



The Next Chapter: President Obama's Second-Term Foreign Policy

Edited by Xenia Dormandy

January 2013



CHATHAM HOUSE

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Chatham House
10 St James's Square
London SW1Y 4LE
T: +44 (0) 20 7957 5700
F: + 44 (0) 20 7957 5710
www.chathamhouse.org

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About the Authors

Xenia Dormandy is the editor of this report and lead on the broader project. She is a Senior Fellow at Chatham House and runs the project on the United States' changing role in the world. She was previously the Executive Director of the PeaceNexus Foundation in Geneva, which she launched in 2009. From 2005 to 2009, she was the Director of the Project on India and the Subcontinent and the Executive Director for Research at the Kennedy School's Belfer Center, Harvard University, as well as being a member of the Center's board. Her previous positions include Director for South Asia at the US National Security Council, and a number of roles at the Department of State including in the Bureau of South Asia, the Homeland Security Group and the Bureau of Nonproliferation. Shortly after 9/11, she was detailed to the US Office of the Vice President to help launch the Office of Homeland Security Affairs.

Dr Stephen Blank is Professor of Russian National Security Studies at the Strategic Studies Institute of the US Army War College in Pennsylvania. He has been Professor of National Security Affairs at the Strategic Studies Institute since 1989. In 1998–2001 he was Douglas MacArthur Professor of Research at the War College. He has published over 800 articles and monographs on Soviet/Russian, US, Asian and European military and foreign policies, testified frequently before Congress on Russia, China, and Central Asia, consulted for the CIA, major think tanks and foundations, chaired major international conferences in the United States and in Florence, Prague and London, and has been a commentator on foreign affairs in the media in the United States and overseas. He has also advised large corporations on investing in Russia and is a consultant for the Gerson Lehrmann Group.

Shawn Brimley is a Senior Fellow at the Center for a New American Security. From 2009 to 2012 he served in the Obama administration, first as Special Advisor to the Under Secretary of Defense at the Pentagon, and then as Director for Strategic Planning on the National Security Council staff at the White House.

Steve Clemons is Editor at Large for *The Atlantic* and editor in chief of AtlanticLive. He is Senior Fellow and the Founder of the American Strategy Programme at the New America Foundation, where he previously served as executive vice president. He is also publisher of the popular political and foreign policy blog *The Washington Note*. He is a member of the World Economic Forum Council on Geopolitical Risk and was co-founder of the Afghanistan Strategy Group and the New America Foundation's Middle East Task Force.

Janine Davidson is an Assistant Professor in the School of Public Policy at George Mason University. From 2009 to 2012, she served as the Deputy Assistant Secretary of Defense for Plans, where she oversaw the development of guidance for military campaign and contingency plans and the review and assessment of plans.

Ryan Fitzpatrick is a Senior Policy Advisor for the Clean Energy Program at Third Way. Before joining Third Way, he managed energy and environmental policy for US Congressman Heath Shuler.

Josh Freed is Vice President for the Clean Energy Program at Third Way, a leading think-tank based in Washington, DC. He was previously a senior staffer in Congress and served for more than a decade as an adviser for political and corporate advocacy campaigns. He is frequently featured on American media outlets, including the *Washington Post*, *National Journal*, *Politico*, *Los Angeles Times* and *Fox Business News*.

Joe K. Hurd III is a Vice President at UniversityNow, Inc. and a Senior Adviser with the Truman National Security Project, focusing on international trade issues. From 2009 to 2012, he served in the Commerce Department as the Senior Director, Export Promotion and Trade Policy, advising the Secretary of Commerce on the National Export Initiative. He also provided political leadership as the Senior Director of the interagency Trade Promotion Coordinating Committee and served as a member of the White House Business Council. Before entering public service, he served in senior business development and international sales/operations positions for AOL Time Warner, Friendster and VideoEgg.

Cathleen Kelly recently joined the Center for American Progress as a Senior Fellow. She was previously Director of the Climate & Energy Program at the German Marshall Fund of the United States. She also served as the Deputy Associate Director for Climate Change Adaptation at the White House Council on Environmental Quality in 2010 and 2011.

Dr Robin Niblett has been the Director of Chatham House – the Royal Institute of International Affairs – since January 2007. From 2001 to 2006, he was the Executive Vice President and Chief Operating Officer of the Center for Strategic & International Studies (CSIS) in Washington, DC. During his last two years at CSIS, he also served as Director of the Europe Program and its Initiative for a Renewed Transatlantic Partnership. Dr Niblett's principal substantive interests are European integration, transatlantic relations and UK and US foreign policy. He is the author of *Playing to its Strengths: Rethinking the UK's Role in a Changing World* (Chatham House, 2010) and editor and contributing author to *America and a Changed World: A Question of Leadership* (Chatham House/Wiley-Blackwell, 2010).

Bruce Stokes is director of Global Economic Attitudes at the Pew Research Center in Washington, DC. He is an Associate Fellow in the Chatham House US Programme and a non-resident transatlantic fellow for the German Marshall Fund. He is a former international economics columnist for the *National Journal*, a Washington-based public policy magazine, where he is now a contributing editor. He is also a former senior fellow at the Council on Foreign Relations. He is co-author of the book *America Against the World: How We Are Different and Why We Are Disliked* (Times Books, 2006), author of the 2009 GMF Transatlantic Trends survey and co-author of numerous Pew Global Attitudes Surveys.

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Executive Summary

Xenia Dormandy

President Obama's re-election in November 2012 would suggest that America's foreign policy will follow the trends of the past four years. However, the global environment has changed since 2009 – America's economy has strengthened, parts of the Middle East and North Africa are dramatically transformed, new technologies – for instance in cyberspace and unmanned aerial vehicles (UAVs) – are being engaged or becoming pervasive and countries such as Indonesia, Turkey and Brazil are taking new leadership roles. Domestic factors are also influencing Obama's hand, including greater partisanship in Washington, high (albeit falling) unemployment, and an ever-increasing rise in minorities as a percentage of the population.

Many of the challenges that President Obama faced four years ago remain at the top of his agenda today, including Iran and the wider Middle East region, Afghanistan and Pakistan, and China. In broad terms, recent trends towards a more circumspect America, one that collaborates in international or regional organizations, and that, while not afraid to use force, does so more warily and in a more targeted fashion (e.g. through the use of drones and Special Forces), are likely to continue. The world should anticipate a country that, as its rhetoric has long claimed, targets its action towards achieving its *vital national interests* rather than a broader range of objectives. However, in some areas, in the changed environment of his second term, President Obama might try to implement a new or more assertive agenda.

This report explores eleven major foreign policy areas, both thematic and regional, and lays out the Obama administration's expected policies for the coming four years. Each chapter includes a brief analysis of the international implications of these policies. The key conclusions for each of the areas are below (some chapters are combined in this summary).

The economy and trade

- President Obama has vowed to hold federal government spending at about 22% of GDP; part of this will come from the planned cuts in defence spending from 4.6% of GDP to 2.9% by 2017. He also pushed hard for, and gained agreement on, taxes to rise on the most wealthy (individuals making above \$400,000 per year or households above \$450,000) in the final 'fiscal cliff' negotiations in December 2012.
- The Obama administration has an opportunity to implement a more aggressive trade policy than before. The scope and timing of any pro-trade announcements during the next four years will be dependent on the overall state of the economy and the administration's relations with Congress, particularly the Republican-controlled House of Representatives.
- Trade policy areas likely to be addressed include free trade agreements (FTAs) with major trade partners such as the EU, conclusion of the Trans-Pacific Partnership

(TPP) negotiations, increased enforcement actions against China, restoration of trade promotion authority, and a reorganization of the main trade agencies within the federal government.

- For international policy-makers, domestic concerns over the size and scope of the US trade deficit, particularly with China, will lead to increased trade enforcement actions. Although significant resources will be devoted to concluding the TPP and managing the US–Chinese relationship, the prospect of being eclipsed by other nations negotiating their own bilateral trade agreements is real, and may lead to bipartisan consensus in the United States on FTAs with the EU and possibly Japan.

Energy and environment

- While gridlock on economy-wide issues such as a carbon tax is unlikely to change, the 2012 election has shifted the political dynamic in Washington. If there is a deal to address the budget deficit, Congress could begin to address specific energy issues in 2013–14. However, President Obama did not win a clear mandate to tackle climate change or advance environmental protection more broadly in the 2012 election.
- Domestic oil and natural gas production will continue to grow, making the United States increasingly self-sufficient in energy. Meanwhile, the use of coal will gradually decrease owing to low prices for natural gas and environmental regulation.
- Pressing challenges such as trimming the national debt and immigration policy reform will dominate the policy agenda and make it hard to deliver anything more than modest progress on reducing carbon pollution linked to climate change and improving air quality in the coming four years.
- With remaining hurdles in Congress, the president will focus on using his regulatory authority under the Clean Air Act, rather than legislation, to reduce carbon emissions and improve air quality. He will seek to continue the acceleration of the commercialization and deployment of clean energy through a mix of direct investment in innovation, tax incentives and the encouragement of private financing. The biggest action, however, may be in the Environmental Protection Agency's court-mandated regulation of greenhouse gas pollutants.
- Sufficient pressure from international partners and civil society could elevate environmental protection on the president's second-term agenda and help to secure more ambitious climate action in the United States and globally.

Defence

- The Obama administration will attempt to frame its second-term foreign policy agenda as an opportunity both to lock in policies from the first term, and to craft an affirmative agenda after a decade of war. A major pillar of this agenda will involve steps to further implement the rebalancing strategy to the Asia-Pacific region, one that is more likely to focus on trade policy and diplomatic architecture than on defence policy.
- The withdrawal of most combat forces in Afghanistan is likely to be the catalyst for a review of US counterterrorism strategy, and of the best means for protecting US interests while adhering to American values.
- Continuing budget contraction is likely at the Department of Defense, although certain aspects of defence strategy may do relatively well (e.g. long-range unmanned systems, Special Operations forces and submarines).

China

- The Obama administration will maintain a policy of engagement and hedging with regard to China, with emphasis on the first. This dichotomy will play out in the economic arena in particular.
- The rebalancing to Asia will remain the major strategic objective of President Obama's second-term foreign policy agenda. However, unlike in his first term, both rhetorically and in policies the economic and diplomatic dimensions will be emphasized over the military one.
- The administration is likely to prioritize issues affecting the US economy and business such as corporate espionage, hacking and cyber security, fitting into its broader focus on America's economic health. It will partner with other concerned parties within the US and internationally in moving this agenda forward.
- The administration will seek to maintain the tough balance between supporting key allies in the region and remaining officially neutral in territorial disputes between China and countries such as Japan in the East China Sea.

The Middle East and North Africa

- President Obama's second term will lack the strategic coherence of his first term. The Middle East has generated a plethora of challenges, each requiring a different policy frame. By necessity, the president's policy has become and will remain more reactive and ad hoc.
- Disrupting and/or redirecting Iran's nuclear course will continue to be the dominant regional objective during the second term. The principal goal will be to prevent any irrevocable steps by Iran (or Israel), so that negotiations are given time to work.
- President Obama will maintain a drone-dependent hard-line posture focused on decapitating and disrupting terrorist networks in the region.
- Peace efforts between Israel and Palestine will remain a function of the attention given to them by external powers: when ignored, violence will draw in the United States and Europe, as predictably happened in the 2012 Israel–Gaza conflict. As long as the regional actors (Israeli Prime Minister Netanyahu and Hamas and the Palestinian Authority leadership) are unwilling to engage, it is unlikely that the US government will deploy significant resources to bring them together.
- The turmoil in Syria and elsewhere in the region, particularly in fragile new democracies such as Egypt, Libya and Tunisia, will remain the higher priorities higher priorities for the United States, albeit the responses will still be ad hoc.

India

- The US–Indian relationship will remain important for the United States, both bilaterally and significantly as part of the rebalancing to Asia.
- However, in President Obama's second term the relationship is likely to be characterized by some disappointment on both sides: from the Indian perspective this will result from the American drawdown in Afghanistan, and on the US side from slow progress on India's opening up commercially.
- In terms of the strategic relationship, both sides will continue to improve links at all levels. These closer ties will have broadly positive repercussions for both Asia and the West by adding another stabilizing layer to the regional network.

Afghanistan and Pakistan

- Until mid-2014, the US focus in Afghanistan will be in negotiating a Status of Forces Agreement (SOFA) for remaining US forces post-2014, training Afghan forces and preparing for the May 2014 elections.
- While the military drawdown will continue to accelerate in 2013, American engagement in the region will undergo a step change at the end of 2014 when (excepting trainers) the final US and ISAF forces leave Afghanistan.
- Continued close engagement with Pakistan and Afghanistan depends very largely on political progress in both countries, in particular in their respective elections in May 2013 and May 2014. Without a credible process and result accepted by most of their populations, US engagement and investment in the region are likely to fall precipitously.
- The major regional repercussions post-2014 of the NATO and US drawdown are likely to be the stronger engagement in Afghanistan of neighbours such as India, Iran, Pakistan and China.

Russia

- The Obama administration's first-term reset policy is challenged by the absence of domestic support in both the United States and Russia. Conditions favouring the reset – related to Afghanistan and Iran – are changing, losing some relevance or becoming sources of discord. Growing Russian repressiveness also undermines support for the policy.
- Washington and Moscow hold divergent views about the scope of the relationship. Continuing, if not growing, discord over the regional security agenda in the Middle East and Eurasia inhibits further progress on the reset policy. And the reset neglects the East Asian security agenda (an area Russia would like to engage but in which the US has no interest), making it less relevant than it was when first announced.

Europe

- During President Obama's first term, the US and Europe were unable to convert their high levels of consultation and coordination into common transatlantic approaches and agreements to many of the key issues on the global agenda, including the Middle East peace process, climate change negotiations and the World Trade Organization's Doha Round. Areas where common approaches have been achieved, such as on Iran and Syria, have yet to yield results.
- In President Obama's second term, both the US and Europe will need to be selective in defining their priorities for a transatlantic global agenda. There are limits to transatlantic cooperation and influence on geo-strategic developments such as dealing with the rise of China in East Asia or with a more assertive Russia in its neighbourhood.
- In contrast, the US and Europe could make real progress over the next four years in the area of geo-economics by creating a new framework to reduce the many non-tariff barriers to increased levels of transatlantic trade and investment. An agreement in this area would help stimulate growth on both sides of the Atlantic, and give the US and Europe a strong platform from which to promote a transparent and rules-based approach to the process of economic integration that is linking emerging and developed economies ever more closely together. If Europe and America cannot offer leadership on this front now, the opportunity for them to do so will soon disappear.

Conclusion

The majority of today's global challenges cannot be addressed by one actor alone. However, the United States is most often a necessary (if not sufficient) contributor. Understanding its interests and capabilities and the restrictions under which it acts towards these challenges are often vital to making progress. In many cases, if not all, advances are going to require other states – both allies and at times potential opponents – to work together.

In illuminating the likely policy choices, opportunities and constraints under which President Obama will act, this report hopes to enhance transparency and provide an initial platform that will enable other actors – both government and non-state – to consider their policy choices, and where and how they can best engage their capabilities with the US to effect change.

1 Introduction

Xenia Dormandy

In many respects President Barack Obama's re-election suggests that the world will see continuity in US foreign policy in the coming four years. But the environment in which he creates his policy has changed and this will present both opportunities and challenges. It is important to look at this broader context, both within the country and beyond its borders, to understand the direction that the United States is likely to take. This report focuses on some of the most important foreign policy issues in the United States and, more broadly, lays out the anticipated path of President Obama's second term.

The domestic context

Politics and Congress

The 2012 election results were more in President Obama's favour than most had anticipated; he won 332 Electoral College votes to Governor Mitt Romney's 202. Obama also won the popular vote by approximately two percentage points. In Congress, the Democrats held on to the Senate, adding two seats (assuming, as is likely, that the independents caucus with them). While they failed to regain control of the House, they did gain two seats, much to the surprise of many.

There are some early indications, such as with respect to the recent 'fiscal cliff' negotiations,¹ that President Obama sees the election results as giving him a new and stronger mandate, one that he and his team are willing to use. While he has avoided making any strong statements about this – unlike President George W. Bush's remark after the 2004 election, 'I earned ... political capital, and now I intend to spend it' – the administration has started its second term with a sense of renewed power and influence, and thus less of an apparent willingness to compromise.²

Meanwhile, the Republicans are experiencing the finger-pointing that comes with a surprisingly clear loss. The party is being pulled in two directions, between those who feel that Governor Romney was too centrist and that the party needs to move to the right, and others who believe the opposite. There are many within the party, particularly at the more conservative end, whose response to the results is to push their leaders to be firmer and, like the Democrats, to compromise less.

These divisions between the three groups currently struggling to move policy forward– the Democrats, the moderate Republicans and the more conservative Republicans – are likely to lead to increased confusion and uncertainty as each group feels out its new position and influence.

1 These negotiations are the nexus of the sequestration that was enacted in late 2011 and the expiry of the Bush tax cuts. See note 7.

2 *The Guardian*, 'Full Text: George Bush's Victory Speech', 4 November 2004, <http://www.guardian.co.uk/world/2004/nov/04/uselections2004.usa17>.

Each is manoeuvring to get the upper hand as the situation develops. In particular, a decision will need to be made by the moderate Republicans as to whether and when they will move left to partner with the Democrats and when to the right to retain their natural allegiance with the conservative Republicans. Doing the former could lead to political suicide in the 2014 mid-term elections. Thus the current high level of partisanship is unlikely to diminish.³

This dynamic will play out most clearly in the House, given that it is controlled by the Republicans. Currently, despite a couple of notable losses, there is a robust Tea Party group among House Republicans that is putting pressure not just on President Obama but on the party leadership and Speaker John Boehner. As has happened over the last two years, the House will prove the strongest brake on Obama's policy-making, and is likely to use all means at its disposal to limit activities of which most Republican members disapprove, such as continued development assistance to countries perceived as acting contrary to US interests (e.g. Iraq, Pakistan and Egypt) or any significant cuts in the defence budget. Congress is also likely to play a significant role, either formally or informally, in any future military action in Syria.

Meanwhile the Democrat-controlled Senate is likely to be less intrusive and restrictive for Obama. In the immediate term, however, it will limit his ability to confirm his Cabinet, as shown in the heated controversy over Susan Rice's proposed nomination as secretary of state.

The elections have also led to changes in the leadership of a number of the principal congressional committees overseeing foreign and security policy, and to the loss of senior members of Congress with strong backgrounds in these areas, such as Senator Richard Lugar. This is likely to have an impact on the interests and scope of these committees – if only to make them less predictable. For example, if Senator John Kerry is confirmed as secretary of state, his replacement as chair of the Senate Committee on Foreign Relations will probably be Robert Menendez, the junior senator from New Jersey. Menendez has been known to break from the Democratic Party line on foreign policy, most recently introducing a bill expanding current Iran sanctions, against White House wishes.

The Cabinet

It is likely that, as in his first term, Obama will want to keep foreign policy leadership in the White House and more specifically in his own hands. While the Cabinet will clearly influence his decisions, broader strategy will remain with the president, with the different departments taking the lead only on implementation. Thus the Cabinet is perhaps less important than it was for the Bush and some other prior administrations. Long-time and close advisers such as Vice-President Joe Biden, Ambassador to the UN Susan Rice and National Security Staff Senior Director Samantha Power, regardless of any new positions they might take, will retain the greatest influence. This will be particularly true in the early period as new actors consolidate their positions and build their own relationships with the president.

If the current nominated candidates for secretary of state, secretary of defense and director of the CIA are confirmed, this will reinforce some of the recent trends in US policy-making under president Obama. Senator Kerry (nominated for secretary of state) has built a strong relationship with the president, as has John Brennan (nominated to head the CIA) who worked for him during the transition in 2008 and has been his Deputy National Security Advisor for Homeland Security

³ While partisanship will certainly be a factor in foreign policy-making, generally this is less pervasive than on domestic policy issues; hence the dysfunctionality that often characterizes the US political system is somewhat tempered in the foreign policy space.

and Counterterrorism and Assistant to the President for the past four years. Senator Kerry has had a strong focus in recent years on Afghanistan and Pakistan and in supporting the role of developmental and diplomatic tools to work alongside military ones, in line with Secretary of State Hillary Clinton's civilian surge. His good relationships on both sides of the aisle in the Senate could help him bridge the current partisan divide. With 25 years in the CIA, Brennan could return the institution to prioritizing its traditional intelligence mandate; on the other hand he has been a strong proponent of the value of drones under specific guidelines. Former Senator Chuck Hagel (Republican), nominated for secretary of defense, also comes with strong relationships on both sides of the aisle, but also with a reputation for supporting the more limited use of the military than many others (particularly in his party).

Second-term constraints

Second-term presidents have the freedom to implement policy without concern for future electoral prospects. As Obama will not run again, and Vice-President Biden is unlikely to run for president himself, they are likely to feel significantly more freedom in pursuing policies that might antagonize the Democratic base, in particular on the issues of Israel/Palestine and trade. This flexibility will become constrained, however, as the term progresses: the administration will not want to cause potential problems for the new Democratic presidential contender and others running for Congress.

The president is also considered a 'lame duck' in his last two years, even in the eyes of his own party. Democratic members of Congress are less likely to go out on a limb for him, use political capital or cast votes that might antagonize their constituents. The president will find it much harder to get controversial policies through Congress after the 2014 mid-term elections.

The public

The US public generally has relatively little influence on foreign policy except in elections.⁴ As such, it is not a significant restricting factor on US policy. However, there is currently one major exception. Americans are tired of war; according to polls conducted in October 2012, 60% want a withdrawal from Afghanistan 'as soon as possible'.⁵ It will be extremely hard for Obama to increase troop levels in Afghanistan again, much less to order any new deployments elsewhere (e.g. in Syria) even if faced by a worsening security situation.

Austerity

A major domestic constraint on President Obama's foreign policy in his second term will be the continued economic situation in the United States and globally. Cuts to the defence budget of \$487 billion over 10 years have already been agreed.⁶ Regardless of whether sequestration happens or not,⁷ it is likely that additional cuts will be made. While some will be realized as America withdraws from Afghanistan, they are still likely to have a broader impact on the military's reach

4 Even during elections foreign policy typically plays a very small role in the voting patterns of Americans. However, the Jewish, Cuban, Indian or Armenian lobbies, among others, are able to maintain on-going influence on their issues.

5 This is also true of the Senate. On 29 November 2012, the Senate voted 62:33 for a quicker withdrawal from Afghanistan than President Obama was intending. Polling statistics from Pew Research Center, 'On Eve of Foreign Debate, Growing Pessimism about Arab Spring Aftermath', 18 October 2012, <http://www.people-press.org/files/legacy-pdf/10-18-12%20Foreign%20Policy%20release.pdf>.

6 Babb, M. C., 'Panetta Presents \$614 Billion Defense Budget Request to Congress', US Embassy IIP Digital, 14 February 2012, <http://iipdigital.usembassy.gov/st/english/article/2012/02/20120214171301eizneqcam0.8771631.html#axzz2EBwbKXj7>.

7 Sequestration is the agreement made in the Budget Control Act of 2011 between the Republican and Democratic parties that mandated deficit reduction measures in return for an increase of the debt ceiling. The form of the deficit reduction measures would be decided by a bipartisan 'Super Committee', and if agreement could not be reached by the 31 December 2012 deadline, deep budget cuts would automatically be triggered. This deadline has now been pushed back some months.

and desire to engage in operations not perceived as vital to American interests. At the same time, the administration will struggle to maintain foreign assistance budgets; there will be strong pressure in Congress to focus attention and resources on the domestic economy ('nation-building at home').

Energy self-sufficiency

Despite the hype, energy self-sufficiency for the United States will not materialize in the near future. That said, the rapid increase in domestic gas and oil production as well as improvements in efficiency standards are significantly reducing US import dependence on the Middle East. These changes, in turn, are reshaping American attitudes towards countries perceived to have leverage over the United States (such as Saudi Arabia). At the same time, the expectation of the country becoming self-sufficient in energy may trigger shifts in the negotiating position of the oil-producing states *vis-à-vis* the United States. So while it will continue to rely on oil imports over the next four years, the perception of future self-sufficiency (and therefore shifting foreign policy priorities) could open up policy options for the United States in the Middle East.

The international context

Second-term constraints

As noted above, the fact that Obama is in his final term will also play out internationally, particularly as the term comes to a close. Other governments may decide to wait out the president on controversial or tough issues, hoping his successor will be more amenable to their own interests. Thus in difficult negotiations (such as with North Korea), and in the absence of 'black swan' events requiring an immediate global or US response, a slow-down in foreign policy activity should be anticipated towards the end of Obama's term.

Austerity

Austerity will also be a major theme internationally as America looks for partners in implementing its foreign policy. Already, many of its European partners in NATO have made and will continue to make major cuts in their defence capabilities that will restrict their capacity to act together in a NATO framework, or in other contexts. Like the United States, they too are under domestic political pressure to restrict their international engagement. In the case of foreign assistance, however, it appears that European partners such as the United Kingdom find it easier to maintain levels of development aid than the United States.

Perceptions

A factor that always plays a significant role in the ability of the United States (or any other state) to implement and achieve its foreign policy goals is how they are perceived internationally. In 2009, a median of 71% of poll respondents across 21 countries expressed confidence in the newly inaugurated American president.⁸ Majorities expressed favourable views of the United States in two-thirds of countries surveyed, and 20 of 25 countries showed majorities supporting his policies.⁹ Much of this approval can be interpreted as a vote against President Bush and his more assertive and unilateral America. With the election of Obama many, particularly

8 Pew Research Center, 'Global Attitudes, 2009', 23 July 2009, <http://www.pewglobal.org/2009/07/23/confidence-in-obama-lifts-us-image-around-the-world/>.

9 Ibid.

in Europe, anticipated a gentler, less aggressive America. However, over the past four years, his support has diminished as many have felt disappointed, particularly in the Middle East. Favourable views of the United States have dropped to 60% in Europe and as low as 15% in parts of the Middle East.¹⁰

President Obama starts his second term with an international image that is much closer to reality; attitudes are more reflective of where US policy is likely to be. Expectations are lower than they were four years ago and this may provide Obama with the space to meet or even surpass them. He has an opportunity in his second term to use the image he has built of a more collaborative America. And this softer, less assertive America is more likely to be able to bring on board allies and friends in joint operations (this could be particularly noticeable in Asia where the less aggressive US posture is in stark contrast to China's). However, the United States is likely to lose support fast if it is seen to return to a more assertive or militaristic posture.

US credibility will quickly dissipate if the administration's rhetoric and action are not aligned. This perception is strongest in the Middle East. Obama's Cairo speech in June 2009 was hailed as a harbinger of a transformation of American policy in the region.¹¹ However, few there have since felt that it was subsequently acted upon. Obama will have to work against the perception that his words are not followed by deeds.

The policies of America's interlocutors

Regardless of President Obama's policies, he does require interlocutors who are willing to negotiate with him. Yet these may not be forthcoming on some key issues. For example, Iran has shown no interest in responding to Obama's call in January 2009 for an 'unclenched fist'; in fact, the administration's outstretched hand was rejected by Iran's rulers. This rejection did succeed in bringing together the international community to impose stronger sanctions against Iran, but it did not bring Iran to the negotiating table.

There is reason to believe that President Obama might continue to meet with intransigence from a number of countries including Russia (whose veto power on the UN Security Council is vital), North Korea and, again, Iran. A similar situation is also likely to develop with regard to the Middle East peace process and the apparent lack of desire of Israelis and Palestinians to negotiate. However much President Obama might wish for a settlement, there can be no peace process if the two other parties do not engage.

Black swans

Obama's first term saw a massive strategic surprise in the form of the Arab revolutions, which required the rewriting of America's Middle East policy. Equally, shale gas exploration opened up new opportunities for energy generation. It is likely that the next four years will see similar 'black swan' events requiring a reactive rather than a strategic foreign policy. However, what does remain in Obama's control (conditional on many of the factors listed above) is his ability to ensure the US government is adequately prepared to respond and capable of bringing its assets to bear as needed.

10 Pew Research Center, 'Global Opinion of Obama Slips, International Policies Faulted', 13 June 2012, <http://www.pewglobal.org/2012/06/13/global-opinion-of-obama-slips-international-policies-faulted/>.

11 The White House, 'Remarks by the President on a New Beginning', 4 June 2009, <http://www.whitehouse.gov/the-press-office/remarks-president-cairo-university-6-04-09>.

Conclusion

The above factors will restrict President Obama and his administration as it tries to implement its policies. However, they also could provide opportunities. Austerity could push nations into closer alliances. New revolutions could fundamentally change the dynamics and negotiating players in a region. Perceived energy self-sufficiency could provide additional flexibility in Middle East policy. In considering specific policy issues such as those laid out in this report, it is worth remembering the impact that these externalities might have on Obama's policies and ability to succeed – and, in particular, whether they might steer these policies in a new direction.

2 The Economy

Bruce Stokes

Introduction

In 1992, Bill Clinton, the governor of a small southern state, won the presidency largely on the strength of a simple campaign message: 'It's the economy, stupid!' That mantra, crafted by Clinton's political Svengali, James Carville, encapsulated the concerns of an American electorate still struggling to recover from the 1990–91 recession.

In 2012, another election year, the American economy was again returning from recession, this time from a downturn that was far deeper and far more prolonged than two decades ago, with a recovery that has been less robust. The electorate sent a clear message: 'It's the economy *again*, stupid!', only this time with greater justification.

Public opinion surveys show that the economy was the foremost concern on voters' minds when they entered the polling booth on election day. In the subsequent drama on Capitol Hill over deficit reduction and tax increases, in which Congress narrowly avoided driving the United States over the 'fiscal cliff', the government merely postponed all the hard choices about how much to cut defence and social welfare spending until later in 2013. Given the continued uncertainty in the trajectory of the US economy, how Congress and President Barack Obama resolve the debt issue without impairing US economic performance will be among the greatest policy challenges and priorities of the new administration. Recent history suggests that the choices Washington makes will have implications not just for the future economic health of the United States, but also for the trajectory of the global economy.

Background

The US economy is still struggling to recover from the Great Recession. The real gross domestic product (GDP) grew 2.7% in the third quarter of 2012 and the unemployment rate was 7.7% in November 2012, compared with 10% in November 2009.¹² The budget deficit was 7.3% of GDP, down from 10.1% in 2009 (but still well above the 3% level that is the aim of governments in the euro area). The trade deficit was \$376 billion in the first six months of 2012, up 20% from the same period in 2010. Inflation was 1.8% in the 12 months to the end of November 2012. The federal debt held by the public is expected to be 72.8% of GDP in 2012, up from 36.3% in 2007, before the financial crisis began.¹³

12 Bureau of Economic Analysis, 'National Income and Product Accounts Gross Domestic Product: Third Quarter 2012 (third estimate); Corporate Profits: Third Quarter 2012 (revised estimate)'; <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>; Bureau of Labor Statistics, 'The Employment Situation, November 2012'; <http://www.bls.gov/news.release/empsit.nr0.htm>.

13 Congressional Budget Office, 'An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022'; <http://www.bls.gov/news.release/pdf/cpi.pdf>; http://www.cbo.gov/sites/default/files/cbofiles/attachments/08-22-2012-Update_to_Outlook.pdf.

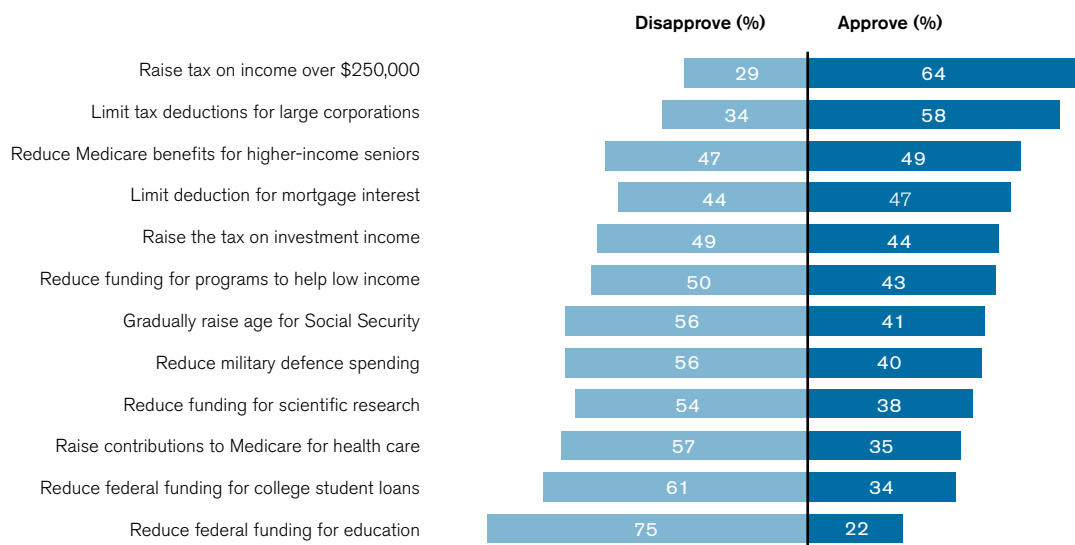
In the run-up to the election, only 30% of Americans said they were satisfied with the way things were going in the country.¹⁴ Most gave as the reason the economy, which was clearly the number one public concern on election day. Voters said jobs were the biggest problem facing people like them. And there is every reason to believe this remains the public's top interest at the start of Obama's second term.

In this regard, Americans are not unlike Europeans in their concerns. A median of 82% of Americans and 88% of Europeans say that a lack of jobs poses a major threat to the economic well-being of their country, according to the Pew Research Center's 2012 *Global Attitudes* survey.¹⁵ A median of 81% of the public in European countries also regard the size of the national debt as a major threat; 71% of Americans share that view.

But the national debt is far more of a partisan issue in the United States, where 59% of liberals rank it as a major threat to the economy, compared with 79% of conservatives. In Europe the left-right divide is just five percentage points in Germany, four in France and three in Britain.

The American people are conflicted about what they want their president to do about these concerns. As Andrew Kohut, president of the Pew Research Center, has written, 'In my years of polling, there has never been an issue such as the deficit on which there has been such a consensus among the public about its importance – and such a lack of agreement about acceptable solutions.'¹⁶

Figure 1: Majorities oppose cuts in spending for education, science, defence



Sources: Pew Research Center, 4–7 October, 2012. Based on general public.

14 Gallup, 'U.S. Satisfaction Slips Slightly to 20%', 13 June 2012, <http://www.gallup.com/poll/155162/Satisfaction-Slips-Slightly.aspx>.

15 Pew Global Attitudes Project, 'European Unity on the Rocks', 29 May 2012, <http://www.pewglobal.org/2012/05/29/european-unity-on-the-rocks/>.

16 Andrew Kohut, 'Debt and Deficit: A Public Opinion Dilemma', 14 June 2012, Pew Research Center for the People & the Press, <http://www.people-press.org/2012/06/14/debt-and-deficit-a-public-opinion-dilemma/>.

There is strong public resistance to any cuts in government-funded entitlement programmes – such as Social Security or Medicare, respectively the national pension scheme and health insurance for the elderly – in order to reduce the deficit. A majority (56%) of Americans oppose raising the age at which people qualify for Social Security and 57% are against increased taxpayer contributions to Medicare (see Figure 1); and 51% of Americans say that maintaining benefits as they are trumps deficit reduction.¹⁷

The public does support a combination of budget cuts and tax increases, especially for the wealthy. Nearly two-thirds (64%) approve of raising income taxes on people making more than \$250,000 a year. And by a ratio of two to one (44% to 22%), Americans say that raising taxes on such incomes would help the economy rather than hurt it.¹⁸ Moreover, 56% opposed cutting the defence budget.

Thus newly re-elected President Barack Obama faces a serious conundrum in 2013. The American people want the economy fixed but they are resistant to, or at best divided on, the sacrifices required to achieve a solution. The presidential election, in part, turned on how voters assessed the future implications of each candidate's economic platform. The American people endorsed President Obama's plans. But now he has to implement them.

The last-minute political theatre in Washington over the 'fiscal cliff' as 2012 ended underscored the challenges he faces. In August 2011, Congress and the White House agreed to raise the permissible amount of government debt, on the condition that if a long-term deficit reduction deal could not be reached by 1 January 2013 automatic spending cuts and tax increases would take effect. These would have included dramatic cuts in defence and social welfare spending, and a return to the higher across-the-board tax rates that existed in the Clinton administration. By the end of December 2012 no comprehensive agreement had been reached. Facing a prediction by the non-partisan Congressional Budget Office that removing a large amount of money from the economy overnight would be likely to throw the United States into recession, Congress and the White House blinked. A minimalist agreement was reached that raised some taxes and did little to cut spending. The two sides agreed to resume their fiscal battle in late February and early March 2013, kicking the can down the road in a performance reminiscent of recent indecisive European Union summits on the euro crisis.

Obama's second-term policy

President Obama's annual budget proposals for 2013 reveal his economic plans with some specificity. They include increasing government outlays by 19% to the end of 2017, the year after he leaves office.¹⁹ He argues that more government spending is needed to create jobs. And the American public agrees. In a recent survey, roughly half (51%) of voters said the best way to create jobs was to spend money on projects such as roads, bridges and technology development. Only 37% said the best way to boost employment was by cutting taxes.²⁰

17 Pew Research Center for the People & the Press, 'Medicare Voucher Plan Remains Unpopular', 21 August 2012, <http://www.people-press.org/2012/08/21/medicare-voucher-plan-remains-unpopular/>.

18 Pew Research Center for the People & the Press, 'Raising Taxes on Rich Seen as Good for Economy, Fairness', 16 July 2012, <http://www.people-press.org/2012/07/16/raising-taxes-on-rich-seen-as-good-for-economy-fairness/>.

19 Office of Management and Budget, Historical Tables, <http://www.whitehouse.gov/omb/budget/Historicals>.

20 Washington Post-ABC News Poll, http://www.washingtonpost.com/wp-srv/politics/polls/postabcpoll_20120825.html.

Obama's budgetary policies would result in a larger role for government in the economy. The White House estimates that government spending will account for roughly 24% of GDP in 2013, and his relatively stronger support for a social safety net reflects a belief that the state has a role safeguarding those in need.

At the same time, President Obama has said he wants to cut defence spending from 4.6% of GDP to 2.9% by 2017, and cut the federal budget deficit from 8.5% in 2012 to 3% by 2017. Whether he can achieve these goals – cut overall expenditures while preserving the social safety net – will be put to the test in the first few months of 2013, as Congress and the White House continue to wrestle with a permanent deficit reduction deal.

The agreement reached at the end of 2012 raised a small amount of revenue but put off automatic cuts in military spending and entitlement programmes for two months in the hope that a long-term agreement can be reached. It is debatable whether the willingness of both sides to compromise will be any stronger at the end of February than it was in December. Moreover, at the same time Congress must vote to raise the ceiling on federal government borrowing. If Congress fails to approve more borrowing, the US government would begin to default on its debt, with potentially catastrophic implications for global financial markets. While that prospect is so dire that it seems inconceivable that Washington would let it happen, policy mistakes can happen when both sides in a negotiation are waiting for the other to blink first. Moreover, even if Congress and the White House strike another deal to delay making hard fiscal decisions, this effectively means serious deficit reduction has been postponed. And the ensuing policy uncertainty may take its own toll on investor confidence in America's economic recovery and in the ability of the US government to make tough decisions.

On trade issues, President Obama has pledged to complete the Trans-Pacific Partnership (TPP), a free trade agreement with at least nine Pacific Rim nations, and will soon decide on whether to pursue a free trade agreement with Europe.²¹ Even if he decides to do the latter, it is likely that this will take a secondary position to the Asia deal. He has also promised to increase trade enforcement activities against allegedly unfair foreign trade practices, especially with regard to China (See also Chapter 3 on trade and Chapter 7 on China).

The largest constraint to Obama implementing his economic policy will be Congress, and in particular the Republican-held House. Whether House Speaker John Boehner is able to bring his party over to compromise with the Democrats or whether the far-right Tea Party members retain their leverage and pull the Republican party right will be the biggest question regarding Obama's ability to implement his policy. Early polling of party stalwarts is not encouraging. In a post-election Pew survey, 54% of Democratic voters said they wanted the president to cooperate with the Republican leadership in Congress. But 50% of Republican voters said they wanted their leaders in Congress to stand up to Obama. Subsequent polling by NBC News and the *Wall Street Journal* found a bit more support for compromise, but with Republicans still less interested in bipartisanship than Democrats. Such divided government will complicate Obama's efforts to gain congressional approval of his economic plans.

21 See Joseph K. Hurd III, 'US Election Note: International Trade Policy after 2012', June 2012, http://www.chathamhouse.org/sites/default/files/public/Research/Americas/0612usen_trade.pdf.

International implications

The relevance of the economic choices confronting American voters to those outside could not be greater. As the world's largest economy, despite all its troubles, the United States remains the principal engine of global growth. It is the world's largest international investor and, according to the World Trade Organization, is also the number one importer of both merchandise and commercial services.²² Any slowing or acceleration of the US economy, in the short and long term, in response to the Obama administration's second-term budget, tax and trade policies, will ripple through the world economy.

Stripped of the details and value judgments about their efficacy, Obama's plans for the US economy are, at heart, a statement about the role of government in the market and about the timing and degree of fiscal belt-tightening and other economic decisions that will have important international implications.

There is greater support in Europe than in America for a strong state role in the economy. Two-thirds of the Spanish, 64% of the French, 62% of the Germans and 55% of the British say that it is more important for the state to guarantee that no one is in need than it is for individuals to have the freedom to pursue their goals in life without state interference. Moreover, Europeans are less sure that they are masters of their own fate. Fully 72% of Germans, 57% of the French and 50% of the Spanish say that success in life is determined by forces outside their control. Only the British (55%) share the faith of Americans in individualism.²³

Obama's second term, with its acceptance of a relatively larger role for government in the economy and its greater commitment to a social safety net, will be largely in tune with the views of much of the public in other countries, especially in Europe. This may help staunch the political move toward the erosion of the social safety net throughout the industrial world, an initiative that first gained momentum under the conservative presidency of Ronald Reagan and prime ministership of Margaret Thatcher and that has been accelerated in the last few years by austerity measures in response to the economic slowdown. But the fundamental difference in worldview between Americans and many others cannot be discounted: Americans are more individualistic, more sceptical of government and more supportive of capitalism.

Nevertheless, on fiscal policy issues there are both differences and some similarities in attitudes between the American people and public opinion around the world. Obama's approach to government spending is driven by a belief in the efficacy of public outlays as a means of priming the economic pump. His budgets are intended to ease the reduction of government spending. In that, Obama could find support abroad. In 2012, the French elected a socialist president and government on a platform that was sceptical of the economic payoff from austerity. And polling suggests that if an election were held any time soon in the United Kingdom, the Labour Party would win on an anti-austerity platform.²⁴

Future US spending plans go hand in glove with future US tax policy, which will have an impact on other countries given the growing competition in tax regimes among major economies. The last-minute 'fiscal cliff' deal raised taxes on households making more than

22 World Trade Organization, 'International Trade Statistics 2011', http://www.wto.org/english/res_e/statis_e/its2011_e/its11_world_trade_dev_e.htm.

23 Pew Global Attitudes Project, 'The American-Western European Values Gap'.

24 YouGov/*The Sunday Times*, 24 August 2012.

\$450,000 a year, fulfilling an Obama campaign pledge to increase taxation of the wealthy. But the new rate of 39.6% is no higher than that faced by Americans in the Clinton era, so it is unlikely to significantly impair incentives for work and innovation among the wealthy. In an effort to boost US tax competitiveness, Obama has also proposed reducing the current 35% US corporate tax rate to 28%, which would still leave the country with a rate above the OECD average of 23%.²⁵

There is some support abroad for Obama's view that the rich should bear more of the tax burden. A recent survey found that 73% of the French public say they would back a 75% marginal tax rate for people making more than one million euros per year.²⁶ However, 68% of the French said they wanted budget rebalancing to come from cutting government spending and reducing public services; only 2% backed increasing taxes, while just 20% wanted a mix of the two. (Of course, the highest marginal tax rate in France is already 40%.) Similarly, 62% said that taxes should be raised on the wealthiest people in the United Kingdom.²⁷ At the same time, 47% of respondents in a January poll in the United Kingdom said the government should cut taxes to encourage growth; only 11% backed increasing taxes to help reduce the deficit.

How foreigners judge the American president's decisions on taxing and spending may depend on their implications for the US budget deficit and government debt. The public holdings of the latter are of particular interest to the rest of the world, because financing a larger debt is likely to drain much-needed capital from other economies to reduce the American imbalance. It could also slow American and thus world growth, and it might heighten the risk of renewed financial turmoil internationally.

The 2013 Obama budget proposal claims that the deficit will fall to 3% by 2017, compared with 8.6% in 2011. Such deficits add to the government debt. The Congressional Budget Office foresees government debt climbing to 89.7% of GDP by 2022 under current policies.²⁸ The Obama budget forecasts a debt-to-GDP ratio of 77.1% by 2017.²⁹

Beyond budgetary and debt policy, the future trade policy of the United States, the world's largest importer and second largest exporter, will also have international economic implications. Obama has promised to increase trade, while being tough on countries – especially China – that allegedly practise unfair trade. While 67% of Americans say that international trade and business ties are good for the US economy, this was the lowest level of support among 21 countries Pew surveyed in 2011. By comparison, 95% of the Germans, 89% of the Chinese, 87% of the British, 83% of the French and 82% of the Indians see international commerce in a favourable light.³⁰ In addition, surveys show that Americans believe trade kills jobs and undermines wages, and are not convinced it lowers prices. This lack of public faith in trade may mean that Obama could receive only tepid public support for his trade promotion intentions in Europe and Asia.

25 The White House, 'Remarks by the President on Extending Tax Cuts for Middle-Class Families', 9 July 2012, <http://www.whitehouse.gov/the-press-office/2012/07/09/remarks-president-extending-tax-cuts-middle-class-families>.

26 See Sondages en France for more information on these polls, <http://www.sondages-en-france.fr/sondages/Actualite%C3%A9/Imp%C3%B4ts>.

27 YouGov/*Sunday Times* Survey, 26–27 January 2012, http://cdn.yougov.com/cumulus_uploads/document/5bal45p4b2/YG-Archives-Pol-ST-results-27-290112.pdf.

28 Congressional Budget Office, 'An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022', August 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43539-08-22-2012-Update_One-Col.pdf.

29 The White House, 'Summary Tables', <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/tables.pdf>.

30 Pew Global Attitudes Project, 'China Seen Overtaking U.S. as Global Superpower', 13 July 2011, <http://www.pewglobal.org/2011/07/13/chapter-5-economic-issues/>.

With regard to Obama's promises to be tough with China, there may be an even greater disconnect between future US trade policy and attitudes abroad. A majority of Americans see China as an economic threat (59%), as opposed to only 45% of Europeans.³¹ None of this will necessarily translate into protectionist actions by the next administration that could inhibit world economic growth. But it does suggest that Washington's offensive efforts to promote trade may be met with public scepticism, while defensive actions may find public support.

Conclusion

2013 is shaping up as a pivotal year economically for the United States and, by extension for the global economy. The American economic recovery is likely to stagnate or even slow. For the time being government debt levels are economically tolerable. But since they are slated to continue to rise they are politically increasingly intolerable. And the uncertainty created by the on-going fiscal debate in Washington makes investors wary and sustains the ominous possibility that financial markets may one day turn on the American economy. Washington has twice now – in August 2011 and December 2012 – chosen to postpone definitive action on revenues and spending without paying a serious price (the American cost of borrowing on world markets remains very low). It remains to be seen if the Obama administration and Congress can finally make tough fiscal decisions in 2013 or, if not, avoid paying the price.

3 Trade

Joseph K. Hurd III

Introduction

The 2012 presidential election occurred as the US economy emerged from a significant recession. While trade was a small part of the campaign debate, it remains an emotional ‘wedge issue’ for the electorate, as it has been for the last 25 years.³² Having secured re-election, President Barack Obama and his administration will continue to address issues such as free trade agreements (FTAs), trade promotion authority (TPA, also called ‘fast track’ authority), and the trade deficit. Exogenous factors such as the unemployment rate, a divided Congress and the global economic climate will dictate the speed and scope of engagement, and trade is likely to remain a political battleground for the foreseeable future in Obama’s second term.

Background

Since the end of the Second World War, US presidents from both parties have to varying degrees embraced global trade expansion and pushed for lower tariffs, increased trade flows and a multilateral regime based on fairness, transparency and the rule of law. Policy-makers have generally agreed that trade liberalization increased opportunities for US businesses and created jobs.

Beginning with the North American Free Trade Agreement (NAFTA) debate in 1992, popular resistance to globalization coalesced and international trade became a partisan political issue. Opponents, primarily pro-labour supporters from both parties and stakeholders in manufacturing-dependent states, distrust the unregulated nature of trade and the lack of protection for workers. They fear that trade leads to job losses as foreign competition increases and work that was once performed in the United States is outsourced.

Today, trade’s share of American GDP (30%) is the second lowest among major trading nations (only Japan’s is lower), but it has a large impact on the US economy in absolute terms. In 2011, total trade was worth \$4.8 trillion, and exports accounted for over 10 million jobs and \$2.1 trillion of economic output. Many policy-makers believe that the size (\$558 billion) and persistence (over 30 years) of the trade deficit impedes economic growth (tying up in interest payments in money that could be better invested elsewhere). Dependence on creditor nations, particularly China, also creates strategic problems that affect other areas of policy-making.

32 Trade’s ability to arouse electoral passions was particularly evident during the 2012 campaign, as both Barack Obama and Mitt Romney together ran an unprecedented 33 trade-related advertisements in the election cycle, up from nine in 2008 (as reported by Public Citizen). <http://www.citizen.org/pressroom/pressroomredirect.cfm?ID=3755>.

Despite the amount of total trade, public opinion surveys consistently indicate that many Americans believe trade leads to job losses, holds down wages and raises prices (the latter sentiment is directly contrary to what economists contend). There is also concern about the absence overseas of environmental and labour laws that comply with international standards. The pro-labour lobby in Congress has reliably supported economic assistance (known as trade adjustment assistance, or TAA) for displaced US workers and has successfully added clauses addressing environmental and labour concerns to US trade agreements.

In contrast, trade advocates from both parties who support free enterprise and small businesses view trade as a net job creator for US companies. As two-way trade increases, American businesses can expand to new markets, selling more products. Factories will hire more workers to meet increased production, and more small businesses will be created. Displaced workers will retrain and shift into new industries. These supporters argue that concerns about environmental and labour rights protection in foreign countries are best left for their governments to address, not the US Congress.

In the decade after NAFTA's passage in 1993, the United States had FTAs in place with only three countries: Canada, Mexico and Israel. Between 2001 and 2009, President George W. Bush pursued a pro-free trade agenda, negotiating FTAs with 14 countries and increasing total US two-way trade from \$2.5 trillion to \$4 trillion.

Obama's second-term policy

International trade was not a priority of Obama's first term. On the one hand, the president pushed trade liberalization as a vehicle to create jobs, particularly promoting exports through the National Export Initiative (NEI).³³ At the same time, he placated pro-labour advocates by renegotiating the FTAs with South Korea, Colombia and Panama (originally concluded during the Bush administration) to address labour and environmental concerns. The agreements were passed by Congress and signed in October 2011 – along with TAA to help displaced US workers. On the other hand, except for concluding the Bush-initiated FTAs and promoting the Trans-Pacific Partnership (TPP), Obama did not introduce any bilateral or multilateral FTAs of his own initiative, nor did he push for TPA, which would facilitate such moves.

Having won the presidential election, and with an economy that is slowly improving, there is good reason to expect a more aggressive trade policy from Obama during his second term. However, any moves on trade will happen gradually, and will be carefully calibrated to extract maximum concessions from Senate Republicans in a tense political environment, and so as not to offend the labour movement (the turnout from which was key to winning re-election and which is important to the Democrats in general). In terms of timing, the first half of 2013 will be consumed by domestic politics: debates over the 'fiscal cliff' and debt limit increase, followed by long-awaited immigration reform.

In addition, two key trade-related Cabinet positions require Senate confirmation: US Trade Representative and Secretary of Commerce. As long as unemployment remains between 7.5% and 8.5%, significant movement on trade issues by Congress is unlikely until late 2013 or early

33 The National Export Initiative, launched in March 2010, proposes to double exports from \$1.57 trillion in 2009 to \$3.14 trillion in 2014, and create millions of jobs by promoting exports by US companies, particularly small and medium-sized businesses.

2014, whether on TPP, TPA or FTAs with the EU or others. Moreover, any trade discussion will be framed in terms of its job-creating benefits in the United States and market-expanding benefits for US businesses. The president will have to move quickly, before the mid-term elections (including for 33 Senate seats, 20 of which are held by Democratic incumbents) in November 2014.

Free trade agreements

Having successfully passed the Korea, Colombia and Panama FTAs during his first term, with a Senate majority until at least 2015 and the desire to make his own contributions to the trade debate, President Obama is likely to focus more strongly on FTAs during the next four years. Since FTAs with small countries are as politically sensitive to negotiate as those with larger states in the current environment, the administration is likely to spend scarce political capital on large, 'game-changing' FTAs, for example with Russia (a possibility now that Russia has been granted permanent normal trade relations status), rather than, say, Burma (which the president visited in November 2012, in part to open up the market to US investors). An FTA with China or India is also possible, although the EU – the United States' largest bilateral trading partner – is likely to be in primary position.³⁴ With many of Europe's economies on an austerity diet, exports to the United States represent economic growth, and both sides have been working for months on a transatlantic economic agreement that, while falling short of a full-fledged FTA, will be a step in the right direction.

The Trans-Pacific Partnership

Although negotiating bilateral FTAs has been the norm for the past 13 years, the real gains, in terms of total trade, come from multilateral trade agreements. With the current Doha Round of trade negotiations in the World Trade Organization (WTO), all but dead, the focus for now is on the TPP, an Asia-focused trade pact that will be the largest trade agreement since NAFTA if negotiations are concluded, as expected, in late 2013. Mexico, Canada, Japan and Thailand have all expressed interest in being added. Concluding negotiations and securing its passage will be a priority for the United States, given growing inter- and intra-Asian trade and increased concern over China's economic influence in the region. The region-focused, multilateral approach – whether for Asia or the EU – is also broadly consistent with President Obama's worldview and reflects the reality of global supply chains for US manufactured goods. Conveniently, the TPP also provides the administration with another negotiating lever to use with China.

China

With reduced domestic consumption, increased exports and an undervalued currency, the administration will continue to use a carrot-and-stick approach on trade with China. In Obama's first term, the administration deployed a number of sticks (short of labelling China a currency manipulator): additional resources to protect US businesses from unfair trade practices at home and abroad,³⁵ increased anti-dumping and countervailing duty measures against China, and a number of WTO enforcement actions. Maintaining a strong position on trade with China is necessary to address persistent concerns over the \$295 billion trade deficit and secure space to promote other trade proposals, but the administration has a few carrots to hold out as well, namely the prospect of China's participation in the TPP (as long as the country subscribes to the same '21st-century' trade protections for intellectual property and services agreed to by its Asian neighbours).

34 Obama has said he is considering an FTA with the EU and is expected to commit one way or the other in early 2013. Although tariffs on goods traded between the United States and the EU are low (averaging less than 3%), even a relatively small increase in the volume of trade could deliver major economic benefits for both the United States and the EU since the base is so large.

35 Not least through the creation of the Interagency Trade Enforcement Center in February 2012.

Trade promotion authority

At some point, President Obama is likely to press for Congress to restore TPA, which expired in 2007. TPA limits Congress to an up-or-down vote on trade agreements made by the administration. The president's ability to succeed here, and the type of authority (whether open-ended or tied to a specific agreement) will depend almost exclusively on timing: although they are the majority in the Senate, not all Democrats are pro-trade and there are a number of issues requiring legislative wins in the Senate that have a higher priority – at least in the near term.

Trade agencies

Domestically, after naming a new commerce secretary, Obama is also likely to press forward in his effort, initiated in January 2012, to reorganize and consolidate six federal trade agencies into a single department to promote competitiveness, exports and American business.³⁶ Whether Congress, with its committees protective of their turfs, and the US business community, which to some extent appreciates the ability to forum-shop among agencies, will allow him to do this is another question.

The ability of Obama to implement his desired trade policy depends on three principal factors:

The unemployment rate

If the unemployment rate remains high in 2013 (above 8%), the president's ability to focus on trade will be limited, as domestic job creation, economic stimulus and/or deficit reduction measures would consume any available attention.

Congressional control

With a split Congress (Democrats controlling the Senate by 55 seats to 45, Republicans controlling the House 234 seats to 200), automatic passage of Obama's trade agenda is not assured. Even more troubling from this perspective is the influx of 'fair trade' advocates in the Senate, particularly Democrats. According to Public Citizen, winning Senate candidates in five states ran advertisements critical of free trade agreements during an election campaign where jobs and outsourcing were top issues for voters.³⁷ If these five newly elected Senators remain true to their campaign promises, Obama's ability to secure passage of the TPP, TPA or any new FTAs will depend on his ability to horse-trade with members of his own party and his success in selling the job-creating and market-expanding benefits of trade to a sceptical electorate. To optimize his chances for success, he would do well to take a page from the Clinton presidency and use a strategically timed trade overture to reach across the aisle and obtain Republican support in the Senate, thus countering likely opposition from members of his own party (much as he did to secure passage of the Korea, Colombia and Panama FTAs in October 2011).

Macroeconomic factors

The economic health of the eurozone, the state of trade with the EU (the United States' largest trading partner and largest source of foreign direct investment) and economic relations with China will be crucial. If the eurozone crisis continues, the president will probably seek to hedge US businesses' European exposure by promoting trade with Asia, Latin America and Africa. If relations with China become problematic, the administration will have to work hard to find a way to secure specific commitments from it on trade issues beyond WTO tribunals or within the G20.

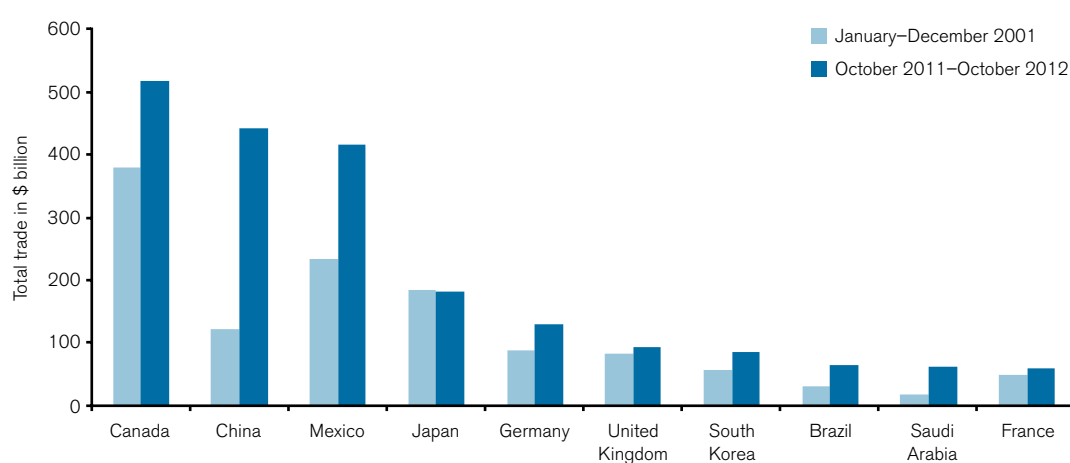
36 The six are the US Department of Commerce's core business and trade functions, the Small Business Administration, the Office of the US Trade Representative, the Export-Import Bank, the Overseas Private Investment Corporation and the US Trade and Development Agency, <http://www.whitehouse.gov/the-press-office/2012/01/13/president-obama-announces-proposal-reform-reorganize-and-consolidate-gov>.

37 Public Citizen, 'Obama, Romney and Congressional Candidates Nationwide Used Trade-Themed Ads to Appeal to U.S. Majority Opposing Trade Status Quo, Reinforcing Public Anger and Building Expectations for Reform', 7 November 2012, <http://citizen.typepad.com/eyesontrade/2012/11/obama-romney-and-congressional-candidates-nationwide-used-trade-themed-ads-to-appeal-to-us-majority-.html>.

International implications

The size and concentration (52% with China) of the US trade deficit have global implications, with a number of possible scenarios. If the president seriously wants to address the deficit, there are relatively few realistic solutions in the short term that do not involve weakening the dollar to make US products more price-competitive internationally (with uncertain and most likely unwelcome consequences), or risking WTO sanction by closing US markets to some imported goods. Aggressive trade enforcement is one way to take action, however. Obama is likely to continue efforts to sanction unfair trade practices and increase resources to prosecute anti-dumping claims.

Figure 2: Top 10 US trading partners, 2001 and 2012



Source: US Census Bureau (<http://www.census.gov/foreign-trade/balance/>).

Whether the administration attempts to change China's trade policy directly (through WTO enforcement actions) or through more subtle pressure (such as the threat of being excluded from the TPP), China will continue to play a significant role in shaping US trade policy for the next four years (the growing importance of Chinese trade is illustrated in Figure 2). Obama is more likely to press his case against China through multilateral arenas such as the G8, the WTO and, if ratified, the TPP instead of taking the more direct step of labelling China a currency manipulator. However, as the largest holder of US debt, China has some negotiating leverage here, which may well be enough to temper either approach. An antagonistic China or a negative US–Chinese trade relationship could have significant implications for the global economy, and particularly for countries in Asia.

Other countries are not waiting for the United States to determine its trade policy for the next four years. With the apparent breakdown of the Doha Round, many have turned to bilateral and regional trade pacts to reduce trade barriers. New trade patterns are emerging, such as Chinese investment in Africa. Although the United States has had some success with Korea, Panama and Colombia, more – and much larger – trade agreements are being negotiated and signed by China, the EU and Japan. At the last count there were over 500 active regional trade agreements worldwide, with countries looking to capitalize on growth in Africa, Latin America, and East and Southeast Asia.³⁸ The United

38 WTO, Regional trade agreements, http://www.wto.org/english/tratop_e/region_e/region_e.htm.

States is party to 20 FTAs, a fact known to Obama and trade sceptics in the United States, which will buttress arguments in favour of FTAs with the EU or Japan. The prospect of having the United States on the sidelines as other countries rush in to new markets and expand trade with each other may be enough for the administration to forge consensus on these and other trade deals that, on their individual merits, might otherwise have prompted prolonged debate.

4 Energy

Josh Freed and Ryan Fitzpatrick

Introduction

In 2008, the price of natural gas in the United States was roughly \$8 per thousand cubic feet (tcf),³⁹ coal was used to generate more than 47% of all electricity,⁴⁰ and there was a consensus among Democrats and Republicans that climate change was real, was caused by humans, and needed to be addressed immediately. It seemed only a matter of time before the country adopted a cap-and-trade system similar to one backed by both parties' presidential nominees.

Four years later, the energy landscape has changed dramatically. Cap-and-trade is on the ash heap of history, and climate change and clean energy have become enormously politicized. The price of natural gas has dropped as low as \$2.25 per tcf thanks to the hydraulic fracturing drilling process (fracking) that has given the United States access to more than 500 trillion cubic feet of natural gas and sent domestic coal use into a precipitous decline.⁴¹ That same fracking technology has led to a domestic oil boom, with imports dropping to 42% of use, the lowest level in two decades.⁴² Clean energy, particularly wind and solar, also saw a boom in the early years of the Obama presidency thanks to the American Recovery and Reinvestment Act (ARRA) of 2009.

The growth in domestic shale oil and gas production seems inevitable. But the broader future of US energy faces much more uncertainty. The differences that remain between the approaches of the two major parties to regulation of energy production and generation, climate change and external competition in the global clean energy race will now play out in Congress. Polling indicated that these issues had little impact on the decisions voters made in the 2012 election.⁴³ But they will certainly have enormous implications for the price and source of the energy Americans consume, the success of various domestic energy industries and the fate of international efforts to stem climate change.

Background

Over the past four years, energy issues have been hotly debated in Congress. But with the economy struggling to recover from the recession, few voters placed much importance on

39 US Department of Energy, Energy Information Administration, 'U.S. Natural Gas Wellhead Price (Dollars per Thousand Cubic Feet); Graphic (annual), 31 August 2012, <http://www.eia.gov/dnav/ng/hist/n9190us3A.htm>.

40 Institute for Energy Research, 'Electricity Generation: Coal's Share Down in 2009, Lowest Since 1978', 21 July 2010, <http://www.instituteforenergyresearch.org/2010/07/21/electricity-generation-coals-share-down-in-2009-lowest-since-1978/>.

41 US Department of Energy, Energy Information Administration, 'U.S. Natural Gas Wellhead Price (Dollars per Thousand Cubic Feet); Graphic (monthly), 31 August 2012, <http://www.eia.gov/dnav/ng/hist/n9190us3m.htm>.

42 Kasia Klimasinska, 'U.S. Oil Imports to Seen Hitting 20-Year Low 42% of Use', Bloomberg, 23 August 2012, <http://www.bloomberg.com/news/2012-08-23/u-s-oil-imports-to-seen-hitting-20-year-low-42-of-use.html>.

43 Pew Research Center, 'For Voters It's Still the Economy: Energy, Terrorism, Immigration Less Important Than in 2008', chart, 24 September 2012, <http://www.people-press.org/2012/09/24/for-voters-its-still-the-economy/>.

such issues as addressing climate change or developing renewable energy. Despite the lack of attention from the general public, however, an energy transformation has taken place within the country.

In 2008, both major parties' presidential nominees supported the concept of an economy-wide cap-and-trade system to reduce carbon emissions. In 2009, as cap-and-trade passed the Democratic-controlled House, an economy-wide plan seemed likely to get enacted into law and transform the energy sector. Cap-and-trade, however, died in the Senate under the weight of its own complexity and Republican attacks claiming that it was little more than a massive energy tax that would hurt voters already struggling from the recession.

The failure of cap-and-trade left climate advocates with few other arrows in their quiver. Climate change and energy policy became deeply politicized, with belief in man-made climate change far lower among Republicans (28%) than Democrats (57%).⁴⁴ Many Republican elected officials and voters staunchly opposed any government assistance for greenhouse gas reduction efforts, whether through loan guarantees, grants or tax incentives for renewables.

The politicization of clean energy comes at the end of a period of massive growth in the sector. In his first term, President Barack Obama allocated \$66 billion in stimulus funding to develop and deploy clean energy technologies.⁴⁵ This, coupled with state-level requirements for the use of renewable energy, led to a 110% increase in solar generation and a 117% growth in wind generation in the United States between 2008 and 2011.⁴⁶ The end of ARRA funding and the Republican opposition to the continuation of tax incentives for renewables are likely to result in a significant drop in clean energy growth in 2013, particularly for the wind industry.

Domestic oil and natural gas production also saw a boom over the last four years, thanks to deepwater drilling for oil and hydraulic fracturing. Even the 2010 Macondo well disaster, which killed eleven people and leaked 4.9 million barrels of oil into the Gulf of Mexico, has had little impact on oil production.⁴⁷ Despite a temporary moratorium on deepwater drilling after the disaster, 2011 crude oil production levels in the United States exceeded those of the previous eight years.⁴⁸ This growth in production, along with decreased demand owing to economic conditions and improvements in the fuel efficiency of cars and trucks, has helped the United States come much closer to the elusive, but politically popular, goal of eliminating reliance on foreign oil. Imports fell from 57% of total oil needs in 2008 to only 42% in 2012.⁴⁹ If the trends of increased production and improved vehicle efficiency continue, imports are projected to drop to as little as 36% of total US oil consumption by 2035.⁵⁰

44 Connie Roser-Renouf, Anthony Leiserowitz and Edward Maibach, 'The Political Benefits of Taking a Pro-Climate Stand in 2012', Yale Project on Climate Change Communication and George Mason University Center for Climate Change Communication, 14 April 2012, p. 3, <http://environment.yale.edu/climate/news/Political-Benefits-Pro-Climate-Stand/>.

45 The Pew Charitable Trusts, Pew Environment Group, 'Who's Winning the Clean Energy Race? – 2011 Edition', 2012, p. 30, http://www.pewtrusts.org/uploadedFiles/wwwpewtrusts.org/Reports/Clean_Energy/Clean%20Energy%20Race%20Report%202012.pdf.

46 US Department of Energy, Energy Information Administration, 'Table 1.1.A. Net Generation by Other Renewables: Total (All Sectors), 2002–July 2012', *Electric Power Monthly*, 24 September 2012, http://www.eia.gov/electricity/monthly/epm_table_grapher.cfm?t=epmt_1_01_a.

47 Maureen Hoch, 'New Estimate Puts Gulf Oil Leak at 205 Million Gallons', PBS NewsHour's Rundown Blog, 2 August 2010, <http://www.pbs.org/newshour/rundown/2010/08/new-estimate-puts-oil-leak-at-49-million-barrels.html>.

48 US Department of Energy, Energy Information Administration, 'U.S. Field Production of Crude Oil', 30 August 2012, <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pets&f=a>.

49 US Department of Energy, Energy Information Administration, 'Table 3.3a: Petroleum Trade: Overview', *Monthly Energy Review*, September 2012, p. 41, http://www.eia.gov/totalenergy/data/monthly/pdf/sec3_7.pdf.

50 US Department of Energy, Energy Information Administration, 'Figure 114: Net import share of U.S. petroleum and other liquids consumption in three cases, 1990–2035 (percent)', *Annual Energy Outlook 2012*, p. 96.

Production of natural gas has also soared, sending the price tumbling from \$10.36 per tcf in June 2008 to \$2.54 in June 2012.⁵¹ The low price has driven a massive switch in the electricity sector from coal to natural gas and a revival of domestic manufacturing, particularly in the chemical industry. But natural gas fracking is not without controversy. Some of the local communities where natural gas deposits are being developed in this way have raised concerns about the environmental and public health impacts, leading New York and other states to slow development and even consider banning the process.

The politicization of energy and the rapid changes in the domestic energy landscape make major changes in national energy policy less likely over the next four years. This could be made even more challenging by the federal government's need to bring the mounting debt crisis under control. Future attempts to reduce the budget deficit could eliminate many of the tax incentives that allies of either fossil fuels or renewable and clean energy have used to try to expand their market share through government policy. Congressional action on small and targeted energy initiatives is possible but far from certain. This leaves regulatory policies issued by President Obama as the strongest agent of change at the federal level for at least the next two years. Obama's re-election means the continued development of clean-air regulations, required by law and the Supreme Court. These regulations will almost certainly move the United States further away from coal and towards cleaner forms of energy.

Obama's second-term policy

The regulatory and budget decisions made by President Obama's administration during his first term provide a roadmap for what to expect in the coming four years. Initially, he will focus on increasing domestic production of oil and natural gas outside environmentally sensitive areas such as the Arctic National Wildlife Refuge, making good on his politically popular 'all of the above' energy platform during the election campaign. At the same time, the administration will continue to build a regulatory framework to decarbonize energy and reduce the US contribution to climate change.

The United States will continue to see an increase in oil development from domestic and Canadian deposits over the next four years. The president has publicly supported the concept of the Keystone XL pipeline, and most observers expect that he will approve a route through the United States to the Gulf coast.⁵² Similar growth in production should be anticipated from natural gas. The president has repeatedly highlighted the benefits of shale gas and created a taskforce to streamline drilling regulation.⁵³ It is also expected that the Federal Energy Regulatory Commission will approve at least some applications to build liquefied natural gas export facilities, creating additional demand for domestic production.⁵⁴ It has yet to be seen if and how the president will engage in attempts to export the country's vast coal reserves through its coastal ports.

51 US Department of Energy, 'U.S. Natural Gas Wellhead Price', Graphic (monthly).

52 Brianna Lee, '5 Things You Need to Know About ...The Keystone XL Pipeline', PBS, 7 November 2011, <http://www.pbs.org/wnet/need-to-know/five-things/the-keystone-xl-pipeline/12200/>.

53 The Environmental Protection Agency revised rules to give drillers flexibility in complying with air and water regulations, and the Department of Interior recently issued a proposed rule that gives drillers more latitude in complying with fracking fluid disclosure requirements.

54 Ayesha Rascoe and Emily Stephenson, 'Insight: As Congress looks away, U.S. tiptoes toward exporting a gas bounty', Reuters, 27 June 2012, <http://www.reuters.com/article/2012/06/27/us-usa-Ing-exports-idUSBRE85Q05820120627>.

Obama has made clear his desire to accelerate US efforts to address climate change in his second term.⁵⁵ While an explicit price on carbon is unlikely, there are other methods that can be used, such as the recent finalization of new auto efficiency standards that will jump to 54.5 miles per gallon in 2025.⁵⁶ If a deal on the deficit is reached and an economic recovery is evident, the president may also revisit a national clean energy standard, but it is hard to see this being done early in his second term.⁵⁷

Coal may not fare as well as oil and natural gas over the next four years. While low-priced natural gas and recent anti-pollution regulation are the primary causes of coal's decline, the Environmental Protection Agency (EPA) may accelerate the process by proposing a new rule to regulate greenhouse gas emissions from existing power plants – and potentially from petroleum refineries.⁵⁸ This will make it harder for existing coal plants to operate, furthering the transition to natural gas. This rule could also drive additional use of renewables in locations where they are more economically competitive.

Nuclear energy's fate is less certain. Obama has voiced strong support for its expansion, and the first new reactors in the United States for more than 30 years are now being built. Continued low natural gas prices, however, will make it difficult for additional plants to be built regardless of the level of presidential or congressional support.

Under Obama, the government will continue to provide financial support to the private sector to develop clean energy, albeit at far lower levels than it received during the heyday of ARRA in 2009–11. The president has expressed his desire for the continuation of the Production Tax Credit and Investment Tax Credit that lower the cost of deploying wind and solar projects. If approved by Congress, which is by no means certain, this would result in sustained solar expansion and an estimated 20GW of additional wind capacity.⁵⁹

The president has also been vocal about the importance of research and development in the energy sector. Obama's 2013 budget would increase funding for R&D at the Department of Energy by 7%. And the administration is likely to continue several targeted R&D initiatives that aim to reduce the cost of solar power generation, improve energy storage performance, and provide the military with bio-based alternatives to petroleum.

International implications

If Congress remains as divided and unproductive as it has over the past two years, energy policy will be limited to initiatives that fall within the powers of the White House. While not nearly as versatile as the legislative branch, the executive does have certain tools that could be used to shape policy, such as regulations, executive orders and the ability to adjust (or cease) the enforcement of

55 Coral Davenport, 'Conventions Revive Climate-Change Debate', *National Journal*, 6 September 2012, <http://www.nationaljournal.com/convention-events/conventions-revive-climate-change-debate-20120906>.

56 US Environmental Protection Agency, 'President Obama Announces Historic 54.5 mpg Fuel Efficiency Standard/Consumers will save \$1.7 trillion at the pump, \$8K per vehicle by 2025', press release, 29 July 2011, <http://yosemite.epa.gov/opa/admpress.nsf/0/0019c092ccae8ac2852578dc0056ded0?OpenDocument>.

57 Nat Keohane, 'A Clean Energy Standard for America', *The White House Blog*, 2 March 2012, <http://www.whitehouse.gov/blog/2012/03/02/clean-energy-standard-america>.

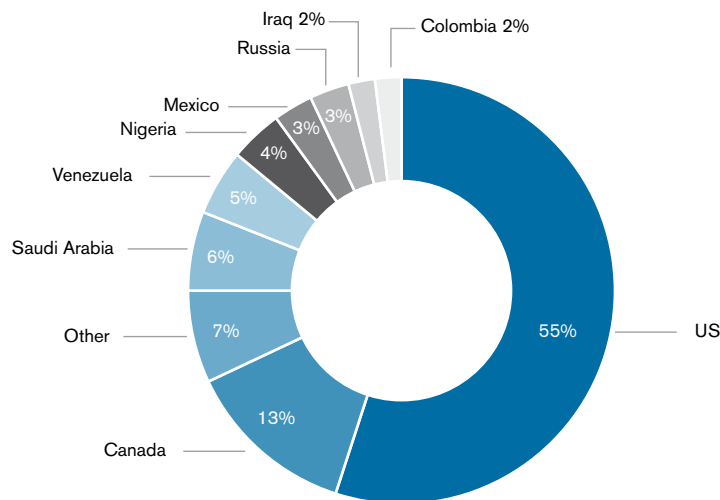
58 David Roberts, 'So What's EPA Up to with its CO2 Regulations?', *Grist Magazine*, 13 November 2010, <http://grist.org/politics/2010-11-12-so-whats-epa-up-to-with-its-co2-regulations/>.

59 Navigant Consulting, Inc., 'Impact of the Production Tax Credit on the U.S. Wind Market', presentation, 12 December 2011, p. 7, <http://www.awea.org/learnabout/publications/reports/upload/AWEA-PTC-study-121211-2pm.pdf>.

pre-existing laws in certain instances. Regardless of any limitations of the presidency, there could be very real implications for the international community.

As he did during the election campaign, President Obama will push for energy 'independence' through a combination of oil and gas production, fuel efficiency and promotion of alternatives such as biofuels and electric vehicles. Despite lower reliance on imported oil, the United States will still be far from achieving complete energy independence for many years to come (see Figure 3).⁶⁰

Figure 3: Sources of US oil by country, 2011



Source: US Energy Information Administration (http://www.eia.gov/dnav/pet/pet_move_net_i_a_ep00_IMN_mbbldpd_a.htm).

As long as the United States relies on any substantial quantity of oil from *any* part of the world, it will be affected by prices on the global oil market and – like any other country – it will attempt to shape geopolitics to serve its best interest. But unlike any other country, it has the largest military force in the world and has shown a willingness to assert itself diplomatically and militarily to protect foreign supplies of oil. Given its greatly reduced dependence on oil from the Middle East, the United States might be less inclined to exercise its costly military power in response to events that threaten to disrupt exports from that particular area of the world (although there are many other reasons for it to be involved in the Middle East – see Chapter 8 on the Middle East and North Africa). Ultimately, the decision to intervene in these cases tends to be made by the president, with or without the cooperation of Congress.

With roughly 18% of global greenhouse gas emissions, the United States is the world's second largest contributor to climate change after China.⁶¹ Global climate initiatives hinge on its willingness to substantially cut its own emissions and engage in international efforts that will bring other major emitters to the table. International negotiations have struggled in recent years. In his second term, Obama is unlikely to promise drastic new carbon-cutting goals to the

60 Blake Clayton, 'Is U.S. Energy Independence Possible?', Council on Foreign Relations, 21 June 2012, <http://blogs.cfr.org/levi/2012/06/21/is-u-s-energy-independence-possible/>.

61 US Department of Energy, Energy Information Administration, 'Countries: International Energy Statistics: Indicators: 2010', <http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=90&pid=44&aid=8&cid=all,&syid=2010&eyid=2010&unit=MMTC.D>.

international community, especially given the state of the economy and the slim chance that such promises would be supported by Congress. A more probable outcome is a renewed commitment to existing greenhouse gas reduction goals with the intention of strengthening these efforts whenever possible.

Obama's re-election could also have an impact on the global trade of energy technologies. In his first term, the administration moved aggressively to challenge Chinese government practices that provide subsidies to Chinese manufacturers of solar and wind components – something it sees as disadvantaging US manufacturers. The president has pledged to push back on unfair trade practices, which could affect the outcome of similar efforts led by European firms, and could increase tensions in global clean energy trade (see also Chapter 3 on trade). Simultaneously, President Obama will use various diplomatic and financial incentives to encourage the export of American energy technologies, including solar, wind and nuclear power.

5 Environment

Cathleen Kelly

Introduction

Expectations among environmentalists and international partners on what President Barack Obama will accomplish on environmental protection during his second term are likely to be high. However, with remaining hurdles in Congress and other pressing challenges – such as reducing the deficit and immigration policy – dominating the policy agenda, it will be hard to deliver anything more than modest progress on reducing carbon pollution linked to climate change and improving air quality in the coming four years. Sufficient pressure from international partners and civil society will be essential to elevating environmental protection on the president's second-term agenda and securing more ambitious action to tackle climate change in the United States and globally.

President Obama and his opponent, Governor Mitt Romney, were virtually silent on environmental issues during the election campaign. Days before ballots were cast, Hurricane Sandy slammed into the US East Coast, killing more than 120 people⁶² and causing damage and economic losses costing in excess of \$70 billion.⁶³ In its wake, battered communities, politicians and the media drew attention to the link between climate change and increases in storm severity.

While the president may not have Congress on his side in the fight against climate change, he increasingly has the support of the American public. Even before the devastation of Hurricane Sandy, polling in September 2012 revealed that 70% of Americans said that climate change is real, a 13 percentage-point jump since January 2010. Americans also perceive climate change as a threat to people in the United States (57%, up 11 points since March 2012), other industrialized countries (57%, up 8 points since March), and the developing world (64%, up 12 points since March).⁶⁴ After the election and Hurricane Sandy, 68% of likely voters said that climate change was a 'serious' or 'very serious' problem, while 60% said that global warming contributed to the severity of the storm.⁶⁵

In his victory speech, President Obama declared that 'we want our children to live in an America that isn't threatened by the destructive power of a warming planet.'⁶⁶ However, he did not win a clear mandate on climate change or environmental protection more broadly, as these issues were not central themes in his campaign. It is in this context that the president starts his second term.

62 Jeanine Prezioso, 'Northeast cleans up from Superstorm Sandy, death toll rises', Reuters, 11 November 2012, <http://www.reuters.com/article/2012/11/12/us-storm-sandy-hurricane-idUSBRE89N16J20121112>.

63 Chris Francescani, 'NJ Governor estimates Sandy will cost state at least \$29.4 billion', Reuters, 23 November 2012, <http://www.reuters.com/article/2012/11/24/us-storm-sandy-costestimate-idUSBREBAN01920121124>.

64 Yale Project on Climate Change Communication and George Mason University Center for Climate Change Communication, 'Climate Change in the American Mind', September 2012, <http://environment.yale.edu/climate/files/Climate-Beliefs-September-2012.pdf>.

65 Rasmussen Reports, 'Energy Update', 9 November 2012, http://www.rasmussenreports.com/public_content/politics/current_events/environment_energy/energy_update.

66 'President Obama's acceptance speech (Full transcript)', *Washington Post*, 7 November 2012, http://www.washingtonpost.com/politics/decision2012/president-obamas-acceptance-speech-full-transcript/2012/11/07/ae133e44-28a5-11e2-96b6-8e6a7524553f_story.html.

Background

At the 2009 Copenhagen climate summit, President Obama pledged that the United States would reduce its emissions in the range of 17% below 2005 levels by 2020, a major departure from the climate goals of President George W. Bush.⁶⁷ New and existing regulations under the Clean Air Act, combined with low natural gas prices and state and local actions to cut greenhouse gas emissions, have put the United States largely on track to meet this target, despite international perception to the contrary.⁶⁸

As discussed in Chapter 4 on energy, 2010 saw the collapse in Congress of efforts to pass comprehensive climate change legislation that would reduce carbon pollution through cap-and-trade legislation. With the rise of the staunchly conservative Tea Party movement and others, moderate Republican voices have been stifled as the balance of power within the party has shifted far to the right. Support for cap-and-trade policies and clean energy have become seen as synonymous with job killing and big government control. Once comprehensive climate and energy legislation was no longer achievable, the Obama administration began pursuing its Plan B – working through the Environmental Protection Agency (EPA) to craft a suite of environmental regulations to help put the United States on a modest but steady emissions reduction pathway.

In 2011, a new set of vehicle fuel economy standards came into effect for model-year 2012 cars and trucks. In 2012, the EPA finalized even tighter fuel economy standards. The new standards will nearly double the efficiency of passenger vehicles on the road today.⁶⁹ The Obama administration also made some progress on limiting emissions from large stationary sources.⁷⁰ The EPA adopted permitting rules for new or modified power plants and manufacturing facilities, and proposed carbon pollution standards for new fossil-fuel power plants, which are likely to be finalized in early 2013.⁷¹

To support alternatives to fossil fuels, President Obama made the largest investment in clean energy in US history through the American Recovery and Reinvestment Act (ARRA) of 2009. This economic stimulus programme channelled more than \$90 billion in government support and tax incentives for renewable energy, energy efficiency and other clean energy technologies (see also Chapter 4 on energy).⁷²

Congress today has roughly the same make-up as it did before the 2012 elections, with the Democrats maintaining their majority in the Senate and the Republicans holding on to control of the House. This nearly guarantees that efforts to pass a new climate bill will face roadblocks similar to those that derailed the cap-and-trade debate in 2010. For this reason, the president will primarily use his Clean Air Act authority, rather than legislation, to reduce carbon emissions and improve air quality during the next four years.

67 Nigel Purvis, 'Climate of Despair?', Climate Advisers and the German Marshall Fund of the United States, March 2012, p.11, http://www.gmfus.org/wp-content/blogs.dir/1/files_mf/purvis_climateofdespair_mar12_final_web38.pdf.

68 Dallas Burtraw and Matt Woerman, 'US Status on Climate Change Mitigation', October 2012. <http://www.rff.org/RFF/Documents/RFF-DP-12-48>.

69 The White House, 'Develop and Secure America's Energy Resources', 20 November 2012, <http://www.whitehouse.gov/energy/securing-american-energy>.

70 US Environmental Protection Agency, 'New Source Review, Clean Air Act Permitting for Greenhouse Gases fact sheet', <http://www.epa.gov/nsr/ghgpermitting.html>.

71 Output-based emission standard of 1,000 pounds of CO₂ per megawatt-hour. US Environmental Protection Agency, 'Proposed Carbon Pollution Standard for New Power Plants', 27 March 2012, <http://www.epa.gov/air/tribal/pdfs/carbonpollutionstandardnewpowerplants032712-1030am.pdf>.

72 The White House Council of Economic Advisers, 'Recovery Act Third Quarterly Report—Supplement', http://www.whitehouse.gov/administration/eop/cea/factsheets-reports/economic-impact-arr-3rd-quarterly-report/supplement_greenjobs.

Obama's second-term policy

Until at least the mid-term elections in 2014, President Obama is likely to use the EPA's authority under the Clean Air Act to push forward more ambitious climate action than was achievable in his first term.⁷³ In addition to finalizing proposed carbon pollution standards for new fossil-fuel power plants (mentioned above), the EPA is likely to develop similar standards for existing power plants and refineries, to impose tighter fuel efficiency standards on trucks and to encourage states to tighten energy efficiency standards for buildings.⁷⁴ Whether the president uses the full breadth of his administrative authority to curb carbon emissions and his bully pulpit to highlight the urgent need for climate action will depend on the level of pressure from civil society and international partners to do so.

There is some talk in Washington of packaging a carbon tax into a larger budget deal to raise revenue to reduce the mounting budget deficit.⁷⁵ The Congressional Budget Office estimates that a moderate, \$20-per-ton tax on carbon emissions could raise \$1.25 trillion and halve the budget deficit over 10 years.⁷⁶ But support in Congress for a carbon tax, even for deficit-cutting purposes, remains low.⁷⁷ While the chances are very slim that a carbon tax will be adopted early in Obama's second term, later consideration is not out of the question if more businesses, conservative think tanks and policy-makers warm to the idea as a new source of revenue to pay off the national debt.

With more budget fights expected in Congress, President Obama is unlikely to match the financial boost he provided to clean energy through the ARRA. One early achievement was managing to get Congress to extend the production tax credit for wind energy for a further year before it expired at the end of 2012.⁷⁸

Even with fierce opposition from environmental advocates, the president is poised to approve in the first quarter of 2013 the northern half of the Keystone XL pipeline to ship crude oil from Canada's oil sands to the Gulf coast.⁷⁹ The exploitation of Canadian oil sands releases roughly 20–35% more CO₂ than traditional drilling. Approval for Keystone XL will also reduce the likelihood that Canada will build a pipeline to its west coast to export tar sands oil to China.⁸⁰

To support low-carbon growth and build resilience to climate impacts in developing countries, Secretary of State Hillary Clinton, together with representatives of other developed countries, committed in Copenhagen to deliver \$30 billion in 'fast-start finance' from 2010 to 2012 and to mobilize \$100 billion annually in public and private funds by 2020. So far the United States and

73 Roger Martella interview with Monica Trauzzi, 'Former EPA general counsel Martella discusses regulatory impacts of Obama win, new Congress', E&E News, 8 November 2012, <http://www.eenews.net/eenewspm/2012/11/08/archive/9?terms=epa+election>.

74 Juliet Eilperin and Steven Mufson, 'Obama to continue efforts to curb greenhouse gases, push energy efficiency', *Washington Post*, 7 November 2012, http://articles.washingtonpost.com/2012-11-07/national/35506936_1_energy-efficiency-greenhouse-gas-emissions-michael-brune.

75 Mathew Carr, 'Obama May Levy Carbon Tax to Cut US Deficit, HSBC Says', Bloomberg, 7 November 2012, <http://www.bloomberg.com/news/2012-11-07/obama-may-levy-carbon-tax-to-cut-the-u-s-deficit-hsbc-says.html>.

76 Congressional Budget Office, 'Reducing the Deficit: Spending and Revenue Options', March 2011, p. 205, <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12085/03-10-reducingthedeficit.pdf>.

77 Jean Chemnick, 'Republican resolutions take aim at carbon tax', *Environment and Energy Daily*, 30 November 2012, <http://www.eenews.net/EEDaily/2012/11/30/3>.

78 Tina Casey, 'Production Tax Credit For Wind Power Saved, For One Year', *Clean Technia*, 2 January 2013, <http://cleantechnica.com/2013/01/02/wind-production-tax-credit-saved-for-one-year/>.

79 Ben Geman, 'Moody's predicts Obama will approve Keystone XL pipeline', *The Hill*, 12 November 2012, <http://thehill.com/blogs/e2-wire/e2-wire/267329-moodys-obama-will-approve-keystone-xl-pipeline>.

80 Steven Mufson, 'Keystone XL pipeline would add link in US-Canada trade relations', *Washington Post*, 6 July 2012, http://www.washingtonpost.com/business/keystone-xl-pipeline-creates-sticking-point-in-us-canada-trade-relations/2012/07/06/gJQAxcrtRW_print.html.

other developed countries are roughly on track to meet these commitments. However, President Obama had assumed that Congress would pass a cap-and-trade bill, and since this is off the table for the foreseeable future, the administration has no alternative plan to mobilize this critical financing.⁸¹ Given this reality, and probable cuts to agency budgets to reduce the deficit, there is unlikely to be any significant expansion of US contributions to international climate financing relative to those made in President Obama's first term.

The Obama administration will be looking for opportunities to make real progress on addressing climate change where it has political room to manoeuvre. Progress is both possible and essential in the following areas.

Short-lived climate pollution

The United States will seek opportunities to make progress on reducing short-lived climate pollution such as methane, black carbon (soot) and hydrofluorocarbons. Together these pollutants account for approximately one-third of current global warming. In early 2012, Secretary Clinton announced the Climate and Clean Air Coalition to identify near-term opportunities to minimize these pollutants.⁸²

International aviation emissions

With the EU putting the brakes on including foreign airlines in its emissions trading system until September 2013 and a new US law that opens the door for the secretary of transportation to prohibit US airlines from taking part in the EU programme, the pressure is on the International Civil Aviation Organization (ICAO) to deliver a solution. The United States will play a more active role in helping to broker a deal in ICAO during Obama's second term. Nonetheless, there is no guarantee that countries will reach agreement in this forum given their vastly different views of success.⁸³

Energy efficiency

At the September 2012 Major Economies Forum Meeting, the participating countries discussed the possibility of setting an ambitious, voluntary goal for efficiency improvements in existing and new buildings, and the implementation of specific policies and actions to meet that goal.⁸⁴ The United States aims to work with international partners to set and enact a global energy efficiency goal and potentially other targets (e.g. for renewable energy) to reduce emissions.

Reducing emissions from deforestation and forest degradation in developing countries

Roughly 17% of global emissions causing climate change come from deforestation and forest degradation. Progress has been made in recent years in the UN climate talks on creating financial incentives for countries to reduce their deforestation rates, sustainably manage forests and enhance forest carbon stocks (REDD+). Momentum toward resolving remaining REDD+ issues slowed at the December 2012 negotiations in Doha. Nonetheless, finalizing agreement on how financing will be made available to countries that reduce emissions from this source, and how these emissions reductions will be measured, monitored and verified, remains a priority for the United States in future talks.

81 Purvis, 'Climate of Despair?'

82 US Department of State, 'Remarks at the Climate and Clean Air Coalition to Reduce Short-Lived Climate Pollutants Initiative', 16 February 2012, <http://www.state.gov/secretary/rm/2012/02/184061.htm>.

83 Nigel Purvis and Samuel Grausz, 'The Surprisingly Important Dogfight over Climate Pollution from International Aviation', The German Marshall Fund of the United States, October 2012, http://www.gmfus.org/wp-content/blogs.dir/1/files_mf/1349813609Purvis_Grausz_AirSupremacy_Oct12.pdf.

84 Major Economies Forum, 'Chair's Summary: Fourteenth Meeting of the Leaders' Representatives of the Major Economies Forum on Energy and Climate', 27 September 2012, <http://www.majoreconomiesforum.org/past-meetings/fourteenth-meeting-of-the-leaders-representatives.html>.

International implications

During his first term, President Obama played an important role in helping to broker the Copenhagen Accord, which for the first time solidified the notion that all major emitters, in both developed and developing countries, must commit to reducing their emissions. Nonetheless, the United States did not play the leadership role that was hoped for and warranted, given the oversized American contribution to global greenhouse gas emissions.

At the 2011 UN Framework Convention on Climate Change (UNFCCC) talks in Durban, countries agreed to negotiate by 2015 a new legally binding climate agreement applicable to all parties, to come into force by 2020. The December 2012 UN climate talks in Doha launched the beginning of the process to craft this legally binding agreement. In future UNFCCC negotiations, the United States will face limits similar to those that clouded the first four years of Obama's presidency. For example, to be aligned with strongly held views in Congress, the US negotiating team will continue to push for an agreement that requires emission reduction commitments from all major emitters, including China and India. With no domestic mandate and fewer than the 67 Senators needed for treaty ratification in favour of a new global climate agreement, the ability of American negotiators to sign up for ambitious new emission reduction commitments will continue to be constrained. While securing US ratification of a future climate treaty will be hard, history reveals that the United States often complies with the terms of international treaties even if it is not a party to them.

The difficult reality of these unfortunate constraints on climate diplomacy has implications for developed and developing countries alike. China, India and other major emitters may aim low on their climate commitments without ambitious new US emission reduction targets and financing. Europe will need to continue to lead in the international climate policy arena by both setting a high bar for emission reductions and developing innovative ideas to bridge the gap between the \$30 billion in fast-start financing and the commitment to raise \$100 billion per year by 2020. Given that roughly one-fifth of the emission-reduction plans in developing countries are contingent on financial and technical support, these plans will not be realized without a dramatic increase in global climate financing.⁸⁵

Conclusion

Hurdles in Congress, the absence of a political mandate to address climate change, and other priorities dominating the policy agenda suggest that President Obama's climate and clean energy efforts will be hamstrung by political constraints similar to those in his first term. Nevertheless, he is likely to make modest progress on reducing carbon pollution by using his regulatory authority under the Clean Air Act. Pressure from civil society and international partners could persuade the president to increase his climate ambitions and to leave a strong legacy of environmental protection.

85 Rebecca Left and Andrew Light, "What to Expect in Doha: An Overview of the 2012 U.N. Climate Change Negotiations", 27 November 2012, <http://www.americanprogress.org/issues/green/news/2012/11/27/46139/what-to-expect-in-doha-an-overview-of-the-2012-u-n-climate-change-negotiations>.

6 Defence

Janine Davidson and Shawn Brimley

Introduction

The national security landscape President Barack Obama faces in his second term is quite different from that of 2009. In the face of a global economic meltdown, and with over 250,000 American troops deployed abroad in two extremely costly and dangerous wars, and Al-Qaeda's leadership still intact and plotting more attacks, the president's 'to-do list' during his first term was fairly well defined. By any reasonable measure, he has made notable progress in steadying the economic ship, responsibly withdrawing from Iraq and crippling Al-Qaeda. Although departing from Afghanistan will prove to be vexing and complicated, and festering challenges such as Iran and Syria will demand continued attention, his second term offers the president a chance to pursue a more affirmative security agenda.

In some ways the broad contours of this agenda are readily apparent. As the tide of war recedes, President Obama has made clear his preference to continue rebuilding and positioning the economy to drive global growth, rebalancing foreign and defence policy towards the Asia-Pacific region, sustaining a counterterrorism strategy that precisely targets remaining Al-Qaeda figures, and ensuring the United States continues to support democratic reform in the Middle East. Each of these priorities will affect the way in which the Department of Defense crafts its strategy and budget over the coming years.

Background

President Obama faces an array of near-term defence challenges as he begins his second term.

Right-sizing the defence budget

The Pentagon will need to adapt quickly to significant reductions in wartime spending as it resets its force structure and priorities for a post-Iraq and post-Afghanistan environment. Despite the panicked rhetoric from various pundits worried about 'drastic' cuts, the truth is that even after the planned post-war downsizing, the US military will still have more ground troops than in 2001, and will still be the most powerful and sophisticated, and have the greatest global reach, of any military in the history of the world. The United States will still be spending more on its military than will the next dozen countries combined. The challenge, therefore, will be to ensure it is spending in the right ways and properly anticipating the likely types of mid- to long-term challenges and opportunities.

Afghanistan

The fact that there was little discussion or debate about Afghanistan during the election campaign belies the magnitude of this challenge. Disengaging from the country, while also ensuring it does not become a new safe haven for anti-Western terrorists, is likely to require a longer-term military

commitment on a greatly reduced scale. The fact is that troops deployed abroad to conduct even small-scale military operations require intelligence and logistics support. The sooner they can be replaced by well-trained Afghan security forces, the more likely the United States is to meet the 2014 deadline. Even beyond 2014, a small residual force focused on training Afghan troops will need to be augmented by robust assured access to airbases and logistical hubs in Central Asia, and the ability to project air power from the Arabian Sea.⁸⁶ (For more on this issue see Chapter 10 on Afghanistan and Pakistan.)

Iran

The challenge the president faces with regard to Iran is to hold off the military option for as long as possible while convincing the Iranian regime to halt or reverse its nuclear weapons programme. If Iran were attacked militarily – by the United States or others – it would be likely to become even more committed to rebuilding, hardening and dispersing its capability. Iran might also launch conventional and irregular retaliatory attacks against the assets of the United States and of its allies across the region, and potentially further afield. This outcome is possible, but not inevitable. International pressure and economic sanctions enacted over the past several years have begun to bite. President Obama must hold this international pressure together to bring the Iranian regime to the negotiating table before patience runs out – or if it becomes apparent that Iran is dangerously close to having a weaponized nuclear capability. The military option is always available, but once that threshold is crossed, the region will become much more dangerous than it is in the current uncomfortable status quo.

Syria

The violence in Syria continues to escalate, and the dangers of a regional conflagration are increasing. In the face of a rising death toll and a humanitarian crisis, coupled with the threat of use or proliferation of chemical weapons, military options will almost certainly be considered. In a purely military respect, Syria is a far more complicated challenge than Libya. It possesses one of the most advanced integrated air defence systems in the region, making the use of American or NATO air power exceedingly difficult without a more dramatic and extensive military campaign. The main military challenges for the United States will continue to be helping Turkey, Lebanon, Jordan and Iraq ensure adequate border security; working with regional militaries and NATO partners to assist the Syrian opposition with communications, intelligence, and non-lethal support; and ensuring that viable plans exist to help secure Syrian chemical weapons facilities should the need arise. All of this will be done with an eye on what comes after the eventual fall of the regime. Ensuring that a disjointed opposition can transform itself into competent and regionally acceptable government will be the enduring challenge. (See Chapter 8 on the Middle East and North Africa for more on this topic.)

Obama's second-term policy

With the election behind him, President Obama has a real window of opportunity to pursue a defence agenda that tackles some long-term challenges.

Rebalancing to Asia

The president's foreign policy agenda will continue to include a strategic 'rebalancing' towards the Asia-Pacific region, as was clearly indicated by his trip to Asia shortly after re-election. This reflects the interdependence of the US economy with the growing Asian economies, especially

86 A Status of Forces Agreement (SOFA) with Afghanistan is currently being negotiated and will define what kind of force presence the United States has in the country after 2014.

China's, and thus involves at least as much diplomatic and economic as military engagement. Nevertheless, given the simmering tensions from the Korean peninsula to the contested territories in the South and East China Seas, security remains a key element. Long-standing alliances and military partnerships with Japan, South Korea, the Philippines, Thailand, Australia, Singapore and India provide important opportunities to engage militarily and enhance interoperability and multilateral cooperation. The next four years require ensuring that the US military – particularly the Air Force, Navy and Marine Corps – identify ways to enhance their presence appropriately in the region. This posture might take the form of additional military training and exercises, but more fundamentally could involve greater forward presence of US military capabilities – akin to the recent creation of a 2,500-person Marine contingent in Darwin, Australia, and the forward stationing of four littoral combat ships in Singapore.

China will continue to feature prominently in reviews of US policy in the region. While there will be many in Congress and the public who will want to see a more hawkish position towards the rising power, President Obama will continue to stress that the United States welcomes the responsible rise of China and will continue to try to engage in constructive dialogue and activities. Thus it will seek opportunities for more bilateral and multilateral military exercises to promote transparency and a closer working relationship between the two militaries; and it will continue to include China in various regional diplomatic and economic fora that promote multilateral rule-based structures for resolving competition and conflict in the region. (See also Chapter 7 on China.)

Protecting game-changing defence investments

As the defence budget begins to contract, the natural inclination of the defence bureaucracy is to protect traditional ways of doing business. The Army will fight hard to preserve its overall size and thus ground-fighting capacity; the Air Force will fight to protect manned fighters and bombers; the Marine Corps will emphasize the need to do robust amphibious operations; and the Navy will focus on the size of its battle fleet and the number of aircraft carriers. So an important function of the Department of Defense's civilian leadership will be to ensure that in addition to preserving these traditional service capabilities, the military also invests in new technologies that will be required to protect America's military advantages in the coming years. The current civilian leadership understands that if the Pentagon fails to protect investments in potentially revolutionary capabilities, such as long-range unmanned carrier-launched aerial vehicles which hold the promise of dramatically extending the operating range of aircraft carriers, the development of 'no go' zones in key littoral areas of Northeast Asia or the Persian Gulf could become very real possibilities by 2025. Likewise, the Pentagon will continue to focus on cyber security to mitigate vulnerabilities in military operations as well as in its role to protect the homeland.

Motivating NATO

At a minimum, the United States will remain engaged in Europe in order to have access and sustained global reach, especially towards Central Asia and the Middle East. But it is likely to do more. The Libya operation demonstrated not only the strengths and weaknesses of the NATO alliance, but also the need for Europe to have a viable, integrated and expeditionary fighting force. The United States will remain invested in NATO, focused on combined training and enhancing the interoperability and combined capability and capacity. In particular, it will seek to preserve the major advances made in these areas during the war in Afghanistan. The economic crisis has taken its toll and military investments in Europe continue to decline. This apathy from Europe will unfortunately fuel pressure from the American public and from many in Congress – mainly Republicans, who already distrust multilateralism – for the United States to reduce its own investment in the alliance. But the president will resist pressure to retrench from its leadership role in NATO.

For all its faults, NATO is still the most capable multilateral military alliance in the world. President Obama and his secretary of defense will need to continue to make absolutely clear to the other NATO members that the United States will not fill the gap in capabilities of its NATO partners. To this end, the United States is likely to renew the currently mandated 2% of GDP figure that all NATO members are supposed to spend on defence (although only a handful do). For the other NATO members to pull their weight, they will need to let go of traditional notions of strictly national defence in order to enhance their collective security, as it is clear that their current approach has resulted in a combined military capability that is dangerously less than the sum of its parts.

Middle East and North Africa

The so-called Arab Spring revealed that populations in Middle Eastern and North African countries have grown tired of poor governance and dictatorships, and are able and willing to take control of their future. Although President Obama recognizes that the dramatic changes still under way will and should be led by the region's people themselves, he has also made it clear that he will seize this historic opportunity to support positive political and economic reform – in essence to place the United States on the 'right side of history'. The challenge will be to balance this with enduring US interests in the region, such as the fight against Al-Qaeda, support for Arab-Israeli peace, sustaining pressure on Iran and facilitating the free flow of energy resources. The United States will need to draw on its soft-power capabilities to support positive efforts towards reform as its military presence shrinks in the aftermath of the Iraq and Afghanistan wars. (For more on the Middle East and North Africa, see Chapter 8.)

Al-Qaeda

President Obama's shift from an ill-defined 'Global War on Terror' to a more precisely targeted war against Al-Qaeda resulted in a severely crippled terrorist organization. The start of his second term is a natural time to examine whether the massive array of capabilities, forward posture and bureaucratic architecture to achieve that goal that have slowly evolved since 2001 still represent the best way to keep America safe while staying true to its values. In the short term, however, it is likely that the US strategy will encompass, among other characteristics, a continued trend towards small-scale targeted action, such as through the use of Special Forces and drones, rather than a broader military response.

International implications

The United States will remain the world's most powerful country in the coming years. With such power come expectations and obligations. In Europe and Asia, its military presence and leadership have underwritten stability for over 70 years and have provided a foundation for reconstruction and economic growth. Elsewhere, the United States has led operations in response to conflict and humanitarian crises and promoted the development of allied and partner security sectors. The next four years will require sustained US leadership to reshape the global economic architecture and promote cooperation and stability.

President Obama's strategy to rebalance to the Asia-Pacific has already generated expectations – and some anxiety – among countries in the region and around the world. Enhancing the US military posture in Asia provides a reassuring counterbalance to instability generated by North Korea or rising tensions in the South China Sea that deeply concern states in the region and beyond. Meanwhile, European countries fearing that a US focus on Asia will mean less attention

for NATO should note that this window of opportunity to rebalance to Asia has been provided by the end of the wars in Iraq and Afghanistan, not a retrenchment from Europe.

International responses to the pressing security challenges of Iran and Syria will be mixed. Obama will continue to press diplomatically to ensure that, if it comes to military action in either of those cases, the United States will not be acting alone or without the support of the international community. In either event, the United States' comparative advantage will continue to be its advanced weapons systems, including unmanned platforms for surveillance and strike.

As the United States continues to explore how new technologies such as cyber and unmanned platforms will change the nature of warfare, allies and partners will take note. The extensive use of drones in counterterrorism operations, for example, has been highly effective in a tactical sense, but also highly controversial politically. The second Obama administration can be expected to examine in depth the ethical, legal and strategic dimensions of the drone strategy and the use of drones in general. This assessment should include voices from outside the United States, as there will need to be international agreement on the parameters of acceptable use. Similarly, as the technical feasibility of offensive cyberspace warfare evolves, the international community must update its legal frameworks to keep up. The United States can be expected to lead such international dialogue.

Conclusion

It is hard to appreciate fully the scope of defence challenges coupled with the pace at which they will confront a second-term Obama administration, or the opportunities the next four years are likely to offer. The basic task for policy-makers is to deal effectively with the urgent near-term challenges while staying focused on the strategic horizon.

7 China

Xenia Dormandy

Introduction

China has long been considered a 'black box' for the United States. Strategic relations between the two countries have been characterized by mistrust and uncertainty. From the American perspective, China's rise is both an opportunity and a threat. Policy-making in Washington is complicated by the lack of clarity over the balance of power between China's civilian government, the Communist Party, and the military, and their respective interests and objectives. This has led to the prevailing US policy of engaging and hedging. From the Chinese perspective there is also uncertainty regarding America's intent and whether it is really trying to hedge or contain.

While the United States was focused on the 2012 elections, Chinese politics were also in a state of flux, with the retirement of seven of the nine members of the Standing Committee of the Communist Party Politburo in November 2012, and the ascendancy of Xi Jinping to the presidency and to the chair of the Central Military Commission, due to come into full effect in March 2013.⁸⁷ Political turbulence around the purging of Politburo member and Chongqing party boss Bo Xilai in April 2012 increased sensitivity to additional internal or external political pressure.

Background

The future of Sino-US relations will depend in no small part on the nature of the new Chinese Politburo Standing Committee, China's major policy body, led by incoming President Xi Jinping and, from March 2013, Premier Li Keqiang. Like their predecessors, both men are considered to be broadly open to engagement with the West. President Xi's views on reform, particularly in the economic and military sectors, are uncertain although there is some indication that he might favour a pro-market approach while also having closer relations with the military.

During the transition, both Hu Jintao and Xi Jinping laid out the need to promote economic reform and reduce inequality and corruption.⁸⁸ The plan proposed is to double GDP per capita over the coming decade.⁸⁹ The departing and incoming presidents recognized that without some reform the increasingly vocal Chinese middle class might take further protest action; the number of demonstrations (with as many as 70,000 participants) has risen according to some estimates to

87 Full government changes take place in the spring of 2013. Xi's ascendancy to the chair of the Central Military Commission came surprisingly early; it was anticipated that, as with President Hu's 10 years earlier, it would be delayed to allow Xi's predecessor to maintain the position (and influence) for a period.

88 'China Communist Party Conference: corruption could "prove fatal"; *The Telegraph*, 8 November 2012, <http://www.telegraph.co.uk/news/worldnews/asia/china/9663907/China-Communist-Party-Congress-corruption-could-prove-fatal.html>.

89 'Excerpts of Hu Jintao's Speech to China Party Congress', Reuters, 7 November 2012, <http://www.reuters.com/article/2012/11/08/china-congress-hu-idUSL5E8M77P620121108>.

approximately 180,000 annually.⁹⁰ However, if reform proves difficult, President Xi might resort to nationalism to maintain his and the party's legitimacy. If the former path is taken, a new warmer relationship with the United States is presaged; if the latter, then additional problems are likely to ensue.

Economic interdependence

China is the largest holder of US securities, making it sensitive to weaknesses in the dollar (although it has started to diversify its holdings). China and the United States are each other's second largest trading partners. The significant bilateral trade imbalance between them, although decreasing, is a source of tension in the United States, as is the perceived, albeit diminishing, undervaluation of the renminbi. This was underlined in the run-up to the 2012 presidential election, with both candidates criticizing perceived Chinese currency manipulation.

Concerns are rising in the American business community. Increasingly, China (albeit not necessarily its government agencies) has been accused of many incidents of hacking and espionage against America's companies and public sector. Intellectual property rights (IPR) are often ignored. At the same time, Chinese investments in sensitive US industries such as oil and high technology continue to be of concern.

Rising military capabilities

With the exception of 2006, there has been a double-digit percentage increase in Chinese defence spending every year since 1989, according to official figures (although most analysts estimate spending to be notably higher).⁹¹ China's focus on building naval offshore capabilities, enabling operations well beyond its borders, suggests a desire to extend its reach. The successful launch of a fighter jet from the country's first aircraft carrier in November 2012 also demonstrated China's expanding capacity (although the carrier is intended only as a training base – it will be some while before China has real offshore reach). The US–China Economic and Security Review Commission suggested recently that China is two years away from having submarine-launched nuclear weapons, which will enable the military to provide near-continuous at-sea strategic deterrence.⁹²

China's investment in offensive weapons, not least those targeting Taiwan, is also of particular concern to the United States (as well as to other countries in the region). On the other hand, while China is rapidly modernizing its capabilities it should be noted that around half of its military spending is targeted at internal security.

In addition to this growing military investment, the apparent division between China's generals and civilian government also raises concerns regarding who has ultimate authority and whether the military might take actions contrary to bilateral agreements between the United States and the Chinese government. The weak links between the military and Chinese new leaders have increased concerns in the United States about whether the Chinese military might be a more active and aggressive player in the future. However, President Xi appears to have stronger relations than his predecessor with the military and could work to enhance these.

90 'Unrest grows as economy booms', *The Wall Street Journal*, 26 September 2011, <http://online.wsj.com/article/SB10001424053111903703604576587070600504108.html>.

91 'Double digit rise for China's defense spending', *Defense News*, 4 March 2012, <http://www.defensenews.com/article/20120304/DEFREG03/303040003/Double-Digit-Rise-China-8217-s-Defense-Spending>.

92 '2012 Annual Report to Congress', US-China Economic and Security Review Commission, 14 November 2012, http://www.uscc.gov/annual_report/2012/2012_Report-to-Congress-table.pdf.

The United States has tried to encourage greater transparency on the Chinese side, not least in military matters. During Xi's visit to America in February 2012, Washington proposed stronger military-to-military engagement. China has thus far been unwilling to engage in substantive talks, however. Ambiguity provides it with a deeper buffer zone in which uncertainty regarding Chinese 'red lines' makes America hesitant to act.

Geopolitical competition

There are concerns on both sides regarding potentially conflicting geopolitical and, in particular, regional interests. China senses that the United States might be pursuing a strategy of containment, while from the American perspective China is implementing an anti-access and area denial (A2/AD) regional policy against the United States. Flash-points could arise over territorial or other disputes in the region between China and America's friends and allies, in particular over Taiwan where the United States is committed to preventing unilateral efforts to alter the status quo.

In the second half of 2012, tensions ratcheted up considerably given what were perceived as strong moves by China to reinforce its position on territorial disputes. These ranged from changing the map on Chinese passports to include all the disputed areas to announcing in November 2012 a change in maritime policy in the South China Sea to allow Chinese maritime police to intercept ships there.⁹³ American officials are increasingly concerned that the United States will be drawn into a territorial conflict where one party or another unwittingly crosses red lines (see Figure 4 below).

Figure 4: Territorial disputes in the South China Sea



Sources: UNCLoS and CIA (based on BBC map available at <http://www.bbc.co.uk/news/world-asia-15802063>).

93 Leslie Hook and Roel Landingin, 'Philippines attacks Chinese maritime law', *Financial Times*, 2 December 2012, <http://www.ft.com/cms/s/0/1fb53822-3c6a-11e2-a6b2-00144feabdc0.html#axzz2EGhWY2bo>.

International norms and soft power

There is a strong US perception that China, despite being a member of a number of international regimes including the World Trade Organization, G20 and UN Security Council, resists or disputes international norms. The difference in priorities and values plays out in areas such as human rights (domestically in general and with regard to Tibet) and sovereignty; in particular, this is currently the case in the UN regarding sanctions on Iran over nuclear concerns and Syria over human rights issues.

China has focused in recent years on expanding its soft power through the creation of Confucius Institutes around the world, but so far its ideology has not proved to be globally attractive. In other soft-power arenas such as education and the media, it still lags considerably behind the United States and other Western nations.

Obama's second-term policy

President Barack Obama's first administration maintained President George W. Bush's second-term strategy towards China of 'hedging and engagement', with emphasis on the latter. It worked with China on a broad range of issues, engaging in numerous dialogues from the Strategic and Economic Dialogue to more recently expanding the conversation on issues ranging from Asia-Pacific cooperation to humanitarian assistance and disaster response. His second term is likely to maintain the emphasis on engagement, focusing on areas of possible collaboration, ranging from the economic to the environmental, rather than those of concern.

Notwithstanding the broader perception, particularly in China, that America's Asia policy (and in particular the recent 'rebalancing') is directly focused on that country, China policy will in fact remain only one element of the broader Asia policy in the United States. While the rebalancing to Asia will continue, efforts to ensure it is not perceived as directed against China will be maintained. In particular, Obama is likely to emphasize the non-military aspects of the policy in his second term, most notably the economic (e.g. the Trans-Pacific Partnership – see Chapter 3 on trade) and diplomatic.

There are two other areas where more attention is likely in the coming years. The first relates to China's engagement in international regimes, not least the WTO and G20. Given Obama's more multilateral stance than his predecessor's, it is likely that his administration will continue to try to broaden engagement with the Chinese government in these arenas, where possible cultivating its support for international norms on issues such as North Korea and Syria. In light of its Russia policy (see Chapter 11 on Russia), the administration will make some effort to split China from Russia in these fora. The Obama team is also likely to continue encouraging other partners, particularly in Europe, to expand their perspectives on China, taking into consideration broader strategic and security issues rather than focusing almost exclusively on commercial engagement.

The second area is cyber and space security. In early 2012, Secretary of State Hillary Clinton expressed American willingness to engage more actively in building an international code of conduct for outer space. This policy is likely to continue in the new administration. The US government will also work with other interested countries to engage the Chinese government on standards to limit the level of hacking and espionage emanating from China, something that is increasingly also affecting Chinese companies.

The new secretary of state (most likely Senator John Kerry) may have more room to manoeuvre with the Chinese in Obama's second term (at least at first). Secretary Clinton was increasingly unpopular with China's public and officials, largely because of her firm neutrality over many of the South and East China Sea disputes. The Chinese government allowed the state-run *Global Times* newspaper to criticize her, stating 'Many Chinese people do not like Hillary Clinton [...] She makes the Chinese public dislike and be wary of the United States.'⁹⁴

However, it is likely that the United States will remain neutral regarding territorial disputes, including that between Japan and China over a gas-rich archipelago in the East China Sea. Although Japan has indicated that any invasion by China of the disputed island territory would be covered by the 1960 defence treaty with the United States, the fear of escalating military tension by appearing to take a directly confrontational position with China will ensure that the Obama administration will continue to tread cautiously on the issue. Given the prospect of a destabilizing conflict in the region, the United States will take an active role in trying to build constructive dialogues between the relevant parties and promote transparency. In particular, it will continue to urge agreement of an international or multilateral convention between China and its neighbours (at a minimum) on how to deal with such disputes. China has resisted this, preferring to deal with each neighbour individually and insisting that the issues should not be internationalized.

International implications

China's trajectory and its level of engagement with the international community are of global concern. They will be significantly affected by its relationship with the United States: cooperation is likely to lead to a more positive Chinese role, while competition would result in Chinese intransigence and have implications for progress on global issues, from the environment to space and cyber security, as well as issues arising in the UN Security Council, trade and development. It would also put nations that are dependent on both the United States and China for economic or security reasons in a difficult position as they try to balance the two. Making room for China's growth and participation will be important.

Three factors make managing this rise particularly difficult. The first is the lack of transparency in China mentioned earlier: inadequate understanding of Chinese interests and concerns can lead to misunderstandings and potential conflicts. The second relates to the tension between showing consideration for China's interests and appearing, in Chinese eyes, to be weak. And finally, China's recent aggressive behaviour in its region has made it increasingly a lonely power in diplomatic terms, with even Burma (Myanmar) moving towards the United States.

For these reasons, it will be vital that the Obama administration makes every effort to engage in an open and transparent dialogue with the Chinese and ensure that US intentions are clear. Ensuring such clarity and deliberation could do much to maintain relations on a positive trajectory or, at a minimum, ensure that they do not spiral out of control. In this respect, the continuity of a second-term administration posture will be helpful, particularly as China has recently gone through its own political transition.

94 Malcolm Moore and Julian Ryall, 'China's Xi Jinping cancels Hillary Clinton meeting amid "tensions"', *The Telegraph*, 5 September 2012, <http://www.telegraph.co.uk/news/worldnews/asia/china/9521741/Chinas-Xi-Jinping-cancels-Hillary-Clinton-meeting-amid-tensions.html>.

China's priority will continue to be economic growth in order to meet the expanding needs of its people and ensure stability. The stated objective of the government is to be a medium-income country by 2020, with strong social management and stability. China's continued growth is also vital for the global economy. The recent slower growth of around 7% has real implications for China's neighbours and its trade partners. Some have argued that slowing Chinese growth is the biggest national security threat to the United States, and to the rest of the world. This could provide an incentive for all parties to keep their distance from the other's red lines and possible conflict.

While Obama is likely to push China on economic issues above others, to ensure a level playing field for US businesses and consumers, he will also be cautious and avoid over-accusatory rhetoric. Rather, finding ways to cooperate with China could induce it to accelerate the pace of liberalization of its capital account, allowing greater flexibility of the renminbi's exchange rate as well as deeper reforms in its domestic financial sector. The likely consequence would be increasing capital outflows from China to invest in the rest of the world, but more profoundly, greater opportunities and easier market accessibility for international capital to invest inside the Chinese market.

While a downturn in US–Chinese relations could have an economic impact on other Asia-Pacific countries, these states would also be concerned about the security implications since rising tensions between the United States and China would make balancing between them harder. If the United States were perceived to be the instigator of such elevated tensions, a pull-back from America could occur in the region (a reverse of what has happened in recent years following China's aggressive posturing).

Additionally, as tensions grow in the East and South China Sea between China and Japan, Vietnam and various other US allies (illustrated in Figure 4), the health of the US–Chinese relationship could have a huge impact on actual disputes. There is a real danger of an accidental or deliberate provocation leading to a maritime incident. If such hostilities take place it is important that the relationship is robust enough to prevent a serious escalation that could destabilize the whole region, if not the world.

Obama will continue the rebalancing of America's strategic focus towards Asia. This does not necessarily indicate a distancing from Europe, although the level of US forces in Europe is likely to be affected by the president's intended defence cuts as resources are concentrated in the Asia-Pacific region.

Finally, the increased attention that the Obama administration is likely to pay in the coming years to the concerns regarding security in the cyber and space domain will have notable implications for the rest of the world (most particularly the developed nations). These will be difficult fields in which to engage China, and the Obama administration is likely to bring in other partners in multilateral efforts.

8 The Middle East and North Africa

Steve Clemons

Introduction

The Middle East will be a significant challenge to US foreign policy-makers during President Barack Obama's second term – whether with regard to further transitions of the Arab Spring, Iran's appetite for nuclear weapons, Israel's posture towards Palestine and other Arab powers in its neighbourhood, or the rise of political Islam. Despite the US tilt to Asia, how the Obama administration deals with the Middle East will be a central part of the foreign policy agenda in the coming four years, as it has been for previous presidents.

Background

Following the events of 11 September 2001, the Middle East and its prospects became an even greater concern than before for US foreign policy. Traditional studies of US strategic priorities have tended to prioritize the massive reserves of Arab oil and gas, but the attacks changed the calculus from a pragmatic concern about energy to an emotional one about security and threats emanating from a dissimilar and poorly understood culture.

When President Obama took office in January 2009, the United States had already been at war for eight years in the Middle East. US troop levels were high in Iraq and substantial in Afghanistan. Al-Qaeda and its affiliates had been to some degree ravaged by US forces but nevertheless demonstrated resilience in metastasizing in other failed and failing states; and its two top leaders remained at large. The world that President George W. Bush had divided between 'those who were with us and those who were against' was exhausted and increasingly irritated by what some perceived as a United States bent on transforming country after country in the Middle East. Finally, Obama also inherited a situation in which Israel had just invaded southern Lebanon after a Hezbollah border provocation, had responded to rocket attacks with a massive deployment of force in Gaza, and had begun yet again to expand settlements in the West Bank.

By 2009, the US military capacity was badly overstretched, with large-scale military and state-building investments in Afghanistan and Iraq. The US economy had suffered its most significant downturn since the 1930s. The 9/11 fears that shook American sensibilities had resulted in actions – from rendition to the suspension of *habeas corpus* rights and the abuses at Bagram and Guantánamo – that made the world, and many Americans, question US human rights standards. Meanwhile, the global economic and political architecture crafted by the United States and its allies after the Second World War – including the United Nations, the International Monetary Fund and World Bank – were no longer appropriate for the reality of a world of new rising powers.

While President Obama's early speeches earned global praise, he was then seen, particularly in the Arab world, as failing to translate his aspirations and conviction into tangible policies or results. Despite Israel–Palestine issues being made a key priority, there has been no real movement towards a peace track. Nor has there been much progress in pushing Iran to suspend its nuclear programme.

On the other hand, Obama did wind down the US military combat presence in Iraq, oversee the killing of Osama bin Laden and other top-tier Al-Qaeda affiliates, and manoeuvre, much as Bush had done, between intervention in Libya's revolution to cautious realism (thus far) in similar revolutionary situations such as in Syria and Iran.

This is the tally of challenges which President Obama has to face in his second term. Assessing what he might do with regard to the Middle East is of global importance and likely to have serious consequences, positive and negative, on other nations' perception of American power.

Obama's second-term policy

The top priorities of President Obama in the Middle East have shifted in four years towards a primary focus of seducing Iran away from a nuclear-weapons course and away from establishing a Palestinian state and getting Israeli–Arab relations back on a normalization track. Another key priority for the administration today is simply navigating the turbulence and uncertainty of the Arab Spring without creating significant vulnerabilities for the United States or openings for geostrategic rivals.

Obama's second term is likely to lack the cohesive, strategic vision that he spelled out when he first came to office, and might appear to be more a jumble of policies put together as ad hoc reactions to problems. Partnering with Britain and France in a limited but successful intervention in Libya created new demands for more interventions that President Obama has rebuffed so far. The success in Libya has not led him to push a 'one size fits all' military intervention as the response to each of the convulsions in the region since they have had very different drivers and require differentiated approaches.

'Fixing' the Israel–Palestine problem, in Obama's early formulation, was paramount to the hearts-and-minds strategy in the region he was trying to mix together with his hard-power commitment to kill prominent terrorist leaders. Moving the peace process forward meant finding opportunities to strengthen Israel's coordination with other Middle Eastern states.

Because of contending demands on his attention, a recalcitrant prime minister in Israel and the temporary need for a relaxation of his position on expanding Israel settlements in order to pass healthcare legislation, President Obama failed to deliver a revitalized Middle East peace track. There were serious efforts to bring Israeli and Palestinian leaders together – Obama deployed senior staff from the White House and nominated as envoy former US Senator George Mitchell to work to bring the parties together on a deal – but the president never 'owned' the process to the same degree that other presidents had in the past.

Frustrated by the lack of progress by Israel and Palestine on a peace track and undermined politically at home by advocates of Prime Minister Benjamin Netanyahu's vision for Israel's future, Obama ultimately pulled back from the process, pushing the Middle East peace agenda

to the periphery of his global attention. As on every other occasion when the United States walked away from this problem, violence erupted in late 2012, this time between Hamas-governed Gaza and Israel. In November 2012, US Secretary of State Hillary Clinton and Egypt President Mohammed Morsi secured a truce between the parties in the conflict, though it remains fragile.

The early contours of Obama's second-term approach on the issue appears to be an on-going reactivity to events rather than a new strategy of sculpting a more secure arrangement between Israel and its neighbours. For the time being, the United States seems content to try to achieve 'relative calm' around Israel while a tide of political Islamic movements rises around it.

It is not clear whether President Obama is willing to invest more personal capital, resources and time in the issue with Israel so fraught with seemingly insoluble challenges. He is more likely to devote effort to restoring a process that encourages Israelis and Palestinians to talk – but without expectation that much will be resolved. It is also extremely unlikely, given the continuing divisions on the Palestinian side (between Hamas and the Palestinian Authority) and between the Palestinians and Netanyahu, that either of the two principal parties will be willing to enter negotiations even if President Obama pushes them.

The United States will also try to remain on the sidelines as much as possible in the Syrian conflict and in dealing with new convulsions in Egypt, Tunisia and Yemen, and it will work to increase the number of international partners engaged in dealing with the turmoil in the Middle East.

That said, as the situation inside and around Syria worsens with spillover violence inside Turkey, Lebanon and potentially Israel – and with the possibility that the Syrian regime may deploy chemical weapons against its own citizens – the minimal US involvement in the conflict may shift from intelligence-sharing, political coordination and support of some factions of the Syrian resistance through the supply of light arms to more substantial military involvement.

The Obama administration demonstrated in the case of Libya that its reluctance over military involvement in Arab Spring uprisings could be overcome by imminent atrocities. In the case of Libya, the perception that Muammar Gaddafi would engage in mass slaughter in Benghazi triggered Obama's support of aerial intervention. Other factors contributing to the decision were (1) a vote of support from the Arab League, (2) support of the action by the United Nations, and (3) a tough-minded calculation that the application of force would make a difference and could be done with a minimal US military footprint. These same criteria are lining up for potential action in Syria, particularly if Russia and China pull back their vetoes against action at the UN Security Council, and if the Arab League again supports intervention by Western powers. The use of chemical weapons by the Syrian regime would be likely to generate the conditions for regional and global support for intervention. But if the regime does not deploy chemical weapons, then the United States and other countries in the region are not likely to intervene robustly.

In other words, Obama's early strategic vision for the Middle East has been replaced by policies designed to engage the reform and democracy movements in the region without generating large-scale responsibilities or exposure for the United States. Efforts to win hearts and minds in the region will be eased until a new equilibrium is restored to these states – and until the United States sorts out what kind of vision it can offer to people in the region that will motivate them to defend the US relationship with their countries.

Thus it appears that, at least during the early stages of Obama's second term, the caution demonstrated in the Syria case – as frustrating as this may be to human rights activists and those advocating intervention – will probably remain the pattern of behaviour in the region. The riots in several majority-Muslim countries, particularly in Egypt and Jordan, following the posting of an anti-Islam video online, as well as revelations that some of the arms supplied by Qatar to Libyan rebel forces may have been used in the insurgent operation against US assets in Benghazi that killed the ambassador to Libya and three other American officials, make it even more likely that Obama will tread very carefully in the region. Some of these Qatar-supplied heavy arms are now finding their way to Salafist brigades fighting in Syria, raising concerns among US policy-makers that they may one day be targeted against US assets.

The United States and its Western allies will have to work with Egypt, Jordan, Lebanon, Yemen and other countries in the region to help bolster national economies and to try to jump-start job creation through investment. While many have focused on the governance turbulence inside Egypt and the tug-for-power between Muslim Brotherhood-supported President Mohammed Morsi and the judicial establishment, a potential \$4.9 billion IMF economic assistance package waits pending a return of political stability.

Economic support for the region is likely to be part of the Obama second-term game plan. However, US foreign policy will be redesigned to work within the contextual reality of austere budgets and an allergy to foreign aid among many domestic voters.

There is little doubt that Iran and its acquisition of weaponisable nuclear capacity will remain among the highest priorities of the Obama administration. Iran's course threatens to undermine Obama's investments in restoring a global commons that resists the spread of WMD materials and nuclear weapons. The Obama administration has achieved and imposed multilateral sanctions against Iran that have severely constrained its import of basic pharmaceuticals, clothing, auto parts and machinery, soap and other life staples. This has had a dramatic impact on the country's population and also severely cut back its ability to finance its oil exports, sending the economy into a tailspin. President Obama has cautioned Israel to not engage in a pre-emptive attack against Iranian nuclear facilities and to allow the tough sanctions regime to work. He will most likely remain on this track and attempt a new round of negotiations with the Iranian leadership to curtail its nuclear programme in exchange for a normalization of relations between the United States and Iran.

Another US priority in the region is maintaining stable relations with Saudi Arabia and the Gulf Cooperation Council, given the GCC's role as a vital balancer against growing Iranian power and aspirations in the region.

The second Obama administration will also prioritize engaging with more Middle Eastern and North African leaders who are part of the rising movement of political Islam. Obama will no doubt invest time in working with Egypt's President Morsi to encourage his constructive involvement in the international system.

To sum up, the recent violent uprisings in the region, combined with ambivalence in the United States about nation-building efforts, are likely to lead to a much more humble Middle East plan in Obama's second term. He has committed himself to drawing down America's resource commitments to the Middle East and to building up economic and military commitments in Asia. Thus, while it is said that the situation in the Middle East, particularly with regard to Israel and

Palestine, refuses to be ignored and may erupt, demanding White House attention if not actively managed, the fact is that the real focus of Obama's attention in his second term will remain the Asia-Pacific region.

International implications

During Obama's second term, therefore, the United States will make a cautious strategic adjustment away from the Middle East and North Africa towards Asia. Obama seems unprepared to engage in a 'Nixon Goes to China' effort on Iran that would realign global powers and interests. His stance on the pressures for domestic reform in the Arab states has been to encourage change but not to intervene heavily – while at the same time taking steps to shrink the US footprint of military and economic obligations in the region. This is a significant shift and may result in the region feeling increasingly abandoned as its young people demand jobs and as radical Islamic clerics try to animate the passions of those disaffected.

The emergence of new, robust US domestic sources of energy is also contributing to the perception that America's high-cost engagement in the Middle East and numerous wars can shift to a less oil-dependent, less regionally engaged posture. (See Chapter 4 on energy for more detail.)

In short, the international community will be frustrated in any desire to see the United States take significant new, globally clarifying and stabilizing geostrategic steps in the region. Under Obama, America is likely to be less involved in the Middle East. The general shift from this region to Asia will leave many of the challenges unresolved and will not enhance the standing of the United States in the region.

China and Russia, which have been resistant to allowing the United States the leverage in international institutions it needs to really put pressure on Iran and Syria, may decide to consolidate their regional roles to replace a less engaged America. While both may eventually yield on Syria-related action at the United Nations, there seems little doubt that each wants to raise the costs of American engagement in the region and to challenge US primacy there.

Under Obama, there are unlikely to be significant strategic leaps that would resolve the major question of what new US-led global arrangement should or will replace the clarity of Cold War superpower relations. Instead, US policy on the Middle East and North Africa will be characterized by a more ad hoc, reactive approach to low-level turbulence.

9 India

Xenia Dormandy

Introduction

Pundits often refer to the US–Indian relationship as being between the world’s oldest democracy and its largest. With America’s long-standing ally Japan undergoing economic and political upheavals, Asia-watchers have looked to India, given its military capabilities and desire to be a regional and global actor, as a stronger partner for the United States.

India has also been an ever-present element of America’s Asia policy owing to its conflictual and extremely sensitive relationship with Pakistan, and the fact that both of these nations possess nuclear weapons. Tensions between the two countries were at their peak in late 2001 following an attack by militants on the Indian parliament, and again rose with the Mumbai attacks in 2008; the relationship oscillates and, as of mid-January 2013, is again going through an unstable period.

Finally, India’s strong economic growth, albeit somewhat slowed in recent years, and its status as one of the emerging BRIC countries, make efforts to build a strong economic and broader political relationship of great importance to the United States.

Background

While President George W. Bush is rightly credited with moving the US–Indian relationship forward significantly, this process started with President Bill Clinton. In his second term, Clinton was determined to improve relations with India. His five-day visit in March 2000, which included a speech to the Indian parliament – the first time a US president had addressed a joint session – was a resounding success, highlighting for both Indian and US policy-makers the potential of this bilateral relationship. This was a particularly notable achievement only two years after the US had imposed sanctions on India (and Pakistan) for testing nuclear weapons.

When President Bush took office in 2001 he appointed a ‘Vulcan’, Robert (Bob) Blackwill, as his ambassador to India, signalling the importance he accorded to this position and the bilateral relationship.⁹⁵ In addition to India’s significance as a growing political and economic power, and its geographical position in Asia, it was also, in the minds of the top US leadership, a potentially vital player in Bush’s democracy promotion agenda. The 9/11 attacks also played a critical role in changing the thinking in Washington. India was one of the first countries to offer assistance to the United States, which then opened the door to joint exercises and naval patrols. India’s flexibility encouraged many senior US officials to look at it as a potential partner instead of a hindrance.

95 A term of art used to describe the foreign policy experts who were close to the President and guided his 2000 election campaign on these issues. Also considered to be in this group were Donald Rumsfeld, Dick Cheney, Paul Wolfowitz, Condoleezza Rice and Richard Armitage.

It was early in President Bush's second term that the US–Indian relationship really took off. On 18 July 2005, the two leaders announced the 'Civil Nuclear Deal' in a joint statement. This agreement proposed some profound changes to the nuclear non-proliferation regimes that would allow India to engage in civil nuclear cooperation with signatories to the Nuclear Non-Proliferation Treaty (NPT). In return for this (and some other initiatives) India would commit to a number of steps including splitting its civil and military nuclear facilities and agreeing to abide by the various non-proliferation treaties.⁹⁶ This deal was intended to sweep away the long-standing obstacles to the relationship in the nuclear sphere and in high-technology commerce so that stronger ties could be developed.

However, July 2005 marked the high point in the relationship. The political energy that was needed in both countries to move the deal through the Indian parliament and US Congress left little drive for other initiatives. Expectations, which were so high following the deal, dropped swiftly as political and legal constraints blocked progress on a myriad of issues, especially in the economic arena (not least including the stalled Bilateral Investment Treaty (BIT)).

President Barack Obama came into office seeing India as a partner with which he could work to tackle global issues such as energy, environment or disease control. It was in this context that, on his visit to the country in November 2010, he announced US support for India as a permanent member of the UN Security Council (if and when it expands).⁹⁷ Although this was a successful trip, including the largest ever team of senior US policy-makers and business leaders, the summit resulted in only a short positive boost in the relationship.

Despite hopes for a stronger and closer partnership with India, a number of factors hold the relationship back. First, India's colonial past makes it very hesitant to agree to policies that might suggest dependence on the United States. Second, while it has increasingly moved away from its historical Non-Aligned Movement (NAM) posture, it continues to hold on to the principal tenet of the inviolability of sovereignty. As a result, on some issues of importance to the United States, India has been reluctant to sign up (in the case of sanctions on Iran, the resistance is also affected by its long-standing relationship with that country and its energy needs).⁹⁸ Finally, India's domestic constraints and challenges (not least partisanship, coalition politics and corruption) have meant that it has little attention to devote to less urgent battles that need to be fought and resolved regarding many issues in the US–Indian relationship.

Despite these constraints, India will continue to feature strongly in America's thinking on Asia and – given its population, natural resources, economy, location, and both soft and hard power – to play an increasingly central role in global geopolitics and in international institutions. As the United States prepares to pull out of Afghanistan (see Chapter 10 on Afghanistan and Pakistan policy), and as it maintains its policy of rebalancing to Asia, the bilateral relationship will remain vital.

96 'Joint Statement by President George W. Bush and Prime Minister Manmohan Singh', 18 July 2005, <http://2001-2009.state.gov/p/sca/rls/pr/2005/49763.htm>.

97 He has also proposed a stronger role for India in other international fora.

98 While India has largely resisted signing up to sanctions against Iran, it has publicly called on the Iranian government to abide by its NPT obligations, and the government and some companies have quietly shrunk their engagement, including on energy.

Obama's second-term policy

US policy on India in the coming years is likely to incur some disappointment on both sides. India has long made clear to the US government the importance it attaches to America's stabilizing presence in the region, and thus the US withdrawal from Afghanistan in 2014 will hurt in Delhi. For its part, the United States will be disappointed by India's inability to make significant progress on opening up its markets and making commerce more transparent, given its coalition politics and broader political dysfunction that will only heighten as the 2014 national elections approach.⁹⁹ Nevertheless, both sides recognize the importance of this relationship over the longer term, and neither will wish to put at risk the progress made in recent decades; patience will be paramount.

In the shorter term too, attempts will be made early in the second term to re-energize India policy: President Obama reaffirmed at the East Asia Summit (EAS) on 21 November 2012 that 'India is a big part of my plans'.¹⁰⁰ As noted, it also plays an important role in the US rebalancing to Asia; given its reach and interests, India is, like the United States, an Asia-Pacific power if not an Asia-Pacific state.

Given India's sensitivities to any formal alliance with the United States, progress is likely to come informally in a number of areas. In the nuclear arena, the United States will continue to push India for flexibility in its liability law, which has thus far prevented American business from investing in Indian's civilian nuclear industry. It is anticipated that ways will be found to manage this in the coming year even if a resolution is not likely until after the Indian elections in 2014.

In the economic arena, the US and India will continue working on the Bilateral Investment Treaty (BIT), negotiations on which have been going on for at least seven years. However, this is likely to be a lower priority than other economic trade deals on Obama's agenda including the Trans-Pacific Partnership (TPP) and US–Europe FTA (see Chapter 4 on trade). Meanwhile, even in the absence of a treaty, the United States will focus on building the trade relationship and pushing India to become more open to international investment.

Energy will also be a central theme in bilateral relations. There is hope that in the relatively near term the United States will find ways to open up its exports of liquefied natural gas (LNG) to India despite the lack of a Free Trade Agreement (FTA) between them; current rules only permit LNG export to countries that do have such FTAs with the United States. As an initiative that does not require Congressional approval, this is likely to be a carrot that America can use in the coming years, perhaps in conjunction with India's reducing its energy imports from Iran.

Defence issues will form another major element of the bilateral relationship in the coming years. One of the principal blocks to progress in technology and development has been the differing US and Indian defence acquisition and production processes; with the recent initiative by Deputy Defense Secretary Ash Carter to move past these obstacles, there is great hope that momentum might be regained. At the same time, in operational terms, while India has been wary of working closely with the United States (or others), it is increasingly cooperating on humanitarian and

⁹⁹ In late 2012, India did make progress on liberalizing some of its foreign investment rules (i.e. allowing entry to multi-brand retail investors such as Wal-Mart) in response to pressure from the US and from its own business community. This is seen very positively by the US government and corporate sector.

¹⁰⁰ 'India Big Part of my Plans: Barack Obama to Manmohan Singh', *Zee News*, 21 November 2012, http://zeenews.india.com/news/world/india-big-part-of-his-plans-barack-obama-tells-manmohan-singh_811850.html.

anti-piracy operations. The two countries currently conduct more joint military exercises than any other states and will continue to do so. There are also efforts to improve intelligence-sharing.

India and the United States are also likely to focus attention, as they have in previous years, on high-technology commerce, on space and, increasingly (given attacks emanating from China, Russia and elsewhere), on cyber security. Both have been beefing up their cyber defences and have become increasingly worried about the expansion of China's offensive capabilities in this realm (in both the military and private sector). While close collaboration is unlikely, enhanced coordination is probable in the coming years. Space cooperation is likely to continue to be hampered by bureaucracy and a lack of clear policy on both sides.

Finally, the United States will continue to support India's growth as an international and regional player, supporting its burgeoning relationship with other regional powers and American allies such as Japan and Australia. While India often chooses not to support American initiatives in the UN and other international regimes because of its traditional position in the Non-Aligned Movement (Iran is of particular concern in this respect), it has shown increasing flexibility and openness to compromise, and the United States will continue to focus on gaining its support in such initiatives.

International implications

A close US–Indian relationship is important, forming part of the broader network of US partnerships in the Asia-Pacific region that bring stability and transparency. For some of the smaller countries there, India's increasing role is positive as it helps to mitigate the otherwise bipolar nature of regional geopolitics between the United States and China. India's policy in the Asia-Pacific region, like America's, is focused not on balancing China but on ensuring that smaller powers have the space to make choices. Thus many of these smaller regional states will be encouraged by a stronger US–Indian relationship, as will other Western states that find US–Chinese bipolarity worrying.¹⁰¹ For the countries in South Asia, however, particularly Pakistan, a stronger US–Indian relationship is of more sensitivity and concern. Pakistan has long felt threatened by it, and any further improvements are likely only to reinforce the position of many in Pakistan who see the United States as an enemy. This will make efforts to maintain an effective US–Pakistani relationship harder (for more on this dynamic see Chapter 10 on Afghanistan and Pakistan). Equally, if Pakistan perceives the US–Indian relationship to be strengthening, it may try to seek closer ties with its long-time ally China in order to 'balance' the regional power of India.

China too is likely to feel threatened by a stronger US–Indian relationship, seeing it as yet another sign of America's attempt at 'encirclement'. Both India and the United States are sensitive, however, about being seen by China as balancing it, and will make strong efforts to counter this perception. The steady (albeit oscillating) improvement in Sino-Indian relations will assist these attempts, and China is equally unlikely to jeopardize relations with either country by seeking to be an outright replacement for US influence in Pakistan.¹⁰²

101 See Xenia Dormandy, *Prepared for Future Threats: US Defence Partnerships in the Asia-Pacific Region*, Chatham House, June 2012, <http://www.chathamhouse.org/publications/papers/view/183803>.

102 For further analysis on the China–Pakistan relationship, see Rosheen Kabraji, 'The China-Pakistan Alliance: Rhetoric and Limitations', Chatham House, December 2012, <http://www.chathamhouse.org/publications/papers/view/188049>.

With the military drawdown from Afghanistan in 2014, India is likely to play a stronger and more active role there, promoting its strategic depth. India's strong desire for continued US involvement, while unlikely to have much influence on American policy, will play in Afghanistan's favour. However, it will again raise concerns in Pakistan.

Iran is also likely to watch an improving US–India relationship very attentively. As noted, India has long trod a careful path by resisting strong pressure to impose sanctions on Iran for its alleged nuclear weapons programme. A closer relationship with the US could presage a stronger position on this issue, something that will make Iran increasingly nervous. However, there is little that Iran can do in response except to limit gas sales to India, which would probably be too costly for it to attempt.

Finally, from the viewpoint of those outside the region, the benefits of a strong relationship between the United States and India are largely positive. Europe is likely to want to work with the former to persuade India to continue to open up commercially to foreign business. Equally, from a security perspective, to the extent that the relationship provides a stabilizing regional framework, this benefits everyone. Both Europe and the United States are working to build defence links with India and will continue to compete in what is one of the fastest-growing markets.

10 Afghanistan and Pakistan

Xenia Dormandy

Introduction

In 2000, President Bill Clinton called the South Asia region the ‘most dangerous in the world’, in large part owing to the nuclear stand-off between India and Pakistan. Then came the events of 11 September 2001, and, later that year, the US-led operations in Afghanistan to remove the Taliban from power and destroy Al-Qaeda.

During President Barack Obama’s first term in office there were a number of major reviews of policy on Afghanistan and Pakistan. The high level of attention paid to these two countries over the past four years is an indication of their centrality to America’s foreign policy and its reputation, and more broadly to ensuring its security.

The coming four years are likely to be no less eventful with respect to these countries (although US interests will narrow significantly). By the end of 2014, US and ISAF forces will have largely pulled out of Afghanistan and international engagement there will have transitioned to assistance and counter-terrorism.¹⁰³ Pakistan will also continue to be on the front-burner for the president given the combination of its unstable democracy, its reliance on nuclear weapons (with uncertainties around their security) and continued militancy. What happens in this region, and the US strategy and response to these events, will be vital not just for the United States, Afghanistan and Pakistan but for many other international actors. The region continues to be one of the most dangerous in the world, but for a myriad of new reasons in addition to the traditional ones.

Background

In 2009, shortly after President Obama took office, he announced the creation of a special envoy for the ‘Af-Pak’ region, appointing Richard Holbrooke to the position.¹⁰⁴ The White House also directed a major review of policy and strategy towards Afghanistan and Pakistan that ‘regionalized’ the policy, closely linking the US approach to both, and led to the US military surge in Afghanistan.

In 2011, US troop numbers rose by 30,000 to over 100,000. Recognizing that a successful counter-insurgency effort also depends on progress in governance and the economy, the United States implemented a simultaneous ‘civilian surge’ that brought about a concurrent rise in Afghanistan-

¹⁰³ US forces are split between those integrated into ISAF and those that remain under direct American command.

¹⁰⁴ The original intent had been to include India in the envoy’s remit but following strong démarches from the Indian government this idea was scrapped.

based personnel from the Departments of State, Agriculture and Justice, and other non-military agencies. The temporary troop increase ended in 2012, leaving only around 68,000 US and 36,000 international troops in Afghanistan today.

At the time of Ambassador Holbrooke's death in 2010, the US government was completing a second major review of policy on Afghanistan and Pakistan. His successor as special envoy, Marc Grossman, another former senior diplomat, took over a policy that continued to tie the two countries together.¹⁰⁵ This review prioritized further negotiations with the Taliban, to include emphasizing the inclusion of the Afghan government (and to a lesser degree, Pakistan).

In May 2012, a further review of Afghanistan policy was undertaken, looking at the drawdown of troops by the end of 2014 (excepting a small number of trainers and counter-terrorism forces), as well as ways of supporting the political process (including the 2014 elections) and of encouraging the nation's economic stability and growth.

These issues – security, politics and economics – are the three principal policy strands of US policy on Afghanistan, although most attention has inevitably fallen on the first.¹⁰⁶ However, at the July 2012 Tokyo conference, the international community pledged \$16 billion in support to Afghanistan up to 2015, conditional on the government, among other things, making measurable progress on transparency and anti-corruption, human rights and women's empowerment, and respecting the constitution.¹⁰⁷ There remain many concerns regarding the 2014 presidential election (particularly after the fraudulent 2009 election). Equally, worries abound over broader security when the international forces pull out.

Pakistan meanwhile continues to face its own set of challenges in these areas. While elections in May 2013 will mark the first time a civilian government has reached a full term, there is much uncertainty as to whether any of the main political parties can govern effectively in the current environment. Militancy is still a scourge, with high levels of violence both in the tribal areas and in the cities, leading to 2,500 civilian deaths from terrorist-related incidents in 2011.¹⁰⁸ Economic growth remains low, with little investment and high levels of corruption adding to the burden. Finally, Pakistan continues to build up its nuclear capabilities, to an estimated 180 weapons today.

Following a relatively stable if delicate period, the US–Pakistani relationship declined precipitously in 2011. Starting with the shooting of two Pakistanis in January by a CIA operative, followed by the operation that resulted in the death of Osama bin Laden in May, and the accidental killing in November of 24 Pakistani troops by NATO forces in the Federally Administered Tribal Areas, trust between the two countries fell to new depths and led to a review of relations by Pakistan's parliament. The situation improved in early 2012 but remains sensitive, particularly in view of the deeply unpopular US drone operations in Pakistan. The degree of future cooperation on counter-terrorism operations will remain difficult, at least in the short term, as these sensitivities continue.

It is in this difficult and uncertain context that Obama's second term starts.

105 Grossman left this position in December 2012, and his deputy, David Pearce, became the acting special envoy.

106 It is hard to focus on economics in particular while security is still unstable.

107 If Susan Rice or Samantha Power retains a senior position in the new administration, women's rights will remain a high priority.

108 State Department, 'Pakistan', *Country Reports on Terrorism 2011*, <http://www.state.gov/j/ct/rls/crt/2011/195545.htm>.

Obama's second-term policy

Two time periods must be considered when assessing US policy towards Pakistan and Afghanistan in the second term – up to the end of 2014 when the troop drawdown will be complete, and after this date. For each period, the policy can be largely divided into three parts: security, politics and economics.

Before 2015

In broad terms, the US government has been focused on 'regionalizing' its South Asia policy and in particular its policy toward Afghanistan and Pakistan – the 'Silk Road' strategy that Secretary of State Hillary Clinton reaffirmed in Singapore in November 2012.¹⁰⁹ This strategy – building connectivity (water, transportation, energy and infrastructure) and trade links within the region – will continue to be the focus in the coming years, to provide a foundation for stability and economic growth, an environment inhospitable to the Taliban, and to create networks that tie the neighbourhood into mutually supportive structures. This policy provides the strategic umbrella for the specific issues below.

Security

There is every indication that President Obama will continue to pursue a policy that ties Afghanistan and Pakistan together, at least until the end of 2014. The security agenda will remain paramount in US objectives in this region and, given the on-going flow of Taliban and other militants across the Durand Line, will irrevocably bind the two nations together.¹¹⁰

Within Afghanistan, US and ISAF forces will remain focused on training the Afghan National Security Forces (ANSF) so that they are able to maintain peace when the international coalition leaves.¹¹¹ Responsibility for security will continue to be handed over incrementally to the ANSF in the coming months: US military leaders anticipate that full responsibility will be transferred by the summer of 2013, after which external forces will remain only in a supporting function.¹¹² The United States will also be focused in the short term in negotiating a Status of Forces Agreement (SOFA) and on getting equipment out of Afghanistan (which requires decent relations with Pakistan).

The other significant element of US security policy in recent years has been the controversial use of drones, particularly in Pakistan. While questions are increasingly being asked about the moral legitimacy of this instrument, the US military has made clear that it is one of its most effective tools, causing the least collateral damage.¹¹³ Obama's top counter-terrorism adviser (and nominee for director of the CIA), John Brennan, maintains that 'never before has there been a weapon that allows us to distinguish more effectively between al-Qaida terrorists and civilians. ... [This] makes this counter-terrorism tool so essential.'¹¹⁴ As such, their use is likely to continue, although not at the high level of 2010.¹¹⁵ It is possible, however, that some

109 Hillary Clinton, 'Delivering on the Promise of Economic Statecraft', Speech at Singapore Management University, 17 November 2012, <http://www.state.gov/secretary/rm/2012/11/200664.htm>.

110 Neither the Pakistanis nor the Afghans accept the Durand Line as the legitimate international border between their countries.

111 The ANSF includes all Afghan units associated with security including the Afghan National Army, police and others.

112 'Afghan security handover "by mid-2013"', *Al Jazeera*, 21 May 2012, <http://www.aljazeera.com/news/americas/2012/05/2012521143721612378.html>.

113 While the CIA refuses to discuss any aspect of their drone policy, it is the agency in control of most of them, rather than the military. This could slowly change if John Brennan becomes director of the CIA.

114 John O. Brennan, 'The Efficacy and Ethics of US Counterterrorism Strategy', Speech at the Wilson Center, 30 April 2012, <http://www.wilsoncenter.org/event/the-efficacy-and-ethics-us-counterterrorism-strategy>.

115 See Bill Roggio and Alexander Mayer, 'Charting the data for US airstrikes in Pakistan, 2004–2012', *The Long War Journal*, <http://www.longwarjournal.org/pakistan-strikes.php>.

ambiguous formulation will be found to give the Pakistani military more say in their use, in order to mitigate some of the fury over the attacks and with the aim of improving military-to-military relations with the United States.

Politics

In the coming year the United States will exert strong pressure, in conjunction with others in the international community, to ensure a legitimate and transparent process in Afghanistan's presidential election, scheduled for April 2014. It is widely considered that political progress is necessary to consolidate advances in security and economic areas.¹¹⁶

The other vital political objective on which the United States has been focused is trying to bring the Taliban to the negotiating table. This endeavour is complicated by the multiple stakeholders with, at times, contradictory objectives. The US interest is to ensure that all major stakeholders have a say in Afghan politics,¹¹⁷ while the Afghan government wants to ensure it leads and owns the process, and Pakistan wants a seat at the table. Meanwhile, the Taliban considers the Afghan government to be illegitimate and will only talk with the United States. While this will continue to be an area of priority, it will be surprising if any notable progress (despite possibly much activity) will be made by the United States before the election.

Pakistan's general elections, scheduled for May 2013, will be watched closely by the international community. While diplomatic efforts to repair the US–Pakistani relationship continue, there is little hope on the US side that any new government will have more room for manoeuvre or a desire to build stronger relations. As such, US policy towards Pakistan is increasingly likely to revert to the transactional, focused exclusively on counter-terrorism, non-proliferation and ensuring the security of Pakistan's nuclear weapons. Given the make-up of the US Congress, Pakistan policy will lack many of the 'carrots' that characterized it in previous years.

Economic and social policy

In part to support a relatively peaceful and fair election in 2014, international development assistance to Afghanistan has been pledged at \$4 billion annually from 2012 to 2015.¹¹⁸ US economic support to Afghanistan will focus very heavily on ensuring a successful election. However, mirroring the less substantial US government presence in Afghanistan, development contractors and many NGOs are reducing their presence in the country in the run-up to the international troop pull-out. Humanitarian organizations are anticipating an increase in need in this period.

The situation in Pakistan is different. The Kerry-Lugar Bill of 2009 pledged \$7.5 billion in social and economic support over a period of five years. Since then, however, US contributions of such assistance have been below the pledged amounts. There has been a strong push from Republicans in Congress to cut spending further, given the perceived obstructionism of Pakistani elites. It is likely that such spending will continue to come under threat in Congress and be slowly reduced further, unless a major external event reverses this trend. Much as with Afghanistan's political progress, this position could change if a newly elected Pakistani

¹¹⁶ It is much harder to show positive than negative change, so even if things do move forward, it will be hard to use such evidence to gain more engagement.

¹¹⁷ While interest in reconciliation has increased in the United States recently, opinion is still divided between those who see it as a political necessity, those who see it as a continuation of the military campaign to split the Taliban, and those who do not support it at all. This complicates the US negotiation position.

¹¹⁸ However, in particular given current austerity, there is some doubt whether the international community will fulfil these promises.

government makes strong efforts to improve governance and transparency and engage more positively with the US. If Senator John Kerry is confirmed as secretary of state (as seems likely), he will likely put significant effort (as he has in the Senate) to maintaining and even expanding the carrot of assistance to Pakistan.

After 2015

The Obama administration hopes that its 'regionalization' of Afghanistan and Pakistan policy will have borne fruit and been consolidated by 2015 to the extent that it provides a stable network through which security, political stability and economic assistance can be supported. However, if these elements do not develop productively by the date of the military drawdown, then it is likely that the neighbourhood will resist being drawn into developments in Afghanistan and Pakistan and this broader strategy will fail.

Security

US security policy is likely to change quite significantly once the majority of international forces have pulled out (around 3–9,000 US troops are likely to stay in Afghanistan to assist with training, counter-terrorism and other such activities). The focus in both Afghanistan and Pakistan is likely to narrow to the further decimation of Al-Qaeda's leadership and that of other terrorist groups targeting the United States, preventing the two countries from becoming a launching ground for terrorists, and in the case of Pakistan, to ensuring the security of its nuclear weapons. Given the resistance of the US public to continued military engagement, it is unlikely that even if the security situation worsens considerably, President Obama will call for troop numbers to be raised again. Post-2014, apart from training and the targeted use of force to achieve counter-terrorism objectives (i.e. Special Forces and drones), the United States will be likely to restrict any additional engagements or any expansion of security objectives. Meanwhile, the ANSF (which is paid for by the United States, Afghanistan and the EU) will have to decrease from around 350,000 to 230,000 owing to funding constraints.

Politics

If the May 2014 presidential election goes well, the United States is likely to stay more engaged in Afghanistan politically, diplomatically and economically. If the election is not considered largely free and fair, given the American public's waning interest in Afghanistan, the administration is unlikely to use up the political capital required to maintain active engagement, and interest and resources will diminish swiftly. This will affect diplomatic and political support for the Afghan government and, to a lesser extent, negotiations with the Taliban (except insofar as these negotiations have a clear security impact on counterterrorism measures).

The Obama administration has increasingly recognized that Pakistan is more important to US interests than Afghanistan. However, given recent events, the relationship is precarious, and a more strategic and long-term engagement is currently not politically viable. Therefore, US policy towards Pakistan post-2014 will remain focused on counter-terrorism and the safety of Pakistan's nuclear weapons, as pointed out above.

Economic and social policy

Economic support following the drawdown is uncertain and depends in very large part on political progress in Afghanistan. If, however, as many anticipate, security diminishes with the military pull-out, international NGOs and organizations will speed up their concurrent withdrawal, with major implications for an Afghan economy that is heavily dependent on foreigners.

The US pledge of \$2 billion annually to Afghanistan will most likely be implemented, and perhaps even increased in the coming years, given the anticipated needs of the country and the American desire not to be seen to desert its people. Again, however, this assumes that the Afghan people make progress politically; without this, as stated earlier, the United States is likely to reduce its support and engagement.

International implications

The Afghanistan-Pakistan region is approaching two seismic transitions, political and military, in the coming years, with significant implications both for the broader Asian region and, in particular, for NATO members.

India, China, Iran and Russia will be most immediately affected by the possible downturn in security as ISAF and US forces leave Afghanistan. India has long expressed its concern to the United States that it should not leave prematurely, and will regard the drawdown very negatively, largely regardless of the state of security. This will have implications for the US–Indian relationship. As a result India, along with Iran, is likely to take an increasingly active role in Afghanistan. Iran will try to take advantage of the withdrawal to expand its geopolitical reach.

China too, given its investments in Afghanistan and Pakistan in natural resources and ports in particular, will be concerned over heightened insecurity; however, beyond the diplomatic and economic spheres it is unlikely to take direct action to protect its interests. China will perhaps be more influenced by America's retreat from a 'strategic relationship' with Pakistan rather than by its Afghanistan policy. China has long had a close relationship with Pakistan that will only be strengthened by US disengagement.

The other likely notable impact of US and international withdrawal from the region will be on the drugs trade. Over the past decade, there has been some pressure (largely unsuccessful) to cut opium production in Afghanistan and replace it with other crops. While this is likely to remain formal policy, it will become even less effective in practice, leaving those affected by the trade, in particular Iran and countries in Central Asia and Europe, with a larger problem on their hands.

The other third parties significantly affected by US policy towards Afghanistan and Pakistan will be the members of NATO. Increasingly, over the past year, there have been divisions within NATO over the speed of withdrawal, raising concerns over the continued efficacy and relevance of the alliance in the 21st century. As the Afghanistan mission – its first major out-of-area operation – winds down, many are asking what NATO's broader role should be in the future. These questions will become more insistent, particularly in conjunction with the on-going austerity measures to which many of its member states are subjected.

There is potentially a longer-term and broader implication for the international community of the US pull-back from the region. If, as is very possible, security in Afghanistan (and Pakistan) diminishes after the drawdown and the United States is seen to 'abandon' the country, its credibility will be closely questioned. It will be seen by some as an unreliable ally and this will provide yet one more piece of evidence, for those who believe it, of US decline. This will have implications not just for the United States, but for its long-time allies and friends, who will perceive their partner to be weaker. Similar implications could also be felt, albeit to a lesser extent, by other NATO members active in Afghanistan, not least the United Kingdom.

Conclusion

It is difficult to predict what will happen in Afghanistan after 2014; the range of possibilities is endless. At one extreme the country could descend back into tribal warlordism, heavy drugs production and the support of militants. At the other end of the spectrum the government in Kabul could provide an element of stability, come to some kind of accommodation with the Taliban and put Afghanistan on a positive trajectory, if at a slow pace. Of course, the likely outcome will be somewhere between these possibilities, but this spectrum illustrates the great uncertainty in this region. It is as yet too early to tell.

11 Russia

Stephen Blank¹¹⁹

Introduction

President Barack Obama's re-election spawned a flood of opinion pieces and statements concerning the future of Russo-American relations. Most of these focused on the existing agenda: arms control, human rights, trade and current regional issues such as missile defence in Europe and Syria. In other words, despite the dynamism of world politics, most analyses, including the likely policy of the new administration, remain immured in an old agenda: arms control (including missile defence), the absence of robust bilateral economic ties, clashes over regional security issues, and the fundamental conflict of values. Therefore, even as the reset policy launched in 2009 continues, albeit more haltingly, it will probably encounter difficulties. The factors that gave rise to this policy are disappearing and new issues are coming to the fore. While American elites view Russia as relatively unimportant and non-threatening to vital US interests, Russian elites view the United States as a fundamental adversary. As such neither are prepared to rethink issues.

Background

Though the original reset policy had its problems, much of the criticism stemmed from the Obama administration's failure to make clear its limited objectives, such as an arms control treaty and support for US positions in Iran and Afghanistan, and from its overemphasis on the need for cooperation with Moscow to achieve progress in these two countries. Consequently the reset policy has enjoyed little domestic support in the United States, most particularly among Republicans.

Meanwhile, anti-Americanism remains the default option in domestic and foreign policy for Vladimir Putin's regime. Moscow regularly accuses Washington of seeking to overthrow its political system through democracy promotion.¹²⁰ This will not change unless the nature of the regime does; hardly a foreseeable occurrence any time soon. Russia sees the reset not as a policy of principle but rather as something it thinks it is owed. Russia's repressive domestic policies and incessant striving for neo-imperial-like gains abroad habitually stimulate foreign opposition that stymies initiatives like the reset policy.

The regime's foreign policy mission, the assurance of Russian sovereignty, really means the survival of the Putinist form of government. That system can only survive by subordinating neighbouring states to Russian influence, if not control. Thus there is a direct link connecting the perpetuation

119 The views expressed here do not represent those of the US Army, the Defense Department or the US government.

120 Recent examples include the Dima Yakovlev Law in 2012, echoing Putin's demand that all NGOs getting foreign support be labelled 'foreign agents' and the expulsion of the US Agency for International Development from the country on 1 October 2012, which Putin accused of meddling in Russia's internal politics.

of Russia's domestic regime to the extension of Russian influence abroad. This programme inevitably generates foreign resistance, and not only from neighbours. Thus Secretary of State Hillary Clinton recently labelled Putin's cherished Eurasian Customs Union – the centrepiece of his larger programme of Eurasian integration – an attempt to 'resovietize' the Commonwealth of Independent States (CIS) and vowed to resist it.¹²¹

Obama's first-term reset policy succeeded in some areas. Moscow has moved closer to Washington's position on Iran, demanding the country's compliance with the Nuclear Non-Proliferation Treaty and International Atomic Energy Agency inspection regimes. The 123 Agreement on Nuclear Materials has been restored. Moscow joined the World Trade Organization, and the Northern Distribution Network (NDN) through Russia is a key logistics mechanism to support the war in Afghanistan, particularly as the route through Pakistan became more troublesome. Moreover, there are signs of potential progress on arms control. A new arms control treaty has reduced both sides' nuclear arsenals and Russia recently announced its willingness to discuss tactical nuclear weapons and the Conventional Forces in Europe Treaty. Those actions suggest that the new administration will pursue a new round of arms control talks with Russia. The reset policy also helped improve relations between Russia and some of America's European allies, as shown notably with the Russo-Norwegian treaty on the Arctic in 2010 that essentially demarcated the boundaries between the two states, and with the Russo-Polish rapprochement.

Moscow saw the reset as a sign of US weakness and decline. It considered the policy to constitute Washington's acknowledgment of Russia's sphere of influence in the CIS and thus a sign of this weakness. Believing US power to be falling, Moscow has worked assiduously to secure its position in this area and undermine US power and positions in many, if not all, of the outstanding regional security issues. It has steadily pushed to erode the sovereignty of states from Ukraine to Central Asia, believing that ultimately the West will not resist (and that in any case those states are not fully sovereign entities).

Other central issues of bilateral concern have been human rights, transparency and governance. In his first term, unlike the George W. Bush administration's intermittent efforts, Obama hardly tried to press Russia on failing to uphold international standards of governance to which it is a signatory (e.g. human rights). This neglect helped Moscow increase its repressiveness in the belief that it can do so with impunity. In turn, the absence of a strong position by the administration on these issues led Congress (and Germany's Bundestag, among others) to take stiffer positions, such as the new law barring Russian officials implicated in Sergei Magnitsky's death from travelling to the United States and placing their assets there at risk.¹²² This dynamic of Western charges against Russian violations of human rights hardened Russian positions against Western interference.

Finally, in response to mounting signs of public disaffection the regime became more anti-democratic, repressive and anti-Western. Domestic discontent in Russia grew out of the 'castling move' of September 2011 whereby President Dmitry Medvedev and Prime Minister Putin simply exchanged positions and presented the population, already unhappy with widespread corruption, with a *fait accompli* indicating that the Russian elite, like its predecessors, viewed the state as their private property. The widespread falsification of the ensuing Duma and presidential elections only added fuel to the fire and Putin's return to the presidency has been marked by a steady increase in

121 'Clinton Calls Eurasian Integration an Effort to "Re-Sovietize"', Radio Free Europe/Radio Liberty, 7 December 2012.

122 Magnitsky was a lawyer who was imprisoned and died because he tried to expose the corrupt takeover of the US-owned Hermitage firm in Russia.

repressive laws, arrests and abductions of reformers from Ukraine. This process has only further raised concerns abroad and in the United States over the reset as the Putin regime becomes ever more repressive at home and intransigent abroad.

As a result, many now compare Russia's stagnation to that of the Brezhnev period or see hints of a new quasi-Stalinist or fascist regime (like that of the Greek colonels in 1967–74) that antagonizes the West and undoes the achievements of the reset policy. Such a regime, especially as it probably becomes more embattled at home, will find it increasingly difficult to make any concessions to Washington, which will in turn strengthen pressure on the Obama administration to renounce the policy.

Obama's second-term policy

President Obama has shown every indication that he will refocus on the reset policy in his second term. Statements in early December 2012 supported his comments, caught by a microphone in March, that he would have 'more flexibility' after the election. However, despite this attention, the reset policy has a clouded future as the conditions that would sustain it are disappearing. US forces are leaving Afghanistan and Moscow has repeatedly stated its opposition to any further UN action against Iran. Therefore it is unrealistic to expect that Washington needs, or will obtain, Russian support on either issue, especially after the withdrawal from Afghanistan is completed in 2014.

Arms control

As part of the reset, President Obama has clearly indicated that one of his priorities with Russia is to make progress on a new arms control agenda. However, an agreement is unlikely before 2016 given the asymmetries in the two sides' force structures, security preoccupations and estimation of the role of nuclear weapons. Since Russia's conventional military build-up is already visibly foundering, Moscow will have to rely until 2020 more on maintaining a strong nuclear presence than it probably would otherwise prefer and certainly more than the United States desires. In addition, Moscow insists on Chinese, French and British participation; while the last two do not present insuperable problems, there is no sign of China's willingness to join these talks. Whereas Washington seeks a reduction in overall warheads and Russian tactical nuclear weapons, Moscow will not discuss the latter without the removal of all of the much smaller US arsenal from Europe – an issue that creates enormous opposition within NATO – and a commitment to end missile defences, which is unthinkable in the United States.

This situation reveals a larger challenge for the US–Russian agenda: Russia's desire to play a more significant role in East Asian security issues while the United States does not see it as an important interlocutor or player in Asia, even though both perceive the rising importance of China and regional security.

Afghanistan and Central Asia

A major change from Obama's first term is that the war in Afghanistan is winding down, making the NDN a factor of decreasing importance in bilateral relations. An issue that has been a central interest for the United States and a leverage point for Russia will no longer be so relevant in the second term. Although it will not fully admit it, given the possibility of conflict and narcotics overspill across the Afghan–Russian border, Moscow needs the US presence in Afghanistan more than Washington does.

Yet Russia has also staunchly opposed any US strategic presence in Central Asia and will intensify its opposition as the US military presence decreases rapidly over the coming two years. Meanwhile, there still is no sign of a coherent US strategy on Central Asia that is not tied to the war in Afghanistan, even though Washington clearly desires to maintain a presence in the region. This already is a point of friction.

The lack of a clear policy towards Ukraine, perhaps brought about by the country's regression from democracy, also causes problems for the reset. The Obama administration is likely to do too little to stop Russia from attempting an energy takeover there. Nor will it push for NATO membership for Ukraine or Georgia, as neither state is ready for it or enjoys sufficient European support. Moreover, in keeping with the reset policy to date, the administration is unlikely to do anything to provoke Moscow in the CIS. While Clinton's recent statement may have suggested a new policy, Washington's refusal to endorse any gas pipeline scheme in Eurasia suggests that it was merely rhetoric concealing the absence of an effective strategy.¹²³

UN Security Council

The reset is also intended to further US efforts to bring Moscow on board in the UN Security Council. In a number of areas, most particularly with regard to Iran and Syria, Russia has hitherto played a disruptive and largely intransigent role. Even as Sunni Islam makes a comeback with US support, Moscow is betting on the Shiite regime in Iraq, trying to sell it arms and hoping it becomes a key energy player there. Russia has steadfastly supported the Assad regime in Syria until now and has probably reached the limit of its support for sanctions against Iran. While Moscow may have to acquiesce in a new Syrian regime, it will only do so for lack of any viable alternative, not because it seeks cooperation with the United States. At the same time, it will block any UN-mandated military response to Iranian proliferation but will do nothing to stop the actual proliferation, seeing Iran as a potential partner against US efforts to consolidate a regional order in the Middle East and Gulf region.

Missile defence

One of the principal areas of possible compromise that Obama might consider in order to bring Russia on board on a number of these issues is missile defence. As stated earlier, Russia's increasing dependence on its nuclear capabilities makes it harder to reach agreement on missile defences (which the Republican Party views as a near-religious dogma as well as a strategic necessity and so is likely to resist in Congress). Since even Russian experts admit the US system in itself presents no threat to their country, Moscow's vocal arguments to the contrary are not convincing, and any concessions made will inevitably arouse a ferocious and justified opposition both in the US Congress and in Eastern Europe. The recent success of Israel's similar Iron Dome missile defences in the conflict with Gaza will undoubtedly add to the pressure to extend the US system even as Moscow demands its curtailment or an abridgement of NATO's and America's exclusive control of the network's operation.

Prospects for the second term

The likely failure to find agreement on regional security issues, the emergence of Asian security as a key issue in the context of the asymmetric position of the two sides on that agenda, the increasing standoff on human rights issues, as well as the difficulties confronting future progress on arms control, make the success of a renewed reset policy highly dubious. Indications suggest

123 'Clinton Calls Eurasian Integration an Effort to "Re-Sovietize".'

that enthusiasm in the United States for a more cooperative relationship exists mainly in the new administration, but not among the public or in Congress, while in Russia the relationship is viewed essentially in instrumental and tactical, not strategic or principled terms. Priority issues for Moscow, such as greater influence in its neighbourhood, including Asia, or greater economic engagement, are of little or no apparent interest to Washington.

Further complicating these bilateral relations is the fact that Russia cannot grasp just how marginal it really is to US foreign policy preoccupations. As issues such as Afghanistan, Syria and Iran become less pertinent, there will be little reason for the United States to make seemingly one-sided concessions to Russia on arms control, regional security, economics or human rights, and little gain from doing so given the political costs of facilitating the preservation of Putin's revisionist and authoritarian system.

Lastly some issues on Russia's agenda, such as greater involvement in East Asia and improvements in trade and technology access, are not on the US agenda – the Russian economy offers little to US investors until it is reformed, and that is not in prospect. This too will therefore be another source of tension between the two powers. Russia's predatory economic policies are too well known and its view of technology transfer, as confirmed by Russian experts such as Dmitry Trenin,¹²⁴ is one-sided, (i.e. it focuses on obtaining technology without concessions through foreign investments or by espionage). The level of Russian espionage in the West has reached the same levels as during the Brezhnev era, another sign of the true value accorded by Russia to the reset policy.

International implications

Given the challenges laid out above, the reset policy will be more circumscribed than it was from 2009 to 2012. Powerful US lobbies, not least in the Republican Party, will also narrow its application. There is still no sign that the dialogue will include East Asian security, an increasingly vital issue for both sides where there actually might be common ground in resisting excessive Chinese ambitions. Nor does it appear that the two sides will find a way to cooperate on denuclearizing North Korea. However, the implications could be even more serious if cooperation either stagnates or breaks down. Then opposition and disregard for Russia in the United States will limit the Obama administration's moves while the domestic state of siege proclaimed by the Putin government in Russia will inhibit both reform and a genuine opening to the West. Refusal to reform Russia, an increasingly visible policy choice by Putin, will also vitiate any potential for the 'modernization partnerships' that Russia seeks with the West to have more than a marginal impact on its development.

A lack of progress or even steps backward in the bilateral relationship will be felt most keenly on issues of great international concern such as Iran and Syria. While Russia does not have many tools of leverage, deploying this intransigence may be one that Putin will use carefully to ensure he achieves his own objectives in other areas.

East European governments are also likely to be at least as concerned over policy in the second term as in the first. Most are unhappy with a perceived US neglect of the region, and in particular, with Obama's apparent willingness to sacrifice relations with them for a warmer relationship with

124 Charlemagne, 'Europe's Bear Problem', *The Economist*, 27 February 2010, <http://www.economist.com/node/15578042>.

Russia. If Obama makes any concessions on the defence of Eastern Europe to preserve the reset, that will further heighten the feeling in this region that America is deserting it and is increasingly untrustworthy.

The other country that will be watching this bilateral relationship closely will be China. Because Beijing is always preternaturally suspicious of any sign of closer US–Russian ties, it will try to keep Russia with it against efforts by the United States to project its power and values abroad. Russia will probably continue to support such moves, but on regional Asian security issues it is following its own independent line that often clashes with Chinese policies. From the Russian perspective, therefore, Sino-American rivalry could possibly drive Beijing closer to Moscow or open up space for Russia to play both parties off against each other.

Lastly there seems to be little vision of the United States playing a major role to restore the EU's general vitality, in particular in regard to Russia, even though doing so seems manifestly to be in Washington's and Europe's interest. Unless such a vision and policy emerge it is likely that divergences between the United States and its European allies in this area may widen, giving Moscow a chance to manoeuvre among those parties. This will be especially troubling if the reset falters.

Conclusion

Whatever course of action Washington chooses, it must keep in mind the five great priorities necessary for success with Russia. These are: first, an equally forthright policy in the Russian periphery to strengthen states there against Russian encroachments; second, the revival of the EU's liberal democratic model as a source of progress and vitality; third, the restoration of a true Western alliance consensus on Russian issues; fourth, a vigorous defence of Western values against Russia's increasing repressiveness; and fifth, a robust dialogue on East Asian security issues. If these conditions do not materialize, then it is likely that the reset policy of the past will not succeed in the future. And that can only mean a more negative outlook for the relationship in the future.

12 Europe

Robin Niblett

Introduction

The relationship between the United States and Europe no longer carries either the 'angst' of much of the George W. Bush presidency, which appeared to herald a 'unipolar' approach to US foreign policy, nor the 'hope' of 2009, when President Barack Obama began his first term in office. The Obama administration's more engaged, multilateral style raised the prospect of a new golden age in transatlantic relations. Inevitably, however, and as many predicted, reality could not match expectations. Structural differences and national interests prevented a more coordinated transatlantic approach to many major issues affecting global security and prosperity, whether the Middle East peace process, climate change negotiations or the World Trade Organization's Doha Round.

Nevertheless, most European leaders and their publics are very comfortable with Barack Obama spending another four years in the White House.¹²⁵ The campaign rhetoric of Mitt Romney raised the prospect of a return to a more muscular US international role that most Europeans believe to be counter-productive. The question now is whether American and European leaders can convert their willingness to work together into one or more major initiatives that will carry significant international implications. One that will be a focus of attention in 2013 involves negotiating a more open transatlantic market for trade and investment. Not only could this give a much-needed boost to economic growth on both sides of the Atlantic, it could also help Europe and the US lead the way in the design and implementation of widely accepted rules and standards to manage the ever-deepening process of globalization.

Background

The United States and many European nations, along with Canada, continue to be members of the world's most integrated and successful military alliance – the North Atlantic Treaty Organisation (NATO). Their economic relationship is also the closest in the world. Annual bilateral trade (some \$550 billion in 2011) is dwarfed by the interconnections created by decades of transatlantic cross-investment, which, according to Daniel Hamilton and Joseph Quinlan, drives annual commerce between US and European companies and their affiliates amounting to approximately \$5 trillion.¹²⁶ In addition, political leaders and societies in Europe and the United States share deep cultural and societal links, despite changing demographic profiles, and a commitment to free

125 See, for example, a poll by the BBC in October 2012, 'BBC poll: Rest of world favours Obama', 23 October 2012, <http://www.bbc.co.uk/news/world-us-canada-20008687>.

126 United States Census Bureau, 'US Trade in Goods', <http://www.census.gov/foreign-trade/balance/index.html>; Daniel Hamilton and Joseph Quinlan, *The Transatlantic Economy 2012: Annual Survey of Jobs, Trade and Investment between the United States and Europe* (Washington, DC: Center for Transatlantic Relations, 2012), http://transatlantic.sais-jhu.edu/publications/books/Transatlantic_Economy_2012/120321_TAE_2012_vol1_final.pdf, p. 15.

markets and liberal democracy. This is reflected in broadly coordinated positions in international bodies such as the G20, IMF and UN Security Council.

Since the end of the Cold War, however, and with it the loss of a unifying external threat, transatlantic relations have been drifting apart. The terrorist attacks of 9/11 and the ensuing war in Iraq gave impetus to this growing divergence. In 2005, in an effort to overcome the transatlantic differences over Iraq, George W. Bush's second administration put considerable effort into defining a global transatlantic agenda. But, despite sharing a myriad of global interests, such as fighting international terrorism, managing a resurgent Russia and containing a nuclear Iran, the policy approaches on the two sides of the Atlantic had little in common. Conducting a 'war on terror' found little resonance in European capitals, including in London; enlarging NATO as a means of containing Russia was also met with European ambivalence; and the Bush administration's intransigent line on Iran, although welcomed initially in Paris, left little scope for the EU3 (Britain, France and Germany) and the US to go beyond containing Iran and towards putting together a viable negotiating package.

In Barack Obama's first term, it was hoped that European and US interests and approaches would finally coalesce. In some cases, such as dealing with Iran, they did. But, despite these hopes, it was core transatlantic global interests rather than approaches that now appeared to diverge.

The much-assessed 'pivot' of US policy attention to Asia was emblematic. The EU's growing economic ties with Asia, and most particularly China, lack the strategic dimension that comes from the US's military alliances and presence in the Asia-Pacific region. The US pivot to Asia was also intended to reduce the dominance of the Middle East in US strategic thinking and diplomatic investment. However, President Obama's failure to persuade the government of Benjamin Netanyahu to move towards peace with the Palestinians has caused frustration in Europe, where this remains the top regional priority. And the initial US resistance to support the Libya uprising militarily demonstrated to governments in London and Paris that they would have to take the lead on some of the difficult Arab transitions.

US and European approaches to Russia have also been running on parallel tracks. The Obama administration sought to engage the Kremlin on US security priorities, such as the future of Afghanistan, strengthening sanctions on Iran, promoting nuclear disarmament, and missile defence. In the meantime, European governments focused on their burgeoning trade relationship, on energy and on competition with Russia over political and economic influence in Eastern Europe.¹²⁷

Obama's second-term policy

Despite these differences, the transatlantic relationship is still on a firmer diplomatic footing than it was four years ago. Hillary Clinton's 38 visits to Europe as secretary of state confirm the extent to which European political, economic and military support and engagement are considered essential to America's foreign policy agenda. The challenge for the US and Europe during President Obama's second term will be to transform this diplomatic consultation into concerted action on the most important items on their respective international agendas.

127 For example, in 2011 the US exported just \$8.3bn worth of goods to Russia, while the EU exported €198.4bn, largely dominated by oil and gas. See US, 'US Trade in Goods', <http://www.census.gov/foreign-trade/balance/c4621.html>; and European Commission, 'Trade with Russia', <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/russia/>.

However, the Obama administration will find that European leaders will remain preoccupied, for the next couple of years at least, with finding a resolution to the euro crisis and its institutional spill-overs. Internal divisions may further constrain Europe's capacity to serve as an effective partner with the US on global issues. The Franco-German relationship is under great strain given the two countries' competing visions for future European integration, while America's most reliable ally, the United Kingdom, is grappling with its own European future. Declining European defence budgets will deepen the growing imbalance between American and European defence capabilities.

For its part, the US must now undertake its own difficult structural reforms to social security and other government spending in order to tackle the country's persistently large deficit and growing debt. When combined with changes to the demographic make-up of the country that were influential in Barack Obama's re-election, the instinct to look to Europe for ideas and partnership will need to be nurtured more carefully in the future. Indeed, it has been increasingly noticeable since the latter part of the Bush administration that the most dynamic career paths for academics and diplomats are focused on Asia and the Middle East rather than on Europe.

Despite these developments, the US and Europe are destined to work together on a number of pressing international challenges. The first is the need to resolve the challenge posed by Iran's nuclear programme. If President Obama stands by his statement during the election campaign that his 'red line' for military action is Iran's acquisition of a nuclear weapon capability, and if the Iranian regime does not overstep this red line, then it is possible that the US and EU can sustain their current approach of diplomatic and economic pressure in order to find a way forward.¹²⁸

Israel's perceptions and choices will also be central to this issue. The reality is that European impatience with the Netanyahu government is only likely to intensify in the years ahead, assuming he wins re-election in early 2013. The possibility of a transatlantic split over how to balance supporting Israel over its fears of a nuclear-armed Iran and pressuring it to move forward with the moribund 'peace process' cannot be discounted in Obama's second term.

Developing a coordinated transatlantic approach to the faltering transitions of countries in North Africa dominated or led by Islamist parties will also be essential, as will coordination on how best to ensure a sustainable political transition within Afghanistan during the US and European troop withdrawals through to the end of 2014. And the shared interest in countering the spread of extreme Islamist groups into the Sahel will need to overcome growing European unease with the Obama administration's heavy reliance on 'kinetic' methods such as drone strikes.

It could be argued, however, that each of these challenges to the transatlantic relationship is tactical when compared to the strategic question of how the two sides react to the rise of China. Rather than dividing the US-European relationship, it is possible that China will now serve as a spur for the two sides to undertake what could prove to be a historic effort to integrate the US and European economies even more closely into a genuine transatlantic market.

US and EU negotiators have spent the past twelve months discussing the parameters for a major new transatlantic agreement to open up further each other's markets to bilateral trade and

128 Barack Obama, 'Remarks at AIPAC Policy Conference', 4 March 2012, <http://www.whitehouse.gov/the-press-office/2012/03/04/remarks-president-aipac-policy-conference>; Richard Dalton, 'Nuclear deal with Iran is possible if bad habits change', *The World Today*, Vol. 68, No. 11, December 2012/January 2013, pp. 26–28, <http://www.chathamhouse.org/sites/default/files/public/The%20World%20Today/2012/decemberjan/WT0712Dalton.pdf>.

investment, as part of a High Level Working Group on Jobs and Growth. This latest initiative builds upon a long-standing process of transatlantic market-opening negotiations first launched in 1995, but with minimal success to date. What has changed is the belief in capitals and among business leaders on both sides of the Atlantic that re-starting economic growth after the recent crisis and at a time of growing economic competition from China and other emerging economies requires a serious effort to reduce the many regulatory and other non-tariff barriers to that inhibit even higher levels of transatlantic trade and investment.¹²⁹

Many challenges to such an agreement persist, among them jealously guarded Congressional oversight of regulatory agencies in the US; the fragmented approach to regulatory definition and oversight across the EU; the broader question of whether the Obama administration will focus instead on its proposed Trans-Pacific Partnership; and whether EU governments can handle a major new transatlantic negotiation at this time. Nevertheless, it appears that there is real political impetus to try to strike a deal early in Obama's second term.¹³⁰

International implications

For most countries outside the Atlantic area, transatlantic cooperation is defined by the NATO alliance, not least because of its interventions in Libya, Afghanistan, Iraq and the Balkans, and in helping after the earthquake in Pakistan in 2005. NATO will undoubtedly persist as the central focus for transatlantic security coordination for the foreseeable future. The alliance serves as an insurance policy for Europeans to ensure continued US political-military involvement in Europe and for the US as an institutional framework and integrated military command structure to secure European involvement in future international military or security engagements.

Success in striking an agreement on reducing non-tariff barriers to trade and investment would give the US and Europe a powerful new platform from which to offer international economic leadership in the future. At a time when the US and EU markets still remain the largest and most developed in the world, common transatlantic standards and regulations, in areas such as product health and safety, energy efficiency and environmental protection, government procurement, finance and information technology, could become the basis for multilateral standards and regulations in many of these same areas.

Such a transatlantic agreement could not be a one-off deal – it would require a regular process of US–EU consultation and coordination, both to reflect the impact of new technologies and processes on future regulations and to assess the implications of joint decisions on third countries. This could elevate consultation and coordination beyond the annual summit format that has proved so sterile in past years.

The timing of such a development would be propitious. Many of the world's leading emerging economies – China, India, Brazil and Turkey, for example – have entered a period of difficult

129 See Trans Atlantic Business Dialogue, 'Forging a Transatlantic Partnership for the 21st Century: Joint Statement by Business Roundtable, the Trans Atlantic Business Dialogue and the European Round Table of Industrialists', 3 April 2012, http://www.tabd.com/images/stories/BRT-TABD-ERT_Vision_for_TAP_Apr_3_2012.pdf. For further information on the High Level Working Group, see 'Interim Report to Leaders from the Co-Chairs: EU-U.S. High Level Working Group on Jobs and Growth', 19 June 2012, http://trade.ec.europa.eu/doclib/docs/2012/june/tradoc_149557.pdf.

130 See Hillary Clinton, 'The Transatlantic Partnership', speech at the Brookings Institution, 29 November 2012, http://www.brookings.edu/~media/events/2012/11/29%20clinton/20121129_transatlantic_clinton.pdf.

adjustment after benefiting for at least a decade from a process of market-opening and unleashing the economic potential of their large populations.¹³¹ For some, such as China and Brazil, the challenge could be a middle-income trap; for others such as Russia and India, it is a matter of overhauling a political economy that is resistant to foreign investment and trade. At the same time, the G20, which proved relatively successful in the period of crisis management in 2008–09, appears to have lost its sense of purpose and direction.

The type of rule-setting and coordination that would accompany a transatlantic trade and investment agreement could be extended over time to other countries, whether by sector or on a more comprehensive basis. It could provide the foundation for deeper, more effective international coordination on rules for foreign investment, government procurement and intellectual property protection that have been stymied in the large multilateral framework of the WTO. It could extend to areas such as standards for energy efficiency at a time when major international agreements on climate change are in limbo. And it could even provide a framework for the US and Europe to coordinate with emerging powers in supporting economic development in poorer countries around the world.

A shift in the centre of power for the transatlantic relationship from the NATO security alliance to a new US–EU political-economic framework would be a historic step not just for the bilateral relationship but also for international governance. As the process of globalization and the rise of a global middle class create ever-deeper levels of international economic interdependence, the world needs to move towards a rules-based international economic order. If Europe and America cannot offer leadership on this front now, the opportunity for them to do so will soon disappear.

131 For further analysis of these developments, see Ruchir Sharma, 'Broken BRICS: Why the Rest Stopped Rising', *Foreign Affairs*, Vol. 91, No. 6, November/December 2012, pp. 2–7; and Gideon Rachman, 'The Brics have taken an unhappy turn', *Financial Times*, 8 October 2012, <http://www.ft.com/cms/s/0/af6e8b08-1136-11e2-8d5f-00144feabdc0.html#axzz2FlwVnUD>.

13 Conclusion

Xenia Dormandy

While President Barack Obama's administration is likely to spend the next six months reviewing many major policy decisions, much is already clear. As in previous administrations, policy will be driven principally by US interests, personalities (President Obama's and to a lesser extent those of his Cabinet), politics (what the president can get through the Congress), austerity and external events (what US partners, allies and other interlocutors do).

The administration's strategy will be laid out over the coming two years in such publications as the National Security Strategy (NSS), the Quadrennial Defense Review (QDR) and the Quadrennial Diplomatic and Development Review (QDDR). However, as in Obama's first term, foreign policy is likely to be more reactive than strategic. While much of this can be explained by unexpected events (such as the Arab revolutions in the first term), it is also a reflection of Obama's desires to keep foreign policy-making in the White House where it has to share space with other priorities. Unless such strategic thinking and responsibility are passed back to its traditional homes in the various departments, the international community should expect to see a policy driven more by events than by vision.

As President Obama made clear in his first four years, he is more inclined towards a 'supportive' foreign policy rather than one that 'promotes' US objectives. This nuance has played out in a spectrum of areas including in America's response to the Arab revolutions: in his speech in May 2011, Obama stated that the United States will continue 'to *support* [my emphasis] transitions to democracy'.¹³² It is also playing out in his position on Syria, where the United States has pushed the opposition to create a credible alternative to take responsibility over ground it controls, and with which Washington and others can work.

American leaders have for decades stated their desire and intention to move away from being the 'world's policeman' and to engage internationally only where vital US national interests are concerned. However, the international community has become used to the United States not following through on those sentiments. The 2011 Libya operation, where it played a secondary role supporting the UK and France-led NATO operation, was a seminal moment in changing this perception and reality. As austerity continues and President Obama has to find a compromise with the Republicans on spending cuts and reducing the deficit, the administration is likely to continue this trend towards a less assertive and proactive role in international affairs.

Where America does engage internationally, given the public's aversion to engaging troops, it is likely to be in a less kinetic way. Where the military is used, it will be in a more targeted manner, such as through the use of drones, cyber warfare and Special Forces. To the extent that

132 Barack Obama, 'Remarks by the President on the Middle East and North Africa', State Department, 19 May 2011, <http://www.whitehouse.gov/the-press-office/2011/05/19/remarks-president-middle-east-and-north-africa>.

the Democratic Party is able to continue to keep foreign assistance funds flowing, the focus will be on the use of other tools such as aid and stronger diplomacy to prevent conflict from breaking out rather than responding to it.

In part driven by austerity, this administration is likely to continue its move towards greater multi- and plurilateralism. Where possible, Obama will sustain his focus on sharing burdens, whether economic (in the post-2014 Afghanistan support), diplomatic (with regard to Iran sanctions or North Korea policy) or military (such as with an operation in Syria). In some cases, the administration will 'regionalize' policy (as in Afghanistan and Pakistan) – bringing in neighbours to support and drive a specific agenda. As the global trend is towards more ad hoc groups, America will also follow this path in working with allies and friends on such issues as Asian security, counter-terrorism and piracy.

Finally, regardless of the preference for the use of certain instruments or mechanisms, the new Obama administration will undoubtedly be hit by unpredicted events that will make much of this planning redundant. Then it will be the relationships that the United States has with other interested parties and its own internal capabilities that will determine how successful it is in achieving its objectives.



CHATHAM HOUSE

Chatham House, 10 St James's Square, London SW1Y 4LE
T: +44 (0)20 7957 5700 E: contact@chathamhouse.org
F: +44 (0)20 7957 5710 www.chathamhouse.org
Charity Registration Number: 208223