BIG BETS & BLACK SWANS

A PRESIDENTIAL BRIEFING BOOK

Policy Recommendations for President Obama's Second Term
by the Foreign Policy Scholars at Brookings

January 2013

Foreign Policy
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INTRODUCTION

President Obama begins his second term at a critical moment in world affairs. Administration officials have already generated internal policy recommendations for dealing with the many challenges that an unstable world, much of it in turmoil, will present the president in the next four years. In the Foreign Policy Program at Brookings, we decided to mirror this process from an outside perspective, taking advantage of the diversity and depth of our scholars' expertise to generate innovative policy recommendations for the President.

What follows is a series of memos designed to present President Obama with a suggested "to do" list for the major issues of our time. We divided these memos into "Big Bets" and "Black Swans." The Big Bets are places where the Foreign Policy scholars believe the President should consider investing his power, time and prestige in major efforts that can have a transformational impact on America and the world, as well as on his legacy. The Black Swans are those low probability but high impact events that can trip the President up and divert him from his higher purposes; events so dramatically negative that he will need to take steps in advance to avoid them.

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The Presidential Briefing Book

BIG BETS

BLACK SWANS

A PLASTIC MOMENT

M E M O R A N D U M

TO: President Obama

FROM: Martin Indyk and Robert Kagan

DATE: January 17, 2013

BIG BET: A Plastic Moment to Mold a Liberal Global Order

As you enter your second term, the state of the world is remarkably unsettled. The leading powers are beset with economic crises or are in various states of political transition or gridlock. The Middle East is in a state of political upheaval. Tensions are rising in East Asia. The world's institutions, whether the United Nations, the G-20, or the European Union, are weakened and dysfunctional, and seem to be pulling apart in the absence of concerted leadership. The liberal world order established after the Second World War – characterized by a free, open international economy, the spread of liberal democracy, and the deepening of liberal, peaceful norms of international behavior – is fraying at the edges.

It is a time of uncertainty and instability for the world, and for the United States; but it is also a moment of opportunity. Almost a century ago, when the United States entered the First World War, the philosopher John Dewey observed that the world was at a "plastic juncture." He and many other progressives believed that the unsettled world of their day offered the United States and the other democratic powers a chance to remold the international system into something better. Americans walked away from that challenge and would embrace it only after a second catastrophic breakdown of world order. Today, we are at another "plastic juncture." Will America turn inward and away from an increasingly messy world? Or will we launch a new effort to strengthen and extend, both geographically and temporally, the liberal world order from which Americans and so many others around the world have benefited?

The answer depends very much on how you choose to make use of your next four years in office. Unfortunately, there is not a lot to show for your first four years. In many respects, this is understandable. The economic crisis that you inherited made steady concentration on foreign policy more challenging. The two wars you inherited in the Greater Middle East had been bungled by your predecessor and cost the United States dearly, both materially and in terms of reputation. You began to restore that reputation through your own global appeal and the efforts of your Secretary of State.

You have done especially well in raising America's profile and deepening our engagement in East Asia. However, so far it is hard to list many durable accomplishments. Most of the major challenges are much as you found them when you took office, or worse: from the stalled Middle East peace process and turmoil in the Arab world to Iran's continuing march toward a nuclear weapons capability to China's increasing assertiveness in East Asia. Your understandable preoccupation with reelection has left much of the world wondering: Where is the United States?

For all the talk of American decline from certain quarters, the United States is actually well-positioned for a new era of global leadership. If you can strike the difficult but necessary compromise with Congress that begins to address America's fiscal crisis, the United States could well emerge as among the world's most successful and dynamic economies. America enjoys unique advantages in the international economic system: a natural gas revolution that promises soon to make it a net-exporter of energy, a superior university education system and an open and innovative economy that continues to attract the world's best and most creative young minds. On the international stage, the United States remains the only world power with global reach, uniquely capable of organizing concerted international action and serving as a source of security and stability to nations and peoples facing threatening neighbors.

Recommendations:

How then to take advantage of this plastic moment to mold the changing global order to best serve the United States and humankind? We believe that in the next four years you will have a unique opportunity to shape a multilateral global order that will continue to reflect American liberal values and progressive ideals. This will require your sustained attention, personal engagement, and direction of the national security agencies of the U.S. government. The reward could be a transformational and lasting impact on the international system, which will redound to the benefit of future generations.

In the security realm, your primary "big bet" must be to prevent Iran from obtaining a nuclear weapons capability. It is hard to imagine a bigger blow to the international security order than the collapse of the non-proliferation regime that would follow Iran's successful acquisition of nuclear weapons. Conversely, if you can succeed in achieving meaningful curbs on Iran's nuclear weapons aspirations and reinforce this by negotiating another nuclear arms reduction agreement with Moscow, you will do much to strengthen non-proliferation and nuclear disarmament as a fundamental pillar of the new liberal global order.

In East Asia, your primary big bet should be on promoting a regional order that encourages China to develop in a peaceful and productive direction. You have already formulated a credible strategy; now you will need to encourage China's new leadership away from greater reliance on military power in favor of continued economic and political development at home and increasing economic and political integration abroad. This will mean continuing to deepen America's Asian alliances, especially with the new leaderships in Tokyo and Seoul; building new partnerships with the nations of the region; and playing a major role in supporting regional cooperation. You should ensure that the rebalancing effort in East Asia goes beyond the military to include all aspects of American power. With India, the world's largest democracy and the other major rising power in Asia, you have laid a strong foundation but the next four years will be critical in building a partnership that can serve as another pillar of the emerging liberal geopolitical order.

Strengthening the liberal economic order needs to be a higher priority in your second term. Concluding free trade agreements with the Asia-Pacific region and Europe would boost U.S. exports and global economic recovery while promoting a broader consensus on the necessary standards to promote free trade and investment in the global economy. Building the infrastructure and putting in place the policies necessary to export American natural gas to key allies and partners, especially in Europe and Asia, will help reduce their dependence on Russia and Iran. Leveraging America's hydrocarbon bonanza to encourage more effective efforts to counter climate change can help promote a greener global order.

Strengthening the liberal political order will require increased efforts to enlist the support of emerging democracies. Nations like Brazil, Indonesia, Mexico, South Africa and Turkey have become increasingly influential economically. But they are struggling to find their identity as democratic powers on the international stage and, in some cases, are punching below their weight. Some are drifting toward a worldview that actually undermines the liberal nature of the global order. At the same time, powerful autocracies like Russia have staked out positions at the United Nations and elsewhere that are antithetical to liberal values — on the issue of Syria, for instance. These autocratic powers need to understand that if they continue their obstructionism, the democratic international community will increasingly move on without them and they will be isolated.

In your first term, you were reluctant to make democracy a centerpiece of your foreign policy. However, with revolutions in the Arab world and political changes in Burma that you have supported, it is time to place the United States once again at the vanguard of the global democracy movement. This is not only because democracy is consonant with American values. In the Middle East, in Russia and parts of Eastern Europe, just as in Burma and the rest of Asia, the United States has strategic, political and economic interests in the spread of stable, liberal democracies. Although democracies can be fractious, and in times of transition unstable, in the end they are more reliable supporters of the liberal world order which Americans seek. The United States needs to do more in support of the difficult struggle for democracy in the Arab world too, including holding the Egyptian Muslim Brotherhood government to democratic standards, and more actively leading the effort to shape a positive democratic outcome in Syria and preventing it from descending into chaos or becoming a haven for jihadists and Iranian proxies. America's relationship with Russia needs to be shaped by strategic arms agreements as well as by respect for the desires and aspirations of the Russian people. You should work to steer Russia in a positive direction, strengthening where you can those forces in Russian society that favor economic and political modernization.

Finally, the United States needs a global strategy. It cannot focus on one critical region to the detriment of others. While you were absolutely right to increase American attention to the vital region of the Asia-Pacific, the United States cannot and should not reduce its involvement in the Middle East or in Europe. Since the end of the Second World War, the United States has played the key security role in all three regions at once; there is no safe alternative to that. This is particularly true in the Middle East, where many nations look to the United States for both protection and assistance. But even Europe deserves continued American attention and involvement. Everything the United States wants to accomplish in the world can be better accomplished with the help and cooperation of its European allies.

Conclusion:

At the end of World War II, the United States led the way in shaping an international political, economic, and security order which, for all its flaws, served the American people, and much of the world, remarkably well. Much is changing in today's world, but the basic requirements of American foreign policy have not. Your great challenge is to seize this plastic moment and apply your leadership to the preservation and extension of the liberal global order for future generations.

BRINGING BEIJING BACK IN

MEMORANDUM

TO: President Obama

FROM: Kenneth Lieberthal

DATE: January 17, 2013

BIG BET: Bringing Beijing Back In

Your rebalancing strategy toward Asia has produced desirable results, including convincing China that the United States is serious, capable and determined to be a leader in the region for the long term. But this strategy is also generating dynamics that increasingly threaten to undermine its primary goals. It is therefore time to rebalance judiciously the rebalancing strategy, and China's leadership change provides you with an opportunity to do so.

Your objective should remain an Asia that, five-to-10 years from now, will contribute substantially to global and U.S. economic growth and will mitigate security dilemmas that drain American treasure and reduce the region's economic dynamism.

Unfortunately, at this point your current strategy is in danger of actually enhancing rather than reducing bad security outcomes. Most notably, territorial disputes have become sharper, and Beijing is largely operating under the false assumption that the flare-up of these disputes reflects an underlying U.S. strategy to encourage Japan, Vietnam, and the Philippines to push the envelope in the hope that Chinese responses will lead those countries – and ASEAN – to become more united and dependent on the United States.

Welcome mats for our increased security engagement are now being laid out around the region. This is satisfying in the short term but carries longer-term risks. U.S. friends and allies are encouraging the United States to enhance its security commitments, but they are also tying their economic futures to China's growth. The United States is thus in danger of having Asia become an ever greater profit center for China (via economic and trade ties) and a major cost center for the United States (via security commitments), especially if the Trans-Pacific Partnership (TPP) does not develop as hoped.

Recommendation:

To shift this trajectory, you should take the initiative this spring to solidify and strengthen the core bilateral relationship with China while continuing to provide reassurances to allies and partners of U.S. staying power in the region. Nobody in Asia wants to have to take sides between the United States and China, and none any longer fear a G-2. All seek "wise management" of U.S.-China relations. An initiative that improves U.S.-China relations and contributes to regional stability can, therefore, potentially enhance U.S. position throughout Asia.

Background:

China's leadership change presents an opportunity. Xi Jinping fears serious challenges to the Chinese system if he cannot improve relations with a population that has become increasingly vocal, critical and nationalistic. Xi knows he must significantly alter a development model that is exacerbating social and political tensions, even as the rate of growth slows.

Early indications are that Xi is more open and politically agile than was Hu Jintao, but his specific priorities and capacity to effect change are not yet known. He may take a strong stance on regional issues to signal China's determination or he may welcome a chance to tamp down international tensions to focus more on domestic transformation. You should give him a clear option to pursue the latter approach.

Specifically, you should offer Xi a game-changing opportunity to put U.S.-China relations on a more predictable long-term footing that protects critical Chinese equities but also requires that China engage more positively on key bilateral, regional and global issues. Any U.S. policy that moves the needle on China's behavior will be welcome throughout Asia.

Beijing is bureaucratically incapable of taking the initiative to suggest the ideas recommended below. Xi will want the United States to put cards on the table to which he can then respond – and then the real negotiation will begin. That lets you shape the opening agenda.

The strategy is to offer Xi full good-faith efforts to deal with key irritants, *provided China works with your administration on the areas of major U.S. concern indicated below*. You can do important things to change Beijing's calculus of American intentions while also advancing specific U.S. interests.

I recommend that you engage with Xi Jinping early on in order to establish a strong personal relationship with him. Use this to propose working out a four-year framework for U.S.-China relations that establishes a solid foundation of trust for the next one-to-two decades and provides substance to China's mantra of "a new type of major power relationship." Suggest that at least four times per year you and he hold half-day summits – not one-hour bilaterals – on the margins of multilateral events. Substantively, you might raise the following for consideration:

- The current Strategic & Economic Dialog (S&ED) is structurally very awkward for China and has never produced a sustained dialogue across the economic and foreign policy spheres. Propose that it be repackaged into a political and military (pol/mil) dialogue that is sustained (rather than a brief annual meeting) and a separate economic dialogue that closely parallels the Strategic Economic Dialogue that former Treasury Secretary Paulson led.
- For the pol/mil dialogue, suggest an enhanced Strategic Security Dialogue (SSD) that convenes four day-long meetings a year, with each side establishing a working group for ongoing liaison. The Strategic Security Dialogue, which met briefly twice under the S&ED, is the only formal U.S.-China dialogue that brings together military and foreign policy leaders in the same room. At least two of the enhanced SSD meetings should exclusively address overall U.S. and Chinese security postures in Asia a decade hence – basic thinking, pertinent doctrine, core concerns/interests, and areas where mutual restraint may benefit both sides. The United States has never held such discussions with China, and they may be critical for building strategic trust.

U.S.-China military-to-military (mil-mil) relations lag far behind those of their civilian counterparts. Suggest several initiatives to relieve some of the strain in that sphere. The PLA sees restrictions on inviting them to military exercises as indicative of hostile U.S. expectations of the relationship. You can indicate the possibility you will use your waiver authority to permit PLA participation in various future U.S.-organized military exercises (Defense Secretary Panetta has already done this for RIMPAC 2014). You might also offer serious discussions on military cooperation to assure better the ongoing flow of reasonably-priced oil from the Persian Gulf.

Relatedly, maritime territorial disputes are feeding China's wariness about U.S. strategy in the region. You can offer to clarify authoritatively our principles to reduce Chinese suspicions. Such clarification would make clear that: The United States will take no position on sovereignty in territorial disputes to which it is not a party; the United States supports an ASEAN collective negotiation with China on a Code of Conduct in order to reduce the potential for territorial disputes to escalate, but does not seek Chinese negotiation with all of ASEAN on resolving territorial disputes; and the United States will adhere to its core principles of peaceful management of disputes, freedom of navigation (including in Exclusive Economic Zones), and normal commercial access for American and other firms to maritime resources.

You can suggest various initiatives to enhance economic cooperation. These might include, for example, intensifying negotiations for a U.S.-China Bilateral Investment Treaty; inviting China to engage on the TPP when Beijing feels it is able to do so; completing the years-long technology export policy review, which can help U.S. business while also removing serious irritants in U.S.-China economic relations; directing the Department of Commerce and the U.S. Trade Representative to establish a consultative arm to help Chinese firms understand the pertinent U.S. investment laws and regulations; and indicating U.S. interest in working with China at the Clean Energy Ministerial to develop cooperative ways for major emitters to improve their capacity to deal with climate change.

The above highlights the scope and some of the content of what you might indicate to Xi that you are prepared to move forward on as a package, *if Xi will put together a comparable level of efforts on the following issues*:

- Mitigation of tensions over maritime territorial disputes
- More extensive U.S.-China mil-mil engagement and discussion of long-term strategic postures in Asia
- North Korea's nuclear and missile programs
- Opening additional areas of the Chinese economy (especially in the service sector) to American investment
- Strengthening enforcement of intellectual property protections and engaging on cyber-security threats
- Joint initiatives on climate change

Conclusion:

Xi may be unable or unwilling to respond significantly to your offer. But taking this wide-ranging initiative early on costs little or nothing, since you would be seeking to begin a reciprocal negotiation, not to commit the United States to unilateral actions. The payoff is potentially very large in reshaping Chinese and American behavior in ways that will make our overall rebalancing strategy a long-term region-wide success.

THE INDIA INVESTMENT

MEMORANDUM

TO: President Obama

FROM: Tanvi Madan

DATE: January 17, 2013

BIG BET: The India Investment

Your administration has made the correct judgment that the rise of India and its increasing role and influence in the international system benefit U.S. interests. This assessment has been articulated repeatedly and enjoys bipartisan support. While Indian policymakers have not been as vocal, their actions have indicated that they too recognize the importance of the bilateral relationship. U.S. relations with India are broader and deeper today than they have ever been. The danger to the relationship is that it will suffer from inattention – on the Indian side, because of the lack of bureaucratic and political capacity, and policymakers' domestic preoccupations; on the U.S. side, because of the lack of a crisis or a single high-profile initiative focusing bureaucratic and political attention, and other more-pressing domestic and international concerns. Furthermore, the return on the U.S. investment in India will likely only manifest itself in a major way in the medium to long term. That, combined with political and economic circumstances in India, might lead to "India fatigue" in the United States.

Recommendation:

You have already made a bet on India. In your second term, as you try to shape the emerging global order in a liberal direction, India's role will become ever more important because of its size, geostrategic location, economic potential and democratic institutions. Accordingly, you need to ensure that your administration stays invested in that bet and perhaps even ups the ante. In many instances, it is India that needs to put more chips on the table. However, there are steps that the United States can take to help increase the momentum, as well as shape the context in which Indian decisions are made. These include working with Indian counterparts to implement existing agreements, conclude current negotiations, and explore new areas of collaboration, in particular in the energy and education sectors. Your administration should also signal sustained commitment to the relationship through continued consultations, high-level visits and timely personnel appointments. Active efforts are also needed to encourage movement on the Indian side, increase public outreach and facilitate the consolidation and creation of constituencies for the relationship beyond government.

Background:

The relationship with India has been one of the little-heralded foreign policy successes of your first term. The momentum, however, will not sustain itself. Along with the danger of drift, there is likelihood that bilateral differences rather than achievements will take center stage. Past irritants are likely to re-emerge. Your administration and the Indian government successfully navigated the tricky Iran sanctions-Indian oil imports issue last year. However, if the situation with Iran worsens and conflict breaks out, Delhi and Washington might find themselves on opposite sides. The U.S. relationship with Pakistan, in the context of the withdrawal from Afghanistan, might create another area of potential difference. The United States has recently encouraged Indian involvement in Afghanistan and a U.S.-India-Afghanistan trilateral is in place. There are already concerns in India, however, that the U.S. desire to assuage Pakistan to facilitate the Afghanistan withdrawal might lead to a reversal of that position. There are also concerns that the United States will be less likely to pressure Pakistan on counter-terrorism issues related to India. Any renewed drive for the Comprehensive Test Ban Treaty (CTBT) might spark bilateral strain as well. U.S.-India relations have changed since the debate over the CTBT in the 1990s. But the CTBT issue could once again lead to contention between the two countries, which will not be restricted to the private sphere. Finally, as you carefully calibrate the relationship with the new leadership in Beijing, dormant Indian concerns about a G-2 or Sino-U.S. condominium will also likely arise again.

Avoiding drift and the dominance of differences will necessitate getting more deliverables from the numerous U.S.-Indian official dialogues. This means implementing agreements that have already been reached. In some cases, the major obstacles to implementation lie on the Indian side – the civil nuclear agreement is one such example – but there are others where the United States needs to act, including in the defense and technology areas. The expeditious completion of negotiations on other agreements would also help, including those related to bilateral investment, as well as defense technology and trade. These agreements have the potential to create opportunities for the U.S. private sector to invest in India and generate jobs here at home. It can also create new constituencies for the relationship, including at the state level, in both countries and demonstrate that the United States is interested in strengthening

India's economy and security, as well as those of the United States. New assessments will be needed of other areas in which there can be substantive cooperation: space, maritime, and cyber-security offer opportunities. The United States and India should try to move from consultation in these areas to joint initiatives. An updated feasibility study on a free trade agreement with India could also clarify the desirability of moving on that front.

While diplomatic, defense and economic engagement get the most attention, cooperation elsewhere could bear fruit, particularly in the energy and education sectors. Your administration's efforts should include urging Indian reform of its higher education sector to allow the participation of American universities. Meanwhile, research collaboration, academic exchanges, and university linkages should be facilitated, and you should encourage India to review visa procedures to facilitate more American citizens studying and working there. U.S. immigration reform that includes addressing the question of the mobility of high-skilled workers could strengthen the U.S. hand in encouraging these changes. On the energy front, the administration should work to allow the export of natural gas to India, while explaining that this is not the major solution that many in India seem to think it is. Furthermore, there should be additional progress on cooperative clean energy initiatives and the opening up of the energy infrastructure sector in India to greater U.S. investment.

Progress in these areas will require difficult domestic decisions for the Indian government. Yet recent statements and actions from Delhi have shown that it recognizes the magnitude of the problems and the need for foreign investment and cooperation. Progress on these issues would also encourage engagement from state governments, corporations, civil society and individuals on both sides. Finally, while offering opportunities for the American people and corporations, these initiatives would also help build physical and human capacity in India, and demonstrate U.S. investment in India's future.

The quality of bilateral interaction will also need to improve further. As personnel change on the U.S. end and, potentially, on the Indian side, there is a need to ensure that the level of trust and working-level cooperation that has been established is not lost. The relationship requires White House attention and coordination, which would be facilitated if an official responsible for India policy is appointed. Furthermore, India-related positions across government need to be filled speedily and not left vacant as they were in some high-profile instances in the first term. This is especially important since post-Afghanistan withdrawal and with the possible consolidation of South Asia bureaucracies, there is a danger that India will revert to being seen in the government as just another South Asian country. India's involvement in the rest of the world is only going to increase. If the United States does not continue to engage with it on regional and functional issues outside South Asia, it will miss an opportunity to cooperate and increase the possibility that India will hinder U.S. interests.

There is a continuing need for attention and commitment at senior levels. You could make evident your personal interest by visiting India during your second term, making you the first U.S. president to visit India twice. A reciprocal visit from the Indian prime minister should also be encouraged. Such visits would be especially important if there is a change in leadership at the top in India.

An overarching challenge is how to facilitate movement with India without stepping on Indian sensitivities and becoming an issue in Indian domestic politics. First, your administration should continue to share with the Indian government your concern that "India fatigue" will make further progress on our end harder. India will need to help cultivate constituencies in the United States that support the relationship. In certain instances, pressure will be called for; ideally, it should be applied privately. Second, through a more vigorous and consistent public outreach effort in India, your administration needs to explain the content and objectives of its policies and agreements, as well as how India benefits. If the United States does not fill the vacuum, others will do so with misinformation or disinformation. Such an effort should also engage critics and, while keeping the sitting government informed, opposition leaders.

Conclusion:

You will need to manage the differences that the United States will continue to have with India and not underestimate the difficulties India's rise might create for some U.S. interests, for example at the U.N. or in global trade talks. However, your judgment that the United States and India are natural partners and that the benefits of India's rise outweigh any costs remains sound. But the relationship needs continued nurturing. It also requires sustained buy-in from legislators, corporations and individuals who have been key in driving the relationship; more recently their support has been flagging. Importantly, India needs to do its part too. It is likely that it will. India is concerned about an economic slowdown and the security situation in its neighborhood, especially involving China and Pakistan.

It also continues to aspire to a greater role on the world stage. And Indians realize that the United States can play a critical role in helping India achieve its security and economic goals to an extent that perhaps no other country can.

TURNING TEHRAN

MEMORANDUM

TO: President Obama

FROM: Suzanne Maloney

DATE: January 17, 2013

BIG BET: Turning Tehran

The persistent and intractable challenge of Iran presents your second term with an epic threat and a historic opportunity. Despite the significant achievements of U.S. policy toward Tehran in the past four years, Iran's revolutionary regime remains the world's most dangerous state. Iran continues its efforts to extend its negative influence, inflame sectarian tensions and undermine prospects for peace in a region already beset by instability and upheaval; its support for Bashar al-Assad has enabled the Syrian dictator to brutalize his own people; and its growing stockpile of low-enriched uranium and vast nuclear infrastructure alarms the world. An initiative aimed at resolving the Iranian nuclear crisis offers the biggest potential payoff in a game-changing foreign policy agenda. A meaningful deal with Iran would represent a crowning achievement for your presidency since non-proliferation and nuclear disarmament are central pillars of the global order you are attempting to shape. The spin-off effects of a resolution to the nuclear crisis would significantly advance broader U.S. national security interests in a particularly vital region.

Recommendation:

The following recommendations are proposed as a starting point for a new diplomatic initiative:

- Quickly pursue a stop-and-swap deal to end Iran's 20 percent enrichment;
- With support from U.S. allies, develop a comprehensive proposal of sequenced Iranian nuclear concessions and sanctions reform;
- Press for an intensified schedule of negotiations with Iran, comprised of an interlinked process of multilateral and bilateral dialogues.

Background:

A binding agreement that firmly constrains Iran's nuclear ambitions would safeguard the world from the devastating implications of an Iranian nuclear capability, as well as the catastrophic costs of a military strike against the program. It would reassure America's friends and allies in the region, and enable them to address the profound security challenges that confront them closer to home, such as the domestic pressures for reform in the Arab monarchies and the frozen peace process. It would end the cyclical proclivity for brinksmanship on all sides that inevitably spooks the oil markets and threatens the global economic recovery. And a credible nuclear bargain with Iran would bolster the tattered non-proliferation regime by bringing a would-be rogue back from the brink of weapons status.

For these reasons, you should return to where you began on Iran with a major diplomatic initiative. The conditions are riper today than at any time since the 1979 revolution for making meaningful headway against the most dangerous dimension of Iran's foreign policy. At a minimum, you approach the challenge of Iran with four distinct advantages over the situation four years ago:

- Thanks to the rigorous sanctions, Iran is experiencing the most severe economic pressure of its post-revolutionary history. Tehran has already lost tens of billions of dollars, and the impact of the restrictions – product shortages, rising unemployment, spiraling inflation, and the collapse of the currency – has been felt at every level of Iranian society. The mounting financial toll, as well as the tangible erosion of Iran's international stature, has prompted the first real debate in years among Iranian power brokers on the parameters of Iran's nuclear policy. It remains unclear whether Iran's supreme leader can countenance a comprehensive shift in the nation's nuclear course, but the historical record confirms that intense economic pressure induces policy moderation in Iran, albeit only gradually and fitfully.
- The sanctions have been facilitated by unprecedented international cooperation on Iran, especially among the world's major powers, so that a constructive and durable partnership on Iran now exists with robust consensus on the current approach. After decades of reluctance, Europe is more than willing to get tough on Tehran, and Moscow and Beijing have stepped up to the plate as well. The embrace of punitive measures by some of Iran's traditional trading partners has helped to bring around the rest of the world, including many states that have historically hedged, such as the Gulf sheikhdoms.

- Today, the longstanding, often brutal Iranian power struggle is effectively irrelevant to the prospects of a deal with Washington. There is no longer any doubt that the ultimate authority lies with supreme leader Ayatollah Ali Khamenei. The internal unrest sparked by the improbable 2009 landslide reelection of Mahmoud Ahmadinejad has resulted in the further consolidation of control by Iran's hard-liners under Khamenei's leadership. This development is catastrophic for the democratic aspirations of Iran's citizenry, but leadership coherence probably creates a more conducive environment for a policy reversal within Iran.

- Similarly, American domestic politics present fewer constraints to a bold initiative on Iran than four years ago. The United States has exited one costly war in Iraq and is beginning to wind down another in Afghanistan, and there is no appetite among the American public for another military venture in the Middle East. The failure of the Republican critique on Iran to gain any significant public traction in the 2012 presidential campaign demonstrated that Americans are more interested in economic recovery than new international commitments. As a result, you can assert greater latitude in pursuing a viable deal and pushing back on partisan pressures.

While the odds for engaging Iran on the nuclear issue may be better this time around, the stakes are also exponentially higher. Iran's nuclear program continues to advance and many observers are convinced that 2013 will mark the point of no return for Iran's efforts to achieve a nuclear capability. This imparts added urgency to any renewed diplomacy. In the absence of a breakthrough via negotiations, the credibility of your March 2012 commitment to use force if necessary to prevent an Iranian nuclear weapon will be on the line.

As a result, this time around, there is neither time nor utility for a charm offensive: public diplomacy only reinforces the affinity of ordinary Iranians for American culture while exacerbating the paranoia of its leadership. And while Tehran has been signaling for many months that it may be open to a limited bargain addressing a narrow scope of its nuclear activities – i.e. higher-level enrichment intended only to fuel a research reactor that produces isotopes for medical treatments – such incremental confidence building rightly prompts skepticism. Given that the regime's legitimacy is grounded in its antagonism toward Washington, this approach has been thoroughly discredited by three decades of failed undertakings.

However, the research reactor is the right place to start, if only because of the persistence of its presence in Iran's own diplomatic gambits since at least 2010 and the need to do something quickly about Iran's stockpile of 20 percent enriched uranium. A successful start can put more time on the clock for negotiations and provide the grounds for more ambitious understandings. There is broad consensus among many in Washington and in Tehran surrounding the contours of a deal that satisfies both sides' minimum requirements. Such an agreement would permit Iran to retain modest enrichment capabilities — several thousand centrifuges, operating at less than 5 percent. In exchange, Tehran would have to accept stringent inspections and verification to provide for greater transparency about the entire scope of the program and greater confidence in the ability of the international community to foresee an Iranian breakout. This should include provisions to restrict activities at Fordow, Iran's underground enrichment facility opened last year near the city of Qom, which the United States has insisted must be mothballed.

To achieve this, you will have to put your credibility on the line, and elevate and intensify the diplomatic dialogue. You will also have to proffer sanctions relief in order to obtain any meaningful concessions on the part of Tehran, despite the strategic and moral disinclination for rewarding Iran's nuclear transgressions. The sole consistency in Iran's nuclear diplomacy over the course of the past 11 years has been its transactional approach, and the regime's insistence on compensation for any concessions has only been strengthened by the escalation in the price that it has paid for its aversion to compromise. Working with our partners in Europe, Russia and China, an interagency effort should develop a persuasive package of specific sanctions relief that is sequenced to clear actions and credible commitments on the Iranian side. The incentives must be more persuasive than the paltry offers the United States has made to date, and at least as inventive as the sanctions themselves have proven, but any incentives must also be provisional or rapidly reversible to mitigate against Iranian ploys and deter dissembling. In addition, you should seek to establish financial mechanisms to facilitate transactions involving humanitarian activities, food and medicine. All of this will require early investments on the part of administration officials in ensuring Congressional support.

Conclusion:

There are, of course, no guarantees. Iran's Islamic Republic is a persistently unpredictable state, and the animosity and distrust toward Washington runs deep among its relevant decision-makers. The sanctions have weakened Iran's economy, but consistent with 34 years of Iranian responses to economic pressure, they have stiffened its leadership's spine, at least for the short term, and increased its paranoia about American interest in regime change. Moreover, the spiraling civil war in Syria and the determination of Iran's hard-liners to push back against a wide-ranging campaign of economic pressure and covert warfare may overtake any new diplomatic initiative, and may yet provoke a confrontation that neither side desires. Still, the alternatives to a negotiated deal remain profoundly less attractive than the risks involved in pursuing one, and the prospective payoff – a world released from the perennial nightmare of an Iranian nuclear bomb – is more than sufficient to justify the investment of your time and energy on this issue. And if Tehran is unwilling to engage in a serious fashion, you will have demonstrated American commitment to diplomacy ahead of the other options.

THE ROAD BEYOND DAMASCUS

M E M O R A N D U M

TO: President Obama

FROM: Michael Doran and Salman Sheikh

DATE: January 17, 2013

BIG BET: The Road Beyond Damascus

Syria is standing on a precipice reminiscent of Iraq in early 2006. The regime will likely fall, but the prospect now is one of a failed state that produces a toxic culture of extremism and lawlessness. If the United States does not take on a more active leadership role, the trend toward warlordism and sectarian fragmentation will likely prove inexorable. Syria will become a second Somalia, in the heartland of the Middle East and on the borders of Israel, Turkey and Jordan, the three closest regional allies of the United States. Conversely, through active intervention you can help ensure a more stable transition to a post-Assad order that will provide a better future for the Syrian people and a strategic gain for the United States and its regional friends.

In your first term, when it came to the Syrian revolution, you wagered that the risks of active intervention outweighed the risks of a more cautious approach. Now, however, we believe the massive toll of civilian casualties, the dismemberment of the country, and the intensification of the conflict along sectarian lines dictate a revisiting of your decision.

Recommendation:

To stave off disaster and play a leadership role in shaping Syria's future, the United States should provide lethal assistance to the Syrian opposition, forge a genuine national dialogue that includes Alawis and Christians, and create an International Steering Group (ISG) to oversee and lend support to the transitional process, including the creation of an international stabilization force to provide protection to Syrian civilians. You will need to engage directly with President Putin to overcome already weakening Russian resistance to these essential endeavors.

Background:

A descent into chaos in Syria poses many risks to the United States. In particular, it creates opportunities for Iran and Hezbollah to safeguard their interests. Perhaps the greatest potential benefit to the United States of the uprising had been the damage that it did to the alliance system of Iran, the strategic adversary of the United States in the Middle East. For a time it seemed that Iran's foothold in Syria would be washed away naturally by the tide of events. But as the conflict has deepened, Tehran has spared no expense to make itself an indispensable partner to a number of groups who seem destined to thrive in the growing chaos.

Secondly, the fragmentation of Syria means perpetual civil war. Violence is already developing along sectarian lines, between Sunnis and Alawis, Sunnis and Christians, and other religious communities; along intra-sectarian lines, particularly between al-Qaeda affiliates and their Sunni nationalist rivals; and along ethnic lines, as Arab-Kurdish violence spreads across the country's north. Furthermore, this violence will increase the risk of spillover to neighboring countries: increasing refugee flows, the growing presence of rival Iraqi factions inside Syria, and growing tensions in Lebanon. Other, more dramatic forms of spillover are looming: direct intervention by Turkey, against the background of Kurdish problems, or by Israel, in an effort to destroy Assad's chemical weapons.

Finally, the chaos is enabling al-Qaeda to gain a significant foothold. Jabhat al-Nusra, the al-Qaeda affiliate in Syria, is now recognized as one of the most potent fighting forces in the country.

Until now, the primary U.S. answer to the fragmentation has been to support the newly established Syrian Opposition Coalition (SOC), the umbrella organization that is trying to tie together many of the political strands among the opposition. As a result, the SOC has gained significant international recognition as "the sole representative" of the Syrian people. This support is timely and encourages greater opposition unity. But in the absence of a more robust American leadership, it will not stabilize Syria, because the writ of the SOC is limited by its failure to reach a national consensus and by the growing power of the warlords.

It is time to place a new bet on a more active American leadership role, one that seeks to protect civilians, hastens the fall of Assad, and shapes a new political order more amenable to the needs of the Syrian people and to American interests. A greater leadership role does not necessarily mean direct military intervention. Continuous U.S. airstrikes and large numbers of American boots on the ground should not be necessary. However, removing the threat of intervention entirely only emboldens Assad and his chief patron, Iran. If the scale of civilian bloodletting continues to escalate, the United States must be prepared to act decisively, in the spirit of "the responsibility to protect." In this regard, we encourage you to communicate to Assad and his allies that the United States is willing to intervene to establish a no-fly zone with its European and regional allies to protect civilians in Syria. We believe this would hasten Assad's demise, hearten the opposition, and significantly enhance American credibility in the region.

In 1995, President Clinton was forced to intervene militarily in Bosnia and threaten the greater use of military force. He did so after over 100,000 Bosnian men, women and children had been killed over a four-year period. Clearly, Syria is not Bosnia. But after nearly two-years, 60,000 killed (the UN thinks this is a conservative estimate) and the UN-Arab League Special Envoy warning that another 100,000 could be killed in 2013, the United States must not allow Assad's killing machine to continue the slaughter with impunity.

Today, the United States simply does not possess an effective ground game in Syria. It needs to help the Free Syrian Army (FSA) develop a country-wide military strategy and insist that it forge stronger links with the Syrian Opposition Coalition. Like it or not, the FSA is the nucleus of the post-Assad military, which will be the most significant institution of the Syrian state. If the new Syria has any hope of being stable, more pluralistic, and friendly to the United States, then the effort to shape its institutions must begin now.

The centerpiece of that effort is the provision of lethal assistance by an American-led coalition. To be sure, the fragmentation of the rebels and the presence among them of al-Qaeda fighters present daunting challenges. There is no guarantee, for instance, that some weapons will not find their way to al-Qaeda. Nor will the internal divisions within the FSA be overcome without internecine bloodletting. However, a continuance of the current, hands-off policy will only make al-Qaeda stronger and the conflicts within the FSA more permanent. As daunting as the challenges in Syria are today, if the United States does nothing, it will face even more virulent problems tomorrow.

In addition, a continuation of the status quo will lead to a permanent diminishment of American influence. A reluctance, thus far, to provide lethal assistance has led to a growing sense of betrayal among Syrians. Many of them now argue that your faltering attitude – paired with your perceived responsibility for the inability to overcome the diplomatic impasse with Russia – has played a decisive role in the intensification of the Syrian conflict.

After establishing itself as the single most important player shaping the conflict on the ground, your administration should provide assistance to the Syrian people to forge a genuine national dialogue on the nature of the desired transition. This requires the creation of a national platform that brings together the diverse ethnic and religious communities of Syria – including Sunnis, Shia, Alawis, Christians and Kurds, as well as tribal and religious figures—to discuss the future of the country. Specifically, it should include Alawis who enjoy wide legitimacy within their community but who are also willing to talk about a post-Assad regime in Syria. As an exclusively Sunni club, the Syrian Opposition Coalition is not qualified to win the necessary trust of under-represented minorities and communities.

At the same time, the United States should bring together key international and regional powers to create an ISG for Syria that would work in close collaboration with a legitimate and empowered transitional Syrian executive authority.

The ISG should include Russia, China, Turkey, and key Arab and European states. It should agree on a number of basic goals for the transition and set benchmarks for their effective implementation. The immediate focus: protecting civilians, minorities and vulnerable groups through the creation of an international stabilization force; addressing humanitarian issues; safeguarding chemical and other unauthorized weapons; and supporting transitional governance and transitional justice efforts.
This work should be followed by a longer-term commitment to assisting Syrians on security sector reform, the disarmament, demobilization and reintegration (DDR) of combatants and supporting a transitional governance roadmap, including preparations for multi-party elections and a constitution-drafting exercise; economic recovery, including planning and coordination on infrastructure and reconstruction; and assisting national reconciliation efforts.

To succeed, this strategy will have to overcome the persistent Russian demand that Assad play a role in the transition. His absence from the process, however, is an equally firm demand of the rebels. In order to overcome this gap, you will need to engage with President Putin in an effort to persuade him that Russian interests are better protected by partnering with you in an effort to promote a stable post-Assad order than by resisting it. In the process, you will need to insist that removing Assad is a fundamental requirement for a successful transition. With reports now reaching President Putin that detail the collapsing control of the regime, he may be coming around to accepting that Assad is finished and may be willing to reconsider Russia's role.

The Syria challenge is difficult. The very intractability of the problems is what made the original bet of avoidance of active involvement an attractive option. But developments since have made it an increasingly dangerous option for American interests; it's time for a reassessment.

OPENING TO HAVANA

MEMORANDUM

TO: President Obama

FROM: Ted Piccone

DATE: January 17, 2013

BIG BET: Opening to Havana

Your second term presents a rare opportunity to turn the page of history from an outdated Cold War approach to Cuba to a new era of constructive engagement that will encourage a process of reform already underway on the island. Cuba is changing, slowly but surely, as it struggles to adapt its outdated economic model to the 21st century while preserving one-party rule. Reforms that empower Cuban citizens to open their own businesses, buy and sell property, hire employees, own cell phones, and travel off the island offer new opportunities for engagement.

Recommendation:

You can break free of the straitjacket of the embargo by asserting your executive authority to facilitate trade, travel and communications with the Cuban people. This will help establish your legacy of rising above historical grievances, advance U.S. interests in a stable, prosperous and democratic Cuba, and pave the way for greater U.S. leadership in the region.

Background:

Early in your first term, you made an important down payment on fostering change in Cuba by expanding travel and remittances to the island. Since then, hundreds of thousands of the 1.8 million Cuban-Americans in the United States have traveled to Cuba and sent over $2 billion to relatives there, providing important fuel to the burgeoning small business sector and helping individual citizens become less dependent on the state. Your decision to liberalize travel and assistance for the Cuban diaspora proved popular in Florida and helped increase your share of the Cuban-American vote by ten points in Miami-Dade county in the 2012 election.

As a result of your actions and changing demographics, families are more readily reuniting across the Florida straits, opening new channels of commerce and communication that are encouraging reconciliation among

Cuban-Americans and a more general reframing of how best to support the Cuban people. Cuba's recent decision to lift exit controls for most Cubans on the island is likely to accelerate this process of reconciliation within the Cuban diaspora, thereby softening support for counterproductive tactics like the embargo. The new travel rules also require a re-think of the outdated U.S. migration policy in order to manage a potential spike in departures from the island to the United States. For example, the team handling your immigration reform bill should be charged with devising proposals to reduce the special privileges afforded Cubans who make it to U.S. soil.

Under Raul Castro, the Cuban government has continued to undertake a number of important reforms to modernize its economy, lessen its dependence on Hugo Chavez's Venezuela, and allow citizens to make their own decisions about their economic futures. The process of reform, however, is gradual, highly controlled and short on yielding game-changing results that would ignite the economy. Failure to tap new offshore oil and gas fields and agricultural damage from Hurricane Sandy dealt further setbacks. Independent civil society remains confined, repressed and harassed, and strict media and internet controls severely restrict the flow of information. The Castro generation is slowly handing power over to the next generation of party and military leaders who will determine the pace and scope of the reform process.

These trends suggest that an inflection point is approaching and that now is the time to try a new paradigm for de-icing the frozen conflict. The embargo – the most complex and strictest embargo against any country in the world – has handcuffed the United States and has prevented it from having any positive influence on the island's developments. It will serve American interests better to learn how to work with the emerging Cuban leaders while simultaneously ramping up direct U.S. outreach to the Cuban people.

I recommend that your administration, led by a special envoy appointed by you and reporting to the secretary of state and the national security advisor, open a discreet dialogue with Havana on a wide range of issues, without preconditions. The aim of the direct bilateral talks would be to resolve outstanding issues around migration, travel, counterterrorism and counternarcotics, the environment, and trade and investment that are important to protecting U.S. national interests. Outcomes of these talks could include provisions that normalize migration flows, strengthen border security, break down the walls of communication that hinder U.S. ability to understand how Cuba is changing, and help U.S. businesses create new jobs.

In the context of such talks your special envoy would be authorized to signal your administration's willingness to remove Cuba from the list of state sponsors of terrorism, pointing to its assistance to the Colombian peace talks as fresh evidence for the decision. This would remove a major irritant in U.S.-Cuba relations, allow a greater share of U.S.-sourced components and services in products that enter Cuban commerce, and free up resources to tackle serious threats to the homeland from other sources like Iran. We should also consider authorizing payments for exports to Cuba through financing issued by U.S. banks and granting a general license to allow vessels that have entered Cuban ports to enter U.S. ports without having to wait six months. You can also facilitate technical assistance on market-oriented reforms from international financial institutions by signaling your intent to drop outright opposition to such moves.

Under this chapeau of direct talks, your administration can seek a negotiated solution to the thorny issue of U.S. and Cuban citizens serving long prison sentences, thereby catalyzing progress toward removing a major obstacle to improving bilateral relations.

You should, in parallel, also take unilateral steps to expand direct contacts with the Cuban people by:

- authorizing financial and technical assistance to the burgeoning class of small businesses and cooperatives and permitting Americans to donate and trade in goods and services with those that are certified as independent entrepreneurs, artists, farmers, professionals and craftspeople;
- adding new categories for general licensed travel to Cuba for Americans engaged in services to the independent economic sector, e.g., law, real estate, insurance, accounting, financial services;
- granting general licenses for other travelers currently authorized only under specific licenses, such as freelance journalists, professional researchers, athletes, and representatives of humanitarian organizations and private foundations;
- increasing or eliminating the cap on cash and gifts that non-Cuban Americans can send to individuals, independent businesses and families in Cuba;
- eliminating the daily expenditure cap for U.S. citizens visiting Cuba and removing the prohibition on the use of U.S. credit and bank cards in Cuba;

- authorizing the reestablishment of ferry services to Cuba;
- expanding the list of exports licensed for sale to Cuba, including items like school and art supplies, athletic equipment, water and food preparation systems, retail business machines, and telecommunications equipment (currently allowed only as donations).

The steps recommended above would give your administration the tools to have a constructive dialogue with the Cuban government based on a set of measures that 1) would engage Cuban leaders in high-level, face-to-face negotiations on matters that directly serve U.S. interests in a secure, stable, prosperous and free Cuba; and 2) allow you to assert executive authority to take unilateral steps that would increase U.S. support to the Cuban people, as mandated by Congress.

To take this step, you will have to contend with negative reactions from a vocal, well-organized minority of members of Congress who increasingly are out of step with their constituents on this issue. Your initiative should be presented as a set of concrete measures to assist the Cuban people, which is well within current congressional mandates, and as a way to break the stalemate in resolving the case of U.S. citizen Alan Gross (his wife is calling for direct negotiations). Those are winnable arguments. But you will need to be prepared for some unhelpful criticism along the way.

Conclusion:

Current U.S. policy long ago outlived its usefulness and is counterproductive to advancing the goal of helping the Cuban people. Instead it gives Cuban officials the ability to demonize the United States in the eyes of Cubans, other Latin Americans and the rest of the world, which annually condemns the embargo at the United Nations. At this rate, given hardening attitudes in the region against U.S. policy, the Cuba problem may even torpedo your next presidential Summit of the Americas in Panama in 2015. It is time for a new approach: an initiative to test the willingness of the Cuban government to engage constructively alongside an effort to empower the Cuban people.

ENERGY AND CLIMATE: FROM BLACK TO GOLD TO GREEN

M E M O R A N D U M

TO: President Obama

FROM: Charles Ebinger and Kevin Massy

DATE: Thursday, January 17, 2013

BIG BET: Energy and Climate: Black to Gold to Green

Your second term offers a significant opportunity for the United States to strengthen its economic and geopolitical position by taking advantage of near-term global demand for oil, gas and coal, while bolstering its competitive position in the longer-term global market for lower-carbon technology and taking a leadership role in the battle to address climate change.

Recommendation:

By adopting policies that encourage the development and export of U.S. hydrocarbons including oil, coal and gas, the United States can take advantage of the rising demand for these fuels in developing and emerging economies around the world. As a condition of greater exploration, production and trade in these fuels, the Federal Government should impose a modest but meaningful volumetric or carbon-based tax on their production, with the resultant revenues allocated specifically to the development of two technologies that are essential to global efforts to fight climate change: carbon capture and sequestration; and advanced batteries, both at the grid and vehicle scale.

Background:

While the global political economy is likely to throw up many surprises over the next 20 years, three things appear certain:

U.S. global power and influence will have to be shared with others, as emerging powers such as China and India gain economic and geopolitical influence. As highlighted by the recent National Intelligence Council Report, *Global Trends 2030* (http://www.dni.gov/files/documents/Interactive%20Le%20Menu.pdf), the global political order will change to one in which "power will shift to networks and coalitions in a multi-polar world."

- Asia will continue to experience rapid growth in energy demand, most of which will have to be met with fossil fuels under any scenario (http://www.iea.org/publications/freepublications/publication/English.pdf). China's energy demand is set to grow by 60 percent between 2010 and 2030, while India's demand is projected to more than double. Despite the development of renewable and low-carbon technologies such as wind, solar and nuclear, coal will continue to play a leading role (http://www.iea.org/newsroomandevents/pressreleases/2012/december/name,34441,en.html) in global energy supply, with consumption in Asia's electric power sector alone projected to increase by 63 percent between 2011 and 2020. Asian demand for energy will more than compensate for a broad leveling off of energy demand and a reduction in carbon emissions among the OECD countries.

- Consequently, global carbon emissions will continue rising at an unsustainable rate as efforts to get an internationally binding agreement on emissions reductions stall and investments in low-carbon technologies falter in the economic downturn. In its most recent annual assessment, the IEA concluded: "Taking all new developments and policies into account, the world is still failing to put the global energy system onto a more sustainable path."

These global trends are coinciding with large structural domestic changes in the United States. Facing weak economic growth prospects, a massive debt burden, fiscal constraints and a dysfunctional political system, the one bright spot for our country in recent years has been the unexpected boom in oil and gas production. U.S. oil production rose at its highest annual rate ever in 2012 to levels not seen in decades (http://www.eia.gov/todayinenergy/detail.cfm?id=9030). Thanks to technical developments in hydraulic fracturing and lateral drilling, natural gas production and inventories are at all-time highs (http://www.eia.gov/dnav/ng/hist/n9070us2A.htm). While the natural gas bonanza and environmental concerns are leading to a reduced role for coal in the U.S. power sector, exports of the commodity – of which the United States is the largest resource holder – are also at record levels (http://www.eia.gov/coal/production/quarterly/).

The oil and gas boom has had many commentators breathlessly heralding an era of U.S. energy independence. This is unlikely to materialize either practically or economically. Under even the most optimistic scenarios for domestic hydrocarbon production, the United States will continue to import millions of barrels of crude oil per day for the foreseeable future, albeit increasingly from our own hemisphere rather than the Middle East. And as long as the United States is connected to the global trading system, it will be subject to supply and demand shocks beyond its borders, meaning that price disruptions anywhere in the world will be passed on to U.S. consumers.

However, there is a way in which the U.S. can use its oil and gas bonanza to arrest both its relative economic and political decline to put itself back at the forefront of global trade and to take a leadership role in climate change mitigation.

Irrespective of actions by OECD countries, China, India and other emerging nations will burn oil, gas and coal in ever greater quantities for the foreseeable future. The main beneficiaries of this demand are likely to be the OPEC nations, Russia, Australia and other oil, gas and coal producers. Given its huge reserves of hydrocarbons, the United States could position itself as perhaps the principal beneficiary of this demand by adopting a near-term policy of full-scale, export-led oil, gas and coal development. Such a policy would involve the expedited permitting of oil and gas production and ancillary pipeline infrastructure projects and the enabling of crude oil and gas exports, which are currently subject to policy restrictions or prohibitions. The resultant surge in production and exports would strengthen both the country’s fiscal position through export revenues and job creation; and its political position through weakening the market power and the revenue generation of OPEC nations and Russia. It would also bring geopolitical benefits through the deepening of partnerships with key consumers such as China and India.

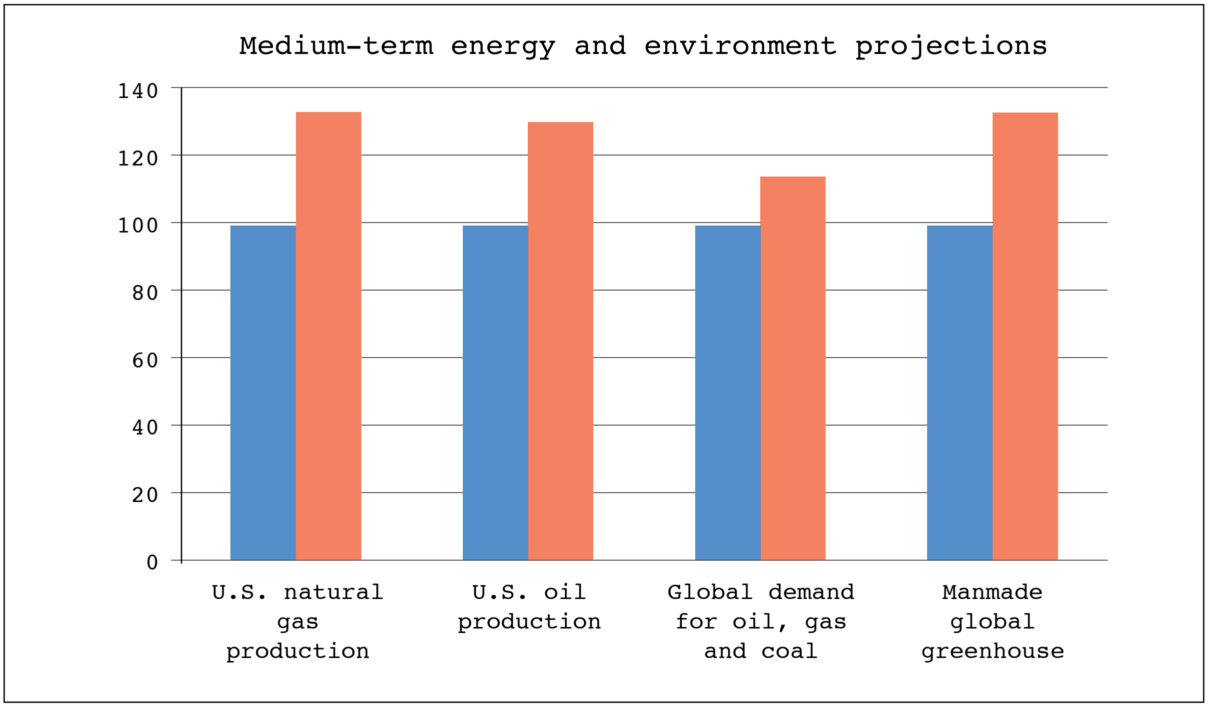
The obvious opposition to such a policy is on environmental grounds. With global warming an unavoidable and worsening reality, such a course of action is open to criticism of being irresponsibly self-interested. However, a policy of full-scale hydrocarbon development can be consistent with leadership on climate change if, as a strict condition of the rapid development and export of our oil, gas, and coal resources, the production of hydrocarbons is taxed, either on a volumetric or carbon-content basis. You should then allocate the revenues to a modern “Apollo Mission” effort toward the development of carbon capture and storage (CCS), and advanced batteries and storage technologies. CCS is a necessary technology for any meaningful reduction in climate change given the continued prominence of coal in the global power generation mix. Advanced battery and alternative fuel storage technologies are essential to make electric cars competitively viable and to give solar and wind power the reliability and scale they need to compete with fossil fuels. The policy will also work to move the domestic economy towards lower-carbon consumption in power generation and transportation and to prove the new technologies at scale.

Having gained a competitive advantage in green technologies, the United States can then become the dominant global producer and exporter of CCS technology, advanced batteries and other lower-carbon products and services, maintaining its competitive position in the global energy economy.

The implementation of this policy will not be easy. There is likely to be opposition to exports of oil and gas on the grounds of U.S. energy security and ideological opposition to new taxes. Such concerns should be addressed by greater efforts at public education on the importance of global trade to U.S. energy security and the domestic economic and geopolitical benefits of expanded production.

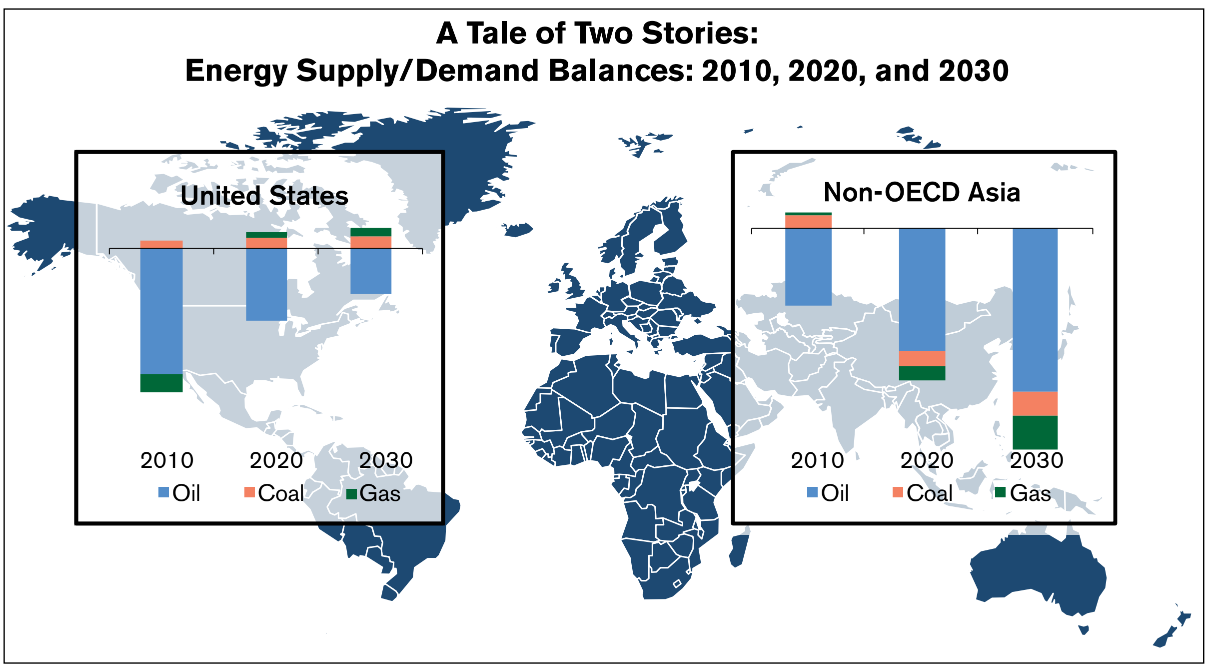
Conclusion:

In a business-as-usual scenario, the world will continue its hydrocarbon-dependent trajectory towards an unsustainable level of carbon emissions with the principal economic benefits accruing to other resource-rich nations. By adopting this "black-gold-green" policy, the United States could simultaneously realize the near-term economic and geopolitical benefits generated by the world's near-term need for hydrocarbons while taking a leadership role in the development and deployment of the technologies that are able to meaningfully address climate change over the longer term.



*Under current policies

Source: US Department of Energy, OECD



Source: US Department of Energy, OECD

FREE TRADE GAME CHANGER

M E M O R A N D U M

TO: President Obama

FROM: Mireya Solis and Justin Vaïsse

DATE: January 17, 2013

BIG BET: Free Trade Game Changer

Pursuing and signing free trade agreements (FTAs) with both the Asia-Pacific region and Europe during your second administration will yield considerable economic and political benefits. World trade is expected to have stalled at a mere 2.5 percent growth in 2012, down from 13.8 percent in 2010. Protectionism is on the rise everywhere, especially in the form of non-tariff barriers. The Doha Round is essentially dead. At the same time, the United States and Europe need to stimulate their economies without resorting to fiscal spending. Furthermore, the United States needs to establish a broader and deeper economic presence in Asia, the world's most dynamic economic region. Achieving both a Trans-Pacific Partnership (TPP) and a Trans-Atlantic Free Trade Agreement (TAFTA) is the most realistic way to reclaim U.S. economic leadership and make progress towards your promised goal of doubling U.S. exports. Moreover, signing both the TPP and TAFTA would have deep strategic implications. Both deals would reaffirm liberal norms and a leading U.S. role in setting the global rules of the road. The TPP would help define the standard for economic integration in Asia, without necessarily antagonizing China. TAFTA would give American and European businesses an edge in setting industrial standards for tomorrow's global economy.

Recommendation:

- Pursue both TPP and TAFTA simultaneously. Conclude negotiations in close succession to gain momentum in international bargaining, reap the benefits of emulation (through setting rules and standards of global applicability), and increase your leverage domestically;

- Start the process to secure Trade Promotion Authority (TPA) early in 2013 by reaching out to Congressional leaders in unison with an aggressive public awareness campaign on the benefits of free trade, led by the White House, which seeks to allay some of the concerns about opening U.S. markets.

- Set October 2013, the time of the next APEC leaders' meeting in Bali, Indonesia, for the conclusion of negotiations. This will provide a focal point for leaders of TPP countries to bridge differences at the negotiating table;
- Launch TAFTA talks as early as possible in 2013 after the U.S.-EU high-level working group makes it recommendations, with the objective of concluding negotiations before the next U.S. midterm elections in 2014.

Background:

Free trade was not a priority in your first administration. It is, however, an indispensable component of a long-term growth strategy to rebound from the 2008-2012 recession. It is also a necessary part of the response to the significant redistribution of power in the international system. The pivot to Asia and to the emerging world in general cannot be based on political and military initiatives alone. It needs to be backed by rejuvenated American leadership in trade and investment.

While the time has come to launch new initiatives in these spheres, the erosion of support for FTAs in Congress and among the public is likely to hamper this effort. Contrast, for example, the fact that Congress continuously renewed fast-track authority between 1975 and 1994, but in the post-NAFTA years it was only extended during the 2002-2007 period. Public skepticism of the value of FTAs is also on the rise, according to polls. It will fall on you, Mr. President, to advocate forcefully for these ambitious agreements.

TPP

The TPP is the most ambitious trade initiative currently under negotiation. In essence, it promises to do what no other FTA has done before: to liberalize without exemptions and to tackle systematically vexing non-tariff barriers by generating trade disciplines in areas such as intellectual property, regulatory convergence, and state-owned enterprises. With the TPP, your administration can shape an Asia-Pacific economic integration platform with the potential to generate substantial economic and political payoffs. According to reliable estimates, a TPP 13 (one that includes Japan and South Korea) would generate annual income gains for the United States in the neighborhood of $78 billion dollars. Furthermore, an expansive TPP can also achieve the important political benefit of disseminating high-quality trade and investment rules through a ratcheting-up effect. Other trade initiatives will then feel compelled to raise their standards to remain competitive (e.g. ASEAN's Regional Economic Partnership) and more countries will seek TPP membership, perhaps even China in the future. Indeed, you should explain to your Chinese counterparts that this is by no means the economic equivalent of a containment strategy; it is rather an enticement strategy that recognizes the benefits of a strong Chinese economy in an interdependent world, and aims to codify best practices on international trade and investment rules that could help China deepen its market reforms.

TAFTA

TAFTA is equally ambitious. If achieved, it would offer the United States and the European Union a new opportunity to define the industrial standards and norms of tomorrow's economy, especially vis-à-vis the Asian giants, rather than competing against one another. EU leaders seem very eager to move forward. American labor and environmental activists will have fewer objections to a deal with Europe than with other regions, given the generally higher standards prevalent there. Tariffs between the two sides of the Atlantic are already low (around 2-3 percent on average), but the scale of the potential payoff makes an investment in this initiative worthwhile. The volume of trade and investment between the United States and Europe is huge – much larger than that with China. The benefits of an agreement for both sides would be substantial if common standards and norms can be adopted and regulations harmonized in crucial sectors like pharmaceuticals, electric cars and cloud computing. Sweden's National Board of Trade predicts that trade of goods and services between the United States and the European Union could jump 20 percent, or more than $200 billion annually, and the American Chamber of Commerce estimates that growth on both sides of the Atlantic could be boosted by 1.5 percent annually.

There are potential obstacles and pitfalls:

- Negotiation failure: TPP nations have not yet overcome differences in important areas of the market access negotiations (e.g. sugar, dairy, textiles) and in the rule codification effort (e.g. intellectual property and the state-investor dispute settlement). In the case of TAFTA, major problems will arise on the EU side concerning agricultural and food standards(e.g. Europe's ban on genetically-modified organisms or the use of artificial growth hormones in beef production). On the U.S. side, there might be problems involving access to public markets by EU firms because American states have legislative authority on this issue and often have "buy American" rules.

- Ratification failure: The lack of TPA, the divisive public debate on the benefits of free trade, and the unprecedented scope of these trade agreements augur at best an arduous ratification fight.
- Parochialism: There is a danger that negotiations on each FTA will yield idiosyncratic rules that fail to generate global standards, and instead compartmentalize the world economy.
- Polarization: Depending on the geopolitical climate, there is the risk that the TPP could antagonize China and polarize the Asia-Pacific region further rather than promote its integration.

Conclusion:

The benefits of these two FTAs make the effort required to secure them worthwhile. Your administration can avoid potential pitfalls with creative solutions and political investments. You should shore up U.S. negotiating credibility by securing TPA, strike the right balance between ambition and flexibility at the negotiating table, advocate global rules and norms, and reassure China of the benefits of a deeper economic relationship based on higher trade and investment standards.

CALMING THE EASTERN SEAS

M E M O R A N D U M

TO: President Obama

FROM: Richard Bush, Bruce Jones, and Jonathan Pollack

DATE: January 17, 2013

BIG BET: Maritime Security: Calming the Eastern Seas

Maritime East Asia is becoming increasingly dangerous. The past 12 months have seen a series of crises and spats in the East China Sea and South China Sea that threaten to spiral out of control. The twin sources of danger are 1) how regional actors conduct maritime operations to assert and/or defend claims to territory and natural resources' rights; and 2) their weak capacity to conduct crisis management under domestic nationalistic pressures. The United States risks becoming entangled in conflicts among countries that are its friends and partners.

Recommendation:

You have the opportunity to mitigate the danger of future physical clashes by mounting a concerted diplomatic effort to encourage the countries concerned jointly to adopt conflict-avoidance mechanisms in the near term and to promote more institutionalized risk-reduction measures in the medium term. This will both serve U.S. interests in avoiding unnecessary entrapment and foster an environment conducive to cooperative exploitation of resources.

This could be pursued both at the regional and international levels. During the Cold War, the United States concluded risk-reduction agreements with the Soviet Union to regulate the interactions of its naval ships and air force planes. There has been recent work by the United Arab Emirates, Australia and India to foster better exchange of lessons, build private and public sector capacity, and share information about crisis-mitigation tools at the international level; diplomatic efforts to build on this could provide useful context to regional efforts and minimize a sense that China is being singled out.

Background:

The United States has long sought to foster an environment in East Asia conducive to peace, stability and prosperity. Yet an intensifying contest for hydrocarbon, mineral and fishery resources among regional actors is destabilizing the maritime domain. For resource reasons, China, Taiwan and Japan each claim the Diaoyu/Senkaku Islands northeast of Taiwan while China, Taiwan and several Southeast Asian countries claim various land forms in the South China Sea. Conflicts have become more intense in recent years because China is acquiring the seaborne capabilities to assert its own claims and challenge those of others. Growing nationalist sentiment in all countries pressures leaders to take strong stands and eschew compromise. Physical clashes have occurred, which have illustrated the weak crisis management capacity of the countries concerned. In this environment, the prospect for mutually-beneficial cooperation in the exploitation of resources is low (international energy companies, for example, are reluctant to undertake major projects in contested areas).

The United States takes no position on which country owns which land form. But Washington has strongly advocated the freedom of navigation for all countries, the peaceful settlement of disputes, and using international law in addressing questions of sovereignty and resource exploitation. China's recent and more assertive behavior in defining and advancing its claims — still non-violent but decidedly coercive — has been contrary to those U.S. interests.

In addition, treaty obligations threaten to entangle the United States in specific ways. The U.S.-Japan mutual security treaty applies to all territories under Japan's administrative control, which includes the Senkaku Islands. According to the long-standing American position, the U.S. mutual defense treaty with the Philippines does not apply to land forms in the South China Sea, but it does apply to "Philippine vessels." At a minimum, these legal commitments create the potential for a "tail wags the dog" situation. In a crisis, they entail the fundamental credibility of the United States to stand by allies.

The proximate source of the current danger is the physical clashes and standoffs between vessels of the claimant countries, which are growing more common. Although none has crossed the threshold of loss of life, that may be only a matter of time. Clashes at any level are not in the U.S. interest, because they force the United States to choose among countries with which it seeks good relations. Trying to mediate the underlying territorial disputes would be a fool's errand, and your administration should not try. Nor should you try to facilitate resource-sharing agreements among the claimant countries as long as the current fevered environment continues.

But the United States has both the need and the opportunity to facilitate a reduction in the probability of physical clashes and the attendant tensions — to the benefit of all. Your administration should continue to counsel restraint among the contenders (China has deservedly become the main target of such demarches). In the near term, it should mount a diplomatic effort to encourage the countries concerned to adopt conflict-avoidance mechanisms jointly. In the medium term, it should promote more institutionalized risk-reduction measures to regulate the operations of their maritime agencies. The United States created such mechanisms with the Soviet Union during the Cold War to regulate interaction at sea and in the skies over Berlin. Current and retired U.S. naval and air force officers are a repository of experience on how to conduct conflict-avoidance and risk-reduction measures. The United States should also explore ways to root these efforts in a global framework, drawing on lessons from the management of the Arctic, which has been something of a good news story for international cooperation in recent years.

At this juncture, Japan is quietly willing to develop a conflict-avoidance/risk-reduction regime for the East China Sea. The ASEAN states are committed to concluding a binding code of conduct with China for the South China Sea for that same purpose. But China has been reluctant and has erected obstacles to a cooperative and stabilizing solution. Beijing has insisted that it will not talk to Japan until Tokyo is prepared to acknowledge that a territorial dispute over the Senkakus exists (Japan is reluctant to do so because it fears that such acknowledgment will be followed by a Chinese demand for negotiations). Concerning the South China Sea, China has used its close ties with Cambodia to delay and deflect any action on a binding code.

Your administration can play a behind-the-scenes role in breaking these logjams. You should start with engaging Beijing's new leader and stressing to them that China should have little interest in suffering the reputational effects of its coercive behavior or the problems that come with a true crisis. Instead, it is in China's interests to step back from these conflicts and focus on what is really important. A conflict-avoidance/risk-reduction regime is a low-cost, face-saving way to do that. Second, as an inducement to China and in return for strongly supporting Japan on such a regime, you should urge Tokyo to bifurcate its position on the Senkakus: retain its *de jure* position that the islands are Japan's (so no dispute exists), but acknowledge that *de facto* other states have their own positions which they are free to present in the course of negotiations on other issues. Concerning a South China Sea code of conduct, you should first firm up support among claimant and other like-minded countries for a code of conduct that is strong enough actually to avoid conflict and reduce risk. Next, with their concurrence, you should suggest to China that if it continues to block a code by splitting ASEAN, the claimant countries and others that support a strong code will, with the support of the United States and others, have no choice but to negotiate with China as a "coalition of the willing."

Conclusion:

The United States has absolutely no interest in going to war to protect the honor of friends and allies over small rocks and islands. Should it become necessary to contend with China to protect U.S. interests in East Asia and to buoy the confidence of American friends, it should be over a more consequential issue. With a modest yet concrete effort, you have the opportunity to reduce the salience and danger of an issue that will only inflict more headaches. Stabilizing the situation in East Asian waters will mitigate the danger of future clashes and also foster an environment in which cooperative exploitation of resources is more likely.

NEW RULES OF WAR

M E M O R A N D U M

TO: President Obama

FROM: Peter W. Singer and Thomas Wright

DATE: January 17, 2013

BIG BET: An Obama Doctrine on New Rules of War

Over the past four years, your administration worked hard to rollback one of the signature weapons of the 20th century, the nuclear bomb, which was one of the reasons why you were awarded the Nobel Peace Prize. Yet during this same period, the United States broke new ground in the use of new and revolutionary military technologies that may well become signature weapons of the 21st century.

There has been a game change in weaponry over the last several years, with a new generation of advanced technology that moves the point of critical human decision, both geographically off the battlefield and also, increasingly, chronologically away from the time of kinetic action. These encompass both physical systems, like unmanned aircraft (a.k.a. "drones"), and a new class of virtual weaponry, malware that can conduct a cyber attack with real world consequences.

The United States has been a leader in driving this revolution. Its military unmanned systems now number more than 8,000 in the air and 12,000 on the ground and are used daily in Afghanistan. The U.S. Cyber Command became operational in 2010 and military spending on cyber operations now measures in the billions of dollars.

At the same time, civilian intelligence agencies are increasingly using these technologies in a series of not-so-covert operations and so-called "secret wars" that have leaked into the press. There have been over 400 drone strikes into places like Pakistan and Yemen. The United States also deployed Stuxnet to sabotage Iranian nuclear development, the world's first known use of a specially designed cyber weapon.

Such weapons seem advanced, but represent just the beginning. Technologies currently under development are far more effective and more autonomous, and capable of operating in a wider set of circumstances. We are at the onset of a decades-long technological revolution in warfare, comparable to the introduction of mechanization and airpower onto the battlefield or the advent of the atomic bomb.

Recommendation:

You now have an opportunity — and perhaps an obligation — to outline a doctrine that lays out criteria by which the United States will develop, deploy and use these weapons. The goal should be to establish a framework for how the United States believes the evolution of these revolutionary new technologies should proceed. The effort to set the terms of the future debate and create a doctrine for guidance should draw upon past lessons from comparable situations and culminate in a major presidential speech.

Background:

These new weapons have become a hallmark of this administration's foreign policy for good reason. They offered new options for action that have proven more accurate and proportionate, and less risky than previously-available alternatives. They have repeatedly been used in successful operations that have saved soldiers' lives, eliminated key terrorist leaders, and offered a much-sought-after third way to deal with Iran's nuclear program.

However, the situation surrounding these once science-fiction, then highly-covert weapons has changed. First, there has been a global proliferation. The United States is leading the way, but many follow. At the end of 2012, 76 other countries have military robotics programs and over 100 have cyberwar capabilities.

Second, the international discourse and debate over them has risen significantly, increasing external pressure on U.S. policy interests. These range from international controversy over the drone strike campaign and the appointment of a U.N. special rapporteur to new NGO campaigns to preemptively ban the next generation of technologies under development.

Finally, after years of silence, the U.S. government has started to make efforts to establish policies and engage in the growing debate. These range from speeches by your aides finally acknowledging the use of such technologies in a counter-terrorism context to lesser noticed working-level documents, such as an attempt to establish the policy for the next, far more autonomous generation. These have been very good starts but they have been disjointed and preliminary. Most importantly, they are missing the stamp of your voice and authority, which is essential to turn tentative first steps into established goals and policy. Much remains to be done, and, more importantly, said out in the open.

What Would the Big Bet Entail?

Armed with a new revolutionary weapon in the 1940s and 1950s, the Truman and Eisenhower administrations engaged in a series of comprehensive reviews to understand better the technology, its best doctrine of use, and likely impact on geopolitics and the direction of U.S. foreign policy. These doctrines were not binding for all time. Nor did they solve all the problems of the nuclear age. But, the efforts proved valuable. Setting nuclear doctrine in public molded the strategic environment for the better, not just against adversaries, but also in relationships with allies. The discussions also helped set the terms of the discussion both internationally and domestically, helping to introduce Congress and the American public to a world of powerful new technology and important new responsibilities.

Today, the United States should embark upon a similar effort around the new generation of weaponry. This endeavor should answer where it stands on the key questions emerging now and soon to become central, including:

- What are the key strategic goals and ethical guidelines that should drive development of these new technologies? Are there any limitations that should be established or areas of the technology that should be preemptively banned?
- Is current international law sufficient to cover the development and use of these new technologies, or are there emerging gaps that should be filled?
- What is the dividing line between the military vs. civilian intelligence agency use of such technologies? What distinguishes a covert action using these technologies from an act of war?
- What is the proper role for Congress vs. the Executive Branch? When is authorization required for the operational deployment of such technologies versus notification? Does the War Powers Resolution apply even in situations where no U.S. personnel are in harm’s way?
- Are there any key criteria for how the U.S. will similarly evaluate other nations’ use of the technology, including by potential adversaries?
- How does the United States plan to coordinate development and use doctrines with major U.S. allies?
- How does the United States ensure that technologies that limit physical risk to the operator do not numb us to the political consequences of their use?

There is a need to be realistic about what is possible. Much as with the early doctrines on nuclear weapons, the answers to these questions will not be set in stone. Rather, the goal is to set out a presidential level vision that will fill today's gaps in the discourse and guide tomorrow's policy.

Accessing the Downside:

There is a counterargument that it is better to say nothing, for fear of tipping off rivals, unilaterally tying U.S. hands, or that no initiative will work unless all other countries sign on, which they won't.

That is a mistake. The less you say, the more that vacuum will be filled by others, in harmful ways. Having already used the technologies, but without proper elucidation, the precedents the United States sets may be exploited. Other states and non-state actors will use these technologies in far more crude and non-discriminatory ways, but claim to be merely following in U.S. footsteps. Finally, the debate will not stop simply because the United States is not part of it. International organizations will push ahead with investigations and propose new treaties, which, while likely ineffective, will nevertheless isolate the United States and drain our soft power. And on the home front, the original foundations of congressional and public support for many of the covert uses of these technologies could erode as the United States moves further away from 9/11. Indeed, the administration recently won a court case to maintain the veil of semi-silence that surrounds the drone strike program, but the judge described continuing the policy of denial as having an "Alice in Wonderland" feel.

Conclusion:

Beginning this discussion is a modest step with no budget costs, but entails a big bet with enormous advantages over the alternative of remaining silent. You would lay out your vision, helping both to guide internal policy development across multiple agencies as well as assuage genuine concerns at home and abroad. Most importantly, the voice of a respected commander in chief, with a strong expertise in the law, would create the foundations of an international norm, allowing the United States to build a large coalition of the like-minded on these issues, making it easier to identify and isolate those who depart from this norm. It will help maintain U.S. influence over the future of these technologies, even as they proliferate and evolve beyond our control.

By speaking out now, you will not just set the terms of the debate but steer it towards more positive ends. It's the kind of effort for which leaders win Nobel Peace Prizes, again.

RIGHT-SIZING DEFENSE CUTS

M E M O R A N D U M

TO: President Obama

FROM: Michael O'Hanlon

DATE: January 17, 2013

BIG BET: Right-Sizing Defense Budget Cuts

Your administration is considering cuts to the defense budget beyond the reductions already imposed by the 2011 provisions of the Budget Control Act. Many politicians and the public alike find it difficult to make sense of the huge numbers tossed around like so many chips in a Las Vegas poker game. In the national debate to date, some assume that immediate cuts will yield huge savings with little risk while others say that no more savings can be made without endangering America's security. You need to frame this debate in a way that relates potential savings to capabilities and advances the nation's understanding of national security in the coming decade.

Recommendation:

You should frame the debate as between two choices for U.S. defense policy. One approach would pursue relatively modest savings from additional efficiencies but stay within the parameters of existing national security strategy. The second approach would change that strategy in important ways, or otherwise seek fairly dramatic changes in how the Department of Defense goes about implementing its global responsibilities. Within that framing, you should argue for the first approach that, while difficult, is worth attempting given the nation's fiscal plight. The risks associated with the second approach would not be worth the benefits.

Background:

The 10-year cuts already mandated from the 2011 Budget Control Act will reduce the budgets of the armed forces by $350 billion. These figures do not include war costs or Veterans Affairs budgets. Sequestration, like the Simpson-Bowles and Rivlin-Domenici deficit reduction commissions of 2010, would cut another $500 billion or so over ten years.

Your administration's current military plan incorporates those assumed cuts from the first round of the Budget Control Act (though not from possible sequestration). It will scale down the military from about 1.5 million active-duty uniformed personnel to its pre-9/11 total of 1.4 million, or two-thirds the Cold War norm. It chips away at modernization programs but preserves most major ones, with one or two notable exceptions. It levels off various forms of military pay and benefits. But most troops will continue to be compensated better than private-sector cohorts of similar age, education, and technical skill. It also holds out ambitious hopes for achieving efficiencies from various unspecified reforms that would save $60 billion over a decade, and makes the optimistic assumption that weapons systems will be delivered at currently projected costs.

Conceptually, your administration's approach is built on time-tested principles of American defense policy, modified only modestly in recent years. The Persian Gulf and Western Pacific remain the two principal theaters of overseas concern – though your administration's "rebalancing" policy seeks to emphasize the broader Middle East somewhat less and the Pacific somewhat more. A two-war capability of sorts is retained, even if two full-scale simultaneous regional operations are assessed as less likely than before, and large-scale stabilization missions are also considered less likely. Of course, these latter assumptions must be tempered by the fact that possible enemies get a say in our decisions too. In the short term, force planning must also account for two specific matters of acute concern: the ongoing operation in Afghanistan, where 68,000 American troops remain, and possible operations in the coming year or two against Iran's nuclear facilities.

The First Approach: Seek Efficiencies, Not Major Cuts:

Against this backdrop, the first approach to achieving further defense cuts might seek additional savings of $100-200 billion over a decade, beyond those now scheduled. Some of those savings might be counterbalanced by higher-than-expected costs in other parts of the Pentagon budget, so the net savings could be less than some hope – an important reality to bear in mind in all discussions of future defense reforms. We may need to cut more forces and weapons just to achieve the budget targets already assumed by existing law and policy. And such cuts would themselves be difficult. Under this approach:

- The size of the active-duty Army and Marine Corps could be reduced modestly below their 1990s levels (to say 450,000 soldiers and 160,000 Marines); current plans are to keep them slightly above those levels.

- Rather than increase its fleet, the Navy could employ innovative approaches like "sea swap," by which some crews are rotated via airplane while ships stay forward deployed longer, to get by with its current 286 ships or even 12-24 less ships.
- The F-35 joint strike fighter, a good plane but an expensive one, would be scaled back by roughly half from its current intended buy of 2,500 airframes.
- Rather than design a new submarine to carry ballistic missiles, the Navy might simply refurbish the existing Trident submarine or reopen that production line.
- Military compensation would be streamlined further as well, despite Congress's recent reluctance to go along with even the modest changes proposed in 2012 by your administration. Stateside commissaries and exchanges might be closed, and military health care premiums increased somewhat more than first proposed. Military pensions might be reformed too, with somewhat lower payments for working-age military retirees having 20 years or more of service, and introduction of a 401k-like plan for those who never reach 20 years (and currently receive nothing). This could be done in a way that would achieve modest net savings.

Another idea in this vein could save substantial sums too, though it would require help from allies and would have to be phased in with time. At present we rely almost exclusively on aircraft carriers, each carrying about 72 aircraft, to have short-range jets in position for possible conflict with Iran in particular. Over the past decade, land-based jets in Saudi Arabia, Kuwait, and Iraq have largely come home. While we occasionally rotate fighter jets through the small states of the Gulf Cooperation Council, and while we maintain command and control and support assets in states like Qatar and the United Arab Emirates, our permanent ashore combat power is very limited. By seeking two or more places to station Air Force combat jets continuously in Gulf Arab states, we could facilitate a reduction of one or two carrier battle groups. (In theory, we could cut the aircraft carrier fleet even more this way, since the Navy currently needs about five carriers in the fleet to sustain one always on station, but the unpredictabilities of such foreign basing would counsel a more hedged approach.) Cutting two carrier battle groups could eventually save up to $15 billion a year.

The Second Approach: Make Major Strategic Changes:

If big cuts, like those proposed by the Simpson-Bowles commission, are to be achieved, the second approach would require what might be called a strategic shift – a more profound reorientation of America's role in the world. It would be an overstatement to say that it would emasculate the country, deprive it of superpower status, or require explicit abandonment of any ally. But it would accept substantially greater risk to our national security.

If the big cuts proved necessary, two of the least debilitating ways to carry them out might be as follows. First, rather than being simply streamlined to sizes slightly below Clinton-era levels, the active-duty Army and Marine Corps might be cut by 25 percent, going much further than your administration now plans. This would likely deprive the nation of the prompt capacity to conduct anything more than one large ground operation at a time.

To make the math work, under this approach the active-duty Army might wind up with 400,000 soldiers, in contrast to more than 500,000 now and to some 475,000 in the Clinton and early Bush years. This would be enough for one major operation, such as the unlikely but not unthinkable contingency of another war in Korea. It would also likely keep the Army large enough to retain its prestige as the world's best ground combat force and to facilitate foreign engagement globally in peacetime. But it would not allow enough capability for that mission as well as an ongoing mission similar to the one in Afghanistan today – or to a substantial role in a future Syria operation, for example – at the same time. It would effectively move ground force planning away from the two-war standard that has, however imperfectly and inexactly, undergirded American military strategy for decades.

The second major change—in military compensation – could be introduced gradually. No one likes to talk about this at a time of war, given the remarkable service of our all-volunteer force. But with war winding down, perhaps this can be rethought, as long as help for wounded veterans and survivors is left untouched, and if entitlement reform in other parts of the federal budget creates a national sense of shared sacrifice. Military compensation, now $25,000 greater per person than at the start of the Bush administration, might be gradually returned towards 2001 levels. At one level, it does not seem dramatic given past pay levels; at another level, it would mean a major risk for a nation that relies on an all-volunteer military to protect its security.

Each idea could save up to $30 billion a year once phased in, generating combined savings above and beyond those in the first approach of perhaps another $300 billion over the next ten years. When added to the savings from the first approach, the levels would then reach the additional $500 billion in defense cuts as required by sequestration or Simpson-Bowles.

Conclusion:

It is time to link possible savings in defense spending to reductions in military capability and associated impact on our national security. Dramatic cuts will necessitate a dramatic change in strategy. Such a change is unwarranted given present conditions in the world today. More modest cuts, while difficult, are justified given the nation's fiscal challenges.

ANOTHER NEW START

MEMORANDUM

TO: President Obama

FROM: Steven Pifer

DATE: January 17, 2013

BIG BET: Nuclear Arms Control: Another New START

New START was one of the key foreign policy achievements of your first term. However, even once it is fully implemented, the United States and Russia will each maintain some 5,000 nuclear weapons, a level that makes little sense 20 years after the end of the Cold War. You have the opportunity – provided that Vladimir Putin is prepared to engage – to enhance U.S. and global security significantly through further reductions in nuclear arms and a cooperative NATO-Russia missile defense arrangement.

Recommendation:

Your administration should build on the New START Treaty and your 2009 Prague vision, pursuing four objectives:

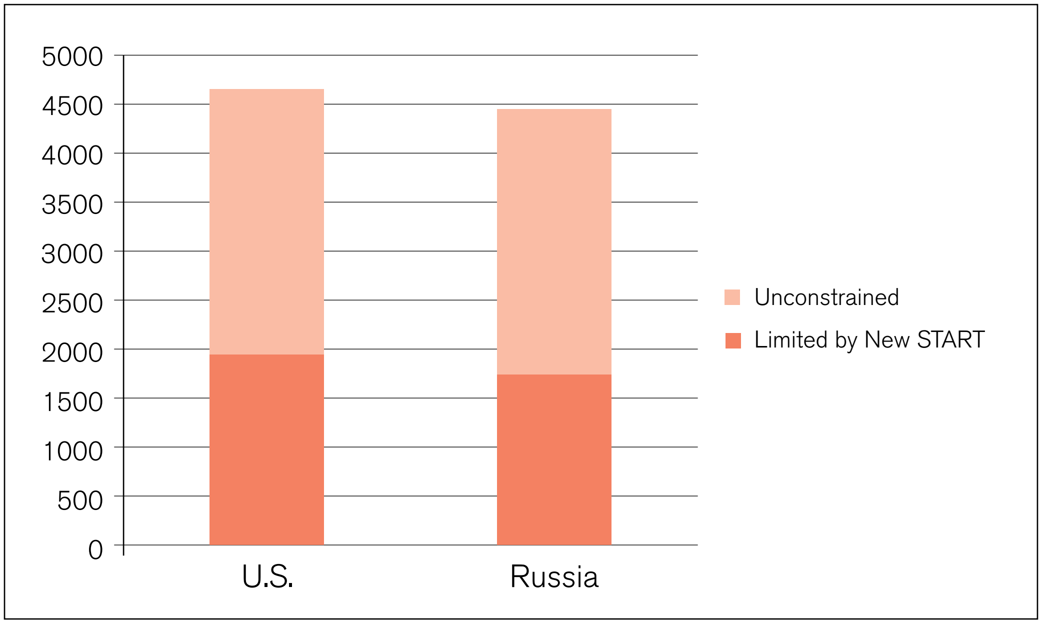
- Conclusion of a new treaty limiting the United States and Russia each to no more than 2,000-2,500 nuclear weapons, with a sublimit of no more than 1,000 deployed strategic warheads.
- Achievement of a NATO-Russia agreement for a cooperative missile defense of Europe.
- Senate ratification of the Comprehensive Nuclear Test Ban Treaty (CTBT).
- Preparing the ground to multilateralize the nuclear arms reductions process.

Background:

Arms control has made some progress over the past four years, though not as much as we would like. New START's implementation is proceeding smoothly, with the treaty's limits scheduled to take full effect in 2018. A cooperative NATO-Russia missile defense arrangement remains stalled over Moscow's demand for a legal guarantee that U.S. missile defenses not be directed against Russian strategic forces. Even if you were prepared to offer such a guarantee, Senate Republicans would not consent to ratification.

They have shown little enthusiasm for arms control generally, as evidenced by the fact that the CTBT remains un-ratified.

NUCLEAR WEAPONS: WHAT DOES NEW START COVER?



Your second-term arms control agenda should have four components: negotiation of a new nuclear arms reduction treaty, missile defense cooperation, ratification of the CTBT, and multilateralization of the nuclear arms reduction process.

1. *A New Treaty.* New START covers only 30 percent of the U.S. nuclear arsenal (deployed strategic warheads). You should seek to engage Moscow in negotiation of a new treaty to cover *all* nuclear warheads — strategic and non-strategic, deployed and non-deployed — with the exception of those in the dismantlement queue (to be dealt with separately). An aggregate limit of 2,000-2,500 warheads would require a 50 percent reduction in the current U.S. and Russian nuclear arsenals. It would be a transformational arms control achievement.

   The aggregate limit would create a mechanism under which the United States could trade a reduction in its numerical advantage in non-deployed (reserve) strategic warheads in return for Russia reducing its advantage in non-strategic (tactical) nuclear warheads. Within an aggregate limit of 2,000-2,500 total warheads, there should be a sublimit of 1,000 deployed strategic warheads, covering the weapons of greatest concern. The sublimit would represent a 35 percent cut from the New START limit of 1,550 deployed strategic warheads.

Such reductions would obviate a need for Russia to build back up to the New START limits. That could lead Moscow to cancel its planned new heavy intercontinental ballistic missile (ICBM), which would pose a threat to U.S. ICBMs in their silos while resulting in a more destabilizing force on the Russian side (large numbers of warheads on a relatively small number of vulnerable launchers).

You should reach out to President Putin directly on this. You should aim to conclude a new treaty in 2015, so that it does not have to face a ratification debate in an election year. While negotiating, you should consider early implementation of the New START limits.

NUCLEAR WARHEAD NUMBERS

	U.S.	Russia
Deployed strategic warheads*	~1950	~1750
Nonstrategic warheads	~500	~2000
Non-deployed (reserve) strategic warheads	**~2200**	**~700**
Total in arsenals**	~4700	~4500

*Estimated actual numbers, not New START Treaty-accountable numbers
**Numbers do not include retired warheads awaiting dismantlement

2. *Missile Defense.* If Moscow drops its demand for a legal guarantee that U.S. missile defenses are not targeted against Russian strategic forces, the way to a cooperative NATO-Russia missile defense would be open. Your administration could build on ideas already discussed by U.S. military experts, such as transparency, joint exercises, and data fusion and planning/operations centers, both of which would be jointly manned.

   You may be able to increase the prospects of a Russian agreement to a cooperative missile defense by offering greater transparency on U.S. programs and plans, including annual declarations and facilitating Russian observation of SM-3 interceptor tests. Your administration should offer the flexibility on U.S. plans, e.g., state that deployment in Europe of the SM-3 Bloc IIB (the interceptor of concern to Russia) could be deferred if Iran is not making progress toward an ICBM capability.

3. *Test Ban.* You should test the possibility of Senate approval of the CTBT. U.S. ratification would encourage others, particularly China, to ratify. A permanent end to nuclear testing would lock in a significant U.S. knowledge advantage.

   Arguments in favor of ratification include the success of the stockpile stewardship program, which provides confidence in the reliability of the U.S. arsenal without testing. Improvements in monitoring mean that explosions in excess of 1 kiloton — and in many areas, including North Korea, in excess of .1 kiloton — would be detected (the bomb that destroyed Hiroshima was in the 10-20 kiloton range).

That said, the current testing moratorium, observed by all states expect North Korea, is preferable to a failed ratification vote in the U.S. Senate. You should press for a vote only if confident that you have a two-thirds majority in hand.

4. *Multilateralization.* At some point, other nuclear states will need to be brought into the nuclear reduction process. Your administration should work with Moscow to prepare the ground for this.

You will want to approach multilateralization gradually, perhaps by building on the discussions already underway among the UN Security Council Permanent Five. It would be desirable to get third countries to assume a “no increase” commitment in connection with the U.S.-Russian treaty described above. (Their agreement to this would be essential if we seek Russian reductions beyond that treaty.)

A new initiative will advance U.S. interests in a number of ways:

- A new agreement could further reduce the strategic threat to the United States and cut non-strategic warheads that threaten U.S. allies in Europe and Asia.

- Further nuclear reductions would mean having to build fewer systems in the future in order to maintain a modern deterrent. That would save defense resources, particularly when you face expensive decisions on a replacement for the Ohio-class ballistic missile submarine, a new bomber and a new ICBM.

- Further U.S. (and Russian) nuclear reductions can bolster the credibility of American diplomacy on nuclear proliferation. While a new treaty will not change minds in North Korea or Iran, it will strengthen your administration’s ability to secure third-country support to increase pressure and sanctions, at a time of growing tension with North Korea and looming crisis with Iran.

- Further progress on arms control can give a positive impulse to the broader U.S.-Russia relationship, helping to move bilateral relations from their current scratchiness toward a sustainable follow-on to the “reset.”

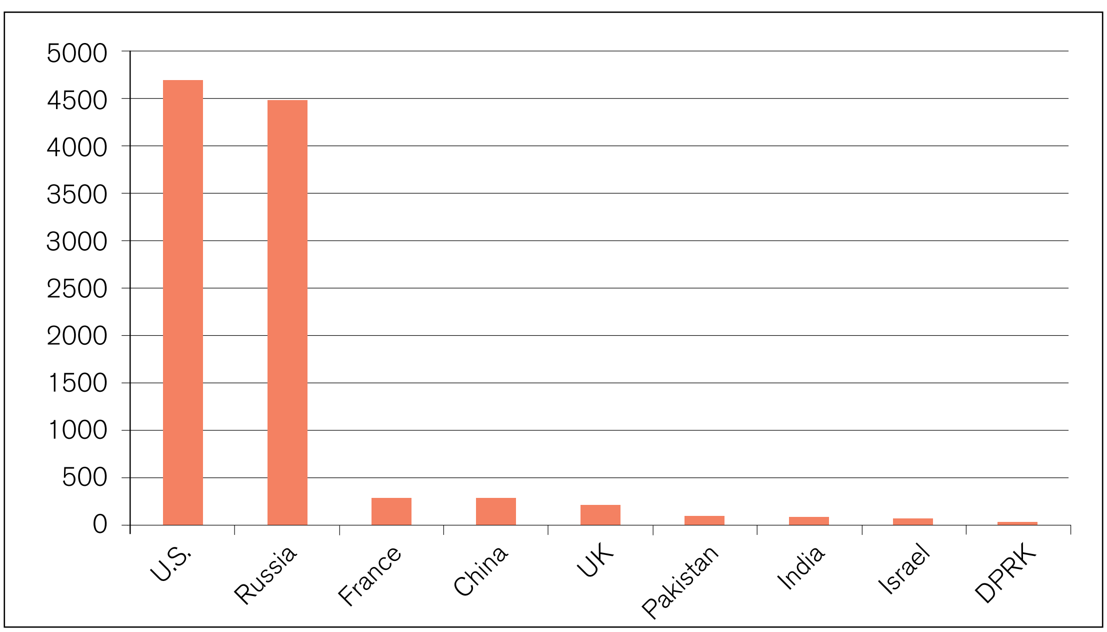
Will President Putin be prepared to deal on further nuclear arms reductions and missile defense cooperation? U.S. advantages in strategic force levels, including in reserve warheads that could be added to the strategic ballistic missile force, give Moscow incentives for a new negotiation. The Russians also likely face budget pressures similar to those confronting the Pentagon. You should raise the new negotiation in your early exchanges with President Putin.

Limiting non-deployed strategic weapons and non-strategic weapons will pose new verification challenges. These are not insurmountable but will require work and creativity.

Attaining a two-thirds vote in favor of ratification for a New START follow-on treaty or CTBT will be difficult, as evidenced by the New START experience in the Senate. The administration — and you personally — will want to engage the Senate early on. While less preferable, if the Senate proves resistant on arms control, you might consider reductions to be made in parallel with reductions by Russia, conducted outside of a formal treaty context.

Third-country nuclear weapons states, particularly China, will resist being drawn into the reduction process as long as U.S. and Russian weapons numbers remain so much larger than theirs. You will have to put this high on your agenda with those countries.

NUCLEAR WEAPONS: U.S., RUSSIA LEVELS VS. THE REST OF THE WORLD



Conclusion:

Achieving this agenda will not be easy. It will require your direct engagement. But it provides an opportunity to cement your legacy on an issue of key importance for U.S. national security and the future global order.

Numbers in charts are drawn from Hans M. Kristensen, "Trimming Nuclear Excess: Options for Further Reductions of U.S. and Russian Nuclear Forces," Federation of American Scientists, December 2012 and Federation of American Scientists, "Status of World Nuclear Forces End-2012."

RE-BETTING ON TURKEY

M E M O R A N D U M

TO: President Obama

FROM: Kemal Kirisci

DATE: Tuesday, February 5, 2013

BIG BET: Re-Betting on Turkey

Turkey is a country that has been a long time ally of the United States with a major stake in the liberal world order. During your first term, you rightly recognized the nation as a Big Bet--paying your first official visit in Europe to Turkey and becoming only the second U.S. president, after Bill Clinton, to address the Turkish Parliament. Turkey was offered a model partnership with the U.S., and great hopes were invested in the relationship. However, reality evolved somewhat differently and a number of Black Swans intervened. The 2010 Turkish vote at the United Nations Security Council against sanctions on Iran accompanied with deteriorating relations with Israel as well as the EU and persistent anti-Americanism among the Turkish public have all led to fears that Turkey is "shifting axis" and being "lost". Yet, this is only part of the picture.

Your *Big Bet* on Turkey fostered the development of a close rapport with Turkish Prime Minister Tayyip Erdogan, and you made the most of this connection by frequently consulting with one another on world and regional affairs. Turkey cooperated closely with the U.S. on Afghanistan as well as in Iraq. Both countries adopted similar approaches towards the Arab Spring even if Erdogan expressed some virulent frustration with the U.S. for not supporting the opposition against the Assad regime in Syria more forcefully and decisively. There were also modest but important gains made in bi-lateral trade that had constantly been falling in relative terms since the end of the Cold War. This was coupled with field oriented pragmatic cooperation to assist reform in the Arab and Muslim world.

Recommendation:

Clearly, much more could have been achieved and highlighting a more ambitious agenda for U.S.-Turkish relations for your administration is critical. Turkey itself is still a *Big Bet* if the global liberal order in Turkey's neighborhood and Turkey's own membership to that order is going to be ensured. That would also help keep the multitude of Black Swans from getting in the way of realizing the grander Big Bets or for that matter Turkey itself becoming a Black Swan.

The time to double-down on Turkey is especially ripe, and a delay could be costly. As Turkish President Abdullah Gul reaffirmed in the January-February issue of *Foreign Affairs*, "from a values point of view we are with the West". This opportunity coincides with a time when there are increasing signals from Turkey to reinvest into its relations with the West.

Background:

It is often forgotten that Turkey was a participant in the making of the global liberal order at the end of the Second World War, albeit of course a very junior one. Yet, it was this experience that set Turkey on the unusually long path of becoming a multi-party democracy with a liberal market economy. Indeed Turkey's transformation was a slow and painfully one with lots of ups and downs. All U.S. administrations from Harry Truman onwards played a role in this process but the most critical one was probably the Clinton administrations. They played a particularly central role in nudging Turkish democracy and economy a little closer to European standards and helped Turkey first to sign a customs union with the EU in 1995 and then eventually become a candidate country for EU membership in 1999 followed by the beginning of accession negotiations. These policies were Big Bets that handsomely paid off. Both President George W. Bush in 2004 like his successor in 2009 recognized Turkey's economic and democratic success and hoped that Turkey could set an example for its neighborhood, particularly for the Arab and Muslim worlds.

Actually, some of their hopes can be said to be materializing. Turkey has both economically and politically become deeply integrated with its neighborhood. Turkey's Gross Domestic Product in 2011 was greater than all of its surrounding eleven neighbors economies put together excluding Iran and Russia. This economy is increasingly becoming an engine of growth for these neighboring countries even if modestly. Turkey's trade with these countries increased from 10 percent of Turkey's overall foreign trade in 1991 to 22 percent in 2011 while its trade with the EU and the U.S. has dropped from 50 and 9 percent to 41 and 5 percent respectively. An ever growing number of Turkish companies are investing in most of these countries while Turkey is fast becoming an immigration country and a source of remittances for labor migrants of the region. This kind of economic engagement is having a transformative impact and helping to integrate this neighborhood into the global markets. Turkish government and civil society are also modestly involved in projects and programs assisting political transition and reform. However, Turkey's both economic and democracy gains remain fragile. Turkey runs an important current accounts deficit and needs to raise its savings levels as well as research and development budgets.

The Arab Spring has adversely affected its trade and economic relations with the Middle East. There are also growing concerns about an erosion of the democratic gains achieved in the recent past particularly with respect to freedom of expression and rule of law. The Kurdish question still constitutes a major challenge to long term domestic stability. The constitutional reform process appears to be stuck too.

Conclusion:

At a time when Turkey's neighborhood is filled with vital challenges, it is of paramount importance that your second administration recognizes the importance of securing Turkey's commitment to the global liberal order and its potential bearing on the America's capacity to realize regional foreign policy objectives. There are many ways in which this could be achieved, but the most effective one may well arise from associating Turkey with negotiating a Transatlantic Free Trade Area (TAFTA). This is critical because the free trade agreements that the EU signs with third parties have long been a major source of resentment and grievances for Turkey. This is because the customs union requires that Turkey take on all the obligations associated with such agreements without binding third parties to extend any trade privileges to Turkey. So far the EU has not been very responsive to Turkish calls to rectify this situation.

The U.S. is uniquely positioned to help. Seating Turkey at the negotiating table for TAFTA would be unrealistic. However, the U.S. could convince the EU to at least involve Turkey in a consultation process and ensure that as Turkey opens up its markets to the U.S. Turkish businesses can also enjoy better access to U.S. markets. The logic behind why this would be an effective *Big Bet* is quite straight forward. The more Turkey can participate in TAFTA, the more its economy would grow. The more it grows, the more it can import U.S. as well as EU goods and services. Furthermore, the more Turkey's liberal market grows, the greater the demands for the consolidation of democracy and the rule of law in Turkey. In turn, with an economy equaling the 6th largest in the EU and 15th largest in the world, Turkey's economic force would benefit the neighborhood as well. In this way not only would Turkey be tied to the liberal global order, but it would also become an even more effective conduit for disseminating liberal economic and democratic values to a neighborhood still struggling to transition from the legacy of command economies and authoritarian political systems.

CHINA IN REVOLUTION AND WAR

M E M O R A N D U M

TO: President Obama

FROM: Cheng Li

DATE: January 17, 2013

BLACK SWAN: China in Revolution and War

China poses a major policy challenge to the United States largely because of the unpredictable trajectory of both its domestic transformation and foreign relations. While there has been much attention paid to China's rapid economic rise and growing international clout, two other scenarios have been overlooked: domestic revolution and foreign war. There are many serious problems in China that could trigger a major crisis, including slowing economic growth, widespread social unrest, rampant official corruption, vicious elite infighting, and heightened Chinese nationalism in the wake of escalated tensions over territorial disputes with Japan and some Southeast Asian countries. This suggests that your administration should not easily dismiss the possibility that revolution or war might occur. Either event would be very disruptive, severely impairing global economic development and regional security in the Asia-Pacific; a combination of the two would constitute one of the most complicated foreign policy problems of your second term.

Recommendation:

The best way to prepare in advance for either likelihood is for this White House to cultivate a deeper relationship with Xi Jinping and his new leadership team, maximizing cooperation in various areas. In establishing a constructive relationship with the new Chinese leadership, the United States should be fully aware not only of the daunting challenges that Xi and the Chinese Communist Party (CCP) confront on both domestic and international fronts, but also the uncertain nature of Xi's policy trajectory and of Chinese public opinion about the new Party boss.

There are two particularly undesirable outcomes. One is a situation in which the vast majority of the Chinese public becomes both anti-CCP leadership and anti-American. The other is a situation in which Xi derives his popularity from a strong endorsement of Chinese militarism.

To avert the first you should, while engaging with the Chinese leadership, more explicitly articulate to the Chinese people both the longstanding goodwill that the United States has towards China and America's firm commitment to democracy, human rights, media freedom, and the rule of law, which the United States believes are fundamental to the long-term stability of any country.

To decrease the likelihood of the second — a conflict in the region that could involve the United States directly — you should more consistently exert American influence on U.S. allies or partners (including China) in the Asia-Pacific region to prevent the use of force by any party. Simultaneously, promoting military-to-military ties with the new PLA leadership should be a top priority.

Background:

China in Revolution: Anti-CCP, Anti-America

The scenario of abrupt bottom-up revolution occurring in China has recently generated much debate within that country. One of the most popular books in elite circles today is the Chinese translation of Alexis de Tocqueville's 1856 classic *The Old Regime and the Revolution*. Senior leaders of the CCP (most noticeably Premier-designate Li Keqiang and new member of the Politburo Standing Committee Wang Qishan) were reported to have strongly recommended that officials read the book. In speeches given after becoming Party General Secretary, Xi warned that the Party could collapse if the leadership failed to seize the opportunity to reform and improve governance.

The fear and anxiety on the part of the CCP leadership seem well grounded given the daunting challenges the Party confronts:

- China's GDP growth target of 7.5 percent for 2012 was the lowest since 1990 (in the aftermath of the Tiananmen incident). This downturn is not only the result of flagging exports in the wake of the Eurozone crisis, but also the country's own political bottlenecks. This slowdown will, in turn, further reveal flaws in the Chinese authoritarian system and thus could become a trigger for political crises.

- Economic inequality is increasing substantially. The Gini coefficient rose to 0.47 in 2009 and then to 0.61 in 2010, far exceeding the 0.44 threshold generally thought to indicate potential for social destabilization.

- China's official data reveal that there are roughly 180,000 mass protests annually, or about 500 incidents per day. According to the Chinese official media, these protests have become increasingly violent in recent years, especially in ethnic minority regions.

- Corruption is out of control. The latest report by Washington-based Global Financial Integrity (GFI) shows that cumulative illicit financial flows from China (primarily by corrupt officials) totaled a massive $3.8 trillion from 2000 to 2011.

These problems have generated even more public resentment due to the unprecedented predominance of "princelings" in power – leaders who come from families of high-ranking officials. Four of the seven Politburo Standing Committee members, including Xi Jinping, are princelings. Large numbers of prominent Party leaders and their families have used their political power to convert state assets into private wealth; this includes transfers to family relatives who live, work, or study in the United States and other Western countries. The dominance of princelings in the new leadership is not only undermining elite cohesion and the factional balance of power, but is also generating cynicism among the Chinese public regarding any promises on the part of the leadership to tackle corruption. Furthermore, it may add ammunition to the sensational accusation that the United States provides a haven for corrupt CCP officials.

China in War: The Rise of Chinese Militarism under Xi

From the Chinese perspective, the first scenario of domestic revolution could result from a failure of the Xi Jinping leadership to adopt effective political reforms to prevent crisis; the second scenario –that of China in war – may be considered one possible "successful" attempt by Xi to consolidate power. This does not necessarily mean that the Chinese leadership intends to distract domestic tensions with an international conflict; contemporary Chinese history shows that the practice of trying to distract the public from domestic problems by playing up foreign conflicts has often ended in regime change. Yet Xi may be cornered into taking a confrontational approach to foreign policy in order to deflect criticism of his own strong foreign connections.

You need to be alert for warning signs that might point in this direction, especially the increasing anti-American rhetoric in both the Chinese official media and in diplomatic channels. Xi can be quite assertive in his approach to the United States. This was evident during his visit to Mexico in 2009 when he criticized what he termed the "bored foreigners, with full stomachs, who have nothing better to do than point fingers at China."

Even more importantly, your administration needs to pay attention to the emergence of militarism among some military officers, especially the princelings within the PLA. Chinese analysts have observed that these military princelings are interested in bolstering the military's power in the upcoming Xi era. Such a move would have the potential to increase the risk of both military interference in domestic politics and military conflicts in foreign relations.

Conclusion:

It is not in U.S. interest to see China's transition to a constitutional democracy proceed in a manner overwhelmingly destructive to China's social stability or its peaceful relations with any of its neighboring countries, which would risk leading the United States into war. Clarifying to the Chinese public that the United States neither aims to contain China nor is oblivious to their national and historical sentiment would help reduce anxiety and possible hostility across the Pacific. Second, enhanced contact between U.S. and Chinese civilian and military policymakers can help us better understand the decision-making processes and domestic dynamics within China. It can also aid us in heading off a regional conflict. Finally, when done within a broader strategy with all U.S. allies and neighbors in the region, it could reassure China that the United States is not only firmly committed to its regional security framework in the Asia-Pacific, but also genuinely interested in finding a broadly acceptable solution to the various disputes.

EUROZONED OUT

M E M O R A N D U M

TO: President Obama

FROM: Justin Vaïsse and Thomas Wright

DATE: January 17, 2013

BLACK SWAN: Eurozoned Out

The Eurocrisis has been ongoing for three years and the European Union is beginning to get its act together to build a sustainable monetary union. But, the euro is not out of the woods yet. Real dangers remain. The underlying causes of the crisis have not been addressed. The politics are pulling in a different direction from that required for a solution. Populations on the periphery are suffering from austerity measures and see no end in sight. Those in the so-called core (Germany, Northern Europe) feel exploited. The Eurozone is building new structures but they may not be sufficient to protect it against a future major crisis.

As long as an optimal solution remains elusive, the risks of failure will remain. If failure occurs, it could be devastating to the U.S. economy, surpassing the crisis of 2008. Some estimates project that the collapse of the euro would cause an immediate 10 percent loss of GDP for the global economy, with unemployment in the European Union reaching 20 percent and spiraling inflation on the EU's periphery. The United States and European Union are the two largest economies in the world and they are inextricably linked with each other through trade, foreign direct investment (FDI), and financial markets. For instance, 50 percent of U.S. FDI abroad goes to the European Union while 62 percent of FDI into the United States originates in the European Union. The rest of the world would also be adversely affected, particularly the Middle East and China, the world's second largest national economy, both of which require robust growth to maintain domestic political stability.

A secondary but related danger is that the construction of a new Eurozone could lead to the fracturing of the European Union through a British withdrawal. The United Kingdom is extremely concerned that further integration in the Eurozone will damage its interests as an E.U. member. Public opinion also favors a renegotiation of the United Kingdom's terms of membership even though such a renegotiation would be strewn with difficulty and would likely fail. In this scenario, the Eurocrisis would remove America's most reliable European ally from the EU and lead to a weakening of Europe's capacity to act as a coherent unit in world affairs.

Recommendation:

The United States can neither compel the Eurozone to adopt particular structures nor do much to protect the Eurozone from a political backlash in austerity-stricken countries. However, the United States can perform an important service in two respects. You should task your administration with analyzing the risks associated with the EU's plans for financial and fiscal integration and share these assessments in confidence with the EU's leaders. If necessary, senior administration officials could go public to shape opinion in the financial markets and in European states. In the 1990s, Europeans built a flawed monetary union. Eurozone 2.0 may have new structural weaknesses that will be exposed by the next crisis, whenever that occurs. These weaknesses will undoubtedly be the result of political constraints in the member states. The United States has an important role in raising awareness of these risks so Eurozone 2.0 is as effective and robust as possible.

Second, you should take a position opposing the withdrawal of the United Kingdom from the European Union. The United States can work with the United Kingdom and other members of the European Union to head off this possibility. Most importantly, the United States should emphasize the importance it places on having the United Kingdom inside the European Union, acting as a transatlantic bridge and strengthening Europe's voice in world affairs. You should avoid any statements or policies that lead Britons to believe that an exit would result in a closer relationship with the United States that would offset any loss in influence. You should also consult closely with your European counterparts to ensure that the appropriate steps are taken to encourage the United Kingdom to remain a full member of the European Union.

If the black swan of a collapse of the Eurozone does occur, the risk of contagion in the global economy will be extremely high and it will be necessary to return to full crisis mode, as experienced in the fall of 2008, to do what is necessary to protect the financial system. This will be even more difficult than after the fall of Lehman Brothers because the collapse of the euro would create a shock of much greater scale and because the U.S. Congress may be reluctant to help foreign governments, even though it would be necessary to protect the U.S. financial system. Nevertheless, it will be your only viable option.

Background:

To understand the risks of a Eurozone collapse in the next four years, it is necessary to distinguish between the first phase of the crisis that concluded in 2012 and the second phase that has just begun. In the first phase, European governments had to decide whether to keep the euro intact or not. The key question amid market turbulence was whether the Eurozone would construct the mechanisms necessary to keep the periphery four (P4) – Greece, Ireland, Portugal, and Spain – inside the single currency. These mechanisms were expensive and politically difficult. But, this is exactly what the Eurozone decided to do. With bailout mechanisms like the European Stability Mechanism and the Stability Treaty and bold action by the European Central Bank under the leadership of Mario Draghi, the Eurozone mitigated the most destabilizing elements of the crisis. This happened for a simple reason—every leader calculated that the risks of a fragmentation of the Eurozone massively outweighed any benefits.

The second phase of the crisis is different. The question of whether EU leaders want the Euro to remain intact has been settled. But, they now face two crucial challenges. First is the danger that political and economic accidents related to the current crisis will threaten the survival of the Euro. It will take some time to build a new Eurozone. During this period, much of the European Union will be in recession or experience stagnation. Member states will disagree strongly about the future course of action. Elections are likely to be fought on these issues and they could bring to power radical parties with rejectionist policies. The result may be a political crisis that leads to an inadvertent fracturing of the Eurozone followed by contagion and a disorderly collapse.

The issue of UK membership is a related component of this first challenge. Although it is not in the Eurozone, the United Kingdom feels threatened by further European integration. Both of the U.K.'s leading parties, the Conservatives and Labour, appear on track to offer the British people an in-or-out referendum, following an attempt to renegotiate the UK's terms of membership.

The second challenge is that the Eurozone's new structures may be insufficient to cope with a future crisis. European integration is the art of what is politically possible. But economies are not rewarded for trying hard. Their institutions need to function effectively under conditions of extreme duress. Monetary union without fiscal union was justified as the best that could be done given the political constraints and we know where that led. New structures bring new risk of design flaws, particularly in banking union, but also with respect to the perceived legitimacy of European institutions. A lack of democracy and accountability could lead to a political crisis down the road, especially if parts of the Eurozone are stagnant.

Conclusion:

A healthy global economy is a core interest of the United States. A stable and prosperous European economy is integral to that interest. For three years now, you have lived with the possibility that the collapse of the Eurozone could wreak havoc with the U.S. economy. You have also had to live with the fact that the United States has few options and no silver bullets. Quiet diplomacy and support has been your hallmark and it has been reasonably effective. You should not radically depart from this path but you should ensure it evolves to cope with the second phase of the crisis as outlined above. You should direct your administration to identify the potential vulnerabilities of reform proposals and to work with European governments, and others if necessary (public diplomacy aimed at the markets, multilateral efforts through the G-20), to prevent new failures of design. You should also use American influence to ensure that the United Kingdom remains within the European Union. These actions will reduce the probability of a black swan in Europe.

CONFRONTATION OVER KOREA

M E M O R A N D U M

TO: President Obama

FROM: Jonathan Pollack

DATE: January 17, 2013

BLACK SWAN: Confrontation Over Korea

There is a serious risk of an acute U.S.-China confrontation or even a direct military conflict over Korea. Neither Washington nor Beijing seek this kind of conflict, but North Korea's severe internal crisis has impelled the United States and China to prepare to intervene in the North, both to protect their respective vital interests and to forestall larger risks to the peace. Pyongyang has a long record of lashing out at neighboring states (especially our South Korean ally) to warn outside powers against any possible intervention in its internal affairs. But this threat now encompasses the potential use of nuclear weapons. Any possible nuclear use by North Korea, even if undertaken within its own borders, represents an acute danger to the region as a whole. If Washington and Beijing fail to coordinate and communicate, we could face the possibility of a U.S.-China confrontation almost unimaginable in its consequences.

Recommendation:

To reduce the risks of a confrontation with China over North Korea, you should instruct your administration to pursue four objectives with Beijing:

1. For both sides to disclose information on the location, operation and capabilities of each other's military forces that could rapidly intervene in North Korea;
2. To share intelligence on the known or suspected locations of North Korea's WMD assets, especially its nuclear weapons and fissile material holdings;
3. To initiate planning for the evacuation of foreign citizens in South Korea; and
4. To discuss possible measures to avoid an acute humanitarian disaster among North Korean citizens seeking to flee their country.

Background:

The immediate need for the United States and China is to discuss North Korea and control the risks of conflict well beyond what the U.S. has attempted with Beijing in the past. In addition, we need to cooperate to mitigate the potential dangers to American and Chinese citizens living or working in the Republic of Korea (ROK) and to reduce the risks of a direct clash between U.S. and Chinese forces to as close to zero as possible. This will require discussions on military deployments and operations unprecedented in their scope and candor. South Korea must also be part of this conversation.

Despite repeated incidents and potential crises over the decades, the U.S. has been able to maintain an uneasy, heavily-armed peace on the peninsula. In 1972, President Nixon reminded Premier Zhou Enlai that the United States and China fought once in Korea, and that both countries must ensure that this never happens again.

However, deterrence no longer suffices to constrain Pyongyang. North Korea's citizens are now fleeing in large numbers across the 38th Parallel and into China, and the regime's very survival is at stake. The internal crisis means that the North Korean leadership is prepared to do whatever it deems necessary to prevent a final meltdown of the regime. Since the 1990s, the U.S. has sought to open a serious conversation with Beijing about the possibility of a major crisis on the peninsula, but China's leaders (perhaps to avoid offending leaders in Pyongyang or perhaps out of deep suspicions of American intentions) have repeatedly refused to enter into such discussions. But the long-feared crisis is at hand. Unless Washington and Beijing are prepared to discuss these issues directly, the prospect of a second Sino-American confrontation on the peninsula becomes a distinct possibility.

The United States presently has 28,500 active duty personnel deployed in South Korea, and can surge another several hundred thousand personnel onto the peninsula in the event of a major military contingency. Beginning in the late 1990s, the United States and the ROK began to augment long-standing war plans embodied in variants of OPPLAN 5027 with additional planning for abrupt internal change in the North, now addressed under OPPLAN 5029. Until now, Washington and Seoul have tried to secure the borders of the North in an effort to stem any massive flows of North Korean citizens across the demilitarized zone (DMZ). China has undertaken comparable steps to seal its much more porous border with the North. But the current crisis threatens to overwhelm both sides, and Beijing appears alarmed by evidence of the northward redeployment of U.S. and ROK forces. The risks of misperception and miscalculation have increased greatly. American moves are not intended to pose threats to China, but to address the mounting risks of instability in North Korea spilling outward. The U.S.

should communicate this fully and openly with China, simultaneously seeking clarification of Chinese plans and intentions.

The safety and security of North Korea's WMD assets are the uppermost concern of the United States. The command and control arrangements in North Korea are under increasing stress, and it is no longer clear that the central authorities retain full control over the operation of all military units. Any loss of control could create incalculable risks to both the United States and China. It is imperative that you undertake urgent consultations with Beijing to ensure that neither the U.S. nor China misconstrues the other's actions and plans. Equally important, the United States, China, and Russia have shared interests as nuclear weapon states to prevent any leakage of nuclear materials, technology or completed weapons beyond North Korea's borders. At the same time, you should convey to Beijing that it must unambiguously warn Pyongyang of the potential consequences of any nuclear use or threatened nuclear use. North Korea's testing of nuclear weapons is a major worry under all circumstances, but to undertake a test under crisis conditions represents an intolerable risk.

Threats to the lives and well-being of foreign citizens in the ROK also warrants urgent consultation and expanded cooperation between the United States and China. According to South Korean government data, there are 1.4 million foreigners in the country at present. These include 130,000 American citizens as well as nearly 30,000 in-country military personnel. Nearly half of the foreigners residing in South Korea (670,000) are from China. The upheavals since the Arab spring have sobered leaders in Beijing to unanticipated risks to Chinese citizens living abroad. The scale of the crisis unfolding in China's backyard is altering the calculus of Chinese officials. Equally important, China has major capabilities for evacuating foreign nationals. There are now 200 flights a day between cities in South Korea and cities in China, as well as ferries that regularly traverse the Yellow Sea and the Bohai Gulf. These create possibilities to mitigate the potential risks to foreign nationals – Chinese, American, and others - that will be incalculably less effective in the absence of active cooperation with China.

Finally, the humanitarian needs cannot be ignored. China has long conveyed strong opposition to the responsibility to protect (R2P), but R2P in the context of acute instability in North Korea should concentrate the minds of leaders in Beijing. This will be as much China's problem as it will be for any other state. Though the U.S. should not hesitate to bring this issue to the United Nations, there is every reason for private consultations with Beijing, ideally led by the ROK. Seoul will bear a disproportionate burden for dealing with the aftermath of the crisis. But Chinese interests are also deeply engaged. It cannot stand in the way of managing the consequences.

Conclusion:

For more than two decades, the United States and South Korea have tried to address the implications of instability in North Korea, all the while as China has sought to maintain an arm's length posture and preserve North Korea's existence as a separate state. But the unraveling of the North is no longer a hypothetical possibility. The United States and China have a compelling shared interest that the immediate crisis not morph into something far worse, and this must be your bottom-line message to leaders in Beijing.

CHAOS IN KABUL

M E M O R A N D U M

TO: President Obama

FROM: Vanda Felbab-Brown

DATE: January 17, 2013

BLACK SWAN: Chaos in Kabul

As the 2014 transition to a radically diminished U.S. presence and mission in Afghanistan approaches, it is likely to leave in its wake a perilous security situation, a political system few Afghans see as legitimate, and a likely severe economic downturn. Although a serious security deterioration, including the possibility of a civil war that many Afghans fear, is far from inevitable, it is a real possibility. Such a security meltdown would severely compromise American ability to prosecute U.S. interests in the region, leaving the United States with few policy options.

Recommendations:

Even though U.S. leverage in Afghanistan diminishes daily, U.S. decisions still critically affect Afghanistan's future. The United States can still take important steps to minimize the chances of a critical security meltdown in Afghanistan after 2014:

- Withdrawing in an orderly fashion at a judicious pace that does not step ahead of Afghanistan's security capacities;
- Continuing to provide security assistance, such as training, combat support, and specialty enablers after 2014, and restraining the splintering of the Afghan National Army;
- Defining negotiations with the Taliban as a broader societal reconciliation process that entangles equally the Taliban and the Afghan government in rule-of-law constraints and pluralistic processes, rather than as close-to-the-vest powerbroker bargaining and a fig leaf for U.S. departure;
- Elevating the emphasis on good governance on par with security, supporting political reformers, and not consistently compromising good governance for the sake of short-term military exigencies — without greater legitimacy for the Afghan government, there is little chance for stability in Afghanistan;

- Avoiding a premature embrace of abusive Afghan powerbrokers, many of whom are currently favored by the United States – the United States may have to rely on them eventually to help protect U.S. interests including counterterrorism operations, but that does not mean that it should embrace them today.

Background:

In the military surge areas of Helmand and Kandahar, there have been palpable security gains. How robust they are remains to be seen. In the east, where the Haqqanis operate close to Pakistani safe-havens, the war is stalemated. Parts of the north, such as Balkh, are very stable, but bitter ethnic tensions are brewing in Kunduz and Baghlan and elsewhere in Afghanistan. The Afghan National Security Forces (ANSF) have improved, but cannot yet function without international enablers. Patronage networks pervade the ANSF, and a crucial question is whether the forces will splinter along ethnic and patronage lines post-2014.

Since 2009, U.S. aid has flooded into Helmand and Kandahar but instead of bringing sustainable development, it distorted local economies and triggered contestation over the spoils. Turning off this spigot is no loss. But U.S. departure will produce a massive economic constriction in Afghanistan.

Corruption, serious crime, land theft and other usurpation of resources, nepotism, a lack of rule of law, and exclusionary patronage networks permeate Afghanistan's current political dispensation. Afghans crave accountability and justice and resent the current mafia-like rule. Improved human security plus leadership accountability are their unfulfilled aspirations. Whether the 2014 elections will usher in better governance or trigger violent conflict is another huge question mark.

U.S. Interests after 2014:

The United States will continue to have important interests in Afghanistan's stability, including countering terrorism. The Taliban may have soured on al Qaeda, but a full break with al Qaeda generates costs – with respect to maintaining internal unity and provoking attacks by the now-betrayed salafi brethren. Whether the Haqqanis would obey the Taliban or pick al Qaeda is also a question mark. Should the Taliban, through fighting or a negotiated deal, come to control parts of Afghanistan, at best the Taliban will attempt to appease both the salafists and the United States.

Prosecuting U.S. counterterrorism interests from the air depends on local bases and human intelligence. Many powerbrokers and informants cultivated by the United States will have an incentive to hedge and minimize intelligence flows to those serving their, not necessarily U.S., interests.

Should a Pakistani nuclear weapon or some fissile material be acquired by a terrorist group, a usable Afghan military base would be highly advantageous for the U.S. ability to recover them.

An unstable Afghanistan will be like an ulcer bleeding into Pakistan. It will further distract Pakistan's leaders from tackling the country's internal security, economic, energy, and social crises, and the radicalization of Pakistani society. These trends adversely affect U.S. interests.

An unstable Afghanistan will also worsen overall security in the broader region, destabilizing Central Asia as well. Iran, Russia, India, Pakistan, the Central Asian countries, and perhaps even China will be at least indirectly drawn into the Afghanistan conflict and cultivate proxies.

Scenarios of a Security Meltdown and U.S. Policy Options:

A major security collapse in Afghanistan will in the initial phases likely resemble the early 1990s pattern of localized and fragmented ethnic and local-powerbroker infighting with pockets of stability, rather than the late 1990s when a Taliban-advancing line of control moved steadily north. The extent of violence and fragmentation will depend on whether the ANSF, particularly the Afghan Army, splinters. Even then, a rump ANSF and the Afghan government may have enough strength to hold Kabul, major cities, and other parts of Afghanistan. The Taliban will control parts of the south and east. Elsewhere infighting may be among members of a resurrected Northern Alliance or among Durrani Pashtun powerbrokers. But ethnic fighting may eventually explode even on the streets of Kabul where Pashtuns harbor resentments about the post-2001 influx of Tajiks that changed land distribution in the capital.

Options available to protect U.S. interests will depend on whether a U.S.-Afghan Status-of-Forces agreement (SOFA) has been signed and the United States has military forces and bases in Afghanistan. In the absence of a SOFA and bases, the United States will be dependent on indirectly supporting selected warlords.

If the United States retains bases and forces in Afghanistan, you will face the following choices:

- Should the United States fly sorties and for what purposes? Against al-Qaeda only or more broadly against the Taliban? Should the United States extend assistance to the Afghan government? Any attacks on U.S. bases will generate pressures for either U.S. ground operations or a full troop withdrawal from Afghanistan.

- Should the United States support certain battlefield objectives — for example, avoiding the fall of Kabul or supporting a de-facto partition of Afghanistan north of Kabul? Through what military means — the use of air power only or special operations forces assistance, or other ground-combat support as well?

- Assuming the most important U.S. interest in the region is that Pakistan's nuclear capabilities are not acquired by a salafi group, and that having a land reach into Pakistan is important, could Afghan authorities ever consent to the United States having access to Afghan bases only for strikes into Pakistan? Pakistan would of course do all it could to subvert any such arrangement.

Regardless of whether the United States retains bases and directly engages in Afghanistan's conflict or not, it will also face the following policy questions:

- How should the United States react to any effort by Northern Alliance members to provide safe havens to Baluchi insurgents to retaliate for Pakistan's support for the Taliban? Pakistan will be determined to ensure that the northerners cannot complicate Pakistan's security interests and Taliban control in southern Afghanistan. If Pakistan intensifies its support for the Taliban and the United States seeks to limit the Taliban's control, U.S.-Pakistan military encounters could increase.

- Should the United States acquiesce in or encourage greater Indian security involvement in Afghanistan to minimize Taliban and salafi presence? Pakistan will see such Indian presence as extremely threatening, a development complicating U.S.-Pakistan relations.

Conclusion:

A direct U.S. military engagement, even if limited to air strikes or special forces operations, will entangle the United States in prolonged conflict that, at best, may disrupt al Qaeda presence or Taliban control. Maintaining domestic support for such a U.S. role will be difficult. None of the direct limited or indirect engagement policy alternatives will easily result in stable territorial boundaries and an end to the conflict. U.S. ability to secure its interests would be decidedly poor. Doing all your administration can before 2014 to strengthen Afghanistan's security and the legitimacy of the Afghan government to avert a major meltdown is by far the best policy.

REVOLUTION IN RIYADH

M E M O R A N D U M

TO: President Obama

FROM: Bruce Riedel

DATE: January 17, 2013

BLACK SWAN: Revolution in Riyadh

Saudi Arabia is the world's last absolute monarchy. Like Louis XIV, King Abdallah has complete authority. A revolution in Saudi Arabia remains unlikely but, for the first time, due to the Arab Awakenings, it has become possible. The Saudi royal family has unique strengths and legitimacy; the Kingdom was founded in the 18^{th} century as an alliance between the royal family and an austere Islamic preacher whose followers still partner with the House of Saud to govern the state. Almost alone in the Islamic world it was never conquered by European imperialism. The King is the Custodian of Islam's two holiest cities. And it has the world's largest oil company and the world's largest oil reserves. This combination of religious piety and vast revenues has so far been sufficient to stave off the kind of unrest that has shaken much of the Arab world in recent years.

Nevertheless, revolutionary change in the Kingdom would be a disaster for American interests across the board. As the world's swing oil producer, prolonged instability in Saudi Arabia would cause havoc in global oil markets, setting back economic recovery in the West and disrupting economic growth in the East. Saudi Arabia is also America's oldest ally in the Middle East, a partnership that dates back to 1945; the overthrow of the monarchy would represent a severe setback to America's position in the region and provide a dramatic strategic windfall for Iran. The small oil-rich monarchies of the Gulf would be endangered, as would the Hashemite Kingdom of Jordan.

Recommendation:

Unfortunately, notwithstanding the stakes, the United States has no serious option for heading off a revolution in the Kingdom if it is coming. Since American interests are so intimately tied to the House of Saud, the U.S. does not have the choice of distancing the United States from it in an effort to get on the right side of history. Nevertheless, you should try to reestablish trust with the King and urge him to move more rapidly on his political reform agenda, while recognizing that this effort is likely to have limited results. In the meantime, you should ensure the best possible intelligence is available to see a crisis coming, put in place measures to limit the impact on the global economy of any disruption in oil supply, be ready to shore up the neighboring kingdoms and sheikhdoms, and then try to ride out the storm.

Background:

The Kingdom of Saudi Arabia is a proven survivor. Two earlier Saudi kingdoms were defeated by the Ottoman Empire and eradicated. But the House of Saud came back. They survived a wave of revolutions against Arab monarchies in the 1950s and 1960s. A jihadist coup attempt in 1979 seized the Grand Mosque in Mecca but was crushed. Osama bin Laden and al Qaeda staged a four-year-long insurrection to topple the royal family and failed less than a decade ago. Nevertheless, al Qaeda cadres remain in the Kingdom and next door in Yemen.

Today, the Arab Awakenings pose the most severe test for the Kingdom since its creation. The same demographic challenges that prompted revolution in Egypt and Yemen apply in Saudi Arabia: a very young population and very high underemployment. Extreme gender discrimination, highly restricted freedom of expression, longstanding regional rivalry with revolutionary Iran across the Gulf, and a restive Shia minority add to the explosive potential. In recognition of their vulnerability the Saudi royals have spent over $130 billion since the Arab Awakenings began to try to buy off dissenters at home. Abroad they have sent troops across the King Fahd Causeway to stifle revolution in Bahrain, brokered a political deal in Yemen replacing Ali Abdallah Salih with his deputy, and sought closer unity among the six Gulf Cooperation Council sheikhdoms. They have also invited Jordan and Morocco to join the “kings club.” But they are also pragmatists and have backed revolutions in Libya and Syria that undermine longstanding enemies of the Kingdom, especially Iran.

So far, they have helped ensure that revolution has not unseated any Arab monarch. However, Bahrain and Jordan have become the weakest links in the royal chain. The King of Bahrain is failing to suppress a prolonged rebellion against his rule; the King of Jordan could be next. Unrest in Jordan would threaten the peace with Israel. But the United States — and Israel — can cope with instability in both small states. Not so in Saudi Arabia.

If an Awakening takes place in Saudi Arabia it will probably look a lot like the revolutions in the other Arab states. Already demonstrations, peaceful and violent, have wracked the oil-rich Eastern Province for over a year. These are Shia protests and thus atypical of the rest of the Kingdom because Shias represent only 10 percent of the population. Shia dissidents in ARAMCO, the Saudi oil company, have also used cyber warfare to attack its computer systems, crashing over 30,000 work-stations this past August. They probably received Iranian help.

Much more disturbing to the royals would be protests in Sunni parts of the Kingdom. These might start in the so-called Koran belt north of the capital where dissent is endemic or in the neglected Asir province on the Yemeni border. Once they start they could snowball and reach the major cities of the Hejaz, including Jidda, Mecca, Taif, and Medina. The Saudi opposition is well-armed with mobile phone technology, which could ensure rapid communication of dissent within the Kingdom and to the outside world.

The critical defender of the regime would be the National Guard. King Abdallah has spent his life building this Praetorian elite force. The United States has trained and equipped it with tens of billions of dollars' worth of helicopters and armored vehicles. But the key unknown is whether the Guard will shoot on its brothers and sisters in the street. It may fragment or it may simply refuse to suppress dissent if it is largely peaceful, especially at the start.

The succession issue adds another layer of complication. Every succession in the Kingdom since its founder Abdel Aziz bin Saud died in 1953 has been among his brothers. King Abdallah and Crown Prince Salman are, literally, the end of that breed and both are in frail health; after them there are only two remaining half brothers that might suit and then there is no clear line of succession in the next generation. If Abdallah and/or Salman die as unrest unfolds, and a succession crisis ensues, then the Kingdom could be even more vulnerable to revolution.

Like in other Arab revolutions, the opposition revolutionaries will not be united on anything except ousting the monarchy. There will be secular democrats but also al Qaeda and Wahhabi elements in the opposition. Trying to pick and choose will be very difficult. The unity of the kingdom could collapse as the Hejaz separates from the rest, the east falls to Iran-backed Shia and the center becomes a jihadist stronghold.

For the United States, revolution in Saudi Arabia would be a game-changer. While the United States can live without Saudi oil, China, India, Japan and Europe cannot. Any disruption in Saudi oil exports either due to unrest, cyber attacks or a new regime's decision to reduce exports substantially will have major impacts on the global economy. The CIA war against al Qaeda is heavily dependent on the Kingdom; Saudi intelligence operations foiled the last two al Qaeda in the Arabian Peninsula attacks on the American homeland. The U.S. military training mission in the Kingdom, founded in 1953, is the largest such mission in the world. The Saudis have also been a key player in containing Iran for decades. King Abdallah was the author of the Arab peace plan that bears his name.

The other monarchs of Arabia would inevitably be in jeopardy if revolution comes to Saudi Arabia. The Sunni minority in Bahrain could not last without Saudi money and tanks. Qatar, Kuwait and the United Arab Emirates are city-states that would be unable to defend themselves against a Saudi revolutionary regime, despite all their money. The Hashemite dynasty would be at risk as well without Saudi and Gulf money and oil. Only the Sultan of Oman is probably isolated and strong enough to endure. Despite the stakes, the options are as unappealing as those President Carter faced in dealing with the end of the Pahlavi monarchy in Iran. And unlike the Shah who tried half-hearted reforms, the Saudi royal family has shown no interest in sharing power or in an elected legislature.

The United States has no serious options for effecting gradual reform in the Kingdom. The King fears, probably rightly, that power sharing is impossible in an absolutist state. In Bahrain, the Saudis showed clearly their view that opening the door to political pluralism will doom a monarchy. And the King will be distrustful of your counsel on this matter because of the stance that you took against his friend and fellow authoritarian, Hosni Mubarak.

Nevertheless, it is important to try to reestablish trust with the King, who continues to need the United States to counter the external threat he perceives from Iran, and to encourage him quietly to accelerate reforms that he has already indicated a willingness to undertake. But, at the same time, you should plan for the worst. The intelligence community should be directed to make internal developments, not just counter-terrorism, its top priority in the Kingdom now. The U.S. cannot afford a surprise like 1978 and you need to know the players in the opposition, especially the Wahhabi clerics, in depth. You should also take steps to help shore up Saudi Arabia's smaller neighbors who are staunch allies of the United States and to limit the impact of a disruption of Saudi oil supplies. This will be a formidable challenge but it is essential to preparing for what could be a very black swan.

CAMP DAVID COLLAPSE

M E M O R A N D U M

TO: President Obama

FROM: Tamara Wittes and Shadi Hamid

DATE: January 17, 2013

BLACK SWAN: Camp David Peace Treaty Collapse

Since the fall of Hosni Mubarak in February 2011, the United States has been resolutely focused on maintaining the Egyptian-Israeli peace treaty as a cornerstone of regional stability and as an essential platform for broader efforts at Arab-Israeli coexistence. The loss of this 33-year-old treaty would represent a profound strategic defeat for the United States in the Middle East.

Recommendation:

To mitigate such a possibility you should take immediate steps to deepen U.S. engagement with the Morsi government, the Egyptian military and opposition forces; consider negotiating new Israeli-Egyptian agreements to address each side's grievances about Sinai security; promote better communication and confidence building measures between the Egyptian and Israeli militaries; and be ready to intervene immediately should a crisis erupt.

Background:

Egyptian President Mohamed Morsi's decision to mediate a cease-fire between Israel and Hamas in November 2012 signaled that he was willing to set aside the Muslim Brotherhood's ideological opposition and most Egyptians' hostility to Israel in favor of a pragmatic *raison d'etat*. Nevertheless, there are several possible ways by which the Egyptian-Israeli peace treaty might be ruptured.

Third-party terrorist attacks in Sinai or emanating from Gaza could draw in Israeli and Egyptian troops and rupture relations. In August 2011, for example, a terrorist attack led Israeli forces on a hot pursuit into Sinai, during which they killed five Egyptian soldiers. This generated heated demonstrations outside the Israeli embassy in Cairo. That incident took place under the military council's rule; a future incident would take place under a democratically-elected government that would face strong popular pressure to respond, provoking a further crisis and threatening the treaty itself. While Israel has been careful since then to avoid any provocation in Sinai, it has also watched continued terrorist activity there, and Egypt’s inability or unwillingness to tackle it, with growing alarm. At the end of the day, Israel will insist on its right to self-defense. Terrorists and others with an interest in creating a crisis could easily provoke an incident in a location that would heighten the chances for a direct Israeli-Egyptian military confrontation.

Even without a border incident, an elected, Muslim-Brotherhood-led government might resort to populist nationalism to sustain support for its rule. While the international community saw Morsi’s diplomacy in Gaza as a signal that an Islamist-led Egypt would act responsibly to reinforce regional stability, his opponents in leftist and revolutionary circles attacked him for working within the Mubarak framework of relations with Israel. Even Morsi’s own Brotherhood has taken a harder line than he, as for example in August 2012 when it claimed that a recent terrorist attack on Egyptian soldiers in Sinai was a “Zionist” plot. In the coming years, Morsi’s opponents are likely to make greater use of anti-Americanism and anti-Israel sentiment to attack the Brotherhood in the court of public opinion (just as the Brotherhood did to Mubarak).

Moreover, the touch policy measures required to stabilize the Egyptian economy will worsen the pain of average Egyptians, making populist policies, and particularly adventurism abroad, a tempting distraction for an increasingly unpopular government. A continued failure to address deteriorating Israeli-Palestinian relations could also spark further violence between Hamas and Israel or a collapse of the Palestinian Authority, exacerbating anti-Israeli sentiment in Egypt. Meanwhile, the Egyptian government security-focused approach to Sinai’s problems relies on ham-handed repression while failing to invest the necessary resources to promote local development and reduce local grievances. This increases the incentives for locals to participate in violence. Morsi and the Brotherhood cannot be expected to continue to confront increasing public pressure over these issues without any impact on cooperation with Israel. At some point, the temptation to make a symbolic move against the treaty could become too strong to ignore. Morsi might then demand amendments to the treaty or put it to a popular referendum. He might also seek to address both security threats in Sinai, and perceived slights on Egyptian sovereignty there, by moving additional forces into zones where the Treaty restricts forces without Israeli consent.

Should Morsi be tempted to use hostility toward Israel to bolster his domestic standing, this will only persuade Israeli officials that their worst fears about the Arab Spring are being realized. Any Egyptian move to undermine the Treaty would be seen as implying a sharp decrease in Israel's deterrent capabilities, and would likely produce a sharp response.

Israel is already nervous. Since Egypt's revolution, Israel has acquiesced in Egypt's remilitarization of eastern Sinai, accepting a semi-permanent Egyptian presence close to its border. At the same time, Israel has doubled the number of battalions it has deployed along the border, built a border fence, and established a new "Southern Brigade" to defend Eilat. In the context of anti-Israeli populism, any Egyptian military move that Israel does not know about or approve could easily provoke suspicion and a matching Israeli military mobilization intended to send a signal about the costs of abandoning the treaty. But given the already-increased troop presence and the limited communication between the two sides, such a scenario heightens the chances for unintended escalation.

Preventing a Peace Treaty Rupture:

There are steps you should take now to reduce the chances that terrorist provocations or populist moves by Egypt's leadership might end in the rupture of the Treaty:

- Deepen U.S. security cooperation and coordination with the Morsi government so that, even in the event of growing anti-Israel agitation inside Egypt or a terrorist provocation in the Sinai, Morsi and the Brotherhood feel they have a vital stake in not upsetting the bilateral relationship.
- Sustain and expand U.S. engagement with the Egyptian military and with political actors across the Egyptian spectrum, in the course of which administration officials should extol the benefits of peace with Israel for Egypt's stability and economic recovery. In order to avoid the perception of a Mubarak-style authoritarian bargain, your embassy in Cairo should balance its cooperation with Morsi with broader political outreach and sustained pressure on the Brotherhood-led government to promote inclusive democracy.
- Consider developing a new Egypt-Israel *modus vivendi* that would enhance the sustainability of the peace treaty. Israel is not happy with the very limited bilateral communications over Sinai and Gaza, which occur through a high-level intelligence channel; Egypt is unhappy with the Treaty's limitations on forces in Sinai.

These limitations may also no longer meet the needs of the two parties when the primary security threat is non-state terrorism and illicit activity. A revised agreement that codifies the already-altered realities on the ground, and that adds more robust bilateral information sharing and coordination mechanisms, could potentially relieve pressures on the Treaty within Egyptian politics, while better serving both sides' security interests.

- Press now for increased communication between Egyptian and Israeli militaries. Those operating along their shared border must have some direct means to share information in the event of a crisis. You can also work to enhance the role of the Multinational Force Observers in Sinai (MFO). Currently, limited numbers and capabilities as well as security concerns restrict MFO movements. A larger, more mobile and capable force could improve information sharing and verify that new Egyptian deployments in Sinai are sized, equipped, and operating according to agreements. This would also lessen Morsi's ability to "surprise" Israel with any new military deployments, reducing his incentive to do so.

Minimizing Fallout in the Event of Further Deterioration:

In extremis, if the treaty is broken, or if tensions flare to the point that cross-border fighting is conceivable, you should be ready to act quickly to:

- Deter both sides from a direct confrontation, or bring one to a swift end. Since the Egyptian military is unlikely to seek all-out war with the far-superior Israeli Defense Forces, it may welcome U.S. intervention. This could involve seeking an immediate separation of forces monitored by MFO, and, if necessary, putting nearby U.S. forces on alert to deter aggressive movements by either side in advance of such a separation taking hold. The temptation in Washington might be to declare swift and clear support for Israel's defense. But in a case where extreme nationalism is driving Egyptian actions this would not itself act as a deterrent to further escalation.

- Prevent terrorist elements in Sinai or Gaza from taking advantage of the crisis to fire rockets or breach Israel's borders. Success in this objective will require getting both Egypt and Israel focused on the primacy of the terrorist threat: pressing Egypt to back down swiftly, urging Israeli restraint in response to provocations, and mobilizing third-party channels to Hamas in Gaza warning against such moves.

- Prevent an Egyptian-Israeli rupture from having ripple effects in the region. The United States should engage swiftly and firmly with Arab capitals, especially in the Gulf, to head off any statements of support for Egyptian actions against the treaty and to elicit public and private messages expressing a desire to maintain regional peace. Jordan’s peace treaty with Israel would become an immediate target should this effort fail, and the United States as well as our Gulf allies should seek to demonstrate their support for the maintenance of Jordan’s peace with Israel in the face of what could be a fierce nationalist onslaught.

RAMALLAH UNRAVELS

M E M O R A N D U M

TO: President Obama

FROM: Khaled Elgindy

DATE: January 17, 2013

BLACK SWAN: Rumallah Unravels - The Collapse of the Palestinian Authority

Mahmoud Abbas, the President of the Palestinian Authority (PA) is threatening to dissolve the PA and hand back to Israel full responsibility for the 2.5 million Palestinians in the West Bank. Even without such a step, the severe fiscal crisis within the PA, compounded by Israel's withholding of Palestinian tax transfers (accounting for two-thirds of the PA budget) and the drying up of international — especially Arab — donor funds, could lead to the same result.

The collapse of the PA could lead to large-scale Palestinian civil unrest and perhaps even a total breakdown in law and order in the West Bank, increasing the chances of a violent Palestinian uprising against Israel, a full Israeli reoccupation of the West Bank, and/or a takeover by extremist elements. From a strategic standpoint, the PA's demise would eliminate the single most tangible expression of efforts to achieve a two-state solution — an investment totaling tens of billions of dollars from the United States and the international community over nearly two decades — all but destroying chances for a peaceful settlement between Israelis and Palestinians for the foreseeable future. It would also increase the isolation of our ally Israel and force it to deal with Palestinian demographic realities on a whole new basis that threatens the democratic and Jewish nature of the state. It would have serious negative implications for U.S. interests in the region and beyond.

Recommendation:

Despite the dire condition of the PA, its collapse is not inevitable. Strengthening the Palestinian leadership in Ramallah, however, will require boosting the PA both economically and politically, as well as preparing the ground for a credible negotiations process. This will require you to press Congress to release aid to the PA, urge Israel to hand over all the tax revenues, and insist that the international donors fulfill their financial commitments. Israel will also need to be persuaded to allow Palestinian development in the West Bank's Area C and stop new settlement activity. And it will require you to announce early on that you have asked the Secretary of State to prepare for a new initiative to achieve a two-state solution.

Background:

The collapse of the PA would instantly put out of work approximately 140,000 public sector employees, who serve as breadwinners for roughly one-third of the Palestinian population in the West Bank. This includes some 58,000 men who currently serve in the various PA security services. The implications of this are impossible to overstate. On the one hand, mass unemployment and the absence of a police force could easily degenerate into large-scale Palestinian civil unrest and perhaps even a total breakdown in law and order in the West Bank, an environment in which extremists would thrive. This in turn would dramatically increase the likelihood of a violent Palestinian uprising against Israel (a "third intifada"), a full Israeli reoccupation of the West Bank, and/or a takeover of Palestinian population centers in the West Bank by extremist or rogue elements. In addition to ending nearly 20 years of security coordination with Israel, the prospect of tens of thousands of idle, frustrated, well-armed and well-trained Palestinian security personnel would pose a whole slew of security challenges for Israel.

The PA's collapse is likely to result in one or both of the following scenarios:

- Hamas Takeover: As the most obvious and most important beneficiary of the PA's demise, Hamas would have both the means and incentive to try to extend its current control over Gaza to the West Bank. Buoyed by its recent "victory" in Gaza and its growing regional acceptance, Hamas may judge that Israel would be willing to tolerate Hamas rule in the West Bank if it shows it is able to prevent attacks on Israelis and maintain basic law and order. For Israelis, however, the West Bank is not Gaza, and the prospect of a well-armed, ascendant Hamas force situated just a few kilometers from Tel Aviv and most major Israeli population centers is unlikely to be tolerated by any Israeli government.

- Local Ad Hoc Leaderships: As an alternative to a Hamas takeover (or as a precursor to one), we could also see the emergence of multiple, ad hoc leaderships across the West Bank, comprised of some combination of local clan heads, municipal councils, business interests, and even gangs or warlords. Dealing with multiple centers of power would pose logistical challenges for the Israel

Defense Forces (IDF) in its efforts to protect Israeli settlers while increasing the likelihood of friction both with and within Palestinian communities, making an IDF reoccupation of Palestinian cities and towns far more likely.

Preventing the PA's Collapse:

In either case, the longer uncertainty and instability (or worse, violence and chaos) persist, the louder Palestinian, Arab, European and other voices will be for Israel, as the Occupying Power, to assume its responsibilities under international humanitarian law for both policing and governing the Palestinian population. The immediate objective for the United States therefore should be to do everything possible to prevent the collapse from occurring.

- The first priority is to prevent an imminent financial collapse of the PA by pushing all international donors, especially Arab states, to follow through on their commitments to the PA. For such calls to be credible, however, the U.S. and Israel must be willing to do the same. Thus, it is equally crucial that you press Congress for the immediate release of $200 million held since the PLO's unsuccessful bid for full UN membership last year (and to refrain from further aid cuts) as well as pressure Israel to release all withheld VAT transfers, which account for some two-thirds of the PA budget.
- This is only a short-term fix, however, which cannot succeed without parallel economic and political measures. As a recent World Bank report makes clear, genuine economic growth is not possible while restrictions imposed by the Israeli occupation remain in place, particularly the Palestinians' inability to exploit or develop some sixty percent of the West Bank designated as Area C. It is time to have a serious conversation with the Prime Minister of Israel about lifting restrictions in substantial portions of Area C.
- It will not be possible to keep donor funds flowing or to sustain developments on the ground without meaningful and parallel progress at the political level. This will require credible U.S. action on the issue of Israeli settlements aimed at preventing the recent surge in settlement plans – especially in the E-1 corridor and other sensitive areas in and around East Jerusalem – from moving forward on the ground. While new negotiations remain a key objective, it would be a mistake to rush into them. Rather than merely urging (or attempting to force) the parties to return to the negotiating table, you should instruct your new secretary of state to undertake a serious appraisal

of the likely requirements for success and causes of past failures, while making clear that an American initiative is forthcoming.

Minimizing the Fallout:

Should these efforts prove unsuccessful, and the PA collapses or is dissolved by Mahmoud Abbas, you would need to move quickly, in coordination with Israel and Jordan, to prevent West Bank cities and towns from descending into total chaos and to contain any outbreak of Palestinian–Israeli violence in either the West Bank or the Gaza Strip. At the same time, both the United States and Israel would have an overriding interest in preventing the total elimination of Fatah on the one hand and a complete, partial, or even attempted takeover by Hamas on the other. This will require close consultation with the Israelis to contain their military response to any unrest, and to prevent such a response from escalating the violence even further. It will also require engaging (directly or via third parties) with credible Palestinian interlocutors capable of exerting some measure of control on the ground – namely Fatah and Hamas. And since the United States cannot talk directly to Hamas, such coordination would need to take place through a unitary leadership mechanism such as the PLO, which could (at least theoretically) survive the PA's demise.

Needless to say, this will require the United States to drop its opposition to Palestinian reconciliation, and encourage Israel to do likewise. Moreover, if we are to dissuade Hamas from taking over (or even attempting to) in the West Bank, it will need to be offered something in return. This will entail some sort of power-sharing arrangement in a newly restructured and reconstituted PLO, as well as working with Egypt and other regional partners like Qatar and Turkey to persuade Hamas to go along.

There are many risks involved in engaging with Hamas in this way, including legitimizing a designated terrorist organization whose charter calls for the destruction of Israel as well as the potential for provoking a backlash from Congress (to say nothing of the resistance from the government of Israel). Nevertheless, attempting to ignore or sideline Hamas would be even riskier and more costly, encouraging it to become more assertive and aggressive in both the West Bank and Gaza. Although Hamas would undoubtedly pay a heavy price for any confrontation with Israel, it would come at considerable cost to Israel as well, in both human and political terms. Any period of protracted violence between Israelis and Palestinians will subject Israel to greater international opprobrium and isolation, as well as growing calls for Israel to assume its responsibilities under international law, while extinguishing what little hope may still exist for a two-state solution. The simple reality is that a credible Palestinian interlocutor that can act effectively both on the ground and in the diplomatic sphere, *regardless of its composition*, is the only thing standing between where we are today and an eventual one-state outcome.

THE BIG THAW

M E M O R A N D U M

TO: President Obama

FROM: Elizabeth Ferris

DATE: January 17, 2013

BLACK SWAN: The Big Thaw

Global warming is occurring at a faster pace than predicted by scientists. Temperatures are rising, icecaps and glaciers are melting, and extreme weather events are becoming both more frequent and more intense. Last fall, the National Snow and Ice Data Center documented a record low of the level of Arctic sea ice – a figure 49 percent lower than the 1979-2000 average. If these trends continue, the results will be far-reaching for life on this planet. But if the warming accelerates dramatically and if polar ice melts even faster, the results could be catastrophic. This could occur if the Greenland ice sheet or the West Antarctica Ice Sheet (WAIS) collapses, triggering a significant rise in sea levels throughout the world with particularly devastating impacts on populations living in low-lying coastal areas. Although the effects of climate change are likely to be long-term and the worst effects will probably neither be experienced in your presidency nor even in your lifetime, the future is inherently unpredictable. Climate change is already affecting communities around the world. It is likely to produce devastating consequences whether in the near or distant future. Taking bold steps now to address climate change offers an opportunity for you not only to leave a legacy that will impact future generations but also an opportunity to address current problems resulting from the effects of climate change.

Recommendations:

- Raise the priority of climate change on your foreign policy agenda, in particular by re-vitalizing negotiations over a post-Kyoto treaty. The Doha round of negotiations, which ended last month, was disappointing. Countries are further away today than they were a year ago on reducing emissions. U.S. leadership can reverse current trends of inadequate global commitment to reduce greenhouse gases.

- Support measures that will enable communities and countries to adapt to the most egregious effects of climate change. On the international level this means supporting and leading the difficult discussions around climate finance and using U.S. aid to support government planning to respond to the effects of climate change, including financial assistance to encourage communities to stay where they are as well as to plan for the relocation of communities whose homes will no longer be habitable.

- Support effective multilateral action to increase both mitigation and adaptation measures. Use your influence with the multilateral development banks to encourage more attention to disaster risk-reduction measures in development planning. Work with international agencies and legal experts to devise an international legal regime for dealing with the expected increase in trans-border migration. It is easier to put a system in place before a crisis is at hand.

- Strengthen domestic efforts to mitigate the effects of climate change by reducing carbon emissions and enhancing domestic capacity to prepare for, respond, and recover from sudden-onset natural disasters.

Background:

Since the first report of the Intergovernmental Panel on Climate Change (IPCC) in 1990, the projections about the impact of global warming have become direr. From projecting the widespread consequences of a global rise in temperature of 2 degrees Celsius by the end of the century, current projections are that the rise in temperature will double to 4 degrees Celsius. The seas are rising 60 percent faster than predicted by the IPCC. The Greenland ice sheet is shrinking twice as fast as estimated by the IPCC and is losing mass at about five times the rate it was in the early 1990s. If the Greenland ice sheet were to melt completely, global sea rise could reach seven meters. And the consequences of global warming go far beyond sea-level rise. For example, the National Oceanic and Atmospheric Administration warns that the conditions that led to the 2011 Texas drought are 20 times more likely to occur now than in the 1960s as a result of increases in greenhouse gas concentrations.

Although climate change will have many negative effects in different parts of the world, including prolonged droughts, reduction in arable land, declining agricultural productivity, and increased flooding due to more extreme weather events, the impact of sea level rise perhaps best illustrates the potential dangers. Throughout the world, more people are living in coastal areas as the result of population growth, urbanization and government policies. Presently 10 percent of the world's population – 600 million people – live in low-elevation coastal zones and the percentage is growing. Sixty-five percent of the world's megacities (those over 5 million) are located in these coastal areas. A rise in sea level of even a meter would have major implications for coastal populations; if sea levels were to rise by several meters, the consequences would be catastrophic. Most obviously, sea level rise will submerge land, causing countries to lose physical territory. The areas expected to experience the largest land loss by 2030 are the Arctic Ocean coasts of Canada, Alaska, Siberia and Greenland as well as coastal areas of Pakistan, Sri Lanka, southeast Indonesia, and eastern Africa. In the United States, particularly vulnerable areas include the coastal areas of the east and west coasts and the Gulf of Mexico.

Rising sea levels will affect economics, politics, community life and security. For example, the mega-deltas of Asia are the food baskets of the region, and the impact of a sea level rise on food security will be considerable. But perhaps the most significant impact of climate change in general and rising sea levels in particular will be the displacement of people. Migration is a complex process driven by a range of economic, social and political factors but it is becoming clear that environmental factors will increasingly influence migration. In Bangladesh, for example, moving to cities has become a common coping strategy in the face of flooding. One of the IPCC background studies posits that a 40-centimeter rise in sea levels will affect 100 million people. As hundreds of millions of people in Africa and Asia are at risk of flooding by 2060, it is likely that many will move to cities such as Dhaka and Lagos that are located in coastal flood plain areas. In other words, the trend is for people to migrate to areas of greater – not lesser – environmental vulnerability. At the same time, as the UK's authoritative Foresight study concludes, those who are able to migrate may well be the lucky ones; those who are unable to move may be the most vulnerable.

Large-scale migration has many consequences. If sea level rise renders small island states uninhabitable (which is likely to occur long before the islands are actually submerged by the seas), issues of sovereignty, legal status, and responsibility will present the world with huge challenges. Most climate change-induced migration or displacement will be internal, placing strain on infrastructure and pressure on governments to deliver services. Political instability, conflict and poor governance exacerbate these problems. Climate change is a threat multiplier, often affecting those countries least able to respond appropriately. How will governments cope with the movement of large numbers of people from coasts toward inland areas? There is also a possibility that some, perhaps many, will seek to move to other countries because of the effects of climate change. The international legal system is unprepared to deal with trans-border movements triggered by environmental factors or disasters, since the displaced do not fall under the 1951 Refugee Convention (unless they leave because of political turmoil exacerbated by climate change.)

Projecting possible massive displacement from climate change is complicated by the difficulty of comprehending the interrelationships between the different effects of climate change, for example, changes in fish stocks and coral reefs brought about by the acidification of the world's oceans; changing patterns of disease; changing habitats for animals and plants; the intersection of deforestation and increasingly arid climates in some parts of the world. Delicate ecological balances are changing in ways that are as yet poorly understood. Similarly, there is much we do not know about the dynamic nature of the effects of climate change. For example, some scientists are reporting that the melting of Arctic ice itself is releasing more carbon into the atmosphere, increasing global warming which will in turn increase the rate of Arctic ice melt.

Most scientists have observed that the climate is becoming warmer and that extreme weather events are becoming more frequent. While it is impossible to attribute any single weather event, such as Hurricane Sandy, to climate change, the global trends clearly demonstrate an increase in the frequency of extreme weather events. These trends are likely to intensify. The interaction between increasing extreme weather events and other effects of climate change – such as increased erosion, acidification of the seas, desertification, sea-level rise – is also likely to lead to large-scale movement of people.

Conclusion:

There are certainly obstacles and pitfalls to making climate change a centerpiece of your foreign policy. Perhaps the projections of scientists are too pessimistic and the effects of global warming will not be as serious as now thought. Perhaps you will be unable to marshal the necessary political support to enact necessary legislation. Perhaps other governments will fail to rally to your leadership and perhaps the negotiations over climate change mitigation and adaptation will widen, not narrow the North-South divide. It is certainly understandable that you would want to put aside these longer-term challenges and focus on more immediate economic issues. But a climate catastrophe could be lurking around the corner.

Unless urgent action is taken now, the effects of climate change on life on this planet and on life in the United States will increase. Climate change is a domestic, foreign policy, security, development, human rights, and intergenerational justice issue. Preparing better for climate change disasters at home and abroad is a good short-term prophylactic. But making serious and sustained efforts to reduce global warming can solidify America's present leadership in the world. It can lay the foundation for the country's sustainable future development. It can address the causes of future humanitarian crises and alleviate future human suffering. It can be a legacy issue for the Obama administration that will impact the world for generations.

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