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## OBAMA'S FOREIGN POLICY: IS THIS CHANGE WE CAN BELIEVE IN?

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Working Paper No. 32  
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European Security Forum

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# An American perspective

David Calleo\*

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For several months following the election of November, 2008, most Americans took great pleasure in their charismatic new president. A series of soaring speeches, frank interviews and pragmatic initiatives made real changes for the better seem possible. Of course other presidents have begun with high hopes, only to be ensnared in multiple dilemmas inherited from their predecessors. By the summer of 2009, Obama's own prospects begin to seem more problematic. Disagreements have surfaced between the Presidency and the Congress and rumours proliferate about splits within the administration's own ranks. Fear grows that the president – attempting simultaneously to overcome a severe financial crisis, address long-neglected needs of the domestic economy and win two intractable wars – has overreached himself.

Assessing the long-term prospects for Obama's foreign policy requires determining what its particular elements and priorities actually are. To what extent is there a coherent vision as opposed to a series of ad hoc responses to inherited situations? So far the administration's overriding concern has been the world economic crisis. Foreign policy in general has been dominated by economic policy in particular. Our most significant diplomacy has been concerned with persuading other major countries to adopt financial remedies compatible with our own.

But today's economic diplomacy also raises broader geopolitical issues about the future character of world order. As the financial and economic crisis unfolds, geopolitical concerns increasingly dominate the economic policies of the world's major powers. The US can hardly ignore the impact of today's financial and economic crisis on America's international role. So far, the crisis probably favours a 'declinist' view of American global hegemony. In marked contrast to the American geopolitical vision of a decade or two ago, today's dispensation of power is increasingly seen as plural rather than unipolar. Such a view suggests a fresh dispensation of respective roles for the US, the European states, Russia and China. To what extent is the Obama administration influenced by this pluralist view? Has it generated what might be called a corresponding geopolitical vision of America's place in the world? Is the administration actually guided by such a vision? How inclined is the rest of the world to accept it? Can Americans themselves believe in it? Finally, to what extent are these broad questions being determined by the interaction of differing financial policies among the major players? In short, what is the likely impact of today's financial and economic crisis on America's traditional leading international role? To what extent does Obama's foreign policy anticipate that impact?

Political-economic linkages are never simple and no doubt it is too early to tell how present policies will unfold. But one linkage that seems relatively direct and decisive is the future place of the dollar in international monetary arrangements. For more than a half century, the dollar's role as the world's principal reserve currency has given the US an unmatched capacity to create credit for itself; money that the rest of the world has been willing to accept. That capacity has been a critical element in America's leading global position. It has, however, been contested periodically and now appears seriously threatened.

Elaborating the current threat calls for a closer look at Obama's own financial policies. These come in three broad categories: the first is the continuation and elaboration of the Bush

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administration's response to the financial crisis. It involves creating several trillion dollars in actual or potential credit to compensate the banking and insurance industries for the collapse of their 'toxic' assets. This financial 'rescue package' is now being extended to America's stricken automobile industry. Although the government is trying to avoid formal nationalisations, inevitably it is taking a more and more dominant regulatory role in the afflicted industries. Obama's second category of financial policies reflects the social priorities encapsulated in his proposed fiscal budget. It anticipates, for example, a major overhaul of the scandalously inadequate but costly healthcare system. It also provides for augmented spending on the country's long-neglected infrastructure, along with subsidies for research, education and new technologies. The third broad category has to do with the costs of America's geopolitical exposure in general and the wars in Afghanistan and Iraq in particular. Obama hopes to withdraw from Iraq without defeat and emerge triumphant from Afghanistan. An unprecedented fiscal deficit – well over a trillion dollars for next year alone – is the obvious result of these combined Obama policies.

Given the country's current fear of deflation and general aversion to taxes, financing these outlays implies a massive monetary expansion. The balance sheet of the Federal Reserve, a good indicator of monetary stimulus, has already expanded from \$900 billion in September 2008 to over \$2.1 trillion as of May 2009. The neo-Keynesian view of the Great Depression of the 1930s provides a popular apology for today's expansive policies. Recovery in the 1930s was delayed, according to that view, because President Roosevelt failed to keep running adequate fiscal deficits. Not until World War II, it is said, was government spending sufficient to shock the economy out of its paralysis. Historians of our era are unlikely to fault the Bush and Obama administrations for comparative timidity.

Obama's policies point towards a different complaint. Creating money on such a scale naturally feeds fears of enormous inflation to follow. It brings into question the credit-worthiness of the Treasury and the Federal Reserve themselves. A sharp rise in long-term interest rates for government bonds would be a normal reaction; it now appears to be underway. Servicing debts will thus threaten to take an ever-larger share of future budgets, particularly as demographic trends point towards still heavier pension and medical costs. The temptation for future governments to inflate away their debt will, some fear, prove irresistible.

To be sure, others discount this fear. Much of the new credit is being used to replace assets that have abruptly lost their value. If such assets begin to recover, nothing prevents the government from compensating by withdrawing its new credit from the banking system. Faith in such monetary 'fine tuning' is, however, no longer as fashionable as it once was. Experience suggests that future governments may find it difficult to impose the short-term sacrifices that avoiding inflation would seem to require. Most post-war American administrations, at least after Eisenhower's presidency, have tended to favour growth over stability, with a bias towards monetary ease that encourages periodic bubbles and crashes.

Wage and price inflation in the US have, however, been relatively restrained since the 1980's. In the 1990s it was popular to attribute the apparently low inflation to remarkable productivity gains, or to trade liberalisation. Arguably, opening the American market to low-cost competitors, like Mexico or China, made it difficult for American producers to raise prices or wages. But as traditional wage and price inflation waned it was replaced by 'asset inflation'. Hence the bloated values for shares and real estate that prepared the current banking crisis. The collapse of these inflated assets now makes us fear deflation – a depression. But behind today's deflation lies the long-standing inflation that prepared the way for it. Fear of a return to inflation rests on the unprecedented creation of money, which is going on as we speak.

What does all this have to do with foreign policy? The fate of the dollar is inextricably linked to the issue of inflation. Obama's explosion of credit is not starting from scratch. Foreigners

already hold a huge overhang of dollars. Given our still large current-account deficit, the dollar's exchange rate depends on the willingness of foreigners not only to hang on to the dollars they already possess, but to continue accumulating very large new holdings. Since World War II we have grown accustomed to having foreigners accept our dollars. The principal holders were, of course, countries we were protecting from the Soviet Union. Germany and Japan, in particular, were our military protectorates. For them, holding our dollars could be seen as a form of geopolitical burden-sharing – a reasonable bargain, awkward to refuse. With the demise of the Soviet Union, however, the dollar's compelling geopolitical support is largely gone. Moreover, throughout the Cold War there was really no other international currency to replace the dollar. With the euro, there now is an alternative currency. Without the Soviets and with the euro our dollar is in a different world.

No doubt it will take time for new realities to work themselves out. Increasingly prominent among today's dollar holders are the Japanese and Chinese. While the rich Japanese may still be content to invest heavily in the sinking dollar – to preserve their exports and their alliance – it is difficult to imagine the Chinese continuing indefinitely in the same posture. Indeed, the Chinese seem already engaged in a massive shift of priority to their own domestic development – an obviously rational reorientation, even if it cannot be accomplished without confronting numerous difficulties. At the same time the Chinese have been making trade deals with Brazil and Argentina that ostentatiously avoid using the dollar. However, given that China's renminbi is not fully convertible, its imminent use as a major reserve currency seems improbable. But the same is not true for the euro, which is already the currency for roughly 25% of the world's reserves and the vehicle currency for what is the world's largest trading bloc.

There is little evidence, however, that the European Central Bank is eager to supplant the dollar. The ECB is, none the less, traditionally more averse to inflation than the Federal Reserve. While it has not hesitated to pour immense credits into the European banking system during the recent crisis, its monetary policy has been relatively restrained over the years. As a result, the euro has appreciated significantly over the past decade and many European exporters complain of an 'overvalued' euro in relation to the dollar. This seems particularly serious for those firms that still export heavily to the US, or compete heavily with American firms elsewhere. Subsidies and protection, of one sort or another, seem likely European reactions. A weak and unstable dollar should encourage the EU to reach long-term deals with Russia and neighbours generally. It should also encourage the Chinese in their already extensive campaign to build a regional Asian bloc. In short, a weak and unstable dollar probably points towards a world economy where economic relations are more politically determined, along regional lines. Such trends may significantly constrain America's pretensions to global hegemony. The prospects for interstate conflict are ample in such a climate. It will be important to have international institutions that encourage reasonable bargaining and emphasise the search for shared interests. Perhaps Europe's Common Market will prove the most appropriate model for organising regional systems and their global relations.

Reflecting on the current situation suggests, I believe, a number of possible conclusions about the future of American foreign policy. The first is that the Obama presidency is likely to disappoint those who hoped to see a restoration of America's traditional post-war position. Obama is reviving the modesty, grace, and generosity that has characterised American diplomacy at its best. But he is unlikely to restore the substance of American hegemony. Indeed, the notion of an American 'restoration' or 'recovery' is itself dubious in present circumstances. The United States will probably not 'recover' its previous prosperity and position. America's outsized consumption may well decline, no longer subsidised by the rest of the world's support for the dollar. In retrospect the current economic crisis may come to be seen as a decisive mutation in the post-war system – signalling the unsustainability of unipolar policies and the consequent breakup of American hegemony in the capitalist world; a development that in

certain respects parallels the collapse of the Soviet Union, followed by the disintegration of its own version of a 'global' system. As a result, America will be a somewhat poorer country, but should also grow more competitive. If the economic crisis spells the end of unlimited credit, an overdue geopolitical retrenchment should follow. With luck, the Obama administration's policies will strengthen the country internally, after several decades of neglect. Perhaps we will succeed in avoiding the ruin that often afflicts would-be hegemonic powers forced into retreat. We may not have to share the recent fate of the Russians. Shorn of outsized pretensions, the US may expect to remain the world's leading power for the foreseeable future. In short, Obama might manage a retreat from the hyperactive, unipolar foreign policy of the Bush administration into a new American role more appropriate to the plural world order that is forming. This could be the moment for reducing post-war America's outsized claims on the rest of the world, while trying to coax the world's other great powers into a cooperative new governing structure. A stronger America should be able to appease as well as confront. Should we believe this can happen?

It is possible to see signs that Obama is moving in this direction. His early approaches towards China, Russia, the Muslim world, and indeed Europe, have been sensitive and conciliatory. He has done much to restore the image of a more confident, reasonable and modest America – a country characterised more by generous partnership than manipulative leadership. Such moments of radical geopolitical change are, however, seldom easy to navigate. For a beleaguered government, war can present itself as an easier solution than accommodation. The administration is already fighting two wars. The President has gone out of his way to commit himself to success in Afghanistan and Pakistan – unpromising projects. No one should expect him to be rescued by a quick return to economic prosperity.

Perhaps the wisest observation to derive from the present situation is that the United States no longer has the means to always take the lead in managing the world's problems. Obama will need to persuade his own government to reduce its pretensions accordingly. Perhaps his greatest challenge will be to convince the world's other great powers to rise to their own responsibilities. If he fails on either count, the beginning of the 21<sup>st</sup> century may come more and more to resemble the beginning of the 20<sup>th</sup>.

# A European perspective

Camille Grand\*

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The election of Barack Obama has generated hopes that go beyond the traditional expectations of a new US administration.

Going further than a fairly routine party change from Republicans to Democrats, the election of Barack Obama was a unique combination of a generational and a radical style change. For the first time, not only an African-American but an individual with significant non-European foreign roots was to lead the world's largest power. After eight years of a Bush administration that had engendered unprecedented distrust vis-à-vis US policy and leadership, the new president appeared to be a clean break with the past. This is all the more true since the new president does benefit, at least until the mid-term elections, from a clear democratic majority in Congress, which should facilitate his intended shifts in the US foreign policy agenda.

This election not only symbolised a new era but demonstrated the vitality of the US democracy, when many commentators were announcing the end of American leadership in the context of the financial crisis. Even though the Obama campaign was launched on a foreign and security policy issue (namely the withdrawal from Iraq), it is important to underline that it was won on the issue of the financial crisis, the depth of which Obama understood earlier than his Republican opponent.

Before going into the foreign policy challenges the new administration faces, it is important to remember that the economic crisis is likely to be the benchmark for the American electorate in the next elections, and that, short of a major national security event of the magnitude of 9/11, foreign issues will play a minor role from a domestic perspective in the run up to the mid-term elections and the next presidential election.

As far as the foreign and security policy agenda is concerned, Obama is facing a series of major more or less interconnected international challenges that will put his vision of international affairs to the test in the coming months. His ability to meet these challenges will determine if the proposed substantial changes will be implemented successfully. As he distanced himself significantly from the Bush era, each of his strategic choices appears as a test of his foreign policy.

## Restoring US Leadership

### ***Beyond public relations: the issue of moral leadership***

If the rest of the world had voted for the US election, Barack Obama would have been elected easily. Extremely popular throughout the world from the onset, this was in stark contrast to the hostility that G.W. Bush faced abroad. The enthusiasm following Obama's election was global.

From that perspective, President Obama benefits from a clear advantage in restoring the tarnished image of the US. He took immediate decisions that embodied a foreign policy shift from the Bush era, the most symbolic being the announcement of the closure of the Guantanamo.

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Announced within the first few days of the presidency, this decision was not only a campaign commitment but was also meant to symbolise a clear break with the Bush era. The use of the term ‘torture’ to characterise certain interrogation techniques authorised by the Bush administration was another major shift and certainly a difficult political choice that raised hackles in the intelligence community.

These decisions go much further than mere ‘PR’ exercises but demonstrate President Obama’s desire to regain the moral high ground as a central figure of US leadership. This moral leadership has been an important feature of US foreign policy for more than two centuries; clearly the cynicism, lies and mistakes of the Bush administration severely undermined that considerable comparative advantage.

### ***Engaging the Muslim world***

The Cairo speech of June 2008 intended to create a “new beginning between the United States and Muslims around the world, one based on mutual interest and mutual respect, and one based upon the truth that America and Islam are not exclusive and need not be in competition”. It appears as a defining moment in Obama’s effort to reengage the Muslim world; it both pays tribute to the Islamic heritage and is respectful of Islam, distancing the US from Israeli positions such as those on the implementation of new settlements.

This unprecedented move intends to recreate the conditions that would allow the US to push the peace process forward by reengaging the moderate Muslim countries and sending out the right signals to the Muslims themselves.

For years the Bush administration appeared to align itself with Israeli positions; Obama’s choice is an ambitious but risky strategy. He is walking a tightrope without the assurance that he will be able to move Israel and Arab countries significantly closer to a compromise. The current hard-line government in Jerusalem is not facilitating the implementation of this strategy and he may already have reached the limits of his ability to exert pressure on Israel.

### **First Challenge: Containing the Terrorist Risk while shifting Strategic Priorities**

The absence of any significant attack on US soil since 9/11 is claimed as a major success by the Bush administration. As former vice-president Cheney immediately underlined in his counterattacks following the closure of Guantanamo, the peril of the Obama moral stance is associated with the risk of failure in the fight against terrorism. Any major event thus runs the risk of weakening the strength of the logic behind the change in counterterrorist policies. The strong reluctance that appeared amongst congressmen and local communities when the issue of the transfer of Guantanamo prisoners to US soil was a first indication of these dilemmas.

### ***The end of the global war on terror***

While the Bush administration put the Global War on Terror (GWOT) at the heart of its international stance, Obama no longer uses this concept and insists on not grouping a variety of different issues and regions (radical Islamic terrorist, Afghanistan/Pakistan, India/Pakistan, Iraq, Israel/Palestine, Lebanon, Somalia, South-East Asia...). The end of the GWOT is primarily the recognition that Iraq, Afghanistan etc. are different issues and that there is no such thing as a ‘global’ war on terror. This shift also coincides with the transformation of al-Qaeda into a loose network; more of a ‘trademark’ than a structured organisation.



### ***From Iraq to Afghanistan/Pakistan***

The main consequence of the end of the GWOT is the strategic shift from Iraq to Afghanistan.

Placing emphasis on Afghanistan was the first strategic decision to be made by President Obama, and it goes beyond a clear military priority and additional troops. This choice is also the wise recognition that the frontline in the war on terror is in fact in Afghanistan and Pakistan; it is therefore a major shift from the Bush administration's six year prioritisation of Iraq.

As the security situation has worsened significantly in Afghanistan, it is a hard choice however, as no clear victory over the Taliban is in sight. Moreover the fighting in Pakistan shows that the Taliban movement remains strong in both Afghanistan and Pakistan.

One of the difficulties Obama is already facing is the lack of strong support from his NATO allies, which have not committed more troops or money to Afghanistan, in spite of strong American calls in the run-up to the Strasbourg-Kehl NATO summit. The lack of clear support in Afghanistan for President Karzai is a second major issue putting Obama's Afghan strategy at risk.

### **Second Challenge: Reinventing Multilateralism**

#### ***Reinventing a cooperative and multilateral diplomacy for the US***

One key feature of the Bush era was unilateralism. On this point again, Obama's foreign policy intends to establish a clear break with the past. In the United Nations, in the G8 or G20, in NATO, in the Organization of American States, the signal is clear, the United States intends to reengage the multilateral framework and use these tools not only – once again – as an image change but also as part of a broader vision of foreign policy that starts from the simple premise that the United States needs the rest of the world to address the new economic and strategic challenges ahead, from the economic crisis to climate change, proliferation or terrorism.

This policy does not mean, however, that Obama's US has renounced its leadership; it simply intends to exercise it through new cooperative means. It implies a policy of engagement, including with hostile countries (Venezuela, Iran...) in an effort to gain diplomatic support for US policies and proposals. In that sense, it is a more modest foreign policy.

The issue will be whether this multilateral approach passes both the domestic test (will Congress support the Kyoto Protocol or the Comprehensive Test Ban Treaty?) and the international test (will the US be able to lead by example and gather support to achieve its foreign policy objectives?). A failure to pass these tests might generate a unilateralist backlash.

#### ***Revive the transatlantic partnership***

The London G20 meeting, the Strasbourg-Kehl NATO summit and the Prague EU/US meeting in March were the first international events of the Obama presidency. They offered the president an opportunity to frame his views about a renewed transatlantic partnership. He strongly recommitted the United States to this partnership.

Following the trends of the last months of the Bush administration but taking them further, the new president decided to push forward a vision for a renewed transatlantic partnership built upon a closer and more formal EU-US relationship and a reformed NATO for the 21<sup>st</sup> century. Coming from a president with no European background, this appeared to be a recommitment to European affairs.

Obama enjoys unprecedented support amongst Europeans. He nevertheless needs to 'operationalise' these views, both within the EU/US framework and within NATO with the

upcoming debate on the Alliance's strategic concept. This process will be crucial as the Alliance has been facing a solidarity crisis since the Georgian crisis of August 2008.

### **Third Challenge: Rethinking the Global Nuclear Order**

#### ***A Vision for nuclear disarmament and non-proliferation in the 21<sup>st</sup> century***

In his Prague speech, President Obama stated his objective of a "world free of nuclear weapons". This was more the expression of a vision than a strategy per se.

Reading the Prague speech, (before the release of the more detailed Nuclear Posture Review next winter), Obama's nuclear policy can be described as following three different paths with very different calendars:

- He expresses the vision of a world free of nuclear weapons and sees the long-term objective of nuclear abolition as a moral objective;
- the President qualifies that objective in the same speech, however, by stating that it will not happen in his lifetime. He therefore agrees to work on interim and short-term objectives aimed at reducing nuclear threats;
- He also insists that it is his duty to preserve a safe, secure and reliable US nuclear arsenal, signalling that it is not his intention to undermine the credibility of the US nuclear position.

In practical terms, the implications for nuclear diplomacy are significant.

When the Bush administration was heavily criticised for having put an end to multilateral, legally binding, and verified nuclear arms control, the new administration appears ready to make the case for the Comprehensive Test Ban Treaty (CTBT) in Congress, to launch the Fissile Material Cut-Off Treaty (FMCT) negotiation in Geneva and to resume discussions with Russia on a follow-up to START that could have both verification provision and lead to significant cuts reducing the operational stockpile to less than 1500 warheads. An effort has also been announced to reduce the risks of nuclear terrorism.

Once again, this rather ambitious agenda is likely to face significant difficulties both domestically and internationally.

Given the loss of arms control expertise and interest in Congress, will the President be willing and able to spend political credit to get several treaties ratified in the next couple of years? What is the nature of the bargain with the nuclear labs on the CTBT, and how does this process interact with decisions about the Reliable Replacement Warhead (RRW) debate? Will the US be able to demonstrate leadership in the FMCT negotiation in Geneva?

Internationally, will Russia agree to engage in a process leading towards deeper cuts without an agreement on missile defence and NATO expansion? Will China, France and the United Kingdom agree to take their share of the Obama vision? Can China in particular agree to halt the upgrade of its nuclear forces and display more transparency, to allow deep US and Russian cuts when many analysts assume that the Chinese nuclear arsenal is not only in the modernisation process but also expanding? Will the US promise to work towards a nuclear weapon free world suffice to restore consensus in the non-proliferation regime as the 2010 Non-Proliferation Treaty (NPT) Conference approaches? Will bilateral disarmament and a fissile material cut-off be viewed as enough by advocates of nuclear elimination? How will the disarmament agenda connect with other issues such as missile defence? Will US allies in East Asia, the Gulf and Europe easily allow a process sometimes perceived as weakening the US extended deterrence at a time proliferation when concerns are rising?

All these open questions test the ability of President Obama to fulfil the vision enshrined in his Prague speech and thus engender a high level of uncertainty.

### ***Addressing the Iranian and North-Korean non-proliferation crisis***

The most dramatic and immediate challenge to the security order Obama intends to build comes from two emerging nuclear countries: Iran and the DPRK.

North Korea welcomed President Obama with a long-range ballistic missile/space launcher test in April, followed by a nuclear test in May. The six-party talks seem to be in stalemate and any decision by the Obama administration to engage the DPRK will be perceived as a sign of weakness. No clear alternative is available, however.

Iran itself is actively pursuing its nuclear programme and has so far not given any sign of openness in response to the gestures made by the new US administration. US engagement is crucial to resolving the Iranian nuclear conundrum and the lack of unequivocal US commitment to a compromise was instrumental in the failure of the 'EU 3 + 3' process. This is nevertheless a trap for the new administration as the Iranians have so far shown no willingness to compromise and stop enrichment activities. Iran would appear to be an interesting test case for Obama's foreign policy. Will the policy of engaging everyone and in particular those countries hostile to the US be more successful than the confrontational approach preferred by the previous administration? Is a successful outcome achievable within the short time available before the roll back of the Iranian programme becomes impossible?

In both cases, the new administration runs a severe risk of failure and could end up being characterised as both dovish and idealistic.

### **Conclusion: When the Obama vision confronts the real world**

Barack Obama made the strategic choice of distancing himself clearly and unequivocally from his predecessor on the international scene. It is not only an issue of public diplomacy and good PR; change has happened and the president has been extremely successful in transforming, in less than six months, the image of the US in the world. This has given him more leverage than G.W. Bush to address some of the toughest challenges ahead of him.

The difficulty is that 'it takes two to tango'. The policy of negotiation and engagement will succeed if and only if strategic partners such as Russia and regional players such as Iran agree to engage and participate in this radical change in security relations.

On many of the challenges described above, the Obama administration seems to have a clear vision – a roadmap for implementation, but it runs the risk of failure. This very ambitious agenda and Obama's ability to truly implement change is therefore dependent on his capacity to turn his political credit and his policy of engagement into concrete steps to achieve his objective. He has the talent and the team to succeed, but the challenges ahead should not be underestimated.

In a nutshell, the task ahead is to convince the rest of the world, including the most hostile countries, to share his vision of international affairs in order to turn it into a new foreign policy. In other words, to pass the reality check.

# A Russian perspective

Ivan Safranchuk\*

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Obama's new administration raised many hopes around the world and Moscow has also been receiving positive signals. President Obama is clearly committed to redressing the imbalances left by the Bush administration.

Russian-US relations have gone through several phases in the past two decades. In the early 1990s, Moscow trusted Washington and sought to establish the friendliest possible relations with the US. However, influential Russian political circles and society at large soon came to think that the United States was betraying Russia's new confidence. In the second half of the 1990s, differences between the two countries increased, culminating in the spring of 1999 when NATO launched a military operation against Yugoslavia.

From the very beginning of his presidency, Vladimir Putin has sought rapprochement with Western countries. Real results came in 2001, after the terrorist attacks in New York City and Washington. However, the period of Russia and the US being united by a common enemy proved to be short-lived. Mutual mistrust and real tactical and strategic disagreements centred on a new conflict – the war in Iraq in 2003. This time, Moscow was not alone; it stood united with Paris and Berlin.

Both parties needed a formula for their relations that would give them room for differences, but which would keep these differences under control. And such a formula did materialise – in the form of an 'agreement to disagree'. Moscow and Washington informed each other about their differences and put them on record, but refrained from confrontation. This formula helped each of the two countries manage their differences.

Russia and the United States had a common interest – neither wanted to be on different sides of the barricade in a global conflict. Cooperation might succeed or it might not, but what mattered most was avoiding confrontation. The 'agree to disagree' formula met this interest. Soon, however, further details became clear.

Moscow quickly discovered that being heard did not necessarily mean being heeded. The West listened attentively to Russia, but used its right to 'disagree'. Thus, nothing really changed in practice. There was a political coup in Georgia in 2003. Russia did not mind at all if Eduard Shevardnadze was replaced, but it expected that a new presidential candidate be agreed upon jointly with Tbilisi. In 2004, Moscow and Washington once again found themselves in opposite camps in the political struggle in Ukraine.

Russia saw its interests attacked in Eastern Europe and in the Caucasus, and reacted by putting pressure on US interests in Central Asia. In 2005, the United States had to withdraw its military base from Uzbekistan, while another US base – in Kyrgyzstan – has been under constant pressure ever since.

The United States was also dissatisfied with the deal. It had thought that Russia would not go any further than expressing its discontent with US policies and would not play a game of its own against US interests. Washington was therefore surprised when Moscow did not let it 'crush' Iran and when it did not back US policy in Lebanon, instead supporting Syria, politically at the UN Security Council and militarily by supplying it with air defence systems. Russia also supported Venezuela and started putting all-out pressure on pro-American regimes in Eastern

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Europe and then in the Caucasus. Moscow did not intend to give in whenever the United States declared its interests.

Russia's conduct ran counter to Washington's interpretation of the 'agree to disagree' formula. In 2006 and 2007, the US adjusted it and transformed it into 'disagree but do not oppose'. Such a formula could be interesting for Russia if the parties divided the world into zones of influence and responsibility. Then they could disagree about each other's actions inside these zones, but would not interfere in the affairs of the other party's zone. However, Washington did not want to divide the world into such zones. And now Moscow is not very eager to do that either, as it can play a game of its own on a large scale and there is no longer the need for it to artificially narrow the playing field.

However, without separate zones of influence/responsibility, the US 'disagree but do not oppose' formula made no sense. The United States also found it unattractive when it began to be rebuffed and asked not to interfere in Russian policies.

The 'agree to disagree' formula became outdated and outlived its usefulness by the end of 2006. Its potential was simply exhausted, but no new solutions have yet been found. Many disagreements have piled up over the past five years. By the end of his presidency, Vladimir Putin could no longer hush them up – hence his famous 'Munich speech'. Still, neither Moscow nor Washington wanted an open confrontation.

All attempts to invent a 'joint agenda' for the two countries nevertheless failed. To paraphrase a well-known saying, it was: "Nothing personal, just no business". Putin and Bush had no 'personal' problems. But Russia and the United States had no joint business either. Their statements on the joint struggle against terrorism, the proliferation of weapons of mass destruction, etc., never materialised into any joint business.

The geopolitical and geostrategic interests of Moscow and Washington have been diverging rapidly. The two countries now have incompatible interests in the energy sector, as well as in certain geographical areas. Soon they may use the phrase 'nothing personal, just business', only each party will have a business of its own, and their businesses will compete with each other.

The parties missed a real opportunity to harmonise their interests and achieve strategic solutions on partnership and joint actions in 2004-05, during the second wave of leadership replacement in the countries of the former Soviet Union. Russia and the US started games of their own, placing them on different sides of the barricades in Ukraine and Georgia, and somewhat earlier in Moldova, which was torn apart by territorial conflict. The parties are now unable to give up their positions and will play out their games to the end, which may well take a long time.

These years also saw fundamental differences between the two countries in their Middle Eastern policies (Iran, Syria, Lebanon, and the Palestinian issue) and the beginning of their rivalry in the energy sector. Moscow began to work out its own conceptual approaches to energy security issues, which were at variance with those of the US. Since then, Russia and the US have been acting strictly in their own interests.

Russia feels that it is strong enough to play a game of its own. The United States fears that Russia is not reformed and responsible enough, and this is why it wants to keep an eye on it and restrict it wherever possible. On the other hand, Washington does not want to annoy Moscow and prefers soft forms of control, such as joint actions, cooperation, etc.

A paradoxical situation has thus arisen. Russia wants to cooperate with the US (especially on various security matters) – but on a pronouncedly equal footing. Such cooperation would emphasise the new quality of Moscow and its foreign policy. However, in response to its willingness to cooperate, Russia sees US attempts to organise interaction as a means of actually containing, blocking and restricting it.

Russia needs forms of cooperation that would emphasise its independence and significance – that is, forms of cooperation, rather than Russia's assistance with some US affairs. For its part, the United States needs interaction that would not leave Russia on the sidelines and, at the same time, would not give it the power of veto.

The Georgian crisis of 2008 put an end to the protracted period of uncertainty in Russia-US relations, which had lasted for approximately three years. President Vladimir Putin made a decisive breakthrough towards Russia's integration into the global economy and politics. The view prevailed in Russia then that the country could adapt to the new global rules without harming its national interests and even that it could implement them more fully. The US position after September 11, 2001 gave grounds to believe that Russia's position could be explained to Washington and that the latter could accept it on certain terms. In other words, Russia believed that it could reach an understanding with the US.

However, practical moves to reach this understanding invariably failed after 2003. Yet it seemed that the parties could at least not play against each other openly. Events in Ukraine in 2004 and in the Middle East after 2005 left no hope for that. In the past three years, Russian and US interests have clashed constantly. The United States wondered why Russia would not give in, while Moscow became increasingly annoyed at the very idea that it should give in.

Relations between Russia and the United States are now taking on a new quality. They are not yet confrontational (at least, not in the cold war sense), but they are not in partnership either – the parties have failed to find cooperation formats that would suit them both, and now their interests are diverging as well. Moscow and Washington can cooperate on certain individual issues, but strategically they are now on their own.

For the rest of the world, the transformation of Russian-US relations was largely unexpected. Europe stands to gain most from it – if, of course, it dares one day to do something independently and use some of the opportunities given to it by the modern world. The lack of systemic confrontation between Russia and the United States leaves Europe free to not make a decisive choice between the two powers. The Old World can behave flexibly, in some cases supporting Russia, while in others supporting the United States. For Europe, this is a chance to finally begin to act in accordance with its own interests.

For China, it is somewhat surprising that Russia and the United States have found themselves in this situation. But China will hardly be displeased by such a state of affairs in the short term. Rather, Beijing will not believe it for some time; interpreting the development of Russian-US relations as a move towards confrontation (which has not yet been completely ruled out, but is not predetermined either – at least, it will not be a deliberate choice on the part of Moscow or Washington). As a result, China will probably continue to act in accordance with the old logic of Henry Kissinger – that is, the logic of a 'strategic triangle' among Russia, China and the US, where rapprochement between any two parties will necessarily make the third one lose. However, the new quality of Russian-US relations rules out the 'strategic triangle' logic.

The other two countries of the so-called BRIC – Brazil and India – will benefit somewhat from the new quality of Russian-US relations. As they do not need confrontation with America, or to make excessive concessions to it, Moscow's new position will give them further opportunities to uphold their interests. In general, the advancement by Russia of the BRIC format in recent years, where the parties discuss the agendas of the UN Security Council and the G8, apparently reflects this transition by Moscow to fundamentally new foreign policy positions.

On the whole, the new quality of Russian-US relations is another essential element of the multipolar nature of the world. A confrontational model stems from the bipolar past. Partnerships and alliances are elements of either 'friendly bipolarity', which never materialised, or of a unipolar world under US leadership, which also failed to deliver.

# A Chinese perspective

Shen Dingli\*

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## A superpower under transformation

As the sole superpower in the world, the United States is experiencing an important era of transformation.

Economically, the US is an unmatched and unrivalled power in the world, with its economy three times bigger than the second and third biggest economies in the world, Japan and China, and with a per capita income 20% greater than Japan's and 13 times greater than that of China. There are a few countries in the world that boast an even bigger per capita economic output than that of the US, but their populations are far smaller than the colossal US population.

Militarily, the US now spends 47% of the world's total defence budget. The US is the only country in the world that has various regional commands beyond its territory, even including a command of celestial space. It seems that America is the only country that can wage a war in any part of the world at short notice – the war on Iraq in 2003 being such an example.

While America is currently at its peak, the country is also facing serious challenges, however.

Politically, the US democracy did not function well enough to forestall Bush's war on Iraq. In fact, at a time of crisis such as the 9/11 terrorist attack, the US democracy failed to work adequately to assure the defence of the country. The US invaded Iraq without UN authorisation or evidence that Iraq posed a serious enough threat to America to warrant a pre-emptive strike. The Bush government set up prisons in Guantanamo Bay and elsewhere and abused the rights of prisoners. While the Obama administration has been talking about withdrawing troops from Iraq, America has neither apologised to Iraq and the world for breaking international peace, nor committed itself to bringing those who started the war to International Court. The White House has shown no interest in providing Iraq with war reparations. The damage this has done to US democracy and its leadership role in the world is not easily repairable.

Economically, the ethos of free capitalism in America has also been challenged, especially by the present financial crisis. A combination of human greed, a lack of adequate governmental regulation and monitoring, plus the impact of the 9/11 attack on consumption and saving behaviour,<sup>1</sup> have all resulted in an unprecedented economic crisis that has shaken the credibility and viability of American capitalism. While the lack of next generation technology may partly contribute to the deteriorating situation, it is also obvious that the US financial institutions are to undergo a major revamp.

This explains why President Obama has come to power after only a short stint as politician in Washington, D.C. His commitment to change has already refreshed the image of America worldwide. In recent months, the Obama administration has succeeded in 'resetting' relations with Russia, and is also to address difficult questions with Russia on missile defence in Central Europe and the NATO membership of Georgia. The US has managed to repair the transatlantic

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<sup>1</sup> The US Federal Reserve systematically used interest rates to macro-adjust the public's saving and consumption after the psychological shock of the 9/11 terrorist strike. Immediately after the attack, there was concern that the public might be less interested in spending so interest rates were cut repeatedly to reduce saving and increase the circulation of the currency.

relationship with its NATO allies and is re-committed to a multilateral foreign policy approach. Washington has also stabilised relations with Beijing. Furthermore, President Obama has made reconciliatory gestures towards Iran, Cuba and Venezuela, calling for dialogues with these countries. President Obama has even envisioned a world free of nuclear weapons in which the US plays a leadership role.

Although the rebuilding of the US global position will be a long process, it has taken a constructive new turn already. In the meantime, it is still far from certain that the American economy will ride out the most serious difficulties it is currently facing. America has not yet returned to the heyday of the Clinton era, however. In terms of foreign policy, the US is hopeful to be able to reassert its leadership, if it can only deal with its 'anti-terror' wars in Iraq and Afghanistan reasonably well. But so far there is no certainty that it can fix the deep flaws within its free capitalist system any time soon.

### **Shifting centres of power**

Against this backdrop, the US is losing some of its power and lustre. Its economic weight today is less than one quarter of the world's total, declining from one half at the end of WWII. With military spending at nearly one half of the world's total, the US overspend on defence has undermined the country's position, especially at a time of security uncertainty.

In addition, among the traditional players of Western industrialised economies, many have been slow to generate new competitiveness in past decades. Therefore, the traditional G7/G8 is defining the world economy and world security less and less. Instead, the new grouping of G13/G20 countries is becoming more relevant in forecasting trends in world development.

In this regard, Asia is increasingly relevant in the shifting centre of world power. In particular, East Asia has become a world economic engine, with Japan, China and the Republic of Korea (ROK) as the core actors in the contemporary wave of industrialisation. Both Japan and the ROK are members of the OECD already, given their economic weight and per capita performance. Mainland China's pace of development is more impressive as it is quite possible that its economic size will overtake Japan's this year, rendering China second only to the US in the world in terms of overall size of economy.

Meanwhile, this part of the world includes most of the BRIC nations – China, Russia and India – along with Brazil (and potentially Indonesia) – they represent the fastest developing economies. Prior to the financial crisis of 2008, these economies maintained a rather impressive pace of economic development, given their substantial supply of human resources (at least in the case of China and India) or natural resources (in the case of Russia). Presently, the Chinese economy maintains a positive and impressive growth – at 9.1% in 2008 – compared with all other major economies that were declining at this time.

The world order is certainly being restructured. With or without the economic downturn, the Chinese economy has a good chance of catching up with America in terms of quantity, by 2020-2030. This is assured at a time of globalisation, when Western capitals are matched with inexpensive labour resources – abundantly available in the Chinese market or elsewhere. As long as China is an open economy, its traditional liability of having huge numbers of poor unemployed human resources will turn out to be an asset for economic cooperation with the West.

On closer inspection, even if the Chinese economy matches that of Japan in 2009/2010, China's per capita economic output will merely be 10% of that of Japan. Also, even if the Chinese economy is eventually on a par with that of the US, its per capita performance will only be about one quarter of America's, compared to the current ratio of 7%. It would be no surprise if



China surpasses Japan and the US, eventually. What is a surprise is why China's per capita GDP is now only 7% of the US, and 9% of Japan's.

When China's economic size grows to match America's, it will also reach that of the EU. The size of the Chinese economy is already 4 times greater than that of India, so it is not unthinkable that China will overtake India, when Beijing matches Washington around 2020-2030.

Defence-wise, China's growth is also rather impressive. Currently, China's official defence budget of \$70B (RMB¥480B) is the 3<sup>rd</sup> biggest in the world, next to that of the US and the UK.<sup>2</sup> Although China's defence budget is just 1/7 of the US budget, it doubles every four years (or quadruples every eight years). This means that China's defence budget will reach \$280B by 2017 – the same level as US military spending in 2000, or 58% of the US in 2008. This does not include any defence R&D with costs incurred by non-military departments, the retirement compensation for military personnel incurred by civilian departments, or the differences due to purchasing power parity between the Chinese currency and the US dollar.

### **A new world order through cooperation**

Such rapid growth is likely to have an impact. On the one hand, the long-term relative decline of the US is unavoidable, given the emergence of East Asian economies and the newly industrialising markets worldwide, including those in the BRIC nations. On the other hand, until November 2008, China's economic miracle indicated the arrival of a unique competitor for America.

But the Chinese phenomenon may not be sustainable. Although all major Western economies are mired in the financial disaster, China's performance is also in doubt. China's GDP growth has dropped from 13% in 2007 to 9.1% in 2008, and most recently its GDP is only 6.8% (4<sup>th</sup> quarter in 2008) and 6.1% (1<sup>st</sup> quarter in 2009) of what it was the same season a year ago.

Chinese's high dependence on exports has brought a tremendous boost to the economy. But at a time when the US and other Western economies are facing a confidence crisis in consumption and credit, and when their need to outsource China's production is fast shrinking, China is meeting its own structural problem of lacking sufficient domestic consumption, despite its large savings.

China is unlikely to replace America in the near future for a number of other reasons. Fundamentally, China has not established a culture of technological innovation to upgrade its economy through its own efforts. China's dire environmental and ecological degradation simply harms its own chances of sustainable development – this fact is even more evident and significant in the present financial crisis.

Although China is hopeful of surpassing America in terms of economic size in one or two decades, it still has to expand its economy two fold at least. This implies further unprecedented environmental challenges and energy needs. Without resolving these problems, further economic expansion in China on a massive scale could be the catalyst for ecological catastrophe and huge social instability, and is therefore unattainable. Failing this, China would not only be unable to boost its economy to become a peer of America, but could become a source of global concern. This is not a welcome scenario, for either China or the rest of the world. It will be in the interests of all concerned to avoid such an occurrence through international cooperation.

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<sup>2</sup> According to Stockholm International Peace Research Institute (SIPRI) Yearbook 2009, China's defence spending has already overtaken that of the UK to become second only to that of America. See, SIPRI Yearbook (2009) "Armaments, Disarmament and International Security", Oxford: Oxford University Press.

President Obama has revoked his predecessor's handling of environmental policy and is now committed to the reduction of greenhouse gases. This presents China with both pressures and opportunities – obliging them to spend more on environmental protection and cut the net increase of wealth generation. But it is in China's interests to do this sooner rather than later. Though it might be hard for the Chinese government to accept a rigid quota of CO<sub>2</sub> reduction for some version of a post-Kyoto Protocol agreement, it cannot fail such a litmus test at the UN Copenhagen Climate Conference this December.

A short-sighted vision cannot bring China to the truly competitive position of deserving G2 status with the US. This would mean the Chinese leadership balancing its short-term interests in assuring job employment and social stability, with its long-term interests in assuring sustainability, both of which are crucial to the legitimacy of the government.

For America's part, it has to play a leadership role in curtailing CO<sub>2</sub> emissions, and inducing other countries to commit to doing so, commensurate with their economic affordability. If the US fails to negotiate with China on mutually acceptable terms, the ensuing disaster will be of global proportions, considering that both countries are top emitters of greenhouse gases.

At least for the next 10-20 years, the US position as sole superpower will not be challenged. American competitiveness in terms of its natural resources, geo-strategic edge, political institutions, technological innovation, research and educational competence, all enjoy a certain edge. China has certain inherent disadvantages at per capita level: a shortage of natural resources, including clean water, a lack of ready energy supplies and efficiency of use, a scarcity of education resources, let alone the need to reconstruct China's social ethics in this new millennium.

But China does not need to wait to catch up with America to play a globally constructive role. Already, China has been convening the Six Party Talks to play a pivotal role in Northeast Asian security, and has sent its ships to the Gulf of Aden to protect international sea lanes against pirates. Reportedly, China has sent more UN Peacekeepers than other countries to conflict-stricken areas, including Darfur. China is also the biggest donor amongst all developing countries, so far having provided official development aid to other developing countries; a total of RMB¥200B (US\$29B).

It is also worth mentioning that China has worked strenuously to settle the North Korean nuclear issue. Fundamentally, this nuclear issue is an obstacle to relations between North Korea (DPRK) and the US. The mutual hostility between Washington and Pyongyang has ultimately led the DPRK to move towards nuclear armament. After the failures of his predecessors over this issue, President Obama is now under some pressure to resolve the issue peacefully.

Although the Obama administration has made diplomatic moves to nearly all rival states, the new US leadership has been slow to initiate a strategy to ensure denuclearisation and peace on the Korean peninsula. It seems too late to reverse the nuclear course of the DPRK, in view of its second nuclear testing. However, the Obama administration has succeeded in garnering international support to exert pressure on the DPRK, and China is a key player in this effort.

To sum up, the US is now experiencing a more complex relationship with China – more cooperation combined with more competition. Though China won't be a serious competitor to America in any time soon, Beijing might already have posed a challenge to Washington in some ways. The Bush administration's disastrous unilateral foreign policy, as well as China's success in economic development, have already afforded China more influence in the world. China's persistent low-key posture had made its peaceful rise more or less accepted by America and its allies. One can expect that in the next decade or two, America's hegemony is unchallenged while China's will be in the ascendant. This is perhaps the world order that many can contemplate over the next two decades.

# About the European Security Forum

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The Centre for European Policy Studies (CEPS) and the International Institute for Strategic Studies (IISS) joined forces late in the year 2000, to launch a new forum on European security policy in Brussels. The objective of this *European Security Forum* is to bring together senior officials and experts from EU and Euro-Atlantic Partnership countries, including the United States and Russia, to discuss security issues of strategic importance to Europe. The Forum is now jointly sponsored by CEPS, IISS, the Geneva Centre for Democratic Control of the Armed Forces (DCAF), and the Geneva Centre for Security Policy (GCSP), and is hosted by CEPS in Brussels.

The Forum brings together a select group of personalities from the Brussels institutions (EU, NATO and diplomatic missions), national governments, parliaments, business, media and independent experts. The informal and confidential character of the Forum enables participants to exchange ideas freely.

This group meets regularly in a closed session to discuss a pre-arranged topic under Chatham House rules. The Forum meetings are presided over by François Heisbourg, Chairman of the Foundation for Strategic Research in Paris. As a general rule, three short issue papers are commissioned from independent experts for each session presenting EU, US and Russian viewpoints on the topic.

**The Centre for European Policy Studies (CEPS)** is an independent policy research institute founded in Brussels in 1983, with the aim of producing sound policy research leading to constructive solutions to the challenges facing Europe.

**The International Institute for Strategic Studies (IISS)**, founded in London in 1958, is the leading international and independent organisation for the study of military strategy, arms control, regional security and conflict resolution.

**The Geneva Centre for the Democratic Control of Armed Forces (DCAF)** promotes good governance and reform of the security sector, conducts research on good practices, encourages the development of appropriate norms at the national and international levels, makes policy recommendations and provides in-country advice and assistance programmes.

**The Geneva Centre for Security Policy (GCSP)** is an international foundation established in 1995 to “promote the building and maintenance of peace, security and stability”. The GCSP's core activity is the provision of expert training in comprehensive international peace and security policy for mid-career diplomats, military officers, and civil servants from foreign, defence, and other relevant ministries and international organisations.



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