even the minimum requirements of a prison cell in the US
- 338 million Indians cannot read or write

### **India Shining?**

India does not represent a unique or new form of economic development. The adoption of the free market is a tried and tested formula that has failed Africa, Latin America and the Far East. Becoming the world's outsourcing hub will not stimulate India's huge economy as such a strategy is too narrow to stimulate multiple sectors of the economy, this is why India's infrastructure is in chaos as only those sectors that act as supply lines to outsourcing such as IT have seen development. India's economy is mostly dependent on its large internal market with external trade accounting for less than 15% of the country's GDP. The trend of relying on International trade looks set to increase and as the global financial crisis has shown dependency on the global market is a fragile way to construct an economy. This was a similar strategy the Asian Tiger economies pursued through the 1980's and 1990's with disastrous results in 1997 in what has come to be known as the Asian Crisis.

Although such challenges will stop India from ever becoming a global power, India has a number of more fundamental challenges that will always stop it gaining the kind of global position it seeks these are:

- Politically, India is a hugely fragmented nation with competing factions with varying interests pulling and pushing across various geographical, religious, caste-based and class-based fault lines. Indian politicians have, for most of India's post partition history, utilised differences amongst the populace for their short term gains never bothering to rise above petty differences and marshal the resources of the nation. The fact that India is the world's largest democracy is a problem not an advantage for India. Parliamentary democracy institutionalises differences and allows parties to be established to protect such interests. This results in most issues lingering into parliamentary deadlock as was seen with the civilian nuclear deal with the US.

- India has a population of 1.2 billion, with 80% of the population Hindu. However India is a fragmented nation that has been unable to integrate its minorities, this has created a secessionist problem with various factions leading violent campaigns against successive Indian governments.
- India suffers from problems of identity. Secularists are in the minority and have argued against Hindu nationalists who have led mass riots against minorities. Those who have benefited from India's liberalisation have to a large extent been those who believe Hinduism should have no role in governance. If India is a Hindu nation with Hinduism its identity, then this institutionalises the caste system which stratifies India into a system of hereditary groups. Currently India is a mixture of secularism and Hinduism which means the nation cannot move in a unified direction and this is what has caused its secessionist problem as Hinduism cannot deal with people outside such a caste system.
- To become a world power a nation needs global ambitions. A nation would need to possess a way of life that they are prepared to take to the rest of the world. India has no global aspirations. India was a world power from the 11th to the 18th century, but it was Islam that made India a global power. Today India has strategic interests, such as Chinese expansion and Pakistani threats, but such interests are not sufficient to become a superpower. Hinduism looks upon India as the homeland and offers a caste system, with no integrated system of governance, economy, foreign relations and judiciary, as a result India's fundamental interest will always come from within — from its endless, shifting array of domestic interests, ethnic groups and powers.
- Hinduism lacks the characteristics of an ideology and as a result India faces the prospects of being unable to tackle its problems with any consistency. The liberalisation of India has created issues of wealth distribution, food scarcity, and industrial priority. Every time India solves a problem this will create a host of other challenges, in order to face such issues a nation needs to adopt an ideology where solutions are derived from the same basis, be they economic, social, ruling etc. India currently is solving its issues through pragmatic policies and this will only increase the challenges and issues that India will have to deal with.
- If India decides to adopt Capitalism as its ideology and take Secularism as its basis then although it will see some development it will also suffer the fate that nations that have already embraced secularism suffer from. India is already showing signs of this. Old age was never a problem in India. Old people homes were alien in concept and elder abuse was considered a Western problem. Not anymore. As life expectancy has increased hundreds of old people homes have sprung up in India. The neglect of one's elders has very quickly turned into an endemic issue that the Indian government has been forced to address. It has attempted this through 'the maintenance and welfare of parents and senior citizens bill 2006.' This made it imperative for adult children to look after their parents. The regions culture is built upon parents being an honour and their neglect, a humiliation. In 1998 there were 728 old people homes in India, today there are more than 1000.

- This idea of a ‘Shining India’ was attractive, but Indian policy makers believed they could take a shortcut to development without addressing fundamental developmental concerns. Nuclear weapons and foreign investment are not enough for development especially when much of the country is still living in abject poverty and when states have very little incentive to carry out policies from central government. When New Delhi announces a major five-year infrastructure plan, it has to work through a bureaucratic maze of policy makers who are not willing to deal with the public backlash and who are prone to pocketing funds along the way.
- Indian politicians like their democratic counterparts suffer from the realities of the political cycle. The Indian elections cycle is five years and most Indian politicians have shown again and again they are far more worried about their personal status in their re-election than they are about long-term development. And so not wanting to risk riots, many state governments haven’t raised their power tariffs for up to 10 years and free or subsidized power supply, especially to farmers, is a very common campaign promise. In essence the more elections you have the more likely you are to poison your system with money and short term thinking

## Conclusions

Many analysts have a tendency to look at economic growth and population trends when assessing potential world powers, whilst such indicators may indicate future prospects on their own they show very little in terms of future power. Throughout the 1970’s and 1980’s Japan was seen as the nation that would replace the US as the world’s superpower due to its rapid economic development and population, this was brought to an abrupt end when its asset bubble burst in 1990.

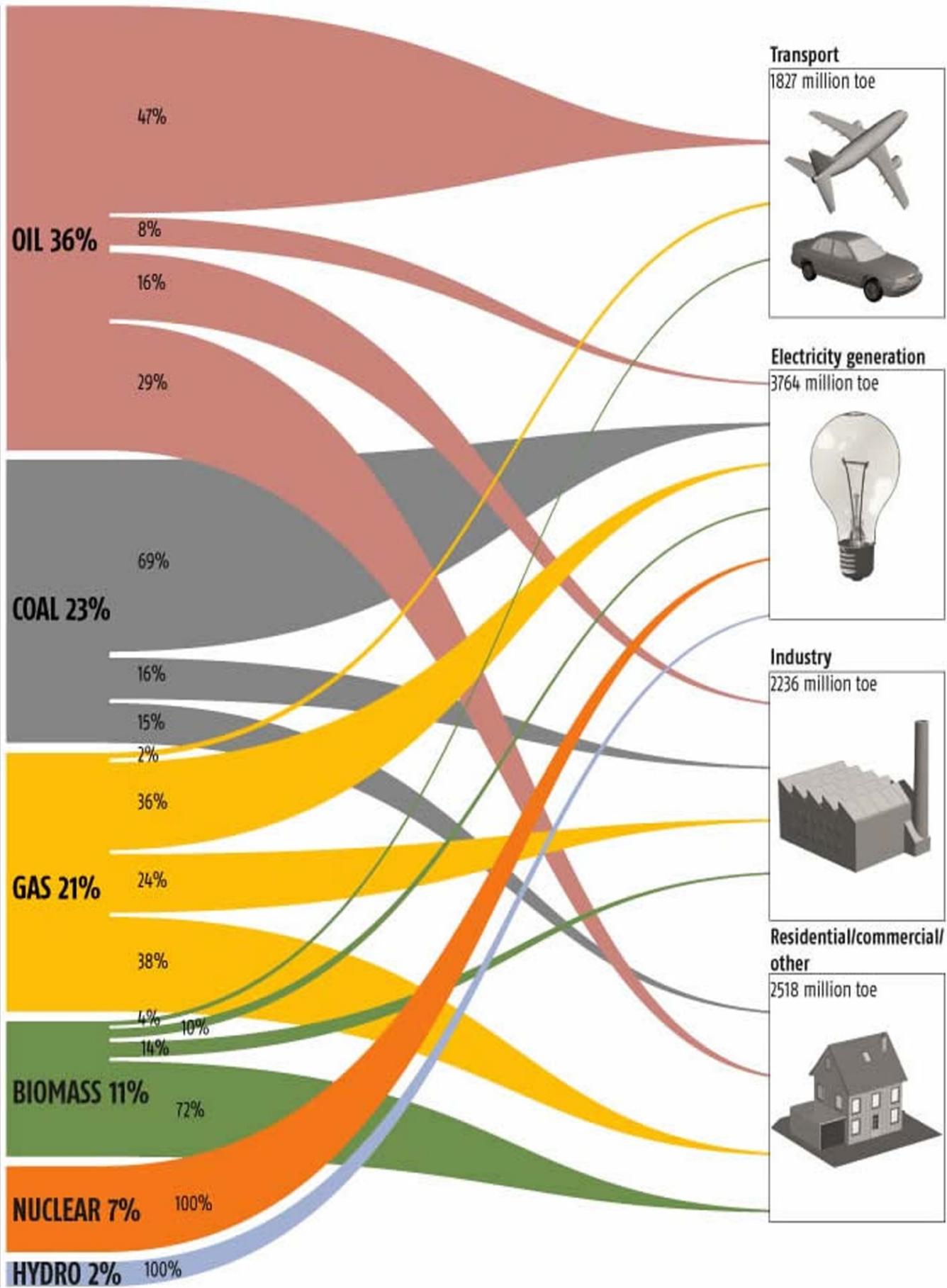
The real indicator of future prospects is not the resources of a nation, its population size, the technology it possesses or geography – although these would be advantages. A potential global power would need to possess global ambitions, this in turn would come from the way of life of a nation has embraced. Japan in the early 20<sup>th</sup> century had global ambitions which came from the belief that they were superior people to the rest of the world, this drove the need to develop and motivated their people to contribute towards the aims of global domination. It took WW2 to stop Japanese expansion. The developments the country went through in the 1970’s and 1980’s was economic and not political and hence it remained within Japan’s borders. Japan lacks mineral resources in order to develop but their global ambitions forced them to develop a strategy to overcome such challenges.

The image of an ‘India Shining’ post-1991 is not representative or a fully accurate portrayal of a country where over 100,000 villages have never heard a telephone ring. While the economic reforms of the 1990’s did much to liberalise and stimulate growth, the direct beneficiaries were more affluent urban dwellers. Whilst India has many challenges to overcome such as its lopsided development, a 1.2 billion population, who constitute a third of the world’s poor, with over 70% of Indians living in deprived rural areas, these can be overcome as all the industrialised nations have shown. However solving such issues are the product of progress, at the heart of progress lays a very simple concept of global ambitions which India does not possess. Its way of life – Hinduism does not outline or give an international outlook. Whilst India will build state of the art cars, send many

into Space, invent new technologies, achieve self-sufficiency and superiority in various fields, this is however something sought by every independent nation, but on its own insufficient to become a superpower.

# GLOBAL ANNUAL ENERGY USE

10,345 million tonnes oil equivalent



# Energy

Whilst Strategic Estimate focuses on politics and policies of the world's powers there are many factors aside from political manoeuvring that can contribute towards a nation's power in the world. Factors such as economic strength and military capability all contribute towards a nation's position in the world. In our previous estimates we assessed the role nuclear weapons play in global politics. Another factor that continues to have a huge bearing on the world's powers and competition amongst them is energy.

Since the industrial revolution harnessing energy has become critical to the functioning of modern society. Initially coal was used to power engines and then WW1 brought crude oil as an energy source to the world. Transport, industrial processes, petrochemicals and agriculture all use crude oil as an energy source and its importance to the global economy remains critical. The age of oil, produced its own technology, its balance of power, its own economy and its patterns of living. The future of energy security will play a central role in the global balance of power. The trends in energy and the nations who are able to take advantage of them will play an influential role in global politics for the foreseeable future.

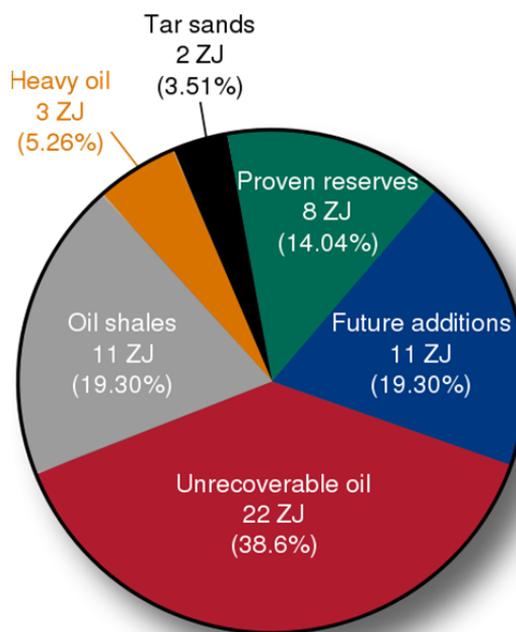
## Energy Trends

### 1. Oil

World oil production is currently at 83.5 million bpd (barrels per day); of this amount OPEC produces 42% of world oil production.

Geology experts claim that 85% of the Earth has been mapped for oil. It is unlikely that in the remaining 15% another Middle East will be found. Western Siberia and the South China Sea are contenders for holding large undiscovered reserves. Effective exploration in the South China Sea is being stifled by territorial disputes, the Spratley Islands being the most famous.

Deep sea exploration has been a disappointment, but polar hydrocarbons are still in abundance. As the price for oil increases, there will be rush to exploit these areas; a case example may be ANWR (Arctic National Wildlife Reserve) in Alaska.



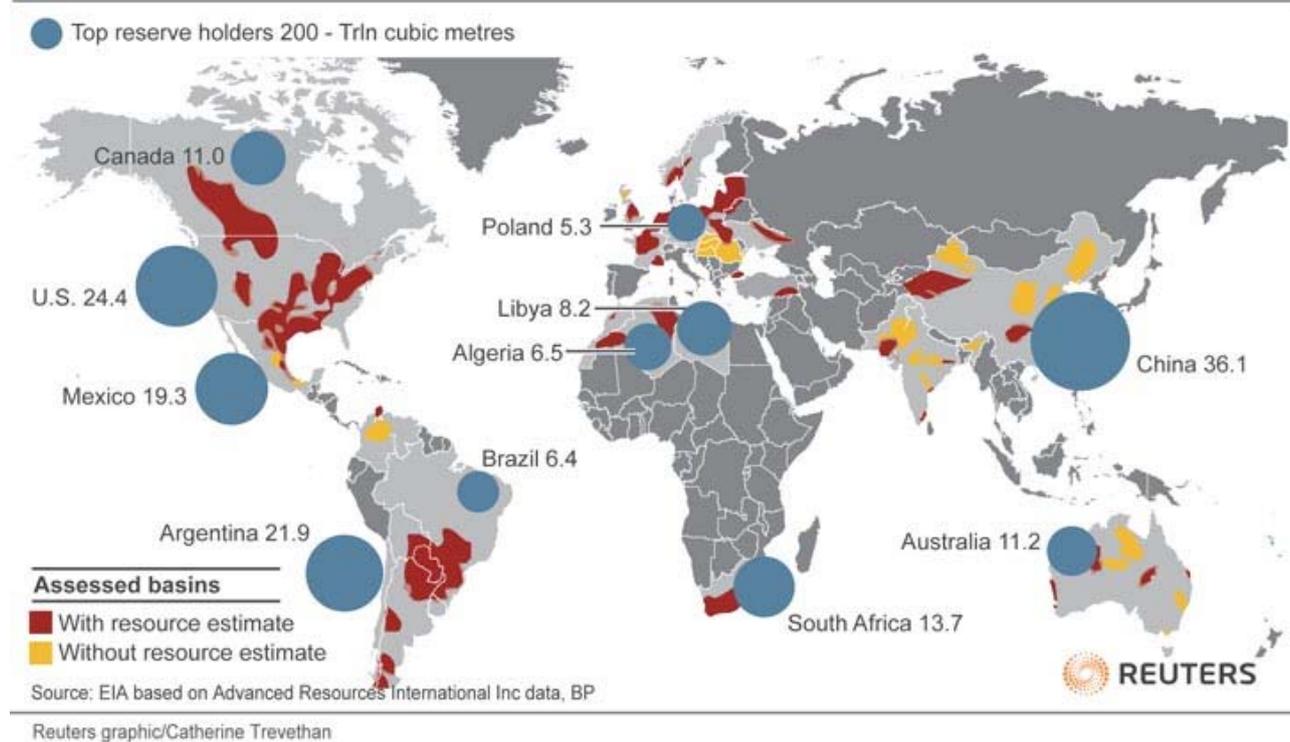
### Unconventional oils

Are those resources that have been biologically degraded by exposure to the surface and atmosphere. Unconventional oils come in various forms and differ substantially in their quality.

Typical unconventional oils are tar sand, heavy oils, and shale oils. All can be extracted and refined, but at tremendous energy and environmental costs. It is known that they have a lower energy returned than the energy invested.

Shale oil and gas have now emerged as economically viable alternatives to conventional crude oil and natural gas. This development is now leading to analysts to review their estimates and whilst the world is still in the early days of shale energy, peak oil has now been officially put off for another century. Another unconventional oil source is synthetic crude's. During WW2 the Germans produced synthetic oil from coal through the Fischer-Tropsch method; currently the South Africans are the leading manufacturers of synthetic oils from coal.

## Global shale gas basins, top reserve holders



### Coal

Coal is the most abundant fossil fuel. This was the fuel that launched the industrial revolution and has continued to grow in use. Coal is primarily used as a solid fuel to produce electricity and heat through combustion. Coal reserves throughout the world are estimated to last for another 165 years. US, China, South Africa, Australia and Europe have the largest reserves. Whilst this fossil fuel exists in abundance its polluting aspect has gained much attention, it is unlikely this mineral will reduce in importance.

### Natural Gas

Whilst it is recognised that gas can be a partial substitute for oil, it however depletes very differently from oil. More gas has been generated in nature than was oil, but more also escaped

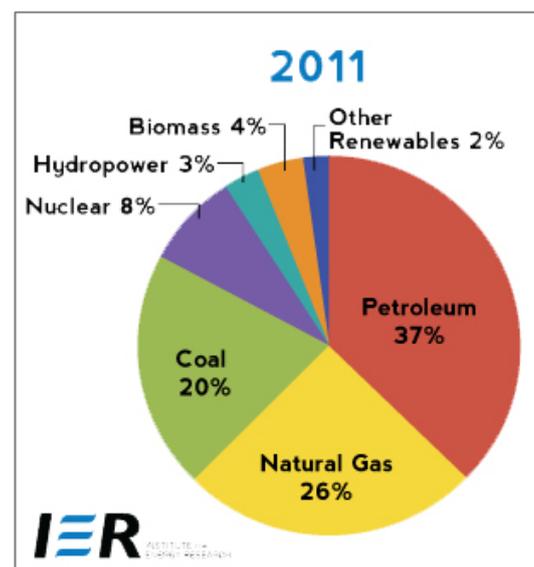
from imperfect seals to the reservoirs. By most estimates, global consumption of natural gas - a cleaner-burning alternative to coal and oil will double by 2030. But in the areas of highest expected demand - Europe, China, and South and East Asia - the projected consumption of gas is expected to far outstrip indigenous supplies. Delivering gas from the world's major reserves to the future demand centers will require a major expansion of inter-regional, cross-border gas transport infrastructures, such as LNG ports. The development in shale gas methods has led to the US – the largest producer and consumer of natural gas to become self-sufficient in this energy source and a potential exporter.

## Nuclear Power

Nuclear power generates energy through nuclear fission by splitting atoms inside a nuclear reactor. The atoms which are split in the process of fission release large amounts of energy. The energy heats water to create steam, which spins a turbine generator, producing electricity. Estimates for existing uranium supply at known usage rates vary. Some estimates put several decades for the currently popular Uranium-235 to thousands of years for uranium-238. At the present rate of use, there are about 70 years left of known uranium-235. Proponents of nuclear reactors argue that a unit of Uranium offers much more energy than coal. However a number of reactor disasters also show the dangers of such a source. Alongside such concerns the commissioning and decommissioning costs of nuclear reactors have proven to be very expensive.

## Renewable energy

The belief that fossil fuel was depleting has for a decade given rise to renewable energy the alternative. Renewable energy is generated from natural resources - such as sunlight, wind, rain, tides, and geothermal heat - which are renewable (naturally replenished). The use of renewable energy depends on climatic and geographical conditions of the region for which it is to be used for. Wind is the most mature of all the renewable technologies, while Biomass generation is the most stable. Aside from concentrated Solar panel and wind turbine technology renewable energy is still in its early stages, most technologies are still operated through the use of fossil energy and much of the technology for renewables is still 20 – 40 years away.



The emerging geopolitical trends are as follows:

- **The Eastern threat** - The Middle East is gradually shifting from being a uni-polar region in which the US enjoys uncontested hegemony to a multi-polar region. The US will face more competition from China and India over access to Middle East oil. Soaring global demand for oil is being led by China's continuing economic boom and, to a lesser extent, by India's rapid economic expansion. Both are now increasingly competing with the US, the European

Union and Japan for the lion's share of global oil production. If China at any time in the future should develop its political will and ambition, it is in a relatively strong economic position to substantially weaken America.

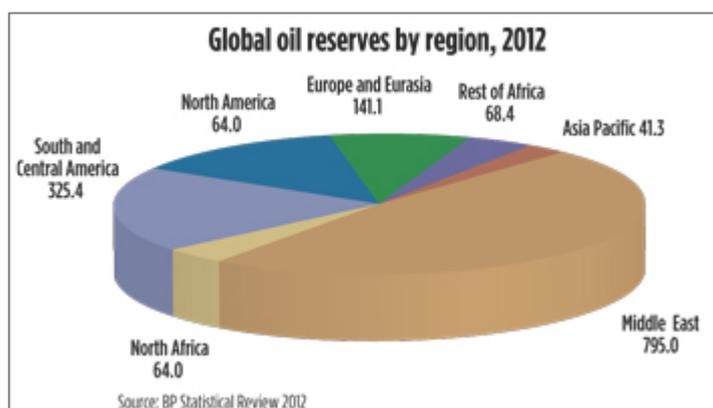
- **Russia** – Russia is one of the leading producers of natural gas and one of the leading oil producers. The relationship between the EU and Russia is now dominated by Russia and will in the future make Europe dependent on Russian oil and gas. The oil shocks of the 1970's had different effects on different European countries. Britain had some North Sea oil and the prospect of more, as did Norway. Germany and France had little or no oil of their own.

Vladimir Putin has already used oil and gas as a diplomatic weapon against the European states, which have had to fall into line in June 2007 after making grandiose demands against Russia. Russia has also stopped supplying energy to its neighbours to quell dissent and ensure political allegiances.

Unlike China and India, Russia has a history of political strength and maturity, and the evidence over the last decade is that Russia has begun re-inventing itself as a regional power, after reversing the colour revolutions from the American grip.

- **Fossil Dependency** – Governments around the world and corporations continue to view Oil as the world's principle energy source for the foreseeable future. According to most estimates these oil fuels will be satisfying an estimated 83% plus, of global energy needs by 2030. With both existing and new consumers reliant on such traditional fuel the struggle over such traditional fuels sources is set to only intensify.
- **The importance of the Muslim world** - Despite the dwindling supplies of the sweet type of crude oil from the Middle East, the importance of the region, will not reduce. In fact it will become the most crucial area in the world. This is because 61% of the world's oil reserves are in the Middle East. "Proved" oil reserves are those quantities of oil that geological information indicates can be with reasonable certainty recovered in the future from known reservoirs. Of the trillion barrels currently estimated only 39% are outside the Middle East. Today, 61% of global oil reserves are in the hands of Middle Eastern regimes: Saudi Arabia (22%), Iraq (11%), Iran (8%), UAE (9%), Kuwait (9%), and Libya (2%).

In the years to come dependence on the Middle East is projected to increase. This is because the reserves outside of the Middle East are being depleted at a much faster rate than those in the region. The overall reserves-to-production ratio - an indicator of how long proven reserves would last at current production rates – outside of the



Middle East is about 15 years comparing to roughly 80 years in the Middle East. It is for this reason that George Bush said in April 2007, US dependence on overseas oil is a "*foreign tax on the American people.*"

This is one of the most volatile regions in the world; and its importance will only grow stronger. The US is currently very worried about political developments in this region. A return of the Khilafah as predicted by several think tanks can potentially cripple America's economy, at a time where its political leverage is at its weakest since the end of the Cold War.

- **New Contenders** – A class of new contenders are set to chase an ever dwindling base of fossil fuels. The rise of China and India alongside Brazil, Turkey, South Korea, Malaysia and Indonesia and many of the East Asian nations means that the energy industry will need to satisfy the needs of these new contenders and the existing requirements of the more mature industrialised nations. China and India on their own are transforming the global geopolitical scene.
- **China and India** – ‘Chindia’ on their own are searching the world for energy sources as they lack the necessary minerals within their borders. Their current growth rates will only continue if they can secure the necessary energy sources. India's rising energy demand has created a perpetual state of energy crunch. India is poor in oil resources and is currently heavily dependent on coal and foreign oil imports for its energy needs. For these reasons India has made significant strides in renewable energy resources but to a large extent is relying on the Iran–Pakistan–India gas pipeline (IPI) which has been riddled with delays. China on the other hand although rich overall energy potential, most of its deposits still require development. In addition, the geographical distribution of energy puts most of these resources relatively far from demand. Both nations in the decades ahead will become ever more dependent upon energy imports bringing them direct conflict with the US who also faces an ever increasing import bill
- **Energy Crunch** - A large share of the world's current oil production comes from just 116 giant oil fields. 50% of the world's daily oil comes from just 116 oil fields each of which produces more than 100 000 bpd. Of these, all but four were discovered over 25 years ago and many of them are showing signs of diminished capacity. Among them are the world's largest oil fields - Ghawar in Saudi Arabia, Cantarell in Mexico and Burgan in Kuwait, these three mammoth fields produce 10% of the world's daily oil requirement. For every barrel lost in these fields a new barrel needs to be found somewhere to just maintain the current levels of oil production.
- **Energy powers** – Although many nations produce some oil, very few produce a lot, and fewer are on the perch of increasing oil production. If the nations who are about the peak or have peaked are eliminated from the list of major producers, only 15 are left with significant potential to boost output, these are: Algeria, Angola, Azerbaijan, Brazil, Iran, Iraq, Kazakhstan, Kuwait, Libya, Nigeria, Qatar, Russia, Saudi Arabia, UAE and Venezuela.

Some nations may join this privileged group however the trends are set to make these 15 nations pivots of global energy geopolitics and the centre of the next energy rush.

## Conclusions

The global balance of power is the position of the world's superpower and the nations that compete with it. At the end of 2012 the US remains the world's superpower, it however faces a challenge to its position in the Asia-Pacific from the most populace country in the world.

In 2012 China used its military development to aggressively lay claim to the South China Seas, in the process challenging US hegemony in the Asia-Pacific. US policy makers and successive National Intelligence Estimates (NIE) after the collapse of Soviet Union placed China as a potential challenger to US hegemony. Whilst the US has been busy with the Muslim world for the last decade, it is now drawing down its troops in the region and replacing them with proxy rulers and special operations forces (SOF's), as well as the largest embassy in the world in Iraq to maintain its influence there. As the Muslims have not established a state that represents their values, America's strategy remains to keep the region with this status quo. America's focus is now turning to the Far East in order to contain China and bolster the regions nations to act as instruments to contain China.

For the moment the US has successfully directed the Arab spring and ensured the Islamic groups that have taken power, be very un-Islamic by not implementing Islam and using various myths to justify such pragmatism. 2012 has also shown that the Muslim Brotherhood (MB) whether Ennahdah in Tunisia or the Freedom and Justice party (FJP) in Egypt, do not possess a grand plan for change. The nations they have emerged victorious in are maintaining the old pre-revolutionary system this has been the MB policy, irrespective of their original Islamic call.

2012 also confirmed a recurring trend which will only get worse. The differences between the Capitalist West and the Islamic world are making more and more headlines as the West threatened by the demand for Islam constantly attacks Islamic values. The Arab spring had a distinct Islamic undertone and all of this is leading the Ummah in one direction, which is the want for Islamic governance. The attacks on the prophet (saw) in 2012 forced the US to defend freedom of expression, whilst the Ummah once again saw the incompatibility of their values and the West's. Whilst China possesses a challenge to the US the Islamic Ummah possesses an alternative ideology, something China lacks. The Ummah wants to implement the Islamic ideology and deal with issues such as poverty, development, pollution and corruption via the Islamic solutions. China on the other hand merely wants to replace the US as the head of Capitalism, not to replace Capitalism.

Russia and China continue in their attempts to replace the US, whilst Britain and France continue in their attempts to weaken US global dominance. US weakness when it does take place should be seen in the replacement or removal of US tools for global dominance. The removal or replacement of the IMF and the World Bank in economics and finance, the removal or replacement of NATO as a security organisation, the replacement or removal of the United Nations as an organisation that settles international disputes, would all be clear signs of US weakness and possible replacement. These institutions remain in place and that is the reason why Strategic Estimate 2012 concludes with the US remaining the world's superpower, facing a challenge in one region in the world by an assertive and aggressive China.

## 2013

What follows are a selection of issues which are likely to have global implications in 2013:

**Iranian Presidential Elections – June 2013** – Iran will go to the polls in June 2013 to elect the President. Iran is one of the strongest powers in the Middle East and the last election in 2009 showed there were tensions within the ruling elite. Ahmadinejad cannot stand as Iran restricts the presidential term to a maximum of two terms for any individual. The struggle between rival conservative factions and various centres of power in Tehran that has been going on ever since Ahmadinejad came to power in the summer of 2005 have begun to undermine Tehran's ability to conduct foreign policy.

The President of Iran is the highest official elected by direct popular vote, but does not control foreign policy or the armed forces. Candidates have to be vetted by the Guardian Council, a twelve member body consisting of six clerics (selected by Iran's Supreme Leader) and six lawyers proposed by the head of Iran's judicial system and voted in by the Parliament.

There is a struggle for the regime by different factions within Iran and the outcome will determine the future direction of the regime and its relations with the US. Since the death of Ayatollah Rahullah Khomini a number of clerics have been calling for an end to the international isolation and re-engagement with the West. Such calls for reform were led by Ali Akbar Hashemi Rafsanjani and Mohammad Khatami and such calls continue to cause a fault line in Iranian politics.

**Pakistani Parliamentary Elections – April 2013** – The outcome of the parliamentary elections in Pakistan in reality will change little with regards the overall direction of the country, irrespective of what any politician says in the run up the elections. The military of Pakistan is the most important institution and relations between it and the US span several years. The US controls the entire Pakistani political medium - the government as well as the opposition. The President, the Prime Minister, the Pakistani cabinet, the PPP, MQM, PML-N, PML-Q, JI and many other smaller parties are all controlled by the US.

Imran Khan's chances look extremely bleak from the euphoria that dominated headlines in December 2011. Imran Khan's party – the Pakistan Tehreek-e-Insaf (PTI) is not really a political party, but a one man party, this is why it has never possessed any heavy weight politicians. Imran Khan was one of very few clean politicians who had a good history in Pakistan, due to his fortunes in Cricket. As his party lacked any clear direction this resulted in Imran Khan turning to established politicians who were dripping with corruption. This has considerably weakened him with many of these politicians now leaving as they see PTI with little chance of gaining any substantial seats.

**German Parliamentary Elections – September 2013** – Despite criticism from abroad German Chancellor Angela Merkel enjoys high approval rates domestically. However if elections were held now and based on opinion polls neither Merkel's party nor the Social Democratic Party would have enough votes to rule alone or with its preferred coalition partners. A coalition between the two largest parties is considered the likeliest outcome. Voters across most of the political spectrum approve of how Merkel is managing the European crisis. In order for Merkel's party to win the

September elections she will need to ensure the European crisis does not spin out of control. This means Berlin will support further aid to struggling eurozone countries while pushing for more centralized fiscal control in Brussels.

**Iraqi Parliamentary Elections – April 2012** - The so-called stability the US has constructed in Iraq was tenuous at best. After removing the Ba'athist's from power the US cobbled together a political architecture based on ethno-sectarian divisions, which many opportunists joined to line their own pockets and protect the interests of their own factions. Such interests however were achieved by the US through bribes, and co-opting opportunists. The US has Iran, Turkey and Syria to maintain such a system of protecting its interests. The last elections in 2010 resulted in 8 months of deadlock (the longest in history) as the winning party was unable to form a government. With the US drawdown complete, the US only has its embassy staff to maintain the architecture it has created. Many of the Iraqi factions have militia's and in any situation where a faction losses out, America's tenuous balance may fall apart.

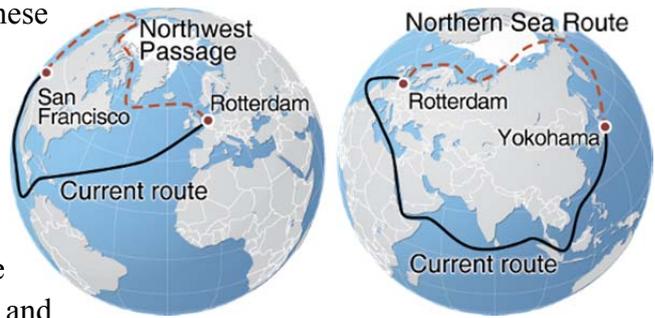
**US-Taliban Negotiations** – After a decade of war the US and her allies have failed miserably in defeating the Taliban and bringing Afghanistan under its authority. The war in Afghanistan has now lasted longer than WW1 and WW2 combined. With the global economic recession, troop drawdown and the Karzai government lacking any influence beyond Kabul 2013 will be an important year for the US as it will need to come to some sort of deal with the Taliban if it wants it wants to maintain a client regime in the country. The problem the US has is the Taliban does not need to negotiate as it's in a winning position, bleeding America to death. America has enlisted the help of both Pakistan and Saudi Arabia for this task and in 2013 progress on US-Taliban negotiations will be critical if the US wants to save face from this failure.

**Spanish Separatism** – Elections in November 2012 led to the pro-independence parties in the regional government of Catalonia controlling 50 of the 135 seats. Catalanian political parties promised a referendum upon victory and this raised serious concerns for the unity of Spain, one of the largest countries in the eurozone. Catalonia also includes Spain's economic hub – Barcelona. A number of separatist regions believe the deficit driven economic policies of the Madrid government is failing and would prefer to go it alone, Spanish history is littered with separatist problems. With the emergence of pro-independence parties in the Catalanian regional government, negotiations with the Madrid government will determine the future of the whole country and not just the region.

**Greece** – The country teeters on the brink of collapse as its debts outstrip is national output. Since joining the eurozone Greece spent exuberantly on social projects, which are all now due for repayment. Greece's fundamental problem is its debts are around \$13 billion a quarter, which the government budget just cannot meet. This is why Greece requests a bailout every quarter from the EU. 2013 will be crunch year for Greece as Germany has constantly placed stringent conditions upon Greece on every bailout it has provided. With mass demonstrations constantly taking place in Greece the real option left for Greece is to leave the eurozone, which would then undermine the whole European project.

**Arctic competition** - The Arctic region has long been considered international territory. Five countries - Canada, Denmark (via Greenland), Norway, Russia, and the United States - share a

border with the frozen Arctic Ocean. Some of these nations have claimed parts of the region to be their territory. Underlying the interests in the area are potentially vast oil, gas and other resources, as well as the opening up of lucrative passages for trade and economic activity. As a result, these nations have been vying for dominance in the Arctic. Russia planted a flag beneath the seabed and claimed the territory for itself, similar claims have been made by Canada and Denmark. With the region becoming more accessible and with its coveted energy reserves as well as a much cheaper trade route, competition is set to intensify over claims to the region.



**Mali Invasion** - The coup that took place in Mali, Africa, in March 2012 was undertaken by the US in order to remove French influence. US diplomat confirmed that: *"The coup leader Captain Omedua Ahmedou Haia Sanogo had been chosen from among the elite officers by the U.S. Embassy to receive military training to combat terrorism in the United States."* He added that *"Sanjogo travelled several times to America on special missions ..."*<sup>8</sup> As a result of this coup carried out by junior officers against their senior officers, security in the country fell apart and the whole North of Mali was lost to the Turegs who returned from Libya. The French have ever since been attempting to construct a coalition force to intervene in the country in order to win the country back from apparent extremists. The US has however delayed the construction of such a coalition, for the moment some semblance of an intervention by an international coalition is due early 2013, but it remains to be seen if France can overcome America's attempts of protecting the coup it carried out.

**Fall of Damascus** - Bashar al-Assad's forces now face a countrywide uprising, with opposition pockets forming in most the countries key governorates. As the regime is only using a fraction of its forces and given its finite resources, the regime has prioritized its operations. The military continues to go on offensives aimed at destroying opposition pockets in critical areas. This has led to large swaths of the countryside effectively ceded to the people as the regimes forces focus on amassing enough firepower to maintain control over critical cities and supply lines. Each time the regime besieges a town, it is to the detriment of regime positions in other areas. As a result the regime has come to disengage from direct confrontation in most areas it is facing an uprising. As of now Aleppo is surrounded and Damascus is now be given more and more attention by rebel forces. The end game is now in full swing and 2013 may very well be the year Damascus and the Assad regime come to an end.

**Egypt Elections – February 2013** - General elections are scheduled to be held in Egypt less than two months after the new constitution won approval by referendum in December 2012, according to Article 229 of the draft constitution. The current parliament was elected in December 2011 with the main duty of electing a constituent assembly to write the constitution. The secular parties failed miserably in gaining seats and as a result have resorted to mass protests to weaken the parliament which is dominated by the Muslim brotherhood's Freedom and justice party (FJP). With rival centers of power developing the secular parties will be hoping to gain more seats and change the current balance of power which is firmly in the hands of the Muslim Brotherhood.

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