

CARNEGIE ENDOWMENT

FOR INTERNATIONAL PEACE



EDITED BY

JESSICA T. MATHEWS

GLOBAL TEN

CHALLENGES AND OPPORTUNITIES FOR THE PRESIDENT IN 2013



WASHINGTON DC ■ MOSCOW ■ BEIJING ■ BEIRUT ■ BRUSSELS

EDITED BY
JESSICA T. MATHEWS

GLOBALTEN

CHALLENGES AND OPPORTUNITIES FOR THE PRESIDENT IN 2013

CARNEGIE ENDOWMENT

FOR INTERNATIONAL PEACE

© 2012 Carnegie Endowment for International Peace
All rights reserved

The Carnegie Endowment does not take institutional positions on public policy issues; the views represented here are the authors' own and do not necessarily reflect the views of the Endowment, its staff, or its trustees.

For electronic copies of this report, visit:

CarnegieEndowment.org/pubs

Carnegie Endowment for International Peace
1779 Massachusetts Avenue, NW
Washington, DC 20036
Phone: + 202 483 7600
Fax: + 202 483 1840
CarnegieEndowment.org

CONTENTS

THE WORLD IN 2013 JESSICA T. MATHEWS	5
--	---

CHALLENGES

BEYOND THE FISCAL CLIFF: SAVINGS, HEALTHCARE, AND INEQUALITY URI DADUSH MOISÉS NAÍM	19
---	----

AVOIDING CATASTROPHIC FAILURE IN AFGHANISTAN SARAH CHAYES FREDERIC GRARE	33
--	----

THE IRANIAN NUCLEAR THREAT KARIM SADJADPOUR GEORGE PERKOVICH	45
--	----

A NEW GREAT-POWER RELATIONSHIP WITH BEIJING DOUGLAS H. PAAL PAUL HAENLE	53
---	----

AWAKENING TO A NEW ARAB WORLD MARWAN MUASHER KATHERINE WILKENS	63
--	----

OPPORTUNITIES

MANAGING THE UNCONVENTIONAL OIL AND GAS BONANZA

DAVID BURWELL | DEBORAH GORDON75

THE GAME CHANGER: COOPERATIVE MISSILE DEFENSE

DMITRI TRENIN | JAMES F. COLLINS91

A NEW FRIENDSHIP: U.S.-INDIA RELATIONS

ASHLEY J. TELLIS99

REENERGIZING DEMOCRACY PROMOTION

THOMAS CAROTHERS..... 109

THE DRAGON DANCE: U.S.-CHINA SECURITY COOPERATION

JAMES M. ACTON 117

CONTRIBUTORS 129

CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE 137

THE WORLD IN 2013

JESSICA T. MATHEWS

2012 WAS A QUIET YEAR, a time of sorting out major changes previously set in motion. If there was a common theme, it is that while change can be breathtakingly swift in this globalized world, resolutions take longer than expected.

Few believed a year ago, myself definitely included, that Bashar al-Assad would see the beginning of 2013 still in office. Yet the killing in Syria continues with an end no more in sight than it was a year ago.

Similarly, after months and months of crises and innumerable all-night meetings, few thought it possible that the euro crisis could drag on for another year without some kind of resolution. Yet twelve months later, Greece is still in the eurozone; Spain, Portugal, Italy, and France under varying degrees of threat; Germany insisting that the euro will survive while resisting bold steps to make it so; and the euro's future nearly as uncertain as Syria's.

Russia began the year with an unexpected outbreak of civic protests surrounding its parliamentary elections that seemed to suggest major change in the offing. As the months passed, however, Mr. Putin was quietly reelected, and by the end of the year the surge for change in Russia had slipped underground.

The relative international inactivity in 2012 was partly due to an unusually large number of leadership changes, especially in East Asia, where every major country—Russia, China, North Korea, South Korea, Japan, and, on the periphery, the United States—has faced or

will shortly face a change at the helm. Whether in democracies or authoritarian countries, the months before political transitions are times when the leadership keeps its focus on politics at home and generally tries to keep things quiet abroad. For a new head of state, the months afterward are devoted to bringing in a new team, consolidating power (which, for example, Kim Jong Un has spent the year quietly doing in North Korea), or developing new policy directions (as the incoming Chinese president, Xi Jinping, will likely spend most of 2013). Exceptions to this rule occur when governments use foreign

While change can be breathtakingly swift in this globalized world, resolutions take longer than expected.

conflicts to curry political favor at home or blow up what would otherwise be small irritations into major controversies out of fear of looking weak.

And so, 2013 begins with a simmering conflict between Japan and China (with the United States

unhappily entangled because of its defense alliance with Japan) over a bunch of tiny, largely worthless, uninhabited islands in the East China Sea. With an untested leader in China and elections looming in Japan, neither side feels it can deviate from claims of absolute sovereignty. Both see short-term gain in fanning the flames of nationalism at home. One can only hope that a naval incident will be avoided until a quiet compromise is more possible and the issue can be put back into the large file of international problems labeled “Managed—Not Solved.”

BEHIND THE HEADLINES IN 2013

Three major forces, I believe, will be looming behind the headlines, driving events in 2013: the crisis of the Western order, rising sectarian strife in the Middle East, and worries about American withdrawal from the world.

The most immediate is the crisis of the Western democratic model caused by the inability of the United States and Europe to deal with their respective fiscal and financial issues. The problems are economic, but the weaknesses they reflect are political. The consequences of continued failure to act will be a weakening of the West throughout the rest of the world in every dimension of national strength: its ability to prosper, to lead, to summon and guide international action, and to protect and advance core national interests.

The immediate issue for the United States is to keep from falling off its fiscal cliff—the combination of scheduled tax increases and automatic spending cuts designed to be so painful that they would force the U.S. Congress to do what it has otherwise been unable

to, namely, to agree on a package of spending cuts, revenue increases, and entitlement reforms. So far, the threat, draconian as it is, has failed to elicit the necessary compromise.

In Europe, the strictly economic issues are far more severe, but there, too, it has been impossible to summon the necessary political will to take the needed steps until the euro economy teeters on the brink of collapse. At each stage, when the markets crack the whip loudly enough, governments respond. But at each stage, the price of the necessary fix rises. Steps that could have resolved the crisis at one point are inadequate months later.

For decades, the United States and Europe have been the two centers of global governance. They have ability, experience in international problem solving, and both the energy and the will to act. All of these assets, however, rest on the success of their own governance. Once their model is no longer a success, the world will look elsewhere for leadership. At least for the foreseeable future, it will not find any substitutes.

The Middle East will continue to be consumed with the political upheavals of the Arab Awakening: Islamists moving from the familiar role of opposition to the far harder job of governing, religious movements being transformed into political parties, the struggle to organize secular parties, the writing of constitutions, and the holding of elections. But in the coming year and beyond, it seems likely that sectarian strife will become the defining thread of events across the region.

Through decades of otherwise ineffective rule, the Middle East's dictators did manage to keep divisions between Sunnis and Shia under control. The enforced peace came apart

first in Iraq, where the American invasion triggered a sectarian civil war. The political agreements imposed under the U.S. occupation began to unravel after the departure of American forces, and Iraq today looks like a country about to splinter into Kurdish and perhaps later into separate Shia and Sunni pieces, partly due to Iranian Shia influence. Iran's mullahs are also playing a major role in Syria, where minority

Shia rulers are fighting for what they fear may be their very existence in a largely Sunni country. Christians, Kurds, and others are also fighting together and pulling apart from their countrymen. Sunni and Shia governments across the region ship arms and money to like-minded groups, choosing sides in this second sectarian civil war. Only miles from Damascus, Lebanon—always a sectarian tinderbox—tries desperately to hold on to its

The most immediate force driving events in 2013 is the crisis of the Western democratic model caused by the inability of the United States and Europe to deal with their respective fiscal and financial issues.

uneasy peace. In Bahrain, uprisings, brutally repressed by a Sunni government in a Shia-majority country, are also along sectarian lines.

It is much easier to see this trend spreading even further across the region than to imagine events that would reverse it. Real and imagined wrongs not only provoke interventions on behalf of co-religionists abroad, but they can quickly turn peaceful countries into new arenas of conflict.

Worries about American withdrawal from the world will also have a growing influence on global affairs in 2013 and beyond. The fears are triggered in part by the scheduled pullout of most American forces from Afghanistan at the end of 2014. Already, the policies of Afghanistan's neighbors, including Pakistan, Iran, India, and the Central Asian "stans," are being reshaped to preserve their influence in the aftermath. At the same time, the explosive growth in production of American unconventional gas and oil resources has raised the specter of drastically reduced American dependence on, and therefore interest in, the oil-exporting countries of the Middle East. Finally, America's budget deficits and the need for spending cuts even in the defense budget suggest to some that the United States will play a smaller role abroad in the years ahead.

Whether this expectation is welcomed or feared, and whether or not it actually comes to pass, it will likely trigger actions and adjustments in anticipation. How these might influence global events or American interests is by no means clear.

DEFINING EVENTS OF THE YEAR AHEAD

A Critical Time in Asia

Both China and the United States, protagonists in the most important bilateral relationship in the world, have just passed through prolonged, often tense leadership changes, but there the similarity ends. Some key players in President Obama's team will change, but his policy directions are largely set, and he can move promptly to address the many issues that were put on hold during the overly long U.S. political season. While he will become a lame duck toward the end of his term, in the early years, freed from a constant focus on reelection, Mr. Obama will have greater leeway in foreign policy.

President Xi, on the other hand, faces an array of immediate challenges. He must build a consensus around a new set of policies among the new generation of leaders. China's outgoing leadership, after years of stellar economic growth, could afford to allow growth to slow and politico-economic problems to accumulate. Xi cannot. He will have to accelerate the rebalancing of the Chinese economy and at the same time address the growing restiveness of a new, 300-million-strong middle class. The needed policy shifts will often be in tension.

Nor can the new Chinese government afford to look weak abroad. An increasingly informed populace, angry over widespread corruption and personal enrichment by an elite few, is easily susceptible to nationalist appeals and has been fed a bill of goods about the facts behind the conflict with Japan in the East China Sea. The majority is expecting a more assertive, higher-profile foreign policy. The public, and many in ruling circles, believes a number of conspiracy theories about U.S. intentions—that it is trying to encircle China, that it pushed Japan to act, that it is trying to make trouble over Taiwan.

The coming year, then, will call for great care on both sides. Washington and Beijing will have to separate rhetoric and fear of the other from actual changes in policy. A simmering conflict in the East China Sea will have to be managed through and beyond Japan's elections. The United States will have

to undo the damage wrought by its announced "pivot" to Asia. The message received was that Washington is planning to increase its military presence in the region for the purpose of containing China and forcing Asian countries to choose between allying

Washington and Beijing will have to separate rhetoric and fear of the other from actual changes in policy.

themselves with one or the other great power. It will take a long time to convince China that Washington's actual intent was and is to rebalance its attention from the Middle East toward East Asia, given that the United States has always been an Asian power with diverse economic, political, and security interests there.

Finally, and above all, both will have to take the first difficult steps toward defining a new kind of great-power relationship in which China is less subordinate and more of a responsible, burden-carrying international leader.

The Long Arab Awakening

Poorly chosen words can do lasting damage. The pivot to Asia was one. The "Arab Spring," which led many to expect that the upheavals in the Middle East would lead to swift change and resolution, is another. Unlike the end of Soviet rule in Eastern Europe, these are genuine internal revolutions that will take decades to play out. The challenge for outsiders, especially the United States, is to develop the necessary strategic patience to distinguish between inevitable ups and downs and long-term trends while helping new governments deliver the economic progress they will need for political survival.

Egypt's unbelievably complex political evolution will continue to play out in 2013. On balance, events there have been encouraging—the discipline of governing has exerted a

moderating influence on the Muslim Brotherhood, the military has relinquished a desire to rule, the country has stuck by its agreement with Israel, and political violence is the exception, not the rule. In Libya, the government will continue to struggle to take back a government's rightful monopoly on the use of force for internal security from well-armed militias, helped by its oil revenues but terribly hampered by the country's complete lack of functioning institutions after forty years of Qaddafi's personal rule. Governments in countries where unrest is still below the surface—Jordan, Kuwait, the Gulf emirates, and Morocco—will continue to stall, hoping that the greater legitimacy they enjoy as monarchies will enable them to avoid major protests and hold on to power. Syria, Iraq, and Iran are where major change is most likely in the year ahead.

The Syrian Stalemate

After more than a year of fighting, the conflict in Syria has become a military stalemate. Neither side can make decisive gains. Sending more arms to the opposition cannot offset the regime's tanks and fighter jets. Assad remains president but no longer rules the country. Notwithstanding the severe impact of international sanctions, he can survive indefinitely on little money by suspending the government's normal services and encouraging his military and militia to supplement their salaries by looting.

The somewhat encouraging news is that an international consensus is emerging around the need for a political compromise between elements of the regime—excluding Assad—and a coalesced opposition encompassing those outside the country and those still inside fighting, from all sectarian groups. In November, a start was made in this direction. Whether the newly formed coalition can stay together and whether it will accept less than a complete end to the present regime is uncertain at best, but at least there is the suggestion of a pathway toward a resolution.

If it can, and if outside powers (minus Russia and China) can also stay unified, 2013 could well see an end to the killing and the beginning of what will be a long, difficult political transition in Syria.

Nuclear Showdown in Iran

2012 saw conflicting trends in Iran. There was an important international success in the severest sanctions ever imposed on Iran with the value of the rial (Iran's currency) plummeting, inflation and unemployment spiraling, and the economy in tatters. For the first time in the long nuclear standoff, Iran is paying a price for its pursuit of nuclear weapons. With its standing in the region weakened by the Arab uprisings, and with less to spend on supporting its ally in Syria, Tehran nevertheless expanded its enrichment of

uranium above the level needed for civilian reactors. Israel continued to push for a war it could begin alone but could not finish while the politics of the U.S. election season made serious negotiations impossible.

Moreover, without ever explaining why, both American presidential candidates flatly insisted that containment of a nuclear Iran was impossible and unacceptable. An important area of ambiguity, where an agreement might be found, has been preserved around the difference between actual weaponization by Iran and an undefined “nuclear capability.” Iran delayed a showdown during the summer by diverting some of its growing stockpile of enriched uranium to civilian purposes, easing Israel’s insistence on the need for an early attack.

The question is what will happen now. In Israel, much is in flux. Prime Minister Benjamin Netanyahu will have to reevaluate his options in light of the outcome of the U.S. election and the public expression of opposition to a war by many of his country’s top military and intelligence leaders. Though his political opposition is weak, elections scheduled for January could also force adjustments in Israeli policy. Iran will be feeling the full, painful brunt of sanctions, and the United States is now able—if it chooses—to attempt serious negotiations. If it does, this will be the critical test of Iran’s intentions.

In Tehran the choice will be largely up to Supreme Leader Ayatollah Ali Khamenei, who has made no secret of his disbelief in compromise. Outside, the single

most important determinant will be whether the U.S. and European governments will accept Iran’s right to enrich uranium up to the low level needed for civilian purposes. If so, it may be possible to negotiate sufficiently tough safeguards, inspections, and limits on the size of a low-enriched-uranium stockpile to ensure that Tehran does not cheat. If not, any form of agreement is likely impossible.

Even if negotiations fail in 2013, Iran still has ways to make a military strike unlikely by choosing to mark time in its weapons program—limiting the size of its enriched-uranium stockpile and avoiding steps toward weaponization.

For the first time in the long nuclear standoff, Iran is paying a price for its pursuit of nuclear weapons.

Life or Death for a Two-State Solution

Perhaps a two-state solution to the Israeli-Palestinian conflict is already dead. Many believe so. If not, its hold on life will not survive much longer, certainly not long enough

for an indefinitely protracted peace process. Moreover, with the changes the Arab Awakening has brought about, an Israeli-Palestinian accord is no longer enough: a regional, Arab-Israeli agreement is clearly needed.

Such an agreement would require a monumental effort on the part of the United States. The question only President Obama will be able to answer is whether he will choose to devote so much of his second term's precious political capital to this potentially historic but so elusive goal. After November's hostilities in Gaza, the odds of him making such a choice seem very long indeed.

Can Iraq Hang Together?

Within hours of the departure of the last U.S. troops a year ago, Iraq's Shia president, Nouri al-Maliki, accused his Sunni vice president of treason, an early indicator of the deepening sectarian fissures in the country. Since then, the political fabric holding Iraq together has become steadily more threadbare. In the north, an unexpected—some call it nearly miraculous—rapprochement between Kurdistan and Turkey has transformed the relationship from active conflict to Turkey's growing economic investment in Kurdistan and political warmth. That, in turn, has pulled in investment by major foreign oil companies, ignoring Baghdad's rights.

Today, Kurdistan gets twenty-two hours per day of electricity from its grid while Baghdad struggles with only four.

What is very good news for Kurdistan, however, only emphasizes the stagnation in the rest of the country. Shia get most of the few

With the changes the Arab Awakening has brought about, an Israeli-Palestinian accord is no longer enough: a regional, Arab-Israeli agreement is clearly needed.

services Baghdad's divided and feckless government is able to provide, leaving the country's Sunni population increasingly angry and resorting to violence.

Elections in the early months of 2013 may indicate whether Iraq will be able to hold itself together. What unfolds in Syria will heavily influence Iraqi Sunnis' decisions about how far to push their dissatisfaction. The outlook for a stable, unified country ten years after the U.S. invasion, and with more than a trillion dollars spent, cannot be said to be encouraging.

Developments in South Asia and Ending America's Longest War

In 2011, President Obama announced that most U.S. troops would leave Afghanistan at the close of 2014. By then, the plan anticipated, Afghan security forces would be strong enough to secure the country and a political agreement involving the Taliban would have been reached to avoid further fighting. Even when the plan was announced the security situation was discouraging. International casualties had reached their highest point in nine years of war in 2010. They climbed higher in 2011 and higher still in 2012 as shootings of U.S. and NATO troops by individual Afghan police and army members became a grim, new feature of the war. After several false starts, a successful negotiation with the Taliban seems remote. Afghanistan's neighbors are positioning themselves for what seems increasingly likely to be a period of even greater instability after American and international forces depart.

Trends strongly suggest that the United States and its international partners will have to broaden their efforts to build political reconciliation to encompass Afghan groups far beyond the Taliban. Whether they will choose to do so is not yet clear. Even less clear is whether, with declining leverage as their troops leave the country, they will be able to push for a fair presidential election as President Hamid Karzai's term ends in 2014. An obviously corrupt outcome in that election could prove a devastating setback.

A surprising bright spot over the past year has been developments in Pakistan. It now seems likely that Pakistani elections next year will see the first peaceful end to a period of civilian rule in Pakistan's history—a notable milestone. Violence or a military coup looks increasingly unlikely. At the same time, Pakistan's obsession with its adversary, India, has significantly lessened. Trade across the border has increased markedly, visa restrictions have been loosened, and there is talk of renewed efforts to settle long-standing Indo-Pakistani territorial disputes. A sickening attack by Taliban militants in October on a fourteen-year-old schoolgirl who campaigned for women's education brought the country together as never before. It is impossible to say whether this unity will last, but the attack has dramatically reinforced the reality that the country's internal problems mean more to Pakistan's security than does the threat from India.

Afghanistan's neighbors are positioning themselves for what seems increasingly likely to be a period of even greater instability after American and international forces depart.

If these trends endure, real change could follow in one of the world's most dangerous countries. In the best case, they could ease Islamabad's fear of being caught between unfriendly governments in New Delhi and Kabul enough to allow Pakistan to play a more constructive—or at least a less destructive—role in shaping Afghanistan's future.

Strange Interlude in Russia

Large street protests at the close of 2011, inspired by the Arab Awakening, suggested a political turning point in Russia. But the movement weakened rather than spread, and only three months later Prime Minister Vladimir Putin was overwhelmingly reelected to the top post of president, though with badly damaged legitimacy. Since then, he has gathered greater power into his own hands, labeled those who did not support him as “decadent” and unpatriotic, and branded Russian nongovernmental organizations that receive financial support from abroad as “foreign agents.” Internationally, he has huffily turned away from the West, executing his own pivot toward Asia.

In all likelihood, decisive change in Russia will be a long, slow evolution, not to be expected in 2013 or perhaps for years thereafter. Yet Russia is not the same. An urban elite and a well-informed middle class that is freer and more prosperous than ever before are too aware of the regime's failings. A more assertive policy abroad appears to be part of

Decisive change in Russia will be a long, slow evolution, not to be expected in 2013 or perhaps for years thereafter.

Mr. Putin's answer to his domestic problems—even when it works against Russia's own interests, as stubborn support for the regime in Syria does.

The most critical near-term decision will be whether the United States and Russia can find a way

to cooperate on the missile defense systems each is planning to build. Missile defense cooperation is a game changer for the Russian relationship with the West and for the future of nuclear arms control: for good if it happens, for ill if it does not.

A Superstorm Reminder

Will Sandy, an immense hybrid of winter storm and tropical hurricane, at last allow all Americans to see climate change as a threat that must be urgently addressed rather than a conspiracy driven by deluded scientists for undefined reasons and a political litmus test? While climatologists do not know whether this unusual type of storm is caused by a warming climate, its high death toll and economic damage that may top \$50 billion

could be enough to convince more Americans to take a clear-eyed look at the accelerating record of extreme weather events of recent years.

The only economically sensible, fair, and effective way to address this enormous global challenge is by putting a price on carbon and then freeing markets—rather than government—to innovate and choose among fuels and technologies. Sandy will not, in itself, make a big enough difference. But, together with the weather disasters that will certainly follow, it may provide a significant push. U.S. recognition that climate change is a real and urgent threat to the nation's and the planet's well-being is the key to some form of effective international accord. While neither that recognition nor a global agreement will happen in 2013, both will come eventually as the threat becomes overwhelmingly obvious. The longer the wait, unfortunately, the higher the cost will be.

The need to price carbon becomes all the more compelling as the United States embarks on an enormous boom in the production of unconventional oil and gas resources that have vastly differing climate impacts. In addition to sparking a U.S. economic recovery, these new resources could lower the price of gas and perhaps later of oil—aiding a eurozone recovery, roiling the fossil fuel markets, introducing great price volatility, and, over time, dramatically shifting global geopolitical alignments as newly oil-rich North America becomes a significant exporter and far less dependent on Middle Eastern sources.

The only economically sensible, fair, and effective way to address the enormous global challenge of climate change is by putting a price on carbon and then freeing markets—rather than government—to innovate and choose among fuels and technologies.

LAST WORD

This brief survey deserves to end where it began. No “foreign policy” issue in 2013 will matter as much to global economic, political, and ultimately security conditions as whether the United States and Europe are able to deal with their economic crises.

If America's political parties can agree on a way to climb down from the fiscal cliff, the resolution of the acute economic uncertainty that has gripped the country for the past eighteen months would unleash private sector investment, spark an economic recovery, and give new capacity and weight to the country's international role. Such a compromise might also open the wider road back from the United States' present, crippling political polarization.

In purely economic terms, an agreement is certainly achievable. Whether political conditions will allow it depends on whether the Republican Party, having failed to make Mr. Obama a one-term president, now judges either that an agreement is in its interest or that the country's economic need is paramount. If so, and if the Democratic Party can match it in compromise, the economic benefits will be very great.

For Europe, the world's largest economic entity and a critical leader of a liberal and peaceful world order, the challenge is still to summon sustained economic discipline and political will. Progress has been made. Governments have firmly convinced themselves, if not the markets, that they will do whatever it takes to save the euro. Thanks largely to the efforts of two Italians—Mario Monti, the economist appointed interim prime minister to put Italy's house in order, and Mario Draghi, the new head of the European Central Bank—concrete steps have been taken that show a rescue is possible. But painful structural reforms will have to be endured for many years—a tall order for any one democracy, let alone for many sharing each other's pain.

In effect, the euro crisis morphed in 2012 from a life-threatening emergency to a chronic disease that will be with us for years to come. The challenge for 2013 is to maintain the harsh treatment, avoid setbacks (in France, especially), and continue to inch toward restored growth.

Between a half dozen unfolding and potential crises in the Middle East—in Syria, Iran, Iraq, at least—the no-longer-avoidable economic and political challenge confronting the United States and Europe, and a shaky U.S.-China relationship to be navigated past fresh shoals, 2013 looks to be a year of defining importance in international affairs.



CHALLENGES



BEYOND THE FISCAL CLIFF: SAVINGS, HEALTHCARE, AND INEQUALITY

URI DADUSH | MOISÉS NAÍM

Political bickering has blinded American leadership to the deeply rooted problems with the U.S. economy. America's fundamentals remain strong—from its capacity to innovate to its high productivity. But the United States will only make the most of its potential if President Obama takes decisive action and with the support of Congress manages to increase savings, reform a healthcare system that is draining resources, and combat high levels of inequality.

THE ECONOMIC PROBLEMS FACING THE NEXT U.S. PRESIDENT

are well-known. The list includes stubborn unemployment, high indebtedness, chronic deficits, inadequate educational outcomes, decaying infrastructure, a dangerously vulnerable global economy, and the fiscal cliff. Equally well-known are the diverse and often divergent prescriptions offered to alleviate these woes—more government or less, fiscal austerity or continued stimulus, tax increases or spending cuts.

President Obama has to find his way through the firefighting and address the underlying causes of the immediate economic challenges the nation confronts. Fortunately, the president will be supported in this task by America's still-strong growth fundamentals. Contrary to popular impression and despite its many problems, the United States retains the potential to grow rapidly in the coming decades.

That is not to say that the immediate threats to U.S. economic stability have been exaggerated. In fact, they represent a national emergency. But the consequences of falling over the fiscal cliff have already been extensively discussed, and the overwhelming majority of economists who have analyzed the U.S. fiscal imbalance agree that correcting it will inevitably require both government spending cuts and an increase in tax revenues. Avoid-

Avoiding the fiscal cliff is at its core a political problem that demands political solutions.

ing the fiscal cliff is at its core a political problem that demands political solutions. These frenzied discussions on the immediate future have blinded many policymakers and commentators to the importance of addressing the

roots of the nation's fiscal instability. There are three priorities for restoring America's fiscal health and realizing its growth potential: raising the national savings rate, containing healthcare costs, and mitigating income inequality.

In the current political climate, the possibility of making progress on such a reform program, or indeed on any one of its elements, will appear far-fetched. That may be. But one must know the cause of a disease to cure it, and fixing the United States' economic problems is no exception to that rule. A nation no longer in economic free fall as it was four years ago should be capable of charting its own future.

KNOW YOUR STRENGTH

Contrary to the view of many commentators, the United States is in a very strong position to capitalize on the powerful forces driving contemporary economic growth, namely, technology and globalization. This does not, of course, mean that its potential will automatically be realized.

The American economy remains the richest and most productive large economy in the world by a wide margin. It is more than three times the size of the second-largest economy, China, as measured by real GDP at market exchange rates. While China is projected to eventually overtake the United States, the Asian giant will remain a relatively poor country confronting major concerns about the sustainability of its economic, political, and social system.

Reflecting its very high productivity, which many economists consider the best single measure of competitiveness, the United States continues to rank among the top ten countries on the World Economic Forum's annual Global Competitiveness Index and the top five on the World Bank's Doing Business Index. Although like nearly all advanced countries it has seen its share of world exports decline and developing countries gain

export share, the United States has also seen exports grow rapidly as the latter's imports boomed. Moreover, its ability to export as well as to buy what it needs from the world is substantially boosted by new gas and oil extraction technologies that are likely to greatly reduce its reliance on imported energy, shrink its current account deficit, and create new centers of economic growth around the country.

In this year's Annual Energy Outlook, the U.S. Energy Information Administration projects that, between 2010 and 2035, net U.S. oil and biofuels imports will fall from 49 percent to 36 percent of total domestic oil and biofuels consumption and the United States will become a net exporter of natural gas. The International Energy Agency forecasts that by 2017 the United States will become the world's top oil producer, overtaking Saudi Arabia and Russia. The cumulative impact of this shift on the U.S. economy could be large. In a report this March, Citigroup projected that increased domestic production of oil and gas and related activity, combined with constraints on domestic oil and gas consumption, could create between 2.7 and 3.6 million net new jobs, increase real GDP by between 2 and 3 percent, and reduce the U.S. current account deficit by 60 percent by 2020.

The United States continues to exert a powerful attraction on foreign investors, not least because of its status as one of the world's most innovative nations and the stability of its rules-based business environment. Despite the fact that the Great Recession originated in the United States, between 2006 and 2011 the country attracted \$1.39 trillion in foreign direct investment (FDI), or 13.7 percent of the global total. In contrast, Japan and Germany attracted a meager 0.5 percent and 2.5 percent, respectively. The latest data on FDI inflows to China, for 2010, indicate that it received 8.7 percent of the total.

While the United States makes up just 5 percent of the world's population, it accounts for 28 percent of patents globally and is home to 40 percent of the world's highest-ranked research universities. Its

economy, driven mostly by technological and business innovation, is well placed to avoid the diminishing marginal returns that come from growth that is overly dependent on high rates of investment in public works, plants, and machinery—as is the case in several Asian countries, for example.

At the same time, the United States' great capacity to innovate is reinforced by its unique ability to quickly integrate migrants who are disproportionately represented among its

The United States continues to exert a powerful attraction on foreign investors, not least because of its status as one of the world's most innovative nations and the stability of its rules-based business environment.

successful entrepreneurs. Despite its defective immigration regime, the United States continues to be the preferred destination for the world's professional class.

Finally, America's population is younger, includes more children, and is growing faster through immigration than those of other advanced countries and China. Over the next twenty years, the U.S. labor force is projected to grow by 17 percent, while those of other Organization for Economic Cooperation and Development (OECD) economies are forecast to grow by a paltry 1 percent and China's working-age population is projected to shrink by a little over 1 percent. This is an advantage because it expands the size of the

The United States is enviably well positioned to benefit from open engagement in a rapidly expanding global economy.

U.S. domestic market and implies that there are proportionally more workers to support children and the elderly.

These strengths make the United States enviably well positioned to benefit from open engagement in a rapidly expanding global

economy. Over the next generation, emerging markets are projected to grow two to three times faster than advanced countries and to account for over half of the global middle class in the world, adding about a billion potential customers for products that the United States excels at producing. Still, the United States must overcome a number of obstacles before it can make the most of its potential.

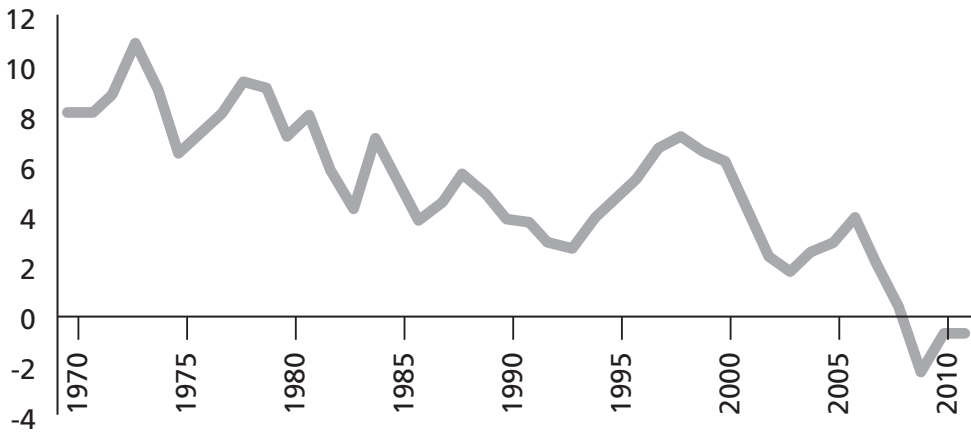
THE FISCAL DEFICIT AND THE NATION'S INABILITY TO FUND IT

Most of the discussion about American profligacy tends to center on government spending. But another big reason that the United States has run a cumulative current account deficit of roughly \$8 trillion over the last three decades is its low household savings rate. Low savings make it harder to finance large government deficits and can encourage a potentially dangerous overreliance on foreign financing. Low national savings (the sum of household, business, and government savings) are a far more important driver of the U.S. current account deficit than the often-touted but largely unsubstantiated loss of competitive edge by U.S. companies or workers.

U.S. national savings are now so low that they do not even cover depreciation, the wear and tear on the nation's stock of capital. That means the net national savings rate is now negative (see figure 1). In 2010, U.S. households saved less than 4 percent of their disposable income—more than they saved prior to the Great Recession of 2008 but still ranking

FIGURE 1

U.S. Net National Savings as a Percent of GDP, 1970–2011



Source: Bureau of Economic Analysis

Note: Net national savings represents the amount of net income that is left over after all consumption-related expenditures.

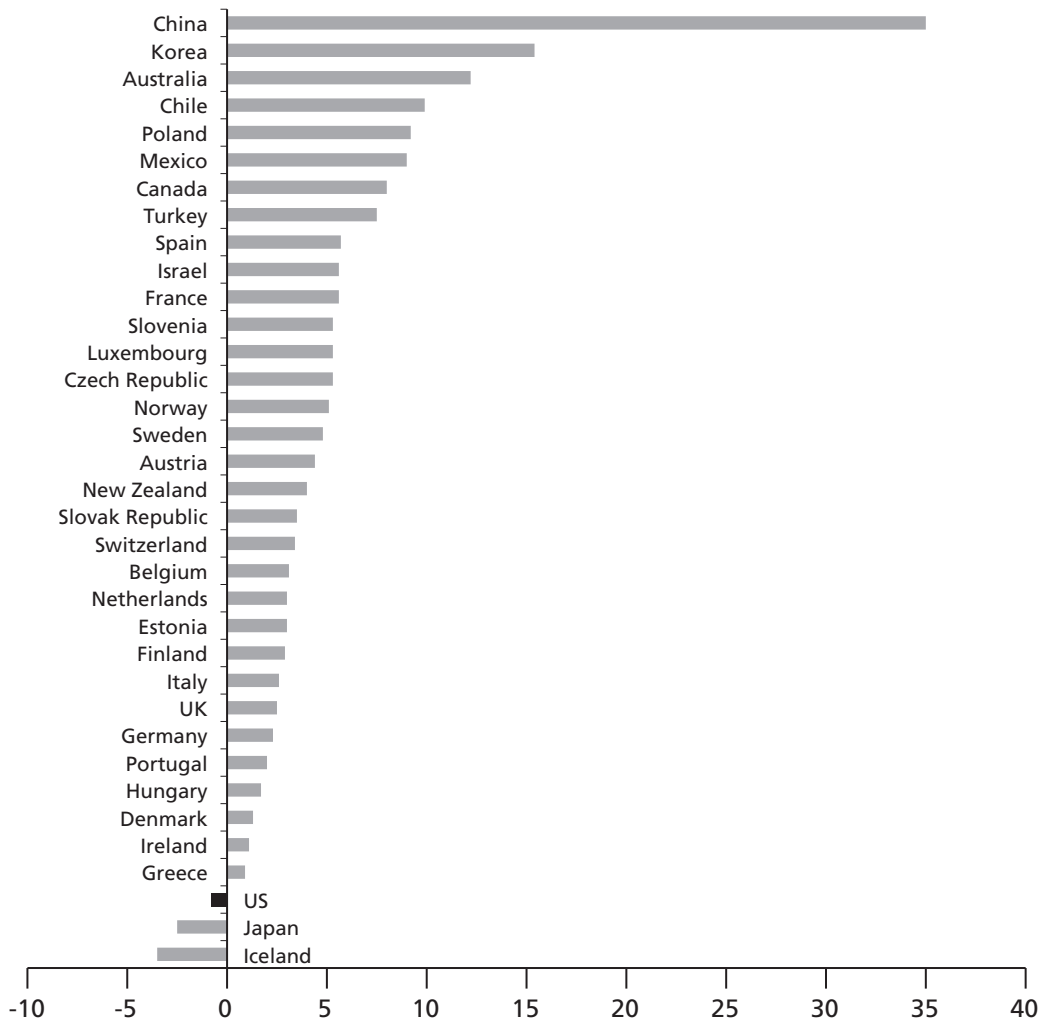
29 out of the 34 OECD countries. In 2011, net national savings as a percent of GDP was -0.7 percent. To put this figure into perspective, the equivalent rate was 6.1 percent in Germany, 6.6 percent in Japan, and an astonishing 40.6 percent in China in 2010 (the latest year data are available from the World Bank).

Low national savings and limits on the financing that China, Japan, and other foreign investors will provide mean that U.S. domestic investment is also low by international standards. In fact, U.S. net investment (gross fixed capital formation minus depreciation) is -0.8 percent of GDP, the third lowest in the OECD. In comparison, net investment in China is 35 percent (see figure 2). This reduces the United States' growth potential and hampers its ability to service already high debt that continues to grow.

In the immediate pre-crisis years, exuberant spending by households in the United States was fueled by rapid economic growth and loose monetary policy. But more forces are at play. Compared to other advanced countries, the U.S. tax system not only raises less revenue but also is strongly biased toward taxing income rather than consumption, encouraging the latter. For example, most advanced countries apply a value-added tax (essentially a consumption tax) of 20 percent or more, but the United States relies

FIGURE 2

Net Investment in OECD Countries in 2010 as a Percent of GDP



Sources: World Bank, "World Development Indicators," OECD, "National Accounts at a Glance 2011"
Note: Net investment is calculated as gross fixed capital formation minus consumption of fixed capital.

on sales taxes that are typically in the upper single digits. The United States also has extremely low gasoline taxes—relative to other countries—raises very few luxury taxes, and allows for substantial tax deductions of mortgage interest payments.

Increasing the household savings rate requires the United States to shift the tax burden from income toward consumption. America must also find ways to contain large, unfunded transfers from the young to the relatively affluent old—who are high spenders. And this should start with healthcare.

A HEALTHCARE SYSTEM THAT IS BANKRUPTING THE COUNTRY

Household overspending is clearly a problem for the United States. The other big spender is the public sector, as is evident in the ballooning fiscal deficit. In both cases, the enormous and rising cost of providing for healthcare is one of the main reasons the situation is so unbalanced and unsustainable. The United States currently devotes almost 18 percent of its GDP to healthcare—which is 80 percent more as a share of its GDP than the OECD average and 4 percentage points of GDP more than it spent in 2000.

But the U.S. healthcare system is not just the most expensive in the world; it is also the most inefficient and wasteful, and its coverage—even after Obamacare—is the least complete among advanced countries. U.S. GDP per capita is about 40 percent higher than the OECD average. Still, life expectancy, child mortality, and other performance indicators of the U.S. healthcare system are substantially lower than the OECD average—a group of rich nations that spends less than half as much per person on healthcare as the United States does. The

The U.S. healthcare system is not just the most expensive in the world; it is also the most inefficient and wasteful.

United States has one of the highest child poverty rates in the developed world. The fact that one in five American children lives in poverty is a striking example of inequality of opportunity and outcomes. And it is simply scandalous that the life expectancy of white Americans who have not finished high school declined between three to five years over the period 1990–2008.

The exceptionally high cost of healthcare in the United States can be attributed mostly to high prices rather than just more intensive use of healthcare services by an aging society. The most significant driver of high prices, in turn, is a combination of high administrative costs, bureaucracy, and high compensation for providers—particularly specialists. Most other advanced economies pursue lower healthcare prices more aggressively, with the government either setting prices up front or insurers and providers negotiating prices

and the government stepping in to set prices if they cannot come to an agreement. But in the United States, providers often have much more discretion in price setting. A 2009 Dartmouth study found that the disparity in per person spending for the same healthcare services in different locations across the country can be as high as \$2,300.

The fee-for-service model that guides provider compensation in the United States also contributes to higher costs by creating an incentive for providers to emphasize quantity over quality. Other factors that push health costs higher include high markups in the medical device and pharmaceutical industries and higher administrative costs for medical payments than in a single-payer system in which the government collects all payments and compensates providers.

Healthcare costs tend to rise much faster than the consumer price index, and the U.S. population is aging, which typically means higher costs. As a result, government health-care spending could rise from roughly 10 percent of GDP to 16 percent of GDP by 2030, according to an International Monetary Fund analysis of recent Congressional Budget Office projections. Left unchecked, that trend alone will double this year's projected budget deficit. Spending by individuals will also rise rapidly.

While the healthcare reforms adopted in Obama's first term are a step in the right direction, there is a lot more that needs to be done to endow the nation with a system that is high quality, socially fair, efficient, and affordable. There is no silver bullet to solving this problem. Yet, there is also no shortage of sensible and in many cases internationally tested approaches to lowering costs while enhancing the quality of care. The United States could promote greater standardization in price setting as well as increased competition among suppliers—including international competition—comparative effectiveness research, sharing of information, and heightened transparency. More broadly, reforming the intellectual property regime to avoid spurious patents and limit the lifetime of patents to what is economically efficient can help reduce costs. In almost all other advanced countries a combination of these measures and more effective efforts at prevention have proven successful in containing healthcare costs well below U.S. levels without worsening health outcomes and while providing basic coverage to everyone.

Of course, rising healthcare costs represent a risk to the stability of the U.S. economy, but they are not the only area of government and private spending that requires careful scrutiny. The United States spends 4.5 percent of its GDP on national security, according to Michael O'Hanlon of the Brookings Institution, compared to about 2.5 percent in other advanced countries. Given the respective size of economies, these figures are the source of the well-known statistic that the United States spends on defense almost as much as all other nations combined. With such an enormous gap, there is no reason to assume that opportunities to boost the efficiency of U.S. defense spending do not exist or that cutting defense spending imperils the nation.

THE SURGE IN INEQUALITY AND WHY IT MATTERS

Another critical problem is the sharply widening distribution of income and wealth. The United States exhibits stagnant median incomes and declining average wages while incomes at the top of the distribution continue to rise rapidly. Yet, a plausible definition of economic success should surely include advancing living standards for most of the population, not just the privileged few.

Beyond a certain level, high inequality is associated with a plethora of social problems, including chronic poverty, crime, and political divisions. Moreover, high inequality becomes entrenched and self-perpetuating, denying opportunities to those born to parents that are less well-off. Social mobility in the United States is now much lower than in Europe. A recent study by the OECD, for example, found that in the United States, fathers' incomes are much more predictive of their sons' incomes than in Australia, Canada, the Scandinavian countries, and much of Western Europe, suggesting that earnings mobility is more limited. This is strongly indicative of a squandering of human potential that is not only unfair but also undermines the country's productivity and international competitiveness.

The statistics are striking. According to broad measures of inequality among OECD members, the United States has the highest inequality of all advanced countries and its inequality is almost as bad as in Mexico—a developing and famously unequal country—as well as in Turkey and Chile, two other developing countries beset by high levels of inequality.

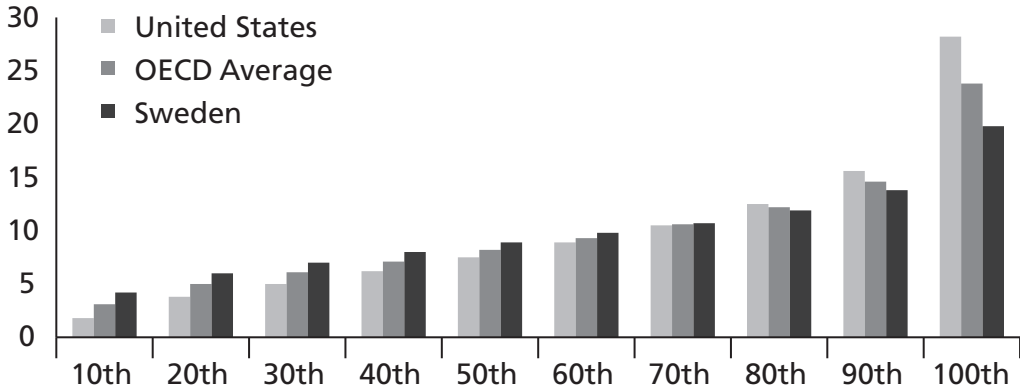
The extraordinary fact is that since 1970, in the United States there has been almost no increase in the average income after inflation of the bottom 90 percent of households. The nation has actually grown faster than the average of other advanced countries, but the benefits of its growth have accrued almost entirely to the top echelons of the income distribution. Meanwhile, the income share of the top 1 percent of taxpayers doubled from 10 percent of total income to over 20 percent in 2012—this is the highest share since 1929.

How unequal the distribution of income in the United States has become is evident when it is compared to the OECD average and to Sweden, an economy that navigated the Great Recession remarkably well, exhibiting both healthy public finances and one of the most equal income distributions in the world. About three-fourths of those in the bottom two deciles of the U.S. distribution (those on the left of figure 3) are officially below the poverty line.

While this trend of growing inequality is rooted in changes that have unfolded over the last thirty years, most notably skill-biased technological change and the many effects of globalization, it has been exacerbated by both institutional changes and policy decisions

FIGURE 3

Income Distribution by Decile in 2005 as a Percent of Total Household Disposable Income



Source: OECD, "Growing Unequal: Income Distribution and Poverty in OECD Countries"

that have tended to favor the most well-off segments of American society. The United States stands out among other advanced democracies in that the government taxes its citizens relatively lightly and plays a relatively small—and diminishing—role in redistributing income from high earners to lower earners. For example, the interest payments on the mortgages that the wealthiest 20 percent of Americans are allowed to deduct from their income taxes account for a sum that is four times larger than what the nation spends on public housing for the poorest 20 percent.

Still, there is ample room to reduce the U.S. fiscal deficit to a sustainable level *and* boost the standard of living of the poorest Americans. Income in the United States has become so skewed that even modest changes at the top of the distribution, ones likely to be more than offset by economic growth, would be translated into a substantial increase in incomes at the bottom of the economic pyramid—with a major impact on poverty.

For instance, a number of comparatively small steps could help lower the fiscal deficit from the current 7 percent of GDP to 2 percent, thus placing the national debt as a share of GDP on a declining path. Economic recovery is projected to have deficit-reduction effects of about 2 percent of GDP. And cutting costs in the operation of government in the amount of just 1 percent of GDP would help. But increases in tax rates and reductions in transfers (such as spending on unemployment benefits) to lower the deficit by 2 percent of GDP would still be necessary. These measures would reduce the disposable

income of American taxpayers by a similar percentage across all income levels: low-income groups would be as affected as those in higher-earning echelons.

And that is not right. Given the large gap in earnings and its astonishing widening in recent years, Americans who earn more should pay proportionally more and poorer Americans should pay less.

If reforms of taxes and social spending were to succeed in making the U.S. income distribution modestly more equal—moving it, for example, halfway toward the OECD average, or roughly a quarter of the way toward Sweden—households in the top income decile (average household income of about \$120,000) would see their disposable incomes fall by about 9 percent, and those in the second decile would see their incomes decline by 3 percent. At the other end of the spectrum, the disposable incomes of the poorest households (those in the bottom income decile with an estimated income of \$7,500 per family) would rise by a little over 36 percent. Millions of

Americans who earn more should pay proportionally more taxes and poorer Americans should pay less.

Americans would be lifted out of poverty and into the middle class. Those in the existing middle class that all politicians claim to represent would also see significant increases in their incomes. After this modest change, the average U.S. household in the top income decile would still receive an income more than ten times larger than the average household in the bottom income decile.

This point applies even more powerfully to the top 1 percent of the income distribution, where incomes, on average, are some 260 times larger than those in the bottom decile. Thus, increasing the tax rates paid by the top 1 percent of taxpayers by just 4 percentage points would be enough to provide additional transfers to the bottom 10 percent of American households worth 50 percent of their income.

These reforms do not have to be carried out overnight. If they are implemented over a seven-year period, for example, the effects of economic growth that have tended to accrue disproportionately to the upper reaches of the income distribution would almost certainly easily offset the effects of higher tax rates and reduced benefits.

The policies required to deal with high and rising inequality are well-known and have been widely applied in other countries—including the United States beginning in the 1930s and over much of the twentieth century. In addition to a more progressive tax code, policies could be implemented that reduce exemptions and subsidies that favor the wealthy, increase educational opportunities, and provide more accessible healthcare for lower-income groups. Judging from the performance of countries in which inequality is not nearly as high as in the United States, such as Sweden and Canada, there is no reason

to assume that, as critics argue, these measures would result in a less vibrant investment climate, a slower economy, or reduced international competitiveness. In fact, a recent International Monetary Fund study found that growth tends to be more sustained in countries where inequality is moderate than where it is high.

MOVING FROM A VICIOUS TO A VIRTUOUS CIRCLE

The United States must not be allowed to fall off the fiscal cliff. Given the dismal state of the U.S. job market and the fact that a record number of Americans—over 15 percent—

In addition to a more progressive tax code, policies could be implemented that reduce exemptions and subsidies that favor the wealthy, increase educational opportunities, and provide more accessible healthcare for lower-income groups.

live under the poverty line, now would not be a good time for the world's largest economy to undertake a huge and immediate fiscal contraction. Combined with a deterioration of the chronic crisis in Europe, such a contraction could easily throw the United States and the world into a second and possibly even more devastating episode of the Great Recession. Allowing this to happen would be the height of irresponsibility. It seems likely that a

political deal will be reached and that the United States will find a way to avoid falling off this cliff. But the United States needs and deserves a fiscal arrangement that aims at more than simply achieving the minimum common denominator acceptable to both sides and avoiding a disaster.

It is vital to break the trend of high and rising costs of healthcare. Moreover, the vicious circle that exists between the fiscal deficit and low household savings on the one hand and high and rising inequality on the other must be broken. The large fiscal deficit makes it impossible to invest in education and infrastructure and provide poorer Americans with an adequate social safety net. At the same time, high and rising inequality makes it impossible to fix the deficit with broad-based taxes or across-the-board cuts in spending without causing unacceptable social dislocation. A greater burden must be carried by the wealthier segments of the population.

It is possible to break the vicious circle at various points, and the United States has the policy instruments to do so. Healthcare costs can be contained through greater use of the government's purchasing power, encouragement of competition, better preventive

care, and other measures. U.S. consumption taxes can be raised moderately, and the poor can be compensated through more social spending on education and outright transfers. Meanwhile, in order to achieve the needed fiscal stabilization, taxes also need to be raised only moderately and exemptions reduced for those at the higher end of the income distribution. These steps would sharply increase overall national savings, affording more resources for investment and spurring economic growth.

In turn, a more confident, less fiscally constrained America would be better able to strengthen ties with trading partners and encourage freer trade and foreign investment, securing increased access to the world's fastest-growing markets. This too would boost growth and push down the fiscal deficit, all of which feeds positively into more growth and macroeconomic stability.

Provided it can find a way to agree to rein in its excess spending and mitigate its rising inequality, the United States is likely to retain an enviably dynamic economy perfectly capable of growing its way out of its fiscal crisis and competing in world markets while innovating and creating jobs. If a way is not found, however, not only will the living standards of most Americans continue to decline and political divisions deepen further, but economic stability will increasingly be put at risk by rising government debts. The nation will, moreover, continue to suffer an erosion of the institutions and practices that underpin the international liberal economic order that has served it so well for over half a century.

Compared to advanced and most other countries, the United States is in much better shape, and its economic problems are actually quite manageable. Provided that policymakers can break the severe political gridlock that has impaired economic policy-making—admittedly a very big if—a country that is no longer on the verge of financial collapse, with an economy that is not spinning out of control as it was four years ago and that is indeed showing a modest but sustained recovery, is a better launching pad for the needed fiscal reforms than it was at the height of the recession. Moreover, a society that has been sensitized to the explosion in inequality and its many toxic consequences should also be a society more inclined to support the decisions that will bring back a distribution of income that is economically more efficient, politically more stable, and morally more acceptable.

Provided it can find a way to agree to rein in its excess spending and mitigate its rising inequality, the United States is likely to retain an enviably dynamic economy perfectly capable of growing its way out of its fiscal crisis and competing in world markets while innovating and creating jobs.

AVOIDING CATASTROPHIC FAILURE IN AFGHANISTAN

SARAH CHAYES | FREDERIC GRARE

The U.S.-led mission in Afghanistan seems to be driving the country toward disintegration. Without substantive changes in the U.S. approach, Afghan government institutions are unlikely to survive the withdrawal of international forces. Preventing an implosion and attendant regional chaos requires expanding stalled reconciliation talks to include a broader range of stakeholders, helping the Pakistani leadership espouse formal channels for addressing its regional interests rather than violent proxies, and cooperating with Central Asian actors.

IT HAS BEEN CALLED THE “SIGNATURE ATTACK” of the Afghanistan conflict. Shootings by Afghan soldiers and police officers of their International Security Assistance Force (ISAF) mentors, which were sharply up in 2012, bear disturbing witness to the fault lines in U.S. policy toward Afghanistan. For many in America and other troop-contributing nations, they served as a symbolic last straw, justifying calls for accelerated withdrawal. These attacks have corroded the principal pillar of U.S. policy: development of the security forces. They highlight the error of emphasizing this one institution to the detriment of a wider political approach. And they reveal an ongoing American misunderstanding of the environment, both inside Afghanistan and in its immediate neighborhood.

These misunderstandings and miscalculations have resulted in a policy that may actually be driving Afghanistan toward the very civil conflict the U.S. government wishes to avert as it reduces its presence in the country in 2014.

No one expects a highly developed and stable Afghan democracy by that point. Still, the ultimate success of the U.S.-led mission depends on a political order remaining behind that will not quickly implode and is solid enough to serve as a foundation for ongoing development. But, without qualitative changes in the U.S. approach to Afghanistan and Pakistan alike—changes that will require enhanced focus and political courage, rather than material investments—such an outcome is in grave doubt. Weak and discredited Afghan government institutions are unlikely to withstand the forces that will be unleashed as the international presence drops off.

Serious potential repercussions of an Afghan meltdown include renewed hospitality for transnational terrorism and exacerbated instability in Central Asia and the nuclear-armed subcontinent as thousands flee and fragile neighboring countries are dragged into the

The challenge of the Afghan transition is to overcome the temptation to turn the page and to summon the energy and put in the work now to help stave off the worst-case scenarios.

vortex. Once such consequences materialize, they will be impossible to ignore. The challenge of the Afghan transition is to overcome the temptation to turn the page and to summon the energy and put in the work now to help stave off the worst-case scenarios.

A recalibrated approach must achieve a minimal political accommodation among Afghani-

stan's diverse constituencies—not just the Taliban. Such an accommodation is a prerequisite to an acceptable 2014 Afghan presidential election and further adjustments to the currently unpopular political order thereafter. The profound contradiction in U.S. policy toward the Pakistani military also must be resolved by materially raising the cost of its use of extremist violence to advance its national agenda, while simultaneously opening a formal international channel for addressing Pakistan's legitimate strategic concerns and aspirations with respect to Afghanistan. Finally, the national security implications of an imploding Afghanistan on neighbors to the north cannot be ignored.

None of these policy shifts is possible without a significant improvement in U.S. understanding of the local context.

UNDERSTANDING THE ENVIRONMENT

When the bitter losses caused by insider attacks first gained attention, the reaction was shocked incomprehension. How could a soft-spoken “tea boy,” barely an adolescent, pick

up an unsecured Kalashnikov, walk to the makeshift gym used by U.S. Marines on a base in Helmand Province, and in a deafening spray of bullets blow three of them away? How could members of a local self-defense force, supported by uniquely skilled special operators to protect their own villages, ambush their mentors at a rural checkpoint? The irony of these tragedies of a waning war is searing. As one grief-stricken father lamented to a reporter, “My son trained somebody to murder him.”

These attacks illuminate much that has gone wrong with U.S. Afghanistan policy—to begin with, the faulty analysis on which it is based.

Initial explanations beggared belief. According to the first statements, 10 percent of the attacks were due to insurgent infiltration, the rest were personal disputes gone wrong. “It’s a gun culture out there,” Lieutenant General James Terry, operational commander of the international force, told reporters in September. “A lot of grievances and dispute resolutions are done, frankly, at the barrel of a gun.”

The bare notion that it was possible to explain the phenomenon by means of a numerical fraction indicates the depth of U.S. misunderstanding.

For years, frustration has been rising in the Afghan population at a government that makes a mockery of law and accountability, shaking down citizens, imprisoning people for ransom, trafficking drugs and natural resources, and monopolizing development contracts and reselling them to cronies, until the work done at the end of the line is shoddy and dangerous—all in unbridled pursuit of personal gain. What affords these corrupt officials their impunity, in the eyes of most Afghans, is the protective presence of international troops.

Worse, to serve this abusive government, ISAF troops themselves harm Afghan civilians. They cut roads through lovingly tended vineyards, blow up agricultural buildings, block irrigation channels, and sometimes kill people’s neighbors or desecrate sacred symbols.

In the case of the Helmand tea boy, it is obvious to anyone familiar with local ways that he provided other services to his police commander than just serving food. It was a fraught relationship with an official so abusive that prior rotations of Marines had worked to get him removed. These Marines, by contrast, were helping him, in the eyes of the boy. In this context, to an angry and humiliated young man, extremist arguments and fantasies of violence can have some allure. Was that adolescent among the 10 percent? Or did he lash out at a personal grievance?

A recalibrated approach must achieve a minimal political accommodation among Afghanistan’s diverse constituencies—not just the Taliban.

In fact, while the physical terrain the Taliban controls has shrunk since the troop surge, Taliban thinking seems to be expanding, at least in southern Afghanistan. Hardly a resident of Kandahar, for example, after applauding the Taliban's fall in 2001, does not now know an extremist sympathizer or does not discuss jihadi ideas over late-night tea. The Taliban, moreover, announced in 2011 that they intended to infiltrate the Afghan National Security Forces (ANSF). As insider attacks rose in the following months, a plausible explanation was that the insurgents were implementing their stated strategy.

International miscomprehension of Afghan realities is seen in the persistent underestimation of the insurgents' effectiveness and their understanding and manipulation of asymmetric tactics—often with technical assistance by the Pakistani Inter-Services Intelligence

The United States does not appreciate the degree to which Afghans' disgust with their own government, together with lack of recourse against it, make them vulnerable to extremism.

(ISI) and rebranded elements of the al-Qaeda network. The United States also does not appreciate the degree to which Afghans' disgust with their own government, together with lack of recourse against it, make them vulnerable to extremism.

The United States, therefore, should cease rehashing past mes-

saging about progress in Afghanistan and take sober stock of the dangers this conflict still presents. Those dangers result from policies promoted by both Republican and Democratic administrations, and should not be fodder for partisan one-upmanship. The Obama administration should also devote a greater proportion of intelligence and information gathering to understanding the associations and motivations of Afghan military and governmental officials to allow for more nuanced partnering as the transition proceeds.

DEFICIENT INSTITUTIONS

The ease with which the Taliban have placed sleepers inside the ANSF, or with which men whose loyalty is wavering have joined or remained in the ranks, points to profound weaknesses in those security institutions—despite the generous support they have received. As expansion of the security forces was hit upon as the device to permit international withdrawal, quantity increasingly trumped quality. Reaching some numerical threshold (the actual number kept changing) became the benchmark of success. Ill-vetted, ill-trained, often underage recruits were rushed into uniform to make up the count.

And when, in 2008, even that hasty process seemed too slow, an idea borrowed from Iraq was introduced into Afghanistan. Villagers afforded yet less vetting and training were

issued guns to protect their homes. As many Afghans predicted, these forces have proved dangerously divisive. They shake down their neighbors for “contributions” in kind, they battle for control of land, and they ally themselves with local power brokers. In 2011, several surveys pinpointed abuses by local militias as a main reason for the record number of internally displaced people.

In other words, the very security institutions the international community was depending on to secure its exit from Afghanistan were structurally deficient.

But so was the whole idea that security forces alone could guarantee the country’s stability. For what is an army but an instrument in the hands of a government? No matter how well trained or effective or large it might be, it is only as good as the government—the brain and the body—that wields it. The international decision, solidified in 2011, not to focus on the quality and decency of the Afghan government or the credibility of the political processes that allowed Afghans a voice in choosing it doomed the plan to make the ANSF the centerpiece of the exit strategy.

The new Obama administration should shift focus to rigorously promote the quality, instead of the quantity, of the ANSF and other government institutions to which the United States is providing support.

It should direct personnel in Afghanistan to be more selective in partnering decisions, differentially reducing or increasing contact and material assistance based on real knowledge of commanders’ integrity.

Although the U.S. government has decided not to seriously address the broader problem of Afghan corruption and poor governance, similar criteria should be applied to relations with other Afghan institutions.

The very security institutions the international community was depending on to secure its exit from Afghanistan were structurally deficient.

FUELING CENTRIFUGAL FORCES

The quantitative focus on the ANSF also blinded international officials to ways the force was being structured that are likely to accelerate the centrifugal forces unleashed as the international presence diminishes. Combined with the other main pillar of the U.S. withdrawal strategy—peace talks with the Taliban, to the exclusion of other Afghan constituencies—the result is almost certain to be internal conflict.

According to several senior Afghan National Army officers, an effort was under way as early as 2009 to stack the officer corps with former loyalists of the anti-Soviet resistance force that came to be called the Northern Alliance. When Northern Alliance veteran Bismillah Khan Mohammadi became minister of the interior, he launched a similar campaign within the police, even redrawing administrative zones in the north so as to create an unbroken front excluding pockets of the ethnic Pashtun population.

And who could blame him? From his perspective and that of many Afghans—Pashtun as well as non-Pashtun—international policy in Afghanistan and resulting developments have tilted in favor of neighboring Pakistan and its extremist proxies. These are precisely the forces Mohammadi and his comrades fought in the 1990s, and which they assumed the U.S. intervention aimed to check.

Yet, from the start of the conflict, the U.S. policy toward Pakistan has been confusingly equivocal. The aspect of this contradictory approach of most concern to the likes of Mohammadi was its reliance on exclusive negotiations with the Taliban. That effort was also disconnected from context.

For at least the past year, U.S. government officials have publicly acknowledged that the Pakistani military, through the ISI, has not merely turned a blind eye to the development of insurgent groups on its territory but has taken a complex, active role in helping reconstitute them. If so, what would be the purpose? Why would Pakistani officials foment explosive instability right on their border? Why would they take the risk that the extremism they help foster might shift its focus—as it has—to them?

Pakistani government interests in Afghanistan have grown increasingly manifest over the years, and they are linked to the military's perception of the Pakistani rivalry with India. The constantly evoked threat is Indian encirclement—a too-cozy relationship between Kabul and New Delhi, which could leave Pakistan trapped in the middle.

To forestall this eventuality, it seems increasingly clear that the Pakistani military leadership has aimed to regain a degree of the proxy control over Afghanistan that it enjoyed in the 1990s, by determining the conflict's end game. Pakistani officials, like U.S. experts, have often stated that insurgencies expire around a negotiating table. Through the establishment of safe havens for Pakistani-trained terrorists, the active protection of diverse and frequently reconfiguring groups, and intimate links with the insurgent leaders they have assisted and cajoled and intimidated into the fight, ISI officers intended to determine who would do the negotiating—if anyone—and what they would settle for.

Persistent interstate disputes are all too common in international relations. Most of them, however, are played out in the political or occasionally the international legal arenas.

Although some turn violent, the deliberate instrumentalization of terrorist proxies is the exception. In this case, Pakistan's determined manipulation of violent religious militants in order to force, and then control, talks spoiled the U.S.-led international effort to stabilize and rebuild Afghanistan.

And yet, U.S. officials are now reportedly asking Pakistan to draw up a list of potential participants to relaunch the stalled negotiation process. Such a decision plays right into the Pakistani military's game.

Negotiators under ISI control would not be free to accept conditions the Pakistani military disapproves of. The United States (and Afghanistan) would effectively be negotiating with the ISI by proxy. And indications—including those contained in a strategic document sent by Army Chief Ashfaq Parvez Kayani to the U.S. government in 2011—are that the Pakistani military would disapprove of anything short of indirect control of a significant portion of Afghanistan. In effect, U.S. policy has incentivized the use of extremist violence and encouraged Pakistan to reinforce its control over at least the Pashtun swath of Afghanistan.

But whole segments of the Afghan population would likely fight rather than submit to such an outcome again. And, thanks in part to the U.S. focus on building up the ANSF, they have the forces to do so. The consequences of the ensuing strife could extend well beyond Afghanistan, as some Pakistani proxies interact intensively with a rebranded al-Qaeda or implement an international agenda of their own. Spillover violence could send large numbers of refugees into a fragile Central Asia, and reinforce recruitment of non-Pashtun extremists. The terrorist threat would increase not just for Afghanistan, but for those countries and for India as well. Another Mumbai-style terrorist attack, under a less restrained government, could trigger a nuclear escalation in South Asia.

Moreover, as this autumn's attacks on U.S. embassies in North African countries attest, al-Qaeda franchises are actively adapting their strategy and would likely take advantage of renewed permissiveness on the Afghan-Pakistan border. And, with its extremist proxies in control of parts of Afghanistan, Pakistan would be absolved of responsibility for them and their actions. The fractured and unpopular Afghan government, not Islamabad, would be expected to neutralize them.

Thus, the two main elements of the U.S. strategy for leaving Afghanistan are reinforcing conflicting pressures and actively driving the country toward civil war—with potentially catastrophic international repercussions. A changed approach must prioritize efforts to bring Afghan constituencies together around minimal political accommodations so as to counter already well-developed centrifugal tendencies.

COUNTERING CENTRIFUGAL FORCES

The United States must expand the stalled reconciliation process to include a broader variety of stakeholders, alongside insurgent leaders. Some effort will be required to identify appropriate representatives of key Afghan constituencies. But quiet work has already been undertaken by some ISAF contributors, which could be emulated or expanded.

The process should be structured as a series of sessions actively facilitated by seasoned international negotiators. The skill of those negotiators rather than their countries of origin should constitute the criteria for selection. The United States, while present, might not play a leading role. Key members of the Afghan government who represent its different component factions must be included, but Kabul should not run the process either, since many Afghans—and not just the Taliban—doubt its ability to serve as an honest broker.

The objective should be to elucidate a set of minimal requirements for peaceful coexistence. Issues will doubtless touch upon the exercise of power, mechanisms to check and redress its abuse, control of resources, and control and oversight of the use of force. The aim—reinforced by the facilitators—should be to eventually reach a lowest common denominator, a charter that can guarantee basic peace and serve as a foundation for ongoing work, not a maximalist view of the ideal Afghanistan. The process should not be billed as one aimed at constitutional modification, but if its proceedings lead in that direction, such solutions should not be ruled out.

Little in the current configuration suggests that the Afghan government—and perhaps some other stakeholders—will participate in such a process in good faith. So forcing functions will need to be employed in order to change the terms of the equation. One inducement might be the credibility of the process itself. To date, the Afghan government has been able to exclude key stakeholders from important international gatherings, which have tended to be one-off extravaganzas, rather than serious efforts at negotiation. Other forcing functions can include the Afghan government's own survival beyond 2014, oversight and monitoring mechanisms embedded within prior international agreements such as the U.S.-Afghanistan Strategic Partnership Agreement signed in 2012, the use of violations of the terms of these agreements, as they occur, as inflection points, and international financial support.

Another key element of an effort to counter centrifugal forces must be a more logical attitude toward Pakistan. Eleven years of engagement and the investment of billions of dollars in military and economic assistance have failed to alter the Pakistani government's perception of its security environment, or its choices regarding how to address it.

The stated assumption behind this policy was a convergence in security interests between the United States and Pakistan. But this has been revealed to be practically nonexistent. In reality, the relationship boiled down to a quid pro quo: Pakistan provided minimal

cooperation on Afghanistan as a means to buy defense assistance, which it largely devoted to the Indian front. Somehow, it managed to convince both the George W. Bush and Obama administrations that it was fulfilling the requisite minimum level of cooperation. But in fact, despite a few tactical convergences, the Pakistani army that was so generously funded was pursuing objectives and actions radically opposed to those of the United States. It was exporting violence into Afghanistan.

America's permissiveness with respect to Pakistan has baffled most Afghans—not least the members of the ANSF charged with fighting the militants the United States has been indirectly helping to fund. The United States must, at last, draw the appropriate conclusions from the Pakistani military's persistent use of extremist violence as a policy tool and begin countering it politically as well as militarily.

The Obama administration should encourage the development of a formal state-to-state mechanism for identifying and resolving Pakistan's real security interests and legitimate aspirations with regard to Afghanistan. Such an effort could build upon the current trilateral process but should raise the level. Proceedings should be intensive and constructed as a process, not a one-off or occasional event.

It might take place over a several-week period at a retreat similar to the one in Dayton, Ohio, that ended the Bosnian war. As with the internal Afghan reconciliation process, it should be aided by experienced international facilitators. While the United States might play an observer's role, Washington should not necessarily run the process.

Potential topics for discussion include the international boundary. In this particular case the problem lies less on the Pakistani than the Afghan side. Afghanistan has never recognized the Durand Line, the disputed

1896 border with Pakistan, and it would be politically difficult for any Afghan politician to do so now. This issue could be addressed within the framework of this process, where a variety of mechanisms, such as a United Nations boundary commission, could be explored to promote a solution. Such a commission could also be organized separately. Other topics for discussion might include the security concerns arising from the expanded size of the Afghan National Army, meaning demilitarized zones or international guarantees might be examined, and the density and location of Indian assets on Afghan soil.

Eleven years of engagement and the investment of billions of dollars in military and economic assistance have failed to alter the Pakistani government's perception of its security environment, or its choices regarding how to address it.

This term, the administration also needs to take steps to raise the cost of Pakistan's policy of using violent extremism to advance its security objectives. In this regard, designating the Pakistan-based Haqqani network as a foreign terrorist organization was a step in the right direction. The U.S. government should utilize all authorities available under that designation to increase pressure on the Haqqani network and affiliated businesses, particularly those that are also linked to the ISI.

There is no reason, moreover, not to retain the option of sanctioning Pakistan as a state sponsor of terrorism. Ahead of such designation, Washington can take steps to protect U.S. security interests, in line with what might be implemented against other state sponsors, such as further restricting landing privileges for flights originating in Pakistan or sanctioning individual former or serving ISI officers who actively facilitate insurgent activity. And the administration can raise Pakistan's active connivance with militant groups such as the Haqqani network, the Quetta Shura Taliban, Lashkar-e-Taiba, and others, in international forums.

On a graduated basis, the Obama administration can reduce support for Pakistan's receipt of economically beneficial international agreements, until its actions are in compliance with international norms. And it can condition U.S. economic as well as military assistance—and potentially other aspects of the economic relationship, such as trade policy—on reduced support for insurgent activity and use of the alternate, formal mechanism for resolving issues with Afghanistan. Maximal flexibility should be retained in calibrating changes in such support, so explicit linkage to broadly defined behavior in the language of budgeting law—which is often subsequently waived—may be counterproductive.

The government of Pakistan is unlikely to greet such a perceptible shift in the U.S. approach passively. Countermoves might include the closure of land routes into Afghanistan; heightened anti-American rhetoric in the Pakistani media or organized “popular” demonstrations; reduced access to Pakistani territory for U.S. personnel and technical assets; increased extremist attacks on U.S. personnel and facilities in Pakistan as well as Afghanistan; and interference, via Pakistani proxies currently in the Afghan government, with U.S. activities in Afghanistan.

The risks of such countermoves are real, but U.S. policy should not be predicated on the sole objective of avoiding them. When land routes through Pakistan into Afghanistan were closed starting in November 2011, the U.S. intervention was inconvenienced and its cost was raised, but it was not crippled. Clear-sighted measures to mitigate such risks must be part of a changed U.S. approach. Escalating responses is one alternative, as is considering or taking steps to isolate Pakistan internationally.

EMPLOYING THE ENTIRE REGION

To limit broader reverberations of a withdrawal gone wrong, the new U.S. administration must pay more attention to the real security concerns of Afghanistan's other neighbors. Political leaders in fragile Central Asian states are already predicting an Afghan meltdown and planning against such a scenario. Ironically, their own actions—such as material support for the northern forces—might exacerbate the likelihood of the very developments they fear.

Tajikistan, whose government corruption most resembles Afghanistan's, and whose long border with Afghanistan lies largely unsecured, has the most to fear. The situation is far different than it was in 1989, when the Soviet withdrawal led to the last major bout of turmoil. Even a collapsing Soviet Union could still secure its borders, then. A tsunami of Afghan refugees could further blur the already indeterminate frontier, leading toward a de facto merger of large swaths of the two countries' territories and further facilitating drug and weapons smuggling. Disaffected young people, already turning to extremist teachings, may be increasingly radicalized.

Pressures from a disaggregating Tajikistan would affect the whole region. Uzbekistan, perhaps the most stable of the states on Afghanistan's northern border, faces governance issues of its own. Its tense relationship with Tajikistan precludes substantial cooperation to address the common threat.

Enhanced U.S. and North Atlantic Treaty Organization attention to potential dangers on Afghanistan's northern and western borders could increase real understanding of the environment, while helping relieve some of the concerns of bordering countries—concerns that might prompt those countries to make ill-advised decisions. The U.S. Central Command should enhance planning cooperation with the militaries of key Central Asian countries. And the U.S. government should consider reorienting the ongoing ANSF training mission to put more focus on border security and improving the capabilities of Afghanistan's border police.

To limit broader reverberations of a withdrawal gone wrong, the new U.S. administration must pay more attention to the real security concerns of Afghanistan's Central Asian neighbors.

AVOIDING CATASTROPHIC FAILURE

The changes envisaged here are qualitative, not quantitative. In most cases they entail a reduced, but more judicious, application of resources. Most significantly, ahead of an ultimate troop drawdown, they represent a fundamental shift in the way nonmilitary instruments of influence should be brought to bear to avert a damaging and dangerous outcome in Afghanistan.

Such a shift will require a different kind of investment, sometimes harder to make: a willingness to incur political risk. But the risks of not making such a shift are increasingly clear. This fall's uptick in insider attacks shed light on many elements of what is awry with the Afghanistan mission. Yet if the only reaction to those attacks is to implement protective procedures for ANSF trainers, then their underlying significance will have been fatefully missed.

THE IRANIAN NUCLEAR THREAT

KARIM SADJADPOUR | GEORGE PERKOVICH

The challenges of diplomacy with Tehran are undeniable. But the potential ramifications of a military attack on Iran are so dire that President Obama must give engagement another chance. With Supreme Leader Ayatollah Ali Khamenei still a formidable obstacle to any binding nuclear deal, the realistic aim of diplomacy should not be forging a comprehensive, long-term agreement. The administration should instead focus on motivating Iran to cap its nuclear development.

FEW FOREIGN POLICY CHALLENGES will figure more prominently in Barack Obama's second term than checking Iran's nuclear ambitions while avoiding another military conflagration in the Middle East. U.S. officials believe that Tehran has yet to decide whether to produce nuclear weapons, but President Obama made clear in his first term that if faced with the binary choice of either bombing Iran or allowing Tehran to get a bomb he would choose the former. Given the potentially enormous ramifications of a military attack on Iran—on the global economy, regional stability, international law, America's standing in the world, and the well-being of thousands of Iranians—every effort should be pursued to avoid this outcome.

Diplomacy with Iran is difficult. In addition to the fact that Washington and Tehran have not had official relations since 1979, the Islamic Republic's top leadership—namely Supreme Leader Ayatollah Ali Khamenei—has arguably come to see opposition to

America (and Israel) as an inextricable part of the revolutionary regime's identity. Khamenei believes Washington's underlying goal in Tehran is regime change, not behavior change.

As long as Iran can be induced to keep its nuclear activities peaceful, war is neither necessary nor in the U.S. interest.

Still, while Obama's attempt to reach a modus vivendi with Tehran in his first term was unsuccessful, the administration should give it another try. The costs of a military attack would be staggering. Iran's influence on key U.S. foreign policy chal-

lenges—namely Afghanistan, Iraq, Arab-Israeli peace, terrorism, and energy security—will be more manageable in an environment of tough diplomacy than in one of war. As long as Iran can be induced to keep its nuclear activities peaceful, war is neither necessary nor in the U.S. interest.

OBAMA'S UNRECIPROCATED ENGAGEMENT

More than any U.S. president since the 1979 Iranian Revolution, Obama attempted to change the tone and context of the U.S.-Iran relationship. In a thinly veiled reference to Iran in his inauguration speech, Obama offered to “extend a hand if you are willing to unclench your fist.” On March 19, 2009, to mark the Iranian New Year, Nowruz, Obama recorded a videotaped greeting to both the Iranian people and the leaders of the “Islamic Republic of Iran”—a subtle but unprecedented acknowledgement of the nature of the Iranian system. He declared, “My administration is now committed to diplomacy that addresses the full range of issues before us, and to pursuing constructive ties among the United States, Iran and the international community. This process will not be advanced by threats. We seek instead engagement that is honest and grounded in mutual respect.”

Less than forty-eight hours later, Supreme Leader Ayatollah Ali Khamenei quickly dashed hopes that Obama's goodwill overture might be reciprocated in Tehran. Khamenei mocked Obama's “change” mantra as merely a tactical shift, repeated a long list of “arrogant, domineering” U.S. historical injustices against Iran, and called for the Obama administration to take various unilateral measures in order to show its genuine commitment to change.

More significant than Obama's public overtures to Tehran were two private letters he wrote to Khamenei, making it clear that the United States was interested in a confidence-building process that could pave the way for rapprochement. In his lone response to Obama, however, Khamenei continued to focus on past American misdeeds rather than prospects for future cooperation.

Whereas the Bush administration's threats of war united Iran's disparate political factions against a common threat, Obama's outreach helped to accentuate Iran's deep internal fissures, both among political elites and between an older, sclerotic regime and its youthful subjects. This was apparent in the aftermath of the contested reelection of Iranian President Mahmoud Ahmadinejad in June 2009, which spurred Iran's largest political protests since the 1979 Revolution. Despite the Iranian regime's brutal crackdown on peaceful protesters known as the Green Movement, Obama was reluctant to fully embrace their cause, concerned that overt American support could taint their independence.

By the fall of 2009, suspicions of Iran's intentions were intensified by revelations that there was a clandestine uranium enrichment facility inside a mountain—to shield it from air strikes—in Fordow, outside the Shia holy capital of Qom.

Meanwhile, the Obama administration continued its efforts to reach a nuclear accord with Tehran. In negotiations between the P5+1 (the United States, the UK, China, France, Russia, and Germany) and Iran in Geneva

in October 2009, Tehran initially appeared to agree to swap 80 percent of its stockpile of low-enriched uranium in return for fuel rods for the Tehran Research Reactor, which produces isotopes for medical use. Within two days, however, President Ahmadinejad's opponents in Tehran had mobilized against the deal and Iran denied that any agreement had been made. Russian efforts to salvage the agreement in Vienna several weeks later also proved fruitless.

Facing a looming United Nations Security Council sanctions resolution in May 2010, Tehran—in an agreement brokered by Turkey and Brazil—attempted to revive the deal. But given that Iran had doubled its stockpile of low-enriched uranium and had begun enriching to a level closer to weapons grade, the P5+1 rejected the arrangement and proceeded with Security Council resolutions and sanctions.

Obama's outreach helped to accentuate Iran's deep internal fissures, both among political elites and between an older, sclerotic regime and its youthful subjects.

FROM ENGAGEMENT TO COERCION

When efforts to engage Tehran failed to render tangible results within a year, the Obama administration—exhorted by an impatient U.S. Congress—shifted to a strategy of subjecting Iran to escalating economic pressure in order to compel it to make meaningful and binding nuclear compromises. While states like Russia and China, as well as some European countries, thwarted efforts to impose tougher sanctions on Iran during the

George W. Bush era, they gradually came to recognize that Iranian intransigence, not America's unwillingness to engage, was the greater danger. International support grew behind the Obama administration's effort to establish a sanctions regime whose breadth and depth has exceeded all expectations.

In addition to a sixth United Nations Security Council resolution censuring Iran, the most draconian of these sanctions have been unilateral U.S. and European Union (EU) measures. In December 2011, the U.S. Senate unanimously voted to sanction Iran's central bank, forcing countries and companies around the world—particularly in the energy sector—to essentially choose between doing business with Iran or America. In January 2012, the EU—which once accounted for around 20 percent of Iran's oil exports—banned its members from importing Iranian oil. Shortly thereafter, SWIFT (the Society for Worldwide Interbank Financial Telecommunication), which facilitates secure global financial transactions, announced it would sever its ties to Iranian financial institutions.

The international pressure, coupled with Iran's endemic mismanagement, has caused economic conditions in the country to severely deteriorate. During Obama's presidency, Iran's oil production has dropped from 4.2 million barrels per day (mbpd) to 2.7 mbpd. Its oil exports have dropped equally precipitously, falling from 2.5 mbpd to .9 mbpd. The country's official inflation rate has risen to 29 percent, though some unofficial estimates are double that number. Unemployment and underemployment remain rampant. And Iran's currency, the rial, has lost nearly 80 percent of its value vis-à-vis the U.S. dollar, spurring popular protests in October 2012 with chants of "Forget about Syria, think about us."

KHAMENEI THE DECIDER

Despite unprecedented and growing economic coercion, there has been no indication that Khamenei is reconsidering his long-held philosophy that giving in to pressure is a sign of weakness that only results in more pressure. "If you supplicate, withdraw and show flexibility," Khamenei frequently says, "*arrogant powers* will make their threat more serious." What's more, the example that Khamenei has drawn from recent history is that Libyan dictator Muammar Qaddafi's 2002 abdication of his nuclear program made him vulnerable to the 2012 intervention that resulted in his overthrow, whereas Pakistan's acquisition of nuclear weapons turned foreign pressure into engagement.

In his twenty-three-year tenure as supreme leader, Khamenei has sought to preserve the status quo by eschewing transformative decisions. As Iran's economy continues to deteriorate, however, Khamenei may soon conclude that he must choose one of two options to try and win sanctions relief: a nuclear deal or a nuclear weapon.

Despite Khamenei's aversion to compromise, a decision to pursue nuclear weapons is fraught with enormous risks. Overt signs of weaponization—such as the expulsion of nuclear inspectors or the enrichment of uranium to weapons grade—are likely to trigger U.S. or Israeli military action.

Moreover, the acquisition of nuclear weapons would open up a whole new set of challenges for Tehran. It could, for instance, prompt Iran's neighbors, particularly Saudi Arabia and Turkey, to take countervailing steps, including intensifying defense cooperation and procurement arrangements with the United States, France, and others. Or Tehran's neighbors could choose to begin their own nuclear power programs to signify potential future military options. They could even foment unrest among disgruntled minorities within Iranian territory and further constrict trade with Iran.

Unless Khamenei wants to provoke a military attack on Iran in an attempt to resuscitate revolutionary ideology and repair the country's internal rifts (an improbable but not implausible prospect), he will continue to favor a deliberate, incremental approach to the development of Iran's nuclear

capabilities. But Khamenei faces a dilemma if he actually wants to develop nuclear weapons. He must calculate whether his regime can sustain severe and escalating economic pressure during the time it would take to acquire a sufficient nuclear deterrent. He must also consider the possibility that foreign intelligence services have penetrated Iran's nuclear facilities and prepared various obstacles—computer viruses, “accidental” explosions, mysterious assassinations, and defections—that could set Iran's nuclear clock back even further.

Khamenei must calculate whether his regime can sustain severe and escalating economic pressure during the time it would take to acquire a sufficient nuclear deterrent.

Are these challenges enough to force Khamenei into a compromise?

STRIKING A DEAL

On the other side of the coin, the United States and the rest of the P5+1 must decide whether they are prepared to offer Iran incentives that would be sufficient to induce it to compromise, and what a potential U.S.-Iran nuclear breakthrough might look like.

The long U.S. presidential campaign offered many opportunities for partisans to say what a potential deal should forbid Iran from doing. Unsurprisingly, some demanded that Iran

should be left with “no capability” to make nuclear weapons. Such positions, though often vaguely worded, seemed to require Iran to “end its nuclear program”—that is, cease all uranium enrichment. That would certainly be ideal from a nonproliferation standpoint, but there is virtually no chance that Iran will abdicate what it and many developing countries now insist is a right—enrichment.

The practical question, then, is what specific commitments could be negotiated, verified, and enforced to keep Iran far enough away from having a nuclear weapon that the world would have confidence it could detect an Iranian breakout and mobilize an appropriately robust response, and at the same time allow Iran to exercise its “right” to enrich for purely civilian purposes.

Such a deal would have to include commitments by Iran not to undertake specific experiments, import certain materials, and engage in other activities that would be vital to making nuclear weapons and therefore illegitimate for a peaceful nuclear program. The International Atomic Energy Agency has already identified some nuclear weaponization benchmarks and others could be specified. In essence, the United States and its partners would be asking Iran to verify Khamenei’s repeated religious declarations that his country would not seek nuclear weapons.

The establishment of detailed and mutually agreed boundaries between Iran’s nuclear program and a nuclear weapons program could give tolerable confidence that Iran’s continued enrichment of uranium to power-reactor levels (below 5 percent) could be acceptable. In addition to saving face domestically, continued enrichment would give Khamenei and other wary leaders leverage to keep the United States from renegeing on its commitments. Iran could ratchet up the level of enrichment in a tit-for-tat response to failures by the United States or others to keep their side of any deal.

Such an agreement would also require the United States and the EU to ease the most punishing sanctions, namely, those against Iran’s central bank, the EU oil embargo, and SWIFT financial sanctions.

Negotiating such a detailed deal is made more difficult by the fact that the main antagonists—the governments of Iran and the United States—deeply and bitterly mistrust and loathe each other (which is not the case for societal relations between the two). Indeed, one of the fundamental—and potentially insurmountable—challenges in reaching a nuclear resolution with Iran is Khamenei’s deep-seated belief that Washington’s underlying goal is to change the Iranian regime, not merely change its behavior.

Reassuring Khamenei otherwise, however, is complicated by the fact that he believes America’s strategy to overthrow the Islamic Republic hinges not on military invasion but on cultural and political subversion intended to foment a “soft” or “velvet” revolution from within. To Khamenei, U.S. criticism of Iran’s human rights record, its sponsorship

of Persian language media broadcasts such as Voice of America, and the power of Hollywood are all symbols of America's cultural-cum-political subversiveness. In other words, Khamenei feels threatened not only by what America does, but by what America is.

Khamenei feels threatened not only by what America does, but by what America is.

Herein lies Washington's policy conundrum: no nuclear deal with Tehran can be made *without*

Khamenei, yet there are few signs that a binding nuclear resolution can be made *with* him. In effect, Khamenei's obstinacy has the potential to make his fear of regime change a self-fulfilling prophecy.

Khamenei and his close colleagues are too proud and suspicious to ask for "guarantees" that the United States will not pursue regime change in Iran. But the United States has to address this issue in some way if a nuclear deal is to be completed and war avoided. American values, interests, and politics preclude halting support for democracy and human rights in Iran. The United States will not be silent in the event of popular uprisings in Iran or if Tehran threatens Israel or other neighbors. Nor will the United States stop facilitating the free flow of information and communications into Iran.

But if Tehran verifiably upholds a suitable arrangement not to move closer to nuclear weapons, the United States could plausibly commit not to take physical actions to unseat the Iranian government. Such a commitment could be verified to the extent that the United States (and others) is presumably undertaking covert actions against the Iranian government that Iran's leadership is aware of even if the Iranian public is not. The United States could stop those covert actions if Iran negotiated and upheld a suitable nuclear deal, and the Iranian leadership would be able to verify the cessation.

THE WAY FORWARD

Amid more than three decades of compounded mistrust and ill-will, a full resolution of the U.S.-Iran nuclear dispute is highly unlikely absent a broader political settlement between the two countries. Yet prospects for such a political settlement are scant until a leadership emerges in Tehran that begins to prioritize national and economic interests over ideological ones.

In this context, continued dialogue with Iran will be of use not necessarily to fully resolve the countries' differences but to manage them in an effort to prevent the cold conflict from turning hot. The Obama administration's unprecedented and unreciprocated overtures to Iran helped expose—to the world and to the Iranian people—the fact that

In the absence of a long-term, binding resolution, the United States should aim to compel Iran to cap its nuclear development in exchange for relief from sanctions and covert action in Iran.

Tehran, not Washington, is the intransigent actor in this equation. This has strengthened the breadth and the depth of the international coalition while at the same time widening Iran's internal fractures.

In the absence of a long-term, binding resolution, the United States should aim to compel Iran

to cap its nuclear development in exchange for relief from sanctions and covert action in Iran. The goal of such diplomacy should be to put meaningful boundaries on Iran's nuclear activities and contain its political influence in the region until the regime is eventually transformed or changed through the weight of its internal contradictions and economic malaise. It is likely only then that a long-term settlement can be reached.

When this might happen is entirely unpredictable, but events in the Arab world over the past two years serve as a reminder that the line between the seeming invincibility of dictators and their inevitable demise is thin. A deal centered on the nuclear issue could give Iran's leaders, society, and the international community time to allow history to unfold without the unpredictable trauma of war.

A NEW GREAT-POWER RELATIONSHIP WITH BEIJING

DOUGLAS H. PAAL | PAUL HAENLE

The United States and China must find ways to cooperate if the rebalance of American policy toward Asia is to succeed. New leaders in Washington and Beijing should put aside their mutual mistrust, learn to avoid unhealthy competition, and find ways to cooperate. Only then can the Obama administration address troubling territorial disputes and regional tensions, forge a new approach to North Korea, and enact an ambitious economic agenda.

THE NEXT U.S. ADMINISTRATION will inherit America's huge and growing stake in the Asia-Pacific region, one that offers the greatest promise of any region for the American economy through trade and investment and some of the greatest challenges for U.S. foreign policy and diplomatic relations. The region is vast and diverse, something that bumper stickers cannot encompass.

America's relations with each nation in the region are important and require tailored care. It is a unique historical moment, however, where no bilateral relationship will be successful if Washington fails to handle relations with China wisely. And the greatest challenges facing this relationship—a deficit of trust, regional tension over territorial sovereignty disputes as well as U.S. and Chinese domestic hurdles—have implications well beyond the bilateral aspects.

The peace, stability, and continued economic growth of all Asia-Pacific countries are at stake. China's renaissance poses huge challenges and opportunities, which cannot be left

to chance, political whim, or amateurs. The age of entrusting U.S. foreign relations to transatlantic veterans must yield some space to talents of wider experience and scope.

China's neighbors assess its renaissance with a combination of admiration and concern. They have profited from China's economic growth, and China has recently provided sources of economic dynamism no longer found in the United States or Europe. At the same time, after two hundred years of weakness, China's behavior as a newly strengthened state under Communist Party rule provokes anxiety. China is becoming more assertive in its responses to territorial sovereignty disputes, and its influence on international and regional affairs is growing.

In order to manage Chinese prerogatives as well as American imperatives in the Pacific, the United States must learn to forge a pattern of relations with China that will pass the test of support from its regional friends and allies. This policy should have at its core upholding the stability and rules-bound system that has delivered growing success for small and

The United States must learn to forge a pattern of relations with China that will pass the test of support from its regional friends and allies.

large powers alike for decades while accommodating the reemergence of China as an increasingly important power with a voice in regional and global affairs.

America's friends do not want to be forced to choose between the United States and China, with which they have profitably

increased their interdependence. If they need to choose, it is in the U.S. interest that it is because Chinese misbehavior pushes them closer to the United States.

BACKGROUND

For decades, Asia has been the setting for American claims of fostering success stories. Asia's developing economies improved the standard of living for their citizens beyond imagination and for the most part avoided cataclysmic conflicts. The United States has been unchallenged militarily and economically, and truth be told, it was the consumer of last resort that fueled the region's rise.

Eight presidents of both political parties chose a policy of engagement with China that spread benefits widely. This engagement was combined to varying degrees with a hedging strategy in case the bet on China's peaceful development began to go wrong.

China's rise to the status of the world's second-largest economy over the past eighteen months roughly coincided with the downgrading of America's credit rating for the first

time in its history. The financial crisis in the West and robust growth in China have contributed to feelings of resentment and triumphalism in the United States and China.

Many Chinese see a window of opportunity to assert themselves and challenge American economic and geopolitical predominance. But these shifting trends have also fed Chinese fears that the United States will seek to prevent China's rise in every possible way and nurtured American resentment of Chinese gains at the expense of U.S. workers and influence. In the U.S. presidential campaign and China's contemporaneous hidden political process, neither country's leaders earned awards for educating their publics beyond these simplistic judgments.

Of course, these were not the only developments in the Asia-Pacific region that shaped the situation the new Obama administration must manage.

Elections are under way in South Korea, and the North Korean transition to a youthful dictator continues with deflating optimism for change. In the absence of a political mandate, Japanese politics drift dangerously toward a rightist, hawkish new government with elections coming soon. Myanmar is staggering to catch up with its more advanced Southeast Asian neighbors, even as the Association of Southeast Asian Nations (ASEAN) struggles to remain cohesive in the face of Chinese separatism. And Australia is formally debating the nature of its future relationships with the United States and China, even as it is deepening cooperation in its security treaty with New Zealand and the United States.

The Obama administration has sought to rebalance American policy toward Asia since the middle of 2011. The rebalance, or misnamed "pivot," is usually depicted in military or security terms, with America shifting its focus and resources from the wars in Iraq and Afghanistan back to the Asia-Pacific region, where U.S. economic and security interests are greater. In fact, rebalancing was originally an integrated strategy with military, diplomatic, and economic initiatives intended to strengthen U.S. involvement in the region, symbolized by President Obama's ten-day trip through Asia in November 2011.

Over the course of 2012, however, this strategy largely disintegrated as regional events and the U.S. election cycle unfolded. The free trade initiative of eleven nations, known as the Trans-Pacific Partnership, was kept quiet to avoid controversy over trade during the elections. The diplomatic initiative to return the United States to the center of Asian efforts to build a regional security and economic architecture marked time. Meanwhile, the Department of Defense marched forth dutifully with declarations of intent to strengthen military ties and sustain the U.S. military presence. Despite ritual U.S. protestations, the latter was seen in China and some other places as an effort to counter China's rise.

Unforeseen events complicated the picture. Tensions erupted between the Philippines, Vietnam, and China in the South China Sea, between Japan and China in the East China Sea, and between Japan and South Korea over disputed but relatively insignificant

territorial claims. The United States became entangled in these disputes, further straining U.S.-China relations. Nationalist sentiment was roused throughout the region, forcing relatively weak governments to take stances that are tougher than they are wise.

These developments reinforced strategic mistrust between the United States and China, especially between their political and security establishments. The two militaries started as enemies in the Korean War and have never achieved stable levels of trust. Repeated crises since China's Tiananmen incident in 1989, combined with China's determination to expand its military capabilities, have increased both U.S. concerns about future tensions and China's resolve to reduce its vulnerabilities.

THE NEW ADMINISTRATION'S AGENDA

The incoming administration faces a cascade of decisions that will largely be viewed as relatively low priorities in the American domestic context but that could prove supremely important in terms of the future of great-power relations and the future of the American economy if they are mismanaged. If Beijing and Washington, despite their many complementarities, fail to manage their very real differences, the potential costs are unimaginable. The trick will be to exploit the complementary aspects of the U.S.-China relationship to resolve, contain, or, if deterrence fails, defeat the threats that differences may produce.

The new administration needs to decide how to position the United States in relation to China. This will not be a binary process, but one with many complicating factors, starting with the formulation of policies to revitalize the American economy. A confident and growing United States will have few impediments to exercising its influence.

Restoring U.S. competitiveness requires an end to talk and the implementation of a coherent strategy to make the American revival a reality. This will be enhanced if, as seems likely, China's skyrocketing growth trajectory encounters the transitional difficulties that other states that followed the Asian development model have met after the initial takeoff phase.

THE POLITICS OF THE U.S.-CHINA RELATIONSHIP

The agenda going forward has political, economic, and military dimensions. Politically, the newly reelected American administration will be dealing with a newly recast leadership in Beijing. Early interactions between the two sides will assume outsized symbolism as indications of the directions in which new leaders may seek to proceed.

The leadership transition in China, which seemed to be confidently in hand in late 2011, became much more uncertain as 2012 unfolded, following the disgrace of the

Communist Party chief in Chongqing, Bo Xilai. As the struggle unfolded behind the scenes, China's external diplomatic behavior continued to grow more outspoken, increasingly in contrast with the late Deng Xiaoping's cautionary approach of having China take a low profile and bide its time.

This trend has been gaining strength since about 2008, and it was abetted in 2010–2012 by China's neighbors' actions as well. Outsiders do not know, however, how much external events influenced China's internal

politicking, and vice versa. The ability of China's new leadership to consolidate power, maintain legitimacy, and manage dealings with its neighbors will be significant in determining the success of future U.S.-China relations.

But American policymakers would be wise to carefully consider how their actions and words are perceived in China, lest they produce unintended negative results. In the case of the Obama administration's rebalancing, what began as an integrated approach to the region increasingly became seen in China as a military and economic effort to hold China's development and destiny in check. This was never the American intent, but insensitive word choices and symbols sent a different signal.

The ability of China's new leadership to consolidate power, maintain legitimacy, and manage dealings with its neighbors will be significant in determining the success of future U.S.-China relations.

PEOPLE IN THE U.S.-ASIA NEXUS

Whatever the fluctuations in China's leadership or that of other major countries in the region, they tend to rely on professional bureaucracies for practical advice on how best to advance their own country's interests internationally. These bureaucracies can be very effective in bridging the gaps between meeting the domestic needs of their masters while maximizing the benefits and minimizing the costs of their foreign relations.

China is about to field a new team of foreign policy managers, though largely composed of familiar and knowledgeable figures. For the new American administration, the challenge is to bring forward the best possible team to assist U.S. leadership as the United States deals with a landscape of evolving geopolitics.

Policymakers are adjusting diplomacy and security postures to accommodate and moderate China's new capabilities and intentions, yet the United States retains huge economic

and military advantages that make this far more than a zero-sum game in which China rises and the United States declines. Confident and skillful people are needed to manage

**Confident and skillful people
are needed to manage America's
interests as the situation
in the Asia-Pacific region
becomes more complicated.**

America's interests as the situation in the Asia-Pacific region becomes more complicated.

There are key positions to be filled at the level of assistant secretary of state for East Asian and Pacific affairs, National Security Council staff senior director for Asian affairs, and assistant secretary of

defense for Asian and Pacific security affairs. These should be viewed as a team with deep experience that is balanced to complement each other's strengths in the region.

Finally, there is a huge surplus of mistrust between the peoples of the United States and China, especially in their militaries. The U.S. president's cabinet would benefit from having at least one or two officers with hands-on experience in the Asia-Pacific region. Choices of commanders in the armed forces are complex, but adding qualifications of Asia work experience for certain positions is essential.

Sustaining and deepening military-to-military interaction can only help both camps demystify the other side and hopefully improve communications to reduce misunderstandings. China's greater military reach, especially at sea, but also in the air, space, and cyber domains, will challenge the U.S. military and its partners to adjust doctrine and strategy.

The United States will transition from the post-World War II posture in the western Pacific of near impunity to one more familiar in history in which powers seek to balance each other and must calculate a new mix of risks and benefits in protecting America's interests. This will challenge commanders and policymakers in an increasingly constrained budgetary atmosphere. Burden sharing with allies and partners will play a larger role.

THE ECONOMIC AGENDA

Beyond returning America to better economic health, there will be a multifaceted economic agenda in the Asia-Pacific region. The Trans-Pacific Partnership, which was an idea from four regional countries, has grown to include eleven, including Mexico and Canada. In the wake of the collapse of the Doha round of global trade talks, this high-quality and ambitious negotiation has the potential to both unlock growth and help the United States stay abreast of proliferating regional and subregional free trade arrangements.

The U.S. negotiating team will need strong support from the president and related agencies to carry the negotiation to completion. The public, moreover, needs to be educated about the value of such an agreement after political campaigns that paid little attention to the positive aspects of international trade.

Washington needs to quickly get past any talk about declaring China a currency manipulator. China's surplus was 10 percent of GDP in 2009 when Treasury Secretary Timothy Geithner pleaded with his Chinese counterparts that they revalue the currency and get the surplus down to 4 percent of GDP. Today, that surplus has shrunk to a normal 2 percent. Currency is not the issue.

But there are plenty of trade issues to take up with China and other regional trade partners. American business is largely prospering in China and China is America's second-largest trade counterpart and fastest-growing export destination. As the United States seeks to restore economic dynamism at home, these facts must not be forgotten.

At the same time, China's pace of domestic economic reform has slowed over the past five to seven years, and this has imposed trade and investment impediments that

are preventing or reducing market access. The new administration requires a strong team of trade negotiators who can target the 100 or so market-access bottlenecks in China.

Moreover, China is at the beginning of what promises to be a massive campaign of outward investment that could benefit American workers. Administration representatives will be asked to review potential investments many times for their impact on national security. It is imperative that these reviews are as transparent as possible and that they do not end up sending the mistaken signal that no investment is welcome in the United States. That implication would be completely incompatible with U.S. national economic priorities, inconsistent with the American tradition of welcoming and benefiting from foreign direct investment, and likely invoke reciprocal constraints on U.S. investors.

The Trans-Pacific Partnership has the potential to both unlock growth and help the United States stay abreast of proliferating regional and subregional free trade arrangements.

REGIONAL ARCHITECTURE AND TERRITORIAL DISPUTES

The Obama administration did well to embrace the Asia-Pacific hunger for a new regional security and economic architecture. Secretary of State Hillary Clinton will long be remembered for her early and continued commitment to deep engagement in the region.

The president's decision to travel to Southeast Asia to attend the East Asia Summit and visit Thailand and Myanmar shortly after his reelection reinforces this engagement.

But the job is not done. China and the United States, both probably unlikely to win the other over with an architectural plan devised by itself, acquiesced to Southeast Asian leadership under ASEAN to construct a pattern of summits and ministerial meetings to address security-related issues.

ASEAN has always been more amorphous than sharply defined in its mission, probably reflecting the big gaps in development and political systems among the ten member nations. In 2012, ASEAN came perilously close to failing a major test when its leaders met collectively in Phnom Penh and could not even produce an agreed communiqué for the first time due to Chinese pressure on the Cambodian chair over territorial disputes in the South China Sea.

China perceives ASEAN's efforts to collectively support members in their bilateral territorial disputes with China as a fateful negative move, and it used its influence to frustrate the meeting in Cambodia. Moreover, Beijing has begun to seek means to teach ASEAN a lesson that its role can be made less relevant if China judges ASEAN as less than neutral in these disputes and in its relations with Washington and Beijing.

Like the contemporary dispute over the Senkaku/Diaoyu Islands in the East China Sea, there is blame to place on all sides for mismanagement of these minuscule and strategically insignificant specks of land. Going forward, the United States has a continued interest in not taking sides on the specific disputes but nonetheless insisting on rules-based, nonviolent means of managing and ultimately settling them. The United States will have to reckon with China's growing sense that its fleets of civilian administration ships can successfully advance Beijing's territorial claims through continuous presence in disputed waters while avoiding more confrontational naval deployments.

Moreover, the view has taken hold in influential Chinese circles that Beijing's concerted efforts to assert authority over disputed territory in the Scarborough Shoal claimed by Manila have shown that American intervention in the South China Sea dispute has proved feckless and even counterproductive. Similarly, Beijing believes it has successfully diluted Japanese administration of the Senkaku/Diaoyu Islands through nonmilitary means, weakening the effectiveness of reassurances from Washington about the U.S.-Japan alliance.

Given the low strategic and economic value of the disputed territories, and the high potential costs to the United States and China of direct confrontation, China increasingly sees itself with the advantage.

The new U.S. administration will be challenged to defend its policy against charges that it is failing to stem Chinese expansionism through stealthy means. Regional partners will look for greater assistance in strengthening their capabilities against a Chinese rival with deeper pockets. Senior officials' creativity will be tested in responding to partners' needs and in positioning the United States for long-term competition with China. It is new, unfamiliar policy territory.

If the dream of an Asia-wide security mechanism (or mechanisms for Northeast Asia and Southeast Asia) is to become real, norms for peaceful management of disputes will need to be cultivated and enforced. Thus, the United States will likely benefit from renewing proactive diplomacy to promote internationally accepted rules of the road. To do this, the United States must find the fine balance between protecting its alliance relationships while avoiding the pitfalls of conflict over territorial disputes of marginal value even to the disputants.

NORTH KOREA

Always a special case, tragically for its long-suffering people, North Korea is enduring the second succession of its Kim Il Sung Communist dynasty, with equally unpredictable prospects. This moment is complicated by elections in South Korea, where the new president is likely to soften the hardline approach to the North of the outgoing Lee Myung-bak government.

The first Obama administration reached out to reduce tensions and to make progress toward denuclearization with Pyongyang but suffered repeated rebuffs and setbacks. Only a few Americans continue to urge the U.S. government to try again under prevailing circumstances.

The incoming administration will do well to allow a few months to pass for both Washington and Seoul to put personnel in place and find their policy footing before gathering bilaterally to examine policy toward North Korea. But North Korea can be expected to play by its own rules, and some combination of provocation and flattery cannot be ruled out.

Beijing has a role to play, but it has held back so far, fearing destabilization of the North and the loss of a buffer state between China and American-allied South Korea. These

The incoming administration will do well to allow a few months to pass for both Washington and Seoul to put personnel in place and find their policy footing before gathering bilaterally to examine policy toward North Korea.

Chinese concerns run deep and will not change easily. In recent years, however, Chinese experts have grown increasingly vocal about the downsides of Beijing's relationship with Pyongyang.

Over the first few months of new administrations in both Beijing and Washington, it will be worth testing to see whether the Chinese policy consensus on North Korea is changing and whether there is greater opportunity for cooperation to manage the North Korean nuclear and missile threat.

GETTING POLICY RIGHT

The U.S.-China relationship is too consequential to move along a deliberate path of confrontation. China and the United States have shared interests in regional and international peace and prosperity and must find ways to cooperate and avoid unhealthy competition. Economic interdependence makes developing more open communication and increased trust of the utmost importance. Both countries need a beneficial and predictable relationship based on mutual respect and fairness in policy and practice.

In the final presidential debate, President Obama referred to China for the first time as an "adversary." China's new leader, Xi Jinping, has promoted a novel concept, which he calls a "new kind of great-power relationship" that apparently means finding a way for a rising power and an existing power to avoid conflict. Obama should seek an early opportunity in the next year to deeply probe Xi's thinking in private to help make this a reality.

China and the United States have shared interests in regional and international peace and prosperity and must find ways to cooperate and avoid unhealthy competition.

The first scheduled meeting between the two presidents will not occur until the G20 meeting in 2013. Given the looming challenges between Beijing and Washington, Obama would do well to break with precedent and invite Xi Jinping for a long, unscripted weekend chat in Hawaii early in

their new terms. This sort of exploration of their mistrust and capacity for cooperation should be welcomed by both sides. And an offer of this sort would be seen as a sign of the U.S. president's strength, not weakness, and of respect for his Chinese counterpart, providing a constructive basis for managing the coming challenges.

AWAKENING TO A NEW ARAB WORLD

MARWAN MUASHER | KATHERINE WILKENS

The United States must further the cause of democracy in the Middle East in the wake of the Arab uprisings. Doing so requires realistic, pragmatic U.S. leadership to encourage reform and promote the development of civil society in the region. The Obama administration should focus on institutions and engage with all nonviolent groups, including Islamists. Effective U.S. engagement will be crucial to resolving crises from Syria and Iran to Israel and Palestine.

THE RISING UP OF PEOPLE DEMANDING FREEDOM, dignity, social justice, and government accountability across the Arab world is an astonishing and positive development. The groundswell put the Arab world back on the right course of history. But there is a long road ahead—the fitful, messy, and unpredictable process of self-government and democratic institution building is just beginning.

Taking place under banners of democracy and freedom, these Arab “revolutions” fulfilled the long-stated U.S. goal of moving the Middle East toward greater democratic and representative government. The United States cannot turn its back on this process now. Washington has a stake in the outcome of the political jockeying unleashed by the Arab Awakening and must stay engaged as the people of the Middle East struggle to take control of this moment.

U.S. policy in this new environment will be more complicated and demand more time, effort, and patience than when pro-American dictators sat in Tunis, Cairo, and Sanaa or when Baathists had a firm grip in Damascus. The relative predictability of the old order, for good or ill, is gone. Fluidity now rules the day, both for the countries in transition and for those that have not started a transition. The Obama administration's ability to influence events will be limited by a number of factors, including reduced economic resources, domestic fatigue with military involvement, and Arab frustration with longtime U.S. support for the status quo and failures to advance the Israeli-Palestinian issue.

Nevertheless, America has an important role to play. Those who doubt the relative significance of American leadership need only look at the recent cases of Libya and Syria, where the decisive factor for action or inaction has been the extent to which the United States chooses to engage. America still serves as an important example of a country that

America still serves as an important example of a country that has struggled, and continues to struggle, with the balance between freedom, pluralism, free speech, and the rule of law.

has struggled, and continues to struggle, with the balance between freedom, pluralism, free speech, and the rule of law.

The states in the midst of transition will need U.S. encouragement, understanding, tough honesty, and, where appropriate, economic assistance to build new institutions that support plural-

ism, foster respect for minority and individual rights and international law, marginalize the voices of extremism and sectarianism, and put their people on a path to greater prosperity. The states that have not yet moved toward reform need the United States to bluntly assess the consequences of their actions and to encourage them to embrace change.

FOCUS ON PERFORMANCE, NOT IDEOLOGY

The commitment to democracy is fundamentally correct, and the United States should make it clear that it will always support the ability of the people of the Middle East to choose their own governments and hold them accountable.

The United States should stick to a disciplined policy approach that emphasizes the primacy of adherence to international standards, including respect for treaty obligations, individual and minority rights, and peaceful rotation of power. By reinforcing clear, positive objectives, Washington will both help support countries in transition that are experiencing tremors and setbacks and undermine others that are trying to advance the narrative that democracy in the Arab world is a bad idea.

The losers in the initial political competitions will, in some cases, be all too ready to raise questions about the validity of the process, or the desirability of democracy, to cover their own shortcomings and frustrations. The Obama administration cannot let the naysayers or extremists—either in the region or in the United States—hijack the narrative of the moment. As Secretary of State Hillary Clinton has said, “One election does not a democracy make. That’s just the beginning of the hard work.” The United States should make it clear that it is in for the long haul.

U.S. criticism or praise should be based on performance and should be applied to newly transitioning countries as well as traditional friends, such as the region’s non-elected governments—Saudi Arabia, Jordan, and the Gulf states.

SET REALISTIC EXPECTATIONS

U.S. policy must be guided by realism and pragmatism as the Obama administration engages with new actors in the Middle East. Washington’s ability to influence events will be marginal in many areas. Political transition on the ground will be driven by domestic events and considerations and the competition for votes, power, and resources.

Wherever possible the United States should focus on institutions, not individuals, as this is where democratic processes will be implemented—or not. In President Barack Obama’s second term, the administration should reenergize efforts to build constructive working relationships at the institutional level and forge partnerships around practical endeavors to advance effective governance and inclusive economic development. In the area of civil-military relations this will include maintaining U.S. military support in key countries and backing measures that strengthen the professionalization and depoliticization of the security sector.

U.S. engagement should also help Arab countries develop and finance their own civil society and political parties—a task Arab capital is certainly up to. While U.S. support for local nongovernmental institutions has been successful, it is important that these organizations nurture and develop deep roots in their local communities to be credible and sustainable. The United States should direct its resources toward efforts like shoring up the legal framework for civil society groups and helping local investors develop the tools to finance them.

The United States should direct its resources toward efforts like shoring up the legal framework for civil society groups and helping local investors develop the tools to finance them.

The linkages between economic reform and political transition are critical. While limited resources will handicap what America is able to do in this area, the Obama administration should engage wherever possible to advance projects that promote small business growth, vocational education, job training, and anticorruption efforts. Washington should seek to play a leadership role in encouraging regional and international initiatives to provide large-scale economic support for the Arab world's non-oil-exporting countries that are either going through transition or rebuilding after civil war.

Finally, the administration should be extremely cautious about imposing political conditionality on aid, trade, debt relief, and other support. Seeking to use aid as leverage often backfires, and in the fragile political atmosphere that currently prevails in these countries, such attempts are likely to provoke a strong nationalistic reaction and do more to undermine U.S. long-term goals than to advance them. Aid withheld is also in many cases quickly turned into an opportunity for another country—China, Saudi Arabia, Turkey, Qatar—to jump in and provide support, often with different priorities than Washington. The United States should preserve this diplomatic tool for the most important cases, such as the abrogation, or the threatened abrogation, of international law and treaty obligations as well as major human rights issues.

DO NOT TRY TO PICK WINNERS AND LOSERS

The United States should avoid taking sides before the electorate has registered its decision at the polls. Instead, it should maintain and develop contacts with all political forces and movements, recognizing that the process of change is an issue for Arabs to decide for themselves. Electoral popularity is unpredictable, and U.S. policymakers will need to keep all lines open.

For the foreseeable future, Islamist parties will likely dominate politics in most of the countries in transition, and other parties and movements will have to work harder to gain traction in the new political environment. Initially, the political playing field in many of these countries will display a tendency to develop around familiar communal, religious, and tribal banners. Real party building will likely take decades. Along the way, the United States should be available to advise all nonviolent groups on electoral practices and the democratic process.

Moderates will inevitably be challenged by extremists in the new public domain, as has been the case in Egypt and Tunisia, but the primary U.S. goal in this area should not be to become part of the internal political narrative. Visible U.S. efforts to encourage liberal movements to organize and build stronger grassroots support are likely to only hurt those groups. The best way to support the goal of sustainable democratic change is by clearly committing to the principles and process of democracy—accepting and dealing with

all legitimate winners of elections and insisting on the need for continuing the electoral process into the future.

A lack of viable countervailing political forces is the greatest threat to long-term democratic outcomes in the region. Strengthening democratic institutions, including parliaments, courts, and independent media, will be one way to mitigate this danger.

RECOGNIZE POLITICAL ISLAM IS NEITHER MONOLITHIC NOR STATIC

The entry of Islamist actors into the political process in transitioning countries holds the greatest promise for the evolution and moderation of political Islam. For the most extreme Salafi groups, political participation presents a major ideological threat. For others, such as the Muslim Brotherhood, governing will require new pragmatism and difficult choices. The dynamic is likely to differ from country to country, but the United States must be ready to challenge new Islamic governments and emerging Islamist groups across the region to strengthen and institutionalize the democratic processes that brought them to power.

The United States must be ready to challenge new Islamic governments and emerging Islamist groups across the region to strengthen and institutionalize the democratic processes that brought them to power.

The Islamist parties that have won elections in the region are well on their way to becoming convinced that they need to pursue pragmatic policies in order to create the growth and generate the revenue through tourism and foreign investment that will enable them to deliver results and gain reelection. More than anything else, this need for economic pragmatism presents an opportunity for bilateral cooperation with the United States and the rest of the world.

In its dealings with Islamists the United States should also be attuned to emerging generational and ideological splits within these movements. Even among the region's Salafis there is evidence of important divisions between groups engaged in social and political activism and those that espouse violence. The United States should avoid viewing all groups through the same lens.

It is unlikely that extremists, representing only a minority, will win at the ballot box. Their strategy will be to try to inflame public opinion and derail progress from the outside, and they will only come out on top if the democratic process breaks down.

The new Arab order has to be based on principles of political, cultural, and religious pluralism, inclusive economic growth, and peaceful rotation of power. If Islamists are going to lead the way, they will need to embrace these values. It is too early to tell if this is in the cards; but it is also too early to assume that it will not be. The United States and the international community should work together to help show the way.

BREAK THE REGIONAL DEADLOCK ON SYRIA

After twenty months of fighting, the Syrian regime is seriously weakened and unable to be militarily decisive even in key cities like Aleppo. Nevertheless, Damascus has managed to postpone defeat, stem the tide of army defections, and successfully define the conflict as an existential struggle for survival for non-Sunnis in the Syrian state. President Bashar al-Assad has been aided in this effort by deep divisions among the opposition and the heightened regional struggle over outcomes in Syria between Saudi Arabia, Turkey, and Qatar on the one hand and Iran on the other. The regionalization of the Syrian crisis, much like the Lebanese civil war before it, ensures that it will not be over without a settlement that includes all participants and their outside backers.

To date, U.S. policymakers have faced few good options. Since the start of the revolution, the risks presented by greater U.S. military engagement—greater loss of life, further militarization of the conflict, and empowerment of military elements within the opposition over civilian and nonviolent elements—have outweighed the potential benefits. However, this calculus may be beginning to shift.

The key will be the progress made in efforts to promote greater unity and inclusiveness among the internal and external Syrian opposition. As of this writing it is still too early to tell if the initial results from the November opposition meetings in Doha will succeed in significantly advancing this goal. The emergence of a representative and unified Syrian opposition body that is able to receive the confidence of Syrians suffering and dying within the country and be accountable for technical processing and delivery of outside support and assistance would be a game changer for Western policymakers. It would revive the option of providing direct military assistance and reinvigorate international diplomatic efforts to increase pressure on Assad to leave the country.

In the final analysis, any political settlement in Syria will require the support of Syria's neighbors in order to be sustained. There are some indications that the ongoing fighting and threat of an enduring military standoff has begun to shift regional attitudes toward a political settlement. Turkey, a staunch supporter of the military overthrow of the Assad regime, wagered initially on a short revolution, along the lines of Egypt and Tunisia. The increasing threat of spillover into Turkey as the conflict has raged on has shifted Ankara's

assessment of the risks and costs of the continued conflict, and signs suggest that there may be increased interest in diplomatic action to end the fighting. In Lebanon, a continuation of the conflict represents an existential threat to the delicate political balance in Beirut. Increased sectarian violence in Iraq has also raised the stakes of the ongoing conflict for the Maliki government, and perhaps for Baghdad's neighbors in Tehran as well.

The Obama administration should engage in aggressive diplomatic activity in support of a negotiated settlement to the conflict that places Syria on a track for political transition,

eventual elections, and institution building. U.S. outreach to Moscow, as well as to other regional players, should focus on breaking the international and regional deadlock and gaining support for a transition that will remove Assad, end the fighting on the ground, and prevent a breakup of the state. This will require a formula that takes into account the need to assure the

main minorities in Syria—the Alawites, Kurds, and Christians—that they have a future in the country. Without this element, a post-Assad Syria will remain a serious destabilizing factor in the region—with growing sectarian conflict in neighboring states presenting an increased threat to regional stability.

The Obama administration should engage in aggressive diplomatic activity in support of a negotiated settlement to the Syrian conflict that places the state on a track for political transition and eventual elections and institution building.

STAY THE COURSE ON IRAN

The Arab Awakening in many ways represents a strong challenge and setback for Iran. As crowds filled Tahrir Square in 2011, they presented a direct contrast to the images in Tehran of the brutal suppression of young demonstrators during the 2009 Green Movement protests. The Arab uprisings threatened to steal the narrative of “revolution” away from Tehran—a regional paradigm the Iranian mullahs have embraced for decades to justify their support of militant activities across the region. Over the last year Tehran's image in the broader Arab world has suffered greatly due to its strong support for the Assad regime in Syria.

The Obama administration is likely to face new obstacles and decisions about when and how to support Iran's internal opposition over the next four years. In his second term, President Obama should continue to resist political pressure to embrace democracy activists publicly because doing so would undermine the credibility of their cause at home.

The United States can best aid the cause of democracy and open society in Iran by focusing on tearing down the information and communication barriers the regime has erected.

The United States can best aid the cause of democracy and open society in Iran by focusing on tearing down the information and communication barriers the regime has erected. Technological aid and infrastructure that helps improve Iranians' access to Internet and satellite communications would allow Iran's democracy activists to stay better connected

with one another and would show the outside world what is happening in their country. Thus far, U.S. policy has focused too heavily on sanctions and hard power and not nearly enough on media and communications.

USE LEVERAGE WITH THE GULF STATES TO PROMOTE REGIONAL GOALS

Since the fall of the shah of Iran, U.S. objectives in the Persian Gulf have remained largely unchanged—ensuring security and stability, maintaining the free flow of oil and gas to international markets, and using American military assets to counterbalance Iran and keep the Strait of Hormuz open. These efforts serve both the United States and regional states that are concerned about Iranian influence and intentions. However, the Arab Awakening has added a new dimension to U.S. relations with the Gulf states by underscoring the high cost of friendly states' failure to take the need for internal reform seriously. This failure represents a direct threat to long-term U.S. interests and security and stability in the Gulf.

Significant reform in the Gulf states is critical to stave off further polarization and inevitable unrest. The Obama administration cannot afford to sugarcoat this point with Gulf Arab monarchies.

Pressure to link security assistance and arms sales to specific benchmarks on reform will grow if these governments continue to pursue business as usual and fail to loosen their crackdown on civil liberties. This is particularly true in Bahrain, where a worsening stalemate on reform is radicalizing the Shia opposition, potentially increasing the very Iranian influence the government is seeking to contain. Similar challenges of political reform, civil liberties, and minority issues are evident in most of the other Gulf states.

The United States should continue to explore options for offshore basing in the Gulf that will preserve the U.S. military posture as a deterrent against Iran but limit the larger strategic liability that results from too close an association with autocratic Gulf states.

The Obama administration has failed in recent months to push the states of the Gulf Cooperation Council on two key issues that directly affect the fate of the Arab Awakening and regional stability more broadly—halting Gulf support of extremist Islamic groups across the region and increasing Gulf states’ level of investment in struggling non-oil-exporting countries in the Arab world.

The Gulf states have flirted with China and other oil consumers, but they continue to depend on U.S. protection and leadership when it comes to Iran. They need to be strongly encouraged to invest in stabilization and economic stability in the region and dissuaded from fanning the flames of regional sectarian strife and extremism, or sitting by idly while local clerics and individual citizens do the same. The sectarian paradigm of the region that some Gulf states subscribe to is in many ways a self-fulfilling prophecy.

REALIZE THE CHOICE FOR ARAB-ISRAELI PEACE IS NOW OR NEVER

More than five years have passed without any substantive direct negotiations between the Israelis and the Palestinians. This situation has led to deepening paralysis and almost complete deadlock. The Palestinian Authority, which has aggressively pursued economic state-building projects and security cooperation with Israel in recent years, faces near-certain demise both politically and economically. Israel, for its part, must deal with a looming demographic time bomb of existential proportions.

The time for peace is now. Each month that goes by makes the problems more difficult to address. Time and experience have shown that the stars will never be aligned to make Israeli-Palestinian peace easy. The Obama administration needs to accept that to wait for such a moment is to intentionally defer action forever. Those who choose to subscribe to this view must do so with eyes wide open, acknowledging the consequences for Palestinian rights and aspirations as well as for the long-term existence of Israel as a democratic state.

Years of failed efforts have demonstrated that it is useless to talk about launching another “process” on the way to a settlement. Process is no longer sufficient. In the Israeli-Palestinian context it has become no more than a synonym for delay and inaction—creating new facts on the ground that make securing a two-state solution impossible.

There is no substitute for an active and engaged U.S. role in this area. The United States must commit itself to work through the Quartet to bring about a speedy settlement of the conflict before it is too late. This means engaging Arab players, such as Saudi Arabia, Jordan, and Egypt, and securing an understanding about the basic parameters of a comprehensive settlement. The goal should be to establish a timetable of months, not years, to iron out the details that in large part are already very familiar to all those involved.

Making peace in the Middle East is not cost free, but it is vital to U.S. national interests.

Making peace in the Middle East is not cost free, but it is vital to U.S. national interests. The absence of a two-state solution has serious repercussions, not just for Palestinians, but also for the long-term future of Israel and the

long-term stability of the region. A settlement that guarantees Israel's security in return for a separate and viable Palestinian state is, in many respects, a prerequisite for a stable economic and security environment in the region and key to Israel's long-term future.

In the new Middle East, the absence of peace will resonate more intensely throughout the Arab world. The soft cushion Hosni Mubarak provided for Israeli-Egyptian relations is now gone. Without real progress, pressure to Islamize this conflict is likely to increase as new democratically elected governments led by parties such as the Muslim Brotherhood enter the regional stage. Neither side can afford to delay. The possibility of peace is slipping away.



OPPORTUNITIES

MANAGING THE UNCONVENTIONAL OIL AND GAS BONANZA

DAVID BURWELL | DEBORAH GORDON

The United States is awash with new energy. But previously untapped sources of oil and gas can have long-term impacts on climate if their development is not properly managed. Strong and effective presidential leadership is necessary if the United States is to make the most of its new resources. President Obama must work with private, public, and nongovernmental organization leaders to develop a transparent carbon-pricing structure that advances national energy, economic, and climate security.

TECHNOLOGICAL BREAKTHROUGHS IN ENERGY DEVELOPMENT

are creating access to more domestic oil and gas resources than at any time in U.S. history. Optimism about the nation's energy future is soaring as new opportunities emerge to obtain fuel from previously untapped unconventional oil and gas. Using only known energy development technologies, there is at least as much unconventional oil and gas accessible today as there is conventional supply.

U.S. net recoverable shale gas reserves in particular have expanded from enough for about a decade to well over one hundred years at current rates of consumption. Oil sources in the United States and Canada are now estimated at over 3.5 trillion barrels. Recovering these new oils—many of them unconventional in either their makeup (such as oil sands) or location (such as oil trapped in shale rock)—is tied to the future price of oil.

This new oil and gas wealth presents the United States with a significant opportunity to create jobs, stimulate its economy, reduce the trade deficit, and improve its global economic competitiveness. However, realizing the full potential of these new energy sources and reaping the short-term economic rewards of this energy bonanza require presidential leadership and new policies. The highest levels of government must prioritize efforts to

There is at least as much unconventional oil and gas accessible today as there is conventional supply.

address these public objectives while ensuring market stability, protecting national security, and addressing climate change.

Historically, energy has been a policy priority only during moments of crisis, such as the Organization of the Petroleum

Exporting Countries' oil embargo and the Iranian Revolution of the 1970s. But the United States must focus on national energy policy now, when times are good, to make sure it is closely aligned with the imperative of climate protection. Policy attention in times of plenty affords more room for maneuver in the short term and more careful development of long-term strategies to advance key national objectives.

America has meaningful new oil and gas choices. Establishing climate objectives for the U.S. energy bonanza will require a durable policy framework backed by presidential leadership.

ENERGY OPPORTUNITIES

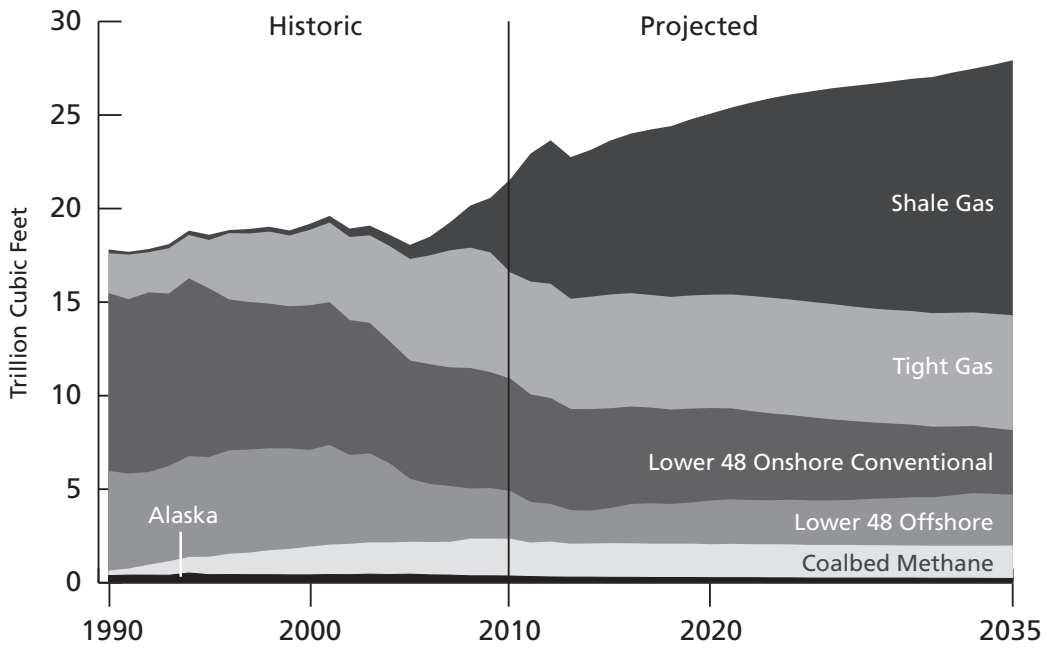
America is experiencing what is termed a "shale gale." From 2005 to the present, natural gas production has increased by 28 percent, with shale gas the largest contributor to this growth. In the *2012 Annual Energy Outlook*, the Energy Information Administration forecasts that U.S. gas resources could swell to 2,203 trillion cubic feet by 2035. One-half of these massive gas reserves are expected to be shale gas (see figure 1).

Beyond the United States, initial estimates put the quantity of technically recoverable shale gas at 5,760 trillion cubic feet. To put this resource estimate into perspective, as of 2010, world proven natural gas reserves amounted to 6,600 trillion cubic feet. The addition of just *identified* shale gas alone more than doubles proven gas reserves.

In the past couple of years there have also been surprising discoveries of new tight oil resources throughout the United States—continuous, nonpooled oil trapped in source rock that is difficult to extract and must be liberated by hydraulic fracturing, a procedure in which fluids force rock formations open, allowing oil (and gas) to flow out. Over the

FIGURE 1

U.S. Natural Gas Production by Source (Historic and Projected)



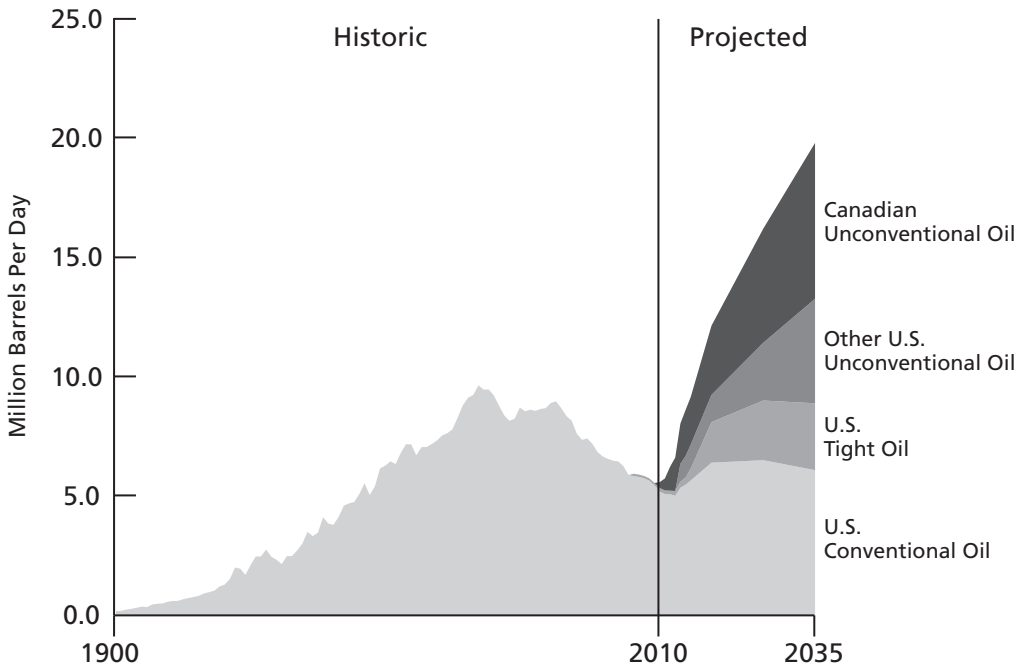
Source: U.S. Energy Information Administration, *2012 Annual Energy Outlook*, [www.eia.gov/forecasts/aeo/pdf/0383\(2012\).pdf](http://www.eia.gov/forecasts/aeo/pdf/0383(2012).pdf)

next decade, sustained development of these tight oils, in combination with the ongoing development of ultradeep offshore resources, is expected to push domestic crude oil production to nearly 7 million barrels per day (mbpd) by 2020—a level not seen in decades. By 2035, if high oil prices prevail (\$187–200 per barrel in 2010 dollars), U.S. oil production could rise to 15 mbpd. If prices are low (\$53–62 per barrel in 2010 dollars), U.S. oil production is projected to be 11 mbpd. Despite the uncertainty driving the wide range of future oil prices, the U.S. Energy Information Administration’s oil production projections are relatively narrow. Moreover, the prospect for new oil is upward of 20 mbpd when Canada’s heterogeneous oil supply potential is factored in (see figure 2).

This rapid increase in diverse unconventional oil and gas resources, which are found on federal and private lands, presents the United States with important new energy choices. With this vast and varied array of oil and gas options comes the need to prioritize prudently. Which resources merit early development, and which energy sources need more assessment to manage safely? Which oil and gas resources have the greatest climate

FIGURE 2

North American Oil Production Potential (Historic and Projected)



Source: U.S. Energy Information Administration, *2012 Annual Energy Outlook*, [www.eia.gov/forecasts/aeo/pdf/0383\(2012\).pdf](http://www.eia.gov/forecasts/aeo/pdf/0383(2012).pdf)

tradeoffs? Which reserves are best saved for future generations? America's future security depends on selecting wisely in exploiting this new oil and gas wealth.

Undertaking that kind of planning in the good times, and not in the midst of a crisis, opens up a whole new set of possibilities. For example, resolving boundary disputes and oil and gas development issues among countries bordering the Arctic Ocean in ways consistent with the terms of the United Nations Convention on the Law of the Sea can preempt future conflicts in this new energy frontier. America's leaders can take the long view and work to sustain the health, diversity, and productivity of public lands for the use and enjoyment of present and future generations. And a slower economy takes the pressure off hasty oil and gas production decisions, opening the door for prudent oversight before demands ramp back up.

Thanks to this new energy bonanza, U.S. leaders have the time to consider the wisest courses of action. With more time and more energy resources, policymakers can choose

how much access to provide to public lands, which royalty rates to apply, which infrastructure to permit, which global governance structures to put in place, and which conditions to put on energy resource extraction. The pressure to rush decisions is not a driving factor in the face of oil and gas abundance.

ENERGY CHALLENGES

Fossil fuels are the largest contributors to global carbon emissions. So while new energy resources present tremendous economic opportunities, their full benefits can only be realized if total carbon emissions continue to be reduced from present levels as production increases.

Accelerated Carbon Buildup From Fossil Fuels

Global warming is a primary threat to personal security, economic stability, and public health. It also contributes to sea-level rise, which increases storm surge along U.S. coastlines with potentially catastrophic results. It raises surface temperatures, leading to more wildfires, tornadoes, and windstorms. It causes tropical diseases to migrate northward, infecting both ecosystems and people with little or no resistance to these new pests and microbes. More heat also means more energy in the atmosphere and oceans, thus increasing the velocity, and devastation, of both inland and coastal storms.

The phenomenon is predominantly the result of the accumulation of carbon dioxide (CO₂) emissions in the atmosphere, and fossil fuel combustion is responsible for the majority of those emissions. There is no scientific debate on the facts. According to the Carbon Dioxide Information and Analysis Center, pre-industrial CO₂ levels were about 280 parts per million (ppm) while current levels are greater than 390 ppm, far exceeding the natural range over the last six hundred and fifty thousand years. Once released, carbon dioxide emissions last for hundreds of years, and the climate recovers only slightly over thousands of years. This effectively permanent influence—in terms of human lifespans—underscores why reducing carbon emissions is a necessity.

America's future security depends on selecting wisely in exploiting its new oil and gas wealth.

Accelerated U.S. and global production and use of new stores of unconventional oil and gas will further increase the amount of carbon dioxide in the atmosphere at a time when climate science indicates that deep reductions are imperative to avoid a catastrophic rise in global temperatures.

Moreover, unconventional oils and gases have widely varying carbon footprints due to their different carbon contents, energy-intensive extraction methods, and extensive processing requirements. For instance, extra-heavy oils contain carbon residues that form coal-like products that when combusted emit 40 percent more carbon dioxide than gasoline and 10 percent more than coal. Their development has effects outside of U.S. borders as well, as co-products like petroleum coke (also referred to as pet coke) are exported to Asia, often with disastrous environmental consequences.

The only alternative is a carbon tax. Now, more than ever, this tax policy is needed to regulate the development of these resources. By adding a surcharge on the carbon created in producing, processing, transporting, and burning different types of oil and gas, priorities can be set for which fossil fuels to extract and which to keep safely stored underground—the more carbon intensive the fossil fuel, the higher the price of development. Carbon pricing also helps manage emissions leakage—through pet coke production, hydrogen addition, methane venting, flaring, or otherwise—from oil and gas. A carbon tax must

be implemented before massive infrastructure investments and the unbridled development of these resources reach a point of no return.

A carbon tax must be implemented before massive infrastructure investments and the unbridled development of new oil and gas resources reach a point of no return.

Today's oil and gas markets do not efficiently allocate these energy resources because the social costs of fossil fuel development are presently overlooked.

Carbon pricing protects public

health and welfare, bolsters national security, mitigates ecological risks, reduces waste throughout the value chain, encourages more efficient fuel use, advances commercialization of renewable fuels, assigns the most carbon-intensive fuels to noncombustion uses, and rewards carbon-efficient, sustainable land development.

A simple yet sophisticated pricing structure must be carefully crafted to assure advancement of these important national goals. The United States cannot afford to sacrifice the long-term objectives of sustainable development and environmental security for short-term economic gain. Getting carbon prices right can advance both objectives.

ECONOMIC OPPORTUNITIES

The United States has much to gain from its new energy wealth provided it is managed effectively. New oil and gas reserves offer economic opportunities for industry while also

providing much-needed jobs in states that suffered significant employment losses over the past few decades. Already, states with tight oil and shale gas are among those with the lowest unemployment rates—just 5 percent in Oklahoma and 3 percent in North Dakota. The gas bonanza is reported to have created tens of thousands of jobs throughout the gas-rich Appalachian states, including Pennsylvania and Ohio. Thousands more could follow.

Recent technological innovations that tap tight oils not only create jobs but also vastly increase the amount of petrochemical feedstock that can help revive the domestic chemicals industry. This could motivate a new wave of American industrial development, increasing competitiveness in international markets.

These real, durable benefits of the United States' new energy wealth could lift the entire U.S. economy at a time when world economic growth is decelerating. Sound energy policy is needed to fully realize these benefits.

Today, America produces more natural gas than it consumes. If this trend holds, the United States could become a net exporter of liquefied natural gas within a decade. The same is true of diesel fuel, which together with pet coke has made the United States a net producer of petroleum products for the first time since 1949. A policy structure that considers the energy, economic, and climate impacts, as well as U.S. energy security and the energy needs of our trading partners, is required to make wise decisions on permit requests, export allowances, and public subsidies.

ECONOMIC CHALLENGES

Despite potential economic benefits, challenges loom. Oil and gas prices may be increasingly volatile given the pace of technological innovation and the growing uncertainty of future global energy demands. The rush to build risks investment miscalculations—whether they involve oil and gas pipelines, heavy-oil refineries, or liquefied natural gas marine terminals. Oversupplying oil and gas capacity can push energy costs lower, while stranded infrastructure investments can push energy costs even higher.

Price Volatility in Global Energy Markets

The latter part of the twentieth century was marked by relatively stable oil and gas prices. Over the coming decades, global energy markets will become more crowded and complex, and global energy prices are likely to become less certain. Greater energy reserves could help to assuage global tensions that mount in times of real or anticipated energy imbalances.

But the new geography of oil and gas supplies—together with the changing energy infrastructure landscape—will need to realign with the dynamic nature of fuel, petrochemical, and other hydrocarbon product demands. Future economic growth in non-Organization for Economic Cooperation and Development (OECD) countries in particular will drive up demand for oil and gas, especially in the transportation sector, which is in the process of rapid motorization in such major developing economies as India, China, Brazil, and Indonesia. This, in turn, could force more production from expensive to extract and to process, though abundant, unconventional sources.

Therefore, despite growing supplies, world oil and domestic gas prices are projected by the Energy Information Administration to trend slightly upward as the cost to produce new fossil fuels rises along with global energy demands (see figures 3 and 4). The energy price trajectories will not be smooth as price uncertainty in world energy markets is expected to continue over the long term.

Energy Infrastructure Investment Decisions

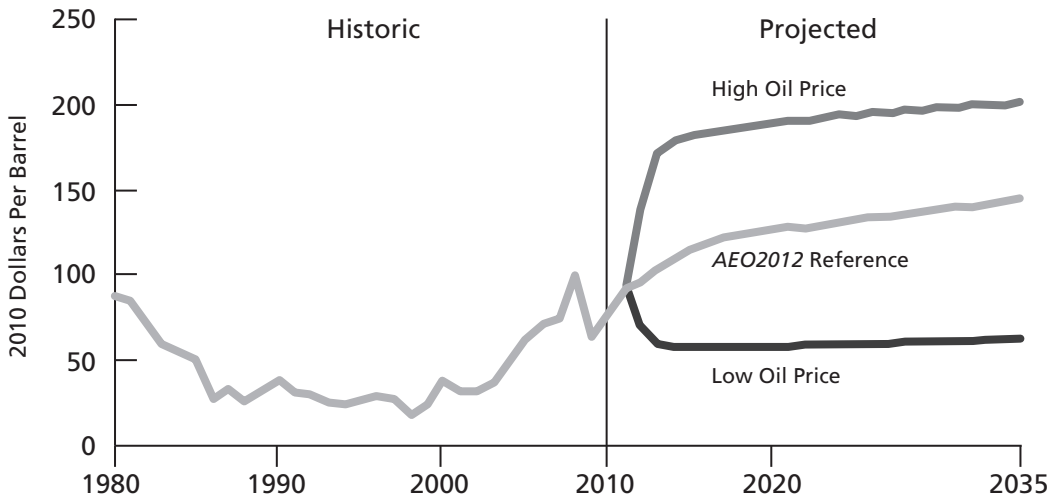
Energy infrastructure is highly capital intensive. Drilling rigs, refineries, pipelines, marine fleets, and other industrial equipment must be amortized over several decades to be profitable. Investing rapidly in energy infrastructure in times of energy price uncertainty raises the stakes because it is unclear whether oil and gas demand will rise or fall in the near term. This is yet another reason why thorough planning should take place in times of stability, not crisis.

The fast-paced development of unconventional oil and gas markets raises further questions about whether, in the absence of policy guidance, the private sector can maximize benefits and serve America's broad economic interests. The private sector has developed some of these resources in a haphazard manner, leading to misguided investment. U.S. refineries, for example, were recently retrofitted to process extra-heavy oil sands from Canada and Venezuela. But these costly investments cannot handle other types of unconventional oil, such as the abundant tight oils and the condensates from the Bakken, Eagle Ford, and other new tight oil plays. This creates a mismatch between infrastructure capacities and needs.

Incompatible infrastructure is wasteful for investors. But oversupplied infrastructure can also be harmful to communities. States and localities are being required to make substantial investments in public infrastructure such as roads, water supplies, and other public services to support these projects. These ancillary public investments should be very carefully considered, through a self-reflective public process that is closely coordinated with state and federal regulatory processes. This all takes policy oversight and time.

FIGURE 3

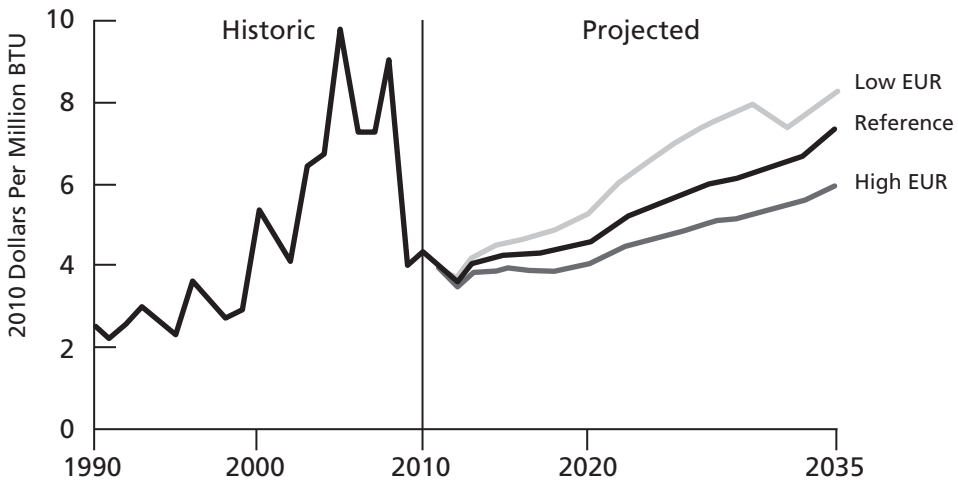
Average Annual World Oil Prices (Historic and Projected)



Source: U.S. Energy Information Administration, *2012 Annual Energy Outlook*, [www.eia.gov/forecasts/aeo/pdf/0383\(2012\).pdf](http://www.eia.gov/forecasts/aeo/pdf/0383(2012).pdf)

FIGURE 4

Average Annual U.S. Natural Gas Prices (Historic and Projected)



Source: U.S. Energy Information Administration, *2012 Annual Energy Outlook*, [www.eia.gov/forecasts/aeo/pdf/0383\(2012\).pdf](http://www.eia.gov/forecasts/aeo/pdf/0383(2012).pdf)

Note: EUR=Estimated Ultimate Recovery

Inefficient Energy Subsidies

Changes in global energy markets are raising questions about the appropriateness of continued U.S. fossil fuel subsidies. Several of these subsidies were originally enacted to stimulate oil and gas development for military needs during World War I. A century later, they are inefficient, unaffordable, and unnecessary, especially in a deficit-burdened economy. As an additional subsidy, the United States has some of the lowest royalty rates in the world.

Price volatility, infrastructure misalignment, and obsolete energy subsidies all have the potential to raise the cost of accessing, producing, processing, transporting, and refining these new unconventional energy resources. Policy is needed to provide incentives for industry to exploit these resources in a manner that increases productivity and competitiveness within the energy sector while maximizing long-term public benefits.

SECURITY OPPORTUNITIES

Reliable access to energy is a key driver of both national and international security. From a global perspective, increasing the total supply—and geographic balance—of abundant oil and gas reserves can relieve tensions between nations: it becomes one less thing to fight over. Energy reserves also expand a nation's ability to advance its security interests in the world. The sanctions on Iran, for example, would be much more difficult for the United States to impose in the absence of its ample domestic energy supplies. From a national perspective, growing domestic energy supplies reduce oil and gas imports, thus

shrinking America's trade deficit, minimizing its need to protect far-flung energy supply lines, and leaving more U.S. dollars in domestic circulation.

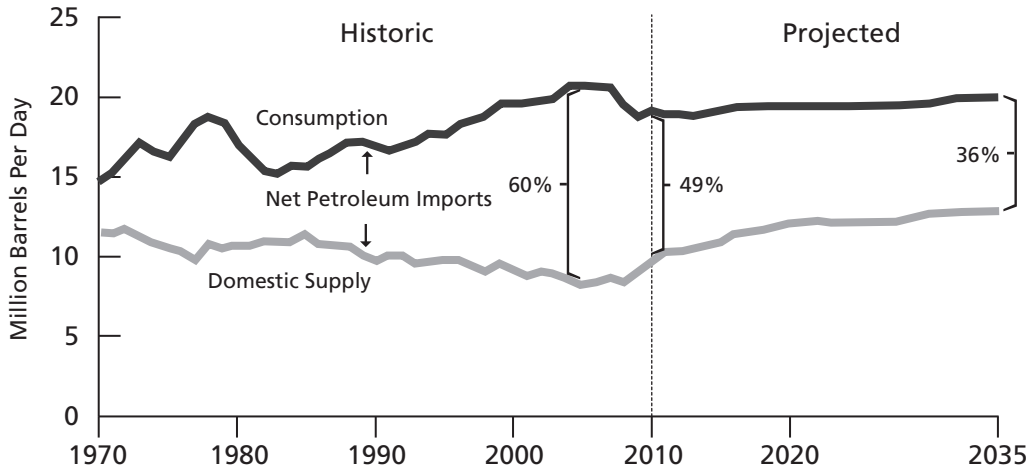
Reliable access to energy is a key driver of both national and international security.

Imported oil, which reached 60 percent of U.S. consumption in 2005 before falling to 45 percent in 2011, is expected to continue to fall to 36 percent in 2035 according to the Energy Information Administration's base case (see figure 5). Despite technological uncertainties, U.S. production of natural gas is expected to exceed consumption by early in the next decade, leading to a surplus of 5 percent by 2035 (see figure 6).

These are real benefits to U.S. energy, economic, and national security directly attributable to this new domestic energy abundance. However, these trends do not impart true energy "independence." The United States will remain a central part of complicated global oil and gas relationships.

FIGURE 5

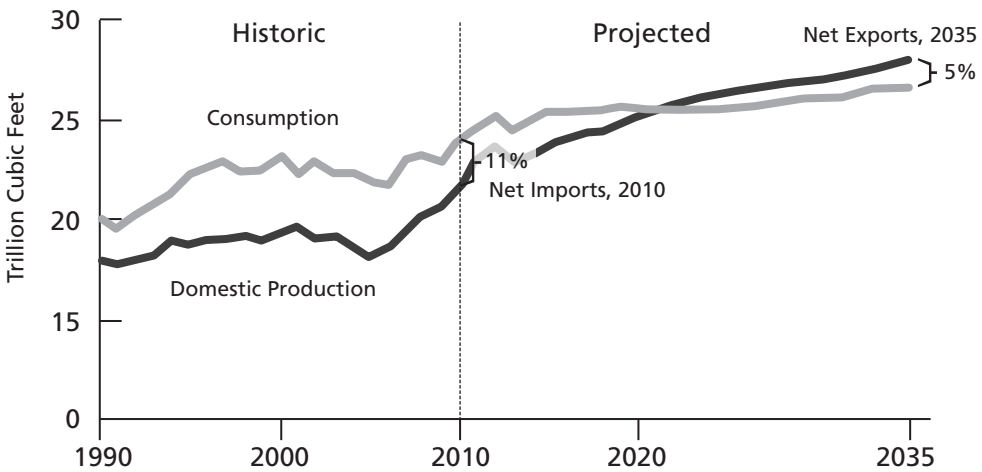
Total U.S. Oil Production, Consumption, and Net Imports (Historic and Projected)



Source: U.S. Energy Information Administration, *2012 Annual Energy Outlook*, [www.eia.gov/forecasts/aeo/pdf/0383\(2012\).pdf](http://www.eia.gov/forecasts/aeo/pdf/0383(2012).pdf)

FIGURE 6

Total U.S. Natural Gas Production, Consumption, and Net Imports (Historic and Projected)



Source: U.S. Energy Information Administration, *2012 Annual Energy Outlook*, [www.eia.gov/forecasts/aeo/pdf/0383\(2012\).pdf](http://www.eia.gov/forecasts/aeo/pdf/0383(2012).pdf)

SECURITY CHALLENGES

The security associated with new oil and gas is threatened by the paradox of plenty. It is easy to waste abundance when there are no constraints. Overdevelopment of resources can make the United States less—not more—secure. Unbridled fossil fuel extraction and consumption will elevate climate security concerns. Left in place, the hydrocarbons contained in fossil fuel resources are nature’s most effective carbon capture and sequestration mechanism, and, once tapped, the carbon dioxide released presents certain climate security challenges.

North American oil and gas discoveries enabled by recent technological breakthroughs are likely to be replicated worldwide. The rush to produce and burn newly identified stores of fossil fuels would present a major challenge to climate security as massive fossil fuel stores are developed to advance individual nations’ energy and economic agendas. This would have severe consequences in the form of rising global temperatures and would affect global security by, for example, wreaking havoc on food production and furthering the spread of disease.

For forty years, “energy independence” has been the lodestar of American politicians of every stripe. Yet, the new U.S. energy abundance should be embraced as an opportunity to integrate with—not disconnect from—expanding domestic energy markets. This will require the United States to reduce its domestic energy consumption, build up renewable energy assets, and moderate production and consumption of higher-carbon oils and their associated petroleum products. All of these goals can be achieved with a carbon tax.

These actions at home are necessary. Americans consume 17 barrels of oil annually per capita—compared to an average of 13 barrels per year across all OECD states—and 7,650 cubic feet of natural gas annually per capita—compared to 3,700 cubic feet annually per capita in the rest of the OECD. That makes the United States a top total consumer of these fossil fuels. By shrinking U.S. oil and gas imports, reducing the U.S. trade deficit, and strengthening the dollar, American policymakers will open up the opportunity to invest at home, rebuild energy-efficient infrastructure, and help protect the United States and other countries from possible climate-driven damage, including loss of life, displacement, and property destruction.

PRESIDENTIAL LEADERSHIP ON ENERGY POLICY

The full promise of America’s rich, new energy endowment can only be realized through strong and effective policy leadership. Otherwise, production uncertainty and price volatility will increase as new oil and gas supplies with vastly different energy cost structures, product yields, and carbon footprints come onto the market. This price volatility could

sacrifice energy diversification by crushing nascent renewable energy markets that are vitally needed to complement (and eventually compete with) fossil fuels as the world seeks to avoid potentially catastrophic impacts of climate disruption.

The full promise of America's rich, new energy endowment can only be realized through strong and effective policy leadership.

With the space afforded by the ongoing energy boom, now is an appropriate time to develop pathways to sustainably manage America's abundant resources. President Obama, whose administration presides over the greatest renewable and nonrenewable energy boom in U.S. history, has a unique opportunity to transform and improve America's collective energy future. There are a number of energy policy initiatives the president could undertake:

1. Advancing Energy and Climate Security

- Adopt carbon taxes that are calibrated to the greenhouse-gas-emission intensity of fossil fuels in various economic sectors. These taxes can be indexed to fuel prices to stabilize energy costs, protect consumers from price volatility, and motivate improvements in energy efficiency. That means the carbon tax is reduced when fuel prices rise and increased when fuel prices fall.
- Phase out federal oil and gas subsidies and eliminate other tax schemes for oil and gas. This includes specialized investment partnerships and trusts that provide tax breaks for investing in "exhaustible" natural resource development but not to investments in developing "inexhaustible" resources, including solar, wind, and ocean energy.
- Reinvest a portion of the revenues gained from taxing carbon, and saved from reducing subsidies, in American infrastructure that supports renewed energy-efficiency and lower-carbon energy supplies. Consideration should also be given to allocating a portion of these revenues to recapitalize the Federal Emergency Management Administration and the National Flood Insurance Program, both of which are deeply in debt due, in large part, to emergencies related to extreme weather events.
- Develop a common vision for aligning fossil fuel development policy with climate policy. The vision should stem from the commitment made at the 2011 United Nations Climate Change Conference in Durban, South Africa, to "ensure the highest possible mitigation efforts by all Parties."

- Develop a common North American negotiating position for actions taken under the United Nations Framework Convention on Climate Change's Durban Platform for Enhanced Action, which commits all signatory nations to reach a binding agreement on climate protection by 2015.
- Maintain (in the short term) and accelerate (in the long term) vehicle fuel economy standards, electric vehicle research and development, electric energy efficiency standards, and renewable energy procurement policies and standards. These steps will serve to reduce U.S. fossil fuel demand and bolster U.S. energy and climate security.

2. Maximizing Domestic Economic Gain, Stabilizing Energy Markets, and Achieving Regional Economic Security

- Establish countercyclical fuel taxes that increase as fuel prices fall and decrease as fuel prices rise to help stabilize the price of gasoline and diesel fuels in the marketplace.
- Revisit the North American Free Trade Agreement with Canada and Mexico to establish common principles for coordination, management, cross-border transportation, and safe development of North American oil and gas resources.
- Reform oil and gas royalty rates to eliminate royalty waivers in leases on federal lands and to more closely align the United States' royalty rates with international royalty rates for oil and gas production on sovereign territory.

3. Advancing National Security

- Convene an interagency committee, chaired by the national security adviser, to conduct scenario analyses of future global oil and gas markets. The committee should also look at key decision points that will affect vital national energy, climate, and security interests and at policies necessary to manage the transition to a new, robust, low-carbon energy economy for the United States and the world. This analysis should build on the Obama administration's Blueprint for a Secure Energy Future, with more specificity in outlining how the growth in oil and gas resources can be managed to achieve a safe, secure, equitable, and sustainable global energy order.
- Expand energy security beyond its traditional scope to include climate security. Direct the Department of Defense to assess the security risks associated with the impacts of a 2° to 6° C increase in global temperatures. All branches of the military should convey to the public the importance of minimizing these risks.

- At the conclusion of these national and climate security analyses, the president should deliver a prominent public address explaining the path forward and emphasizing why and how prudent development of America's new energy endowment can advance global economic, energy, and climate security.

As one of the world's fastest-growing oil and gas producers, the United States has the opportunity and responsibility to be a global leader in the energy sector. A strong, balanced energy policy is needed to guide energy decisionmaking in ways that satisfy the energy needs of U.S. consumers, strengthen the American economy, protect the climate, and enhance national and global energy security. Guided by presidential leadership, this policy framework can deliver on the promise of new energy abundance.

THE GAME CHANGER: COOPERATIVE MISSILE DEFENSE

DMITRI TRENIN | JAMES F. COLLINS

The Obama administration has a unique opportunity to redefine the U.S.-Russian strategic relationship by cooperating with Moscow on missile defense. A missile defense system that does not jeopardize the current strategic balance will help erase lingering Cold War animosity and promote stability in the broader Euro-Atlantic region. And progress on missile defense technology sharing, data exchanges, and joint staff exercises could pave the way for negotiations on long-stalled issues like nonstrategic nuclear weapons.

MISSILE DEFENSE PRESENTS AN URGENT and unprecedented opportunity for U.S. President Barack Obama to begin putting a definitive end to the troubling legacy of distrust that has plagued the U.S.-Russian relationship since the end of the Cold War. Two decades of post-Cold War diplomacy and U.S.-Russian engagement have certainly eased tensions between the two nations, reduced their nuclear arsenals, and reshaped force postures in Europe. But dangers to security and prosperity persist, and the normalization of relations between the two states and their allies remains fragile. The United States and Russia rely on the previous century's military doctrines of mutually assured destruction and an array of strategic nuclear arms maintained on high alert.

The relationship needs a solid foundation and a commitment to enhance mutual security. Successful cooperation on missile defense would go a long way toward that goal.

But divisions over the issue continue to poison relations, breed suspicion, and stand in the way of possible future progress on reducing strategic arms. If the current situation persists, greatly empowering opponents of broader normalization and stability in U.S.-Russian ties, the Euro-Atlantic community and global peace and prosperity will suffer.

Obama and the leadership in the Kremlin must move forward on missile defense cooperation.

For the sake of the security of the Russian and American people as well as their allies and the world as a whole, Obama and the leadership in the Kremlin must move forward on missile defense cooperation.

THE STRATEGIC BALANCE

Progress hinges on the successful development of a formula for cooperation on missile defense between the North Atlantic Treaty Organization (NATO) and Russia. The United States and its NATO allies have already decided to begin deploying missile defenses in Europe to defend against attacks from third parties, insisting that the system cannot threaten Russia's strategic deterrent. Russia has been invited to participate in the program by lending assets to it without playing a controlling role. Moscow declined and expressed its concern about some parts of the plan. In particular, it is wary about the advanced stages of the NATO program, which provide for the deployment of missile interceptors (SM-3 Block IIB) that the Russians claim can shoot down some of Russia's own intercontinental ballistic missiles and not just yet-to-be-built Iranian missiles the system is officially designed to oppose.

Moscow has countered with a proposal for a joint dual-key missile defense system in Europe in which Russia and NATO would share control of interceptor-launch decisions. It has also proposed concluding a legally binding agreement with the United States that guarantees NATO's Europe-based missile defenses will not have the capacity to target the Russian strategic arsenal. This Russian proposal, however, is unacceptable to the United States and will remain so because in the post-Cold War era, the United States rejects limitations on its missile defenses as a matter of principle.

Ultimately, the two must agree on a system that effectively defends against an Iranian missile strike while addressing Moscow's concerns about not jeopardizing the credibility of Russia's nuclear deterrent or compromising the principles of sovereign control over national assets.

Furthermore, as the United States and Russia proceed toward cooperation on missile defense, both will need to address the question of China's attitude toward such

cooperation. At a minimum, Washington and Moscow should make it crystal clear to Beijing that their collaborative effort is not aimed at China and does not degrade China's deterrent. Verbal assurances on this score will not be enough.

If these hurdles can be overcome, such cooperation would be truly game-changing. It could transform U.S.-Russian strategic relations from their present semiadversarial, wary state into a more collaborative formula for the future. Much of the groundwork for such cooperation is in place. During discussions held between 2010 and 2012, both Russia and NATO explored in detail each other's views and positions. Yet, the two sides have lacked the means and the will to reconcile their differences.

THE MISSILE DEFENSE FRAMEWORK

A workable and feasible approach to cooperative missile defense does exist. It is based on a number of principles that form the foundation for U.S./NATO-Russian cooperation on missile defense in Europe. One building block is the joint goal of addressing the evolving third-country threat from medium- and intermediate-range ballistic missiles banned under the 1987 U.S.-Soviet Intermediate-Range Nuclear Forces Treaty. It is further presumed that each side seeks to enhance the effectiveness of its response to this threat through mutual cooperative efforts. And finally, it is taken as a given that Washington and Moscow intend to use cooperation on missile defense to develop gradually a non-adversarial, collaborative strategic relationship and thus create a Euro-Atlantic security community, comprising North America, Europe, and Russia. These principles and a suggested cooperative structure based on them were developed by the high-level international commission convened by the Carnegie Endowment for International Peace under the Euro-Atlantic Security Initiative (EASI).

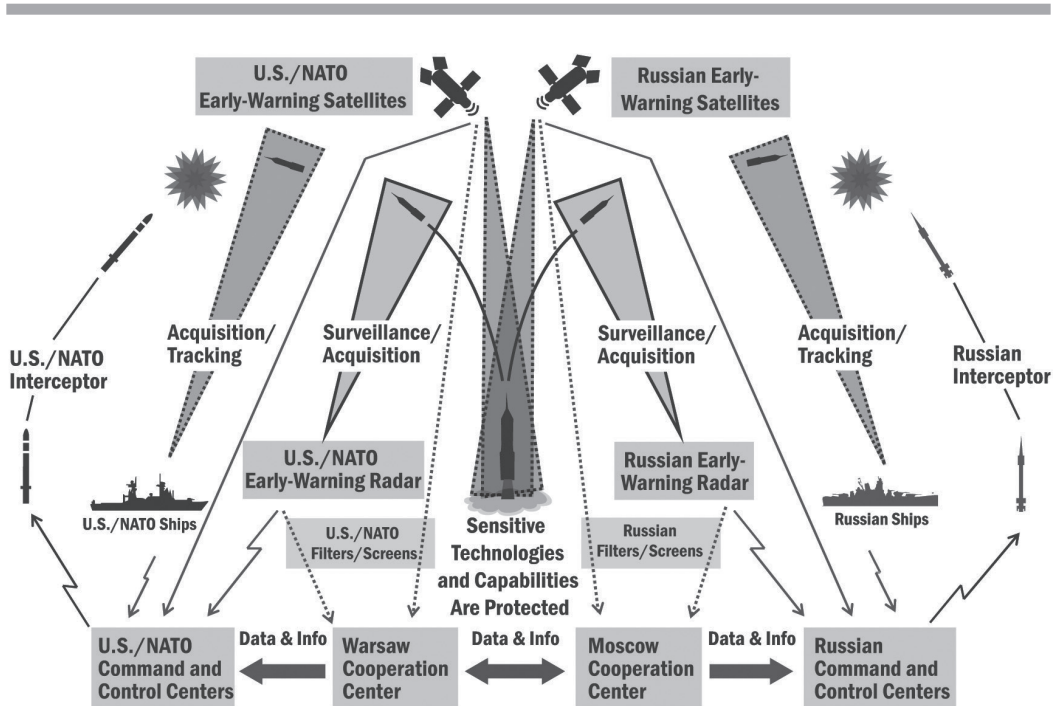
A cooperative arrangement built on such a foundation would not immediately result in a joint missile defense system. That outcome is unrealistic at this point. Instead, cooperation would be based on the interaction between national and alliance missile defense systems, with each sovereign partner remaining fully responsible for its own security and defense. Appropriate technology sharing would make U.S. and Russian missile defense systems technologically and operationally compatible.

In addition, the parties' information assets would be integrated, providing for real-time exchanges of data on third-country missile activity. Operational protocols would be put in place that allow parties to intercept missiles flying over their territory that are aimed at the territory of another party, and access to the cooperative missile defense architecture would be open to other interested countries. Finally, these efforts would be codified in an executive agreement.

Of course, the United States and Russia will have to prioritize. They should first create cooperation centers for pooling and sharing information as well as data from satellites and radar operating in real time to provide common notification of a missile attack. Data and information from the countries' respective satellites and radar would be subject to screening or filtering by each party before going to the cooperation centers in order to protect sensitive data and information. Such centers should be established in a NATO country (for example, Poland or Belgium) and in Russia. Each should be staffed by NATO and Russian military personnel working side by side to form a uniform picture of missile activity in the relevant area. (See figure 1 for the structure outlined by EASI.)

In essence, creating such centers would be the same as implementing the 2000 U.S.-Russian agreement on early-warning data exchanges, but this iteration would involve more intense interaction and a higher level of integration between the national security establishments. The focus of the Moscow and NATO centers would be integrating data and forming a comprehensive picture of potential dangers as well as coordinating

FIGURE 1
Cooperative Missile Defense Structure



Source: Euro-Atlantic Security Initiative Working Group on Missile Defense, *Missile Defense: Toward a New Paradigm*, working group paper (Washington, D.C.: Carnegie Endowment for International Peace, 2012).

responses to real missile threats. For this purpose, joint U.S.-Russian command-staff exercises on ballistic missile defense, which were resumed in March 2012, should be expanded in scope to include defense against medium- and intermediate-range missiles.

The essential and most sensitive part of any arrangement on cooperative missile defenses in Europe is ensuring that as both the United States and Russia deploy their interceptors, these deployments do not impair the strategic balance existing between the two countries' nuclear-weapons arsenals. The idea is, in a nutshell, to build effective defenses against Iranian missiles without provoking Russia to consider those defenses as a threat to itself and to respond by raising its deterrence capability vis-à-vis the United States.

POTENTIAL BENEFITS

There is more than ample reason for President Obama to pursue U.S.-Russian cooperation on missile defense. Such cooperation both would help protect Europe from an Iranian missile strike and would over time lead to a fundamental transformation of the two countries' strategic relations. Unlike traditional arms control, this active defense collaboration is no longer simply about managing an adversarial relationship. It is a practical step toward a qualitatively new kind of collaborative partnership.

Moreover, deepening U.S.-Russian understanding of each other's national security strategy and military doctrines through cooperation on missile defense

would help overcome the legacy of suspicion and distrust rooted in Cold War strategies and doctrines. It is simply impossible, over the long term, to cooperate closely to address missile threats from third parties while keeping vast nuclear-weapons arsenals on constant alert pointed at each other. Cooperation on missile defense would be truly strategic and equal—unlike the joint peacekeeping experience in the Balkans in the 1990s, for instance, which was dismissed at the time as both peripheral and hierarchical (and resented by the Russians as such).

Success on missile defense can also bring progress in critical areas and holds the promise of ushering in a degree of stability during a period of great global uncertainty and fluidity. It would unblock the way forward in a number of areas important to the United States and its NATO allies. In an improved atmosphere of collaboration between the United States, NATO, and Russia, negotiations on nonstrategic nuclear weapons and on strategic

U.S.-Russian cooperation on missile defense would help protect Europe from an Iranian missile strike and would over time lead to a fundamental transformation of the two countries' strategic relations.

non-nuclear arms, which have been stalled for years, could at last become possible and productive. This, in turn, would open the way to new U.S.-Russian agreements on further reductions of the two countries' strategic nuclear-weapons arsenals.

Success on missile defense can bring progress in critical areas and holds the promise of ushering in a degree of stability during a period of great global uncertainty and fluidity.

The Europeans, probably more concerned about the adverse impact of strained U.S.-Russian relations on their security than about Iranian missiles, would be reassured, and the Atlantic relationship would be enhanced by U.S.-Russia cooperation. The

broader Euro-Atlantic area would move closer to becoming a security community—a zone of stable peace where interstate conflicts are resolved without the use of force. As a result, strategic stability across the world would be substantially strengthened.

Forward movement on missile defense would also open additional paths for constructive engagement and dialogue about the future of both nations' relations with Asia, in particular China. It is time that the United States and Russia use the issue of missile defense, which concerns China, jointly to engage the Chinese in an in-depth trilateral discussion of various aspects of strategic stability. In particular, there is a need to discuss the value of nuclear deterrence and the role of nuclear weapons in national security strategy as well as nuclear doctrines and conceptual models for negotiations on arms control. In the best-case scenario, U.S.-Russian cooperation on missile defense in Europe could lead to greater understanding between the United States and China regarding U.S. missile defense deployments in the Asia-Pacific region.

THE WINDOW OF OPPORTUNITY

This type of engagement on missile defense will demand political initiative, persistence, and commitment at the highest levels. Without presidential commitment, cooperative missile defense will not happen. The effort to find common ground in this endeavor has eluded each U.S. and Russian administration since the end of the Cold War, including promising efforts in recent years. But, even though recent U.S.-Russian exchanges on missile defense have not produced an agreement, the situation is neither hopeless nor beyond reach.

It will be years before the United States begins to deploy the systems that worry the Russians. Washington and Moscow can exploit this window for productive dialogue and forge specific and cooperative arrangements that presume an understanding by both

sides that it makes little sense to build defenses against Iran or any other state if the price of that effort is greater instability and uncertainty about security in the very region the missile defenses are designed to protect.

For productive relations with Moscow, President Obama and other U.S. leaders will have to find politically viable, effective means to promote mutually enhanced security with a Russia that will not accept dependency or subordination. Russia's leadership is determined to protect and ensure the country's sovereignty and place as a major international actor. The United States' pursuit of the goal of missile defense cooperation will help ensure greater security for the American people and U.S. allies. The aim is not to assuage Moscow's fears about hostile U.S. intentions or to enhance or appease President Vladimir Putin and colleagues in the Kremlin who question cooperation with America.

It is essential to take advantage of the remaining window of opportunity to design and deploy an effective missile defense in Europe. At the same time, the United States and Russia must work to establish fundamentally new patterns of cooperation between East and West that can unlock the vast potential of an integrated Euro-Atlantic security community. A strategically sound initiative to build cooperative missile defense can be the catalyst for redefining U.S.-Russian security relations.

Cooperative missile defense holds the key to a core element in any rebalanced twenty-first-century American geostrategic position. By making headway in this area, the United States will avoid antagonizing Russia, a country geopolitically vital to Europe and important to America, and will strengthen U.S. alliances with Europe in the process. Such cooperation holds the promise of further progress on the reduction of Cold War nuclear arsenals and will strengthen the hand of all seeking to curb further proliferation of nuclear weapons, paving the way for mutually enhanced security for all in the Euro-Atlantic region.

U.S.-Russian cooperation on missile defense in Europe could lead to greater understanding between the United States and China regarding U.S. missile defense deployments in the Asia-Pacific region.

A NEW FRIENDSHIP: U.S.-INDIA RELATIONS

ASHLEY J. TELLIS

The U.S.-India relationship is vital to maintaining a balance of power in Asia that is favorable to the United States. The two states have already overcome the most difficult challenge—integrating India into the global nonproliferation regime. But deepening the partnership requires President Obama to address institutional deficiencies in Washington, cooperate with New Delhi on Afghanistan and Iran, build up India’s defense capabilities, and encourage Indian economic reform.

SINCE THE END OF THE COLD WAR, successive American presidents have pursued a geopolitical project of great significance for Asian stability: eliminating the estrangement between the world’s oldest and largest democracies, the United States and India. Thanks to the actions of the two most recent administrations in Washington and in New Delhi, this transformation has been a stunning success. It is now clear that strong U.S.-India relations will continue to be important for American interests in the years ahead for multiple reasons, including preserving a favorable balance of power in Asia, achieving U.S. objectives in Afghanistan and Iran, and strengthening the competitiveness of U.S. businesses globally.

Building on this evolution in American policy toward India since Bill Clinton, President Barack Obama has already underscored India’s strategic and economic significance for

the United States. Future policies should build on Obama's vision but even more importantly translate it into an "all of government" effort that deepens the partnership on multiple dimensions.

This goal, however, could prove challenging and will require strong resolve. The second Obama term will likely confront a series of potentially serious dangers relating to Iran, Pakistan, Afghanistan, Syria, and possibly China—in addition to all the domestic challenges of accelerating a slow economic recovery. Given these realities, it is possible that the task of exploiting breakthroughs will be shortchanged amid the struggle to overcome

calamities. In Washington, as in many other capitals, addressing the urgent invariably dominates engaging the important.

**Strong U.S.-India relations
will continue to be important
for American interests in the
years ahead.**

But continuing the renovation of U.S.-India ties represents an opportunity to be realized rather than a crisis to be overcome. The

difference between a distracted and a concerted effort to sustain a favorable Asian geopolitical equilibrium could set the course for the relationship. The evolving U.S.-India strategic partnership could simply languish as yet another historical curiosity embodying some vague potential or it could actually advance important common interests.

LOOKING BACKWARD, LOOKING FORWARD

Alienation in U.S.-India ties was a hallmark of the two states' relations for close to forty years. It derived from many irritants, including the U.S. relationship with Pakistan and the competing Indian affiliation with the Soviet Union. However, India's problematic status in the global nonproliferation order was perhaps the most irritating.

India is a state with nuclear weapons but not a "nuclear-weapon state" as defined by the Non-Proliferation Treaty because it demonstrated its nuclear capabilities only after the treaty entered into force. This ambiguous standing effectively made India a victim of various U.S. policies aimed at restricting the spread of nuclear weapons. India's unimpressive economic performance during the era of bipolarity did not help either. The disastrous interaction of autarky and dirigisme from 1947 to 1991 depressed its growth rates and made India less relevant to U.S. interests. This deprived both countries of the opportunity to engage in the economic realm. Such cooperation might have otherwise served to limit the acrimony that arose from their disagreements over Cold War coalitions and nuclear proliferation.

The demise of the Soviet Union removed the problems caused by rival alliances. At the same time, a major bout of liberalizing reforms promised a dramatic increase in Indian economic growth and renewed opportunities for deepened U.S.-India trading relations. Unfortunately, however, the nuclear issue flared again, and in 1998 India detonated a series of nuclear devices and declared itself a nuclear-weapon state. Although bilateral relations warmed considerably thereafter—after the strong U.S. condemnation of Pakistan during the 1999 Kargil War and a triumphant visit by Bill Clinton to India in 2000—neither Washington nor New Delhi was able to resolve their fundamental disagreement about India's future in the evolving nonproliferation order.

The first term of George W. Bush's presidency, which began in 2001, forged the conclusive transformation in U.S.-India relations. Bush's interest in and admiration for the success of Indian democracy spurred an intense presidential commitment to a strategic partnership based on common values. This conviction, drawn from the idealist strands of American foreign policy, was complemented by an equally compelling necessity rooted in *realpolitik*: the need to build new ties with India to balance China, Asia's other rising behemoth and a potential challenger to U.S. power.

Adding urgency to this calculation was the determination of senior Bush administration officials to build a new partnership with India because of the complications caused by September 11, 2001. The United States needed to ensure the commitment of Prime Minister Atal Bihari Vajpayee's government to the global war on terror in partial compensation for Washington's renewed, and visibly compromised, reliance on Pakistan.

Rejecting policies dating back almost thirty years, the president committed to new cooperation with India in four highly sensitive areas: civilian nuclear energy, civilian space, dual-use high technology, and missile defense. The breakthrough represented by this decision, labeled *Next Steps in Strategic Partnership* and unveiled in 2004, served as the earliest sign of a sea change in the bilateral relationship.

The *Next Steps in Strategic Partnership* initiative was decisive insofar as it signaled a breakthrough in U.S.-India strategic cooperation. Despite continuing disagreements over issues such as trade, Iraq, and the United Nations, with this initiative, both countries agreed to work together despite India's continuing possession of nuclear weaponry.

The substantive fruits of this initiative were meager in comparison to what was to come in Bush's second term, when the engagement reached a new level with the civilian nuclear cooperation agreement with Prime Minister Manmohan Singh. Washington's continuing civilian nuclear cooperation with India—first by the Bush administration and now by President Barack Obama in a variety of areas ranging from negotiating reprocessing rights to supporting India's membership in various global nonproliferation regimes (not to mention in the United Nations Security Council)—has paid off. These choices played

a decisive role in conveying to Indian elites and to the public alike that the United States was serious in seeking a new relationship with India.

The effort to integrate India into the global nonproliferation regime involved high political costs on the part of the United States. That U.S. policymakers were willing to pay such a price signaled how valuable they deemed the U.S.-India partnership to be in meeting U.S. grand strategic objectives—a clearer signal than rhetoric could ever provide. The resolution of the nuclear disagreement has thus decisively opened a floodgate of opportunities.

AN INDISPENSABLE RELATIONSHIP

Perhaps the most important task in this context is for both countries to appreciate the true meaning of their “strategic partnership.” In the United States, in particular, the costs borne by Washington for sponsoring India’s entry into the global nuclear regime have

India is simply too big, too independent, too ambitious, and too complicated to ever be a willing and deferential handmaiden of the United States.

raised misguided expectations that New Delhi must demonstrate its gratitude through various compensating actions.

If this is the yardstick by which the U.S.-India strategic partnership is measured, then the prospects for success are indeed bleak. India is simply too big,

too independent, too ambitious, and too complicated to ever be a willing and deferential handmaiden of the United States. It will never conceive of itself and its policies as successful only to the degree that they comport with and advance American interests.

Moreover, the decisive transformation of U.S.-India relations was not pursued by President Bush because of an expectation that aiding India would result in reciprocal acts of generosity toward the United States. Rather, it was pursued fundamentally out of American self-interest and was shaped by what U.S. policymakers believed was critical to the success of American aims in Asia. Given the rise of Chinese power and the impossibility of limiting that power through Cold War means, the Bush administration settled for the only strategy that made sense in circumstances where geopolitical rivalry coexists with economic interdependence: forgoing containment in favor of balancing.

The success of this strategy where New Delhi is concerned hinges not so much on what India does for the United States but on whether it rises rapidly enough to produce an Asian strategic balance that advances American interests. Washington’s extraordinary investments in India are thus oriented entirely toward supporting Indian ascendancy, and

success ought to be measured by the progress made toward reaching that pivotal goal. This approach, of course, does not relieve India of the necessity of making smart strategic choices. Indian statesmen should, simply as a matter of self-interest, be looking for ways to cement their strategic partnership with the United States as long as the relationship palpably buttresses Indian power.

But even if this were not the case—because Indian leaders turn out to be either myopic or distracted or astrategic—unilaterally bolstering the growth of Indian power remains fundamentally in America’s interests. It holds the best promise of limiting future Chinese domination in Asia without imperiling the gains from trade on which all regional powers, including the United States, have come to depend.

Maintaining a favorable balance of power in Asia is a prerequisite for preserving American primacy globally. Not without reason, therefore, have successive U.S. administrations of both parties pursued this unique, admittedly asymmetrical, strategic compact with India.

President Obama has gone so far as to assert plainly that this relationship was destined to become “one of the defining partnerships of the 21st century.”

Maintaining a favorable balance of power in Asia is a prerequisite for preserving American primacy globally.

NEXT STEPS FOR THE UNITED STATES

With this strategic framework and its history in mind, Washington should implement deliberate policies to strengthen both economic and security cooperation with New Delhi. Four specific ideas may be of value.

Structural Changes in Washington

The first and perhaps most important action that the United States can take to sustain the ongoing transformation in bilateral relations is to significantly restructure its government institutions that drive the U.S.-India relationship. An important institutional improvement would be integrating the India, Pakistan, and Afghanistan bureaucracies under a single directorate in the White House and bureau at the State Department. In conjunction, Washington ought to designate a senior official with specific responsibility for India, since it must be expected that Pakistan and Afghanistan will naturally consume substantial leadership attention in the foreseeable future. Such an official could provide consistent

attention to India—an essential ingredient for sustaining this high-maintenance, extremely complex, and very important relationship.

Keeping India Involved on Afghanistan and Iran

Second, the next administration should seek continued Indian cooperation in achieving its strategic goals in Afghanistan and Iran. Partly because of disenchantment with Pakistan's duplicity in counterterrorism operations and partly because of the recognition that Afghans often welcome Indian reconstruction activities more warmly than they do other international programs, the Obama administration has strongly endorsed Indian contributions to efforts in Afghanistan and urged their expansion. This policy is sensible. India has pioneered low-cost solutions that are not only sustainable by Afghan standards but also are supported by every major Afghan ethnicity (including the Pashtuns, who enjoy a plurality in Afghanistan) and directly strengthen the legitimacy of the national government in Kabul.

In the months ahead, Washington should encourage the Indian government to increase its contributions with an eye toward enabling a successful transition. Worthwhile Indian contributions include continued investment in Afghan infrastructure and resource extraction, agriculture and agro-industry, small- and medium-sized industries, and education and health. New Delhi could also assist Kabul in developing a national investment framework and could provide Afghanistan with duty-free access to the large Indian market. Supporting the education of Afghan civil servants and mentoring programs for Afghan government officials, providing accelerated training of Afghan military officers in Indian service academies, and contributing to the repair and maintenance of Afghan military equipment are all additional areas in which India could have an impact.

Beyond these material efforts, India's most significant contribution to success in Afghanistan could be political, flowing from its close ties with the Afghan government and *all* the major ethnic groups within the polity. India is one of the few countries—and perhaps the only one in the region—that enjoys the advantage of having intimate relations with both Afghan government and opposition leaders simultaneously. It is thus in a position to influence their choices in a way that few countries other than the United States can. As Washington presses ahead with efforts at rapprochement with the Taliban, an endeavor that India is now reconciled to so long as it enjoys Afghan endorsement and supervision, the Obama administration must maintain full transparency about these conversations with New Delhi. India's choices—along with Pakistan's—will be one of the most critical determinants influencing the success of the undertaking.

India's goals in this area are identical to those of the United States. Indian policymakers seek an Afghan government after 2014 that is durable, capable of preserving Afghanistan's

independence as well as its internal and external security, hostile to terrorism and extremist ideologies, and temperate enough to preserve both Afghanistan's multiethnic character and the social, political, and economic gains witnessed since 2001. New Delhi dreads the prospect of renewed internal conflict not only because such an eventuality would put all its own investments in Afghanistan at risk but also, more importantly, because the onset of major strife would create the perfect incubator for terrorist groups that could threaten India, as happened throughout the late 1990s.

Likewise, it is increasingly in India's interest to quietly demand of Iran complete compliance with United Nations Security Council resolutions on its nuclear program. India, perhaps more than any other state in Iran's general neighborhood, still has residual influence with Tehran thanks to the countries' common strategic interests in Afghanistan. Moreover, India remains a major importer of Iranian crude oil and the most important supplier of food and agricultural goods to Iran.

Most importantly, if a satisfactory solution to the Iranian nuclear crisis cannot be found soon, it is likely that a major military confrontation between Iran and Israel or the West will erupt sometime in 2013. While India admittedly has neither the standing nor the leverage to prevent such a meltdown, it would be affected most disastrously by this cataclysm. A confrontation could negatively affect India's economic growth (because of rising oil prices), physical access to and interests in Afghanistan (which could not survive a protracted regional conflict), and internal communal harmony (the country's large Shia population has old civilizational links with Iran).

Although India's clout with Iran should not be exaggerated, it is in New Delhi's interest to make the case for Iranian compliance more forcefully and visibly in Tehran.

Bolstering India's Defense

Third, the time has come for Washington to seriously implement its long-professed strategic intention of building up Indian defense capabilities. For some time, the effort to strengthen Indian capacities in advanced technologies was hindered by the persistent uncertainty about whether New Delhi would be a trusted U.S. partner. In practice, this implied that India's access to critical technologies, both military and dual use, was contingent on either New Delhi's signing of certain "foundational" agreements or its support for various American positions on foreign policy or global issues.

Unfortunately, there is still substantial confusion in New Delhi about what these agreements actually entail. Additionally, there are significant constituencies within the Indian government that fear India's agreement might either compromise or limit its freedom of action.

These fears about these documents stem entirely from misunderstandings—a problem only compounded by politicization of these discussions in India. Moreover, strengthening India’s military capacity does *not* require New Delhi to sign these foundational agreements. The truly critical documents are the end-user-monitoring and the enhanced

Because there are no fundamental conflicts of interest between India and America, aiding Indian defense programs and defense industrialization efforts remains in Washington’s self-interest no matter what the differences in tactics or styles may be between the two states.

end-user-monitoring agreements, which ensure that U.S.-supplied military equipment is not illicitly sold, transferred, or modified, and India has already signed both of those agreements. Because there are no fundamental conflicts of interest between the two nations, aiding Indian defense programs and defense industrialization efforts remains in Washington’s self-interest no matter what the differences in tactics or styles may be between the two states.

The Obama administration, and especially the senior leadership in the Department of Defense, has internalized this conclusion completely and has committed to building Indian defense capabilities as part of its larger rebalancing to the Asia-Pacific region. As Secretary Panetta declared, “The United States is firmly committed to providing the best defense technology possible to India.”

During its second term, the Obama administration ought to pursue specific initiatives to take U.S.-India defense relations to the next level. These efforts should focus on direct defense-industrial collaboration, since military-to-military relations and defense sales have already done very well. Current initiatives in both areas should nonetheless be expanded because raising the operational proficiency of the Indian military and expanding India’s inventory of U.S. defense equipment serve American interests.

The Department of Defense should review and fix the bureaucratic impediments to releasing licenses for information that can be shared by U.S. defense companies when responding to requests for information or proposals issued by the government of India. Creating a mechanism to expedite this release, on the presumption that export control authorizations would follow if U.S. manufacturers are successful in the bidding process, would go a long way toward resolving many irritants that currently plague bilateral defense trade. The administration should, at the same time, communicate clearly to its Indian counterparts how exactly India stands to gain from improved access to the items on the State Department’s Munitions List and the Commerce Control List.

Additionally, the Department of Defense should move quickly to implement a small number of joint research and development efforts with Indian research and development entities as pilots to prove the possibility of genuine defense cooperation beyond equipment sales. Many of the advanced technology programs in the United States reside in private companies, but the U.S. government is often the formal owner of technologies developed by and residing in private entities. As a result, the implementation of joint research and development efforts invariably involves license liberalization. Beyond that, the large number of U.S.-government-controlled defense laboratories offers opportunities for laboratory-to-laboratory collaboration with various Indian governmental counterparts. Moving quickly to identify and to implement specific proposals would demonstrate the U.S. capacity both to improve the Indian research and development base and to consolidate the partnership with key bureaucratic entities in the Indian Ministry of Defense.

Encouraging Indian Reforms

Fourth and finally, Washington should encourage the Indian state to accelerate the economic reforms required to raise the country's growth rates to the highest levels witnessed during the last decade, if not higher. These much-postponed second-generation reforms are extensive, including measures to rationalize subsidies, labor laws, and manufacturing policy, reform Indian agriculture, expand public infrastructure, restructure inefficient public enterprises, improve the financial sector, and rectify India's increasingly dangerous fiscal imbalances. Perhaps most importantly, the United States should push for an end to the many impediments that New Delhi has erected to sustained foreign direct investment in India to allow room for accelerated injections of capital to fuel India's growth.

The United States should do everything possible to encourage the swift implementation of these reforms. They would open Indian markets to U.S. business, generating profits for those ventures. Successful market liberalization would automatically create

expanded opportunities for American participation in India's growth, with room for U.S. contributions in the form of increased capital, technology, and expertise transfers. The reforms would also increase America's stakes in India's success, thereby providing the best guarantees of permanent U.S. support for India even in the face of occasional political disagreements between the two nations.

Washington should encourage the Indian state to accelerate the economic reforms required to raise the country's growth rates to the highest levels witnessed during the last decade.

TOWARD GENUINE PARTNERSHIP

In the years ahead, the United States can clearly contribute to deepening its bilateral partnership with India. But more than that, America can actually advance India's own goal of increasing its national power and help secure a peaceful and prosperous Asia-Pacific region. The opportunities available to the United States and India are truly boundless.

Both sides have only just scratched the surface of their potential cooperation. But with the removal of the most important impediment facing their bilateral relationship during the last thirty years—India's exclusion from the global nonproliferation regime—both governments need to get down to business if they are to achieve the deep cooperation that eluded both sides throughout the Cold War. At a time when the United States and India face the common challenge of maintaining a favorable balance of power in Asia, they cannot afford to fail.

REENERGIZING DEMOCRACY PROMOTION

THOMAS CAROTHERS

Democracy promotion is central to U.S. foreign policy, but the loss of global democratic momentum, problems of Western political credibility, and the rise of alternative political models are making it a more challenging task than ever. The Obama administration must not back away. It should not hesitate to push governments—even friendly ones—on democratic missteps and engage non-Western democratic powers as new partners in the endeavor.

OVER THE LAST THREE DECADES, a succession of Republican and Democratic presidents has made promoting democracy abroad a significant element of U.S. foreign policy. Democracy promotion gained particular momentum in the 1990s when the international political context turned especially favorable to the enterprise. Democracy was spreading rapidly, the United States and its democratic allies stood out internationally as the most attractive models of political and economic governance, democracy faced no serious ideological rivals, and the sovereignty barriers to political assistance across borders were suddenly in rapid decline.

Since the middle years of the last decade, however, it has become increasingly clear that this favorable context is disappearing due to a loss of democratic momentum, credibility problems, new challengers, and tougher resistance to external assistance.

Loss of democratic momentum: For the first time since the 1970s, the number of democracies at the end of the last decade was no greater than at the beginning of the decade. The momentum of the 1980s and 1990s dissipated in the face of widespread democratic backsliding and stagnation. Many fledgling democratic states struggled to turn democratic forms into democratic substance and to deliver improved socioeconomic outcomes for their citizens. Various elected strongman leaders, such as Vladimir Putin in Russia and Hugo Chávez in Venezuela, steered their countries off the democratic track. While the outlook for political change in the Arab world in 2011 brought hope of a renewal of the democratic impulse, so far only a few Arab countries are moving toward stable, pluralistic systems. Moreover, continued negative developments—like the disturbing breakdown of political order in Mali, a country that was for some time one of Africa’s democratic success stories, or Ukraine’s passage from the Orange Revolution to semi-authoritarian stagnation—keep accumulating.

Problems of credibility: Both the United States and Europe have taken significant hits on their credibility as global models. For the United States this has been an unfolding cascade with damage during the Iraq war to America’s reputation as a country that

**Both the United States and Europe
have taken significant hits on
their credibility as global models.**

respects the rule of law and human rights, blame for triggering the global financial crisis in 2008, the discouraging picture during Obama’s first term of a political system beset by polarization and gridlock, and a clear

avoidance in this year’s presidential campaign of any serious plan from either party of how to handle the hard fiscal choices facing the country. Europe is faring no better in the world’s eyes given the loss of impetus for European unification and the protracted European economic crisis and its attendant sociopolitical woes.

New challengers: The growing appeal in some parts of the world of China’s and Russia’s versions of “authoritarian capitalism” has undercut the assumption that no serious alternative to the Western model exists for developing or transitional countries. The emergence of Islamist-led governments through elections in Tunisia and Egypt and the relative developmental success of some nondemocratic governments in Africa, for example Rwanda and Ethiopia, further weaken earlier simplistic assumptions about the triumph of the Western liberal model. Moreover, China, Russia, and other nondemocratic powers are asserting political influence across borders in ways that frequently work against the spread of democracy.

Closing doors: A punishing backlash against U.S. and other Western democracy assistance emerged in the last decade. A growing number of governments, especially in the former Soviet Union, Latin America, and the Middle East, have taken actions to block

international elections assistance, restrict international funding for civil society organizations, or reject Western democracy support altogether. Egypt's ongoing prosecution of U.S. democracy supporters working in Egypt (and of many Egyptian nongovernmental organizations accepting Western aid) and Russia's recent closing of the U.S. Agency for International Development (USAID) mission in Moscow are vivid recent examples.

These interrelated developments add up to a daunting context for U.S. democracy promotion. It is important, however, not to lose sight of the fact that some positive

fundamentals about democracy promotion still hold. To start with, although some elected leaders have turned toward anti-American populism, it remains the case that the global spread of democracy has largely favored U.S. economic and security interests. America's most productive and lasting friendships are with other democracies. A more democratic world is a better world for the United States.

Second, despite the diminished credibility of its own political system and the increasing assertiveness of various nondemocratic rivals, the United States still has the capacity to contribute in vital ways to democracy's advance in the world. Washington can rely on multiple channels including strategic backing of democratic allies, applying U.S. pro-democratic diplomacy and assistance to help democratic actors struggle against dictatorial regimes, supporting shaky democratic governments undertaking reforms, and challenging semi-authoritarian rulers to implement political reforms.

Third, democracy's new challengers are hardly free of glaring deficiencies of their own that limit the appeal of their models. China's serious labor tensions, widespread corruption, and severe environmental damage are as much a part of "the China model" as is its rapid growth. The same is true with Russia's systematic high-level corruption and poorly functioning state. And although the relative power balance between the West and "the rest" is shifting, many of the major new non-Western powers are in fact democracies. The socioeconomic dynamism of Brazil, India, Indonesia, Turkey, and other rising democratic powers is giving a boost to global democracy both through their example and through their increasing efforts to support democracy in their neighborhoods.

AVOIDING TRAPS

Given the ongoing shift from a remarkably favorable to a strikingly less favorable context for democracy promotion, two possible traps stand out for a new administration looking

A punishing backlash against U.S. and other Western democracy assistance emerged in the last decade.

to engage in this area. Obama could try to ignore the changed reality and continue promoting democracy as though the United States still operates in the past—in a world where democracy is surging, the U.S. model is paramount, no ideological rivals exist,

Despite the diminished credibility of its own political system and the increasing assertiveness of various nondemocratic rivals, the United States still has the capacity to contribute in vital ways to democracy's advance in the world.

and sensitivities to cross-border political work are on the decline. Or, the administration could back away significantly, viewing democracy promotion as the goal of an earlier era that has no more than a marginal place in a U.S. foreign policy tailored to a less auspicious international context.

If Mitt Romney had been elected, the former trap would have presented the more likely danger. In

a second Obama term, the latter is the greater concern. In his first term, Obama hesitated over democracy promotion, not quite settling where it stands among his priorities. When Obama first took office, he was acutely conscious of how unpopular the very idea of U.S. democracy promotion had become under George W. Bush as a result of its close association with the Iraq war and with forcible regime change generally. As a result he initially downplayed the issue. He and his top advisers avoided referring to the goal of advancing democracy abroad in their early policy declarations. When they did begin to give attention to the issue they emphasized rhetoric much more than action. Moreover, their focus on trying to engage in constructive dialogues with the governments of Russia, Iran, and other partially or fully hostile nondemocratic states contributed to their scaling back on democracy promotion. Obama's initial avoidance of any pointed criticism of Iran's badly flawed elections in the summer of 2009 out of a desire to leave the door open to possible negotiations with Tehran was a vivid example.

Over time, however, Obama's engagement on democracy issues increased. Like his recent predecessors (who also came into office without any particular inclination to emphasize democracy promotion) Obama and his foreign policy team were pulled in by democratic breakdowns or breakthroughs in different regions of the world, which confronted the Obama team with expectations at home and abroad to respond. A coup in Honduras, a violent post-election political standoff in Côte d'Ivoire, a teetering political negotiation in Kenya, post-earthquake political challenges in Haiti, and other political flashpoints sparked pro-democratic diplomatic interventions by the administration. In the same time period, the rapid fading of hopes for productive diplomatic engagement with Iran and new tensions with China reduced the administration's inclination to soft-pedal democracy and human rights disagreements with these and other countries.

The outbreak of the Arab Spring in 2011 raised democracy promotion even higher on the administration's foreign policy agenda. Suddenly Obama and his advisers found themselves scrambling to craft ways to support democratic transitions in a region where the United States had long backed myriad friendly authoritarian regimes. In a May 2011 speech, Obama set out a new framework for U.S. Middle East policy, emphasizing that it will "be the policy of the United States to support reform across the region, and to support transitions to democracy." In Egypt (after some initial uncertainty), Tunisia, and Yemen the United States worked diplomatically and gave increased assistance to back democratic transitions. In Libya the U.S. role extended to military action.

Thus over the past three years Obama has often ended up being pulled in substantial ways to support democratic change around the world. He and his team have contributed significantly to the overall endeavor. Yet there has remained a lingering sense of uncertainty and sometimes ambivalence about whether democracy support is a major element of Obama's foreign policy. This is especially evident with regard to the Middle East. Although the administration is helping some Arab countries undertake democratic transitions, in a larger number of countries in the region it is clinging to the old policy of backing useful authoritarian regimes as they repress domestic opposition or largely ignore calls for reform. The weak

U.S. response to Bahrain's harsh repression of protesters is an especially vivid example. U.S. policy toward the other Gulf states and Jordan follows a similar logic.

More generally, in pursuing a foreign policy organized around the panoply of major security challenges facing the United

States—in Afghanistan, Pakistan, Iran, Iraq, China, and elsewhere—Obama and his team have sent mixed signals about whether they view democracy support as a central foreign policy issue for the United States, or only a minor add-on mostly in contexts where major security issues are not at stake.

There has remained a lingering sense of uncertainty and sometimes ambivalence about whether democracy support is a major element of Obama's foreign policy.

LOOKING AHEAD

A second Obama administration should bolster the U.S. commitment to strengthening democracy abroad, consolidating and expanding the progress made on the issue during the last four years while avoiding any tendency to back away in the face of the difficult international context. Several component elements will be key.

First, the new administration should avoid the common pattern (even in transitions where the same party remains in power) in which a new, incoming foreign policy team seized with the challenge of renewing U.S. policy on the current crises fails to give detailed attention to the full array of elements that make up democracy policy and only comes to grips with the subject once it is pulled in over time by unexpected democratic breakthroughs or breakdowns. In this vein, the new administration should consciously seek to carry over lessons about pro-democracy diplomacy that the outgoing team learned over the past four years rather than to relearn them slowly from scratch. These include the recognition that it is possible to push a friendly government hard on democratic missteps or deficiencies without losing the friendship, that acting quickly and decisively in crucial political junctures is the heart of pro-democracy diplomacy, and that overreliance on soaring speeches rather than concrete acts quickly breeds disappointment and resentment.

Second, the various longer-term, usually multilateral pro-democracy initiatives that the first Obama administration launched should be sustained and when possible deepened. Some Obama officials have referred to these initiatives as “the long game” on democracy support. The Open Government Partnership, which is a public-private partnership launched in September 2011 to advance transparent and accountable governance, is one such effort. The list also includes the push on global Internet freedom, strategic dialogues with civil society in different countries, efforts to renovate the Community of Democracies (an intergovernmental forum first established in 2000), and the greater integration of democracy and governance goals into socioeconomic assistance. These and other related initiatives were closely tied to individuals in the administration—especially Hillary Clinton and certain members of her team and selected senior staff at the White House. As a new foreign policy team comes in, they should be sure not to view these initiatives as ephemeral enthusiasms of their predecessors but instead as valuable bases that merit consolidation and extension.

Especially important is the idea advanced by the administration in the past several years that the United States and other established Western democracies should find ways to engage with rising non-Western democratic powers such as Brazil, India, Indonesia, and Turkey on international democracy support. Such engagement and possible collaboration is not easy given the deeply rooted skepticism that such countries have about Western political interventionism but it is potentially an important new avenue for democracy policy.

Third, the second Obama administration should improve its responses to the pushback against democracy support. Egypt’s prosecution of American and other pro-democracy actors and Russia’s recent closure of the USAID mission in Moscow were not isolated incidents but two flare-ups in a longer trend. The new administration should assume that pressure on the available space for U.S. democracy assistance will continue and be ready to put forward coherent, consistent responses to further negative developments. Such responses should include clear messages expressing U.S. displeasure and affirming the

international principles at stake, finding alternative ways to deliver democracy aid in the face of new restrictions, and working actively with other international democracy support actors to present as wide a front as possible of resistance to such efforts.

Fourth, Obama should prioritize dealing with the ongoing wave of roiling political change in the Arab world. Faced with constant debate over whether movement away from old autocratic orders helps or hurts U.S. security and economic interests in the region, the new administration will need to reaffirm and bolster the overarching policy framework of support for Arab democratic transitions that Obama set out last year.

The new administration will need to reaffirm and bolster the overarching policy framework of support for Arab democratic transitions that Obama set out last year.

Toward Egypt the new administration should renew its efforts to assemble a significant economic aid package that will help Egypt's democratically elected government get through the dangerous economic rapids ahead. At the same time, the evident desire of the Obama team to build good ties with the Islamist-led government should not inhibit the new administration from speaking out about problematic rights and democracy issues as they arise.

The new administration should reduce the inconsistency prevalent over the last eighteen months between the active U.S. support for democracy in Egypt, Libya, Tunisia, and Yemen, and the continued embrace of autocratic stability in many other parts of the Arab world, including the Gulf states, Jordan, and Morocco. Finding ways to encourage autocratic allies to respond more productively to impulses for positive political change in their own societies is not easy given the varied interests at stake, but it is not impossible.

Fifth, the new administration should achieve greater coherence in its democracy policy overall. Despite their initial de-emphasis of the issue, Obama and his foreign policy team ended up engaging significantly on democracy promotion in many places. Yet hesitation and ambivalence about the overall scope and priority colored their approach. When viewed in the short term, the democracy issue only fits in around the edges of some of the major issues that dominate the U.S. foreign policy agenda, like Washington's relationships with China and Russia, the war in Afghanistan, and the efforts to combat radical Islamist terrorism globally. But the new administration should project more clearly and consistently that advancing democracy's fortunes worldwide is one of its overarching priorities, that it will seek to make democracy concerns a real part—even if sometimes only a modest one—of all of its major security-related engagements in the world, and that

a persistent, partnership-oriented, and principled approach to democracy promotion is at the core of adapting U.S. leadership to a changed world.

Finding ways to encourage autocratic allies to respond more productively to impulses for positive political change in their own societies is not easy given the varied interests at stake, but it is not impossible.

Obviously Obama should not lapse into grandiose rhetoric or overinflated ambitions about the U.S. role vis-à-vis democracy in the world. Yet core elements of Obama's approach—his instinct toward multilateralism, his wariness about the ability of the United States to impose its ways on other countries, and his emphasis on universal values rather than strictly American

ones—are useful elements that fit today's more difficult context, where the optimistic assumptions of twenty years ago no longer necessarily hold. Yet in his first term, Obama was surprisingly unwilling to effectively translate these instincts and his unusually strong global democratic profile into leadership on values. His reelection only cements this unusual democratic stature that he enjoys. It would be beneficial both for the United States and the world if his renewed mandate gives him new confidence and impetus to be a world leader deeply and widely engaged in the broader endeavor of expanding democracy's reach.

THE DRAGON DANCE: U.S.-CHINA SECURITY COOPERATION

JAMES M. ACTON

China's nuclear modernization concerns the United States and its Asian allies, but Washington has largely failed to engage Beijing effectively on nuclear strategy. The failure stems at least in part from China's view that engagement narrowly focused on nuclear issues is a losing proposition. To make progress in his second term, President Obama should offer a broader vision for strategic cooperation that includes reducing nuclear risks by restraining competition in the conventional realm.

OVER THE LAST TEN OR FIFTEEN YEARS, the possibility of a conflict with China has become an ever more important focus of U.S. defense planning. With long-running wars in Afghanistan and Iraq, preparing for such a contingency has not always been the highest-profile item on the Pentagon's agenda. But, the Obama administration's "pivot" to Asia is clear evidence of where it believes the risk of interstate warfare, defined in terms of both likelihood and consequence, is greatest.

Sino-American military competition primarily plays out in the conventional domain, and escalation to nuclear use in a U.S.-Chinese conflict is thankfully much less likely than it was during the U.S.-Soviet standoff. Yet both Washington and Beijing still plan for a nuclear war—the ultimate in low-probability, high-consequence catastrophes. For this reason more than any other, the administration of Barack Obama, like the George W. Bush administration before it, has sought to manage the risk by engaging China in

a strategic dialogue. The administration is virtually certain to continue these efforts in Obama's second term.

Certainly, the Obama administration is also driven in part by a desire to create political and security conditions that would enable deep reductions in nuclear weapons, eventually leading to their abolition. One of these conditions is the integration of China's

**The Obama administration's
"pivot" to Asia is clear evidence
of where it believes the risk of
interstate warfare is greatest.**

nuclear arsenal into an arms control framework. However, other reasons to engage China on nuclear deterrence command broader political support. China is slowly expanding and modernizing its nuclear forces, sparking concern in both the United States and among Washington's Asian

allies, most notably Japan. These concerns are exacerbated by Beijing's refusal to provide information about the size and structure of its arsenal. As long as these trends continue, all U.S. administrations—Democratic and Republican—are likely to try to press Beijing to be more transparent and to explain its motivations and intentions for modernization.

As part of this modernization, China is in the process of deploying road-mobile missiles and developing submarine-launched ones to replace its older silo-based weapons, thereby significantly enhancing the survivability of its nuclear forces. It is also developing technologies to defeat U.S. ballistic missile defenses in an attempt to ensure that, should these missiles ever be used, their warheads would reach their targets.

China is also slowly expanding its nuclear forces. In 2002, the U.S. Department of Defense estimated that China had twenty intercontinental ballistic missiles (ICBMs) capable of reaching the continental United States,¹ and in 2010, a report placed that number between 30 and 35.² In addition, China is developing the capability to place multiple warheads on a single missile. If Beijing deployed this technology, it could rapidly expand its nuclear forces, but there is no evidence it has yet done so.

So far, U.S. efforts to engage China on nuclear strategy have had limited success. Part of the reason may be that, given the United States' huge qualitative and quantitative advantages in nuclear forces, China appears to view engagement narrowly focused on nuclear issues as a zero-sum game that it will likely lose. Strategic cooperation might appear more obviously mutually beneficial if it were based on a broader strategy of reducing nuclear risks by restraining competition in the conventional realm. Of course, there is a real possibility that an ambitious U.S. proposal to expand cooperation would be rebuffed by China. But, if Beijing does engage, the United States and China could make real progress toward managing a genuinely existential threat to both of them.

A DECADE OF LIMITED PROGRESS

American efforts to engage China—at both the official and nongovernmental levels—have often attempted to separate nuclear deterrence from the rest of the bilateral relationship. The aim has been to discuss it either completely by itself or, occasionally, alongside other “strategic” issues, such as cybersecurity, space weapons, and missile defense. Most obviously, U.S. officials believe—and regularly and publicly exhort Beijing to understand—that greater transparency about China’s nuclear arsenal would, on its own, help stabilize the two states’ nuclear relationship.

This belief has influenced the way Washington has attempted to engage Beijing in private. The Bush administration sought a dialogue with China focused solely on nuclear strategy. Only one round of this dialogue was ever conducted, and that was in April 2008. The Obama administration’s efforts appear to have been somewhat broader but are still tightly focused compared to the full range of issues in the bilateral military relationship. Specifically, the United States and China held two rounds of a “strategic security dialogue” in May 2011 and May 2012. Very little information about the discussions is available, but the meetings seem to have originated with a suggestion made in January 2011 by Secretary of Defense Robert Gates to his counterpart, General Liang Guanglie, that the two states should engage on “nuclear, missile defense, space, and cyber issues.” Whatever its agenda, the absence of information about this dialogue suggests it is at a fairly nascent stage.

At a marginally more advanced stage is a dialogue between the five nuclear-weapon states recognized by the Nuclear Non-Proliferation Treaty, including both China and the United States. Formally, this dialogue is focused on topics covered by the treaty (disarmament, nonproliferation, and nuclear energy), not bilateral U.S.-Chinese strategic issues. But, China has agreed to lead work on a glossary of nuclear terminology, which could promote understanding during future bilateral discussions on nuclear deterrence.

In short, a decade’s worth of U.S. efforts to engage China on nuclear deterrence has led to three rounds of intermittent dialogue and a commitment to develop a glossary: hardly impressive progress. Rightly or wrongly, China apparently does not share the U.S. belief that narrowly focused engagement on nuclear issues would be mutually beneficial.

Why China has been reluctant to engage on nuclear issues is a matter for legitimate debate. Virtually all Chinese and many American analysts—particularly those who

Strategic cooperation might appear more obviously mutually beneficial if it were based on a broader strategy of reducing nuclear risks by restraining competition in the conventional realm.

have studied Chinese documents—believe that Beijing’s policy is driven, to a significant degree, by a perceived threat from the United States. They argue that Beijing is genuinely concerned that, in a deep crisis, the United States might attempt to eliminate China’s nuclear arsenal with a preemptive “first strike” and that greater transparency could further undermine the survivability of its nuclear forces. In 2003, for instance, Chinese analyst Li Bin wrote that:

The survivability of [China’s] current ICBM force . . . relies on ambiguity surrounding numbers. Because China will not confirm or deny reports on the number of its ICBMs, other states cannot have confidence in any estimates. An attacker considering launching a first strike against China would be uncertain of China’s retaliatory capacity. This is how China’s nuclear deterrent works today.³

By contrast, other U.S. analysts believe that China’s opacity and its modernization program are geared toward unilateral gain. They worry Beijing has concluded that a more robust Chinese nuclear arsenal would deter the United States from intervening in a regional conflict, thus undermining U.S. defense commitments in East Asia.

While less discussed, it is also possible that internal considerations, not just external ones, shape Chinese policy significantly. After all, U.S. and Soviet/Russian nuclear weapons decisions—particularly over procurement—were not based solely (or perhaps even mostly) on cold-blooded cost-benefit calculations. They were shaped by bureaucratic and political factors. The administration of John F. Kennedy, for example, increased defense spending, which included the construction of more nuclear weapons, to stimulate the U.S. economy. Meanwhile, according to an authoritative study of Soviet nuclear policy based on interviews with senior decisionmakers conducted just after the collapse of communism, Soviet acquisitions policy was largely driven by the defense-industrial sector’s use of “its political clout to deliver more weapons than the armed services asked for and even to build new weapon systems that the operational military did not want.”⁴ While the specific internal factors at play in China may be rather different, there is little reason to suppose that they are absent.

Whatever the reason for China’s recalcitrance, there are advantages to presenting Beijing with an agenda for strategic cooperation that is more attractive than the one currently on offer. If China’s policy is defensively orientated, it might respond positively to a proposed agenda that is more obviously mutually beneficial. If engagement is currently being stymied by internal factors, a more attractive agenda might motivate it to overcome political or bureaucratic roadblocks. By contrast, Beijing’s refusal to engage with a more attractive offer would provide some evidence that Chinese policy is offensively orientated, which would be a potentially valuable insight—although such evidence, it must be recognized, would hardly be conclusive.

THE INSEPARABILITY OF NUCLEAR AND CONVENTIONAL SECURITY

Conventional weapons that are not usually deemed “strategic” can be inextricably linked to nuclear dynamics. At the most general level, the overall state of the conventional balance can significantly affect nuclear doctrine. Many nuclear-armed states facing a conventionally stronger adversary—including the United States during the Cold War and Russia and Pakistan today—have openly advertised their nuclear weapons as an offset for their weakness.

China has been an exception in this regard because it has pledged not to use nuclear weapons first, although there is a debate within the United States about the credibility of this commitment. In particular, some analysts believe that China would resort to the use of nuclear weapons to avoid defeat in a major conventional war. This debate aside, however, it is possible that if China fails in its current efforts to close the United States’ conventional advantage in the western Pacific, it may openly place a greater emphasis on nuclear weapons. Conversely, if China succeeds in gaining a meaningful conventional advantage, the United States might revert to a much greater role for nuclear weapons in fulfilling defense commitments to its allies.

Beyond these high-level dynamics, there are some much more direct—and pernicious—linkages between conventional and nuclear weapons in the U.S.-Chinese relationship. There is a vigorous conventional competition in the western Pacific, with the United States seeking to retain the ability to project power throughout the region and China seeking to deny it the ability to do so. In turn, Chinese efforts to deter and defeat U.S. power-projection capabilities are leading the United States to develop “strategic conventional” capabilities, which Beijing argues are forcing it to expand and modernize its nuclear forces.

To be concrete, China is developing both anti-satellite weapons and anti-access/area-denial capabilities. By using the former to destroy American communications, guidance, and reconnaissance satellites, China might hope to deny or impede the United States’ ability to project power. Chinese anti-access/area-denial capabilities are designed to hinder U.S. access to the western Pacific and its freedom of movement within the region. The highest-profile Chinese system designed to contribute to these operations is an anti-ship ballistic missile, the DF-21D. Chinese military writings suggest that its primary target would be U.S. aircraft carriers.

Both anti-satellite weapons and anti-access/area-denial capabilities constitute important arguments within the United States for developing long-range, very fast conventional weapons in a program known as Conventional Prompt Global Strike (CPGS). Two commanders of U.S. Strategic Command have, in public testimony before Congress, stated that CPGS weapons could be used to prevent further attacks in the event that China

destroys a U.S. satellite. Meanwhile, the 2010 Quadrennial Defense Review lists experimenting “with conventional prompt global strike prototypes” among its efforts to develop long-range strike capabilities to combat anti-access/area-denial threats.

Whether Chinese defense strategists concerned with “counterintervention” (as they term anti-access/area-denial operations) view CPGS as a particular threat is unclear. However, Chinese officials and analysts working on nuclear deterrence issues have expressed deep worries about the effect that CPGS could have on the survivability of China’s nuclear arsenal. In fact, Chinese concerns about the effect of advanced conventional capabilities

Chinese concerns about the effect of advanced conventional capabilities on the nuclear balance may be more acute than more documented concerns about ballistic missile defense.

on the nuclear balance may be more acute than more documented concerns about ballistic missile defense.⁵

Moreover, U.S. missile defense deployments in East Asia are driven, at least in part, by Chinese conventional regional ballistic missiles, which include not only the DF-21D but also land-attack

weapons that could be used to target U.S. and allied assets in Taiwan, Japan, and Guam. In public, U.S. officials have stressed the threat from North Korea in justifying recent plans to expand missile defenses in the region. Yet, the presence of missile defense assets in Taiwan is clear evidence that missiles from North Korea are not the only ones that the United States seeks to defeat. Indeed, in an oblique reference to a conflict with China, Secretary of Defense Leon Panetta has acknowledged that missile defense is designed to help “forward-deployed U.S. forces.”

Chinese analysts and officials certainly assume this to be the case. Li Bin, for example, has argued that the locations of planned U.S. radar installments provide evidence that Chinese ballistic missiles are targets for American defenses.⁶ However, Chinese concerns are not limited to the impact that these defenses may have on its arsenal of regional missiles. Beijing is also concerned that U.S. defenses could eventually be able to counter intercontinental ballistic missiles armed with nuclear warheads, thus undermining China’s nuclear deterrent. There is little doubt that this concern partly motivates well-connected Chinese analysts’ criticism of U.S. plans to expand missile defenses in East Asia.

THE SECURITY DILEMMA

These dynamics may be manifestations of a burgeoning “security dilemma.” A security dilemma is created when a state procures weapons for defensive purposes, inducing an

adversary, who fears the buildup might be offensively oriented, to do likewise. The adversary's buildup can, in turn, spark a countervailing reaction in the first state, resulting in an arms race.

Almost by definition, it is impossible for a state with a security dilemma to definitively identify it as such at the time. Washington cannot know for sure that China's nuclear modernization or lack of transparency is a defensive reaction to a perceived first strike threat from the United States. For that matter, Beijing cannot be certain that U.S. strategic conventional weapons programs, not to mention the pivot, are defensively oriented and geared toward preventing China from using force to change the status quo. But it is clear that the United States and China have a shared interest in creating a process that will allow each to test the other's intentions. Such cooperation could help mitigate the security dilemma, if indeed there is one.

For its part, Beijing would benefit from calming the U.S. security concerns that are helping to drive American programs that it finds threatening—including CPGS and ballistic missile defense. Because these programs might be catalyzing Chinese modernization efforts and precluding transparency, Washington has an interest in easing Chinese concerns.

These negative feedback loops are already creating friction in the extremely complex U.S.-China relationship. If left unchecked, they could create a qualitative or quantitative nuclear arms race. The U.S. Congress has already held hearings on—and expressed concern about—China's nuclear modernization program. If this program continues unabated it could become a powerful domestic argument in the United States for the development of new nuclear warheads (if for no other reason than to symbolize that the United States still takes nuclear deterrence seriously). China's modernization program is also creating concern that it seeks numerical parity with the United States and Russia, complicating further U.S.-Russian arms control—something that China certainly benefits from, even if it is not a party to any agreement. Both Beijing and Washington have a mutual interest in preventing these outcomes, the latter for reasons of cost if nothing else given the state of the U.S. budget.

It is clear that the United States and China have a shared interest in creating a process that will allow each to test the other's intentions.

BROADENING THE AGENDA

A broadened agenda for U.S.-China strategic cooperation that includes the conventional domain should be viewed by leaders in both states as attractive. The basic principle of

turning a perceived zero-sum game into a mutually beneficial one by linking issues is common to all areas of negotiation, from labor relations to nuclear arms control. That said, addressing the whole range of interlinked military issues in the U.S.-Chinese relationship is truly daunting—impossibly so for the time being.

Over the long term, it might be possible—through treaty or restraint—to develop a durable balance of conventional forces so that each state is confident in its ability to protect its vital interests without nuclear weapons. But profound political change will be needed to achieve such an outcome, much like in Europe toward the very end of the Cold War. NATO and the Warsaw Pact were only able to negotiate limits on conventional forces that effectively precluded the possibility of a surprise attack by either party after Moscow had started the process of internal reform that led to a thawing of the Cold War (and, ultimately, the Soviet Union's demise). Today, realistically speaking, the United States and China should identify more modest steps that could help mitigate some of the most risky interactions between conventional and nuclear weapons.

For example, while the linkage between Chinese anti-access/area-denial capabilities, particularly the DF-21D anti-ship ballistic missile, and the U.S. CPGS program could produce a potentially destabilizing buildup cycle, it could also be leveraged to enable strategic cooperation. The two states could inform one another about the number of weapons they intend to procure and deploy each year for, say, the next five years. A data exchange like this could help mitigate tendencies to base procurement on worst-case intelligence assessments.

Chinese involvement in this kind of transparency arrangement would not be as unprecedented as widely believed. In 1997, for instance, China, Russia, and three Central Asian Republics negotiated an agreement on conventional force limitations near their borders. This extremely long and detailed document (it runs to over 17,000 words in English) contains extensive provisions for data exchange and demonstrates that Beijing will agree to transparency measures if it views them to be in its interests.

Much more ambitiously, the United States and China could enact a ban on the encryption of diagnostic data, known as telemetry, transmitted during tests of agreed-upon long-range high-precision conventional weapons (such as the DF-21D and a U.S. CPGS system) to allow for more accurate capability assessments. Clearly, such a ban would require a substantial degree of trust to be built first and so cannot be a short-term ambition. But, the U.S.-Soviet agreement to ban telemetry encryption as part of the 1991 Strategic Arms Reduction Treaty (START) demonstrates that, over time, confidence building on the necessary scale is possible.

One particular advantage of broadening the scope of strategic cooperation to include conventional forces is that it becomes possible to pair roughly symmetric capabilities. China's nuclear arsenal is much smaller and less sophisticated than that of the United States,

complicating efforts to persuade Beijing that it is in China's interest to become more transparent. By contrast, while the DF-21D is less sophisticated than any of the systems being developed under the CPGS program, it is at a significantly more advanced stage of development. This rough symmetry makes confidence-building measures involving these capabilities more obviously beneficial to both parties.

Other linkages—such as the connection between Chinese regional ballistic missiles and U.S. regional missile defenses—could also be exploited for strategic cooperation. Crucially, however, a necessary prerequisite to any progress in this direction is an official Sino-American dialogue broad enough to encompass all the relevant strategic interactions. The existing strategic security dialogue, while a step in the right direction, probably does not go far enough. While it appears to include nuclear weapons, missile defense, and space, it leaves out a number of critical pieces of the puzzle in the form of conventional U.S. power-projection capabilities and various Chinese efforts to defeat them.

Analysts and some government officials (particularly in Russia) have recently argued for bringing China into negotiations toward a multilateral arms control treaty. While this is a desirable long-term goal (that discussions among nuclear-armed states at both an official and unofficial level can advance), it is also a premature one. For multilateral arms control to have any chance of success, the dynamics that are driving Chinese modernization must be addressed. To the extent that these dynamics are related to Sino-U.S. strategic competition they must be addressed bilaterally.

Moreover, there are still large quantitative and qualitative gaps between U.S. and Chinese nuclear forces. For example, while China has 30 to 35 missiles, each armed with a single warhead, capable of reaching the United States according to the most recent detailed estimate from Department of Defense, the United States has over 1,000 deployed warheads capable of reaching China. Efforts by the United States in cooperation with Russia are needed to close this gap before China can reasonably participate in the negotiation of a limitations treaty.

The asymmetry between U.S. and Chinese nuclear forces also argues strongly against attempting to import the Cold War arms control framework wholesale into the U.S.-China relationship. While U.S.-Soviet and U.S.-Russian treaties can provide useful ideas, such as the ban on telemetry encryption, the United States needs to take a novel approach to have a reasonable chance of receiving the reassurance it wants about China's modernization.

PROSPECTS FOR SUCCESS

It would be naïve to believe that expanding the scope or depth of strategic cooperation between the United States and China would be anything other than extremely difficult.

While there is a compelling case to be made that expanded cooperation would be mutually beneficial, there is also the potential for significant resistance. Within the United States and among its allies, there would unquestionably be opposition to any form of cooperation that requires the United States to provide China with valuable information about U.S. plans and programs—even though China would be required to provide equally valuable information in return. Indeed, confidence-building measures that connect, for instance, Chinese regional ballistic missiles to U.S. regional missile defenses would probably be harder to “sell” than confidence-building measures purely within the nuclear realm. There is also absolutely no guarantee that Beijing will agree to participate; it might

doubt U.S. sincerity, be unable to circumvent domestic obstacles, or, conceivably, view cooperation as fundamentally undesirable.

The potential benefits of trying to start wide-ranging strategic cooperation with China dwarf the downside risks.

That said, the potential benefits of trying to start wide-ranging strategic cooperation with China dwarf the downside risks. Strategic

competition between the United States and China is not only expensive but adds friction to the bilateral relationship—a relationship that simultaneously holds more promise and carries more risk than any other. If strategic cooperation does nothing more than curb some pernicious aspects of this competition it would be worthwhile. If it catalyzes a co-evolutionary process in which deep cooperation builds strategic trust and strategic trust enables deeper cooperation, it could usher in a sea change.

NOTES

- 1 Department of Defense, “Annual Report on the Military Power of the People’s Republic of China,” 2002, www.defense.gov/news/Jul2002/d20020712china.pdf, 27.
- 2 Department of Defense, “Military and Security Development Involving the People’s Republic of China,” 2010, www.defense.gov/pubs/pdfs/2010_cmpr_final.pdf, 66. If weapons capable of reaching Alaska are included, the number rose from about 30 in 2002 to between 45 and 65 in 2010.
- 3 Li Bin, “China and Nuclear Transparency,” in *Transparency in Nuclear Warheads and Materials: The Political and Technical Dimensions*, edited by Nicholas Zarimpas (Oxford: Oxford University Press for SIPRI, 2003), 55.
- 4 John G. Hines, Ellis M. Mishulovich, and John F. Shull, *Soviet Intentions 1965–1985*, Volume I, *An Analytical Comparison of U.S.–Soviet Assessments During the Cold War* (McLean, Va.: BDM Federal, 1995), available from www.gwu.edu/~nsarchiv/nukevault/ebb285, 24–25.
- 5 Lora Saalman, *China and the U.S. Nuclear Posture Review*, Carnegie Paper (Beijing: Carnegie-Tsinghua Center for Global Policy, 2011), http://carnegieendowment.org/files/china_posture_review.pdf, 9.
- 6 Li Bin, “China and the New U.S. Missile Defense in East Asia,” *Proliferation Analysis*, Carnegie Endowment for International Peace, September 6, 2012, <http://carnegieendowment.org/2012/09/06/china-and-new-u.s.-missile-defense-in-east-asia/drth>.

CONTRIBUTORS

JAMES M. ACTON is a senior associate in the Nuclear Policy Program at the Carnegie Endowment. A physicist by training, Acton specializes in deterrence, disarmament, nonproliferation, and nuclear energy. His research focuses on developing realistic pathways toward a world without nuclear weapons by strengthening nonproliferation bulwarks and rethinking deterrence.

Acton is the joint UK member of the International Panel on Fissile Materials and was a co-chair of the Next Generation Working Group on U.S.-Russia arms control. He has provided evidence to the United Nations Secretary General's Advisory Board on Disarmament and the Blue Ribbon Commission on America's Nuclear Future.

Acton is the author of two Adelphi books, on abolition and deterrence at low numbers, and is a frequent commentator on nuclear issues on television and in print.

DAVID BURWELL is director of the Energy and Climate Program at the Carnegie Endowment. His work focuses on the intersection between energy, transportation, and climate issues and policies and reforms to reduce global dependence on fossil fuels.

Burwell was a principal in the BBG Group, a transportation consulting firm, before joining Carnegie. He was also co-founder and CEO of the Rails-to-Trails Conservancy and founding co-chair and president of the Surface Transportation Policy Project, a national transportation policy reform coalition.

He has served on the Executive Committee of the National Research Council's Transportation Research Board and is on the board of advisers of the Institute for Transportation and the Environment at the University of California at Davis.

THOMAS CAROTHERS is vice president for studies at the Carnegie Endowment for International Peace. He is the founder and director of the Democracy and Rule of Law Program and also oversees Carnegie Europe.

A leading authority on democracy promotion and democratization worldwide and an expert on U.S. foreign policy, Carothers has worked on democracy assistance projects for many public and private organizations. In addition, he has broad experience in matters dealing with development aid, human rights, rule of law, and civil society development.

Carothers is the author or editor of eight critically acclaimed books on democracy promotion, as well as many articles in prominent journals and newspapers.

SARAH CHAYES is a senior associate in the South Asia Program at the Carnegie Endowment. Formerly special adviser to the chairman of the Joint Chiefs of Staff, she is an expert on U.S. policy toward South Asia, kleptocracy and anti-corruption, and civil-military relations.

Chayes covered the fall of the Taliban for National Public Radio, then left journalism to remain in Kandahar to assist with reconstruction efforts. In 2009, she was tapped to serve as special adviser to Generals David McKiernan and Stanley McChrystal. In 2010, Chayes became special adviser to the chairman of the Joint Chiefs of Staff, Admiral Mike Mullen.

Chayes is author of *The Punishment of Virtue: Inside Afghanistan After the Taliban* and has published widely in major newspapers.

Ambassador **JAMES F. COLLINS** is director of the Russia and Eurasia Program. He is an expert on the former Soviet Union, its successor states, and on the Middle East. He was the U.S. ambassador to the Russian Federation from 1997 to 2001. He previously served as senior adviser at the public law and policy practice group Akin, Gump, Strauss, Hauer & Feld, LLP.

Before his appointment as ambassador, he served as ambassador-at-large and special adviser to the secretary of state for the New Independent States and as deputy chief of mission and chargé d'affaires at the U.S. Embassy in Moscow from 1990 to 1993. He also

held positions in the U.S. Embassy in Amman, Jordan, and the Consulate General in Izmir, Turkey.

URI DADUSH is a senior associate and director of the International Economics Program at the Carnegie Endowment. He focuses on trends in the global economy and is currently also tracking developments in the eurozone crisis.

Dadush was president and CEO of the Economist Intelligence Unit and Business International, part of the Economist Group (1986–1992); group vice president, international, for Data Resources, Inc. (1982–1986), now Global Insight; and a consultant with McKinsey and Co. He also served as the World Bank’s director of international trade and before that as director of economic policy.

He is the author of *Inequality in America: Facts, Trends and International Perspective*, *Juggernaut: How Emerging Markets Are Reshaping Globalization, Currency Wars*, and *Paradigm Lost: The Euro in Crisis*.

DEBORAH GORDON is a nonresident senior associate in the Carnegie Energy and Climate Program, where her research focuses on climate, energy, and transportation issues, with a special focus on unconventional oil and fossil fuels in the United States and globally. Gordon founded the transportation program at the Union of Concerned Scientists, taught at the Yale School of Forestry and Environmental Studies, and worked at the U.S. Department of Energy’s Lawrence Berkeley Laboratory under a grant from the Environmental Protection Agency.

She began her career as a chemical engineer with Chevron. Since 1996 she has been an author and policy consultant specializing in transportation, energy, and environmental policy. Gordon has served on National Academy of Sciences committees and the Transportation Research Board Energy Committee.

Her recent book, *Two Billion Cars* (with Daniel Sperling), provides a fact-based case and roadmap for navigating the biggest global environmental challenges of this century—cars and oil (Oxford University Press, 2009).

FREDERIC GRARE is a senior associate and director of the South Asia Program at the Carnegie Endowment. Prior to joining Carnegie, Grare served as head of the Asia bureau at the Directorate for Strategic Affairs in the French Ministry of Defense. He

also served at the French embassy in Pakistan and, from 1999 to 2003, as director of the Centre for Social Sciences and Humanities in New Delhi, India.

His research focuses on South Asian security issues. He also works on India's "Look East" policy and the search for a security architecture in the region. He writes on Afghanistan and Pakistan's regional policies and on the tension between stability and democratization, including civil-military relations, in Pakistan.

Grare has written extensively on security issues, Islamist movements, and sectarian conflict in Pakistan and Afghanistan.

PAUL HAENLE is director of the Carnegie-Tsinghua Center and an adjunct professor of international relations and global governance at Tsinghua University.

He served as the director for China, Taiwan, and Mongolian Affairs at the National Security Council from June 2007 to June 2009. Haenle also served as the White House representative to the U.S. negotiating team at the Six-Party Talks, and as executive assistant to the U.S. national security adviser.

Haenle has been assigned twice to the U.S. embassy in Beijing, China, served as a U.S. Army company commander during a tour to the Republic of Korea, and also worked in the Pentagon as an adviser on China, Taiwan, and Mongolia affairs on the staff of the chairman of the joint chiefs of staff.

JESSICA TUCHMAN MATHEWS is president of the Carnegie Endowment for International Peace, the global think tank with offices in Washington, DC, Moscow, Beijing, Brussels, and Beirut. Before her appointment in 1997, her career included posts in both the executive and legislative branches of government, in management and research in the nonprofit arena, and in journalism and science policy.

Mathews is a member of the Harvard Corporation, the senior governing board of Harvard University. She has served as a trustee of leading national and international nonprofits including, currently, the Union of Concerned Scientists and the Nuclear Threat Initiative. Mathews has published widely in newspapers and in scientific and foreign policy journals and has co-authored and co-edited three books.

MARWAN MUASHER is vice president for studies at the Carnegie Endowment, where he oversees research in Washington and Beirut on the Middle East. Muasher served as foreign minister and deputy prime minister of Jordan, and his career has spanned the areas of diplomacy, development, civil society, and communications.

In 1995, Muasher opened Jordan's first embassy in Israel, and in 1996 became minister of information and government spokesperson. From 1997 to 2002, he served in Washington again as ambassador. He then served as foreign minister, where he played a central role in developing the Arab Peace Initiative and the Middle East Road Map.

Most recently, he was senior vice president of external affairs at the World Bank from 2007 to 2010. Muasher is the author of *The Arab Center* (2008) and *The Second Arab Awakening*, which will be published by Yale University Press in the fall of 2013.

MOISÉS NAÍM is a senior associate in the International Economics Program at the Carnegie Endowment, where his research focuses on international economics and global politics.

He is the author and editor of numerous books, including *Illicit* and his forthcoming *The End of Power: From Boardrooms to Battlefields and Churches to States, Why Being in Charge Isn't What It Used to Be*. Naím is the chief international columnist for *El País* (Spain), and his weekly column is published worldwide.

Before joining Carnegie, Naím was the editor in chief of *Foreign Policy* for fourteen years. Under his leadership the magazine became one of the world's most influential publications in international affairs. Naím served as Venezuela's minister of trade and industry in the early 1990s, director of Venezuela's central bank, and executive director of the World Bank.

DOUGLAS H. PAAL is vice president for studies at the Carnegie Endowment. He previously served as vice chairman of JPMorgan Chase International, and as unofficial U.S. representative to Taiwan as director of the American Institute in Taiwan (2002–2006). He was on the National Security Council staffs of Presidents Reagan and George H. W. Bush between 1986 and 1993 as director of Asian Affairs, and then as senior director and special assistant to the President.

Paal held positions in the policy planning staff at the State Department, as a senior analyst for the CIA, and at U.S. Embassies in Singapore and Beijing. He has spoken and published frequently on Asian affairs and national security issues. He studied at Brown and Harvard Universities.

GEORGE PERKOVICH is vice president for studies and director of the Nuclear Policy Program at the Carnegie Endowment. His research centers on nuclear strategy and nonproliferation, with a focus on South Asia and Iran.

Author of *India's Nuclear Bomb* and co-author of the Adelphi Paper, *Abolishing Nuclear Weapons*, Perkovich is also co-author of *Universal Compliance: A Strategy for Nuclear Security*, a blueprint for rethinking the international nuclear nonproliferation regime.

He served as a speechwriter and foreign policy adviser to Senator Joe Biden, is an adviser to the International Commission on Nuclear Nonproliferation and Disarmament, and is a member of the Council on Foreign Relations' Task Force on U.S. Nuclear Policy.

KARIM SADJADPOUR is a senior associate at the Carnegie Endowment. He was previously the chief Iran analyst at the International Crisis Group based in Washington and Tehran.

Sadjadpour is a regular commentator on television and radio and in print. He is frequently called upon to brief U.S., EU, and Asian officials about Middle Eastern affairs, has testified before Congress on a number of occasions, has lectured at Harvard, Princeton, and Stanford Universities, and has been the recipient of numerous academic awards, including a Fulbright scholarship.

In 2007 Sadjadpour was named a Young Global Leader by the World Economic Forum in Davos. He is a board member of the Banu Foundation, an organization dedicated to assisting grassroots organizations that are empowering women worldwide.

ASHLEY J. TELLIS is a senior associate at the Carnegie Endowment, specializing in international security, defense, and Asian strategic issues. While on assignment to the U.S. Department of State, he was intimately involved in negotiating the civil nuclear agreement with India.

Previously he served as senior adviser to the ambassador at the U.S. Embassy in New Delhi. He also served on the National Security Council staff. Prior to his government service, Tellis was senior policy analyst at the RAND Corporation and professor of Policy Analysis at the RAND Graduate School.

He is the author of numerous books and other publications including *India's Emerging Nuclear Posture* and co-author of *Interpreting China's Grand Strategy: Past, Present, and Future*.

DMITRI TRENIN is director of the Carnegie Moscow Center and has been with the center since its inception in 1993. He also chairs the Research Council and the Foreign and Security Policy Program.

From 1993 to 1997, Trenin was a senior research fellow at the Institute of Europe in Moscow, and in 1993, he was a senior research fellow at the NATO Defense College in Rome. He served in the Soviet and Russian armed forces from 1972 to 1993, including experience stationed in Potsdam from 1978 to 1983, and as a staff member of the delegation to the U.S.-Soviet nuclear arms talks in Geneva from 1985 to 1991. He also taught at the war studies department of the Military Institute from 1986 to 1993.

KATHERINE WILKENS is deputy director of the Middle East Program at the Carnegie Endowment. She joined Carnegie in 2012 after five years as a vice president at AMIDEAST, a nonprofit organization engaged in education, training, and capacity building in the Middle East and North Africa.

She served as president of the World Affairs Council of Washington, DC and held senior positions in the U.S. government, including as senior adviser for Caspian Energy issues at the U.S. Department of Energy and staff director and professional staff member of the House Foreign Affairs Subcommittee on Europe and the Middle East.

She has written and published on a wide range of issues, including Turkey, the Kurdish issue, U.S. policy in the Balkans, and higher education reform in the Arab world.

CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

THE CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

is a private, nonprofit organization dedicated to advancing cooperation between nations and promoting active international engagement by the United States. Founded in 1910, its work is nonpartisan and dedicated to achieving practical results.

Carnegie is pioneering the first global think tank, with flourishing offices now in Washington, Moscow, Beijing, Beirut, and Brussels. These five locations include the centers of world governance and the places whose political evolution and international policies will most determine the near-term possibilities for international peace and economic advance.

THE WORLD IN 2013
JESSICA T. MATHEWS



BEYOND THE FISCAL CLIFF: SAVINGS, HEALTHCARE, AND INEQUALITY
URI DADUSH | MOISÉS NAÍM

AVOIDING CATASTROPHIC FAILURE IN AFGHANISTAN
SARAH CHAYES | FREDERIC GRARE

THE IRANIAN NUCLEAR THREAT
KARIM SADJADPOUR | GEORGE PERKOVICH

A NEW GREAT-POWER RELATIONSHIP WITH BEIJING
DOUGLAS H. PAAL | PAUL HAENLE

AWAKENING TO A NEW ARAB WORLD
MARWAN MUASHER | KATHERINE WILKENS

MANAGING THE UNCONVENTIONAL OIL AND GAS BONANZA
DAVID BURWELL | DEBORAH GORDON

THE GAME CHANGER: COOPERATIVE MISSILE DEFENSE
DMITRI TRENIN | JAMES F. COLLINS

A NEW FRIENDSHIP: U.S.-INDIA RELATIONS
ASHLEY J. TELLIS

REENERGIZING DEMOCRACY PROMOTION
THOMAS CAROTHERS

THE DRAGON DANCE: U.S.-CHINA SECURITY COOPERATION
JAMES M. ACTON

THE GLOBAL THINK TANK

WASHINGTON DC ■ MOSCOW ■ BEIJING ■ BEIRUT ■ BRUSSELS

A decorative border at the bottom of the page consisting of numerous thin, parallel diagonal lines slanted from the bottom-left to the top-right.

