

STRATEGIC ESTIMATE 2012



Adnan Khan

Khilafah.com

The American century seems to come to a sputtering halt on August 5 2011, when its credit-rating was downgraded for the first time since 1917 by Standards and Poor's.....Whether America has been irreversibly damaged in Afghanistan is not yet clear. It has been weakened, overextended and challenged, hastening the end of the first American century.....According to many political observers, the myth of American exceptionalism now seems vulnerable to the logic of history and the rise and fall of great nations.....Now, three years after his landmark election and with many domestic and international victories under his belt, but saddled with an anaemic economy and the possibility of a double-dip recession, the transformational Obama seems to be facing a titanic battle ahead for the re-election in 2012.¹

Introduction

Strategic Estimate is Khilafah.com's annual assessment on the global trends, the emerging trends and the developments that have taken shape during the year between the world's powers.

2011 will remain long in the memory when the history books are finally written. What has now come to be known as the Arab spring began with a single man in the markets of Tunisia, which then spread to thousands on the streets in Cairo and evolved to hundreds of thousands demanding political change in the Muslim world. The self immolation of Mohamed Bouazizi in Tunisia created a sweeping wave, which crossed the artificial borders in the Muslim world encompassing Egypt, Libya, Yemen and Bahrain until it engulfed most of the Muslim world. 2011's Strategic Estimate, Khilafah.com's annual assessment of the global balance of power is dominated by the Arab spring.

We concluded in our 2011 assessment that 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 confrontational approach to the US in the different regions of the world. In 2011, America, the world superpower and the world's largest economy every year since 1870² had its credit rating downgraded as doubts surfaced about its ability to repay its ever growing debts. Unable to pull itself out of recession and extricate itself from deployments across the world the end of the American century continues to dominate discourse about the American empire.

The challenges to America stem primarily from Russia and China. Both have made significant progress in strengthening themselves in the face of US global domination. Russia continued with its resurgence in its periphery and took a more cooperative approach to strengthening itself which is a departure from the more aggressive policy which has dominated the Kremlin for the last decade. 2011 was dominated by Russia surging ahead with its attempts to modernise and fill the technology gap the nation faces due to the decline it underwent after the collapse of the Soviet Union.

China's economy continued to surge ahead in 2011, however many questions remain on the sustainability of the economic model driving Chinese growth as the global economy fails to grow. China made a number of political moves to strengthen itself in its region and achieved significant milestones by rolling out its first aircraft carrier and developing its first stealth fighter jet.

The global economy at the end of 2011 is in a worse position than it was in 2010. With the European sovereign debt crises spreading and the failure of the world's premier economies in generating economic growth, a double dip recession dominated the global economy in 2011. This economic crisis has brought the European Union to virtual breaking point as various Eurozone nations came to the brink of defaulting on their debts. 2011 was dominated by Europe's premier powers attempting to redesign Europe – this has led to the emergence of Germany – a country whose prospects we assess.

Not surprisingly Iran made the headlines again late in 2011 as the International Atomic Energy Agency (IAEA) released its report about Iran's attempts to enrich uranium and develop a nuclear device. We analyse this recurring episode in order to separate rhetoric from reality. We also analyse

the conception of weapons of mass destruction (WMD's) their reality and role in the global balance of power.

What follows' *inshallah* is the author's opinion and assessment of 2011 and the trends for 2012 and beyond. Like any assessment, they are estimates and forecasts.

2nd Safar 1433

27th December 2011

Adnan Khan

Arab Spring



The Arab spring began with the self immolation of Muhammed Bouazizi in Tunisia in December 2011. This set off a catalogue of events which led to mass protests eventually bringing to an end the brutal dictatorship of Zine El Abidine Ben Ali. This then spread to Egypt, where many marched to Tahrir square and occupied it calling for the removal of Hosni Mubarak, who also eventually fell. The call for change then spread to Libya, where the West militarily intervened and the quick gains of the rebels of Benghazi gave way to a

protracted struggle. Eventually Gaddafi's end came as he was captured in a sewage pipe in August 2011. Protests also spread to Syria and led to a brutal crackdown by the Assad regime. As all of this was going on the Muslims of Yemen came onto the streets for the removal of Ali Abdullah-Saleh. Massive demonstrations also took place in Bahrain, with the Pearl Roundabout in Manama becoming a symbol of the protesters. After a violent crackdown by the regime of King Hamad bin Isa Al Khalifa, Saudi Arabia under the guise of the Gulf Cooperation Council (GCC) sent around 1000 of its own troops to protect the regime from falling.

Since the Second World War the US has constructed the international architecture. It created the World Bank and IMF to control global economic development and global finance. The Brookings institute outlined this: *"The United States has viewed all multilateral organisations including the World Bank, as instruments of foreign policy to be used in support of specific US aims and objectives...US views regarding how the world economy should be organised, how resources should be allocated and how investment decisions should be reached were enshrined in the Charter and the operational policies of the bank."*³ The Muslim world with its reserves of energy and vast Muslim population always presented a potential threat if the Muslims established their own independent system of governance – Islam. The US has ever since propped up rulers who were loyal to them rather than to their own people. This architecture began to unravel in early 2011 as the masses took to the streets. The nations of the Muslim world won their so called independence a long time ago, but they became corrupt dictatorships, neglected their peoples and became ruthless political tools of western governments. The Western constructed architecture of supporting, funding, arming and defending dictator rulers began to unravel at its seams and this space is now the new battleground.

The uprising in Tunisia in January 2011 shocked many, but no one could have foreseen the contagion and upheaval the region was about to experience. The US, at first was confused by the loss of key allies. Vice President Joe Biden in the middle of the uprising in Egypt famously remarked of the importance of long-term US ally Hosni Mubarak. The US quickly realised it was on the wrong side of the Arab spring and shifted its proxies. America very quickly started to work with a new set of docile, domesticated and US-friendly elites. This involved co-opting old friends from the pre-revolutionary era and seeking to contain the new forces produced by the revolution,

long marginalised by the US. As Barak Obama put it: *“We must ... reach the people who will shape the future – particularly young people ... [and] provide assistance to civil society, including those that may not be officially sanctioned.”*⁴

Egypt

On assuming power the Supreme Council of the Armed Forces (SCAF) suspended the constitution whilst both houses of parliament were dissolved, they also declared the military would rule for six months until elections could be held. The prior cabinet would continue to serve as a caretaker government until a new one was formed. No change occurred in relations with the US and Israel, these remain intact.

A constitutional referendum held in March 2011 saw only a 41% turnout to limit presidential terms amongst a host of proposals, many of the groups who initially protested against Mubarak boycotted the vote as it did not go far enough. A vote on a new constitution is yet to take place and this is complicated by the elections to elect a new government.

In Egypt the US remained in constant contact with an army that has always been heavily financed and trained by them. One geopolitical analyst encapsulated clearly what happened in Egypt: *“What most of the media have failed to discern in covering the Egyptian uprising is the centrality of the military in the conflict. With or without Mubarak in the picture, the military in Egypt has long been the true mainstay and vanguard of the regime. When Egyptians took to the streets at the start of the year, they did so with a common purpose: to oust a leader who symbolized the root of their grievances. What many didn’t realize at the time was that the military elite quietly shared the goal of dislodging the Egyptian leader and in fact used the demonstrations to destroy Mubarak’s succession plans. Throughout the demonstrations, the military took great care to avoid becoming the target of the protesters’ wrath, instead presenting itself as the only real vehicle toward political change and the champion of stability in a post-Mubarak Egypt. Where the opposition and military diverged was in the expectation that the removal of Mubarak would lead to fundamental changes in how Egypt is run. In the SCAF’s view, the main purpose of the upcoming elections is to merely give the impression of a transition to democracy. While the military regime would prefer to leave the headaches of day-to-day governance to a civilian government, no member of the SCAF is prepared to take orders from a civilian leader. More important, the military is not prepared to hold the door open for political rivals, particularly Islamists, who are hoping to gradually displace the old guard.”*⁵

The Egyptian army since it came to power through the three Officers coup in 1952 has been the de facto rulers of Egypt. They however have allowed a civilian leadership to carry out the day-to-day administration of the country, whilst they have determined the strategic direction of Egypt. When the uprising began the army realised that Mubarak was a liability and in essence a coup was undertaken against him. On assuming power the Supreme Council of the Armed Forces (SCAF) suspended the constitution whilst both houses of parliament were dissolved, the prior cabinet would continue to serve as a caretaker government until a new one was formed. No change occurred in relations with the US and Israel, these continue to remain intact. Whilst the SCAF removed Mubarak it still kept former members of the Mubarak regime in power. By April 2011 hundreds of

thousands of demonstrators again filled Tahrir Square, criticizing the ruling SCAF for not following through on revolutionary demands. They demanded the resignation of remaining regime figures and the removal of Egypt's public prosecutor due to the slow pace of investigations of corrupt former officials.

After numerous delays in elections these finally began in December 2011, in which the Islamic parties have fared very well. This led to condemnation by the SCAF who viewed the upcoming parliament as "not representative" of the true will of the Egyptian voters, even though they voted for them. Gen. Mukhtar Mulla said that instead of allowing parliament to write the constitution the junta will now appoint a new council of its own to oversee the drafting of the constitution and will "limit" the already mostly powerless parliament.

The Muslim brotherhood and the Nour party have won landslide victories, however their future agenda appears not to be any different to its predecessors. Whilst the Muslim brotherhood are the largest group in Egypt and yield immense power, they have operated from a position of weakness. They have gone out of their way to highlight they are not really calling for Islam and have attempted to appease the global concern about Islam in Egypt. The Muslim Brotherhood have set up the Freedom and Justice Party and insisted that the Party will be completely separate from the parent organisation. This new party has also stated that it would be prepared to enter into a coalition government with any of the other parties.

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Hillary Clinton has said that the Obama administration was "*continuing the approach of limited contacts with the Muslim Brotherhood that have existed on and off for about five or six years.*"⁶ The Nour party has been no different. The spokesman of the Salafi al-Nour Party, Yousri Hammad, was asked in a phone interview with the independent satellite channel al-Nas about controversial statements attributed to party chairman Emad Abdul Ghafour regarding the possibility of holding negotiations with Israel. He said: "*We have not received an official request from Israel yet, but if we sit with Israel, it has to be through the Egyptian Foreign Ministry,*" he added "*Egypt is signatory to international treaties and these have to be respected, This is not my personal opinion or that of the party chairman. It is part of the party's policies.*"⁷

The US protected its interests in Egypt by ensuing no real revolution took place, Hosni Mubarak was removed from power, but the army remains in power, who has stated it will continue its relation of subservience with the US as well as with Israel. This is why many Egyptians took to the streets again as it became clear the army was no different to Mubarak. The challenge for the US is can it halt the galvanised Muslims who want to change the status quo.

Libya

The uprisings across the region led many in Libya to rise up against Gaddafi. The possible massacre of Benghazi was used as a basis for Western intervention. Months of fighting between loyalist forces and the rebels resulted in a lengthy stalemate, even with the aid of NATO airstrikes.

Eventually in July 2011 rebel forces with NATO Special Forces were able to overwhelm forces loyal to Gaddafi and overrun Tripoli. In August 2011 Gaddafi met his fate in a sewage pipe on the outskirts of Sirte.

The US viewed the instability in Libya as an opportunity to gain influence in the country. It made use of Europe's inability to go it alone in removing Gaddafi to steal Libya from Europe and Britain. The US strategy was to delay matters which would make Europe ever more reliant on US fire power, this stalling allowed the US to cultivate contact with the rebels. This is one of the reasons why it took so long to overwhelm Gaddafi forces. The US delayed the launch of the initial invasion and by passing over the operation to NATO it only delayed matters further. A senior European official, who spoke on the condition of anonymity to the Washington Post and to avoid antagonizing the Americans, said that Obama's eagerness to turn over command of the Libyan air operation to NATO in late February 2011 and the withdrawal of US fighter planes from ground-strike missions, had undermined the strength of their united front against Gaddafi.

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After overthrowing Gaddafi, the National Transitional Council (NTC) has been accepted by the international community as the only representative of the Libyan people, even though in reality it is not recognised by many groups. Comments by both London and Paris since the fall of Tripoli, of peacekeeping forces remaining is an ominous sign that Western interference will remain.

Currently Libya does not have a fully established army. In the aftermath of the downfall of Gaddafi and his regime, Libya still lacks any centralized political authority. The country is still struggling to recover from the months long war against Gaddafi, and neither the NTC nor the transitional government it formed in November 2011 constitutes a true, legitimized authority. Power remains in the hands of the armed militias, and none of those are strong enough on their own to begin acting as a national military force. The international community has long viewed the NTC as the embryo of the future Libyan state. Yet at the moment, the NTC counts among its challenges the most basic task of state formation: establishing internal security. The ongoing formation of the Libyan National Army is the centrepiece of the NTC's push to accomplish this task, but so far, all attempts at threatening the militias into subservience have accomplished next to nothing.

Yemen

The US has 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 agreed on many occasions to a transition deal – led by the Gulf Cooperation council (GCC) – another US tool, but constantly backtracked. The US

has always called for the immediate transition of power in Yemen, whilst Britain stopped at reforms and has also deployed military assets near the embattled nation.

In June 2011 Ali Abdullah Saleh was forced to flee Yemen due to a near-successful assassination attempt. Whilst he survived and left for Saudi Arabia, it appeared at the time the US had finally removed him from power. The attack reportedly left Saleh with burns covering 40% of his body. An improvised explosive device (IED) was used in the presidential compound mosque when Saleh was present. In a tactical assessment of the attack Stratfor's Vice President of Tactical Intelligence, Scott Stewart said: *"it was done by someone who knew Saleh's routine. It was done by someone who knew the compound. Another thing to remember is that there have been hostilities going on now for weeks between Saleh's supporters and his opponents and the protesters. Because of this, because of the exchange of fire that has happened and the hostilities, the guard at this presidential palace compound would have been up. This indicates to us that it is likely that this was an inside job."* This definitely benefitted the US, which makes it all the more possible it was orchestrated by them.

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.

Various talks both open and secret took place between Obama's top foreign policy aide John Brennan and Saleh in Saudi Arabia. Brennan's talks surrounded convincing Saleh to agree to step down and hand over control of the nation to his deputy, Major General Hadi. Brennan visited Yemen on the 13th July 2011 in order to meet Maj. Gen. Hadi to press him to accept a swift transition deal. All signs are that he has been reluctant undermine Saleh, as the administration is full of his family. Matters got more complicated as Saleh made a surprise return to Yemen in September 2011.

After intense pressure and political wrangling Saleh agreed to the GCC deal in late November, which he previously backed away from on numerous occasions at the last moment. The deal hands over Saleh's powers to Abdrabuh Mansur Hadi, the Yemeni vice-president, to negotiate a power transfer with the opposition in return for a promise of immunity from prosecution. As part of the deal Saleh will retain the honorary title of president, yet his deputy is expected to form and preside over a national unity government before presidential elections take place within 90 days.

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The post Saleh regime is full of his family members with his son Ahmed Ali Saleh, remaining in control over the armed forces. The struggle in Yemen will continue as Saleh attempts to dictate

Yemen policy from behind the scenes even though he will formally not be in power. Yemen is another example of where the personnel may have changed but the regime remains in power, setting the nation up for further instability.

Syria

Like the wider Muslim world the Muslims of Syria took to the streets in order to remove Bashar al-Assad from power. Demonstrations initially started in the border town of Deraa. Several people were killed when security forces opened fire on unarmed crowds. The unrest in Deraa quickly spiralled out of control, and then spread to other towns and cities. Assad sent in tanks and troops to restore order, even blaming armed gangs and terrorists for the unrest. Towns such as Deraa, Homs and Douma were besieged for days. Hundreds were killed when snipers and tanks fired on unarmed protesters. Men were rounded up in night-time raids and electricity and communication lines were cut. Assad's security services continue systematically torturing, raping and killing people who they believed are opposed to the regime.

The response by the international community has been largely filled with rhetoric. Whilst many have called for Assad's removal, the US has called for reforms by the Assad regime. In order to deal with such international pressure Assad announced the 'national dialogue' in June 2011 which would be a comprehensive process that would deal with the different issues facing the Syrian people. The hope was that this would placate the opposition – it failed.

Syria is depicted as an international pariah state that supports Hizbullah and Palestinian militants. However, away from public scrutiny the US government views Syria as an important surrogate that is needed in the region. Syria has safeguarded US interests, which includes the arrest and torture of its own people. In Iraq, Syria played an active role in infiltrating the Islamists and passing on valuable intelligence to the US led coalition and in Lebanon the Syrian deterrent forces (SDF) ensured the protection of US interests with the Taif agreement in 1989 as it became the real power in Lebanon.

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As Basher al-Assad continues to massacre his own people and in the face of growing calls for him to step down the US has mostly called for reforms in Syria. Whilst the international community has called for Assad's removal. Hillary Clinton has stopped calling him a reformer but has not demanded that he leave.

The US has pushed the Syrian opposition to maintain dialogue with Bashar al-Assad's regime and detail emerged of a 'roadmap' for reforms that would leave Assad in power despite demands for his overthrow.⁸ Hilary Clinton explained the American stance in an interview with Lucia Annunziata of Italy's 'In Mezz'Ora,' in May 2011: *"the difference between the situations in Syria and Libya is that the Syrian government might still come around and pursue a reform agenda... There are deep concerns about what is going on inside Syria, and we are pushing hard for the government of Syria to live up to its own stated commitment to reforms,"* she said. *"What I do know is that they have an opportunity still to bring about a reform agenda. Nobody believed Qaddafi would do that. People do believe there is a possible path forward with Syria. So we're going to continue joining with all of our allies to keep pressing very hard on that."*⁹

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The US has tried to keep Assad in power but has also supported the opposition if he is unable to maintain his grip on power. The Syrian opposition has begun openly seeking international intervention, during a meeting in Antalya, Turkey, in June 2011 Syria's opposition came together and requested the West to aid Syria as it did in Libya.¹⁰ The US has also called for the opposition to unify so that a new ruling council can be formed, with whom the US can deal with, as is what happened in Libya with the National Transitional Council. Mark Toner, the US State Department's deputy spokesman, told CNN that *"a real opposition to Syrian President Bashar al-Assad was beginning to form after five months of pro-democracy protests. We have seen the Syrian opposition begin to take shape, begin to stand up and become more cohesive and become more broadly representative... of Syrian society."* Toner said President Barack Obama's administration would like to remain in touch with the Syrian opposition as it grows.¹¹

In the case of Syria unlike Libya there has been very few calls for military intervention, both France and Britain continue the rhetoric for regime change as the Assad regime systematically massacres its own people. Various resolutions from the Arab league in effect give the regime more time to quell the uprising. Syria is in effect in a stalemate, the people are unable to mount a sustainable offensive to overthrow the regime, whilst the Assad regime is unable to completely quell the protests. As pictures continue to beam around the world of the Syrian security services systematically and brutally massacring the protesters and as the regime prepares to carry out a full scale military offensive in towns such as Homs and Daraa. The opposition who are organising into a national council will become much more prominent as the crisis descends into civil war.

Tunisia

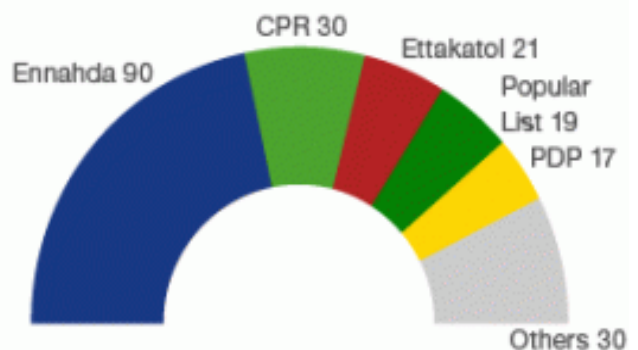
Following Ben Ali's departure, a state of emergency was declared and a caretaker government was created, which was largely filled by former members of Ben Ali's party. As a result of continued daily protests, Prime Minister Mohamed Ghannouchi reshuffled the government, removing all former Ben Ali loyalists other than himself. Ben Ali's party was also suspended and then dissolved. Following further public protests, Ghannouchi himself resigned in February, and Beji Caid el Sebsi became Prime Minister.

Elections were scheduled for July 2011, but these were delayed to October 2011 due to apparent technical reasons. Prime Minister Beji Caid Sebsi said: *"All things considered, we decided to hold the elections on October 23. The most important thing is the transparency of the elections. There are parties who disagreed with this ... but our mission is to hold elections that are free and transparent. We must protect the good name of the revolution."* It appeared that all those with a stake in Tunisia – primarily Europe was not convinced that an election early on would give it the results it wanted, therefore it delayed the elections in order to cultivate the right environment to ensure those loyal to it can emerge from any election.

The October 2011 election when it did take place was only for a constituent assembly, this new Assembly had 217 members. Only 50% of the electorate voted with the Ennahdah movement gaining 38% of the total vote. In its attempts to placate international concerns Ennahdah's Rachid Ghannouchi, explained with regards to establishing the Khilafah: *"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."*

Tunisian election results

Total of 217 seats (109 required for a majority)



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

- The popular uprising in Tunisia has captured the imagination of the Ummah and has proven that the Ummah is ripe for change. Many have argued that the psychological barrier of fear will never be overcome and some even justified compromise with the corrupt rulers on this basis. If we place the current uprising in the context of the Ummah's revival there is a clear trajectory. In Central Asia the Muslims have returned to Islam after nearly a century under communist rule, In Turkey the AKP has used its Islamic credentials to remain in power and across Europe there is a clear return to Islam by the Muslims there. These uprisings are the next stage in the Ummah wanting to return back to Islam. These uprisings indicate that the people of the region have realised the rulers are the obstacle that needs to be removed.

- 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. Whilst the global media has attempted to downplay the role of Islam, Islamic sentiments have constantly been on display. Whilst such groups have of late made statements at odds with Islam, it was their Islamic credentials that the masses invested in. The filling of the mosques, the donning of the hijab and the sightings of the prophet's (saw) flag in various demonstrations as well as the dramatic one million person demonstration in Tahrir square in February 2011 calling for shari'ah – Islam is one of the main demands of the masses.
- There can be no doubt that Western governments were caught short by the speed of events. Indeed it has been interesting observing shifts in positions on numerous foreign policy issues. What has happened has exposed their relationships to the long standing tyrannical regimes, which belied their repeated claims that they are on the side of 'freedom' against oppression
- Western intervention is for the protection of their strategic interests rather than for the revolution. The likes of Gaddafi, Mubarak, Ben Ali etc all had cordial relations with the West for years. At the 11th hour when it became clear that such leaders had outlived their use, Britain and the US switched sides. Both nations have worked to engineer individuals and groups to ensure a Western friendly opposition developed at the expense of the change the people of the region desire. The West used its NGO's and civic institutions in Egypt and Tunisia to engineer a controlled change.¹²
- The competition between the US and Europe for the spoils has been difficult to conceal. In Libya both the US and France and Britain cultivated contacts with the Benghazi rebels to ensure individuals loyal to them came to power. In Syria the US continues to protect the Assad regime calling for mere reforms as Europe steps up efforts for his removal. Similarly in Yemen Europe and the US have been at odds on the trajectory of the uprisings, the US continues its calls for Saleh's removal whilst Europe still maintains reforms is the way forward.
- The Muslim Brotherhood has shown that decades of pragmatism have yielded little progress. They have failed to present a compelling case that they can rule a nation. The Muslim Brotherhood has become conscious of the negative connotations of its Islamic branding and are trying to focus attention on the idea that it is a well-organized, nonviolent, pragmatic and democratic force worthy of a political voice in a post-Mubarak government. Ikhwan started out calling for Islam, even though it was not clear in its details. Over time it mixed Islam with Capitalism and started calling for democracy. They have been so pragmatic that today they are openly calling for freedom and democracy and not the shari'ah. However they are still presenting themselves as an Islamic movement even though they have stopped calling for Islam. They feel this pleases the West and is a tactical move to gain power and then maybe implement Islam one day.

In 2012 and beyond the following challenges will most likely need to be dealt with:

- 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 way the West infiltrated the revolutions. Through this help it expects to have a say in the post-regime set up.
- The debate on which system of governance should the region have is under way. 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.

America



The US began 2011 with its image as the world's superpower tarnished. Unable to extricate itself from two wars and with the global economic crisis bringing a halt to economic growth, the superiority of the US was being challenged by the rise of China and the resurgence of Russia. 2011 has been a difficult year for the US as its economy has been handcuffed by decades of debt and as the international architecture it presides over to maintain its interests has been challenged by the

Muslims in the Middle East and North Africa in the Arab spring.

Economy

The debacle that took place in the US between the Republicans and Democrats in the summer of 2011 was about increasing the debt ceiling – the amount the government can borrow. The US government needs the permission of Congress to raise the ceiling on the amount of money it can borrow. If congress didn't grant an increase then Obama's regime would have hit the debt ceiling limit and would have had difficulties in meeting its repayments. Most of this debt is used to repay previous debts.

This is not the first time the US was been forced to increase its debt ceiling. This rather flexible 'ceiling' has been raised 33 times since it first was raised over the \$1 trillion level in September 1981. Noble Laureate Paul Krugman outlined in the New York Times: *"The facts of the crisis over the debt ceiling aren't complicated. Republicans have, in effect, taken America hostage, threatening to undermine the economy and disrupt the essential business of government unless they get policy concessions they would never have been able to enact through legislation. And Democrats – who would have been justified in rejecting this extortion altogether – have, in fact, gone a long way toward meeting those Republican demands."* And, oh yes, the President had some big skin in the game."¹³

The debt impasse was used by the republicans to gain a number of concessions from Obama who for long have been losing support since coming to power. A number of concessions were agreed regarding eventual tax cuts and debt reductions over the next decade.

If one considers the US debt situation, or if we carried out a book keeping exercise, the US deserves more than just one downgrade. Whilst the US may generate more than \$14

America's Debt	
Debt	\$ trillion
National	14.3
Consumer	2.4
Mortgage	13.2
Company	20.8
Total	50.7

Which countries hold the most U.S. bond debt?

Top holders of U.S. Treasury securities for April 2011, in billions



trillion, it is debt that fuels its economy. The US national debt – the money the central and federal government owes to the US public and the world through the bonds (or IOU's) they have issued – stands at \$14.3 trillion. Interest payments on this debt was \$414 billion alone in 2011. Those who are expecting to be repaid by the US one day include governments such as China, companies and banks.

This debt emanates from US citizenry's huge appetite for imports and credit cards and as a result consumer debt stands at \$2.4 trillion. The desire by American's to own their own home has resulted in mortgage debts of \$13.2 trillion. The debts of US companies amounts to \$20.8 trillion. This makes the US indebted to the tune of \$50.7 trillion – more than the combined economies of Japan, China Britain, Germany, France, Brazil, Canada and Italy twice over. The US also has a trade deficit that continues to balloon, the amount the US imports compared to the amount it exports – in essence the money the US owes to the world – stood at \$465 billion by October 2011

Over the last decade the Iraq and Afghan wars have been costing the US \$255 million and \$82 million a day respectively. These wars were never envisioned to last this long and as a result the US government continued to create more debt. The bank bailouts, stimulus plans and various attempts to kick start the US economy have all had temporary effects and now the US is in the same position prior to such intervention. With US economy faltering and struggling to create sustainable growth questions were asked about the ability of the US to repay its debts in 2011. A debt downgrade means that there are doubts over the ability to the US to repay its debts.

How did the US get into such a position? As the world's superpower the US has always been spending more than it possesses. The US has afforded itself this right - something it devoutly opposes for others. It has been able to get away with this as it is the world's superpower. This means all those countries, companies and banks that have funded US debt expect to be repaid by a prudent USA when the debt repayments become due. There is also one other crucial reason why the US gets away with such levels of debt and that is due to the dollar.

The US merely prints money to meet its debt obligations. It is able to do this because it has imposed its currency on the rest of the world. So fundamentally America's political power is what allows such out of control spending policies to continue.

Afghanistan

In 2011 the reorientation of the Afghan war began with the beginning of US troop withdrawal in time for a complete withdrawal by 2014. The US military and foreign policy establishment abandoned the neo-conservative objective of crushing the Taliban and remaking Afghanistan into a functioning democracy long before Bush left office. America's Afghan policy fell into the hands of the realists, whose priority was maintaining a tractable and viable client-state in Kabul, keeping Afghanistan securely inside the US sphere of control and thus holding onto a key asset in Asia.

Obama's main foreign policy position was that Bush's adventure into Iraq had obscured the real threat from Afghanistan which should be the priority. Obama publicly and repeatedly promised to escalate US military intervention in Afghanistan, increasing the number of US troops and expanding their operations and engaging in methodical, cross-border attacks. Obama declared that his regime would extend the 'war against terror' by systematic, large-scale ground and air attacks on Pakistan, thus escalating the war to include villages, towns and cities deemed sympathetic to the Afghan resistance. Obama sanctioned the increased use of drone attacks on the border as soon as he came to power in January 2009 between Pakistan and Afghanistan and on Pakistani soil to achieve US aims.

US Drone attacks in AfPak Theatre ¹⁴			
Year	Number of Attacks	Number Killed	
		Min.	Max.
2004	1	4	5
2005	2	6	7
2006	2	23	23
2007	4	56	77
2008	33	274	314
2009	53	369	725
2010	118	607	993
2011	70	378	536
Total	283	1,717	2,680

The major difference between the Obama strategy and his predecessor was the manner in which US goals were to be achieved i.e. the size of the US military footprint in Afghanistan. The Bush administration was of the opinion that US operational goals could be achieved with a small force on the ground in Afghanistan; it envisioned drawing Pakistan into its strategy. Obama on the other hand espoused a much greater US military footprint in Afghanistan and coercing Pakistan to play an active role in pursuing the war in the tribal areas.

What the US did in 2011 was redefine the Afghan theatre and reorient its presence in the country. The US has begun its policy of focussing on more long-term and strategic issues rather than focusing on day-to-day issues which have been outsourced to Afghan security and a host of neighbouring countries. To achieve this in 2011 the US focussed on two strategies:

1. Reducing troop levels as combat operations have changed in scope from occupation to security. US personnel who remain will stay in Afghanistan for decades, so the US can achieve its long term aims in the region and create the conditions for this.
2. Negotiating with the Taliban so a settlement can be achieved which protects US long term presence.

A large CIA and Joint Special Operations forces (JSOC) presence will remain in the country for the foreseeable future. Lt. Gen. John Mulholland, a former colonel with US special operations forces told the New York Times in August “*We’re moving toward an increased special operations role,*” together with US intelligence, “*whether it’s counterterrorism-centric, or counterterrorism blended with counterinsurgency.*”¹⁵

In 2011 that state of Taliban-US negotiations became clear, even though both parties have denied such negotiations were taking place.

In June 2011 the regime of Hamid Karzai used media leaks to expose and disrupt talks where the Afghan Taliban was negotiating directly with the US. Whilst it is highly unlikely negotiations were taking place between Tayyeb Agha, a representative of Mullah Mohammad Omar and also with Ibrahim Haqqani, the brother of Jalaluddin Haqqani, head of the Haqqani Network, contacts of various sought have been on going.

In September 2011 in a message on Eid al-Fitr, the Taliban leader – Mullah Omar claimed that talks were taking place but were not aimed at reaching a political settlement but to secure the release of prisoners. He then went on to justify the negotiations as a legitimate means of trying to establish Islam in Afghanistan.

In his Eid message Mullah Omar referred to the Islamic Emirate as a non-state actor with no interest in monopolizing power. Mullah Omar also said that all ethnic groups would be part of a post-NATO Afghan government. He said: “*Strict measures will be taken to safeguard all national installations, government departments and the advancements that have occurred in the private sector.*”

Also in September 2011 US Ambassador to Afghanistan Ryan Crocker told The Wall Street Journal that talks between the Afghan Taliban and President Hamid Karzai’s Afghan Peace Council were still in preliminary stages. Crocker also responded to the Eid message from Taliban leader Mullah Omar, wherein Mullah Omar said Taliban representatives had been negotiating with unspecified parties over the release prisoners and expounded upon the group’s vision of post-NATO Afghanistan. Crocker said interestingly that the message was “*the kind of statement that one would expect from a governmental leader in waiting.*”

For the US the current set up in Afghanistan i.e. the Karzai government, will not last and is not sustainable. This necessitates negotiations with the real power in the country – the Taliban to shape the country’s political future.

One of the reasons why negotiations have taken so long is because there are differences in the Afghan strategy between the military-intelligence and the White house. The military and the CIA have argued strongly against negotiating with the Taliban. In June 2010, CIA director Leon Panetta declared publicly, *"We have seen no evidence that they are truly interested in reconciliation where they would surrender their arms, where they would denounce al-Qaeda, where they would really try to become part of that society."*

But the Obama administration's December 2010 strategy review produced a potential alternative to that military-CIA approach. An intelligence assessment circulated just as the 50-page classified review of progress in Afghanistan and Pakistan was being completed concluded that Pakistan was not likely to agree to carry out a major military operation against the Taliban, regardless of US pressures. It also suggested that, without such a change in Pakistan's policy, the US military strategy in Afghanistan couldn't succeed. That strengthened the hand of those who had been sceptical about the military's approach to the problem. The result, according to sources familiar with the document, was that the strategy review suggested the need for a 'political approach' to the insurgency in general.

The implication, however, was that the Haqqani network would have to be integrated into the broader US strategy of 'dialogue' with the Taliban insurgent leadership, even as military pressure on the insurgents continued. This strategy of negotiating with, what in essence is the enemy, working with the civilian government and the military in Pakistan, whilst at the same time conducting drone attacks and raids into Pakistan is set to continue. Whilst the civilian government will regularly close the supply line into Afghanistan as a result of NATO raids which will continue to kill Pakistani servicemen, it's unlikely the Pakistani establishment has the will to try to change this underlying relationship of servitude.

Iraq

The US drawdown in Iraq saw thousands of troops renamed as transitions troops rather than combat troops in 2010. The Obama administration endorsed a plan that would keep 3,000-4,000 American troops in Iraq past the December 2011 deadline to withdraw, although the full remaining presence there will be much larger. The few thousand troops that remain will provide training and support to Iraqi Security Forces as well as 'filling in gaps' in Iraqi defence capabilities. An additional force of private military contractors, numbering somewhere between 5,000-7,000, would also remain in order to provide security for an expanded diplomatic and contractor presence.

The reduced level of troops is possible in tandem with the expanded diplomatic mission because the US has been largely successful in its intentions in Iraq, setting in place the intended political, military, and economic elements for Iraq to remain firmly within America's sphere of control. As the New York Times reported in September 2011, the debate over specific numbers and figures is unimportant. *"The administration has already drawn up plans for an extensive expansion of the American Embassy and its operations, bolstered by thousands of paramilitary security contractors."*¹⁶

The US plans to maintain as it does in many other countries, large embassies that would be staffed by civilians and military personnel overseeing the training and equipping of Iraq's security forces for an indefinite period. The State Department is expected to have up to 17,000 employees and contractors for this ongoing diplomatic presence, which has been described as necessary to provide "situational awareness around the country, manage political crises in potential hotspots such as Kirkuk, and provide a platform for delivering economic, development and security assistance." Providing housing, workspace, medical facilities, and security for a legion of civilian workers this large requires exorbitant funds, expansive land use, and construction not yet finalized in most areas as well as security contractors to protect them.

According to the July 2011 Quarterly Report of the Special Inspector General for Iraq, the Department of State "will assume primary responsibility for a planned \$6.8 billion operation" carried out "from 11 locations around Iraq, including three consulates and the world's largest embassy." Responsibilities also include carrying out "two of the largest Foreign Military Sales (FMS) and Foreign Military Financing (FMF) programs in the world and to spend the \$2.55 billion in Iraq Security Forces Fund (ISFF)."

As was also detailed in a declassified, partially redacted State Department document, a "fleet of 46 aircraft" will be "based and maintained in Baghdad, Basra, and Erbil" and will include 20 medium lift S-61 helicopters, 18 light lift UH-1N helicopters, three light observation MD-530 helicopters, and five Dash 8 fixed wing aircraft. Flight and landing zones, maintenance hangars, operation buildings, and air traffic control towers, along with maintenance and refuelling will all be a part of the contracted construction operations. Agreements will be negotiated with Iraq, Kuwait, and Jordan to secure authorization for continuous Embassy flight plans between the three countries, which all contain a massive presence of US military, diplomatic, and contractor personnel.

The State Department's \$3.7 billion request for Iraq in FY 2012 includes funding for integrated programs of economic management as part of this so-called withdrawal plan. The United States Agency for International Development, alongside the United States Department of Agriculture, will continue to oversee sectors of Iraq's economy, especially its natural resources, as agreed upon in the secretive Strategic Framework Agreement.

Asia Pacific Re-engagement

The US continued with its strategy of re-engagement with the Asia-Pacific region from 2010 where it carried out various military exercises and signed bilateral deals with host nations in order to secure security partnerships. In 2011 the US attempted to lead and direct new Asia-Pacific economic organisations in order to enshrine US strategic interests within such institutions. US Secretary of State, Hillary Clinton outlined in the November 2011 issue of *Foreign Policy* magazine, she said: "*As the war in Iraq winds down and America begins to withdraw its forces from Afghanistan, the United States stands at a pivot point... In the next 10 years, we need to be smart and systematic about where we invest time and energy...One of the most important tasks of American statecraft over the next decade will therefore be to lock in a substantially increased investment, diplomatic, economic, strategic, and otherwise in the Asia-Pacific region.*" She then challenged China: "*The time has come for the United States to make similar investments as a*

Pacific power.”¹⁷ She also said to the CNN: “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”¹⁸

The US strategy in the region has been to contain China, this has been further heightened with China aggressively staking its claim in the region. In 2011 the US pursued a key role in Asian multilateral organisations such as the Asia-Pacific Economic Cooperation (APEC) and the East Asia Summit (EAS). It also continued with its bilateral ties and strengthened them with allies such as Australia and Japan and emerging regional powers such as India and Indonesia.

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The US in 2011 worked to shape multilateral regional institutions, this was to unify some countries against China and to prevent a powerful regional coalition from taking shape that did not involve the US. The institutions with which Washington is working include the Association of Southeast Asian Nations (ASEAN) — described by US Secretary of State Hillary Clinton as the ‘fulcrum for the region’s emerging architecture’ and several ASEAN led economic and strategic institutions, including the EAS and APEC. These structures were in the process of being reshaped, allowing the US a greater say in their futures.

The EAS began as an energy and economic forum. But as it reshaped its agenda this has provided a flexible platform for the US to evolve the group to focus on regional security affairs and eventually become the pre-eminent institution for Asia-Pacific security issues. Several regional players welcomed US involvement in the EAS, seeing it as an important counterbalance to Chinese dominance, particularly in maritime disputes, as China’s growing maritime assertiveness has raised tensions in the South China Sea.

The main announcement that came from Obama’s visit to the region in November 2011 was the formal announcement that the US will be expanding its military activity and cooperation with Australia. The agreement laid the groundwork for US marines to make regular use of Australian land, whilst by 2016 American combat and support aircraft, including aerial refuelling tankers and strategic bombers could be hosted in Australia. The agreement could also see the forward basing of American aircraft carriers, surface combatants, amphibious ships, auxiliaries and submarines as well as a considerable expansion of logistical, repair and rearmament capacities.

Australia is an increasingly strategic partner to US regional interests. Australia’s location between the Indian and Pacific oceans and its existing military infrastructure in the north and west make the country an important ally to supporting maritime security in the region’s waters. Australia sees a partnership with the United States as a way to build economic opportunities while ensuring free navigation for critical resources. An enhanced US presence contributes to US aims of containing

China.

Conclusions

In 2011 we said

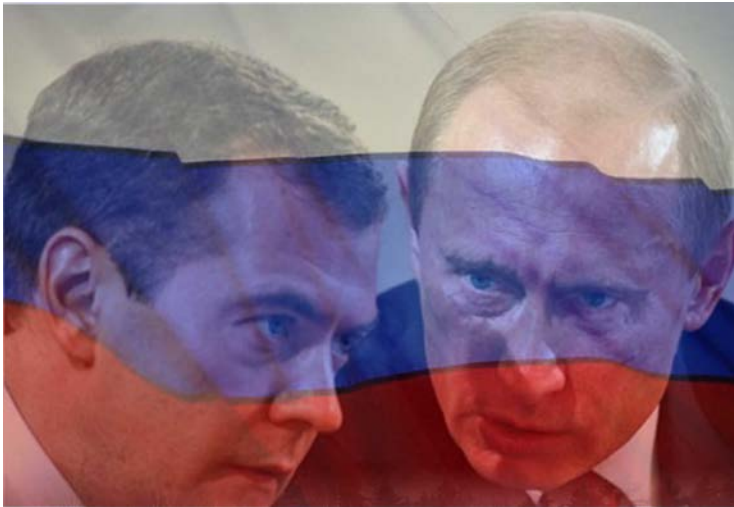
“The US has managed to more or less extricate itself from Iraq and will now attempt some type of political accommodation with the Taliban. This is how the US is trying to maintain its status in the world, by solving conflicts through political reconciliation and utilising the help of regional countries.”

2011 has seen the US complete its drawdown's in both Iraq and Afghanistan and proceed with its aims of engaging with the Asia Pacific region. As the challenges for the foreseeable future appear to be coming from the Far East this re-engagement with the Asia Pacific region has seen the US strengthen its position there. However a decade of war has seen the US position in the world decline in the eyes of many and whilst intellectually and militarily it has lost some of its shine, in 2011 the US economy has also begun to crack.

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.

Our net assessment of the US remains the same in 2011. Whilst America's problems and challenges are mounting, it's unlikely the US will disintegrate as the US has lost wars previously and still maintained its position as the world's superpower. It is unlikely the US will crumble like the Soviet Union or be replaced as the world's superpower in 2012 or in the immediate future. For the US to be replaced as the world's superpower, 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.

Russia



Our previous assessment of Russia has been that the demise of the Soviet Union resulted in the decline of Russia. However after a decade of chaos the Slovaks - Russian nationalists who were mostly former KGB and security service personnel countered the strength of the liberals and the influential elite after one of them - Vladimir Putin became leader in 1999. Putin cleaned house and began Russia's resurgence. Putin began the consolidation with the Kremlin

regaining control over the country politically, economically and socially while re-establishing control over Russia's wealth of energy reserves.

Russia has taken full advantage of America's preoccupation with the Islamic world to reverse the American sponsored colour revolutions. As the US wars in Iraq and Afghanistan have evolved, they have absorbed Washington's focus, presenting Russia with an opportunity to push back against the West's increased influence in Eurasia. Russia has taken advantage of Washington's preoccupation to attempt to re-establish its sphere of influence.

The project to bring all of the former Soviet republics under Russian influence has been a meticulous task led by Vladimir Putin and in our last assessment at the beginning of 2011 Russia had made a number of significant political gains to consolidate its resurgence but would also need to deal with a number of internal strategic challenges such as its population decline and an industry which is light years behind the West.

Consolidation

In 2011 Russia used a more multifaceted approach to consolidate its position in its periphery with both cooperative engagements as well as maintaining pressure which has been the mainstay of Russian policy in the last decade. This dual track policy ensured Russia gained the benefits from having warm relations with countries — such as investment and economic ties — while keeping pressure on others for political purposes.

In our 2011 assessment, we stated one of the strategic issues Russia would need to deal with in 2012 was the Baltic states:

“In 2011 our net assessment is the three Baltic States: Estonia, Latvia and Lithuania will be the areas of tension for Russia. All three states are a mere stone throw away from Russia – Estonia and Latvia share a border with Russia. The Baltic States are also the only former Soviet states who were admitted into the European Union and NATO in 2004. This puts the West, right on Russia's doorstep. It is essential for Russia to consolidate its control

over the Baltic States if it has ambitions to protect its periphery and challenge US dominance.”

Russia moved away from its confrontational approach in the Baltic's in favour of a more cooperative approach to boost its influence in these countries. The Baltic region, consisting of Latvia, Estonia and Lithuania, are the most pro-Western and anti-Russian of the former Soviet republics. They were the most resistant to Russian rule during the Soviet era, and were the first of the republics to declare independence from Moscow.

Estonia, Latvia and Lithuania depend on Russia entirely for their natural gas supplies, Moscow would frequently cut off the pipeline when it needed to prove a point. Russia also engaged in cyber attacks in Estonia during 2007 and used its ethnic Russian populations, especially in Estonia and Latvia where this demographic represents more than a quarter of each country's population, to put pressure on the respective governments whenever Moscow felt the need to do so.

However such a unilateral approach of hostility did not achieve Russia's interests of control and influence. It increased anti-Russian sentiments in these countries.

The global economic crisis which in 2011 showed no signs of ending has led to all the Baltic States offloading state assets to shore up their economies. Russia struck various economic deals in 2011 in strategic sectors such as energy ports, railways and pipelines in Latvia. The pro-Russian party the Harmony Center, who have direct ties with Russia's governing party, gained the highest votes in the September 2011 elections after parliament was dissolved due to the anger with a government that many consider was beholden to wealthy businessmen. Whilst they were unable to form a unity government, relations with Russia have not changed.

This dual policy has given mixed results for the moment but it ensures Western influence is containable and controllable. The dynamics in the Baltic region is complex, but Russian moves have led to some changes by the Baltic States on their attitude towards Russia, this has been seen clearly with Russia buying up economic pieces of the region.

With Estonia this cooperative policy is just beginning. Estonia who is still reeling from the global economic crisis was forced in 2011 to turn to Russia, who duly obliged. Lithuania however continues its anti-Russia rhetoric. This in some way explains why Russia is moving 8,000 troops from near St. Petersburg to the border with the Baltic's as a reminder that the Russian military remains a force to be reckoned with.

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Similarly with the other powers in the world Russia has used this dual track policy, Russia has remained aggressive with the US as was seen with the Ballistic Missile Defence shield (BMD),

whilst with Germany and France, Russia has been cooperative and agreed economic and military deals.

Modernisation

In our last assessment we outlined another key strategic issue Russia will need to deal with in 2011:

“Russia’s military is a generation behind the US..... To pose any challenge to the US Russia will need to modernise its military industry and develop mobile and agile military units that can be deployed at a moments notice.”

The decade after the demise of the Soviet Union led to the collapse of the Russian state. Whilst Putin and the security establishment have gained a grip on the nation and brought stability Russian industry has been at virtual standstill for two decades as the rest of the world surged ahead with technological development and inventions.

Russia’s economic base is its huge reserves of energy and minerals. The areas of Russia which contain the nation’s large reserves have prospered but this has been at the expense of the remainder of the nation that lags a generation behind in technology.

Today’s Russia is not the Soviet Union who developed a military-industrial base with various 5 year plans. The disintegration of the Soviet Union resulted in the newly independent states dividing up the Soviet Unions military assets. The Russian Federation inherited the largest and most productive share of the former Soviet defence industry, employing as many as 9 million workers in around 1,500 research, design, and production facilities. Most Russian defence enterprises steadily lost their best workers to Western companies. By 2000 the Russian defence industry consisted of just 2.5 million workers.

Today, Russia lacks the technical expertise which would give it a diversified economy, this has led to a lack of modern technology and a narrow economic base.

To overcome this Russia launched a multiyear modernisation and privatisation plan to bring in hundreds of billions of dollars to leapfrog the country into current technology and diversify the economy. Moscow also struck deals with select countries — Germany, France, Finland, Norway, South Korea and even the US to achieve these ends. Russia also plans to use such a strategy to achieve many of its political aims

The consolidation of Russia and its assets through purging foreign and anti-Kremlin influence is more or less complete, this now allows Moscow to begin with its modernisation plans. This involves inviting

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foreign companies and expertise to return to Russia, invest and bring their money and technology. These initiatives although appear to be completely at odds with the Kremlin-centric consolidation of the past decade, they are in fact a natural part of the Russian planning for the future. In June 2011 the Russian state presented its plans to the president which included the privatisation of state assets. The privatisation plan, called the 'New Privatisation Initiative,' created in 2009 and expanded in 2011 will allow foreign entities to own stakes in a number of attractive and strategic state companies, as well as partially or fully privatize thousands of smaller state assets. Most of these privatizations are for minority stakes. The plan will only privatise controlling stakes in firms or assets that are deemed non-strategic.

Russia has used its attempt at modernization to also achieve its foreign policy objectives. Whilst there are various companies and nations participating, most of them are from a very small list of nations: Germany, US, Finland, France, China and South Korea. This has been done to strike larger deals and strengthen certain relationships.

Russia has used its modernisation drive to grow closer to Europe's heavyweights – Germany and France. Russia has used the privatisation drive to draw closer to Germany who needs Russia due to its energy requirement. Russia provides more than 40% of Germany's natural gas. Both nations have explored ways to link their countries via investment and joint business projects. The Germans can offer investment and technology in transportation, energy and nanotechnology, whilst Russia can provide energy.

Germany's decision to shut down its nuclear power plants following the meltdown of Japan's Fukushima nuclear reactor intensified Berlin's strong energy ties with Moscow. Germany will need to supplement the phasing out of nuclear energy, which currently accounts for 25% of its energy production, by increasing its reliance on natural gas, particularly from Russia. Natural gas currently generates 13% of Germany's electricity. Russo-German energy cooperation already is set to grow with the Nord Stream natural gas pipeline, which will directly deliver 55 billion cubic meters of Russian natural gas to Germany.

France, in the face of protests from its allies sold two advanced Mistral frigates to Russia and a license of the construction of four more frigates. NATO members; Latvia, Estonia and Lithuania are concerned about Moscow's intention to locate these ships in the Baltic Sea, which may pose a threat to their security. France sold the ships fully equipped with arms including the software codes for tactical data and communications systems, thus transferring technology. France is looking to develop a strong relationship with the Kremlin in order to balance the Berlin-Moscow axis. Both Germany and France are important for Russia in the face of US attempts to roll out the Ballistic Missile defence shield (BMD).

With the US both nations view such investment as an opportunity rather than any long term deal. The US is one example where Russia has used its dual track foreign policy - one of cooperation and aggression. The modernisation and privatization programs have been a major means of cooperation for the countries. This led to a political deal, with Russia agreeing to increase support and aid for US efforts in Afghanistan. With Europe, Russia continued in 2011 with its 'chaos campaign' to

keep European nations from acting in concert against it. These initiatives have fractured Europe's view of Russia — Central European countries and the heavyweight countries in Western Europe have differing opinions on whether or not Russia poses a threat.

Russia-US relations

Whilst Russia has made significant gains in strengthening itself, this has largely been due to the US being preoccupied in the Muslim world. As the US reorients its presence in the region to a more strategic and long term posture, this will draw US attention to Russia's resurgence. Russia has known all along that this would be the case and for this reason it made a number of pre-emptive countermeasures. In 2011 Russia pushed forward its military reach. It announced plans to station missile systems and troops in Kaliningrad and Belarus. It is also building up its Black Sea Fleet in Ukraine and is in the process of trying to implement a security alliance with Germany and possibly with France and Italy.

The biggest long term threat Russia faces is from America and its plans for the Ballistic Missile Defence Shield (BMD). Stratfor outlined the threat as follows: *"The BMD system is one that the United States has supported for several years. Under the plan, several military assets — including X-Band radars, ground-based SM3 interceptors, and early warning centers — would be installed across Central European countries like Poland, Czech Republic, Romania and possibly others, beginning in 2015. The official purpose of this BMD system is to counter the long-range missile capabilities of rogue powers like Iran. But the real purpose is quite different. The United States aims to use BMD to expand its military presence in the countries that form the so-called Intermarium, which has become the new area of contention between the US and Russia. Politically, such assets would not be significant so much for their technical and military capabilities as for the associated presence of U.S. boots on the ground and the security guarantees that these entail — and which these countries have expressed a clear desire for in the face of a resurgent Russia."*¹⁹

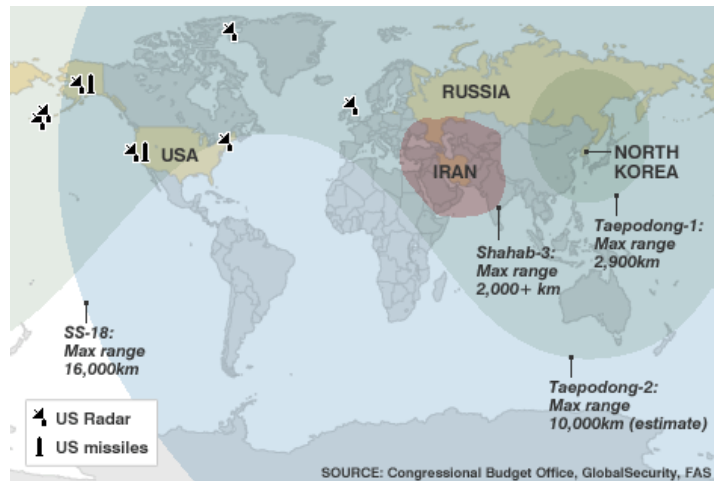
Missile defence is a military strategy consisting of various systems to shield an entire country against incoming Ballistic missiles. The first component is the detection, tracking and interception of an incoming missile. This is achieved with very powerful radars that monitor the atmosphere within a geographical range and sophisticated command and control systems which analyses the trajectory and time it will take a missile to hit its intended target.

The second component is the interceptor missiles that engage the incoming missile. They can be intercepted by anti-ballistic missiles. They can be intercepted near the launch point (boost phase), during flight through space (mid-course phase) which is the longest part of a missile's journey, or during atmospheric descent (terminal phase). The US, UK, Russia, France, China, India and Israel have all developed tactical missile defence systems with the US, Russia and Israel having deployed systems.

The Ballistic Missile Defence Shield (BMD) intends to cover the whole of the US and Europe. The use of sophisticated powerful radar in a missile defence programme also acts as a surveillance tool and this is what makes this type of technology very useful giving its owner a major strategic advantage over its adversaries.

The US plans to expand its missile defence coverage under the guise of deploying components in Central Europe. The US has declared that the expansion has nothing to do with Russia and is due to rogue states such as North Korea and Iran.

Whilst Iran has made significant developments in missile technology since the Gulf War there are a number of question marks over its claims to have successfully developed long range missiles. The Shahab-3 medium range ballistic missile remains the mainstay of Iran's missile programme with a range of 1,200 miles. Similarly North Korea's ability to deliver a warhead to a hypothetical target is limited by its missile technology. Both nations do not possess missiles that could reach the American continent. The establishment of BMD with components in Europe – on the doorstep of Russia would give the US a significant strategic advantage against its intended target - Russia.



Negotiations in 2011 saw Moscow push for the US to integrate its proposed BMD installations with the current Russian system. Moscow argued that an integrated BMD system would give the US and its allies an extended and robust structure that would stretch across most of the world and such a system would be able to counter threats from Iran and North Korea. Russia previously attempted to get Washington to scrap the entire BMD plan, but after years of frustration, Russia shifted its tactics and in 2011 decided to infiltrate the program. Moscow argued that if it integrates its system, which provides coverage of the Caucasus and the Far East, with NATO's, the result would be a BMD system that stretched across most of the world and would be stronger against threats from North Korea and Iran. The proposal caught the attention of many NATO members, but Washington rejected the proposal leading Moscow to claim that the US BMD expansion into Central Europe is meant to guard against Russia and not Iran.

Eurasian Union

In September 2011 Vladimir Putin confirmed he would seek to return to Russia's presidency, no sooner had this been announced he began laying out some of his plans. One of these plans was to formalise Russians relation with its former republics through the establishment of a Eurasian Union (EuU). Whilst this is not a new idea and has been around for over a decade, Putin's announcement means the Kremlin is ready to implement it. Moscow's current associations of a Customs Union, the Union State and the Collective Security Treaty Organization (CSTO) will most likely be integrated into this union thus bringing security and economic matters into one sphere.

As this is not a proposal to recreate the Soviet Union of the past where Moscow was in charge of a surface area of nearly 9 million square miles the Eurasian Union will allow Moscow to influence

the region whilst not being responsible for the actual daily workings of the constituent member states. The creation of a new version of the Russian empire, combined with the US consolidation of influence on that empire's periphery, will most likely spark new hostilities between Moscow and Washington

Putin's Return

At the September 2011 United Russia party conference Putin accepted Dmitry Medvedev's proposal to run for presidency in 2012. Parliamentary elections in December 2011 saw Putin's United Russia party win half the seats in Russia parliament – Duma. These election results sparked protests in Russia but primarily in Moscow and has led to many Western commentators to compare Russia with the Arab spring.

The protests have been composed mainly of Moscow's middle class who lost out in the power struggle that ensued after the collapse of the Soviet Union which the security led faction won. The election result however represents a trend that has only got stronger in that Russia is turning more to nationalism as its population declines and non-Russians make up more of the nations demographic.

The protests that took place were not nationalist but anti-Putin and thus are two separate issues. The anti-Putin protests do also have an external aspect, which was outlined by Stratfor: *"There has been public confirmation that Washington has increased its financial aid to groups inside Russia, by \$9 million in the past few weeks alone. These groups include one of the most prevalent watchdogs to denounce the elections, as well as a number of media outlets that have devoted heavy coverage to the protests. Putin has accused Washington of stirring up resentment against the Kremlin and Putin. This is not a new tactic by the United States, which has a multi-billion-dollar budget to fund and support non-governmental organizations, media outlets and other groups operating in Russia. However, the move at this time is critical, because Washington has an immediate vested interest in depicting Putin as weak."*²⁰

Putin's strategy for dealing with the middle class was outlined by Vladislav Surkov, who is extremely close to Putin, he made a very public speech, where he said that Russia needs a new political player in order to be in front of the middle class and also to represent big business inside of Russia. A few days later Mikhail Prokhorov – an oligarch announced he will be running against Putin.

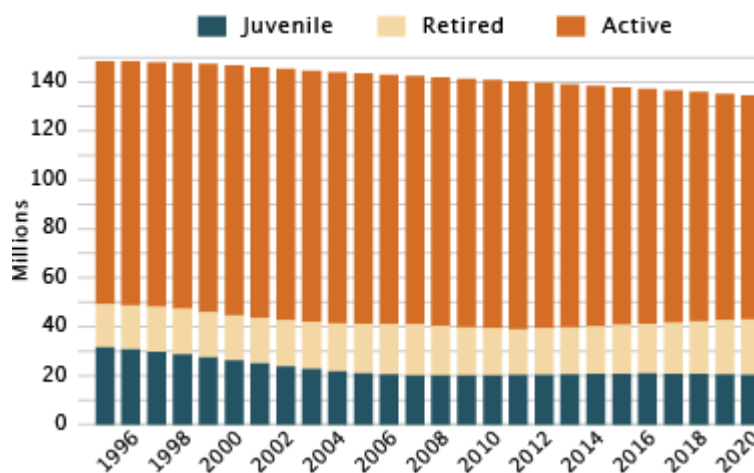
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Stratfor

Conclusions

In 2011 Russia has continued its policy of rolling back US influence in its region and at the same time worked to strengthen itself via a modernisation programme and large deals with countries that have technology it needs. Russia made gains in the Baltic region which was the last area Russia had until 2011 made little progress. Russia's resurgence has reached a juncture in 2011 that's allows it to be very confident in global issues and allowed it to shift from aggressive postures to conciliatory and cooperative. This now allows Russia to move to and attempt to influence nations beyond its former Soviet sphere and well into Europe, somewhere the US has been dominant since the end of the Cold War. Russia has entrenched its relationship with Germany through the Nord Stream Gas pipeline and has made progress with France independent to Europe. Whilst Russia is growing stronger and attempts to challenge the US, it is unlikely Russia will be able to shift the global balance of power and replace the US as the world's superpower as Russia's success to a large extent has been due to America's preoccupation elsewhere. In 2012 and beyond the US will give more attention to areas where Russia has successfully reversed US influence. Russia lacks the economic and technological edge needed to deal directly with US influence, currently.

Russia faces three key strategic challenges that it will have to deal with in 2012 and beyond:

- Turkmenistan remains the last Central Asian nation where Russia is yet to gain influence. Turkmenistan possesses the world's largest gas reserves after Iran, Russia and the US and will play a central role in supplying energy to Europe in the Nabucco project as the West and especially European attempts to reduce its dependence on Russian energy. In 2012 and beyond our net assessment is Russia will work to bring Turkmenistan closer to itself in order to keep Europe dependent on Russian energy.
- The disintegration of the Soviet Union in 1990 didn't just have political and economic consequences; it also had massive social consequences. Russians stopped having children due to a decade of horror – termed liberalisation in the West. The crisis raised poverty from 2 million to 60 million, a 3000% increase. UNICEF noted that this resulted in 500,000 'extra' deaths per year. The Soviet health system crumbled, suicide and AIDS increased leading to deaths outstripping births. Russia's population on the eve of its collapse was 148 million, today it has declined to 141 million. The problem Russia faces is the 20 – 29 year old age category is currently the largest segment of Russia's population, they were born in the 1980s when Russia was still a power. The under 20's are much smaller, born after the dissolution of the Soviet Union. This segment cannot sustain the high birth rates of the preceding generation and hence Russia faces a big problem as its labour force will be severely depleted. Russia's population is comprised of numerous ethnic groups, not all of



which are happy with centralized Kremlin rule. A strong hand is the only means to consolidate the country internally while repelling outsiders. As Russia expands it will in all likelihood have more and more non-ethnic Russians in its territory. How Russia integrates them will impact its territorial cohesion.

China



2011 was the 62nd anniversary of the founding of the peoples Republic of China. On 1st October the annual commemoration took place. In those 62 years China has reached a number of significant benchmarks and made strides in its foreign policy and military development. China's economic growth continued to dominate the global economy in 2011.

Questions however remain about the sustainability of China's economic model and our analysis in 2010 concluded on this point:

“The global economic crisis has exposed China's export driven economic model as a fragile method of development. The global economic crisis has also lead to a fall in global exports from China, for which China turned to spending on domestic infrastructure to stimulate the economy. China in 2011 will have to turn from reliance on exports to developing its domestic market, this requires some fundamental changes in the nation's culture as the Chinese have traditionally saved rather than spent.”

Chinese Economic Model: Past, Present and Future

China as a nation has existed for over 4000 years. Most of Chinese history consists of internal struggles between various dynasties fighting to rule over the nation. Modern China emerged after WW2 when the Japanese who occupied large parts of China were defeated. The resultant vacuum led to civil war between the Chinese nationalists supported by the West and Chinese communists led by Mao Zedong, who was supported by the Soviet Union.

Mao and his communists defeated the nationalists and then ruled China with Communism for the next 3 decades. The Communists launched 2 disastrous strategies to develop China, the first of them – the great leap forward in 1953, attempted to collectivize all aspects of life (even cooking pots), this strategy led to a famine and the death of 30 million people. This disaster of epic proportions gave birth to the reform movement in China which has been central to China's rapid economic development.

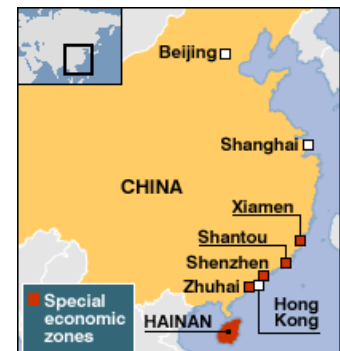
Mao then initiated the Cultural Revolution in 1966 in order to do away with such undesirables, Mao believed, in accordance with permanent revolution, that such elements should be removed through revolutionary violence, leading to another period of instability in China's long and turbulent history.

The death of Mao in 1976 led to the emergence of the reformists and chief architect of China's current economic development - Deng Xiaoping. Under his leadership an analysis of the nation was undertaken by technocrats from the Chinese Communist Party and published in three documents

called the Four Modernizations. The analysis concluded that the prior efforts to develop China had been failures. It proposed a new comprehensive policy for China, based on a number of underpinnings. The most important of these were the following:

- The realization that China possessed many of strengths needed to become a global superpower. It had the agrarian land to be self sufficient in its food supply. The sheer size of China's population gives it the ability to become economically independent. If managed properly, such strengths combined could give China the financial ability to develop its armed forces. Through which the country could then become an all-round global superpower.
- The realization that China would never achieve its potential if it did not increase its knowledge base. If China ever wanted to challenge the then foremost powers of the day, America and the Soviet-Union, Chinese workforce would need to make 'great leaps forward' in both technical and managerial knowledge.
- The realization that its population, and in particular the growth of its population, could become the nation's Achilles heal. If China's population growth was not matched with economic growth and employment then the resulting mass unemployment would cause mass poverty, civil unrest and a revolt against the rule of the Communist Party.

The reformists view was that developing China economically was not just an aspiration but a necessity. This comprehensive analysis of China's state of affairs was translated into policy in 1979 and saw the birth of China's 'open door' economic policy that led to rapid economic development. China's 'open door' economic policy gradually opened up China's economy to foreign companies through the establishment of Special Economic Zones (SEZ), in a process well controlled by the Communist Party. However this was not simply an exercise in economic growth, the real aim was much broader.



The use of Foreign Direct Investment (FDI), although greatly aided economic activity and job creation, it also allowed for foreign technical and managerial knowledge into China. This is why to this day all foreign companies in China are forced to transfer technical knowledge. The 2010 US-China Economic and Security Review Commission, which advises the US Congress on China related policy issues, confirmed this, regarding China's strategies for developing its aviation industrial base it said: *'Beijing's strategies include the government's heavy political and fiscal support for China's aviation manufacturing industry and the requirement for foreign aviation firms to provide technology and know-how offsets in return for market access'*.²¹

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After three decades of phenomenal growth China has become the industrial factory of the world, producing many of the world's consumer items. Domestically, government investment and exports are the twin engines of the economy. In the last decade China has moved 700 million of its citizens out of poverty.

China's growth has come from both huge state investment in infrastructure and heavy industry. 159 large State-Owned Enterprises (SOEs), provide key inputs from utilities, heavy industries and energy resources that facilitate the private sector.

The aggressive outward investment strategy, driven by SOEs and state banks with massive pools of cash have allowed China to spread across the world looking to expand markets, employ their services and buy up resources.

China Today

China's development is rooted in Deng Xiaoping's attempts at creating Special Economic Zones (SEZ) which allowed foreign investment and technology and became a new source of wealth. China today 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 its 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 dependant upon the world continuing to buy from China rather than anyone else putting the future of China in the hands of others.

China's rapid economic development has intertwined its future with the US. The US, the world's largest consumer, imports the vast majority of the goods that come out of China's production lines. This has resulted in the US trade deficit of \$300 billion with China, as a result US dollars end up in China, which today is over \$2 trillion. Such huge reserves have resulted in China purchasing US treasury bonds, which funds America's massive trade deficit. In turn this has resulted in the expansion of China's manufacturing base, China's need for a larger share of the world's oil and mineral resources. This has also led to the loss of jobs in America's manufacturing sector to superior Chinese craftsmanship. There is Sino-US interdependency; any unilateral move by one nation will adversely impact the other.

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China's rapid economic development has been anything but equal. The Special Economic Zone's (SEZ) were all constructed on China's Eastern coast and everything that comes off the production lines is placed on ships as cargo and exported to the world. The coastal region as a result is interlinked with the global economy; it has seen most of China's rapid development and enriched a new breed of elites, all at the expense of the rest of China. 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.²² This has created China's massive internal cohesion problem.

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; this is public disturbances, demonstrations and civil strife. 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.²³ 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.²⁴ Domestically China is a very unstable society.

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The value of the Yuan, low wages, cheap exports and the scouring the world for mineral resources are all interlinked and all intended to placate the Chinese population. China is an export driven economy, its economy is built to produce goods which are exported around the world. To make Chinese goods more attractive than Japanese and German goods, the Chinese government controls the value of the exchange rate of its currency with the world, rather than let it float freely. China keeps the value of its currency artificially low, which makes it cheaper to purchase consumer goods – far cheaper for the world than anyone else. By China undercutting the world, aside from keeping Chinese factories open, this also means most Chinese citizens have a job. When Chinese citizens have jobs this deals with domestic social unrest which has long plagued China. Chinese factories make little profits on the goods they export, as due to the low exchange rate the potential profit is lost. According to the Chinese Ministry of Finance, Chinese profits on their exports are about 1.7%.

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. Commerce Minister Chen Deming told the BBC in 2009 that when economic growth slowed *'the chances of possible social unrest increase as well.'* *I don't worry a lot about the GDP growth, however the biggest challenge to China is unemployment.'* *We need to create sufficient jobs for university graduates and the redundant workforce from the countryside.'*²⁵

The Future

In 2011 the future of China's economic miracle dominated the global economy. The collapse of Wenzhou under crippling debt has led to many to consider of three decades of break neck economic growth is coming to an end. *"What's happening in Wenzhou is a reflection of the current Chinese model coming to an end,"* said Huang Yiping of Barclays Capital about the country's export-led, investment-driven growth paradigm. *"China's economic success over the last 30 years has been built on cheap capital, cheap labour, cheap energy and cheap land but this has now produced huge imbalances and inefficiencies that are causing more and more problems."*²⁶

Successive Chinese governments have never seen economic growth as an end but rather as a means to an end. At the heart of China's economic development has been the nations banking system. In China the government uses the national banking system to serve the Communist parties objectives. The nation's large savings are funnelled through banks to through subsidized rates. In order to qualify for such loans firms are required to maintain high employment (in order to maintain social cohesion), rates of return on capital, building brands, customer service and profit play virtually no part of this process. Anyone who wants to start a business, can get access to subsidized loans and this has multiplied China's economic growth. As such loans do not look at the ability of the debtor to repay, as the world economy slows and imports less from China, such firms have begun to collapse as has been the case in Wenzhou.

Since China's reforms the coastal city of Wenzhou experienced rapid economic growth through the export of low-cost goods through small and medium-sized enterprises. Businesses in Wenzhou used the available cheap labour to manufacture small components and parts. Its factories supplied parts to the rest of China and to overseas markets. This approach was so successful it became known as the "Wenzhou model" and was adopted throughout China. In 2011 the city experienced a number of bankruptcies, rampant speculation and a reported massive increase in informal lending. While the Wenzhou model has provided growth, the dependence on exports of low-cost goods and the resulting small profit margins has proven unsustainable. Given Wenzhou's role as an economic blueprint, these problems may be an ominous sign for the rest of the country.

Economic Case Study: Japan

Japan's lack of mineral resources drove it to import resources, add value to them and then export the resulting products for economic growth. Very little of the process actually took place on the

island country. Japan used its banking industry just as China is today in order to make it globally competitive. The Japanese government ensured subsidized loans at below market rates for any firm willing to import raw materials, build products, export products and employ citizens.

Profitability did not come into the equation because the state ensured that such operations were indirectly subsidized by the financial system. More loans could always be attained. Eventually the Japanese economy collapsed under the weight of trillions of dollars of non-performing loans. The ever-mounting tower of debt consumed all available capital. The Japanese economy has never recovered.

China has imitated this finance and export strategy as a means of powering its development and holding together a disparate country.

However the Chinese application of the strategy faces the same bad-debt problem that Japan's did.

This strategy was pursued to hold together the nation, its failure will lead to social breakdown

China has imitated this finance and export strategy as a means of powering its development and holding together a disparate country. However the Chinese application of the strategy faces the same bad-debt problem that Japan's did. This strategy was pursued to hold together the nation, its failure will lead to social breakdown and not just economic meltdown.

China's 2011-15 Five-Year Plan proposed the same methods of growth. These include massive credit expansion fuelling large-scale infrastructure expansion and technology upgrades for the export-oriented manufacturing sector, all provided for by transferring wealth from depositors to state-owned corporations and local governments. Modifications to the status quo have been slight, and radical transformation of the overall growth model has not yet borne fruit.

Military Development

China's military has grown increasingly assertive in recent years, with the People's Liberation Army (PLA) taking a greater role in Chinese policy decisions. In particular, the military's strategy to develop a blue-water expeditionary navy has enabled it to shift focus toward attaining greater control of sea routes, particularly in the South China Sea.

China's military modernisation remains a primary national policy focus. This includes acquiring and developing advanced weaponry, improving information technology and communications, heightening capabilities on sea and in the air, and developing capabilities in new theatres such as cyber warfare and outer space. It also entails improving Chinese forces' mobility, rapid reaction, special operations forces and ability to conduct combined operations between different military services.

At the height of the Cold War, Soviet military vessels prowled the world's oceans, and its aircrafts patrolled international airspace. By contrast, China's navy currently rarely leaves its home waters, when it does patrol farther afield, it still does not cross the Pacific. China has not stated its aspirations to conquer the globe or establish distant bases. China's military doctrine is built upon

minimum deterrence – i.e. having the minimum military capability to ensure it cannot be blackmailed.

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 relatively smaller armed force emphasizing new technologies. China's military development has been driven by the need to protect itself in the region and its supply lines. 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.

To this end in 2011 China made two key developments in its rapid military ascent. It put to sea its first aircraft carrier and is testing its first stealth fighter jet.

Aircraft carrier

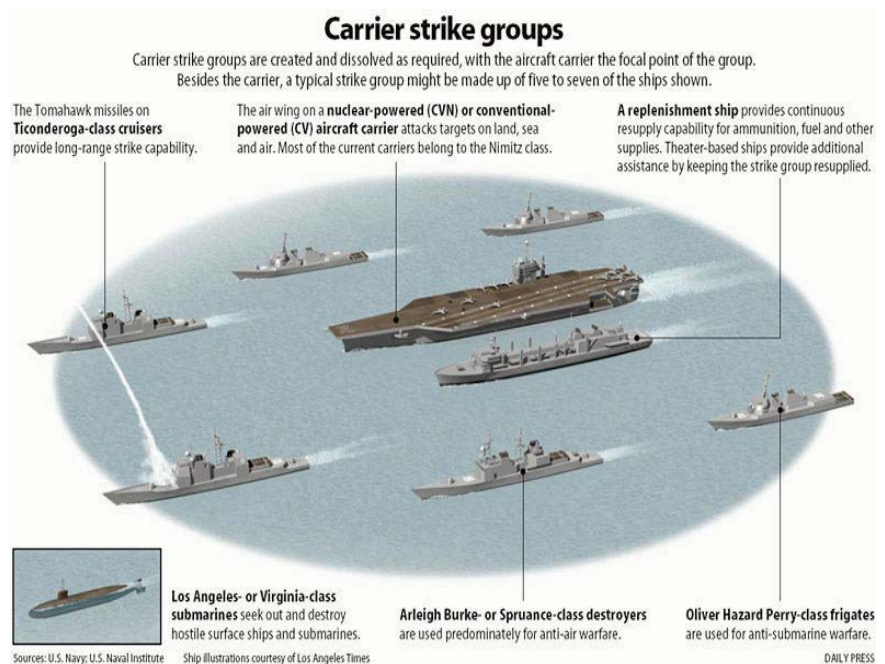


China's state news agency, Xinhua, published pictures of the Varyag, an ex-Soviet aircraft carrier bought from Ukraine in 1998 which China has been working to develop and deploy. The Varyag was originally purchased with extensive work still needed on it. The escorts and auxiliary ships were then built so the extensive works could be completed.

An aircraft carrier forms the core part of a Carrier Strike Group (CSG), it is considered a mobile military force with significant military offensive and defensive capabilities. Each CSG consists of a carrier and its air wing, a minimum of one cruiser, a minimum of two destroyers/frigates and logistical support vessels. CSG's also include submarines although this is never officially stated. In the case of the US navy, a Carrier Strike Group (CSG) has the ability to deploy amphibious ready groups (marines/special forces); establish air supremacy in a given theatre of operation; operate in all weather conditions 24 hours a day. They are designed to be able to project power ashore to deal with a multitude of sophisticated land-based threats, such as missile defence systems and can deploy theatre ballistic missiles that possess a range of between 300 to 3,500 kilometers. In short, a single CSG could – if fully unleashed – devastate most nations on earth.

Acquiring such a capability is critical for China as it needs to protect its shores and its supply lines which are so important for its economy.

Whilst the Varyag was put to sea for trials, the Chinese still have to master its use, including learning how to launch and recover jets, which takes a decade to accomplish. Carrier operations are not easy to do, it will take a very long time for the Chinese to be able to work through the various technicalities of this. It is also not something one can just learn from other people.



Russia has not undertaken carrier operations for over two decades whilst the US has nearly 100 years of experience with such technology. It will take China many years before it will achieve the coordination to be able to move large carrier battle groups anywhere. This also assumes that China builds more carriers. A single carrier gives you almost no capability. This is because it has to be in port, it will need to be refitted regularly and it can only go to one location. China really needs three carriers in order to have a significant deterrent.

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 core competencies.

The first sea trials of the Varyag was more about putting the engines through their paces and making sure the basic shipboard systems are functioning properly. What China has achieved is launching their first aircraft carrier. However they do not have the cruisers, the advanced attack submarines or the Aegis defence systems. Whilst they have launched an aircraft carrier they now have to train their pilots to land and takeoff from the ship and the aircraft that take off from the ship have to be able to engage and survive any attacks from adversaries. There is still a generational gap between China and the US in this arena. China will now need to train naval commanders, admirals, to command carrier battle groups, and even more admirals who know how to command groups of carrier battle groups. The US floated its first carrier in the 1930s. While China has made a movement in floating an aircraft carrier, a technology that is now 80 years old, this does not automatically make it a superpower.

J-20 – Stealth jet

The first jet fighters appeared at the end of WW2. A few of them, equipped with machine guns, saw combat and quickly proved that jets were here to stay. During the Korean War, faster, more heavily armed fighters entered service, including the first supersonic air-to-air dog fighters and the first to carry only missiles as weapons. Today, powerful fighter aircraft are basically flying computers that combine technology and stealth design to be invisible to enemy radar and attack their opponents without warning.

China confirmed its first test flight of a stealth fighter jet in January 2011 and whilst its J-20 is still several years from deployment, it has raised the stakes in a field dominated by the US, the only country that operates radar-evading planes. The test flight puts China in a very elite club. America is the only nation to produce an operational stealth fighter jet, and Russia is the only other country to even test one. China's entry into that group amounts to a game changer. *"We have become accustomed to a world where our air power is dominant,"* said Roger Cliff, a senior political scientist at the Rand Corporation, a global analysis company. *"But that dominance is now in question."* The test flight of the new aircraft came just as defence Secretary Robert Gates met with Chinese President Hu Jintao in Beijing to discuss resuming military ties. No one had told Gates the test was planned and he was surprised by what appeared to be a thinly-veiled message about the future balance of power

Jet engine combat fighters are usually categorized by 'generations.' International norms generally use five or six categories, loosely based upon the prevalent set of capabilities at the time of the aircraft's development:

1st generation: 1945 to 1955, this generation includes the original jet fighters powered by turbojet engines.

2nd generation: 1955 to 1960, these fighters generally had a higher top speed and were outfitted with radar and guided air-to-air missiles.

3rd generation: 1960 to 1970, in addition to having increased overall capabilities, these fighters also were the first to be capable of both air defence and ground attack missions.

4th generation: 1970 to 1990, these multirole fighters were equipped with increasingly sophisticated avionics and weapon systems. A key area of emphasis was manoeuvrability rather than speed.

4th+ (or 4.5) generation: 1990–2000, a concept that not everyone agrees exists, implies some combination of advanced capabilities and upgrades to a normal 4th generation airframe.

5th generation: These fighters have a combination of stealth, high altitude, manoeuvrability, advanced radar, high-capacity data links, "plug and play" avionics, and super cruise capabilities.

The 'fifth-generation' design generally entails not only stealth but also advanced radar and other sensors, avionics and powerful engines, something China appears to continue to struggle with in terms of indigenous design and manufacture. According to Stratfor: *"These 'under the hood' design aspects are, at the very least, still under development in China and may not be nearly as advanced as the outer appearance of the airframe might suggest."*

Whilst there is still some way to go for the Chinese fielding an operational stealth fighter jet, what China has achieved is the beginning of developing its own indigenous air capability. This will when eventually integrated into the military give China significant power to deny access to any power in its region.

China since the 1980's invested considerable amounts in the latest Russian hardware, in the 1990's when Russia went through its collapse China was the single biggest buyer of high-end late Soviet



technology. This was combined with an aggressive espionage effort, including cyber espionage efforts, to glean the latest technology from the US and its allies. China's domestic efforts to put this all together, to be able to build it itself and use it itself, are very extensive, however the challenge it faces is integrating all of this into a war fighting concept, it's lack of real, practical or operational experience leaves questions about its performance in a future war.

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 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.

South China Sea

For any rising power the ability to protect its borders is critical. China has since the days of Deng Xiaoping stated that the South China Sea is of national strategic interest. This naturally creates problems as China is not the only country that has shores on the ocean. China's dependency on exports, minerals and energy is leading it to lay claims to the seas. China has even stepped up offshore exploration. According to Chinese estimates, the disputed waters in the South China Sea contain more than 50 billion tons of crude oil and more than 20 trillion cubic meters of natural gas. From a foreign policy perspective China has always wanted to create a buffer to make it more difficult for foreign powers, particularly the US to approach Chinese shores – this policy has come to be known as access denial.



In 2011 the US continued with its re-engagement with the region through re-asserting its commitment to the region's security. The US policy for the region has always been to contain China and this has always been through bringing the nations surrounding China closer to the US through a whole host of bilateral sweeteners.

The rising rivalry between Washington and Beijing for influence in Southeast Asia has until now revolved mainly on soft power initiatives involving diplomatic exchanges, aid and economic incentives. Chinese leaders avoided behaviour that aroused fear or suspicion on the part of its neighbours and economic partners. It has utilised its 'soft power' - diplomacy, development aid, and

cultural ties - to cultivate friends and allies. However in 2010 the US conducted numerous military exercises with the nations in the region, which has come to be known by some as peaceful competition.

In 2011 tensions increased as the US attempted to use this to re-engage in the region. Vietnamese officials accused Chinese vessels of cutting cables to oil exploration ships in May and June 2011, whilst standoffs took place between Chinese and Philippine vessels. In March, two Chinese maritime surveillance ships ordered a Philippine survey ship away from an area called Reed Bank. The Philippines later sent in military aircraft.

In response, such countries have requested US backing to strengthen their territorial claims and called for increased US involvement in the disputes. This is why China continues its military ascent and will use this option as US engagement will only complicate China's claims to the region.

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 is election year in China a change will take place in China's hierarchy with a generation of new politicians taking the helm. China's new politicians have all been provincial governors and will continue with China's policy of rapid economic growth and strengthening the nation through military development.

China biggest challenge in 2012 is to ensure its economic miracle doesn't come crashing down. With the collapse of coastal cities which represented Chinese economic miracle the sustainability of China and by default social harmony will be the challenge in 2012. With the West very likely to go into a double dip recession, this will impact Chinese exports. As the price of minerals rise and exports fall this will directly challenge China's economic model.

With all the developments of 2011, 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.

Europe

Our assessment of the European Union at the end of 2010 centred on the following:

“The Greek debt crisis has thrown the whole EU project into question. Whilst Greece was bailed out with a loan from Germany and the IMF, there remain a number of other EU nations who have a similar economic model to Greece and are also on the verge of collapse. All of this has long term implications of delaying the economic recovery in Europe. This places further strains on the heavyweights of the EU such as France and Germany, who themselves are struggling with economic growth.”

In 2011 the European financial crisis consumed most of the regions attention. The massive borrowing by governments, banks and companies was what caused the problem and in 2011 this was what the constituent nations of the EU attempted to deal with. However the differences in the union created fissures during the year and the viability of the Eurozone has brought into question.

The countries that joined the European Union before the 21st century did so with the understanding that the union was created to contain German ambitions. The nations that joined in the 21st century did so with the understanding that the union would protect them from Russia. All members joined with the understanding that the union would grant them wealth.

In 2011 the state of the union's economies only got worse. Whilst in 2010 the debt crisis was mostly centered on events in Greece the crisis of debt spread across Europe in 2011. The year started with Greek debt being downgraded to junk status as its ability to repay its debts was considered virtually impossible. In September Standard and Poor's downgraded the credit rating of seven Italian banks after they dropped Italy's sovereign rating two days prior. In October 2011 Spain's credit rating was downgraded and Belgium nationalised Dexia Bank as it was stricken with Greek debt.

Crises

The boom of the last decade concealed the fact that many of Europe's heavyweights and smaller members had debts which outstripped their economies. This was not a problem as long as such states met their annual repayments, which was the case as the economies grew. When the financial crisis began in 2008, which was inherently a banking crisis the viability of the banks balance sheets quickly became public.

Prior to the creation Eurozone the largest purchaser of government debt was banks within the border of the particular European nation. Governments and banks were located in the same country. If a government went bankrupt or defaulted on its debt, its failure would trigger the failure of most of its banks. Domestic banks supported their government's financing. However this changed with the influx of new Eurozone members after 2000 when government debt was outsourced to foreign banks. The bulk of Greek, Icelandic, Irish, Spanish and Portuguese government debt is held by foreign institutes. The banks in these countries also possess large amounts of debts which they owe

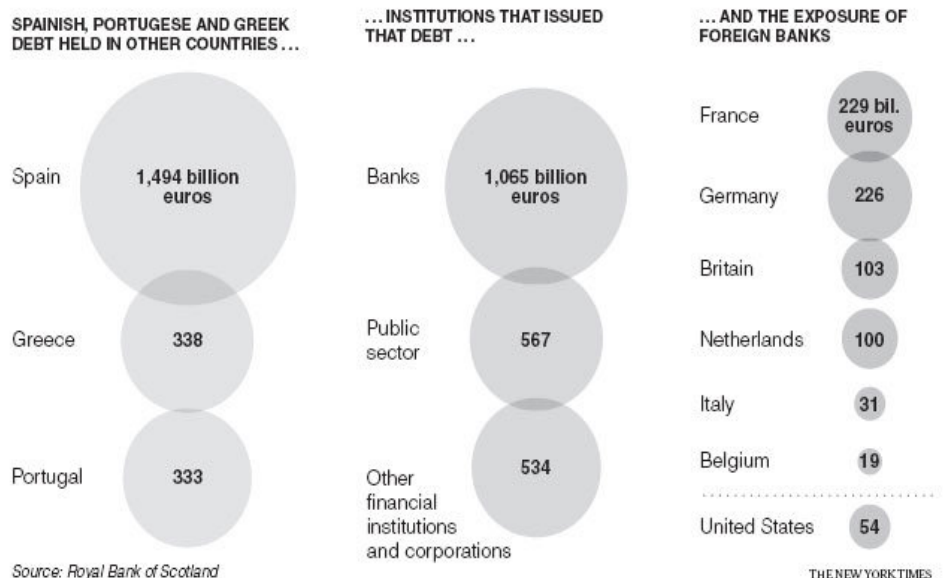
to Europe's other banks. Any default by any one country would spread to the whole of Europe as all countries and financial institutions hold each others debts.

At the height of the economic boom Western banks combined (collateralized) various loans creating new products out of them. Each collateralized product was a combination of risky debts and more stable debt, fundamentally each product was a number of income streams. The chart shows that most of the debt in Europe is held by France, Germany and Britain, i.e. they are owed most of the debt. If

the PIIGS economies – Portugal, Italy, Ireland Greece, Spain default on their debts, or come to a deal to writes them off, then France Germany and Britain essentially lose out on the money they are owed. This is the reason why for the moment, writing the debt off is a no go. This debt cannot be written off due to the political considerations of France, Britain and Germany

Following the Trail of Debt

About 2.2 trillion euros (\$2.6 trillion) of debt issued by public- and private-sector institutions in Spain, Greece and Portugal was held by financial institutions outside those countries at the end of 2009.



The European Union now has a growing list of states that are considered the sick men of Europe. European attempts at defending themselves against a deep recession have now created a new crisis of unsustainable and un-serviceable sovereign debt. Much of this can be attributed to stimulus packages passed by European governments in order to blunt the effects of the economic crisis, especially in preventing massive layoffs. Europe's heavyweights spent massively on stimulation packages. This led to debt levels skyrocketing across the Eurozone, but especially in the PIIGS countries.

The Euro was hailed as the replacement to the dollar. However the financial crisis has brought a damning fact to the surface, whilst countries such as France and Germany will be able to service their debts, nearly all of the other Eurozone nations have pitiful financial situations where they have spent well beyond their means and now when it has come to repay this debt the feasibility of meeting the regular monthly repayments is looking impossible. The issue the Euro has faced from its inception is the fact that all the Eurozone nations have very divergent economies and hence the strength of the Euro is in the strength of the Eurozone economies

When the economic problem was confined to small countries such as Greece and Ireland, it was assumed that any fallout could be contained. Now however the crisis has threatened to engulf nearly

all of Europe. Italy which is the Eurozone's third largest economy and the world's fourth-biggest debtor also reached breaking point in 2011.

In 2011 divergent policies emerged on how to tackle the crisis. Whilst severe austerity has been imposed on Greece the EU continues to provide bailouts to Greece. These bailouts have been at the centre of contention as neither Germany, France nor the UK wants to contribute to the bill. We said in Estimate for 2011:

“Inherently a union of smaller states into a larger political union is a weak method of amalgamation. It lacks the characteristics found in full unification where a people become one nation. A union as a method of binding peoples and nations is always prone to political differences as it continues to recognise the sovereignty of constituent nations, this leaves it open to influence from the outside and held hostage by national interests.”

This was the case again in 2011 as national interests got in the way of solving the EU crisis which crossed national borders. Germany has used the sovereign debt crisis to re-shape the EU, whilst France has forced Germany to personally bankroll bailouts so French banks would survive. Britain on the other hand has called for more bailouts but refused to put any amounts forward. Each nation wants others to foot the bill, but wants to benefit from the proceeds.

It is unlikely the EU will collapse as it is a political union and nations such as France and Germany have invested heavily in it and will defend it. Germany as an example is the leader of the European Union bailout fund, the European Financial Stability Facility (EFSF) and is using it to reorganise the whole EU, to ensure such a situation cannot happen again. 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.

The challenge the EU faces in 2012 is how to deal with this bad debt that the likes of Greece and the other PIIGS economies will in all likelihood never be able to re-pay. Whilst the bailout fund will most likely be strengthened how its cash is distributed to EU states in trouble will be the area of contention as Europe's heavyweights look out for their national interests.

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Global Economy



The summer of 2011 was the 3rd anniversary of the global financial crisis. 2011 will most likely go down in the history books for something very different though. On the 5th August 2011 the communists of China gave the Capitalist world a dressing down. It was the day the communists told the capitalists in the west how to run their economies as America's lost its triple A credit rating. In 2010 the global economy was struggling to grow, the multilateral approach that had characterized the early response to the

financial crisis was beginning to unravel as more and more nations were turning to economic nationalism and the currency war between the US and China was reaching fever pitch.

In 2011 matters have only got worse as Europe titters on the brink and the US the world's largest economy and the world's most indebted nation had its credit rating downgraded. Whilst the use of various strategies to starve off complete economic collapse ensured the global economy only went into recession and nothing more, in 2011 the spectre of double dip recession raised its head.

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 is an unconventional policy used by central banks to stimulate the national economy when conventional policy has 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.

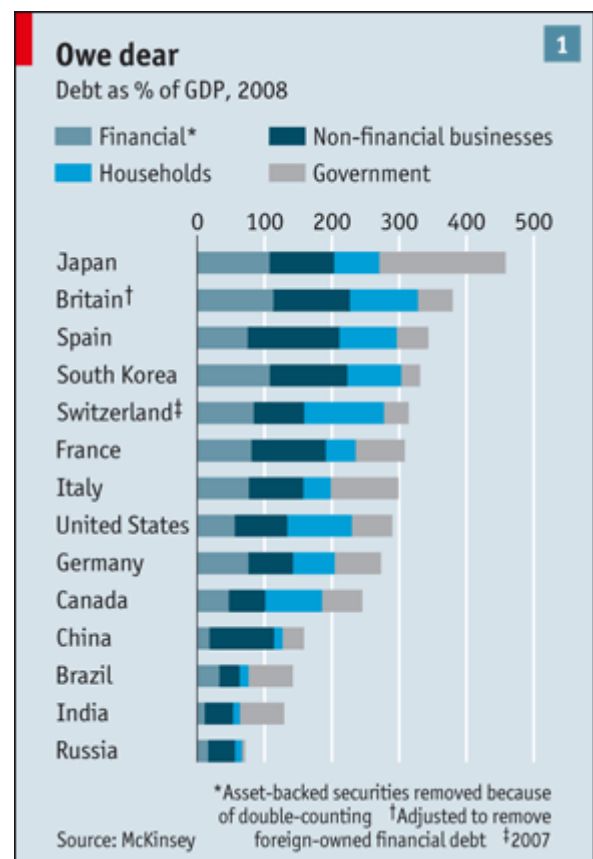
The intention here was to shore up banks and their balance sheets in the hope they would begin lending and thus stimulate the economy. In practice however all of this led to inflation. As the economy stagnated this excess money led prices to rise i.e. stagflation

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.

Of the largest economies in the world, the US, UK, Germany, France and Italy all have high debt levels. The growth of these economies is built on governments borrowing money to stimulate projects, create jobs, increase demand for products and hence create growth. A lot of this debt has been used to create wealth. However, it seems that there hasn't been a structured plan to pay this debt back, and this is what is causing a lot of the problems we are seeing today, with deficit and debt levels seemingly out of control. Third world debt pales into insignificance when compared to the debt of Western nations. US debt is a staggering \$40 trillion whilst total third world debt is a relative meagre \$1.3 trillion.

Using debt to grow is a short cut to economic growth, all other methods would require large government investment and although much more stable would take time for the effects to trickle through the economy. Examples of this would be investing in research and development, education or undertaking infrastructure projects. With most Western government election cycles being of 4 years, short cuts to growth is usually the path taken, this is why most of the Western states have debts that far exceed what the economy produces.

All attempts at creating economic growth have now failed. The stimulus packages have driven artificial growth, whilst Western nations have not provided such a leg up for their economies for some time the free market has been unable to grow on its own in any sustainable way and has brought the spectre of double dip recession ever closer. It is difficult to see where economic growth will come from and for this reason the global economy will in all likelihood go into recession again. The global economy and especially the West will go through a long period of instability which will create more unemployment and riots as has been seen in Greece and the UK. There are really only two outcomes which may eventually lead to economic recovery:



- The first is the global economy goes into recession and possibly 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.

Germany



In our assessment of 2010 we assessed Turkey, a rising nation that showed signs of global ambitions. In our 2011 assessment we have chosen Germany, who has shown signs of assertiveness.

The German people emerged on the European scene in spectacular fashion. Germany rapidly industrialised and on two occasions attempted to change the global balance of power. Medieval

Germany, lying on the open Northern European plain, was divided into hundreds of competing kingdoms, principalities, dukedoms, bishoprics and free cities since the formation of the Roman Empire. Over a thousand years various kings and rulers attempted to unify the German states without success. As a result the German people engaged in many internal wars and conflicts amongst each other.

Otto Van Bismarck oversaw German unification which set the nation on the path to industrial supremacy. Beginning in 1884, Germany began establishing several colonies outside of Europe. Bismarck managed to achieve unification of the German lands which many had attempted for nearly a thousand years. Such unification meant German resources and minerals could all follow one unified policy and for once Germany could be domestically developed without facing any secessionist calls.

War

Germany's rapid development placed it in direct conflict with Britain and by 1900 Germany matched the military prowess of Britain and competed with it in the colonisation of the world. Germany took full advantage of Serbia's assassination of the heir to the Austria-Hungary Empire. Germany invaded France, broke its alliance with Russia and began invading Eastern Russia. Germany didn't stop there and continued the invasion of Europe and when its military machine went into Belgium, Britain mobilised for war and WW1 had begun. The British empire's control of oil and the capturing of the rich oil fields of Baku on the Caspian Sea denied vital supplies to Germany and resulted in the eventual surrender of Germany.

The Treaty of Versailles in 1919 officially ended World War I between the Allied and Associated Powers and the German Empire. After six months of negotiations, Germany was forced to accept full responsibility for causing the war and, under the terms of agreement would make reparations to certain members of the Allies. Germany would also lose certain amounts of its own territory to a number of surrounding countries, be stripped of all its overseas colonies, and its ability to make war again was limited by restrictions on the size of its military.

It was in such circumstances Hitler emerged, a rightwing fascist who believed Germany to be a great state. Hitler managed to unify the German masses on his vision, that Germany is a great state, and therefore needed a strong economy in order to achieve her potential, which arguably Hitler perceived, as a world power. The vision of a thousand-year Reich managed to capture the imagination of a large section of the German public, which motivated hundreds of thousands of them to work towards the aims of Nazism.

On the two occasions Germany embarked on becoming a world power through its war economy it quickly became a world power, the rapid rise of Nazi Germany was only halted through the mobilisation of the world's powers through WW2.

Post WW2

German defeats in both world wars have defined the nations post war policies. The help received from the US to curtail the possible shift towards Communism resulted in the US redeveloping Germany and ever since Germany has developed a largely economic centric foreign policy viewed from the lens of Europe. Germany continues to work in partnerships due to its historical legacy and uses its economic strength to strengthen Germany. This has not resulted in political influence as the post war generation views this as a return to its colonial legacy. Germany after reunification expanded economically through a distinct set of economic policies with virtual hegemony in Eastern Europe. During the Cold War, when much of Eastern European business dried up, East Germany became the largest Western trading partner of any country within the former Soviet Union. When the communist system collapsed German bankers and industrialists moved quickly to fill the vacuum. This time it was not tanks and soldiers that invaded Eastern Europe but money and industry.

Germany's return to prominence after WW2 has been due to tentative political policies. The US destroyed Germany's military and manufacturing base after WW2; however since reunification Germany has begun showing interest in military and political aspirations that have global dimensions. The best example of this is the increasing participation in NATO activities in Bosnia, Kosovo and Afghanistan. Germany has participated with France and Britain in the multilateral visits to Iran. These visits put pressure on Iran to become signatory to an additional protocol that allows unplanned inspection of its nuclear installations. Germany also played an active role in the successful mediation in the issue of exchanging prisoners between Israel and Hezbollah. Germany also deployed a naval force in the Israeli invasion of Lebanon in 2006. Its deployment consisted of two frigates - the Mecklenburg-Vorpommern and Karlsruhe - supported by helicopters, supply ships and patrol boats, with about 1,500 men on board. This was Germany's largest military deployment since WW2.

Assertiveness

The declaration by German Chancellor Angela Merkel in October 2010 that multiculturalism, or Multikulti, as the Germans put it, "*has failed, utterly,*" and that her government was "*committed to a dominant German culture and opposed to a multicultural one,*" was the first indication since WW2 that German ambitions are changing and are increasingly including a global dimension.

Germany has spent the period after WW2 apologizing for its role in WW2, this has resulted in it leaving aside questions of national identity and the German national interest. Germany after WW2 embedded itself into the European Union and NATO and avoided anything that looked like German unilateralism. With the Greek sovereign debt crisis certainties about a united Europe have frayed and Germany for the first time since WW2 has started to look beyond the EU. Germany is the financial and economic guarantor of Europe. When Germany constructs notions of the German nation, historically the national interest was conquering Europe.

In 2011, Germany has rewired European structures to its advantage. The German-dominated bailout fund now operates largely independent of EU authority or scrutiny. Germany has rediscovered that it has many reasons to collaborate with a strengthening Russia. The crisis that has engulfed the EU will likely mean the union will not survive in current form which will allow Germany to redesign Europe into something more to its liking.

Germany today is the world's 4th largest economy and the largest economy in Europe making it the economic powerhouse in Europe. Germany until the recent rise of China was regularly the world's largest exporter. Germany has a history of being a world power, however there are a number of stumbling blocks that hinder Germany, which if overcome would allow Germany once again to be a world power:

- Since WW2 Germany has pursued a European centric foreign policy. Due to its attempts at conquering Europe and the subsequent wars Germany has come to view the world through the lens of Europe. Germany coordinated with France in setting up the European Union and whilst it is the largest economy in Europe it is politically weak inside the EU. France is the forefather to the European Union, after WW2 France perceived the United States and particularly the US dominance of European foreign and defence policies through NATO, as a threat that could make Paris irrelevant. At the time, the French saw their country as a key world power that did not need hefty alliances, and that needed to stand apart from the United States. In 1950 French Foreign Minister Robert Schuman proposed a community to integrate the coal and steel industries of Europe - two elements necessary to make weapons of war. Similarly the UK worked to strengthen itself in the European Union when the détente was agreed between the Soviet Union and the US in 1961. The EU is a tool used by these nations to achieve their own national interests; Germany has made the EU its national interest. Until this is not replaced with global aims and ambitions this will act as an impediment to Germany.

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- Germany's economic driven foreign policy has turned the nation into a trade powerhouse which has stifled development in key industrial sectors that would aid Germany in becoming a world power. Germany took full advantage of the fall of the Soviet Union and its companies cornered most of the markets of the former Soviet republics. Germany continues to excel in the production of automobiles, machine tools, and chemicals. German industry continues to be dominated by small to medium sized manufacturing firms, which specialise in niche products. The German president Horst Kohler, was forced to resign for stating the obvious in May 2010, however he encapsulated Germany's economic driven foreign policy: *"In my estimation, though, we—including [German] society as a whole—are coming to the general understanding that, given this [strong] focus and corresponding dependency on exports, a country of our size needs to be aware that where called for or in an emergency, military deployment, too, is necessary if we are to protect our interests such as ensuring free trade routes or preventing regional instabilities which are also certain to negatively impact our ability to safeguard trade, jobs and income. All of this should be discussed and I think the path we are on is not so bad."*²⁷
- Germany's lack of mineral resources never stopped it from dominating and conquering most of the European continent. This was possible as Germany had global ambitions. Its political aims mobilised the nation to focus on building its defensive and offensive capabilities, due to this it menaced Europe and it took the two world wars to halt German expansion. The technology used for missiles came from rockets the Nazi's developed which were used to develop cruise missiles and ballistic missiles after WW2. At the heart of America's attempts to be the first into space was the kidnapping of Wernher von Braun, the Nazi rocket expert, who eventually became director of NASA and constructed US ballistic missiles. It was also Germany who invented the world's first fighter jet, the Messerschmitt Me 262, which became the blueprint for all post WW2 jets. Towards the end of WW2, Winston Churchill, Franklin Roosevelt and Joseph Stalin said, *"It is our inflexible purpose to destroy German militarism and Nazism and to ensure that Germany will never again be able to disturb the peace of the world. We are determined to disarm and disband all German armed forces; break up for all time the German General Staff, remove or destroy all German military equipment, eliminate or control all German industry that could be used for military production."* Germany today only has 247,000 troops, its military industry produces mainly armoured vehicles, with submarines and warships. Germany has the ability to develop nuclear weapons very quickly if it desired, but lacks the political will or ambition. Whilst Germany's military industry is behind the other world powers, Germany is still in a position where with the political will it can rapidly build upon its existing industrial base and challenge the US. However currently whilst Germany possesses the ingredients to be a world power, it does not possess the key ingredient – political will.

Conclusions

Germany on two occasions embarked on becoming a world power. It achieved this thorough industrial development and through rapidly constructing its military industry and mobilising for war. Germany today represents an economic power, which has large exports; however this has not translated into political influence. Germany who has always had a shortage of mineral resources

overcame this through expansion and annexation. Unlike Britain and France who use the European Union to further their own interests, Germany has not developed policies for German interests, but rather its policies are to strengthen Europe. A shift is taking place now which will increase German prosperity through its economic strength and in the long run can position it to challenge the world's powers. Germany has an established industry, which places it in a distinct advantage over some of the other potential challengers to the US. It also has a history of being a world power. The political and economic facts are all in Germany's favour, Germany just needs to realise this.

Iran



In 2011 details once again surfaced of Iran making progress in developing nuclear weapons. The November 2011 report from the International Atomic Energy Agency (IAEA) found that the Tehran regime had computer models that can only be used to develop a nuclear weapon, this then triggered a new wave of speculation on the prospects of a military strike on Iran's nuclear installations.

Iran's pursuit of nuclear weapons is not new and in fact has been under way since the 1960's. Iran has for the moment not tested a nuclear device, because building a Nuclear weapon requires a comprehensive commitment from any nation for its national resources to be deployed in such a manner. It is not just about one facility, it needs an industrial base. A nuclear program requires long term facilities, which are very energy intensive, years of experimentation, fissile material and high grade industrial machinery.

The Nuclear Non-proliferation Treaty (NPT) was carved out in 1968 and Iran became a signatory in 1970. It is well known that Iran under the Shah had begun its nuclear activity in collaboration with French and German companies.

Khomeini halted Iran's nuclear activity in 1979, whilst Rafsanjani, when he came to power resumed Iran's nuclear programme in 1995. The nuclear programme continued during the reformist period (1997-2005) under Khatami. It was in 2003, after the occupation of Iraq that a number of exiled Iranian's made public that Iran was pursuing a secret and unsafe nuclear programme and was hiding the programme from the inspectors of the International Atomic Energy Agency (IAEA). Based on this, the chief of IAEA, Mohammed el Baradai prepared a report and presented it to the IAEA. This is when the Iranian Nuclear crisis gained momentum.

During the rule of Khatami in 2003 an 'additional protocol' was signed which allowed, IAEA inspectors to carry out checks without notice as Iran could be hiding a number of installations during planned and scheduled inspections. Iran ceased Uranium enrichment for the sake of negotiations. However the Troika' of Germany, France and Britain refused to guarantee Iran's right to use nuclear energy for peaceful purposes. Iran therefore resumed its uranium enrichment programme.

In essence the US has argued that Iran should not possess nuclear weapons and 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 is always contradictory. The political language adopted by Barack Obama and his foreign policy team which included, now ex-Defence Secretary Robert Gates, and his foreign policy advisor Zbigniew Brzezinski 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. As early as July 2004, Brzezinski and Gates advocated greater engagement with Iran to change Tehran's behaviour through a system of reward and punishments. From this came the advocacy of the United States adopting a policy of what is described as limited or selective engagement with the Iranian government. Obama's team concluded that the lack of sustained engagement with Iran harmed US interests in a critical region of the world and that direct dialogue with Tehran on specific areas of mutual concern should be pursued.²⁸ 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.'*²⁹

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This rapprochement allows the US to protect its interests in Iraq and Afghanistan, as Iran not only saved the US from drowning in an insurgency in both countries, but by giving Iran a stake in both countries (termed rapprochement) US interests would be protected in the long-term. This also allows the US to balance the Middle East between Saudi Arabia, Egypt and Israel.

At the same time the US has used the Iran nuclear stand off to achieve a number of other aims. The nuclear issue achieves a number of regional interests for the US. Firstly it shows Iran that the US is prepared to use other means if it does not play ball. The bellicose language has also helped the US aggressively push its missile defence shield in face of stiff Russian opposition. Additionally, it enabled the US to enter into security pacts with the Gulf States who view Iran as a threat to their security and to acquire nuclear energy from the US. It has also forced the Israelis into a security pact with the US. The US has been able to achieve this, as since this crisis began it has done everything it can to sabotage a possible solution. Whilst the European 'Troika' are engaged in negotiations with Iran to find a solution to the problem, the US has constantly delayed a possible solution. Whenever the negotiations reached a point of near-solution, US officials would issue a statement with an implied warning that the US had all options open to it – even after the Troika made progress on a solution.

Aside from all the rhetoric, the US and Iran have cooperated on a number of issues which has protected American interests in the region. These include supporting Hamas and Hezbollah in the Levant, strengthening the Iraqi government through Iranian proxies and stabilising Afghanistan. Official contact has gradually grown since the end of the Bush term. America has even snubbed Israel previously who continually heightens a strike on Iran. America played down Israel's show of

air power over the Mediterranean in November 2008 and has refused to sell it the powerful GBU-29 bunker-busters bombs.

The uptick in rhetoric in 2011 was driven by Israel and a number of republicans looking to gain credibility for the republican presidential nomination. Those also on the right of the political spectrum in the US have always viewed the use of US military personal and firepower as the best means to control Iran. 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.

Israel

It is for these reasons the drums of war constantly beat from Tel Aviv. The reality of Israel's military makes it unlikely for such an attack to take place as Israel lacks the military capability to undertake such an offensive which will completely halt Iran's nuclear programme.

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 United States 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.

A successful Israeli attack would require up to 1,000 flights by military aircraft, according to retired US Air Force General Charles Wald, in an interview with Bloomberg. 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. Israeli strikes are unlikely to destroy Iran's nuclear capacity.

Iran has distributed its many nuclear facilities around the country, which would make it impossible for Israel to destroy the country's entire nuclear infrastructure. To have a reasonable chance of significantly delaying Iranian nuclear efforts, Israel would need help in launching such an attack and the only country that could provide the necessary firepower is really the US.

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 can 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.

Robert Kaplan, who sits on the US government's Defense Policy Board, encapsulated the US position on Iran: *"The U.S. Defense Department does not have the appetite for war with Iran. Remember, all Iranians, not just the regime, supports Iran being a nuclear power. Ten years from now we might have closer relations with Tehran than we have with Riyadh. The last thing we want to do is alienate even the Iranians who are sympathetic to us. Iran is a crucial country. It fronts not just the oil-rich Persian Gulf but also the oil-rich Caspian Sea. No other country does that. It has a window onto Central Asia, which no other country in the Middle East has. So it's enormously important. We are playing for high long-term stakes with Iran, which may be a future ally of the United States."*³⁰

The Politics of Weapons of mass Destruction (WMD)



Any nation that's wishes to challenge the world's superpower or compete with the world's powers must be able to secure its borders and project an image of strength. Since WW2 nuclear weapons are more than an additional part of any military, they are the ultimate trump in projecting strength. Weaponising the atom remains one of the most challenging endeavours any nation can undertake. More than six decades after the US remote tested the world's first atomic bomb only a handful of nations have successfully developed nuclear weapons.

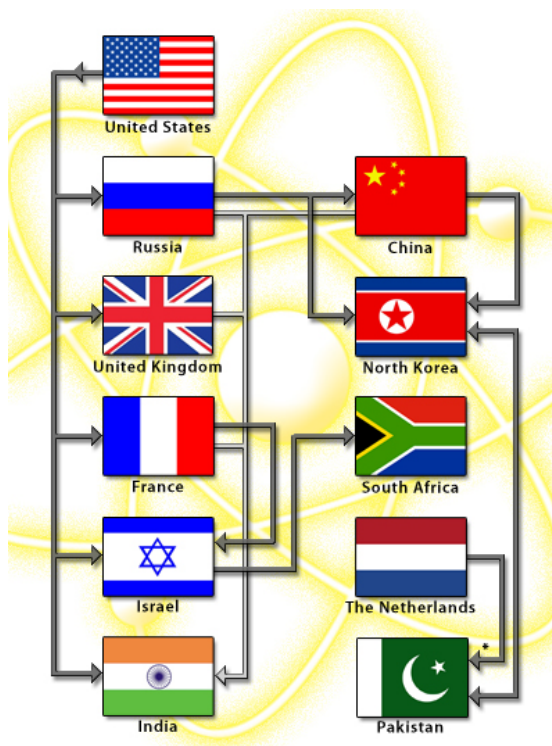
Building the Bomb

A Nuclear device is an apparatus that can initiate a nuclear chain reaction, due to sufficient fissile material. A nuclear weapon is a reliable miniaturized warhead that can be delivered with a reliable delivery system. This can only be achieved when a series of developments are overcome.

A nuclear device requires a nuclear chain reaction through fission or fusion. Both reactions release vast quantities of energy from relatively small amounts of matter. In fission weapons, a mass of fissile material - enriched uranium or plutonium is assembled into a supercritical mass – the amount of material needed to start a nuclear chain reaction. This is achieved by shooting one piece of sub-critical material into another or by compressing a sub-critical sphere of material using chemical explosives.

Enrichment through the fabrication of fissile material is probably the most complex aspect of building a nuclear device. It presents significant challenges for any nation in developing a nuclear programme. The concept requires separating a heavier isotope of uranium from a lighter isotope of uranium in order to enrich the stock to higher than 80% U235 - sufficient for use in weapons. Whilst separating something heavier from something lighter in a gaseous state takes place across the world every day, doing it on a sufficiently refined level to separate two isotopes differentiated by only a few subatomic particles is an extremely difficult and complex process. This is achieved through the use of centrifuge technology.

A Centrifuge creates a force thousands of times more powerful than the force of gravity. Cascades of



centrifuges carry out the delicate task of separating isotopes, these are finely tuned machine components, able to spin at high speeds while fully containing, separating and conveying highly corrosive gas. Not only do the centrifuges spin incredibly fast, but each one in a cascade of 100 or more centrifuges must be capable of minute calibration, calibration that becomes more fine and essential as the level of enrichment increases. It is the combination of appropriate calibration and rotational speed that allow for enrichment to take place, low-quality bearings just would not do the job.

Thereafter fabricating fissile material and developing either a gun-type device or implosion device is a process only 9-10 nations in the world have accomplished. South Africa has since renounced it, whilst North Korea is still working on it.

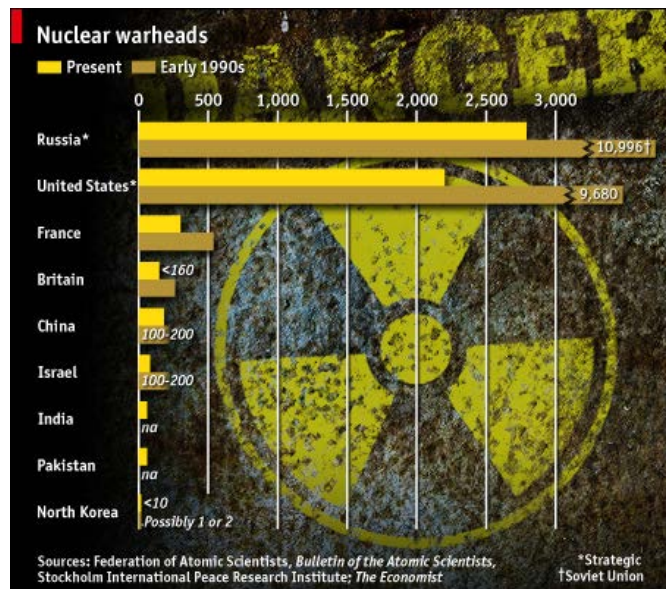
Moving beyond the device stage, a delivery system needs to be constructed taking account of payload and ensuring it is appropriately tailored. Today nuclear warheads sit in missiles and this would be another challenge any nation would face, i.e. delivering a bomb to its intended target.

The components of the bomb that actually initiate a nuclear explosion must be significantly miniaturized in order to be placed in a missile. Modern missiles are shorter than a human being weighing only a few hundred pounds. Getting a warhead down to this size is no easy task. It requires,

among other things, precision manufacturing, exceptional quality control and a keen understanding of nuclear physics. Then there are the decades of testing and practice necessary to ensure detonation upon delivery, national command authority controls and the like.

From this brief analysis it should be clear that contrary to their popular portrayal in movies and the media, Nuclear bombs are actually difficult to manufacture and effectively deploy. Constructing a Nuclear weapon is not a simple exercise of money and brains it is a product of decades of testing, design and a massive investment. This is why only Pakistan and North Korea have joined the nuclear club since the fall of the Berlin wall.

A reliable miniaturised nuclear device (a warhead) needs to be combined with a similarly robust and reliable delivery system. Such integration is an immensely costly and complex process. A nuclear bomb would be useless if it could not be practically and reliably delivered with a high probability of success. For a nuclear bomb to be deployed as a ballistic missile warhead or as a cruise missile warhead a series of very significant technical hurdles must be overcome, these include nuclear physics, materials science, rocketry, missile guidance and the like.



Non – State Actors

Whilst it is virtually impossible for a terrorist group to construct a nuclear weapon, what about acquiring a nuclear weapon that has already been built? The security of nuclear weapons is and has long been an important concern. US Secretary of State Hillary Clinton in a CNN interview in 2010 said she considers weapons of mass destruction (WMD) in the hands of an international terrorist group to be the largest threat faced by the United States, even bigger than the threat posed by a nuclear-armed Iran. *“The biggest nightmare that many of us have is that one of these terrorist member organizations within this syndicate of terror will get their hands on a weapon of mass destruction,”* Clinton said.

The Hollywood movie scenario of a terrorist group stealing a nuclear bomb from a secure facility and then somehow weaponsing it is virtually impossible. Aside from setting off numerous alarms and protocols it would leave little opportunity to smuggle a bomb very far. If one was stolen modern nuclear weapons are designed with numerous highly classified safety features. Whilst nuclear weapons are not all created the same, they range from permissive action links without which the device cannot be armed to configurations that will render the fissile core(s) useless if incorrectly accessed.

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In the case of al-Qaeda even after immense security, sanctuary and financial backing they have been unable to produce a crude nuclear device in any meaningful way - they are considered by most security analysts to have only got as far as attempting to procure nuclear materials that turned out to be fake, sold to them by con men. Even chemical and biological weapon pursuits were not seriously or successfully pursued, given the complexity and cost. Operating and maintaining such weapons are not simple pursuits. It is important to keep in mind that these are complex devices that require a great deal of regular, careful maintenance. They do not have a permanent shelf life.

The reality of actually attempting to steal a nuclear weapon would require a huge dedication of resources and an immense intelligence effort beyond the reach of almost any terrorist organization. Terrorist organisations are not governments who have the ability to collect taxes and fund a military-industrial program. The odds of failure are high, no matter how careful and meticulous the planning. Whilst nuclear weapons facilities around the world are not as hardened as each other, but taken as a whole, they are some of the hardest targets on the planet, and the personnel better vetted than almost any other institution.

A terrorist group acquiring a nuclear device is virtually impossible and this is fundamentally due to the nature of terrorist organisations that lack resources, manpower, technical expertise and the ability to operate in open environments. It is not a matter of kidnapping some nuclear scientists, a nuclear programme is much more than that.

Mutually Assured Destruction (MAD)

US policy makers have for long argued that democracies make rational decisions, whilst dictators are prone to being irrational and unstable – nuclear weapons in the hands of such leaders would be apocalyptic. US policy makers usually cite the late North Korean leader Kim Jong Il and Iranian President Mahmoud Ahmadinejad as possible candidates for starting World War Three.

Any leader can make mistakes and miscalculations, however no one can run a country alone. Leaders require loyal and competent administrators. A certifiable and apocalyptic-minded leader is very unlikely to rise so far — and is even less likely to command the respect and loyalty of those necessary to actually run the nation for any length of time.

Stalin refused to believe his advisers when they insisted that Nazi forces were poised to invade in 1941. Even after the invasion began, he refused to believe it until his most trusted advisers actually traveled to the front lines. But despite Stalin's ruthlessness when it came to cracking down on the population of the Soviet Union, he did not fire a nuclear weapon at the United States the moment he got one, even though many in the West feared that he might. Running a country as Stalin ran the Soviet Union for as long as he did requires a certain rationality and skill and most importantly, a personal nature that clings to continued existence. Overseeing the defence of that country against the Nazi onslaught and then implementing an aggressive crash nuclear program takes coordination and focus.

The late Kim Jong Il of North Korea consolidated control over a country that was run by his father for nearly 50 years. By balancing various groups and interests, he maintained internal control and loyalty. He oversaw the allocation of resources necessary to build both crude intercontinental ballistic missiles (ICBM's) and crude nuclear devices while faced with crushing international sanctions. This is the track record of a competent (if annoying) leader, not a crazy one.

If he was suicidal, he had the short-range ballistic missiles at hand to destroy Seoul and invite a new Korean War - a choice that would be far quicker, cheaper and even more complete than the prototype nuclear devices that North Korea has so far demonstrated. He has however shown, consistently that his foremost goal has been the survival of his regime. Indeed, he has actually curtailed much of the more aggressive activity that occurred during his father's reign, such as attempting to assassinate South Korea's president. While Kim's actions seem unstable - they were designed to seem that way in order to induce an element of uncertainty at the negotiating table with the West, Pyongyang regularly uses ballistic missile and nuclear tests as part of a wider strategy to not only keep itself relevant, but to ensure regime survival.

Mahmoud Ahmadinejad's fiery rhetoric denying the Holocaust, calling for the destruction of Israel and defying the US, is central to his strategy of regime survival. This rhetoric is intended for domestic consumption, but it is also a strategy, similar to North Korea's, to cultivate perceptions and influence behaviours by making Tehran appear unpredictable. The true power in Iran is the clerical leadership, not the country's highly-visible president. Although the executive in Iran does indeed wield considerable power, the complexity of the Iranian political system allows for several layers of oversight.

Furthermore, the Supreme Leader Ayatollah Ali Khamenei - the true leader in Tehran has consistently relied upon consensus when it comes to policy and decision-making. Though there are radical elements within some of Iran's institutions Tehran's senior leadership has consistently demonstrated itself to be far more rational than Ahmadinejad's rhetoric suggests. Whether Iran even possesses nuclear weapons it would not be Ahmadinejad or any potentially like-minded successor with the power to push the launch button.

Crazy and suicidal leaders have a difficult time becoming leaders of a country even capable of considering trying to develop a nuclear weapon, much less being able to see the process through to the end over the course of a decade. Becoming a leader of such a country entails taking some risks, but they are generally calculated as they want to enjoy the fruits of that labour. The consequences for miscalculating with nuclear weapons are annihilation, not only for themselves, their family and the power base that they have toiled to build, but for the entire society.

Rogue Elements

Such leaders could possibly hand over a nuclear device to a terrorist group. Iran's support for Hizbullah and Hamas has for long alarmed the West. Pakistan has also been under the microscope as many in the West consider there to be rogue elements within Pakistan's ISI and the army. Elements within such nations could place a nuclear device into the hands of terrorists in order to fulfil their national aims.

A nuclear device is the product of an immense, expensive national effort. Each individual weapon especially early on, represents an enormous investment of national resources. By handing one over to an outside group, the country not only has no assurance of it being employed in the way they want, but opens itself to the prospect of that immense investment being wasted or misused. Because a meaningful nuclear deterrent rests on not one weapon, but many, the incentive will be for the country to consolidate its stockpile and deploy it to multiple locations that it has strong control over in order to work towards establishing that deterrent.

A nuclear device is the higher end of the destruction ladder, non- state actors could be provided with less destructive, but equally lethal weapons such as biological, chemical or dirty bombs as they have come to be known. There is an important and stark distinction between a nuclear device and Chemical, biological and radiological weapon. The distinction lies in the measure of potential lethality. The anthrax attacks in the United States in the wake of 9/11 used a biological agent but could hardly have been classified as attacks utilizing WMD's.

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One of the most significant challenges non - state actors face in chemical and biological plots is the need to manufacture and transport quantities sufficient to yield a significant body count. As military commanders learned on the battlefields of Europe during World War I, and during the Iran-Iraq war, chemical agents are volatile and quick to vaporize, and they tend to dissipate quickly. As a result, deadly concentrations can be difficult to amass in a real-world setting.

The bottom line is that a nuclear device is the only WMD that can be relied upon to create mass casualties and guarantee the success of a strategic strike. However, a nuclear device is also by far the hardest of the WMDs to obtain or manufacture. Unlike countries such as North Korea and Iran, terrorists simply do not have the resources or the secure territory on which to build such facilities. Even with money and secure facilities, it is still a long and difficult endeavor to create a nuclear weapons program — as is evident in the efforts of North Korea and Iran. Fundamentally without the help of a state or the army in the case of Pakistan it is impossible for any organisation to smuggle a nuclear device. If a terrorist organisation ends up with a nuclear device, it is because those who posses them have taken to the decision to do so.

It is much easier for non – state actors to gain access to Chemical, Biological or Radiological weapons. Components for such weapons are available in many every day applications, the challenge for any non – state actor would be to acquire sufficient amounts, handle them correctly and then set them off correctly. Difficulties arise when one attempts to take a rudimentary substance and then convert it into a weaponized form - a form that is potent enough to be deadly and yet readily dispersed. Even if this weaponization hurdle can be overcome, once developed, the weaponized agent must then be integrated with a weapons system that can effectively take large quantities of the agent and evenly distribute it in lethal doses to the intended targets.

The history of the use of such weapons in terrorist attacks is limited, the fact of the matter is that most cases where groups have considered pursuing these capabilities have ultimately led to them being abandoned in favor of more obtainable and efficient tactics. They simply fall well short of the destruction wrought by simpler and more conventional explosive devices. Pound for pound and hour for hour of effort, high explosives are far more effective at inflicting massive casualties. Chemical and biological weapons are expensive and difficult to use and have proved to be largely ineffective in real-world applications. A radiological bomb, or a dirty bomb as it is known, whilst easy to deploy, it is very difficult to immediately administer a lethal dose of radiation to victims. Because of this such weapons are more “weapons of mass disruption” rather than weapons of mass destruction.

Conclusions

Since the events of 9/11 there has been much propaganda abound about the prospects of nuclear terrorism. This misinformation stems from misconceptions and ignorance, while disinformation also comes from scaremongers hyping the threat for financial or political reasons. Many people have made a lot of money by promoting fear since 9/11. A nuclear bomb requires the construction of a nuclear device, one of the most complex programmes a nation can undertake. A terrorist organisation could possibly gain access to one part of this process, but it would be impossible – due to the nature of terrorist organisations to steal the whole process. Even receiving a nuclear device

from a state requires operational capability which would be beyond most terrorist organisations. If a terrorist group does end up with a nuclear device it was because one of the nuclear states wanted them to have one. Non – state actors are more likely to get hold of biological, chemical or radiological weapons however their effectiveness is questionable when compared to more conventional weapons.

WMD's is largely a political issue, even though they are lethal, possessing them gives a nation strength in global issues and any nation with designs on such a nation would need to think twice about the repercussions.

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 2011 The US remains the world's superpower, albeit a much weaker power than it was a decade ago. America's preoccupation in two wars has weakened it and consumed its efforts allowing countries such as China and Russia to strengthen their positions in their regions and in the case of Russia to spread its influence in its periphery.

The US was already weakening before 2011 but it now faces a challenge to its hegemony from a region that possesses some of the world's strategic resources and are a people that have never fully embraced Western values. The Arab spring initially saw the US caught on the back foot but soon the US abandoned many of its proxies who loyally served her, for a new set of proxies. The Muslim world however does not view the US as it used to. Guantanamo Bay, Abu Gharib and the backing of ruthless individuals in the case of Iraq has undermined the US forever in the region. Add to this the inability to pull itself from a recession and policies which are the complete opposite what the US has long advocated for the world, in 2012 the US will no longer be the nation the world looks towards for leadership.

2012 is an important year for the US as aside from it being election year, it is the first year since 9/11 that it will have more political space to deal with other global issues. For any nation to challenge a weakening US there are two possible scenarios. The first is develop alternative ideas of governance and systems for society and thus challenge the US through winning other nations to such ideals and showing the strength of such ideas via domestic implementation. The key being an alternative way to run a society on a distinct set of values at a time when most of the Western world is abandoning their values.

The second would be to challenge US dominance around the world through competing with it in various theatres and attempt to undermine US prowess in such regions in order to weaken America's position. This would require an immense effort by any nation currently. However the US can be weakened through asymmetric tactics as has been seen in Iraq and Afghanistan.

It is here that both China and Russia have made significant gains. Both countries have utilised their secret services to steal corporate secrets and complicate US plans in the Far East and Eurasia. However such a strategy would take a generation to succeed and is dependent on both China and Russia having stable domestic situations and stable economies – which both countries do not have. Both nations have made strides in military development and both have plans to expand their military prowess.

China and Russia as well as France, Germany and Britain are not providing any new system of governance for the world. They merely want to be the world's superpower and shape the world in a way that benefits their individual countries. With the global economic crisis affecting all these countries it is possible in 2012, and beyond, some countries will get weaker whilst others get stronger and thus the challenges to the US will change from country to country. At the same time the world's superpower will also be impacted by a declining economy. None of these countries are

bringing anything new to the world, they are all looking to use the existing international architecture to achieve their individual interests.

The Arab spring however challenges the existing world order. The people who rose up to overthrow their rulers do possess an alternative system of governance and in 2011 they moved a step closer to taking their destiny into their own hands. Whilst the narrative from the West has been demonstrations equal western values, the success of Islamist parties runs contrary to this. The secular groups who communicated to Western audiences via social media were given the majority of the media airtime. Despite this they remain a tiny minority. An interesting insight was provided by Aymenn Jawad Al-Tamimi at the American Spectator: *“That Islamism consequently has a significant degree of appeal should not come as a surprise...instead of trying to offer comprehensive alternative policy programs to voters, prominent, Western-educated Egyptians like Mona Eltahawy have become enthralled with spectacles like that of an Egyptian female blogger's stripping completely naked....in the midst of an Islamist upsurge in Egypt, they can find nothing better to do than to express delight over someone exposing her entire body on a public forum.”*³¹

Whilst the Arab spring is still a work in progress and as many of the statements by the Islamic parties leaves much to desire, the role of Islam in society and governance will only increase. Those parties that dilute Islam, will see themselves sidelined as their votes are based upon them remaining Islamic.

Whilst the immediate challenges the world's superpower faces is from China and Russia, who themselves have numerous internal development issues they need to overcome, 2011 was the year a new player entered the global scene. Whilst much will need to happen for the current uprising to turn into an Islamic government, as we completed our analysis of 2010 this time last year, who would have thought the self immolation of Mohammad Bouazizi would have led to the overthrowing of Ben Ali, Mubarak and Gaddafi.

In the medium to long term the US and the Western world will have to contend with a rejuvenated Muslim world who have broken the shackles of fear (something the West backed) to take their destiny into their own hands. Whilst it remains to be seen how Islamic the current crop of Islamic parties will be, what is for sure is the Muslim world wants change and that change is not for a four millennia old, foreign system developed in Europe but a system which is indigenous to them. As one geopolitical analyst put it: *“The case of Egypt raises an interesting and obvious question regardless of how it all turns out. What if there are democratic elections and the people choose a regime that violates the principles of Western human rights? What happens if, after tremendous Western effort to force democratic elections, the electorate chooses to reject Western values and pursue a very different direction — for example, one that regards Western values as morally reprehensible and aims to make war against them?.....but the general assertion is a form of narcissism in the West that assumes that all reasonable people, freed from oppression, would wish to emulate us.”*³²

2012

What follows are a selection of issues which we feel will have global implications in 2012. 2012 is election year in many countries.

French elections, April 2012 - France will go to the polls in April 2012 and the result could impact the French position in the world.

French post WW2 history was dominated by the Gaullist era, where France perceived the United States and particularly the US dominance of European foreign and defence policies through NATO, as a threat that could make Paris irrelevant. At the time, the French saw their country not needing such alliances.

But since Nicholas Sarkozy took office in 2007, Paris grew closer to Washington, ending France's Gaullist period. French leaders have always viewed German economic power as a threat to France's ability to be a European power. Under Sarkozy France became the United States' key ally on the Continent, thereby assuring Germany and other possible competitors would not be able to challenge France's relevance or security. However in 2012 – which is election year, the Sarkozy government faces a stagnating economy, stubborn unemployment, fierce political opposition, panic over the debt and his supporters abandoning him.

Even before the Socialist opposition selected François Hollande as their presidential candidate in October, its two most popular figures, François Hollande and Martine Aubry, held double-digit leads over Sarkozy. With support from the right Sarkozy came to power in 2007 and began to quickly lose support due to his flashy nouveau riche style and a number of scandals. Given these circumstances, what sort of campaign the French right put forward to eke out a victory? A return to the socialists who already control the Senate could see return of Gaullist policies which would reverse Sarkozy's Neocon policies which made France grow close to the US.

Chinese Elections, early 2012 - China is set to experience a major leadership change at the 18th National Congress of the Chinese Communist Party in 2012. Current top leaders, including President Hu Jintao, Premier Wen Jiabao, and Chairman of the National People's Congress Wu Bangguo, are all expected to retire. The Politburo and its Standing Committee will be repopulated with a large number of new faces. As many as seven of the nine members of the Politburo Standing Committee, the highest decision-making body in the country, are expected to retire. Within the full 25-member Politburo, at least 14 leaders will vacate their seats to make way for younger candidates. Consequently, the principal figures responsible for the country's political and ideological affairs, economic and financial administration, foreign policy, and military operations will consist of newcomers in 2012.

China's leadership transition is not really an election but a highly organised transition. It is the politburo that decides who gets in power. The politburo is the executive committee for a number of communist political parties. To become the supreme leader one is required to simultaneously hold three positions: General Secretary of the Chinese Communist Party ("CCP"); President of the PRC, and Chairman of the Central Military Commission. Only by filling these three roles is the individual considered the paramount leader.

There is a struggle at the heart of China's politics with two factions wrestling for control. There is current President Hu Jintao's Youth Leaguers, who are more concerned about the growing inequities between the rich and poor in China and providing a better social safety net for poorer areas of China negatively impacted by its quick economic rise. Then there is former President Jiang Zemin's "Shanghai Clique." The Shanghai clique stresses economic development, high GDP, and continuing China's integration into the global economy. Currently, the Chinese Communist Party leadership is evenly split between the two factions. The outcome will decide exactly how China deals with the US and its role as a world power in the short to medium term.

Russian elections March 2012 - Typically, this is not an issue of concern, as most Russian elections have been designed to usher a chosen candidate and political party into office since 2000. Russia's electoral process is heavily influenced by the security establishment. The security establishment were able place one of their own as president in 1999 - Vladimir Putin. Since then the United Russia party, which is a coalition of parties with similar thinking regarding Russia's security driven policies have dominated the Russian parliament – the Duma.

Russia goes to the polls in 2012 and whilst there has been much debate in the international media as to whether Putin will return to the presidency this was all confirmed in September 2011 at the United Russia party conference. The conference confirmed that Russian Prime Minister Vladimir Putin will seek a return to the presidency and that Russian President Dmitri Medvedev would shift to the premiership.

As long as Russian politics remains this way, this is a significant move as this would mean Putin will be in power for the next decade, but more importantly the security establishment wanted a strong leader in the face of significant challenges Russia will need to navigate, which include BMD with the US, The European Union crisis, Russia's modernisation and internal factionalisation. What needs to be monitored is Putin moves and policy announcements from now until he takes the helm as this will show the position of Russia's establishment.

US Presidential elections, November 2012 - Whilst Barak Obama's mantra of 'time for change' evaporated faster than the speed of light the democrats lost its Senate and House of Representatives majority in the Mid-terms. Many democrats have stood against Obama due to his policies including Medicare and for continually compromising on his promises and his handling of the economy. Whilst the Caucuses begin at the end of January 2012 and although Obama is unpopular the Republicans are more divided than ever. The dominance of the Neocons during the Bush era acted as a solid wall for younger and alternative faces to climb the ranks. Since the departure of Bush the lack of leadership has salvaged Obama's waning fortunes. The evolution of the Tea Party Movement (TPM) has been parallel to the leaderless Republican party, however this faction has an extremely narrow support base. The weakness of the Republicans makes it more possible that a weak Obama will win the presidential elections.

Pakistan - Cricket star turned politician Imran Khan and his political party - Pakistan Tehriki-e-insaaf (PTI) – party of justice, has been able to capitalise on the waning fortunes of the Pakistan Peoples Party (PPP) led by Asif Ali Zardari. With an economy in freefall and playing the role of US lackey the emergence of Imran Khan and his party may mean that change is afoot in Pakistan. What

makes this Pakistani domestic issue of international importance is the fact that the Pakistan army is backing Imran Khan. PTI's Punjab president highlighted in a December meeting of the PTI's core committee that there a secret committee functioning to probe the background of the new entrants to the party. He revealed that this secret committee comprised a former ISI official, a retired major general and some Intelligence Bureau staff.³³ The Pakistan general election is due in early 2013 and with the US withdrawal due to gather pace in 2012, Imran Khan represents a break form the corrupt and patronage dominated politics of Pakistan. Whilst he has presented little in the way of his policies on India, Kashmir, the US and Afghanistan he has 2012 to convince the Pakistan electorate of around 82 million that he is a break from the past

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