

SPECIAL REPORT

CHATHAM HOUSE EXPERT PERSPECTIVES 2018

*Risks and Opportunities
in International Affairs*

**CHATHAM
HOUSE**

The Royal Institute of
International Affairs

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A World in Transition

Adam Ward

There is a sense that the established order is shifting as old certainties in international affairs unravel. More contested and fluid arrangements for global governance are in prospect.

International affairs today present an abundance of ambiguities and analytical challenges. The feeling of transition from an established order of sorts – to the extent that the structures and rules-based norms that have governed relations between states since 1945 form a coherent whole – is vivid. We see America, almost daily under Donald Trump, retreating from its international responsibilities; a more assertive China starting to seek to shape global institutions and relationships to its agenda; democracy in retreat and populism on the rise in many countries; and technology disrupting societies and economies in countless ways.

But if the reality of a departure – broadly speaking, from the Western-led system of recent decades – is unmistakable, the destination remains opaque. Emerging contests for geopolitical advantage, and for control of the shape of future global governance, are still being played out. Everything is up for grabs. In this context, it is inevitably hard to be precise about the medium-term future. The likely shape of the world order of the 2020s, 2030s or 2040s, and the relative power relationships of the key players within it, are necessarily indistinct. One can, however, seek to describe some of its probable general characteristics, and identify the essential drivers that are destabilizing current structures. At a time of transition, it is the risks that mainly draw attention. But opportunity is also inherent to global change.

The first thing to note is that change in the contemporary world is occurring at a perceptibly accelerating pace and is driven from many directions. Globalization has created an intricate infrastructure through which ideas and impacts are rapidly transmitted. Localized political developments can quickly assume wider international importance. Across a dense web of interdependencies, many different actors – states, non-state groups, businesses and civil society – are reacting to flux, striving to adapt, and opportunistically pursuing or defending their interests to whatever degree their resources allow. Technological innovation, meanwhile, is increasingly commanding a structural and revolutionary power over modern life.

Geopolitics is becoming more fragmented. A more contested, multipolar order of some description has been gradually coming into view for some decades, but it is only now sharpening into focus. This development has featured a redistribution of economic, military and diplomatic power among states (and other geopolitical centres of gravity). The shift has intensified as the two principal global powers – the US and China – have redefined how and under what terms they seek to exert

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A more contested, multipolar order of some description has been gradually coming into view for some decades, but it is only now sharpening into focus

themselves internationally. This has prompted a wider set of powers to reassess their options and imperatives.

Both the American and Chinese cases are striking. The US has undergone an extraordinary evolution since emerging as the architect of the post-1945 Western order. That order was based on economic dynamism, hard power, solidarity in shared basic political values, and enlightened self-interest – even a degree of philanthropy – in US dealings with allies. For all the problems and inconsistencies with this model, the US-led approach proved more resilient than that of the Soviet Union, which dissolved in 1991 under the costs and strains of waging a decades-long rivalry on a global scale. Since that seminal geopolitical accomplishment, however, US foreign policy debates have been consumed by differences of opinion about the appropriate balance between prioritizing domestic needs and fulfilling international commitments – and about the nature of the relationship between these two imperatives.

That debate reached its peak in the convergence of stresses produced by the US military interventions in Afghanistan and Iraq after 9/11, and by the global financial crisis in 2008–09. The answer proposed by the administration of Barack Obama was a policy of retrenchment, a more selective and discretionary approach to international engagements, and a tightly drawn interest calculation to govern future US policy. Nonetheless, the US's practical and rhetorical commitment to international causes and global leadership was sustained. There was little to foreshadow the 'America First' principle on which the Trump administration has since built its foreign policy, and which has found favour with its populist base.

Two factors underline why Trump's approach has been so dislocating to date. The first is that it has carried a transactional mindset to extremes, even in Washington's dealings with allies. This has entailed an implicit circumscription of the US's international security commitments, combined with an explicit readiness to use trade policy as an instrument of economic punishment. The second is that the Trump approach has for all practical purposes denuded US foreign policy of much of its traditional soft-power or values-based content. This trajectory, taken to its logical conclusion, implies America detaching itself from the exceptionalist self-image that it has cultivated and projected for decades. The US would instead join the ranks of the narrowly interest-driven states that it has customarily disapproved of in the past. It would become, in other words, a conventional great power.

Some of the administration's most jarring foreign policy postures and decisions are still so recent as to permit debate about the likely permanence of the US retreat from internationalism. It is unclear, in other words, whether we are seeing the initial manifestations of a secular shift or a transitory deviation from a recoverable path. The administration has strayed so dramatically from the classical precepts of US international leadership, and has created so much domestic controversy in doing so, that some observers think a corrective rebalancing is inevitable at some future point. What Trump has done can be undone, in effect. Other assessments, however, acknowledge with concern just how quickly the institutions, regulations and compacts of an established world order – when neglected by their most powerful sponsor – can begin to decay, perhaps beyond the point of meaningful repair.

As America's strategic presence has started to shrink, so China's has expanded. China's more assertive and outward-looking posture predates the

Trump administration, but has been accelerated in reaction to it. This posture had its roots in several factors: Beijing's perception of a loss of nerve and competence on the part of the US in handling geopolitical and economic affairs, following 9/11 and the global financial crisis; a calculation of the openings offered by the Obama administration's more reticent foreign policy; and a growing awareness of China's own gathering strengths and widening international interests. China's leaders and foreign policy community sensed in this a moment of strategic opportunity, warranting a departure from the extreme caution and restraint advocated by former paramount leader Deng Xiaoping.

No one seems to have absorbed the import of this opportunity more than China's current president, Xi Jinping. Xi has developed a narrative about China's future that is wreathed in notions of national renewal and greatness, allied to the view that China must claim its place at the centre of a system of global governance that reflects its interests and preferences more closely. Great-power rhetoric has been accompanied by a new determination to develop and use the instruments at China's disposal, whether in the rapid enhancement of military capabilities or the deployment of ambitious economic statecraft through the 'Belt and Road Initiative'. Xi's consolidation of his leadership suggests that confident extroversion will be a strengthening theme in Chinese foreign policy over the next decade. However, China's international assertiveness is likely to be tempered by the Communist Party's recognition that the inflexible absolutism often inherent in nationalism can rebound on governments; and that improving economic well-being offers a safer basis for political legitimacy over the long term. To this extent, a political preference for external stability can be expected. Ultimately, however, the scope of China's global outreach may be determined by the pace of America's withdrawal from the international arena; and by the degree to which Washington allows Beijing to inherit the management of international affairs in regions and on issues where the US is no longer or much less engaged.

In this changing landscape, the other significant international powers will have to weigh the dilemmas of risk and opportunity that confront them. America's allies will have to decide whether they should work to convert the Trump administration to the importance of the Washington-led order; whether they should try to uphold a version of this order that is independent of traditional US support; or whether they ought to seek solidarity and self-reliance among themselves, in resistance to the Trump agenda.

At present, there is evidence that all three strands of thought are commingling indecisively in policy. Europe's indignant estrangement from the US is still bracing in view of the subversive challenges posed by Russia, especially at a time when a range of issues – from populist movements to the UK's prospective departure from the EU – have sapped confidence in the European project. Meanwhile, for Japan the pressures are in some ways more immediate and the options narrower. Japan inhabits a region defined not only by all the competitive pressures of economic and technological modernity, but also by those of hard-nosed geopolitics. Maintaining US engagement in the Asia-Pacific region on terms that are consistent with Japanese interests has become much more challenging in light of the Trump administration's disavowal of the Trans-Pacific Partnership, of which

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The scope of China's global outreach may be determined by the pace of America's withdrawal from the international arena

Japan is a prominent sponsor. Japanese foreign policy has also been complicated by the abrupt turns Washington has made – from steely confrontation to exuberant conciliation – in its dealings with both North Korea and China. Fear of abandonment on the one hand, and of US miscalculation on the other, has forced Tokyo into a process of elaborate courtship of Trump that to date has yielded few rewards.

Russia has its own dilemmas to consider. In the short term, it must decide how far to carry what critics describe as a campaign of harassment against a divided West. The Trump administration – or, more precisely, Trump himself – has maintained an attitude of forbearance and indulgence towards Russia. For now, Trump’s improvised foreign policy is useful to Russia. However, Moscow is presumably alive to the risk of overplaying its hand when dealing with a US president whose calculus and allegiances can swing wildly, and who is unembarrassed by inconsistency. There is also a larger question for Russia, which concerns the extent to which the country intends to continue drawing its sense of stature from antagonism with the West, when the default geopolitical costs of this strategy are greater reliance on China.

Meanwhile, the traditionally independent-minded powers of India and Brazil still have to determine how to define their interests in this shifting scene. Their distaste for what they see as the exclusionary features of the post-1945 order is well established, but they do not have the means to effect change. While their foreign policies have often reflected resentment of US power, neither country has demonstrated any countervailing sense of strategic affinity with China or Russia.

Given so many potential shifts in agendas and relationships, it is prudent to assume that geopolitics in future will increasingly involve a kind of ‘balance of power’ approach: combining fluidity in countries’ alignment on specific issues, and alliances of convenience to deter egregiously disruptive behaviour. This more adaptive and less formalized international system, based on expediency more than on rules, presages less stability in security terms. For instance, it raises concern about the degree to which powers hitherto locked in stand-offs – avoiding direct confrontation but engaged in peripheral struggles – may feel they have the freedom (and the need) to throw off their current restraints. A salient case here is the contest between Iran and Saudi Arabia. Another concern is the growing number of ways in which states can engage in attrition with one another, for example using cyber instruments; the threshold for acts of war in such instances is neither well demarcated nor universally agreed.

The key task for diplomacy in this more diffuse and fragmented world will be to achieve a workable co-existence between competitive powers whose observance of traditional institutions, norms and regimes will become more patchy and selective. The principal players involved will reflect a greater variety of political and social models, and will have differing attitudes about the accommodations they are willing to strike on questions of interests and values. With grand bargains seemingly out of reach and institutionalized policy coordination in retreat, the rules of the road will likely develop organically and messily.

This cramped set of circumstances is likely to be reinforced for the foreseeable future by trends in politics and society. Identity politics has risen to prominence in many countries, albeit in differing forms and with differing

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This more adaptive and less formalized international system, based on expediency more than on rules, presages less stability in security terms

degrees of intensity. Religious sectarianism in the Middle East, nationalism in Asia and Russia, and populist-sovereigntist movements in the US and Europe are examples. All are based to some degree on exclusion, notions of control and a tendency towards illiberalism. Although none of these movements have achieved positions of dominance, they have had definite political effects. This has played into a pervasive sense that authoritarianism is on the march and that democracy is in retreat.

That said, concerns on this point should not be exaggerated: established democracies throughout the West have shown themselves to be rattled but resilient. They now face the task of revitalizing themselves, principally by demonstrating a greater capacity to deliver economic vitality and the services that their populations expect. Moreover, while authoritarian systems sometimes have more freedom to take unchecked, decisive action, they trade this advantage for the weaker capacity for renewal that aversion to dissent creates over the long term.

The global economy has been an early victim of the more contested political and institutional environment. Protectionism has dealt blows to an already troubled multilateral trade regime. As with the wider project of globalization, there are no easy levers with which to recalibrate the system or correct imbalances. Intense jostling for advantage seems set to continue, though ultimately this is likely to be conducted largely within existing institutional boundaries: the costs of excessive economic disruption will continue to provide an important restraint.

Less cooperative intergovernmental conditions will also require actors in civil society to mobilize as a compensating source of transnational coalitions of interest. There have been some encouraging examples of this, especially in the quintessentially global area of climate action. Other policy areas, such as fostering global health resilience, invite similar action. Meanwhile technological advances, if they can continue to be harnessed to tackling international policy challenges, should provide added scope to circumvent reliance on formal state action. The ability of technology to facilitate cooperation and mass mobilization has been seen in numerous areas, from resource policy to human security.

Amid the disorderly dynamism of this emerging international operating environment, all actors will face increased risks for the foreseeable future. At the same time, the creation of opportunities to resolve common challenges will grow in both importance and difficulty. The articles compiled in this volume, the first of a new annual series, have been written by Chatham House experts and reflect their perspectives on geopolitics and security, politics and society, governance, the global economy, and issues around resources and the environment. These articles are not intended to provide an exhaustive account of the state of the world, but to selectively highlight some of the trends that are coalescing into definable shape as risks or opportunities. They draw on Chatham House's capacity for regional, thematic and technical evidence-based policy research. They are informed by the sense that the future will be one in which risks will certainly need to be assessed carefully, but so too the new solutions to policy challenges that can help shape an evolving global landscape. ■

Adam Ward is the deputy director of Chatham House.

GEOPOLITICS AND SECURITY

America's Crisis of Leadership at Home and Abroad

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America's Crisis of Leadership at Home and Abroad

Leslie Vinjamuri

The Trump presidency is having a corrosive effect on US foreign relations, as the very nature of America as a responsible partner in the international system is challenged.

The 2016 presidential election was an unprecedented moment in US politics – and for American leadership in international affairs. The election of Donald Trump has proven highly disruptive not only for the political establishment but also for those who had previously taken for granted their status as America's international partners. President Trump's idiosyncratic style is having an injurious effect on democracy at home and on the US's global role. For the rest of the world, US domestic affairs *are* foreign policy. What America is, not only what it does, matters.

In the 17 months since Trump's inauguration, people have been trying to develop a satisfactory account of his success at the polls. Many of these explanations inevitably turn to structural factors. The Trump phenomenon has been variously interpreted as the product of the country's relative economic decline internationally; as a backlash inspired by rising inequality, wage stagnation and cultural change, amplified by rural bias in US electoral institutions; or as the improbable outcome of a series of (un)fortunate events in the 2016 electoral process.

These debates are not simply academic. Understanding what brought Trump to power sheds some light on whether reductive US unilateralism is likely to become a permanent feature of international relations. If Trump's election was a fluke, or if he represents only a minority element of the US polity, and one in decline, the significance of Trumpism should diminish over time. In that case, the logical response for foreign partners would be to stay the course (ignore bad behaviour, reward good behaviour) and invest in productive, even creative, partnerships with the US where possible. But America's military and economic power remains a stubborn fact for those who would like to work around the current government. And Trump's brazenness is challenging for those who seek to play the long game.

Any attempt to estimate the future based on the past is bound to be fraught. Regardless of why he has arrived, Trump is now an independent variable, both for America's democracy and for its foreign policy. Things are unlikely to return to normal when he leaves. His dominant narrative, that America has been taken advantage of by the rest of the world, is popular with his base, laying the

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Understanding what brought Trump to power sheds some light on whether reductive US unilateralism is likely to become a permanent feature of international relations

foundation for attacks – both rhetorical and through policy – not only on foreign competitors, but also on many of the US's long-standing partners. At home, Trump has waged an attack on the establishment. This, too, resonates in a country where national identity is defined in no small part by a history of revolution.

Trump's election is not the first event in recent years that has taken us by surprise. The end of the Cold War, the 9/11 attacks and the 2008 financial crisis caught the world off guard. In each case, Europe and the US were inevitably drawn together to forge a collective response. Today is different. Trump's improvisational, zero-sum approach to international relations is driving a wedge through the transatlantic partnership. After an initial year in which many hoped (with some justification) that policy would remain more the same than different – 'watch what they do, not what they say' – Trump's decision in May to withdraw from the Iran nuclear deal, followed only weeks later by the imposition of tariffs on the EU, Canada and Mexico, has been proof that disruption will not be confined to style alone. For now, Europe is at a loss over how to deal with its ever-more-unreliable partner.

Such concerns are all the more significant given that global challenges – the rise of China, demographic change, technological advance (especially automation) – are all developing at pace, and with diminished transatlantic oversight. More immediate problems also are in dire need of a collaborative response: North Korea's nuclear ambitions; resurgent authoritarianism in Russia, Turkey, Egypt and beyond; and a surge of populism across Europe. If Washington wishes to seek Europe's assistance on these agendas at some point in the future, it may struggle to do so, as things for Europe are unlikely to have remained the same.

How long the period of transatlantic divergence will last is anyone's guess. There are multiple reasons to be sanguine about the US relationship with Europe.¹ For the time being a measure of cooperation is being driven by common interests and, especially, Europe's lack of alternatives. But if such pragmatism remains devoid of the shared values that have previously anchored the relationship, it will provide a thin basis for a productive and collective future. The US and Europe may keep their partnership alive in form, but meaningful cooperation will be undermined.

Treading water in international relations is not really an option, or at least not one without consequences. The erosion of international norms, diplomacy and goodwill will not be easy to recover. If America fails to stand up for the rules and institutions that have underpinned the international order and placed the US at the centre of a joint governance venture for more than 70 years, its ability to lead with partners will inevitably be compromised.

The potential ramifications are multiple. First, the absence of US leadership creates the space for other states' geopolitical gains. China may be under economic pressure from the threat of US tariffs, but it will gain relief from the US's absence from the Trans-Pacific Partnership. Europe is pragmatic about China and has minimal capacity to secure any space for Western influence in Asia. Taken together, the incentive and the opportunity for China to make a bid for regional hegemony seem obvious.² In East Asia, the next US president will thus inherit diminished status in a region that has charged ahead economically and in international

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Trump has recognized an economic and social deficit in the US, and his instincts are not wrong

influence. US capacity to influence the Middle East also seems set to decline even further under Trump's watch. Europe and the US are divided not only on Iran, but also (more quietly) on Israel. The unravelling of the Iran nuclear deal and the Assad regime's military gains in Syria look set to bolster Russian influence and encourage further Iranian provocation in the region.

An even more significant factor, perhaps, both for the US and its role in the world is the quality of its democracy at home. Trump has recognized an economic and social deficit in the US, and his instincts are not wrong. Democracy succeeds when citizens are fully part of the social contract. Trust in institutions is also essential to its functioning. Trump has waged a sustained attack on such institutions, from federal law enforcement agencies and the courts to the liberal media, as well as lashing out at some from his innermost circle of advisers. Norms governing the boundary between politics, money and family, and the conduct of the presidency, have been weakened. Civil servants have departed and hiring has slowed. The Republican Party has been thrown into disarray. The legacy of this is uncertain, but trust in US institutions looks set to diminish both at home and abroad. (Already, the Economist Intelligence Unit has graded the US a 'flawed democracy' for two years in a row.)³

Polarization and division are also growing worse under Trump's influence. By 2017, the values gap between Democrats and Republicans had grown to 36 percentage points, up by more than 20 points since 1994.⁴ Wealth inequality has increased substantially across income, ethnic and racial divides.⁵ And division is growing. Hate has intensified. Between 2015 and 2016, the number of anti-Muslim hate groups grew from 34 to 101.⁶ At the same time, rural areas have become even more separate in their outlook from urban America. The cultivation of illiberalism and division in rallies across the country is being mirrored in the courting of authoritarian and populist leaders abroad.

Still, there is room for optimism. Democracy is a practice that requires daily attention. A majority of Americans report that they are paying more attention to politics than they used to.⁷ Intense contests are being waged on multiple fronts. Trump's legacies on immigration, the rule of law, money in politics, financial regulation, education, net neutrality, and the separation of church and state are subject to the outcome of battles between a robust civil society (which includes highly focused, well-organized advocates) and specialized interests. Much of this activity is taking place below the radar of the international news media.

Ultimately, the meta-battle that is taking shape is less one of content than one of process: the role of truth (from simple, established facts to widely agreed scientific positions), norms and the rule of law. This is where the quality of America's leadership and also of its democracy will be tested. ■

Leslie Vinjamuri is the head of the US and the Americas Programme and the dean of the Queen Elizabeth II Academy for Leadership in International Affairs.

Notes

- 1 Wickett, X. (2018), *Transatlantic Relations: Converging or Diverging?*, Chatham House Report, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/publication/transatlantic-relations-converging-or-diverging>.
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Why Nuclear Weapons Risks are Increasing

Patricia Lewis

A lack of progress on arms control and disarmament – as well as a volatile international scene – has renewed fears of nuclear weapons use. The risks are significant and should be taken seriously.

Risk is defined as the product of the probability and the consequence of an event occurring. The high risks associated with nuclear weapons have always been dominated by the ‘consequences’ component of the risk equation. When impacts are overwhelming, however small the likelihood of an event so long as it isn’t zero, the risks are high. Throughout the Cold War, there were several near-accidents and near-deliberate detonations of nuclear weapons, but thanks primarily to good luck and the good judgment of some key individuals, the worst dangers of the nuclear stand-off between the US and the Soviet Union were avoided. Could such good luck and judgment still hold today?

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When impacts are overwhelming, however small the likelihood of an event so long as it isn’t zero, the risks are high

In the 1960s, as a result of the growing concerns about nuclear weapons, Ireland introduced a UN General Assembly resolution that resulted in the 1968 nuclear Non-Proliferation Treaty (NPT). The NPT was a grand bargain in which the states that did not possess nuclear weapons promised never to develop or acquire them, to only develop peaceful forms of nuclear energy, and to subject themselves to safeguarding inspections by the International Atomic Energy Agency (IAEA). In return, the possessors of nuclear weapons promised to negotiate nuclear disarmament in good faith, along with disarmament in other weapons categories, and not to transfer or assist with nuclear weapons technologies. All states party to the NPT could then share in safeguarded nuclear technologies for peaceful uses.

At that time, the NPT was given a lifespan of 25 years – a decision that, in retrospect, betrays a touching faith in commitments to disarmament. In 1995, the Treaty was extended indefinitely as part of a suite of commitments to a) the complete elimination of nuclear weapons; b) a strengthening of the NPT review process; and c) progress towards a Middle East zone free of weapons of mass destruction. Nearly 25 years later, none of those commitments has resulted in substantial progress. In the run-up to its 50th anniversary in 2020,¹ the NPT is in trouble again.

In part, this turbulence has been caused by proliferation in states both outside and inside the NPT. Outside, following their nuclear tests in 1998, both India and Pakistan have cemented their nuclear-armed status, with India having been granted special status for peaceful-use technologies through the Nuclear Suppliers Group and Section 123 of the US Atomic Energy Act. Israel’s nuclear

weapons capability is unspoken and rarely challenged by the other nuclear weapons possessors, although it is of considerable concern in the Middle East. None of these countries is likely to ever join the NPT. Although the adoption of more intrusive IAEA inspections has made it far harder for states, inside the Treaty, to use a peaceful nuclear programme to conceal the development of a clandestine military capability, that has not halted proliferation: North Korea announced its withdrawal from the NPT in 2003, and it was concerns about Iran's programme that led to the 2015 Joint Comprehensive Plan of Action (JCPOA).

Lack of progress in the step-by-step process in multilateral and bilateral nuclear arms control and disarmament is also playing a major role in destabilizing the NPT. Since 1999, when the Comprehensive Nuclear-Test-Ban Treaty was rejected by the US Senate,² things have gone badly for multilateral processes except in the humanitarian domain. Efforts to control landmines, small arms and light weapons, cluster munitions and the arms trade have formed the only pathway for progress on conventional forces. Such efforts in the humanitarian domain rather than in the traditional disarmament process have led to more than 120 countries negotiating the 2017 Treaty on the Prohibition of Nuclear Weapons³ – they have done so with a sense of purpose and urgency not seen since the NPT days of the 1960s. In contrast, since the US's withdrawal from the Anti-Ballistic Missile Treaty in 2002, bilateral nuclear controls and regional conventional arms control involving Russia and the US have all but run into the ground – this is despite the agreement of New START in 2010.

This sorry state has formed the backdrop to an increase in the salience of nuclear weapons in military doctrines in Russia and the US, involving the development of new nuclear weapons programmes in both countries – which in turn increases the possibilities of proliferation and even of nuclear weapons use. Throughout the Cold War, nuclear weapons were seen as the 'weapons that could not be used' – they were for the purposes of deterrence only. Their innate terrifying effects were seen as the foundation of this deterrence. In recent years, this consensus has weakened – with over 70 years having passed since the use of nuclear weapons on Hiroshima and Nagasaki, decision-makers may be unaware of the devastating immediate and long-term effects of such weapons. During the 2016 US election campaign, Donald Trump asked why a US president would not consider the use of nuclear weapons; in the same year, the UK prime minister, Theresa May, stated her resolve to use nuclear weapons; and President Vladimir Putin has frequently made clear the Russian readiness to use them.

In 2018, the possible use of nuclear weapons has become all too real, with threats from both North Korea's leader, Kim Jong-un, and President Trump. Missile alert drills have been reinstalled in Hawaii and a 'real' alert was broadcast mistakenly in January, leading to 40 minutes of panic and uncertainty.⁴ That mistake was readily believed because of the increasing hostile rhetoric between the US and North Korea. With social and broadcast media employed to trade insults and threats, it seems likely that military exercises could lead to misinterpreted signals and the escalation from rhetoric to missile attack. Similar tensions in the Middle East could also raise the stakes. US withdrawal from the JCPOA, unless Europe and Iran find a way through the conundrum,



With social and broadcast media employed to trade insults and threats, it seems likely that military exercises could lead to misinterpreted signals and the escalation from rhetoric to missile attack

could renew the risk of Iran being able to develop a nuclear capability – and thus of an Israeli or Saudi pre-emptive military response.

In this multipolar and increasingly turbulent world, the ‘probability’ component of the nuclear risk equation has grown in significance. Despite near-accidents and near-misses throughout the Cold War, military planners and politicians relied on shared beliefs in the concept of deterrence to assume that nuclear weapons would not be used, however close to the wire things went. With new players in the mix, increased regional instabilities, an environment in which command, control and communication technologies are subject to daily cyberthreats, and the use of social media in preference to quiet diplomacy, these assumptions should no longer be made. As Beatrice Finn, director of the International Campaign to Abolish Nuclear Weapons, warned on receiving the 2017 Nobel Peace Prize, nuclear war may only be ‘one tiny tantrum away’.[■]

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Notes

- 1 The NPT came into force in 1970.
- 2 Cerniello, C. (1999), ‘Senate Rejects Comprehensive Test Ban Treaty; Clinton Vows to Continue Moratorium’, *Arms Control Today*, Vol. 29, September/October 1999, https://www.armscontrol.org/act/1999_09-10/ctbso99.
- 3 Bendix, A. (2018), ‘122 Nations Approve ‘Historic’ Treaty Banning Nuclear Weapons’, *The Atlantic*, 8 July 2017, <https://www.theatlantic.com/news/archive/2017/07/122-nations-approve-historic-treaty-to-ban-nuclear-weapons/533046/>.
- 4 Associated Press (2018), ‘Hawaii worker who sent missile alert was ‘100% sure’ attack was real’, *Guardian*, 3 February 2018, <https://www.theguardian.com/us-news/2018/feb/03/hawaii-worker-sent-missile-alert-100-percent-sure-attack-real>.

Dialogue, Deal-making and ‘Denuclearization’

John Nilsson-Wright

Efforts to achieve peace with North Korea and secure its denuclearization will remain fraught with risk and ambiguity.

Ahead of the historic 12 June meeting in Singapore between US President Donald Trump and North Korean leader Kim Jong-un, commentators, whether hawks or doves, had been gripped by one central question: could any deal from the summit deliver on the US side’s primary demand for comprehensive, verifiable and irreversible (nuclear) disarmament (CVID)? Notwithstanding the bold aspirations of the eventual joint statement, and the characterization of the summit as ‘the opening up of a new future’ between the US and North Korea, it remains unclear whether the two leaders can deliver on the optimism they were so keen to project. The risks to any future negotiating process remain formidable, and the potentially large gains from a settlement must be weighed against the destabilizing impact of Trump’s foreign policy improvisation on an increasingly fragile regional security environment.

Support for renewed diplomatic engagement with North Korea has increased in recent months, in part reflecting the limited impact of coercive measures. Political and economic sanctions (whether bilateral or UN-based), the threat of military action, or a more minimal strategy of containment (the pattern of ‘strategic patience’ favoured by the Obama administration) *may* have helped to slow the DPRK’s military modernization campaign and/or encouraged the North to return to the negotiating table. Yet it is clear that such measures have been at best partial steps in easing the strategic tensions that have bedevilled Northeast Asia and the two Koreas for the best part of seven decades.

The North has remained resilient in the face of tightening economic sanctions, with some informed South Korean observers even suggesting that the DPRK’s economic growth has continued in spite of external pressure.¹ Officially, Pyongyang’s leadership has also rebutted claims that the ‘fire and fury’ threats of a more belligerent President Trump were the key factor in encouraging it to agree to talks first with South Korea, most dramatically in the historic 27 April Panmunjom summit, and then more recently with the US.

For the North Koreans, there is little doubt that the prospect of a Trump–Kim summit had been seen as an unambiguous victory. The meeting with the US president, the world’s most powerful leader, represented a clear win for the young North Korean leader, in his mid-30s and barely in power for seven years. Shaking hands with Trump has given Kim status, recognition and legitimacy (especially in the eyes of his own people) – witness Trump’s reference to his new ‘special bond’ with his North Korean counterpart. Appearing on the world stage on nominally

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The meeting with the US president, the world’s most powerful leader, represented a clear win for the young North Korean leader, in his mid-30s and barely in power for seven years

equal terms with the US president has bolstered North Korea's sovereignty and allowed Kim to reinforce his astutely crafted image as a pragmatic and responsible statesman, in sharp contrast to the conventional global view of him as a crude authoritarian, presiding over a brutal and repressive regime at home while playing a dangerous game of nuclear extortion abroad.

Critically, the agreement that has resulted from the summit offers nothing new in terms of laying out a roadmap for progress on denuclearization. It has merely reaffirmed the commitment of the 27 April North–South Panmunjom Declaration to complete denuclearization of the Korean peninsula, while also expressing commitment to the relatively anodyne goals of 'peace and prosperity'. With no explicit or binding timetable for delivering on these goals, Kim can potentially play for time, adopting a long-term strategy that may be at odds with what appears to be a more short-term approach on the part of President Trump. By trading the goal of 'complete denuclearization' for political normalization, the promise of unspecified 'security guarantees' of sorts from the US, and perhaps at some point the prospect of a relaxation of sanctions, Kim can hope to deliver on his twin promises to his people to keep the country militarily secure while promoting economic prosperity.

For Trump, a meeting with the North has allowed the populist 'art of the deal' president (ever confident in his ability to spin the outcome of talks to his advantage) to place himself in the media spotlight and deliver a political win to his support base ahead of the November mid-term elections. His post-summit press conference remarks were effusive, but offered little to support his optimistic assertion that Kim will deliver on his commitment to denuclearize.

For Trump, reaching so unreservedly for this deal involves potentially serious challenges. The administration appears to lack a coherent strategy for engaging with North Korea (as demonstrated by Trump's 24 May letter abruptly 'cancelling' the Singapore summit), and has shown itself to be sharply divided internally about the longer-term relationship. It remains unclear, for example, how John Bolton, Trump's hawkish National Security Advisor – long fiercely critical of North Korea – will work cooperatively with Secretary of State Mike Pompeo, who has shifted to a much more dovish posture on DPRK issues since taking up his position in the administration.

Moreover, any denuclearization agreement will involve an extremely long implementation phase – perhaps as long as 15 years, according to Siegfried Hecker, a distinguished Stanford nuclear physicist² – and will require thousands of inspectors to monitor compliance. A risk-averse North Korea, distrustful of its long-term US adversary, will be tempted to cheat by concealing its nuclear weapons and long-range missile capabilities.

It remains unclear also whether any agreement between the US and North Korea can address the wider challenge of dismantling the North's stockpiles of chemical and biological weapons, as well as of confronting the threat posed by its substantial conventional forces, including the thousands of short-range missiles trained on Seoul.

Beyond these core questions are the implications for the US's two key regional allies, South Korea and Japan. Worryingly for both countries, Trump made it

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A risk-averse North Korea, distrustful of its long-term US adversary, will be tempted to cheat by concealing its nuclear weapons and long-range missile capabilities

clear in his remarks that he was open to the idea of cutting back on the US troop presence in the region. He also announced that he would suspend joint US–South Korea military exercises to avoid any ‘provocation’ to the North. Leaving aside the implications for alliance ties of characterizing US–South Korea cooperation in such negative terms – the alliance, after all, has typically always been described by both sides as defensive in character – it is odd that Trump made this offer without securing any formal concession in turn from the North, other than a non-binding verbal agreement from Kim to dismantle a long-range missile test site. A deal in which Kim caps or dismantles his long-range ballistic missile programme – the means by which materially North Korea can threaten the US directly – in return for wider concessions from the US may be tempting for Trump. But a limited agreement runs the risk of ignoring issues central to America’s allies.

For Japan, the threat from the North’s medium-range missiles is a key concern, as is the unresolved fate of Japanese abductees, civilians kidnapped by North Korean agents in the 1970s and 1980s. Failure to make progress on these issues risks amplifying distrust between Tokyo and Washington. So far, Trump has only said that he believes these issues will be resolved in future meetings, but he has not said how or by when. In light of the ambiguity on these issues, Japan may be encouraged over the long term to pursue a more independent military posture as its own insurance policy against a US seen as increasingly self-interested and unreliable. Such concerns are already arguably encouraging the administration of Shinzo Abe, Japan’s prime minister, to bolster ties with China via the trilateral summit process between Tokyo, Beijing and Seoul (reactivated on 9 May) as a means of hedging against a feared decoupling of alliance ties.

Similarly, in South Korea, there are worries that a transactional Donald Trump may seek to withdraw some of the 28,500 US troops on the peninsula, whether to incentivize the North to reach a deal or simply to minimize US overseas military costs at a time when US public opinion is turning inwards.

All these trends are injecting extra uncertainty into a once stable regional security environment, forcing regional actors to reassess their own national security goals and long-term political alignments. Talking may be the only game in town, but given the complex problems at issue and the inevitably drawn-out future negotiating process, it remains clear that recent first steps, promising as they undoubtedly are, are part of a longer and potentially arduous journey, fraught with risk and unpredictability.■

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Notes

- 1 See Nilsson-Wright, J. (2018), ‘Predicting chaos: the debate on denuclearization is not over’, *Global Asia*, Spring 2018, Vol. 13, No. 1, https://www.globalasia.org/v13no1/focus/predicting-chaos-the-debate-on-denuclearization-isnt-over_john-nilsson-wright.
- 2 Broad, W. J. and Sanger, D. E. (2018), ‘North Korea nuclear disarmament could take 15 years, expert warns’, *New York Times*, 28 May 2018, <https://www.nytimes.com/2018/05/28/us/politics/north-korea-nuclear-disarmament-could-take-15-years-expert-warns.html>.

A Nuclear Iran, Manipulated by China and Russia?

Neil Quilliam and Sanam Vakil

Withdrawal from the Iran nuclear deal will reduce US influence in the Middle East, in turn enfeebling EU foreign policy and making space for other extra-regional actors to pursue their agendas.

The US's decision in May 2018 to withdraw from the Joint Comprehensive Plan of Action (JCPOA)¹ poses a multitude of risks for non-proliferation and stability in the Middle East. It risks prompting Iran to restart proscribed elements of its nuclear programme. It deprives the US of an opportunity to curtail Iran's regional ambitions. And, not least, it risks changing the balance of power among extra-regional actors – leaving Russia and China with an opening to deepen their own engagement, and potentially binding Iran into foreign policy dependencies with unknown consequences for regional stability.

Much of the analysis of the US change of position has justifiably centred on the specific risks around Iran's nuclear programme. President Donald Trump's long-standing opposition to the JCPOA and eventual decision to withdraw the US from it – with sanctions set to take full effect in November – have damaged the viability of an important non-proliferation agreement. Renewed Iranian work on a nuclear capability is thus in prospect, and a regional arms race more likely again. In short, by casually abandoning the JCPOA, Trump has immediately rendered the region more dangerous in the most literal sense.

But the risks in terms of regional dynamics are equally noteworthy. Three principal factors are at play here. First, Trump's decision further diminishes the credibility and relevance of the US in the region. It continues a process of disengagement that started with President Barack Obama's much-discussed 'pivot' towards the Asia-Pacific. The pivot was apparent, among other things, in Obama's cautious approach to the conflict in Syria and failure to intervene over the Assad regime's use of chemical weapons. Under Trump, diplomacy has been overtaken by an inward-looking 'America First' vision that prioritizes US values and interests. Moreover, the US administration's belief that withdrawal from the JCPOA will weaken Tehran – forcing it to sue for a grand bargain under a new and improved nuclear deal² – is a pipe dream. Washington has no clear path to success for an upgraded JCPOA, and diminishing political capital with which to pursue such a goal.

Second, the likely collapse of the JCPOA is a major setback for European foreign policy. The signing of the agreement in 2015 was a watershed for the EU, with many policymakers and commentators seeing evidence of the bloc finally becoming an influential international player. Trump has largely undone this

progress, exposing the limits of the EU's powers to either save the nuclear deal or protect Iran (and European companies that deal with Iran) from US sanctions. Iran's confidence in the EU will suffer. And while Saudi Arabia and the UAE will welcome the demise of the nuclear deal, Gulf Arab states will also have taken note of just how weak Europe has become. European efforts to keep the JCPOA alive will continue, but appear doomed: EU states ultimately place a higher priority on strategic relations with the US than on commercial ones with Iran.

Exit the US (and EU) ... enter Russia and China

The third factor is that the absence of US and EU leadership creates a void that others – notably Russia and China – will be only too eager to fill. Indeed both countries have already been positioning themselves to play more prominent roles in the region.

Since the Arab Spring, Russia has sought to demonstrate its dependability as an ally to various Middle East states, and as a force for 'stability'. Elements of this agenda are expedient for Iran. Russia's ruthless military support for Bashar al-Assad has helped to reassert control in Syria; Moscow is also driving the related de-escalation process – managing talks with Israel, Turkey, Iran, the US and Assad himself.

Although it strongly supports preservation of the JCPOA, Russia stands to gain should the deal collapse. Russian trade with Iran is currently limited – worth about \$2 billion annually – but economic relations are developing.³ Consolidation of Russian influence in Tehran could enable Moscow to secure lucrative defence, aviation and energy deals. From Tehran's perspective, such support offers a means of circumventing Western sanctions and keeping the economy afloat. However, the price is a potential increase in economic and political dependency on Russia, which might amount to a reduction in Iranian military and economic activity in Syria.

China, too, is pursuing economic engagement with Iran as part of its wider strategic thrust into the Middle East. It is positioning itself to step in should US sanctions deter Western investors. For instance, the announcement by French oil firm Total of its intention to pull out of a project in the South Pars gas field, the world's largest, potentially opens the way for its Chinese partner PetroChina to increase its presence.⁴ China is also the largest buyer of Iranian crude oil, a role that provides Iran with a measure of insulation from US sanctions and consolidates the bilateral economic relationship.

More broadly, China has made clear to the international community that it is preparing to fill any political and diplomatic vacuum left by the US. Beijing has appointed special envoys to Syria and the Middle East peace process, underlining its determination – like Russia – to ensure 'stability' in the region in order to further long-term strategic and economic interests.

Endgame: a reshaped Middle East?

These shifts could reshape geopolitical dynamics in the Middle East, creating uncertainty and risks for Iran and more widely. Declining US interest and focus will mean greater competition among Iran and its neighbours. Unable to rely on the US for security guarantees, authoritarian states throughout

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the region may be forced into transactional economic and security-based relationships with Moscow and Beijing. Some are likely to welcome this as a short-term opportunity – especially as support is unlikely to be accompanied by conditionality on human rights and democratization.

However, over time such realignments are likely to bring their own pressures. Russia's adeptness at navigating the divided regional landscape to its benefit is already on display. Its relations with Saudi Arabia, the UAE and Qatar have all strengthened since 2014; Moscow also has bilateral agreements with Turkey, Israel and Syria, as well as with Iran. This complex web of relationships speaks to an overlapping of obligations and dependencies that is likely to create discord – or worse – rather than harmony.

For Iran itself, the implications are bleak. Beyond potentially kick-starting a revived quest for a nuclear capability that will set it against the US, the collapse of the JCPOA may herald a new era in which Iran is bound into relationships of external dependency – with China, in the long term, likely to surpass Russia in influence – in order to protect itself and advance its regional interests. These shifts will close down the domestic space for political and economic reform, forcing elite unity as a regime-preservation mechanism. With elections approaching in 2020 and 2021, such pressures could allow hardliners to make a comeback, further institutionalizing policies of regional conflict.

It is ironic that in 1979 Iran's revolutionary leader, Ayatollah Ruhollah Khomeini, articulated a foreign policy vision around the idea of a non-aligned Iran that was 'neither East nor West'. The country's nuclear programme in part reflected this imperative, with the leadership regarding it as an essential defence against US influence and hostile neighbours. Yet nearly 40 years later, it is the action of a US president that has effectively forced Tehran – almost against its will – to relinquish part of its cherished independence and go east.⁵ ■

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Notes

- 1 The JCPOA, signed in July 2015, is an agreement between Iran and the E3 (Germany, France and the UK) plus the US, Russia, China and the EU. The agreement requires Iran to place curbs on its nuclear programme. For details, see Arms Control Association (2018), 'The Joint Comprehensive Plan of Action (JCPOA) at a Glance', <https://www.armscontrol.org/factsheets/JCPOA-at-a-glance>.
- 2 A revised deal would seek to address US concerns about 'sunset clauses' in the JCPOA, and the limited nature of the JCPOA-mandated inspections regime. It would also seek to end Iran's ballistic missile programme and wider interference in the Middle East.
- 3 *Financial Tribune* (2018), 'US Sanctions to Help Russia Overtake Europe in Iran Trade', 3 June 2018, <https://financialtribune.com/articles/economy-domestic-economy/87589/us-sanctions-to-help-russia-overtake-europe-in-iran-trade>.
- 4 Total (2018), 'US withdrawal from the JCPOA: Total's position related to the South Pars 11 project in Iran', press release, 16 May 2018, <https://www.total.com/en/media/news/press-releases/us-withdrawal-jcpoa-totals-position-related-south-pars-11-project-iran>.
- 5 Radio Tehran (1980), 'Khomeini: "We Shall Confront the World with Our Ideology"', 21 March 1980.

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Beyond potentially kick-starting a revived quest for a nuclear capability that will set it against the US, the collapse of the JCPOA may herald a new era in which Iran is bound into relationships of external dependency

A New Kind of Transatlantic Rift

Hans Kundnani

Proposed EU retaliation against US policies on Iran and trade risks further weakening US commitment – already eroded under Trump – to guaranteeing European security.

Outraged by a series of decisions by the Trump administration that will have an adverse impact on Europe, many leading political figures and commentators are calling for a tough new approach to relations with the US – one that would make use of the EU’s considerable economic power to impose costs on America. But such confrontation would be a huge gamble, and its advocates do not seem to have thought through the implications. Europe has no serious alternative to the US security guarantee. Economic measures against the US – for example, the imposition of retaliatory tariffs on American exports – could further undermine the US commitment to European security.

After the shock of the election of Donald Trump in 2016, Europeans seemed initially to reassure themselves that the ‘adults’ in the administration would prevent him from acting on his worst instincts. Now most of those moderating influences have quit or been fired – and in the past few months Trump has begun to implement the kinds of policies he had always threatened to. The reality is finally dawning in the EU that Trump’s bite may actually be as bad as his bark. European Commission President Jean-Claude Juncker recently said that the US was turning on Europe ‘with a ferocity that can only surprise us’ – even though Trump had been telegraphing the policies he is now implementing for years.¹

In March, the Trump administration decided to impose a 25 per cent tariff on steel imports and a 10 per cent tariff on aluminium imports. Though the measure targeted China (which the US accuses of dumping steel and aluminium) on national security grounds, the EU failed to secure a permanent exemption from the tariffs. The Trump administration’s subsequent decision in May to abandon the nuclear deal with Iran – and to impose new sanctions that would affect companies that continue to do business in Iran – was the last straw for some Europeans. Writing in the *Washington Post*, former Swedish foreign minister Carl Bildt called it ‘a massive assault’ on the sovereignty of Europe.² The German news magazine *Der Spiegel* even called for Europe to join the ‘resistance’ against Trump.

Specifically, many are now urging the EU to use its economic power against the US. The EU has announced it will impose retaliatory tariffs (or ‘balancing’ tariffs, as the EU calls them) against US imports. The European Commission has drawn up a list of US goods to which the tariffs will apply. The choices target the home states of influential members of the Republican Party –

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The reality is finally dawning in the EU that Trump’s bite may actually be as bad as his bark

for example, the list includes bourbon whiskey, which is produced mainly in Kentucky, Senate majority leader Mitch McConnell's state. European leaders seem to think they can fight fire with fire – and perhaps force the Trump administration to back down.

For many Europeans, this is a matter of pride. 'European sovereignty in foreign affairs can hardly survive passive compliance with the new dictates from the White House,' Bildt wrote. Some even seem to see the current situation as an opportunity to realize the dream of a more powerful, united Europe that could act as a counterweight to the US. The idea goes back to the Suez crisis in 1956, when the West German chancellor, Konrad Adenauer, is supposed to have told the French prime minister, Guy Mollet: 'Europe will be your revenge.'³ It animated the thinking behind the development of a common European foreign policy and even the creation of the European single currency, which was meant to challenge the predominance of the dollar.

However, the sort of tough approach to the US that many in the EU are now advocating would be reckless and short-sighted. The fact that, soon after the US announced it was withdrawing from the nuclear deal, oil firms BP and Total indicated they would pull out of Iran suggests little confidence, for instance, in proposed 'blocking measures' to shield European companies from the reach of US sanctions. Europe also has much more to lose from the escalation of a trade war than the US has: the EU is more dependent than the US on external demand as a driver of economic growth and has a large and growing trade surplus with the US. In particular, export-dependent Germany would be what *Financial Times* columnist Wolfgang Münchau has called the 'weakest link' in any confrontation over transatlantic trade.⁴ The big fear is the imposition of US import tariffs on European cars – which Trump has already threatened in a tweet.⁵ The US Commerce Department is currently carrying out an investigation into auto imports.

However, there is also an even greater vulnerability for Europe. Those calling for a tougher foreign policy seem almost to have forgotten that their security depends ultimately on the US – in particular on the UK–US nuclear deterrent. Trump has already created radical uncertainty about the security guarantee, and it is this uncertainty that makes the current situation qualitatively different from previous rifts in the transatlantic relationship.⁶ We also know that Trump is prepared to make linkages between economic and security issues in an unprecedented way. The risk here is that he will respond to EU opposition over policy or to perceived provocation by creating further doubt about whether the US would come to the defence of its European allies in a crisis. With a NATO summit in July 2018 providing a potential focal point for transatlantic differences, it is not difficult to imagine Trump tweeting 'we'll see what happens' in such a situation.

Europeans seem unable to believe that such conditionality linking economic and security policy is possible. In reality, it has always tacitly underpinned the transatlantic relationship – at least, in American strategic calculations. The difference is that Trump has now made this explicit. He has already suggested that an exemption from the new tariffs may depend on whether European

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Those calling for a tougher foreign policy seem almost to have forgotten that their security depends ultimately on the US – in particular on the UK–US nuclear deterrent

members of NATO spend 2 per cent of GDP on defence, as they have committed to. In short, everything is now on the table. Whereas previous US presidents sought to use economic tools to build alliances, Trump seeks to use alliances to win concessions on economic issues.⁷ In relation to the EU, the US has what in conflict situations is sometimes called ‘escalation dominance’ – that is, it always has more scope to escalate than its opponent has.

If Europeans had a serious alternative to the US security guarantee, calling Trump’s bluff might be a viable strategy. But although EU member states have taken some small steps, since the election of Trump, to further develop a European defence policy, these are based on the assumption that Europe can continue to depend on American military power.⁸ Given this reality and the difficulty of uniting EU member states around opposition to the US, they could still back down – though it is hard to imagine Europe, and especially Germany, accepting voluntary export restraints as South Korea has done. But if European outrage does translate into action, it risks creating further uncertainty about the US security guarantee – which, since the election of Trump, is already hanging by a thread.■

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Notes

- 1 Wright, C. (2016), ‘Trump’s 19th century foreign policy’, *Politico*, 20 January 2016, <http://www.politico.com/magazine/story/2016/01/donald-trump-foreign-policy-213546>.
- 2 Bildt, C. (2018), ‘Trump’s decision to blow up the Iran deal is a massive attack on Europe’, *Washington Post*, 12 May 2018, https://www.washingtonpost.com/news/global-opinions/wp/2018/05/12/trumps-decision-to-blow-up-the-iran-deal-is-a-massive-attack-on-europe/?utm_term=.ca8f6e239282.
- 3 Pineau, C. (1976), *Suez*, Paris: Robert Laffont, p. 71.
- 4 Münchau, W. (2018), ‘In a trade war Germany is the weakest link’, *Financial Times*, 18 March 2018, <https://www.ft.com/content/ec775fea-2916-11e8-b27e-cc62a39d57a0>.
- 5 Tweet on 3 March 2018, <https://twitter.com/realdonaldtrump/status/969994273121820672>.
- 6 See Kundnani, H. (2017), *President Trump, the U.S. Security Guarantee, and the Future of European Integration*, Policy Brief, German Marshall Fund, January 2017, <http://www.gmfus.org/publications/president-trump-us-security-guarantee-and-future-european-integration>.
- 7 I would like to thank Jeremy Shapiro for this point.
- 8 Since 2017 the EU has set up a small permanent operational headquarters to coordinate non-military missions, and a European Defence Fund to increase research and development spending and coordinate defence procurement. It has also launched permanent structured cooperation (PESCO), a political framework to help EU member states develop military capabilities together and improve their ability to deploy them.

Centralization of Power Under Xi Poses New Risks

Champa Patel and Kerry Brown

By inextricably linking China's ambitions to his leadership, Xi Jinping could imperil decision-making and policy responsiveness at a time when the external context is ever more difficult to navigate.

China's Xi Jinping seems domestically unassailable. The 'decision' in March by the National People's Congress to remove the presidency's two-term limit, in place since 1982, signals that Xi is here to stay.¹ Centralizing power in this way will be a mixed blessing. Xi has truly cemented his leadership within the party; but he has also exposed himself and the country to wider risks – at a time when China faces colossal challenges, both domestically and in its relations with the rest of the world.

Among the most significant of these risks are around economic growth. Xi benefited from the work of his predecessors, who built up a vast economy. The 'Belt and Road Initiative' – covered in depth elsewhere in this publication – is China's most current and high-profile expression of its economic success and intent. However, maintaining momentum will be a challenge. Domestically, Xi's administration will need to manage China's transition from a largely manufacturing-based economy to one more centred on services and consumption. This may entail some slowdown, with a shift in emphasis from high *rates* of growth to high *quality* of growth and investment in new sectors. Xi's political longevity will rest on keeping the all-important middle class in work during this process – this implies the need for GDP growth rates of around 6 per cent annually for the next decade, far from assured in the current economic landscape.²

The Chinese authorities will also need to deal with serious environmental challenges. Pollution and poor air quality are already a blight in many Chinese cities. Attempts are being made to address these issues,³ but failure to deliver more progress could see a 'bottom-up' challenge to the dominance of the Communist Party of China (CPC) in state affairs and governance.

For the moment, concentration of power seems to have created an appearance of unity and accelerated decision-making. But therein lies the paradox. Removing presidential limits places immense pressure on Xi and those around him. They will take the blame if things do not go to plan. With decision-making reliant on so few people, there are already signs that lower-level officials are becoming over-cautious. The danger is that the whole system (including the key leaders in the central CPC and government organs) could become hostage to localized agendas, diverting attention from strategic issues.



Success in the short to medium term, and possibly even in the long term, turns on China being a deeply interconnected part of the international system rather than an autonomous, separate actor

Beyond domestic concerns, China also has to navigate a more challenging world. By any measure, Xi has been fortunate in leading China at a time when, after decades of struggle, the stars seem aligned in the country's favour. The outside world, particularly the US, seems consumed by introspection, confusion and lack of direction. Within China, by contrast, members of the expanding middle class, whatever their thoughts on Marxism-Leninism, believe in Xi when he says that the most important task for the country is to reacquire its 'great nation' status. This is a powerful, unifying and mobilizing message for a country which, within living memory, has suffered starvation, isolation and widespread poverty. Yet the prospect of greater Chinese influence is precisely what worries its neighbours.

At the regional level, such concerns have reinvigorated competition to define the Asia-Pacific space. In 2007, Japanese Prime Minister Shinzo Abe suggested formalizing multilateral collaboration through the Quadrilateral Security Dialogue. He hoped to bring together three of the region's liberal democracies (India, Australia and Japan) with the US to promote shared security goals. The 'Indo-Pacific' identity associated with this dialogue did not materialize into anything concrete at the time, but it is back in vogue. Although a little nebulous, the term seems to recognize the region's extensive maritime space (linking the Indian and Pacific oceans in a way not fully captured by the designation 'Asia-Pacific') and offers a values-led proposition: democracy and the rule of law, respect for sovereignty, open markets, and security and stability in the maritime and land spaces. This represents an open challenge to China's own conception of its neighbourhood and role within it. Proponents of an Indo-Pacific grouping argue that it is necessary as a bulwark against China.⁴ However, the concept is still thin – elaboration is needed on what it might mean in practice for relations between these countries and China.

At the broader international level, the increasing unpredictability of the external context poses new challenges. The Trump presidency is upending many of the assumptions about the US's role in Asia. Bilateral engagement has been superseded by more brittle, transactional contacts. In March 2018, the US imposed steel and aluminium tariffs on China. These and other measures, such as excluding Chinese companies from the US market, are set to increase. Moreover, while China appreciates some aspects of the US security presence in the region, it continues to want more legitimate strategic space. Its building of permanent structures in the South and East China seas has antagonized Vietnam, Indonesia, Malaysia and the Philippines, and risks reviving deep-seated antipathies. The greatest risk is that Trump's adventurism will extend to foreign policy on Taiwan, forcing Beijing to act. For China, no matter what the consequences, asserting its claim over Taiwan is an essential issue of national pride.

Geopolitical agendas aside, China's technology and innovation deficit means a need for collaborative external relations, notably with the EU and above all the US. A deterioration of these complex relations could have an immensely negative impact, as China needs open markets and the ability to import goods and services to support economic growth and development. Success in the short to medium term, and possibly even in the long term, turns on China

being a deeply interconnected part of the international system rather than an autonomous, separate actor.

The assumption in the past four decades has been that China's greatest challenges were internal. But, as with so much, Xi's China is a different place to what has existed before. Even as China seeks to deepen and extend its foreign policy engagement, it will not be able to control all the pieces. At both regional and global levels, China will need to display greater dexterity as its role in the international community increases. It is striking that China's rise in political and economic influence has occurred as a highly centralized and authoritarian state. This is completely against the grain of international consensus, which sees democratic norms and traditions as the best way to maximize political and economic strength. However, as China seeks a bigger footprint and greater influence in the world, the world will expect more openness and internal transparency from China.

The test will be whether China can continue to grow and meet the needs of its population, while opening up its political system and being a constructive actor in efforts to address international challenges. The signals, so far, are mixed. In some areas – such as internet governance, climate change, peacekeeping – China is playing a greater role and seeks to work with others. However, the domestic sphere remains largely unreformed, with restrictions on freedom of expression and suppression of other human rights still prevalent.⁵ An inability to address these issues will make it difficult to build trust with allies and collaborators.

It is clear that China is facing extremely complex challenges that require high-quality engagement with international actors and strategic policymaking. President Xi has already proved himself extremely decisive, with a strong vision for the country. It is an open question now whether the centralization of power will provide the *quality* of policy and engagement that China will desperately need in order to be effective in a rapidly changing world.■

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Stagnation in Russia is Raising Geopolitical Risks

Philip Hanson

Putin's failure to improve growth prospects makes further tensions with the West more likely, while the policy reforms needed to revitalize Russia's economy are nowhere in sight.

Economic stagnation in Russia is contributing to geopolitical risk by encouraging – and, to an extent, dictating – the Kremlin's pursuit of a belligerent foreign policy. As the deep reforms needed for Russia to achieve sustainably higher growth are unpalatable domestically, President Vladimir Putin has instead adopted the time-honoured diversionary tactic of stoking nationalism and emphasizing external threats. This does nothing for the economy, and makes further geopolitical entanglements likely.

On any reckoning, the Russian economy is underperforming. Real GDP growth was just 1.5 per cent in 2017, according to the preliminary official estimate, and little improvement on this anaemic rate of expansion is in prospect.¹ The IMF forecasts growth of around 1.5 per cent annually into the 2020s.² Commentators may argue over definitions, but this amounts to 'stagnation with a plus sign'.

Nor is this a sudden problem. Since 2008, through two recessions and some years of modest growth, GDP has increased at an average annual rate of just 0.7 per cent.³ Russia's share of world output has declined since 2012. With output per worker about one-half of that in Germany, the economy has the potential for rapid expansion that could help it catch up with the developed West.⁴ But for reasons outlined below, the potential remains unrealized. Meanwhile, the country's prospective growth is probably not enough to deliver perceptible gains in public welfare.

These economic vulnerabilities carry geopolitical risks for the NATO countries and Nordic neutrals. The Putin leadership no longer presents itself to Russian citizens as the bringer of rapidly increasing material wealth. The record no longer permits it to do so. Instead, the leadership positions itself as the defender of a beleaguered national fortress, ready to do battle with the nation's enemies. In support of this narrative, Moscow demonstrates its strength by displays of military force and by the deployment of cyber and other means of undermining trust and cohesion in Western societies.

The annexation of Crimea, the support for separatists in Ukraine's Donbas, the intervention in Syria and the conduct of military exercises on Russia's western border are all examples of military muscle-flexing. Each has its own rationale: the protection of Russian-speaking minorities, the support of an ally, the need to test new equipment and new formations. At the same time, all send a message to the Russian people: Russia is great again, and needs to be, to defend its people;

hardship on the home front is something that has to be put up with in a besieged fortress. Cyberattacks, whether on Estonia in 2007, on Ukraine in 2017 or on other targets at other times, have been a different form of display: look, we can assert ourselves in sophisticated ways, humiliating our foes, and we can do it deniably.

The leadership has so far accepted a certain level of economic damage from sanctions in the pursuit of its geopolitical ambitions. This makes sense because it is understood, at least by the technocrats and probably by Putin himself, that Russia's main economic problems are home-grown – but the West and its sanctions are a handy scapegoat. It is conceivable that there is some level of externally inflicted economic pain that would force a rethink of the country's external policies, perhaps a cutting off of Russia from the SWIFT financial transactions system. But the resilience of the Russian people and Putin's need to avoid any semblance of 'defeat' make this doubtful. Moreover, SWIFT is not controlled by the US; and though the US is immensely powerful in its dealings with its allies, it might well not be able to carry them with it in much further ratcheting up of economic warfare.

Is the link between external aggression and domestic support likely to be durable? That depends in part on whether the rally-round-the-flag message continues to convince. It also depends on how long the Russian economy will suffer from stagnation.

On neither front can the leadership feel entirely confident. The immediate causes of weak growth are that labour and capital inputs have been stagnating or worse. Employment in recent years has been approximately flat⁵ – the result of demographic trends that will not be reversed until the late 2020s. At the same time, an injection of private investment that could stimulate growth and improve productivity has not materialized. In 2012 Putin called for labour productivity to rise by 5 per cent a year in 2011–18, yet the outcome was an average of less than 1 per cent.⁶ Fixed investment in 2017 was 8 per cent down on 2012,⁷ despite major public works projects.

That private capital is staying on the sidelines is unsurprising, given the encroachment of the state. The public sector's share of the economy was just under 40 per cent in 2006, but by 2016 it had risen to 46 per cent.⁸ The hand of the state is visible in other ways, too. Charging entrepreneurs with 'economic crimes', a standard way in which officials collude with the victims' business rivals to seize control of companies, has been on the increase. Such asset-grabbing is built into the Putinist social system. Business confidence will not readily return.

Should these and other deficiencies prolong stagnation, it would not augur well for tensions between Russia and the West. To keep up the rally-round-the-flag atmosphere at home, Moscow would need to continue acting provocatively abroad. This would not mean deliberately starting a war, which would be in nobody's interest. But it would mean some mixture of cyberattacks, propaganda and other forms of self-assertion that – as Mathieu Boulègue argues elsewhere in this publication – increase the risk of unintended conflict.

Meanwhile, stagnation carries domestic risks for Russia. Another six years of sluggish growth, up to the end of Putin's new presidential term, would entail more unkept pledges: on poverty reduction, increased pensions and increased real wages. That would test support for the regime, especially if the popular appeal of the 'besieged fortress' message were to fade. In 2024 there has to be either a successor

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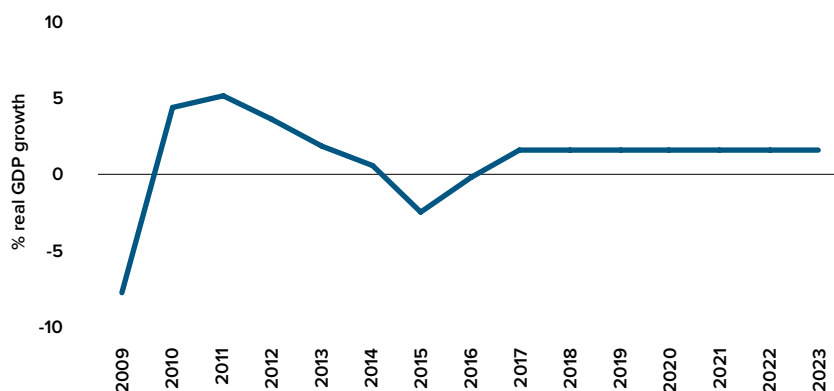
Is the link between external aggression and domestic support likely to be durable? That depends in part on whether the rally-round-the-flag message continues to convince

to Putin as president or a smart piece of constitutional engineering to keep him in power. Either way, that will require a difficult political manoeuvre. It will be all the more difficult if by then public attitudes have begun to resemble those of the Soviet population in the late Brezhnev era: cynical and apathetic.

Radical reform could revive the economy, but it too has its risks. The strengthening of the rule of law, in particular, would help restore economic dynamism. But it would do so only over a period of several years, and in the meantime could be a source of conflict within the elite, aligning those officials who benefit from weak property rights against reformers.

For that reason, reform is unlikely and stagnation is likely to continue, with risks both for the wider world and for Russia itself. A sustained further increase in the oil price would alleviate the problems associated with stagnation, but would not resolve them. ■

FLATLINING: RUSSIAN GDP GROWTH, ACTUAL AND FORECAST



Source: IMF (2018), World Economic Outlook Database, April 2018 <http://www.imf.org/external/pubs/ft/weo/2018/01/weodata/index.aspx>.

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Preventing ‘Signal Failure’ Between Russia and NATO

Mathieu Boulègue

The risk of military or political miscalculation leading to conflict is rising, as Russia continues to seek to destabilize the West through non-military means and a bolder force posture, and as the line between peacetime and wartime activities blurs.

One of the more worrying aspects of the increasingly strained relations between Russia and NATO is the risk of one side miscalculating the other’s intentions. Russia’s more assertive foreign policy agenda, its evolving capabilities and the nature of the methods it now employs against the West increase the risk of such miscalculation, and thus of policy and tactical errors. Unless multiple stakeholders take concerted steps to address this risk, there is a higher likelihood that an unforeseen incident could spark disastrous military escalation and lead to war between Russia and NATO allies.¹

The type and degree of miscalculation of course matter. One way of looking at this is to distinguish between ‘soft’ and ‘hard’ miscalculations. The former consists of errors in day-to-day political relations, communication, and interpretation of the other side’s military doctrine and security perceptions. ‘Hard miscalculation’ is likely to occur around military-to-military relations, threat-reduction arrangements and deterrence activities.

The reasons for this heightened risk are manifold. The first relates to the increased incidence of Russian brinksmanship – such as jets routinely buzzing NATO surface vessels on the Black Sea and Baltic Sea, provocative air manoeuvring over Syria,² and an assertive force posture and military exercises in the European shared neighbourhood. Should any such activity trigger accidents, it will test the limits of both Russian and NATO restraint in averting tit-for-tat reaction and military escalation.

The second, related reason is the evolution of Russia’s methods of destabilization. In what Russian military planners call an ‘initial period of war’,³ Moscow uses a well-established toolbox of destabilization methods⁴ in the pursuit of full-spectrum warfare. Full-spectrum warfare represents a continuum from what are termed ‘non-military, sub-threshold activities’⁵ through to ‘cross-domain military probing’⁶ – for instance, cyberwarfare – all the way up to full-scale nuclear conflict. In addition to nuclear and conventional forces, Russia’s threat to the West thus encompasses an ever-more-comprehensive array of non-military activity such as soft power engagement, coercive diplomacy and sophisticated information warfare.⁷ The dangerous effect of all this has been to blur the line between peacetime and wartime activities.

A key aspect of the approach is to probe and provoke adversaries, but not enough to cause military escalation that exceeds the Kremlin's tolerances. Russia is increasingly testing NATO resolve over commitments to collective defence, specifically in respect of arms control.⁸ More often than not, Russian destabilization efforts fall beneath NATO's calibrated 'pain threshold' for military response. However, there is no guarantee that this will remain the case, and the potential for unintended escalation is all too clear.

The third factor behind the rising risk of miscalculation in the Russia–NATO relationship concerns Moscow's geopolitical preoccupations. Russia claims that NATO is conducting a strategy of encirclement and interprets this as a fundamental threat to its interests, which are based on preserving a 'sphere of influence' against the expansion of NATO capabilities in the European shared neighbourhood. The same narrative is fuelling a 'besieged fortress' mentality among Russian decision-makers. While Russia has been nursing the same grievances against the West since the 1990s, what has changed in recent years is the Kremlin's ability to assert itself and make its intentions a reality. Russia's agenda, in this context, is to damage the post-Cold War security architecture in order to affirm its own security and foreign policy agenda in Europe and beyond. This is further increasing the risk of miscalculation as heightened tension becomes the 'new normal' in the relationship between Russia and NATO.

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Russia's agenda is to damage the post-Cold War security architecture in order to affirm its own security and foreign policy agenda in Europe and beyond

Finally, the risk of miscalculation is compounded by the inadequacy of existing threat-reduction arrangements and confidence-building mechanisms. Protocols such as the NATO–Russia agreement on preventing Dangerous Military Activities (DMAs) and the OSCE Vienna Document of 2011 are ambiguous in their wording and application, and can seldom be invoked in times of escalation. For the Kremlin, such arrangements only offer a Western-based approach that does not take Russia's proclaimed 'legitimate security concerns' into consideration. The current Russian leadership has a clear incentive to continue on its path of military assertiveness and its pattern of sub-threshold destabilization, such as the nerve agent attack on Sergei Skripal and his daughter in Salisbury on 4 March 2018.

In light of Russia's aggressive behaviour, Western deterrence is paramount. Russia should not be led to believe that it has superiority across certain operational domains of war, such as cyberwarfare or air defence capabilities. This will require coherence and unity among NATO allies.

Risk reduction in deterring Russia is equally important, and should be carried out in a calibrated way while not provoking the Kremlin into confrontation. Channels of communication need to remain open, especially back channels and Track 2 dialogue. This has to be done without offering undue concessions or sacrificing Western values to accommodate the Kremlin. Further down the road, technical arrangements for escalation management will be crucial, especially if Russia seeks to secure military advantages in the shared neighbourhood and beyond, or explicitly uses provocative rhetoric around nuclear deterrence.

Keeping in mind Russia's ever-more-multifaceted belligerence, the likely scope for improving the Russia–NATO relationship is limited. The relationship is likely to remain in 'damage control mode' for the foreseeable future, and the risk of miscalculation is likely to increase. ■

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‘Internationalist’ Isolation – Brexit’s Paradox for UK Foreign Policy

Thomas Raines

Brexiters’ aim of using independence from the EU as the basis for a sort of swashbuckling globalism seems likely to have the opposite effect – leaving the UK less influential.

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The risk is that Britain, rather than becoming a more nimble and effective power, sees its influence diminish

‘Out, and into the world.’ This was how the *Spectator* magazine pitched its support for the Leave campaign in 2016, echoing a slogan from the 1975 referendum on the same issue. For some supporters Brexit, though frequently portrayed as an inward-looking revolt, would in fact allow the UK to reconnect with old partners and embrace new opportunities.

This aspiration stands mired in the challenges of withdrawal from the EU. The risk is that Britain, rather than becoming a more nimble and effective power, sees its influence diminish. The extent to which this happens will depend on several factors: whether Britain can agree an orderly exit and smooth transition; whether it can maintain its constitutional integrity and minimize economic dislocation; whether it can build a new partnership with the EU and key member states that maintains practical security and foreign policy cooperation; and whether it is willing to invest the resources or develop the vision needed to remould its foreign policy for life outside the bloc.

Such a vision could take a variety of forms – indeed, there are pronounced differences between the leaders of Britain’s two main parties on many foreign policy fundamentals. But at present, the signs point not to reimagined internationalism but to the likelihood that Britain will become more insular and distracted. Brexit is a national project of political change that is consuming the majority of the time, energy and political capital of the government and civil service. Uncertainty still surrounds many aspects of this process. The government has already created two new departments; one estimate suggests that by March 2019 it will spend more than £2 billion on preparations for leaving the EU.¹ Brexit absorbs policy bandwidth, leaving less room for a broader foreign policy agenda or for addressing the domestic issues – healthcare, education, infrastructure, productivity, technological transformation – that will shape prosperity in the coming decades.

Moreover, the worries about the UK’s capacity and international leadership predate Brexit.² Resources at the Foreign & Commonwealth Office (FCO) have been cut consistently in recent years – with its budget declining by 21.6 per cent in real terms between 2010 and 2015.³ As a result, its efforts have been

subsidized by the UK's development budget, meaning the FCO's activities have become skewed towards countries where its expenditure qualifies as development spending.⁴ The FCO has 4,500 UK diplomatic staff – comparable in numbers to the council of a London borough – and a budget equivalent to less than 0.1 per cent of GDP with which to pursue an amorphous and loosely defined 'global Britain' strategy. Atrophy is also evident when it comes to defence. Public spending on defence fell by almost a fifth between 2010 and 2015.⁵ While spending has stabilized since then, the pressure on capabilities remains intense. Investment in defence and diplomacy is still only a means to an end, but reduced resources undermine the foundations for foreign policy choices in future.

These trends have implications for the free-trade ambitions to which many hopes have been pinned. For some Brexit advocates, an independent trade policy is the greatest potential prize to be gained from leaving the EU. However, too much faith has been placed in the capacity of a new trade policy to transform Britain's economic fortunes, and there are several reasons to be deeply sceptical of its likely effectiveness. First, once the UK is outside the single market and customs union, trade with the EU will inevitably be subject to higher costs and barriers. Prospects for increased trade with non-EU countries are clouded, moreover, by unresolved questions over access to markets with which the EU already has existing trading agreements. The clear risk – and indeed the widespread expectation among economists – is that any growth in trade outside Europe will not make up for the loss of trade with the EU.

Second, just as importantly, the multilateral trade architecture is itself under threat, with the US under Donald Trump retreating from free trade. Britain needs greater realism about what an independent seat at the World Trade Organization can achieve in such circumstances. It is unrealistic to expect the UK to quickly sign bilateral trade deals with multiple other partners – particularly while its long-term trade relationship with the EU remains unresolved, and given the government's limited experience of and capacity for negotiation. In any event, the most obvious short-term targets for bilateral trade and investment deals, such as Australia and New Zealand, are unlikely to make much difference to overall trade volumes.

Finally, the domestic politics of trade are likely to become more contested. Efforts to liberalize trade in ways that compromise standards (such as on food and agriculture), or that open currently protected markets (such as the National Health Service), would likely be the subject of intense political fighting, putting the brakes on ambitions for deregulation. Similarly, the UK may face domestic resistance if perceived economic necessity leads a government to make concessions with unsavoury regimes in return for trade deals and export contracts.

The wider picture

At a minimum, Brexit will mean a loss of influence over the direction of EU policy in areas that will continue to matter to Britain: not just the EU's common foreign and defence policies, but also areas such as energy, climate policy and financial regulation. These are issues that transcend national boundaries, and on which the EU is often a driver of global standards. Britain will work to maintain key bilateral

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relationships, with France and Germany in particular. But the overlapping interests, bargaining and habitual institutional cooperation that are essential elements of EU membership will evaporate, surely resulting in such relationships being downgraded. The damage – both economic and diplomatic – will be amplified if Brexit is chaotic rather than managed.

The broader international context adds to the risks of leaving the EU. Brexit threatens to unbalance Britain just as the international environment is becoming more malign. For more than 40 years, the country's foreign policy has been built upon an active role in an integrating Europe, and on a close relationship with a US committed to and invested in Europe's security. Britain has chosen to leave the EU, while the US under President Trump is increasingly leaving its allies behind. The result is that the fabric of the transatlantic relationship is being unpicked. Britain has never had to confront the reality of a US government not only with which it disagrees, but whose worldview is fundamentally different. The risk is not so much a conscious uncoupling of the special relationship, but that Britain will be forced to respond repeatedly to a US in active opposition to its foreign policy goals. All this is amid a wider global rebalancing of economic and political power that makes Britain's privileged position in international structures look even more of an anachronism.

Over the longer term, Brexit could yet spark a useful reassessment of the UK's international role. It could lead the country to revisit assumptions that have guided its foreign policy for a generation. It could close the gap between government rhetoric and reality, leading to foreign and domestic policies that are more coherent and self-reinforcing. It could focus Britain on making globalization work for all its citizens. And, conceivably, Brexit could end up rendering the UK a more flexible and adaptable power. But at present, the opposite seems more likely: a distracted and insular UK becomes less relevant and influential, adrift from Europe, at loggerheads with the US, domestically divided, unsure what it wants, and unwilling or unable to invest in the tools of effective diplomacy.■

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Subcontracting the State

Lina Khatib, Tim Eaton and Renad Mansour

The rise of armed groups – nominally government-affiliated but effectively autonomous – in Libya, Syria and Iraq is undermining state-building and stabilization, and likely to perpetuate conflict.

The conflicts in Libya, Syria and Iraq involve a wide array of armed groups competing for power, and representing a myriad of agendas. Some of these groups are recognized by state authorities yet retain their own command structures, making them hybrid entities that blur the line between the ‘state’ and the ‘non-state’. Weak governments in Libya, Syria and Iraq see these actors as necessary components of the security sector. Indeed, at times such groups work with, or partially substitute for, the state. But they are also a source of systemic insecurity, and are accumulating political and economic interests. This will inhibit state-building and stabilization.

The enduring presence of autonomous militias is impeding the ability of the state to exercise authority in all three countries. These groups are incentivized by the dynamics of conflict to perpetuate themselves and secure their positions in the state architecture. As a result, they do not necessarily accept the authority of the official entities they ostensibly serve. With access to heavy military equipment outside the state security apparatus, they engage at times in direct military confrontation with state or other non-state or hybrid actors.

In Iraq, for example, the Kurdistan Region’s Peshmerga, recognized by the 2005 constitution, compete at times for territory against Shia paramilitary groups under the Popular Mobilization Units (PMU), also legally recognized by a November 2016 law passed by the Iraqi parliament.¹ In Libya, most armed groups are affiliated to the state (indeed, their members continue to receive public-sector salaries), despite often being in antagonistic relationships with one another.² In Syria, groups such as the National Defence Forces (NDF) sometimes have the upper hand over the regime military, with the latter at times requiring permission from the former to enter areas under NDF control.

Benefiting from state affiliation and access to resources, the region’s hybrid actors pursue financial gains and perpetuate war economies that are becoming almost ubiquitous. In Libya, governance dysfunction and security fragmentation have increasingly pushed economic activity into the informal sector. In this environment, networks of militias, corrupt businessmen and politicians profiteer by smuggling fuel or people, diverting state resources and running protection markets.³ Many groups do so under the pretext of generating revenues to provide services, such as local security. Similarly, in Iraq, hybrid groups and affiliated political actors perpetuate the war economy by smuggling

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Benefiting from state affiliation and access to resources, the region’s hybrid actors pursue financial gains and perpetuate war economies that are becoming almost ubiquitous

goods, including oil and gas.⁴ Their access to arms allows them to coerce business elites and tribes. In Syria, the rise of pro-regime armed groups is supporting a new class of warlords and elite political and economic players who are making increasing demands from the state. Official resources are coming under strain as the government scrambles to accommodate the economic interests both of its foreign patrons – Russia and Iran – and of domestic actors.⁵

Governments from Baghdad to Tripoli have been unable to cope with the proliferation of armed groups in increasingly competitive security markets. It has become common for communities, politicians and political parties to employ their own militias. In Iraq, Kurdish leaders rely on their Peshmerga, Shia leaders rely on the PMU, and Sunni leaders rely on tribal forces. In Libya, the UN-backed Government of National Accord needs Tripolitanian militias to guarantee its presence in the capital but has limited control over them.⁶ In Syria, Russia has led attempts, through the creation of the Fifth Assault Corps, to exert governmental authority over Iran-backed volunteer militias. However, the long-term prospects for achieving control appear dim.

HYBRID ARMED GROUPS IN LIBYA, SYRIA AND IRAQ

Group	Country	Description
Libyan National Army (LNA)	Libya	The LNA is fragmented and its chain of command is disputed. Field Marshal Khalifa Haftar commands LNA forces in the east of the country, although his coalition includes a wide range of other militias that operate under the LNA banner.
Tripoli-based militias	Libya	Four principal militias control the capital: the Tripoli Revolutionaries Brigade, the Nawasi Brigade, the Special Deterrence Forces, and the Abu Salim Unit. Each is part of the state security apparatus yet pursues its own interests. The relationships between the groups can be unstable. The UN-backed Government of National Accord relies on these groups to maintain its presence in the capital.
National Defence Forces (NDF)	Syria	A government-affiliated auxiliary militia supported by Iran, the NDF started as a group of individuals who took part in intimidating anti-government protesters in 2011, and whom the opposition referred to as <i>shabeeha</i> ('thugs').
Local Defence Forces (LDF)	Syria	These Iran-supported, government-affiliated militias, composed of local residents, operate in their original geographic areas rather than nationally. Unlike their NDF counterparts, LDF members are registered with the Syrian Arab Army.
Counter-Terrorism Service	Iraq	This special force under the Iraqi Special Operations Forces has an autonomous position under the National Security Council, which is accountable to the Prime Minister's Office.
Peshmerga	Iraq	The Peshmerga are recognized by the 2005 Iraqi constitution. They primarily include armed groups loyal to either (a) the Kurdistan Democratic Party or (b) the Patriotic Union of Kurdistan. Only a small number of integrated forces now fall under the control of the Kurdistan Regional Government.
Popular Mobilization Units (PMU)	Iraq	This umbrella organization of some 50 paramilitary groups includes predominantly Shia fighters, but also a small number of Sunni, Turkmen, Shabak, Yezidi and Christian fighters. It is recognized by an Iraqi law passed in November 2016 as an independent armed force accountable to the prime minister.
Sunni tribal forces	Iraq	These local militias at times receive funding from the government or the PMU to support the fight against salafi-jihadist groups linked to ISIS.

In each country, the next year will provide important indications over the extent to which the state can restore its authority. In Iraq, following the military defeat of ISIS, the government is likely to struggle to establish complete command and control over the PMU. In Libya, talks on reunifying the national army risk sparking military escalation between groups included and those excluded. In Syria, government-aligned armed groups are forming a parallel structure to the state.⁷ And while Iran supports a model that keeps state institutions weak, thereby increasing its influence in the country, Russia is unlikely to tolerate this in the long term. Instead, it will favour sustaining strong institutions under Russian oversight. This carries the potential for increased tension between pro-regime armed actors on the ground.

In each of these cases, it is difficult to foresee centralized command and control over hybrid actors being established. The result is likely to be fragmented and unstable security environments. The weakness of traditional armed forces and the rise of hybrid security actors risk prolonging or aggravating the fragmentation of the state, which will thus be forced to accommodate rival interests in any post-conflict settlement or stabilization programme. Hybrid security actors are thus likely to be an enduring feature within the region's political, security and economic landscape – presenting a challenge to Western policymakers' conceptions of which groups should be considered legitimate actors, and complicating assessments of the trade-offs involved in engaging with them in any conflict settlement. ■

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Fighting Fire with Fire

Joyce Hakmeh

Artificial intelligence promises better tools for combating cyberthreats, with approaches that incorporate human feedback into adaptive systems showing particular promise.

The emerging debate – both in public and expert circles – on the future of cybercrime is mostly cautionary in tone. Amid an abundance of concerns about the scale and complexity of the threat, and of the challenges of addressing it, a number of factors stand out. These include a growing shortage of cybersecurity professionals;¹ the increasing sophistication, availability and affordability of malicious software tools; and the risks associated with the growth of the Internet of Things, expected to result in 20 billion vulnerable connected devices being in use by 2020.²

Yet while multiplying cyberthreats and our growing dependence on technology make networked systems more vulnerable in some respects, technology also offers an opportunity to build resilience. Developments in artificial intelligence (AI)³ and its subset, machine learning (ML),⁴ offer particular encouragement on this front.

AI and ML are being increasingly recognized as crucial for cybersecurity. First and foremost, this is because of their potential to overcome the inherent limitations of traditional cybersecurity software, which has to be programmed to recognize specific types of malware or particular activities that may expose vulnerabilities. When new threats or vulnerabilities arise, a program has to be rewritten to respond to them. In comparison, AI systems are smart, proactive and potentially limitless in their ability to adapt to the evolution of cybercrime tools and threats.

Beyond these fundamentals, key challenges for protecting networked systems include the continuous proliferation and variety of security threats; the overwhelming amounts of data that need to be analysed to identify, evaluate and respond to potential cyberattacks; and the abundance of false positives that are generated in this process.⁵ AI can help in this by acting independently and autonomously, assisting human analysts in processing huge volumes of data so that incident response time can be shortened, the accuracy of cybersecurity alerts enhanced, and developments in the threat landscape tracked.⁶

As well as using AI to address software vulnerabilities, some IT security firms have harnessed its power to identify threats at the human and hardware levels. By building up a cyber ‘pattern of life’ for an organization, AI can detect activity that is nominally authorized but anomalous. Potentially, this could be used to reduce organizations’ vulnerability to insider threats or negligence. This is significant in that the human element is typically one of the weak points in any cybersecurity approach.

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While multiplying cyberthreats and our growing dependence on technology make networked systems more vulnerable in some respects, technology also offers an opportunity to build resilience



Largely automated AI- and ML-based solutions are likely to be cornerstones of IT security frameworks in the future

Largely automated AI- and ML-based solutions are likely to be cornerstones of IT security frameworks in the future. A recent survey of 9,500 business and technology executives in 122 countries found that 27 per cent planned to invest in cybersecurity safeguards that use AI and ML in 2018.⁷

Despite the expected growth in such solutions, cybersecurity will still have to interact with and complement the work of people. The signs are that this can become a two-way process, with AI and ML helping cybersecurity professionals to do their jobs more efficiently, and human operatives feeding their own insights into AI and ML systems to help the technology improve its capabilities. An MIT research project⁸ showed how AI with input from human experts, referred to as ‘analyst intuition’, was able to predict 85 per cent of cyberattacks – roughly three times the normal success rate – and considerably reduce the number of false positives. In effect, human feedback ‘teaches’ the intelligent system, thus improving its accuracy and in turn helping it to teach itself better. As a result, the system becomes progressively smarter. That said, as an evolving technology, AI-based cybersecurity will require continuous investment of resources to remain effective.

The flipside to the rise of AI is that more intelligent and autonomous systems will make cybersecurity threats more potent. AI could expand existing threats, introduce new ones and even change the character of certain threats.⁹ AI cybersecurity systems will have to respond to these challenges. We can thus expect a variation on the traditional ‘arms race’ between cybercriminals and cybersecurity professionals, extended into the world of AI. Predictions for 2018 claim that AI will make both cyberattacks and cyberdefence more powerful.¹⁰

Despite the concerns about more potent threats, some experts believe that the nature of AI – specifically, its applicability to ‘big data’ – is more suited to defensive operations rather than offensive ones.¹¹ As things stand, those trying to use AI to boost cybersecurity seem to have the edge over those seeking to use such technology in the pursuit of criminal endeavours or other assaults on the integrity of networked systems.¹² This might change. Nonetheless, the tireless nature of the machine, combined with the cognitive power of the human mind, presents a real opportunity for building better defences against growing and more sophisticated cyberthreats.¹³ ■

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Contagion-proofing for Cities

Beyza Unal¹

As cities become more vulnerable to biological threats, the need for robust emergency planning is increasing. Can experience from Lagos offer lessons for other cities?

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Cities that are able to perform their ordinary functions even when under stress are more likely to be resilient to biological threats

Rapid and unplanned urbanization is increasing the risk of a major biological incident and affecting the ability of authorities to respond effectively, particularly in the developing world. In 1960, for example, only 15 per cent of people on the African continent lived in cities, but by 2010 the share had risen to 40 per cent.² Control of infectious diseases when they spread to cities is complicated by high population density, the mobility of populations (e.g. through daily commutes),³ and the abundance of transit connections with other urban areas and countries. Despite these concerns, recent field experience offers some useful indications of how cities could improve preparedness and emergency planning frameworks.

The need for resilience to biological threats – whether disease outbreaks or the malicious use of infectious agents by non-state actors – is of concern both because of the serious health implications for local populations and because of the potential role cities play in amplifying the risks. Infectious diseases can spread at exponential rates within and from cities – as was illustrated by the case of the late Patrick Sawyer, Nigeria’s first reported patient during the Ebola virus outbreak in 2014. It was calculated that, after Sawyer flew from Liberia to Lagos and collapsed in the airport, he generated 898 possible contacts (both primary and secondary) with other people.⁴

Several of the risk factors that determine vulnerability to biological incidents are associated with aspects of uncontrolled urbanization. These include the spread of informal settlements and slums, poverty, energy insecurity, and challenges around food and water security – vulnerabilities in each of these areas have potentially cascading effects on biological safety and security.⁵

Assessing risks and learning lessons

How likely is it that city-level failure to prevent the spread of infectious agents will result in a national or international disaster? A key determining factor is the level of resilience in individual cities. Cities that are able to perform their ordinary functions even when under stress are more likely to be resilient to biological threats.⁶ Often this means having substantial resources (both human and financial capital) and adequate disaster preparedness (such as trained emergency personnel).

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It is vital that cities work with anthropologists and other experts so that emergency planning frameworks can be developed that are medically effective while respecting local traditions

The nature and scope of response mechanisms are also important. Urban preparedness to mitigate biological threats involves more than just a ‘health-based approach’ (such as ensuring adequate healthcare facilities). It requires a broader vision: rethinking city planning and infrastructure, coordination and communication among local stakeholders, and robust implementation of security measures such as screening people and restricting travel, while ensuring that affected communities are not deprived of their social and human rights.⁷

The experience of Lagos, Nigeria’s largest city, in responding to the 2014 Ebola outbreak offers some lessons in good practice. First, prior to the outbreak, the Nigerian Centers for Disease Control and Prevention had established training courses for medical epidemiology experts, public health laboratory staff, and veterinary epidemiology experts on disease surveillance, detection and tracing.⁸ Second, the municipal authorities were able to mobilize resources quickly, using the Lagos Emergency Operations Center’s experience in tackling endemic polio outbreaks; they successfully adapted their existing polio programme to the Ebola crisis.⁹ A third factor was the involvement of the private sector.¹⁰ The Aliko Dangote Foundation, a local philanthropic organization, provided financing for an emergency operations centre, sponsored training for health personnel and paid salaries for the centre’s staff for six months.¹¹ At the same time, the Ebola Private Sector Mobilisation Group, a coalition of nearly 50 companies with assets and interests in West Africa, supported affected areas by donating emergency and sterilization equipment.¹² Fourth, national and international bodies such as the World Health Organization and Médecins Sans Frontières engaged directly with local authorities and communities, including slums. Community leaders played a significant role in raising public awareness and providing education about the virus. Finally, Lagos had its own financial resources, and thus did not rely on federal funding and support for initiating response at the beginning of the outbreak.¹³

The extent to which these lessons can be applied in other cities around the world will vary. Success in reducing vulnerabilities will depend on a number of factors, including future decisions in urban design and the effectiveness of efforts to tailor emergency planning to cities’ diverse circumstances. The development of local strategies is particularly important. Whereas some cities, such as London or New York, have city-level plans for responding to both general emergencies (e.g. natural disasters) and specific emergencies (e.g. pandemic influenza outbreaks),¹⁴ this is seldom the case in cities in developing countries. Many lack adequate city-specific plans, instead relying on national emergency action plans. Yet a one-size-fits-all approach is not helpful in mitigating biological threats, given differences in the composition of cities’ populations and in cultural rituals (for instance, over funerals and burials). Following local customs and the advice of community leaders can sometimes seem more important for city residents than observing medical advice. This can increase the risk of disease spreading.

To support or improve resilience in such instances, it is vital that cities work with anthropologists and other experts so that emergency planning frameworks can be developed that are medically effective while respecting local traditions.

The International Security Department and the Centre on Global Health Security at Chatham House, together with Sandia National Laboratories, are working with cities in Africa to create different frameworks with local stakeholders to ensure city preparedness and readiness. Understanding what type of emergency planning framework is needed in each particular city, and working on creating such a framework with local stakeholders, will be essential for ensuring preparedness and readiness.¹⁵ ■

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POLITICS AND SOCIETY

The Unpredictable States of America

Risk: US political dysfunction

Jacob Parakilas

New Avenues for Civil Society Action

Opportunity: Civil society
innovation and human rights

Chanu Peiris

How America is Responding to Washington's Failings

Opportunity: Activism in the US

Courtney Rice

Uzbekistan – Opening Up?

Opportunity: Moderate
liberalization in Uzbekistan

James Nixey

The Unpredictable States of America

Jacob Parakilas

The political fractures that facilitated Donald Trump's rise are systemic, will outlast his tenure, and present short-, medium- and long-term risks.

Since the 2016 election, there has been a tendency to conflate the person of the 45th president of the United States with the whole of the US political system. But the near-obsessive focus of the commentariat on Donald Trump – helped along, it has to be said, by the president himself – also obscures geopolitical risks from the parlous state of US politics that go beyond those associated with the current presidency.

Trump is often blamed for the polarization and hyper-partisanship of today's US political milieu. But while he has done little to address those problems, the trends predate his presidency¹ and – regardless of the length of his time in office or the identity of his successor – are unlikely to dissipate anytime soon.

Discord in the federal government carries obvious risks for the US itself. Given the centrality of the US to the current world order and the degree to which other actors predict and react to American signals, there are also significant risks for other states both aligned with and opposed to it. These risks can be categorized as short-term, medium-term and long-term.

Short-term risk: strategic incoherence/miscalculation

One immediate risk is that the signals the US sends are misinterpreted by other parties, leading to miscalculation and confrontation. While this has happened before (notably in the run-up to Iraq's invasion of Kuwait in 1990),² and while there are always differences within the federal government, the problem has become especially acute of late.

The obvious demonstration is the degree to which President Trump has been openly at odds to an unprecedented degree with his own administration, the federal bureaucracy and Congress.³ But there was also considerable foreign policy push and pull between Trump's predecessor, Barack Obama, and a Republican-controlled Congress over Syria, Cuba and Iran – notably in the 2015 open letter, co-signed by 47 senators, aimed at undermining the negotiations that led to the Joint Comprehensive Plan of Action on Iran's nuclear programme, subsequently abrogated by the Trump administration.⁴

Absent a significant realignment in inter-party politics, the trend points to a near future in which the US system struggles to send unambiguous foreign

policy messages. Its inability to do so decreases the coherence of American action and, in turn, increases the chances of miscalculation by others.

Medium-term risk: institutional degradation

The US government is also seeing the erosion of its institutional ability to manage crises. This is especially relevant for the State Department, where numerous top jobs remain empty a year and a half into the new administration. It is also true to some degree across government.⁵ Part of this problem is unique to Trump – the disdain he has for civilian government expertise (not to mention the hostility felt for him by the bulk of the foreign policy establishment) has been a difficult obstacle for his administration to overcome, especially in the mid to senior ranks of political appointees. But the wider context is just as important, as non-partisan civil service is increasingly fraught: all too often, apolitical civil servants are seen by elected officials as untrustworthy ‘holdovers’ from prior administrations.⁶

The pressure on the civil service creates cascading problems: with holes in the organizational structure of key departments, action to address issues or crises is deferred or passed up to top officials, who are already overstretched. At the same time, the dwindling number of entry-level applicants for the civil service means that there will be fewer qualified candidates in the future for crucial mid- and senior-level roles.⁷ These factors will continue to impinge on the federal government’s ability to manage foreign relationships and crises alike.

Long-term risk: cyclical backlash

Underneath all this is the possibility that the US may simply be unable to find a stable political equilibrium in the foreseeable future. The growing gap between Republican and Democratic parties rests atop a range of social, economic and cultural fractures in American life.⁸ Those fractures both increase the likelihood of backlash elections and hobble constructive coalition-building – potentially encouraging politicized solutions that make little policy sense, such as the widely disparaged 2013 ‘sequester’ deal on federal spending.⁹

The risks here don’t merely apply to American allies, though the downsides of an unreliable ally are obvious. A US that vacillates between non-interventionist and aggressively nationalist might create what seems to be a permissive space for an adversary, then overcorrect following a change of government and take more confrontational action than it might have done otherwise. Unfortunately, unless US politics moves in a more internally coherent direction, the result is likely to be unpredictability and all the risks that entails.■

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The growing gap between the parties rests atop a range of social, economic and cultural fractures in American life, hobbling coalition-building and increasing the likelihood of backlash elections

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New Avenues for Civil Society Action

Chanu Peiris

Despite challenging legal and operational environments, civil society organizations are engaging with a broader range of actors as well as developing novel workarounds to further the human rights agenda.

The rise of populist politics and authoritarianism has disrupted traditional dynamics of international cooperation and leadership on human rights. Against this backdrop, socially progressive civil society organizations (CSOs)¹ are increasingly facing state repression, including in established democracies. Nevertheless, a number of recent trends – such as the use of technology to facilitate public engagement and the innovative use of partnerships across sectors – provide an opportunity for such CSOs to engage strategically on human rights issues.

Increased digital connectivity has led to growth in informal networks that are able to share information and assemble people in large numbers and across geographic and social divides. The UN's #HeForShe campaign has initiated over 1.3 billion conversations online,² while the 2017 Women's Marches, instigated by an individual on Facebook,³ attracted approximately 2 million protesters across 161 cities worldwide.⁴ For CSOs these numbers represent a considerable resource, which can be used to expose human rights abuses and precipitate corrective action. For example, Lebanon, Jordan and Tunisia repealed long-standing rape-marriage laws last year.⁵ This was perceived by some actors to be largely the result of the CSO-led #Undress522 campaign's ability to capitalize on the current public appetite for addressing women's rights abuses.⁶

One of the main challenges to such movements is that the loose, unstructured nature of informal networks renders causes susceptible to co-optation by elites⁷ as well as by socially conservative groups with regressive agendas.⁸ Additionally, the extent to which the benefits of informal civil society are likely to translate into positive results will depend on its resilience in the face of state repression, including rollbacks of internet freedoms. Greater synergy between established CSOs and informal civil society would go some way towards addressing the limitations of the latter, while providing a vehicle for channelling public disquiet and the interests of marginalized groups. This could improve popular trust in CSOs – damaged in many cases by the perception that they have lost touch with the public.⁹ By broadening the base of human rights proponents, such efforts could also make CSOs less vulnerable to state repression.¹⁰

Collaboration is also providing new strategies for CSOs and shifting their relationship with other sectors. For example, the Humanitarian Corridors

initiative, which involves a partnership between faith-based CSOs and the Italian government, has been providing an alternative legal route to Italy for vulnerable refugees at no cost to the government. Encompassing a wide range of actors, including private citizens, the initiative represents a new approach to providing safe and legal pathways for refugees and to integration. Following success in Italy, the French government entered into a similar agreement in 2017,¹¹ and there is the potential for further roll-out in other EU states and beyond.

It should be noted that government efforts through official resettlement programmes fall far short of the places required for the 1.19 million refugees considered in need of resettlement by the UN,¹² and that the opportunities provided by complementary pathway schemes are currently limited. Responsibility for refugees and asylum-seekers ultimately rests with states, and the involvement of CSOs is not a substitute for state action. However, if handled carefully, the greater involvement of private citizens through CSO schemes in this space can help build solidarity and support among the public for refugee protection. This, in turn, can encourage governments to re-examine their own resettlement programmes and other complementary pathways.

The challenging legal and operational environment in many countries for human rights actors has resulted in an increasing number of CSOs engaging in partnerships with businesses and adopting private-sector models.¹³ These partnerships and models demonstrate potential to mitigate the shrinking of space for civil society, as well as to offer new ways of addressing human rights issues. For example, when the government of Cambodia violently repressed wage protests by garment workers in 2014, international garment retailers entered an informal partnership with CSOs and international labour movements to, among other things, push back against the crackdowns and encourage formal decision-making on a minimum wage. For the CSOs and protesters, business involvement in this case reduced the risk associated with the exercise of freedom of association and peaceful assembly, and contributed to the raising of the minimum wage by over 50 per cent.¹⁴ Meanwhile, the Fair Employment Agency – a non-profit social enterprise – is challenging the practices of unscrupulous recruitment agencies in Hong Kong. By providing ethical and transparent services, it offers an alternative to arrangements that drive foreign domestic workers into debt bondage. Having placed more than 2,000 individuals and helped workers avoid an estimated US\$3 million in recruitment debt as of early 2018, the enterprise is reducing the risk of exploitation and making inroads in a matter that has resisted traditional forms of advocacy.¹⁵

The increasing involvement of the private sector in governance and human rights spaces needs to be closely monitored, however: business practice varies in its adherence to human rights principles; alliances with businesses lack traditional oversight mechanisms; and the unequal power of large corporations puts civil society partners in such arrangements at risk of co-option. Additionally, the growth of business influence in the human rights arena needs to be carefully promoted alongside, and not to the detriment of, the meaningful participation and influence of CSOs.

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If handled carefully, the greater involvement of private citizens through CSO schemes in this space can help build solidarity and support among the public for refugee protection

The year ahead offers two inflection points that stand to affect the potential impact of civil society innovation. The Office of the United Nations High Commissioner for Human Rights (OHCHR) has played a critical role in the pushback against restrictions on the formation, registration, operations and funding of CSOs, and the OHCHR's roadmap for 2018–21 prioritizes the expansion of civic space.¹⁶ However, the delivery of this priority will turn on the ability of the new UN High Commissioner for Human Rights to balance the competing responsibilities of acting as the UN's human rights conscience and winning the political support necessary to engage governments in improving their human rights practices. The anniversaries of the adoption of several key human rights instruments,¹⁷ including the Universal Declaration of Human Rights, meanwhile, will serve as a rallying point for action on gaps in human rights protection. These moments will also provide an opportunity to consider where political and social dynamics are heading with respect to the shrinking space for civil society. ■

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Notes

- 1 While CSOs have a range of agendas, this article focuses on actors working towards the promotion, protection and advancement of human rights. The World Bank defines CSOs as 'the wide array of non-governmental and not-for-profit organizations that have a presence in public life and express the interests and values of their members or others...'. World Bank (2007), *Consultations with Civil Society: A Sourcebook*, Civil Society Team, World Bank, p. 1, http://siteresources.worldbank.org/CSO/Resources/ConsultationsSourcebook_Feb2007.pdf.
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How America is Responding to Washington's Failings

Courtney Rice

A broad array of actors – from local communities to state governments – are filling the void in political and moral leadership left by inaction at the highest levels of government.

The US's deep political and societal divisions have contributed to a historically low level of trust in the federal government.¹ The void left by this absence of unifying leadership has created an opportunity for politically engaged groups across civil society, local government and the corporate sector to shape national debates, promote causes and offer alternative solutions. In a number of cases, these movements are gaining considerable public support, and proving their effectiveness – though not necessarily their durability. By capitalizing on this political moment, groups across the US have a real chance to shape policy and governance.

This activism is engaging on major issues, from immigration to climate change. For example, following President Donald Trump's announcement of the US's planned withdrawal from the 2015 Paris Agreement, governors from New York, California and Washington established the United States Climate Alliance. This bipartisan coalition has the explicit intention of ensuring adherence – through state-level actions to reduce greenhouse gas emissions – to the US's pre-existing commitments under the Paris Agreement.² A number of other states quickly joined the Alliance, and with the addition of New Jersey in February 2018 it now comprises 16 states and the territory of Puerto Rico.³ The Alliance claims to be on track to meet its emissions pledges by 2025. Perhaps as importantly, its members report that clean-energy policies have helped to create 1.3 million jobs.⁴ This is an attractive argument for climate-friendly policy reform as many states face job losses from economic pressures such as automation.

Much to the frustration of the current administration, California is also resisting federal efforts to diminish its unique influence over US vehicle emissions policy.⁵ Under the 1963 Clean Air Act, the Environmental Protection Agency (EPA) regulates air pollution across the US but must allow California to set its own emissions standards if certain conditions are met. This reflects California's long-running emissions regime and its historic problems with pollution. California's market size means that carmakers nationwide are in effect compelled to follow the state's stringent standards or comply with competing sets of domestic regulation. The EPA is challenging California's waiver but faces a tough battle. States' rights are strongly protected in the US, and their collective leverage – including support from entities abroad⁶ – has created a durable platform for

challenging the federal government. That said, California's opposition to the Trump administration makes the state a political target for federal reform that – if successful – would eliminate its special waiver on emissions.

At a more local level, community leaders are mounting pressure campaigns and using the courts to oppose the president's policies towards 'sanctuary cities'. Sanctuary cities – localities which limit cooperation with the federal government in enforcing immigration policy⁷ – became a politically divisive issue during the 2016 election campaign. Five days after taking office, Trump signed an executive order which sought to render sanctuary cities that defied federal law ineligible for federal funding.⁸ To date, courts in California, Philadelphia and Chicago have blocked the order, criticizing executive overreach.⁹ However, the communities in which these challenges have occurred have recourse to limited options, beyond the judiciary, for resisting federal power. If the administration can reframe the debate along issues of national security rather than civil liberties, it stands a good chance of quashing this resistance.

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While issue groups are not unique to this political moment, what has changed is the visibility – and potential political capital – they are achieving through social media and collective action

Whether in response to specific policies or broader issues, a number of companies and CEOs have also capitalized on public discontent with government. For example, shortly after the chaotic start of Trump's first travel ban in January 2017, the CEO of Airbnb took to Twitter to offer free housing to refugees and others affected by the ban.¹⁰ And after the president controversially refused to denounce far-right protesters at a violent rally in Charlottesville, Virginia in August 2017, a number of his business council advisers resigned. Ever image-conscious, these private-sector representatives aren't looking to reshape policy or influence government, but are seizing on opportunities to cast their brands as alternatives to unpopular moral positions.

A number of grassroots civic movements have also emerged to fill the void in political leadership and shape the national debate. Black Lives Matter grew from concerns over unchecked violence in black communities at the hands of vigilantes and the police.¹¹ Groups of coders – such as Data Refuge – have established networks to monitor government websites for fear that politically sensitive data (for example, on climate change) will be wilfully discarded.¹² The #MeToo movement erupted in October 2017 to highlight the prevalence of sexual harassment across society. March For Our Lives, a national youth movement against gun violence, emerged following the Parkland school shooting in February 2018.¹³ While issue groups are not unique to this political moment and their impact is difficult to quantify, what has changed is the visibility – and potential political capital – they are achieving through social media and collective action. For this reason, some of these movements could exercise greater leverage over policy than those of the past.

The unanswered question concerns the extent to which the different strains of activism outlined above represent an aggregate change. Civic and political mobilization is commonplace in the US, with established channels at each level of the government – from local municipality to the executive – through which to engage. In that sense, the latest advocacy movements may simply be manifestations of a tradition of civic consciousness, in some cases refined for and empowered by the digital age. At the same time, the sense of

more concerted responses to a political dysfunction many years in the making, but thrown into its sharpest relief yet by the Trump-era indignities, is hard to ignore. While no single entity can stand in for the federal government or mend the divisions in American society, groups across many sectors of public life are seizing the opportunity to promote political and moral alternatives to the messages (or lack thereof) from Congress and the White House. Of these groups, those with capital and institutional backing – particularly where they have backing from local or state authorities – stand a better chance of shaping policy. Until the void in political leadership in the US is filled and a more constructive spirit of bipartisanship emerges, ever more inventive constituencies across the political spectrum will seek to make their voices heard. ■

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Notes

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Uzbekistan – Opening Up?

James Nixey

Among an uninspiring cast of authoritarian Central Asian states, Uzbekistan is emerging as an unlikely exemplar of economic and policy reform – albeit still to a very limited degree.

Opportunities for meaningful change do not occur very often in the area once covered by the USSR. This is especially so in Central Asia. In 27 years of post-Soviet rule, there have only been six changes of leader across all five countries.¹ Three of those were in Kyrgyzstan (two through revolution, but most recently in a semi-democratic process). The other ‘new’ leaderships were due to the sudden death of the incumbent, followed by a well-orchestrated succession. Only in Uzbekistan, however, is tangible reform being explored.

Uzbekistan had long been one of the least likely candidates for transformation of almost any kind. In 27 years of demagogic misrule until his death in September 2016, President Islam Karimov did almost nothing for his country’s prosperity. Yet his successor, Shavqat Mirziyoyev, once thought another hardliner, may be cut from different cloth: there has been more change in Uzbekistan in the past year and a half – albeit not fully supported by legislation – than in the other four Central Asian countries in the past quarter of a century.

Three positive developments stand out in particular. The most noticeable change has been in the economic sphere, with the liberalization of currency regulations and the devaluation of Uzbekistan’s som – which is no longer pegged to the US dollar. Foreign tender can now be bought, and some economic privileges for government institutions have been curbed. The devaluation was a shock to the population,² yet also popular – and an obvious boon for investors. To some degree, Mirziyoyev has opened his country for business.

The contrast with neighbouring Kazakhstan is conspicuous. Although still the region’s premier economic power, Kazakhstan is likely worried about future competition from Uzbekistan, its traditional but weaker supposed rival.³ Both countries share the same key foreign investors – Russia and China – but Kazakhstan’s economic prospects do not look good, as the country has reached the end of what the leadership considers to be politically tolerable reform (for now). Uzbekistan’s economic potential is the greater. It has by far the largest population in the region, 32 million to Kazakhstan’s 18 million (one in three Central Asians is Uzbek), with 70 per cent aged 30 or under. It enjoys a more central location. It may, in the long run, benefit more from Chinese investment in transport infrastructure as part of the ‘Belt and Road Initiative’.⁴ Uzbekistan is also, by its continuing refusal to join Moscow’s Eurasian Economic Union (EAEU), resisting Russian efforts to inhibit its trade and political relations with other partners. Staying out of the EAEU was conceivably Karimov’s only notable achievement.

Kazakhstan, though an initial proponent, reluctantly signed up to that anachronistic grouping (then under a different name) in 2010. The economic benefits have been negligible.

The second positive development has been Mirziyoyev's easing of some political, media and social restrictions and his reorganization of key government positions. He dismissed the other two members of the triumvirate of power: the deputy prime minister, Rustam Azimov, in June 2017; and, more significantly, the powerful head of the National Security Service, Rustam Inoyatov, in January 2018.⁵ A large number of political prisoners have since been released, and no new ones have been arrested. Forced labour in harvesting cotton has declined somewhat,⁶ and the state has taken a softer approach towards Sunni Muslims. The BBC has been permitted to broadcast in the country for the first time since the massacre in Andijan in 2005, and Voice of America now has accreditation too.

Foreign policy is the third and (so far) final arena of Uzbekistan's transformation – mostly directed towards its neighbourhood. Tashkent has halted its objections to energy projects (especially hydropower), resumed natural gas supplies, increased rail and air links, and initiated regional defence cooperation.⁷ Uzbekistan was traditionally the 'difficult neighbour', but that is changing. Most importantly, relations with Kazakhstan have improved and bilateral trade has grown.⁸ The success of regional diplomacy has reinforced the improvement in the economy. Uzbekistan has also increased its involvement in international efforts to stabilize Afghanistan. Progress in diplomacy outside this still-limited geographical radius has been less evident, although Mirziyoyev made a successful visit to the US in May.

Despite the encouraging early signals on these three fronts, caution is vital. Uzbekistan is not about to become anything remotely resembling a liberal democracy, even in the medium term. Change has started from a low base. The depth and breadth of the leadership's intent are largely unknown, and significant political reform would weaken Mirziyoyev's hold on power. That most of the country's elite alliances still have to be maintained – and balanced against each other – makes reform of government institutions unlikely. Even the removal of Inoyatov, which has already upset that balance, can be seen as a consolidation of control as much as a progressive move. Reforms are not being driven from the bottom up, as in, say, Ukraine, but through a coercive, top-down approach.

As a rule, autocratic systems do not die out with their long-serving leaders. It is likely, for example, that Putinism will outlast Putin's presidency. The Soviet legacy and Western preference for a 'better the devil you know' approach have worked in the Central Asian regimes' favour. Yet change is spreading, inexorably, through the wider region. From west to east, political transformation has come to the Baltic states, then Georgia and Ukraine. Most recently, a forcible readjustment has reached Armenia, though that is far from consolidated. Uzbekistan can conceivably be added to the list. Uniquely for the post-Soviet space, its shift has not come from revolution, yet the direction of travel remains positive. ■

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Notes

- 1 The five countries are Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.
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GOVERNANCE

A More Contested Space?

Risk: Shifting power and international law

Ruma Mandal

A Global Compact: What Difference Will it Make?

Risk: International cooperation
on refugees

Jeff Crisp

'Belt and Road' – Encouraging China to Play by International Rules

Opportunity: Engagement
with China on human rights

Harriet Moynihan

Channels of Cooperation

Opportunity: Disaster
warning in South Asia

Gareth Price

Assessing and Addressing Gaps in Outbreak Control Capacity

Opportunity: Improved health
emergency detection and response

*David L. Heymann, Emma Ross
and Osman Dar*

A More Contested Space?

Ruma Mandal

After decades of progressive development in international law, increasingly influential voices such as China are challenging the status quo. This has implications for human rights protection and development of the law in emerging areas.

International law flourished in the aftermath of the Cold War, broadening in scope, deepening in content and embracing a focus on individuals. While this period furthered many governance projects envisaged in the post-1945 settlement, shifting power and rising nationalism now suggest the arrival of a more difficult phase for international law.¹ In the coming year (and beyond), areas of the law perceived by some as too liberal will be vulnerable to attack, and tensions will persist between key states on how the law applies to emerging global challenges.

The dynamics of international law are shifting. Countries that traditionally have led the way in shaping international law are ceding space, as a consequence of reduced global power, tarnished prestige and rising nationalist sentiment.² Meanwhile, countries such as China are increasingly engaged, recognizing the potential for the law to further their interests.³

This new phase does not amount to an existential crisis. Much of international law remains uncontested, facilitating the daily workings of an interconnected world;⁴ and states continue to rely on the law to settle disputes peacefully.⁵ The continued legitimacy of international law in a multipolar world demands greater plurality.⁶ A degree of contestation is thus inherent and healthy in the law's evolution – stability as opposed to stasis. Nonetheless, a degree of vigilance is justified on two principal grounds.

Firstly, greater assertiveness on the part of states with a sovereigntist or transactional approach carries risks for areas of the law associated with progressive liberal values – for example, sexual and reproductive rights. The pushback on such rights is not confined to states from the Global South; the US and a number of European states are increasingly advocating illiberal values.⁷ Alongside this, China and many developing countries are likely to increase pressure for greater attention to economic rights. Progress on addressing inequalities through economic rights is long overdue. However, the risk remains that advocacy on economic rights can be used by some as cover for encouraging restrictive approaches to civil and political rights.

Secondly, in relation to emerging challenges for international law, achieving consensus may become increasingly complicated in the short term. Issues around cybersecurity governance are illustrative. A UN Group of Governmental Experts has failed to reach agreement on how international

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law applies to cyber operations by states, with a split emerging between Western countries on one side and China and Russia on the other. At present, prospects for convergence look slim.⁸

The extent to which these risks materialize will depend on the relative efforts made by key states. Will engagement by traditionally influential states in these vulnerable or emerging areas be strategic, addressing competing visions of the global order, in particular as advanced by China?⁹ And to what degree will such countries be able to maintain a coordinated approach? On the human rights side, the US will not be a consistent partner anytime soon for states wishing to defend ‘progressive’ rights. Meanwhile, the EU’s ability to wield collective influence is increasingly compromised by internal splits on values and by questioning of the EU’s own recent human rights record.¹⁰

Nevertheless, Western states can draw on considerable expertise in international law. And the opportunity for building issue-specific alliances among them and with states from the Global South exists.

Moreover, China is intent on being seen as a responsible power, seeking not to disrupt international law but to have a more influential role. The increasing visibility of non-state actors is also worth noting, for example in judgments of national courts which deal with international law, parliamentary enquiries into government compliance, academic initiatives and civil society advocacy.¹¹

Ultimately, the longer view is perhaps instructive. International law is resilient, having in the past weathered numerous disruptions in global politics, intermittent antagonism from powerful states, and notable breaches. While complacency would be misguided, so is despair. ■

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Notes

- 1 For an exchange between international law academics on a perceived shift in the dynamics of international law, see Zimmermann, A. (2018), ‘Times Are Changing – and What About the International Rule of Law Then?’, EJIL:Talk! blog, 5 March 2018 (and subsequent posts), <https://www.ejiltalk.org/times-are-changing-and-what-about-the-international-rule-of-law-then/>.
- 2 Commentators have noted, for example, the US’s intention to withdraw from the Paris Agreement on climate change; and the 2017 elections for the International Court of Justice, which resulted, for the first time, in there being no British judge on the bench.
- 3 See, for example, the 2016 Russia–China declaration on the promotion of international law, and analysis from the Chatham House initiative on ‘China and the Future of the International Legal Order’, <https://www.chathamhouse.org/about/structure/international-law-programme/china-future-of-international-legal-order-project>.
- 4 For the views of a leading international law expert and current judge at the International Court of Justice, see Crawford, J. (2018), ‘The Current Political Discourse Concerning International Law’, *Modern Law Review*, Volume 81 (2018).
- 5 Current litigants include Australia, Chile, France, Iran, Kenya, Malaysia, Russia and the US. Aside from contentious cases, advisory opinions continue to be sought, e.g. the African Union’s request for the UN General Assembly to seek an opinion on the immunities issue in relation to arrest warrants of the International Criminal Court.
- 6 See Roberts, A. (2017), *Is International Law International?*, OUP.
- 7 For example, the US’s early withdrawal from negotiations on a proposed Global Compact on Safe, Orderly and Regular Migration. This compact, aimed at improving global migration governance, is being negotiated pursuant to a 2016 UN General Assembly Resolution and

- will be politically, rather than legally, binding. Subsequently, Hungary threatened to quit the negotiations as well, characterizing the process as pro-migration. See Reuters (2018), 'Hungary says could quit U.N. talks on migration pact', 1 February 2018, <https://uk.reuters.com/article/uk-hungary-migrants-un/hungary-says-could-quit-u-n-talks-on-migration-pact-idUKKBN1FL4Q9>.
- 8 See Moynihan, H. and Hakmeh, J. (2018), 'Offensive Cyberattacks Would Need to Balance Lawful Deterrence and the Risks of Escalation', Chatham House Expert Comment, 23 March 2018, <https://www.chathamhouse.org/expert/comment/offensive-cyberattacks-would-need-balance-lawful-deterrence-and-risks-escalation>. As with the development of other sensitive areas of international law, for example governance of Antarctica, might 'soft' law approaches coupled with increasing familiarity on the issues involved prove the pathway for states to agree on the rules in this area? See Mačák, K. (2017), 'From Cyber Norms to Cyber Rules: Re-engaging States as Rule-makers', *Leiden Journal of International Law*, Volume 30(4) (2017).
 - 9 Note China's recent references to 'win-win' and 'community of shared future for all humankind', including in a March resolution sponsored by China at the UN Human Rights Council (HRC), 'Promoting mutually beneficial cooperation in the field of human rights', A/HRC/37/L.36, adopted 19 March 2018, <https://documents-dds-ny.un.org/doc/UNDOC/LTD/G18/066/67/pdf/G1806667.pdf?OpenElement>. These concepts resonate with China's long-standing sovereigntist and non-interference approach to international law. In the case of the HRC resolution, its perceived focus on cooperation between states rather than accountability resulted in many countries abstaining. The US was the only state to vote against it, criticizing China for attempting to weaken the international human rights system (despite having itself threatened to quit the HRC in 2017).
 - 10 For example, controversy over the EU's refugee and migration policies.
 - 11 An example, in the area of cyber governance, is the academic-driven *Tallin Manual* project aimed at clarifying how international law applies to cyberwarfare.

A Global Compact: What Difference Will it Make?

Jeff Crisp

Despite signs of a more concerted international response to the plight of refugees, obstacles to the provision of more meaningful protection for exiled populations loom large.

During the past five years, a combination of armed conflict, human rights abuses and violent extremism has uprooted millions of people in countries such as Myanmar, Nigeria, South Sudan and Syria. At the same time, long-standing conflicts in Afghanistan, the Democratic Republic of the Congo, Iraq and Somalia have gone unresolved. As a result, refugees from those states have been unable to return to their homes.

It seems highly unlikely that the refugee problem will diminish in the years to come. According to Rana Dasgupta, ‘For increasing numbers of people, our nations and the system of which they are a part now appear unable to offer a plausible, viable future.’¹ More people will seek to move beyond the borders of their own country, a trend that will be reinforced by climate change and growing levels of inequality within and between states.

The humanitarian system has been placed under unbearable pressure by the mass displacement of people. Aid agencies are failing to raise the funds they need to support the world’s refugees.² They lack the capacity to respond effectively to so many simultaneous crises. In many countries, the intense forms of violence that have uprooted so many people also make it impossible for relief organizations to assist the most vulnerable.

While the refugee issue is heavily concentrated in the Global South, displaced people are becoming more mobile and have demonstrated that they will keep moving until they reach a country that offers them a decent future. Thus, in 2015–16, more than a million refugees arrived in the EU,³ the largest number of them Syrians who felt it was impossible for them to fulfil that aspiration if they remained in Turkey.

As a result of these developments, the international community is now addressing the refugee issue in a more concerted manner than was previously the case, as demonstrated by the September 2016 UN Summit for Refugees and Migrants, its unanimous adoption of the New York Declaration for Refugees and Migrants, and the forthcoming Global Compact on Refugees – set to be presented to the UN General Assembly in late 2018.

As UNHCR, the UN Refugee Agency, has suggested, these initiatives have the potential to be a ‘game changer’.⁴ They provide states with an opportunity to reaffirm the basic principles of refugee protection. They could lead to



Overseas aid and other foreign policy instruments will be increasingly used not to reduce poverty and promote development, but to contain people within their own regions

a more equitable distribution of the burden imposed by the world's refugees. And they promise to complement the traditional model of emergency assistance with longer-term and developmental approaches that also bring benefits to host populations.

But the current international environment is also replete with risks. The US has already signalled an intention to abandon its long-standing leadership role in refugee affairs. And there is no guarantee that other countries will restore the cuts to funding and refugee resettlement places initiated by the Trump administration.⁵

Another risk is that industrialized states that have signed up to the New York Declaration and Global Compact will simply ignore the principles included in those non-binding documents, using ever more ingenious means of excluding asylum-seekers from their territory. At the same time, overseas aid and other foreign policy instruments will be increasingly used not to reduce poverty and promote development, but to contain people within their own regions.

As the EU's recent 'migration management' deals with Turkey and Libya have demonstrated, this approach is certain to entail the violation of refugee rights.⁶ It will also encourage developing countries to close their borders to refugees and to promote premature repatriation movements, as has recently been seen in Kenya and Lebanon. As a result, many vulnerable people will be deprived of their right 'to seek and to enjoy in other countries asylum from persecution'.⁷

Looking to the future, three variables will influence the international community's response to the refugee issue:

The first is the extent to which new emergencies can be averted and existing refugee situations resolved. If states and citizens continue to feel that the problem of forced displacement is out of their control, the more likely it is that governments will resort to restrictive asylum policies.

The second variable is the level of support that can be mobilized for host countries in the developing world. Without tangible recognition of their hospitality, such states will be sorely tempted to ignore any protection principles that are enshrined in the Global Compact.

The third variable is political leadership. With the current US government a lost cause in the refugee domain, it will be incumbent on other states – Canada, Germany, Ethiopia and Uganda among the most influential – to set a positive example in the treatment of displaced populations.■

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Notes

- 1 Dasgupta, R. (2018), 'The demise of the nation state', *Guardian*, 5 April 2018, <https://www.theguardian.com/news/2018/apr/05/demise-of-the-nation-state-rana-dasgupta>.
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- 3 European Stability Initiative (2017), 'The refugee crisis through statistics', 30 January 2017, <https://www.esiweb.org/pdf/ESI%20-%20The%20refugee%20crisis%20through%20statistics%20-%2030%20Jan%202017.pdf>.

- 4 UNHCR (2016), 'UN Summit seen as "game changer" for refugee and migrant protection', press release, 6 September 2016, <http://www.unhcr.org/uk/news/latest/2016/9/57ceb07e4/un-summit-game-changer-refugee-migrant-protection.html>.
- 5 Crisp, J. (2017), 'Trump Era Casts New Shadow Over Refugees', Chatham House Expert Comment, 31 January 2017, <https://www.chathamhouse.org/expert/comment/trump-era-casts-new-shadow-over-refugees>.
- 6 Gray Meral, A. (2018), 'Migration Deals Risk Undermining Global Refugee Protection', Chatham House Expert Comment, 13 April 2018, <https://www.chathamhouse.org/expert/comment/migration-deals-risk-undermining-global-refugee-protection>.
- 7 Article 14, Universal Declaration of Human Rights.

‘Belt and Road’ – Encouraging China to Play by International Rules

Harriet Moynihan

The ‘Belt and Road Initiative’ provides a new entry point for engaging China constructively on human rights issues, particularly economic and social rights.

Western efforts over the years to pressure China over its human rights record have almost invariably been rebuffed, typically prompting Beijing to dismiss criticisms as interference in its domestic affairs. But China’s increasingly global economic footprint and aspirations for recognition as a responsible international power offer the prospect of some change in this area. Cross-border cooperation on the ‘Belt and Road Initiative’ (BRI) may require China to comply more willingly with international rules and norms while accepting stricter contractual commitments in jurisdictions outside its own territory. On the early evidence so far, this could open the way for stronger human rights protections – for example on labour rights and the environment – to be written into China’s free-trade agreements (FTAs) and infrastructure investments.

A flagship programme for the Chinese leadership, the BRI consists of a sprawling network of planned capital projects in transport, trade and other economic infrastructure in dozens of countries across Asia, Central Asia and beyond.¹ The initiative is designed to improve overland and maritime trade links between China and the rest of the world, and is also an outlet for the increasingly outward-looking investment strategies of Chinese companies.

There are several reasons to believe that China might accommodate certain human rights and other standards in its BRI agreements. The first is that partners may demand it. In May 2017, for example, the EU refused to sign a joint statement on the BRI because the MoU did not include reference to transparency and sustainability.² More broadly, the EU and the US (at least, until the Trump administration) have been pushing for the inclusion of provisions on labour, the environment and sustainability in their FTAs and mega-regional trade agreements. Increasingly, such provisions are perceived as the gold standard in trade deals, putting China under pressure to include them in its own FTAs (although it is more open to the inclusion of environmental protections than those on labour rights).³

The second reason is that this plays into the leadership’s soft power agenda. By showing more flexibility in China’s approach to human rights, the BRI could support the proposition that China has a larger role to play in global governance, and allow China to strengthen its positioning of itself as a responsible global

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power. It could indirectly support the impression that China sees value in upholding other rights internationally, and in cooperating on global issues such as climate change. It could also help the government to repair reputational damage arising from incidents such as the Myanmar government's suspension of the Myitso Dam project in 2011 because of concerns including environmental impact; and from allegations of abuse of workers and forcible displacement in certain Chinese projects in Latin America and Africa.

Third, discussion of human rights presents less of a risk to the legitimacy of China's Communist Party in an international context, i.e. in relation to projects outside the territory of China, than addressing these issues would do in the domestic domain. In addition, the rights involved in business projects – such as labour, health and the environment – are social and economic rights, which fit more naturally within China's conception of human rights than do civil and political rights, and thus do not constitute such sensitive terrain for the Chinese government.

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Discussion of human rights presents less of a risk to the legitimacy of China's Communist Party in an international context than addressing these issues would do in the domestic domain

There are risks that some BRI projects will carry significant social, environmental and other costs, especially if the Chinese corporate entities involved are poorly regulated and put profits above everything else. But there is a role for China's foreign investment partners to raise awareness of social and environmental risks, and to insist that in both investment contracts and their implementation, international standards are adhered to – for the good of the reputation of the BRI and the 'China dream', if nothing else. Encouraging the Chinese government to finance projects through the Asian Infrastructure Investment Bank (AIIB) – which is generally acknowledged to have high standards of governance – offers one way of maximizing the chances that projects will be governed by standards in tune with the rules-based international system. Subjecting disputes arising from BRI projects to settlement through a multilateral mechanism such as the permanent multilateral investment court proposed by the EU,⁴ or perhaps a bespoke AIIB dispute settlement mechanism, could also encourage adherence to international standards, as well as offering greater transparency than the usual ad hoc arbitration arrangements. By contrast, if China chooses to pursue its BRI projects through purely Chinese institutions, and through channels subject to Chinese law and the jurisdiction of Chinese courts, the ability of partners to push for human rights, transparency and accountability standards is likely to be reduced.

Western governments and corporate actors do not have an unblemished record themselves when it comes to business and human rights. But some actors with whom China is keen to do business, including the EU and certain Western governments and companies, have for some time been engaging substantively on these issues, recognizing the longer-term benefits of corporate social responsibility, including environmental sustainability and fair treatment of workers. The BRI offers a real opportunity for prospective partners to engage a range of Chinese actors in peer-to-peer exchange on these issues, and to help shape their conduct in the course of securing mutually beneficial cooperation. ■

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Notes

- 1 By some accounts, the BRI has expanded to encompass around 70 countries. See, for example, Hillman, J. E. (2018), 'China's Belt and Road Initiative: Five Years Later', Center for Strategic and International Studies, 25 January 2018, <https://www.csis.org/analysis/chinas-belt-and-road-initiative-five-years-later-0>.
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Channels of Cooperation

Gareth Price

Shared natural disaster warning systems offer a politically uncontentious means of cross-border cooperation – and conceivably a future route to improved India–Pakistan relations.

South Asia is one of the most disaster-prone regions on Earth.¹ Not only do floods, droughts, cyclones and earthquakes cost lives and undermine development on a regular basis, but the intensity and frequency of adverse weather events appear to be increasing as a likely result of climate change. Disasters do not respect national borders. Because of this, however, there is growing recognition among politicians and policymakers – rhetorically at least – that disaster management offers scope for regional collaboration.

Such cooperation is in short supply in the least connected region of the world. Intra-regional trade, for instance, accounts for less than 5 per cent of South Asia's total trade. This compares with 35 per cent of trade in East Asia that is intra-regional, and 60 per cent in Europe. Explanations for this are manifold. India–Pakistan tensions are but one element. The size differential between India and other neighbours is also a factor. It makes those countries keen to differentiate themselves from India – genuine fears of being unable to compete with it accentuate the desire to demonstrate sovereignty.

Disasters, paradoxically, offer one of the best entry points for greater regional cooperation. Last year the South Asian Association for Regional Cooperation (SAARC) established a disaster management centre in Gujarat, the home state of India's prime minister, Narendra Modi. India's current favoured alternative to SAARC is the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) – a regional grouping that includes Myanmar and Thailand, but excludes Pakistan. In an attempt to reinvigorate this 20-year-old grouping, which has few achievements to speak of, a disaster management exercise was held late last year in Delhi.

Some regional cooperation has already taken place following disasters. After the 2015 Nepal earthquake, India played a role as 'first responder'. A decade earlier, India and Pakistan opened various border crossings as a means of assisting relief efforts after the Kashmir earthquake, which affected both countries² (although in this case the proposed use of cross-border response teams proved a step too far).

Bangladesh³ and several of India's more progressive (and disaster-prone) states, notably Orissa, have made disaster management central to their developmental objectives. The construction of shelters and the development of large-scale evacuation capabilities mean that cyclones which would once have killed tens of thousands of people can now be 'managed', and that casualties

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Bangladesh and several of India's more progressive (and disaster-prone) states have made disaster management central to their developmental objectives

from such events have fallen dramatically. This has had a positive impact beyond disaster management: the need to facilitate evacuation has been used to justify regular developmental activities such as road construction. The wider implications of disaster response are also illustrated by the fact that Bangladesh itself was born, in part, out of a failure by the Pakistani authorities to deal with Cyclone Bhola, which in 1970 killed around 500,000 people.⁴

While there is plenty of scope for shared response and indeed shared learning, a further opportunity exists to develop shared warning systems, at least for meteorological events. Annual monsoon flooding in India and Bangladesh often stems from rainfall upstream, particularly in Nepal. Various initiatives are under way to try to develop regional systems for flood warnings. These are based on various data points, including water levels in rivers and precipitation forecasts. New technologies are facilitating more accurate warnings, while the rapid spread of mobile phones enables – for the first time – an easy means of ensuring that warnings reach vulnerable communities. However, there are concerns that climate change may mean that warnings based on historical data could be redundant as the intensity of rainfall increases.

This shift from interpreting disasters as unforeseeable acts of God towards treating them as events that can be prepared for is positive, though for several reasons the shift remains less than substantive. First, most budgets associated with disasters are still earmarked for response rather than preparedness. These budgets have historically proven susceptible to corruption and political patronage, with beneficiaries of post-disaster relief often chosen for political reasons rather than on the basis of need.

Second, vital components of preparedness – such as efforts to improve building regulations – remain meaningless for those South Asians who do not yet live in brick houses; this cohort includes one-third of rural Indians. For some disasters, even if warnings reach the intended audience, vulnerable communities lack the means of taking precautionary measures. For instance, in May 2018 dust storms were forecast across north India; advice on precautionary measures was widely published in newspapers. Despite the warnings, around 100 people died as electricity pylons collapsed and trees were uprooted.

Floods are one of the most common types of disaster in South Asia, yet attention to the problem is uneven. The 2010 floods in Pakistan garnered international coverage, as they affected 20 million people and submerged almost 70,000 sq km of land. In contrast, annual monsoon-related floods are generally less newsworthy. Just last year, one-third of Bangladesh lay underwater, while every year the Indian states of Uttar Pradesh, Bihar and Assam are inundated by various tributaries of the Ganges and by the Brahmaputra.

Various initiatives are under way to provide vulnerable communities with a few hours' warning of impending floods.⁵ While this may not be much, it enables residents to collect vital possessions and ensure their own safety. Ideally, these warnings would be formalized into governmental and intergovernmental systems. Concerns over sovereignty mean that each country wishes to maintain its own systems. Nonetheless, if any issue cries out for regional engagement, it is the need for shared responses to weather.

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New technologies are facilitating more accurate flood warnings, while the rapid spread of mobile phones enables – for the first time – an easy means of ensuring that warnings reach vulnerable communities

If such systems were to be formalized, this would likely occur within the 'BBIN' grouping of Bangladesh, Bhutan, India and Nepal. Wider geopolitical gains could then be imagined. Idealistic perhaps as it may sound, effective BBIN cooperation could even form a template for increased future Indian interaction with its upstream neighbour, China, from where flows the Brahmaputra, and with its downstream one, Pakistan, into which flow various Indian tributaries of the Indus.

Chatham House research a few years ago highlighted the extent to which South Asia's water was conceived in a zero-sum manner – rivers that flowed out of a country were seen as lost to the downstream neighbour. Our research argued that rivers in the region needed to be reconceived and that South Asia's rivers needed to be conceptualized in terms of their potential uses.⁶ Since then, India has started using its waterways for navigation, and is extending navigational uses of rivers into Bangladesh and Nepal. Energy – often from hydropower – is also now traded between the BBIN countries. An effective regional meteorological service may sound niche, but could provide another small building block for establishing political trust.■

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Notes

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- 3 Luxbacher, K. and Uddin, A. M. K. (2011), *Bangladesh's Comprehensive Approach to Disaster Management*, World Resources Report Case Study, Washington, DC: World Resources Institute, http://www.wri.org/sites/default/files/uploads/wrr_case_study_bangladesh_comprehensive_disaster_management.pdf.
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- 5 Price, G. and Mitra, S. (2016), *Water, Ecosystems and Energy in South Asia: Making Cross-Border Collaboration Work*, Research Paper, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/publication/water-ecosystems-and-energy-south-asia-making-cross-border-collaboration-work>.
- 6 Price, G. et al. (2014), *Attitudes to Water in South Asia*, Chatham House Report, London: Royal Institute of International Affairs, <https://www.chathamhouse.org/publication/attitudes-water-south-asia>.

Assessing and Addressing Gaps in Outbreak Control Capacity

David L. Heymann, Emma Ross and Osman Dar

A new approach to assessing country capacities for control of outbreaks and other public health emergencies provides a clearer picture of vulnerabilities, and costed roadmaps to better health security.

In 2005, the International Health Regulations (IHR) were updated with a new requirement for countries to develop, by 2012, certain capacities for detecting and responding to infectious disease threats and to report their progress.¹ However, after the 2014 Ebola outbreak highlighted the lack of compliance and weaknesses of self-reporting, a new approach was introduced whereby countries opt for an external evaluation of such capacities by a team of international experts coordinated by the World Health Organization (WHO).² These international and regional evaluations are not only revealing the true state of public health systems, but are also leading to costed national action plans to address gaps. The process is bringing a level of coordination between sectors rarely seen before, along with opportunities for holding governments and donors more accountable for investments in health security.

The first major infectious disease outbreak that spread internationally in the 21st century – Severe Acute Respiratory Syndrome (SARS) – affected industrialized countries on all continents. It clearly demonstrated to political leaders that outbreaks are not only a health risk for low-income countries, but also threats to human health everywhere; and that they cause economic disruption wherever they spread.³ This was reinforced over the ensuing decade, when the 2009 Swine Flu and, to a lesser extent, the 2014 West African Ebola outbreaks spread to industrialized countries in Europe and North America. These events have given rise to better understanding of global health security, and to key efforts to strengthen it.

The international spread of deadly outbreaks of plague, smallpox, cholera and yellow fever in past millennia has in many ways shaped the course of history. Formalized international cooperation to curtail their spread began in the mid-19th century in a series of conventions and treaties between European countries and what was then known as the New World. In 1969 WHO turned these instruments into the IHR.⁴

The IHR were conceived as a framework for coordinated national reporting of these four diseases. The regulations prescribed predetermined actions at borders aimed at preventing the spread of these diseases across national

boundaries, such as requiring travellers to provide evidence of yellow fever vaccination. The 2005 revision of the IHR was based on the understanding that there were more than the four IHR-named diseases that had the potential to spread internationally; that SARS had crossed borders in international travellers before symptoms had appeared; and that there was no vaccine that could have been used to prevent infection. The revision added a requirement that all countries develop core capacities in public health, thus changing the emphasis of the regulations to strong national capacity for disease detection and response when and where outbreaks occur. The focus of the IHR is now on national public health capacity, not control at borders.

The revised IHR require all countries to regularly report to WHO with their own assessment of their public health capacities. But some countries do not report, and others report optimistically on capacities that do not bear up in practice.

In 2016, a group of like-minded countries and international organizations therefore joined with WHO to develop a system of external evaluations of public health capacity on a voluntary basis. The Joint External Evaluation (JEE) is a collaborative multisectoral process that is initiated by individual countries. It involves an initial national self-assessment using the JEE tool, and a visit by a team of international experts coordinated by WHO to convene the necessary sectors and analyse the situation using a standardized approach. This is followed by a WHO-supported cross-sectoral process to develop a costed National Action Plan for Health Security, based on the findings of the evaluation.⁵ The vision is for implementation of the plans to be periodically monitored.

As of 31 May 2018, 76 countries had completed these evaluations, and another 21 had scheduled them for later this year or early 2019.⁶ Twenty-six countries had completed their national planning exercise, mostly within the past year, and planning was under active development or intended in another 28 countries. The JEE process provides a rare opportunity for countries to evaluate and plan systematically to improve their public health systems, harmonizing across sectors such as health, veterinary, environment, security and finance, both within each country and regionally. It provides a means for countries to target their resources efficiently. It also provides a basis for donors to direct their investments to exactly where these are needed most, and affords greater transparency regarding whether donors are investing in JEE-identified priorities or not.

Funding is a challenge in the development and execution of the action plans. WHO has just embarked on an effort to map resources in specific countries, but it is clear that some countries will be unable to fully fund implementation. For those that can afford it, one of the key tests of future commitment will be whether states allocate the national budget necessary to fund their action plans. Those that cannot will need aid. Some development agencies have indicated that they intend to link funding to the JEE by targeting projects identified as priorities in the action plans, and that they intend to judge the success of their investment on the basis of scores in follow-up monitoring. This may be an incentive for countries seeking development funding to undertake a JEE.

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Prospects for wider uptake of the JEE process are good if it can be demonstrated that the action plans are being adequately resourced and are addressing country-led rather than donor priorities, and as long as data sharing remains voluntary

Prospects for wider uptake of the JEE process are good if it can be demonstrated that the action plans are being adequately resourced and are addressing country-led rather than donor priorities, and as long as data sharing remains voluntary. A risk to its success is the view of a few countries that it serves a Western security agenda aiming to gather data and protect rich countries from outbreaks originating in low-income countries; and that areas prioritized for action and investment are likely to focus more on monitoring emerging pathogens and stopping the international spread of disease than on preventing or controlling it within a nation. Another fear is that the results might be used like scorecards to rank countries.

A sense of country ownership over the process, country confidence that there will be the resources to implement the vision set out in the action plans, and the targeting of donor funds towards the priorities set by the countries will be critical to realizing this opportunity. ■

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Notes

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GLOBAL ECONOMY

No Longer Pulling Together

Risk: Financial regulatory divergence

Matthew Oxenford

Closing Global Loopholes, at Last

Opportunity: International tax
policy harmonization

Stephen Pickford

A Turning Tide?

Opportunity: Economic recovery
in Latin America

Richard Lapper

Sixty-eight Countries and Counting

Opportunity: Infrastructure investment

Andrew Cainey

A Continental Trade Bloc Could Transform Africa's Economies

Opportunity: Trade liberalization
in Africa

Carlos Lopes

No Longer Pulling Together

Matthew Oxenford

The strengthening of financial regulation, post-2008, to guard against global contagion is being imperilled by the reversal of some protections and the lack of coordination on others.

The 2008 financial crisis made two facts about the global financial system inescapably clear. First, risk had become so concentrated that the failure of any one of several large financial institutions could significantly harm the real economy. Second, financial markets had become so interconnected that poor regulation in a single jurisdiction could have global implications. To combat these challenges, the international community – primarily through the G20 – developed an ambitious set of reforms designed to both prevent contagion and ensure that major financial institutions worldwide maintained similar, robust standards. However, as memories of the crisis begin to fade, momentum for greater international coordination is ebbing.

There are three main reasons why this process is stalling, and in places going into reverse. The first is simply fatigue. There was, in retrospect, a surprising amount of agreement and ambition across the G20 on unified principles for financial regulation. This regulatory push lasted from 2009 – when the G20 established the Financial Stability Board (FSB) to coordinate the reform process – until roughly 2015, and covered an incredibly broad agenda, including how banks hold capital and weigh risks, how derivatives are traded, how too-big-to-fail banks should be structured, and numerous other issues.¹ However, progress inevitably slowed once the risk of financial collapse became less acute and reforms with broadest support were implemented.

Second, regulatory cooperation was almost all accomplished through consensus among G20 and FSB members, rather than through any binding system of obligations. The process was designed to be self-reinforcing – reliant on peer review² but with no penalties for non-compliance.³ It could only be effective as long as there was political buy-in, particularly from larger economies.

Finally, domestic political drivers have started to erode that buy-in. In an environment in which policy fatigue has developed and cooperation is entirely voluntary, pressure from lobbyists and politicians can easily accumulate.

The degradation of the regulatory climate looks different from one jurisdiction to another. There are some examples of major prudential regulation being rolled back, most significantly in the US. In May, President Donald Trump signed into law a bill raising the size thresholds above which banks are subject to certain macroprudential regulations, and reducing the frequency and rigour

of ‘stress tests’.⁴ Additionally, the Trump administration plans to limit use of the Financial Stability Oversight Council. This key piece of the Dodd–Frank reforms is responsible for designating financial institutions as ‘systemically important’ and therefore subject to increased oversight.⁵

Most changes are more benign in isolation. However, the problem is that different jurisdictions are increasingly seeking to manage financial risks through divergent, often incompatible, processes. This harms multilateral coordination. For example, the Basel Committee on Banking Supervision had to delay finalizing its latest round of standards by over a year⁶ due to a dispute between US and EU banks. Even now, the standards have seen their implementation delayed until 2020, do not cover all relevant issues⁷ and may not ever take effect in EU law.⁸

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While all regulation imposes compliance costs, the increased financial stability that comes with coordinated regulation makes it beneficial in net terms. Divergence has no such trade-off

These trends imply several undesirable consequences. While all regulation imposes compliance costs, the increased financial stability that comes with coordinated regulation makes it beneficial in net terms. *Divergence* has no such trade-off: it costs the financial system over \$780 billion a year⁹ and harms financial stability. Because cross-border compliance costs are more easily borne by larger institutions, divergence incentivizes consolidation – and thus, perversely, concentration of risk – while creating opportunities for regulatory arbitrage. Meanwhile, as regulators adopt less uniform supervisory standards, it becomes harder for them to monitor global risks, or cooperate in a crisis.

Finally, Brexit deserves special mention. London has one of the world’s most interconnected financial sectors, hosting globally significant exchanges and clearinghouses that require specialized regulation. The IMF has recognized the UK regulatory system as a ‘global public good’,¹⁰ a designation that implies far-reaching spillovers if the system is inadequate. If Brexit creates significantly more complex regulations for EU/UK financial transactions, or forces complex transactions into jurisdictions with less experienced regulators, it is likely to create global risks.

Moving away from a coordinated regulatory agenda will not necessarily cause a crisis next year, or in any given year. However, in an environment of new potential risks to financial stability – cryptocurrencies, tightening monetary policy, a still-significant global debt overhang, populism – a well-functioning global crisis-response capacity is ever more important. International coordination and trust between governments and regulators remain vital for this, and any weakness in the system designed to foster such cooperation will limit its ability to respond to emerging risks – or to deal with the next crisis. ■

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Closing Global Loopholes, at Last

Stephen Pickford

The G20's efforts, long stalled, to tackle tax avoidance by ensuring that multinationals are subject to similar tax rules worldwide have been boosted by a potentially game-changing reform in the US.

Ten years after the financial crisis, most advanced economies are still struggling to get their public finances under control. The burden of adjustment has fallen most heavily on individuals, especially the less well-off, while multinational companies have seen their profits surge, but their tax bills shrink. The resultant rise in inequality has contributed, among other factors, to the popularity of extreme political movements in many countries.

Companies, especially those operating multinationally, have been very successful at minimizing their global tax bills. Partly, they have done this by booking profits in low-tax jurisdictions, but they have also exploited the loopholes created by the reluctance of countries to harmonize their tax regimes.¹ However, recent US tax reforms, while providing a temporary windfall for companies, have also removed one of the biggest obstacles to international tax harmonization. If other countries follow this lead, it could provide the opportunity for substantial progress in aligning international tax policies, and give a boost to tax receipts from companies.

The IMF estimates that corporate income tax rates in advanced economies have declined from 50 per cent in 1980 to 25 per cent in 2016.² Global revenue losses from tax avoidance could be as high as \$650 billion. Public attention has been concentrated by controversies over the tax strategies of multinationals such as Apple, Amazon and Google. For example, the European Commission has taken Ireland to the European Court of Justice in order to force the country to recover from Apple up to €13 billion in what the Commission considers illegal tax benefits.

While high-profile legal challenges make headlines, a systematic approach to getting companies to pay more tax needs to address differences in corporate tax regimes and definitions across countries. If countries adopt broadly the same rules, and companies' earnings are treated in broadly similar fashion wherever they operate, the scope to seek loopholes is in theory reduced. This can only be achieved by international cooperation, however.

To date, this has been hampered by the fact that countries jealously guard their 'sovereignty' over tax policy. Even in the EU, only limited progress has been made on tax harmonization, and tax issues are still decided by unanimity rather than qualified majority voting. Countries also continue to offer companies favourable tax treatment to attract the investment and jobs they bring. In the

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Global revenue losses from tax avoidance could be as high as \$650 billion, according to the IMF

UK's 2016 budget,³ for example, Chancellor George Osborne announced that the main rate of corporation tax would be cut from 20 per cent to 17 per cent by 2020, taking it to the lowest level in the G20. Most significantly, the US has always been an outlier, taxing worldwide profits of all US-based corporations, no matter where those profits are earned. This has created a huge incentive for corporations to shift profits into non-US vehicles in lower-tax jurisdictions, and to exploit offsets and allowances such as on intra-company interest payments.

In 2013 the G20, at its St Petersburg summit,⁴ recognized the need to tackle tax avoidance and protect revenue bases. To that end it commissioned the OECD to work on 'base erosion and profit shifting' (BEPS). Working on the principle that profits should be taxed where they are generated, the BEPS programme⁵ was designed to reduce the ability of multinationals to shift profits between jurisdictions or artificially reduce tax liabilities, for example by manipulating capital allowances.

But despite regular commitments by G20 members to implement the 15 agreed BEPS actions, peer review mechanisms are only now being put in place to monitor compliance. Without high-level political commitment, progress will remain slow and hampered by national interests. In particular, the US has tended to see any moves against the aggressive tax avoidance strategies of US multinationals as an attempt to erode their competitive advantage.

That, however, may be changing. During the 2016 US presidential campaign, Donald Trump criticized multinationals for moving production capacity from the US to lower-cost countries, and threatened penalties. And in December 2017, the Trump administration passed a tax reform package. This gave a generous tax cut to corporations, lowering the main tax rate from 35 per cent to 21 per cent, and provided a temporary tax break for capital spending.⁶

However, the reforms also represent a significant shift in the overall design of US corporate tax policy. First, they exempt US corporations from US taxes on most future foreign profits, thus ending the present worldwide system of taxing profits wherever they are earned. This would align the US tax code with practice in most other industrialized nations, and was judged by Thomson Reuters to 'undercut many offshore tax-dodging strategies'.⁷

Second, a new levy on global intangible low-taxed income (the 'GILTI tax') is likely to increase the rate paid by companies with high foreign earnings in low-tax jurisdictions, and provide an incentive for US companies to repatriate profits. In addition, a one-off levy on past profits held offshore will hit multinationals with large cash pools abroad.

Finally, measures to counter base erosion will prevent companies from shifting profits out of the US to low-tax jurisdictions abroad. An alternative minimum tax will apply to payments between US corporations and foreign affiliates. There will also be limits on shifting corporate income through transfers of intangible property, including patents. Thomson Reuters views this combination of measures as representing 'a dramatic overhaul of the US tax system for multinationals'.⁸

These reforms move the US significantly towards the approach adopted by most other countries, and so provide an unparalleled opportunity to make substantial progress on the international agenda for tax harmonization.

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The US tax reforms provide an unparalleled opportunity to make substantial progress on international tax harmonization

It is now for other G20 countries to take up this opportunity to breathe new life into the BEPS agenda. Firstly, the OECD should be commissioned to identify all areas in which each G20 country fails to meet the 15 BEPS actions. Secondly, countries should be challenged to act on these issues within a fixed timescale. Finally, the G20 should continue to put pressure on offshore tax jurisdictions to meet their obligations to exchange information with other tax authorities.

The US reforms can be the catalyst for all G20 countries to take the actions they need to deliver a level playing field for multinationals: removing the substantial opportunities that these firms currently have for tax avoidance, and ensuring that they pay their fair share of tax. ■

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Notes

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A Turning Tide?

Richard Lapper

Latin America's economic outlook has been improving, aided by more established consumer markets and Chinese commodity demand. However, political and growth risks still loom large.

The buoyancy and confidence of the first decade of this century are no more, but Latin America is slowly recovering from the economic downturn that followed the sharp decline in commodity prices between 2012 and 2014. Regional economies expanded by a modest average of 1.3 per cent in 2017, but growth is tentatively expected to pick up further in 2018 and 2019.¹ The turnaround is happening in spite of persistent political uncertainty ahead of a string of elections later this year and in 2019, and amid popular worries about corruption and rising violence and signs of social stress.² In short, there are some signs of greater resilience – but also reminders of continuing risks to stability and growth.

A number of economies in the region did better in 2017 than in 2016, with the recovery in Brazil – which slid into its worst ever recession in 2014 – perhaps the most striking. Venezuela is an exception to recent positive developments: its newly re-elected socialist leader, Nicolás Maduro, has presided over five successive years of sharp economic decline and rising inflation, and the collapse of many public services.

For foreign investors, the regional recovery has highlighted opportunities in a number of areas. First, regional consumer markets remain much larger than they were two decades ago. The downturn made life more precarious for many Latin Americans, but on balance (at least outside Venezuela) many more people are buying consumer products as a result of the wider availability of credit and substantial reductions in both poverty and traditionally high rates of inequality.³

Second, Latin America's natural resources – such as soya, meat, iron ore, copper, oil and gas – continue to make the region attractive to China and the more dynamic Asian economies. Brazil and Argentina are the second- and third-largest suppliers of soya to China. Chile and Peru provide a substantial share of China's copper. Although Venezuela's pivotal oil industry is declining very sharply, Brazil, Mexico, Colombia and Argentina are all taking steps to make their hydrocarbons wealth more accessible to foreign capital. All this is helping economic relations more generally. Last year China was the largest export market for five countries in the region – Brazil, Chile, Peru, Cuba and Uruguay – while eight countries imported more from China than they did from the US.⁴ Chinese investment flows into Latin America are hugely significant, helping shore up external accounts and reduce dependency on international capital markets. Asian support can also help boost much-needed investment in transport and energy infrastructure.



Recent market turbulence in the wake of US interest rate rises has highlighted the vulnerability of economies that have relatively high external and fiscal deficits

At the same time, the region's plentiful water and record of developing sources of green energy (such as hydropower and sugar-based ethanol) represent significant comparative advantages as the world moves to reduce carbon emissions.

Several factors continue to make Latin America a risky region in which to invest, however. Recent market turbulence in the wake of US interest rate rises has highlighted the vulnerability of economies that have relatively high external and fiscal deficits – nowhere more so than in Argentina, where the pro-business and reformist government of Mauricio Macri has been forced to seek help from the IMF. Pressures are also increasing in Brazil again, in light of major industrial action. A longer-term economic issue for the entire region is low labour productivity. One particular concern is that the relatively young population is becoming older, closing the demographic window that ought to assist development.

Political and security risks also abound. Although democracy is now well established and its foundations much more solid than they were, organized crime poses a serious threat to stability in some parts of the region. Homicide rates are among the highest in the world. In Venezuela, independent institutions have almost completely collapsed, with an authoritarian and unpopular regime surviving largely by dint of Chinese and Russian support.

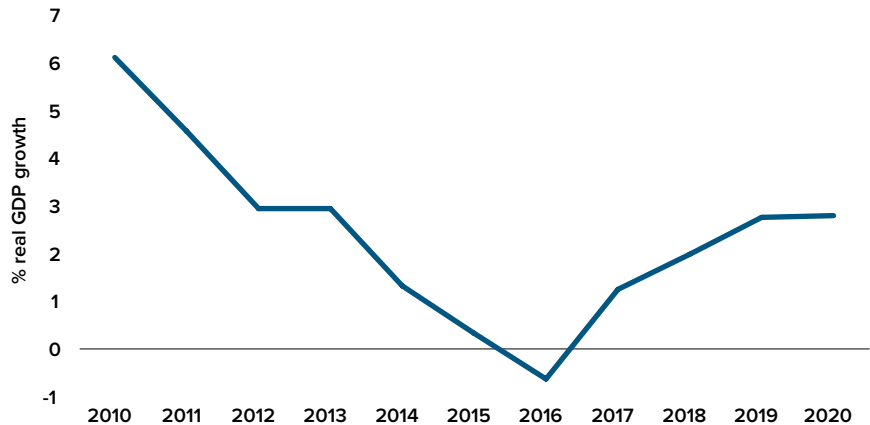
A wider concern is the weakness of moderate political parties and the growing unpredictability of politics in the region. Many voters are nostalgic for the hard-line security policies of the 1960s and 1970s, and deeply dissatisfied with political elites and the corruption with which they have been associated. The centre-left and centre-right parties that led the region's return to democratic rule in the 1980s have often fared badly in recent elections, leaving the field open to populists of both left- and right-wing varieties.

A kind of right-wing populism seems well established in Peru. The party of former president Alberto Fujimori – released from prison in December last year – dominates the legislature and a few months ago forced the resignation of President Pedro Pablo Kuczynski, a pro-business conservative who had narrowly won elections in 2016. In Brazil the centre-right and centre-left parties that dominated the political stage for more than two decades have been devastated by the ongoing Car Wash (*Lava Jato*) corruption scandal, making the outcome of October's elections unusually uncertain. One of the front-runners for the Brazilian presidency is a right-wing authoritarian called Jair Bolsonaro. In Mexico, the region's second-largest economy, Andrés Manuel López Obrador, a left-wing nationalist, is well in front in polls ahead of the July 2018 presidential contest.

There have been exceptions to this trend. Under the splendidly named President Lenín Moreno, elected in 2017, Ecuador has tacked sharply to the centre, abandoning some of the policies introduced by its pro-Venezuelan former president, Rafael Correa. In Argentina, Macri's 2015 victory ended 12 years of rule by the left-wing Peronists, the late Néstor Kirchner and his wife Cristina Fernández. Macri's programme of gradual reform proved popular at last October's legislative elections. However, recent market turmoil could damage his chances of securing a second term in office in polls due next year.

Inevitably, short-term turbulence and volatility will loom large in the thinking of policymakers and investors in Latin America. They should, however, perhaps take solace in more positive longer-term trends: bigger and more dynamic internal markets, attractive resource bases and – Venezuela notwithstanding – the strength of the region’s democratic institutions. ■

BOUNCING BACK: LATIN AMERICA AND THE CARIBBEAN



Source: IMF (2018), World Economic Outlook Database, April 2018, http://www.imf.org/external/pubs/ft/weo/2018/01/weodata/weorept.aspx?sy=2010&ey=2020&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=60&pr1.y=13&c=205&s=NGDP_RPCH&grp=1&a=1 (accessed 15 May 2018).

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- 4 Naylor, W. (2017), ‘A shifting trade landscape in Latin America favors China and globalization’, *Global Americans*, 10 July 2017, <https://theglobalamericans.org/2017/07/shifting-trade-landscape-latin-america-favors-china-globalization/>.

Sixty-eight Countries and Counting

Andrew Cainey

For all the concerns about China's geopolitical agenda and commercial ruthlessness, the 'Belt and Road Initiative' can bring a significant economic boost to Asia – provided that the investment model evolves to offer clear benefits to all.

The case for increased infrastructure investment and improved connectivity in developing Asia has long been made.¹ Last year the Asian Development Bank (ADB) raised its estimate of the region's investment needs to \$1.7 trillion a year² between 2016 and 2030 – \$26 trillion in total. The precise numbers depend on how both infrastructure and 'need' are defined,³ but the economic principles are clear: increased connectivity helps bring suppliers and consumers together, improves resource allocation, facilitates trade, and so raises productivity and incomes.

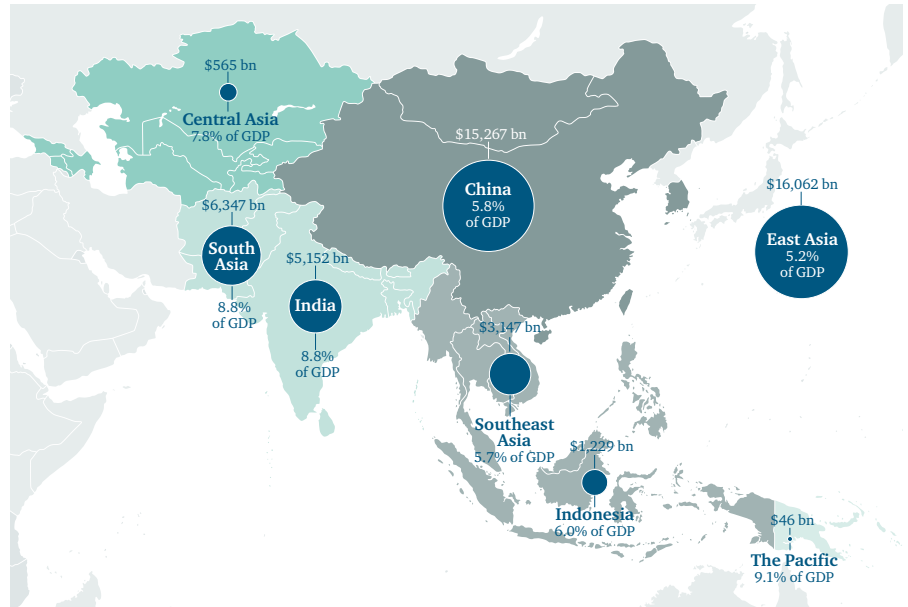
To date, bottlenecks in funding and project implementation have been the main obstacles to infrastructure expansion in the region. Now China's 'Belt and Road Initiative' (BRI) promises to address both, and to take China's experience of infrastructure-led growth overseas. It is, however, still early days – and succeeding at home is different to doing so abroad.

First, the all-embracing vision: China is deploying the BRI as a narrative or organizing principle with which to engage other governments on major projects. At least 68 countries are involved, although estimates vary (the number seems to keep rising). Originally the 'Belt' covered the land route from western China into Europe, while the 'Road', paradoxically, embraced sea routes from China's coast down to the Indian Ocean and on to Africa. But the remit has continued to widen. Now Peru, Panama and others are included, as is the Arctic and space itself.

Understood like this, the BRI is a form of branding – which is then applied, sometimes retrospectively, to almost all infrastructure projects, whether new or already planned. This approach readily yields sizeable headline numbers – by some accounts, BRI investment could reach anything from \$1 trillion to \$8 trillion⁴ – though these sums are notably well short of the ADB estimate. Nonetheless, even the lower bound of this range of projections is seven times larger than post-war Europe's Marshall Plan, adjusted for inflation.

Bottom-up calculations yield lower, though still significant, totals of investments so far: for example, \$90 billion worth of transportation investments from 2014 to 2017.⁵ These active projects are often being implemented with rare speed and determination. They include the Hambantota Deep Sea Port in Sri Lanka, the East Coast Rail Link in Malaysia, the Khorgos Dry Port in Kazakhstan and a Belgrade–Budapest high-speed rail link.

DEVELOPING ASIA'S INFRASTRUCTURE INVESTMENT NEEDS, 2016–30
 2015 \$ BILLION, ADJUSTED FOR CLIMATE-CHANGE MITIGATION AND ADAPTATION



Source: Adapted from ADB (2017), *Meeting Asia's Infrastructure Needs*.

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Success is about more than funding alone. It includes broader community impact, the fairness of tendering processes and the extent to which corruption or bias against local firms is avoided

To date, projects have adopted a common model: China's policy banks lend the bulk of the money needed, and the receiving country figures out how to repay it. Interest rates vary – some loans are concessional, but many are at commercial rates. Construction contracts flow predominantly to Chinese state-owned enterprises, which then typically hire local subcontractors for part of the work.

The merits of the initiative are the subject of some debate. For China, BRI projects link it to the world, contribute to economic diplomacy and help fill excess capacity in the construction sector. For the receiving countries, they potentially provide much-needed infrastructure – but risk creating excessive debt burdens without generating significant local employment. There are also concerns about environmental damage. Success, in other words, is about more than funding alone. It includes broader community impact, the fairness of tendering processes and the extent to which corruption or bias against local firms is avoided.

The pushback against China's terms has already started, slowing implementation or stopping project starts. For instance, Thailand initially balked at the contractual conditions surrounding the first section of the planned high-speed rail link with China via Laos. After further negotiations, work started in December 2017. Concerns over non-competitive tendering, at odds with EU requirements, have surfaced in Hungary. In Sri Lanka, both the original debt burden associated with the Hambantota Deep Sea Port and the subsequent conversion of debt to equity have caused popular resentment and problems for the government. Nepal turned down Chinese financing for hydropower, as did Pakistan. Mahathir Mohamad's new government in

Malaysia has announced its intention to review deal terms and renegotiate where it sees fit. Governments that are too eager for Chinese finance can run ahead of what their own people are willing to accept.

China alone will not be able to finance the BRI in full. The model for BRI projects will therefore need to evolve – consistent with China’s stated vision of welcoming competition, attracting private-sector financing and addressing local priorities – if the initiative is to fulfil its promise. As projects grow in number, so they will be more diverse. Private-sector finance will, by definition, flow only to projects structured to allow commercial returns, and supported by appropriate governance and the rule of law. For some countries (e.g. Thailand, Indonesia), Chinese financing is just one more option – albeit an important one – among others. Stakeholders in these countries will need to see broader benefits from participating in the BRI if they are to continue to commit to projects. Elsewhere (e.g. Tajikistan, Cambodia), China is effectively the only source of funding. These countries have correspondingly less leverage in negotiations, though they still need to ensure they understand the true costs and benefits for each project. Equally, some projects will make sense for strategic rather than commercial reasons, and here state-backed lending and government-to-government agreements will continue to be the order of the day.

Working all this out will proceed one project at a time. There will be no grand solution, but there is nonetheless the promise of steady progress and adaptation. ■

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A Continental Trade Bloc Could Transform Africa's Economies

Carlos Lopes

Trade between African countries is fragmented, making economies of scale hard to achieve. A planned 55-country free-trade area promises much-needed integration.

An ambitious pan-African economic bloc – the African Continental Free Trade Area (AfCFTA) – was launched on 21 March at an African Union (AU) summit in Kigali, Rwanda. If it takes shape as envisaged, AfCFTA will comprise all 55 AU members, making it the world's largest free-trade area by country coverage. Its creation presents an opportunity for continental-scale integration of African economies, currently held back by market atomization, disjointed regional trade arrangements and overexposure to the commodities sector. However, competing political and economic agendas, and resistance to market opening in some countries and sectors, present obstacles to success. In addition, harmonizing trade rules and standards among Africa's existing patchwork of economic communities will be technically challenging.

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African firms incur higher tariffs on their exports to other African markets than those that apply when they export outside the continent

Three principle factors reinforce the case for integration. First, the progressive elimination of most tariffs on intra-African trade (combined with measures such as regulatory harmonization and the streamlining of customs procedures) would boost trade and investment between AfCFTA members. African firms incur higher tariffs on their exports to other African markets than those that apply when they export outside the continent.¹ The UN's Economic Commission for Africa (ECA) estimates that AfCFTA's elimination of import duties could boost intra-continental trade by 53 per cent, and could double it if non-tariff barriers are also lowered.² The AU and ECA note that lowering tariffs on intermediate and final goods would be particularly beneficial, as tariffs on raw materials are already low. This could incentivize African economies to develop higher-value-added uses of their natural resource bases.

A consolidated internal market would help early-stage industries to become established, and build on the synergies already in evidence – though not yet fully exploited – in continental trade: African economies attain almost twice the value addition when exporting to their neighbours that they achieve when exporting to other parts of the globe. An increase in intra-African trade is also necessary in the context of historically low economic integration: intra-regional trade accounts for only 20 per cent of Africa's total trade – albeit an improvement on the 12 per cent figure recorded a decade ago.³

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More frictionless borders would help exporters (particularly those in landlocked countries) to reach non-African markets more effectively and compete globally

Second, more frictionless borders would help exporters (particularly those in landlocked countries) to reach non-African markets more effectively and compete globally. AfCFTA countries would be better able to develop cross-border supply chains optimized according to comparative advantage and the location of suppliers and inputs. Moreover, trading as a bloc could encourage investment in transport infrastructure and trade facilitation services, creating a virtuous cycle of demand- and supply-side gains.

A third, and related, benefit of better connectivity is that it would support diversification: many African countries remain stuck in economic models that depend on exports, above all of commodities. Only Lesotho, Morocco, Tunisia, South Africa and Swaziland are considered by the UN Conference on Trade and Development as ‘export diverse’. Widening the export base would improve countries’ resilience, for instance to volatility in harvests and commodity prices.

As with most modern free-trade agreements (FTAs), AfCFTA will cover more than merchandise trade. In addition to the gradual elimination of tariffs, AfCFTA will seek to liberalize services, investment, intellectual property rights and competition policy. It will consolidate the current patchwork of bilateral and regional economic agreements and groupings into one coherent whole – boosting cooperation on shared infrastructure, standardized rules of origin and phytosanitary norms; and supporting investment in education, health and cross-national logistical hubs.

This breadth of coverage reflects growing recognition of the limitations of economic development predicated on low-end exports. The shifts occurring in the Chinese industrial model are illustrative, heralding the end of export-oriented manufacturing as a driver of structural economic transformation. With cheap labour and other comparative advantages, Africa can still profit to *some* extent from the delocalization of low-value manufacturing. However, with the continent a latecomer to industrialization, the prospects of such a model on its own providing a durable boost to employment or GDP growth are minimal.

Rather, the real opportunities lie in manufacturing for the African consumer market. With a combined GDP in 2017 of around \$6.4 trillion on a purchasing power parity (PPP) basis,⁴ a population of 1.2 billion,⁵ favourable demographics – given its youth bulge and rapid urbanization – and a burgeoning middle class, the continent is potentially attractive to global brands anxious to expand from mature markets. From an African perspective, the concern is that opening domestic markets could render local companies less competitive. However, AfCFTA’s common external tariffs will offer some breathing space. Exempt from such tariffs, African suppliers may be in a stronger position to develop regional value chains in closer proximity to their target markets – this may help emerging local firms to develop until they can compete with established international players.

A number of potential obstacles stand in the way of successful realization of AfCFTA. The first is that effectiveness is contingent on full, or near-full, membership (although only 22 countries need to ratify AfCFTA for

it to come into effect – a development some expect by the end of this year).⁶ At the Kigali summit, 44 AU member states signed the AfCFTA consolidated text. The remaining 11 non-signatories included Nigeria and South Africa, the continent’s largest and third-largest economies respectively.⁷ South Africa has delayed signature because it considers the agreement incomplete, as no tariff schedules are in place and key annexes and protocols are unfinished (these are supposed to be finalized by the end of 2018). However, at the time of writing, South Africa’s parliament was already discussing AfCFTA. Other non-signatories have indicated their support in principle – Namibia, for example, has indicated that it will sign⁸ – though domestic and regional politics could complicate AfCFTA ratification, with the approach of elections in Nigeria in 2019, for instance, potentially motivating cautious political positions on market liberalization.

Assuming these issues are overcome, the main challenges will be around the technicalities and sequencing of implementation, including the need to consolidate under AfCFTA multiple provisions of pre-existing trade relationships and agreements. Although the continent’s regional economic communities (see table) have committed to the principle of alignment with AfCFTA, the harmonization process is complex and will take years to complete.

A final challenge to the successful implementation of AfCFTA’s ambitious agenda lies in the mood of protectionism that is shifting the rules of engagement in world trade. In the face of rising populist opposition to globalization, AfCFTA will have to remain a visible priority for African governments and institutions, able to demonstrate why it offers opportunities in a technology- and globalization-driven era of disruption to established economic models.

However, if commitment to AfCFTA can be sustained – and if accompanying efforts to liberalize movement of people also progress – the benefits could be substantial. ■

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AFRICA’S EXISTING ECONOMIC COMMUNITIES

Agreement	Abbreviation	Member states	Combined population (million) ⁹	Combined GDP (\$ billion) ¹⁰
Arab Maghreb Union	AMU	Algeria, Libya, Mauritania, Morocco, Tunisia	94.2	425.7
Community of Sahel-Saharan States	CEN-SAD	Benin, Burkina Faso, Central African Republic, Chad, Comoros, Côte d’Ivoire, Djibouti, Egypt, Eritrea, The Gambia, Ghana, Guinea-Bissau, Libya, Mali, Mauritania, Morocco, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Sudan, Togo, Tunisia	553.0	1,350.7

Agreement	Abbreviation	Member states	Combined population (million) ⁹	Combined GDP (\$ billion) ¹⁰
Common Market for Eastern and Southern Africa	COMESA	Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Swaziland, Seychelles, Uganda, Zambia, Zimbabwe	492.5	657.4
East African Community	EAC	Burundi, Kenya, Rwanda, South Sudan, Uganda, Tanzania	168.5	159.5
Economic Community of Central African States	ECCAS	Angola, Burundi, Cameroon, Central African Republic, Chad, Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Rwanda, São Tomé and Príncipe	158.3	257.8
Economic Community of West African States	ECOWAS	Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo	339.8	716.7
Intergovernmental Authority on Development	IGAD	Djibouti, Ethiopia, Eritrea, Kenya, Somalia, Sudan, South Sudan, Uganda	247.4	218.2
Southern African Development Community	SADC	Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe	312.7	678.8

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RESOURCES AND CLIMATE

Another Casualty of Protectionism?

Risk: Trade disputes and sustainability

Felix Preston

Energy Security in a World of 'Electrons'

Risk: Electricity interconnectors
and supply

Daniel Quiggin

Planning for the 'Wrong' Resource Risks

Risk: Developing fossil fuels
in a decarbonizing world

Siân Bradley and Glada Lahn

Information-sharing and Dialogue to Tackle 'Chokepoint Risk'

Opportunity: Improving food security

*Laura Wellesley
and Johanna Lehne*

Squaring Competing Demands in Global Land Use

Opportunity: Climate change
and land use

Richard King

Another Casualty of Protectionism?

Felix Preston

Rising international trade frictions could have unintended consequences for food security, low-carbon innovation and climate policy.

If they continue to escalate, tensions over international trade will have many ramifications for sustainability. The concerns fall into three broad areas. First, trade frictions and disputes could harm food security. Second, they could slow the ‘energy transition’ – society’s structural shift away from the use of fossil fuels – by dampening competition over low-carbon technologies. Third, tensions over trade are likely to undermine international cooperation in other priority areas, including climate change.

The most obvious short-term risk is to food producers. Although trade restrictions recently announced by the US hone in on steel and manufacturing, China’s response has focused on agricultural exports that are politically sensitive in the US farm belt. Proposed Chinese measures have targeted US products such as soybeans, pork, corn, apples, cranberries and ethanol (produced from corn), which are economically important for states such as Iowa, Wisconsin and Michigan.¹ US soybean exports to China are worth \$14 billion a year.

The negative impact on US producers would mean that international markets – especially rival producers in Latin America and Australia – would need to take up the slack in supply. While there may be some benefits for farmers in these places in the short run, an increasingly fragmented international market would prove a lose-lose for producers and consumers. A recent report by the International Food Policy Research Institute reminds us that such barriers ‘lead to high food prices in land-scarce countries, depressed food prices in land-abundant countries, and lower real incomes in both’.²

Professor Tim Benton has argued that the consequence of a rise in protectionist policies on a global scale is likely to manifest itself as significant upward pressure on food prices. In the short term, in well-supplied markets, prices may fall if local farmers face barriers to exporting their produce. However, when stocks are lower and harvests poorer, protectionism is likely to be a strong driver of higher prices, as witnessed during the 2007–08 and 2010–11 international food price crises.³ Poorer consumers everywhere, though not the intended target of either US or Chinese import restrictions, stand to lose the most from a trade war.⁴

An escalation in trade disputes could also undermine progress on green technologies, just as the markets for many of these are set to take off. Higher steel prices, for example, will have a direct effect on some green-technology

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Poorer consumers everywhere, though not the intended target of either US or Chinese import restrictions, stand to lose the most from a trade war

industries. Over the next five years, steel demand from the offshore wind sector is expected to reach tens of millions of tonnes.⁵ The racks needed for large-scale solar energy installations also use significant volumes of steel. Since many other energy technologies are also steel-dependent, rival energy options are likely to be affected too.

A more potent disruption of the low-carbon transition might come through targeted tariffs on new energy technologies. At the time of writing, the trade protections announced by the US included tariffs on Chinese wind turbines, lithium batteries and electric vehicles – though solar photovoltaic (PV) products had been spared.⁶ China has had limited success so far in capturing US market share for these technologies, and the US could source them instead from South Korea or Japan. But barriers to trade would dampen precisely the kind of competition that in recent years has dramatically reduced costs for solar PV systems, lithium batteries and ultra-efficient LED light bulbs.

Moreover, one of the key demands of the Trump administration in its ongoing dispute with Beijing has been that China scale back a \$300 billion package of measures to support industrial innovation – measures which the US considers anti-competitive. Were the US to have some success in this objective, this would slow the development of next-generation technologies essential for sustainability – from novel battery technologies to industrial applications of artificial intelligence. This would mark a distinct loss of impetus on innovation: as recently as 2015, some 22 countries (including the US) committed to doubling their investments in energy R&D by 2021.

Trade tensions could also indirectly undermine efforts to address sustainability challenges, creating distrust between key players and adding to policy uncertainty.⁷ It will remain difficult, for example, to advance cooperative action through the G20 or G7 around natural resource risks or environmental concerns when a trade war looms. With the IMF and World Bank seeing a disruption to trade as one of the more significant risks for the global economy,⁸ policymakers may have to deprioritize other issues until such a time as trade frictions ease. At the last G20 summit, in 2017, the declaration on climate change was only agreed after the 19 other members proceeded without the US.⁹

Of course, trade policy is far from the only area in which challenges to long-held norms about rules-based governance and its supporting institutions are emerging; similar question marks hang over many multilateral institutions tasked with the delivery of global public goods. Some of these uncertainties are likely to have serious implications in the immediate short term – for instance, the US has announced severe cuts in support for international programmes dealing with food security crises, at a time when more than 20 million people are at risk of famine, including in parts of Nigeria, Somalia, South Sudan and Yemen.¹⁰ ■

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One of the key demands of the Trump administration in its ongoing dispute with Beijing has been that China scale back a \$300 billion package of measures to support industrial innovation – measures which the US considers anti-competitive

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Energy Security in a World of ‘Electrons’

Daniel Quiggin

The transition from fossil fuels to low-carbon alternatives presents new challenges for international energy relations, as concerns about cross-border electricity interconnection and cybersecurity could eclipse traditional preoccupations with oil markets.

As countries strive to improve air quality and reduce CO₂ emissions, the global energy system is in transition from the use of fossil fuels to low-carbon electricity. The technical, economic and societal dimensions of this transition, led by rapid reductions in renewables costs, are well documented. Less well understood are the implications for international relations, as concerns about energy security within the major economies refocus on the power sector and electrified transport, and as the influence of major oil exporters starts to erode. Global energy governance is unprepared for this so-called shift ‘from molecules to electrons’, in which energy security will increasingly be defined by the continuity of cross-border electricity trade and the resilience of power grids to cyberthreats.

Until recently, international energy relations have been a function of the trade in fossil fuels. For oil-importing countries, energy security has largely rested on ensuring supply from a limited number of major producers and on the physical functioning of strategic shipping routes. But established conceptions of energy security – not least the reliance of most OECD countries on the emergency oil-sharing mechanism overseen by the International Energy Agency – are being challenged by two trends. The first is a shift in producer–consumer dependencies. In the US, the shale revolution has boosted domestic production, altering the dynamics of the global oil trade and prompting debate over the extent to which lower imports provide more foreign policy flexibility.¹ At the same time, China’s increasing dependence on Middle East oil has implications for the relative geopolitical importance of key transit routes.

These shifts may have obscured a second, and far more fundamental, reconfiguration of international energy relations. It is increasingly clear that a major transition is under way in energy systems – one that will ultimately diminish the importance of fossil fuels and lead to low-carbon options playing a more prominent role in energy provision. Uptake of low-carbon technologies is increasing. Dramatic price declines for solar and wind power, especially in the past couple of years, have driven the displacement of coal and oil from the power sector in many countries. In the vanguard is the EU, where the contribution of solar and wind power to electricity generation has increased from 3 per cent to 13 per cent over the past decade.

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Dramatic price declines for solar and wind power, especially in the past couple of years, have driven the displacement of coal and oil from the power sector in many countries

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In Europe, Brexit will continue to undermine investor confidence in interconnector projects unless there is greater clarity over the UK's future electricity-trading relationship with the EU27

Falling costs of electric vehicles (EVs) are also expected to accelerate this shift towards electrification. OPEC forecasts a global fleet of 338 million hybrids, plug-ins and battery-only EVs by 2040.² The use of EVs is likely to displace at least 2 per cent of current oil demand within 10 years, and more than 14 per cent by 2040.³

In addition to challenging traditionally ‘oil-led’ energy cooperation and governance, these trends raise questions about the adequacy of international arrangements for electricity trade. Two principle physical differences between electricity and fossil fuels are significant here. First, seasonal storage of electricity is prohibitively expensive. This lack of longer-term storage, combined with the second physical difference – the need to balance electricity supply and demand on the millisecond level – means that the transportation of power from surplus to deficit regions must occur near-instantaneously, along high-voltage cables.

High-voltage interconnection capacity between countries has almost doubled in the past decade, and is likely to double again by 2025. Yet this necessary expansion is contingent on investor confidence, which in turn is facilitated by robust and efficient trading arrangements, such as those adopted by the EU in 2015 to enable cooperation between grid operators, power exchanges and regulators.⁴ In Europe, Brexit will continue to undermine investor confidence in interconnector projects⁵ unless there is greater clarity over the UK's future electricity-trading relationship with the EU27. Over the next year, given the leading role Europe has played in developing the rules and regulations governing interconnector-facilitated electricity trade, any failure to maintain efficient electricity market coupling will likely undermine interconnector projects, especially between the EU and bordering countries seeking to synchronize their power systems.

As interdependencies grow in cross-border electricity trade, international governance mechanisms designed to integrate electricity markets will be tested. In March, the European Commission began investigating a German grid operator, TenneT, in response to claims by Danish power producers that the company was limiting their access to interconnector capacity.⁶ Similar disputes may arise in other regions where interconnector expansion is progressing rapidly – in Asia, capacity is expected to triple by 2030.⁷

Power grid operators and regulators also face a balancing act between market integration – which benefits from open data flows and shared networks – and cybersecurity. Cybersecurity concerns have increased since the attack on the Ukrainian grid in 2015, which resulted in 225,000 consumers losing power. The potential for geopolitical tensions was highlighted earlier this year by the UK defence secretary's claim that Russia could cause ‘thousands of deaths’ by targeting UK energy infrastructure.⁸ In the US, the FBI and Department of Homeland Security recently released a security update indicating the scale of cyber reconnaissance of energy infrastructure carried out by ‘threat actors’.⁹ The fear is that over the coming months and years such activities may move from a reconnaissance phase to one in which intelligence is utilized in actual cyberattacks, with physical consequences.¹⁰

Fossil fuels will play a vital role in the global energy system for many years to come. But there is an urgent need for enhanced cooperative approaches around future energy systems – centred on vast, near-instantaneous flows of electricity across borders, the continuing development of low-carbon energy technology, and the balancing of open approaches with security and privacy concerns. ■

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Planning for the ‘Wrong’ Resource Risks

Siân Bradley and Glada Lahn

Emerging and early-stage oil and gas producers that follow old models of development will lock in carbon risks and squander green growth opportunities.

The production of fossil fuels has traditionally offered countries an opportunity for investment and export revenues, as well as the chance to deploy fuels in their domestic energy systems and industries in order to drive economic growth. But it has also presented a range of what are often known as ‘resource curse’ risks: from the inflationary effects of export revenues to the negative governance impacts that political ‘crowding’ around resource rents can bring.

The global shift to a decarbonized energy system is changing the nature of these risks. Delivery of the Paris Agreement’s long-term goal – limiting the increase in the global average temperature to ‘well below 2°C above pre-industrial levels’ – will have profound implications for markets for fossil fuels, which are responsible for around 70 per cent of global emissions. Under a 2°C carbon budget, around one-third of the world’s oil reserves, half of its gas and nearly all of its coal will have to stay in the ground.¹ If emerging technologies such as carbon capture and storage (CCS) and bioenergy with CCS (BECCS) fail to materialize at a speed consistent with their role in most modelled 2°C scenarios, this would further constrain future fossil fuel use.²

While the exact implications for fossil fuel producers will vary depending on their resource base and production costs,³ the broader trend is clear. The collapsing cost of clean technologies has driven significant policy shifts in the largest consumer markets for fossil fuels. Projections for electric-vehicle uptake have soared, with dates for the banning of internal combustion engines announced in China and Europe. The cost of renewable energy – notably wind and solar – now undercuts that of fossil fuels in major markets, including India. The International Renewable Energy Agency (IRENA) estimates that, globally, all mainstream renewable energy technologies will be competitive with or cheaper than fossil fuels by 2020.⁴ This raises the prospect of markets, rather than policy, being a key driver of the ‘stranding’ of fossil fuel and thermal power assets.

In the past year we have seen a turning point for conversations around ‘carbon risks’ – or the risks associated with exposure to fossil fuel and other high-carbon assets set to be devalued by the shift to a decarbonized economy. Through the G20-mandated Task Force on Climate-related Financial Disclosures (TCFD), a growing number of investors and companies are assessing their alignment with the Paris Agreement and their likely resilience throughout

the transition, in terms of their exposure both to carbon risk and to the direct impacts of climate change.⁵ Meanwhile, central banks and regulators are exploring the implications of the transition for fiscal stability, and the potential to introduce ‘carbon-stress tests’ for banks and penalties for investors in fossil fuels and other high-carbon assets.⁶

Yet for governments in countries that hold the majority (>80 per cent) of the world’s ‘unburnable’ carbon, the conversation is only just beginning. Established producers such as Norway and Saudi Arabia are already rethinking the role of oil in their economies, and reforming the mandates of their national oil companies, with a view to a ‘post-oil’ world. By contrast, most early-stage and emerging producers, particularly in the developing world, retain high expectations for fossil fuels as a driver of economic growth and improved energy access. In countries with recent fossil fuel discoveries, such as Tanzania, Guyana and Lebanon, political dialogue tends to focus on harnessing what is seen as the potentially ‘transformative’ opportunity of fossil fuels – and thus on managing traditional resource curse risks – rather than on the challenge that decarbonization presents for this growth model.

Of course, the nature of the challenge looks different from country to country. Established producers with fossil fuel-intensive industrial bases, such as Trinidad and Tobago and many of the Gulf economies, face entrenched, economy-wide transition risks compared to those anticipated for early-stage producers such as Ghana, which largely exports the oil it produces and plans to use gas for domestic power only. Meanwhile, countries such as Guyana and Senegal that are developing recent oil discoveries are starting with a blank slate. They have the opportunity to plan and structure their industries and economies for the future – in a way that avoids the risk of disruptive transition by anticipating decarbonization trends (and their investment and revenue impacts), limiting the development of high-carbon infrastructure, and supporting ‘green growth’.

With growing international consensus around the need to actively manage carbon risks, there is an urgent need for better understanding of the ways in which these risks might translate into economic impacts at the national level. For fossil fuel producers, this means considering the impacts of the energy transition on fossil fuel revenues and national fiscal stability; and considering the economic and climate implications of locking in high carbon dependency through domestic power and industry, and of ‘locking out’ more competitive technologies and business models. In short, they must reassess the likely time frame for economic diversification, given a narrowing window in which fossil fuel production will remain viable. Traditional approaches to managing ‘resource curse’ impacts offer limited insight here, and may even compound risk where they encourage the development of deeper linkages between the fossil fuel sector and the wider economy.■

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There is an urgent need for better understanding of the ways in which carbon risks might translate into broader economic impacts at the national level

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Information-sharing and Dialogue to Tackle ‘Chokepoint Risk’

Laura Wellesley and Johanna Lehne

Although pressures on vulnerable food trade ‘chokepoints’ will likely continue to rise, an initiative to improve monitoring of the global food supply chain may help governments and traders to anticipate blockages – and avert shortages.

A new initiative to improve monitoring of the global food supply chain offers an opportunity to more effectively address ‘chokepoint risk’ – the risk of blockages or disruptions at strategically vital transit locations, such as along key shipping routes. In collaboration with Chatham House, the G20-initiated Agricultural Market Information System (AMIS) is considering how monitoring of trade chokepoints may be incorporated into existing supply and policy tracking, building on new models of information-sharing and dialogue between public- and private-sector actors.

The development of new tools for monitoring the risks of chokepoint closure or disruption is becoming ever more important in the context of the growing interconnectedness of the global food system. The vast majority of the world’s supply of staple crops – wheat, maize, rice and soybean – is grown in a small number of highly productive regions across North and South America, Europe and the Black Sea region, and Asia. Supporting the movement of food from these regions to final markets is a complex network of physical trade interconnections – overland and maritime transport corridors that link farm to port, exporter to importer, silo to consumer.

As international trade in staple crops continues to grow, the pressure on this network is rising, particularly for a small handful of chokepoints through which pass exceptionally large shares of such crops. Examples of major chokepoints include the Panama and Suez canals, the Strait of Hormuz and the inland waterways of the US.¹

In the coming months, the need to ensure the efficient functioning of these chokepoints will likely be thrown into sharp relief. China’s announcement in early April 2018 of 25 per cent tariffs on US soybeans implies a realignment of global supply in which Brazil – the US’s main competitor in global soy markets – would capture a significant percentage of the US market share.² Notwithstanding continuing fluctuations in the state of US–Chinese trade tensions, any reduction in US soybean exports (or market anticipation of such) will likely prompt Brazilian producers to ramp up production.³ This would increase demand for trucks along Brazil’s fragile roads – only 12 per cent of which are paved⁴ – and for handling

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The development of new tools for monitoring the risks of chokepoint closure or disruption is becoming ever more important in the context of the growing interconnectedness of the global food system

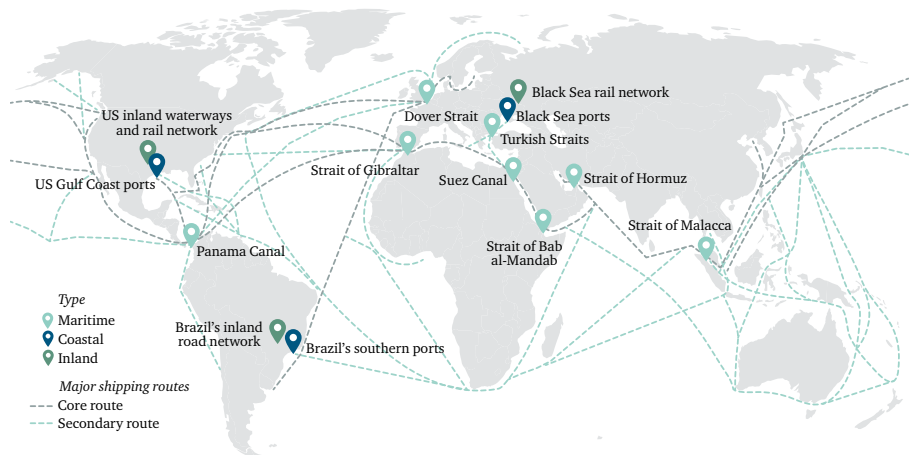
capacity at the country’s southern ports. Past experience points to the risk of major congestion and delays at Brazil’s ports when operations are disrupted during times of peak demand.

To date, efforts by the international community to mitigate the risk of food market dislocations have focused on using the World Trade Organization to respond to, and contain, protectionism. But awareness is growing of the need for new tools that promote certain norms of behaviour among market players.

In the wake of the 2010–11 food price crises, during which the threat of supply shortfalls prompted a wave of reactive export restrictions, the G20 called for a new initiative – AMIS – to promote transparency of information on market fundamentals. Now, in collaboration with Chatham House, AMIS is considering how systematic monitoring of trade chokepoints and their functioning – both in terms of physical performance and institutional or political management – may be incorporated into existing efforts to track supply data and policy developments.

The expansion of AMIS’s remit poses certain challenges, both technical and political. While information-sharing on market conditions – production, exports, stocks – is the main function of AMIS at present, monitoring chokepoint risks would require additional information from new sources: port-level data on throughput volumes, storage capacity and vessel turnaround times; geospatial data on the movement of grain-carrying vessels along maritime trade routes; and indicators of climate, political and security hazards at export hubs.

MARITIME, COASTAL AND INLAND CHOKEPOINTS AND MAJOR SHIPPING ROUTES



Sources: Bailey and Wellesley (2017), *Chokepoints and Vulnerabilities in Global Food Trade*. Shipping routes adapted from Rodrigue, J.-P., Comtois, C. and Slack, B. (2017), *The Geography of Transport Systems*, New York: Routledge, <https://people.hofstra.edu/geotrans>.

Gathering and analysing these data is now easier than ever before. Recent years have brought a step-change in the technology available to improve the traceability of shipments and the transparency of logistics. GPS technology, the Internet of Things, low-power wireless technology, advances in big data and

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‘distributed ledger’ blockchain technology, coupled with developments in artificial intelligence and machine learning, are transforming companies’ ability to track commodities and monitor environmental conditions in real time.⁵ The challenge is that such information is not systematically collated by any one actor, and much of it is commercially or politically sensitive. For example, data on vessel movements are often viewed as a proprietary secret, as the location of vessels along trading routes may determine the price of the commodity in question.

However, a proliferation of data partnerships between companies and the public sector in recent years suggests that this space may be opening up. In December 2015, the UN Food and Agriculture Organization (FAO) entered into a partnership with Google to improve geospatial tracking and mapping of products and to make these data more accessible.⁶

Similar partnerships between private data owners and multilateral actors could allow for the triangulation of existing knowledge and data to deepen understanding of the patterns of international agricultural trade, how these evolve from season to season, and where there exist particular hotspots of congestion or disruptive risk. If fully integrated into the policy dialogue and market-monitoring activities of AMIS, such data could inform real-time monitoring of evolving risks to food trade, promote evidence-based policy coordination among and between governments, and throw light on areas where investment or policy intervention is urgently needed. ■

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Notes

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Squaring Competing Demands in Global Land Use

Richard King

Scaling up carbon sequestration technologies to reduce emissions will increase competition for land, as other pressures on its use are rising. However, the search for solutions may soon gain momentum.

As global temperatures rise and the size and prosperity of the global population expand humanity's footprint, the pressures on land are mounting. Land is needed to produce food, provide habitat and – as tackling climate change becomes ever more urgent – sequester carbon. Expansion of each of these land-based 'ecosystem services' is central to attaining various of the 2030 Sustainable Development Goals, but more effective governance and technological solutions are needed if the competing demands for land are to be reconciled.

Although the challenge is considerable, a number of 'big wins' that could help to balance these demands are possible, given sufficient commitment from governments and actors in the food system. Areas of opportunity include encouraging people to shift towards more sustainable diets, and redesigning agricultural subsidies to support environmental best practice. Given anticipated developments in multilateral policymaking in 2018–20, however, two of the most promising areas are around the restoration of degraded lands to support ecosystems and sequester additional carbon; and the accelerated deployment of certain negative-emissions technologies (NETs). NETs encompass a broad range of CO₂ removal techniques, from nature-based solutions through to geoengineering approaches.¹

Sizing up the problem

Farming, forestry and land-use change are responsible for just under a fifth of global greenhouse gas emissions. Farming is the most expansive human activity. It accounts for 38 per cent of global land area, and is the principal user of the world's freshwater and the main driver of biodiversity loss.² As global demand for food – particularly for more resource-intensive livestock products – increases, the unsustainability of the system is being thrown into ever sharper relief. To meet projected demand in 2050, given current efficiencies, world agricultural production would need to increase by 60 per cent from 2005–07 levels.³ Nothing short of a transformation in production and consumption will be needed to ensure the food system becomes more nutritionally and environmentally efficient, and to prevent demand for agricultural land overwhelming other land uses.

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Preserving stores and sinks of carbon is critically important to slowing climate change, but this imperative is in tension with rising demand for agricultural land

The role of land resources in removing CO₂ from the atmosphere is also garnering attention. Preserving stores and sinks of carbon (especially forests, peatlands, wetlands and natural grasslands) is critically important to slowing climate change, and offers multiple other ecological and biodiversity benefits. But this imperative is in tension with rising demand for agricultural land – and in any case, preservation of carbon sinks alone is unlikely to have a sufficient impact on emissions. To meet the 2015 Paris Agreement’s target of keeping the global temperature rise to well below 2°C above pre-industrial levels (the ‘2°C scenario’), most climate models suggest global emissions must stabilize and start declining by around 2030, and turn net negative by 2070.⁴

This will require new and additional NETs. Bioenergy with carbon capture and storage (BECCS) – which involves burning CO₂-absorbing biofuels, capturing the emissions and storing them in long-term underground reservoirs – is one of the principal NETs included in the models, but it presents particular difficulties for balancing global land use. The land take associated with growing additional energy crops implies a decrease in the area of land available for food production or preserved as natural habitats. Depending on the energy crop used and the efficiency of production, the extent of BECCS deployment suggested by many 2°C scenario models⁵ may require anywhere from half to five times the land area used to grow the world’s entire current cereal harvest.⁶

Other technological solutions to CO₂ removal present comparable resource use challenges – for instance, requiring large amounts of energy and water – whereas natural solutions such as afforestation and reforestation could be similarly expansive in terms of land area needed, and run the risk of being easily reversed at some future date.

Given the scale of the challenge, and considering that deployment of NETs is assumed by many 2°C scenario models to commence in the 2020s, informed planning about how to achieve land-based carbon sequestration at scale is urgently needed. Among policymakers there is little awareness and understanding of the assumptions in, and the limitations of, modelled scenarios with respect to NETs. For example, there is a risk that BECCS is seen as the preferred option – simply because it is the default technology assumed by the models – without its implications being fully comprehended.

A window of opportunity

The prospect of intensified multilateral action in the next two years presents a window of opportunity for the international community to address these issues. Later in 2018 the Intergovernmental Panel on Climate Change will publish a special report on achieving a more ambitious 1.5°C temperature increase, followed by another special report in 2019 on the relationships between land and climate change. These will almost certainly increase the attention paid to negative-emissions options such as BECCS, and should raise awareness of the trade-offs entailed. This is timely, as during 2018–20 governments will be re-evaluating and in some cases ratcheting up their 2025 and 2030 emissions reductions commitments under the UN climate agreement; and will be drafting long-term low-emissions development strategies under the same framework.

Increased scrutiny of the limitations and opportunity costs of NETs would reduce the likelihood of moral hazard arising from their indiscriminate use to meet emissions reduction commitments. It may help to increase the ambition of emissions abatement strategies. Scientists and policymakers also need to rally around immediately available ‘do no harm’ actions, such as restoring degraded lands and sourcing BECCS crops from wastes and residues, while applying the precautionary principle to piloting and planning for new technologies.

Over the same 2018–20 period, government signatories to the UN Convention on Biological Diversity will be establishing the post-2020 global biodiversity framework and updating the existing 2020 Aichi biodiversity targets. This will give policymakers the opportunity to introduce and strengthen biodiversity safeguards against land-intensive forms of carbon sequestration and storage.

Concerted effort is required to increase attention and understanding of the challenges and trade-offs around land-based emissions reductions and removals during this formative period of enshrining new targets, commitments and strategies. This then might just galvanize joined-up policy progress that supports better use of land resources, in a manner compatible with preserving and regenerating the health of the planet for its present and future inhabitants. ■

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Notes

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