

A photograph of a silver compass with a black face and white markings, resting on a bed of golden sand. The compass needle is pointing towards the South (S). In the background, a globe is visible, partially obscured by a semi-transparent grey box containing text. The overall scene is lit with warm, golden light, suggesting a sunset or sunrise.

Fluidity and Instability III: continuing impacts on the global order

Ongoing Geopolitical Perspectives
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EVENTS

The Arab world continues to roil, with extreme internal violence in Syria, civil war in Yemen, the ongoing international operation in Libya, rapprochement between Hamas and Fatah amongst the Palestinians, mild constitutional reforms in Jordan and Morocco, as well as the extension of the Gulf Cooperation Council (GCC) to include them.

Recep Tayyip Erdogan and his AK party win parliamentary elections in Turkey for a third consecutive term; however, the stream of refugees into Turkey fleeing government violence in Syria undermines his vaunted “Zero Problems” foreign policy.

Tensions between the North and the South in Sudan increase ahead of the South declaring independence in mid-July.

Greece receives a second bail-out in a last minute deal, but fears of default remain – offset by near equal fears of political implosion in the country.

Portugal’s debt rating is downgraded to junk status by Moody’s rating agency, sparking rumours of a second bail-out there too – and anger amongst EU politicians.

Tensions within the EU continue to mount, with the ongoing euro and immigration crises complicated by further internal tensions over agriculture and trade, due to the e-coli epidemic in Germany.

Mario Draghi is elected the next head of the ECB, making possible a smooth takeover in October – a crucial factor in the ongoing euro-crisis.

Christine Lagarde is elected the new head of the IMF, so ensuring Europe, and specifically France, remain at the helm of the agency.

US external debt continues to mount with no apparent prospect of political agreement on a package to cut or diminish it, coupled with disappointing economic data indicating the US economy is still struggling to recover.

Tensions mount in the South China Sea between China and Vietnam over energy exploration and demarcation lines.

The IEA releases 60 million barrels of oil from its reserves, in coordination with Saudi Arabia, in an attempt to lower global oil prices by replacing a portion of the lost production from Libya; prices came down but still remain at historic highs.

Germany announces final shutdown of all nuclear plants by 2022, thereby putting pressure both on existing sources of energy and renewable.

Russia announces a lifting of its wheat export ban as of 1 July 2011, alleviating fears of an even tighter grain market, yet food prices continue to rise across the globe, putting ever more pressure upon populations and politicians.

OUTCOMES

A hot summer of Middle East strife is ahead with the internal conflicts in the Arab world continuing and probably worsening – amid fears of them spreading to Lebanon, Jordan, Iraq and possibly other points in the Gulf. In addition, tensions between Turkey and Syria may well escalate as the violence in Syria leads to ever more refugees crossing into Turkey.

Iran may intervene if it feels its interests in Syria are threatened, or if an opportunity arises in Iraq due to the expected withdrawal of US forces – which may be of lesser number than first announced. Either move by Iran would put pressure upon the US, the EU and Saudi Arabia.

Russia could emerge as a bridge between the West and the Arab world, especially Syria and Libya, therefore attempting to regain some of its former supreme international standing.

China will have to deal increasingly with internal and regional priorities, most especially the looming risk of an economic slowdown which could cause internal unrest alongside increasing tensions with its neighbours over the South China Sea.

The US will become increasingly torn between internal and external interests, as the election year starts in the autumn and politicians will be forced to focus upon internal problems, especially unemployment, while the world around continues to change. A last minute political deal on the debt ceiling will probably be reached, but the process of haggling will further undermine US global leadership.

The EU will move along dichotomous tracks of closer union and greater separation, with politicians in the Eurozone seeking to define some form of common fiscal basis and closer unity to shore up the currency, while at the same time bowing to growing fears of immigration and mounting xenophobia – and the growing success of right wing parties – by reclaiming external elements of national sovereignty.

The tensions between the West and the Rest will increase due to a basic discontent with Western global leadership coupled with an inability of the emerging world – from Brazil through Africa – to assert itself as an alternative.

Markets will be unstable, lurching between highs and lows, responding to each geopolitical development in the Arab world – each positive one causing a minor high, each negative a low – as well as the increasingly negative economic data emanating from the US, China and the EU.

High energy and food prices may cause wide social unrest and possibly violent demonstrations in both the developed and the developing world.

Global business and finance may increasingly come to be seen in negative terms as part of the problem – or problems – of pressure upon individuals and societies experiencing mounting hardship in daily life.

THE GLOBAL DIMENSION

The Arab world continues to roil, with little international reaction

Six months after a vegetable seller in Tunis sparked the waves of protest, there is little end in sight for the turmoil. As noted in our previous update, this situation is now chronic, since none of the participants – protestors or incumbent regimes – have any option other than to pursue the crises to their respective ends, which remain largely unknown, but inevitably bloody. The *status quo ante* is no more, and the road ahead is unclear. As such, uncertainty remains the only certainty, a fact which feeds into each crisis, so making it worse.

Whilst the Gulf and the Middle East pose immense dangers and problems to global security, to a certain extent the situation in the Mediterranean is currently the most dangerous: with Syria and Libya actively in protest, Egypt and Tunis in post crisis instability, Algeria and Morocco relatively calm but tense, Lebanon perennially on edge and Israel poised to overreact to all events, the southern and eastern parts of the basin are insecure – and unpredictable.

In strategic terms this means access to the Suez Canal, a significant international waterway, can no longer be assumed to be perennially unhindered. This is a significant issue, given the Mediterranean is a junction of global interests: the EU conducts a significant portion of its trade with Asia through the Canal, and the US has its Sixth Fleet positioned in Naples, ready to sail down the Canal as necessary. In addition, Turkey, with a border on the Mediterranean, also needs the Suez Canal both in order to maintain its own maritime link to the East and as part of the continuum of trade that goes through the Bosphorus. At the same time, China and other producing Asian states rely on the Canal as

the shortest, and cheapest, route to the lucrative EU markets. In short, the Suez Canal is vital to the interests of Asians and Europeans, as much as to the global strategic balance. Without it, Europe and Turkey are dependent upon the western exit of the Mediterranean, through the Straits of Gibraltar, and then the Cape of Good Hope – lengthy journeys that would add two weeks to deliveries and hike the prices of all goods significantly due to massively increased transportation costs. This would harm Chinese and other Asian exports – as well as limit the scope, or at least rapid response, of US military might.

Weak international reaction

Despite violence and political protest engulfing states from Morocco to Bahrain, active international interest has effectively focused only upon Egypt, Tunis and Libya. This is not by chance: Egypt and Tunis experienced short and relatively bloodless revolutions that ended with decided change and an apparent willingness to engage with the external world, while Libya appeared to pose a clear case for intervention since Col Gaddafi threatened to massacre many or all the citizens of Benghazi.

The most tangible aspects of this interest, apart from the military intervention in Libya, is the opening of an EU office in Benghazi and the G8 offering US\$ 20bn in funding, mostly to Egypt and Tunis. While this sum may appear generous, in reality it is inadequate, for two main reasons. First, it is unclear what portion is restating sums already committed to these states in ongoing assistance programmes rather than new sums and second, since the stated aim of these funds is the creation of democracy, far more is needed: as a comparison, each state that joined the EU, especially since Greece in 1981, received far in...

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excess of such a sum – and they all had some form of democratic background. The notion that states with no democratic background could be transformed for far less is therefore simply unrealistic.

Events elsewhere have caused much head-shaking and hand-wringing from the West, with grand speeches from US President Obama and Secretary of State Clinton, and various comments from a range of EU leaders and officials. Non-western leaders have made less speeches, though China and Russia have often publicly disagreed with the western words. In short, the international community has played few cards, and so far to little effect. The West has done so

out of a combination of uncertainty and ineffectiveness, unsure what to do while fervently wishing the *status quo ante* could be brought back. The rest, and especially China and Russia, have done so for a range of reasons. Firstly, they have less concern about the substance of events within the revolutionary states and see them as internal issues to be resolved by the local parties rather than by international intervention. Secondly, they fear their own publics if they side openly with the incumbent regimes – and they have no interest in siding with the protesting publics. Thirdly, they have no ability to lead globally, though they await resolution of these conflicts in order to assume their global business interests.

THE EU AND THE CRISES

Fortress Europe

The most significant reality of the past months has been the inability – based upon apparent disinterest – of the EU to react in a concrete and concerted manner in response to events of the Arab Spring in any way other than to seal its borders ever tighter, including between Member States. It is significant because Europe, as opposed to the US and other global players, actually borders upon the unrest, and thus has the greatest interest in restoring stability to the Mediterranean, preferably on a long-term basis. However, it has been absent as a coherent player and leader throughout the past six months, with the actions of the EU institutions usually drowned out in a cacophony of Member State statements.

This reflects the current unwillingness, or inability, to deal with any reality outside the borders of the union – other than ensuring they are fortified and unbreachable. To this end the union is paying in excess of €100 million to fund the refugee camps in Tunis, and to enable the work of the International Organisation for

Migration (IOM) in repatriating non-Libyan migrants in Tunis to sub-Saharan Africa. In other words, while it is incapable of, or unwilling to significantly help Tunis through its post-revolutionary phase towards democracy, the EU is willing to pay huge sums to make sure this unstable country maintains a massive refugee population and turns away other desperate Africans. This is potentially a recipe for strategic disaster, since it offers Tunis little reason to develop a stronger relationship with, or indeed liking of the EU, which puts the greater goal of stability in North African in ever more peril.

This tactical policy reflects the growing trend of European politicians to retreat ever more into the confines of their own states, largely in the steps of increasingly right wing, xenophobic parties. The impressive election gains of such parties in the Netherlands and Finland were a clear marker to Denmark, where the government sought to neutralise such a party by attempting to unilaterally nullify the Schengen agreement on open borders, in effect since 1995 – a move halted by the EU Commission. Nonetheless, an amendment to the Schengen agreement was...

passed in the European Council late in June, creating a mechanism for the temporary reinstatement of national borders between Member States in exceptional circumstances. Officials and politicians are at pains to emphasise the exceptional nature of circumstances, but nonetheless the amendment suggests the concept of free movement of people in the EU is not as rock solid as assumed.

Right of centre parties sweep the board in local elections in Spain and national elections in Portugal

Unrelated to the xenophobic swing to the right in north European states is another swing towards the centre right in the South. In fact, this is probably more of a swing away from the incumbent left of centre governments than a determined move towards the right – and it comes largely on the back of mass youth demonstrations against unemployment in Spain, and protests against austerity plans in Portugal. The unfolding reality of the euro-crisis on the back of the 2008 financial crisis has produced a major backlash in the Mediterranean states – with the Greek left of centre government hanging on as waves of demonstrations rock the centre of Athens. Potentially the right of centre Italian government, which has just passed an austerity budget, may be subject to the same fate – which would suggest the problem is social and not ideological – but for the fact that the Berlusconi administration is already roiled by scandal and protest.

The focus of interest in this phenomenon has been more or less exclusively upon the economic woes of these “peripheral” Eurozone states – which include Ireland, that has also needed a bail-out. As such, the Eurozone crisis has been blamed upon profligate clientelism (Greece), lack of competitiveness (Portugal), and old fashioned bubbles (Spain and Ireland). The debate has only

been political inasmuch as it was unclear whether the German or Finnish taxpayer would tolerate financing another bailout without bringing down an incumbent government – and whether politicians can and should dictate ECB policy. But it is basically a false debate.

Politics and the euro-crisis

None of the peripheral states, possibly barring Ireland, was brought into the EU for any reason other than political – and the solution to this crisis, much as all others that have plagued the EU, will ultimately be political too. And as before, the economic logic will follow, but possibly not as foreseen.

Greece, Spain and Portugal were taken on as members once the military dictatorships in each

THE EUROZONE CRISIS HAS BEEN BLAMED UPON PROFLIGATE CLIENTELISM (GREECE), LACK OF COMPETITIVENESS (PORTUGAL), AND OLD-FASHIONED BUBBLES (SPAIN AND IRELAND).

had fallen. Significantly, these events took place during the Cold War, and must be understood within that context – especially in the case of Greece. The dictatorship there fell in 1974, the zenith of

the Cold War – thus at a time in which the lines of the confrontation were very taut, especially in the wake of the 1973 Middle East War. Indeed, the crucial geographical positioning of Greece at the junction of Europe and the Middle East, as well as its historic enmity with Turkey, made it imperative to ensure it came into the fold of the then European Community and the West. If not, there was a danger of another war with Turkey or even a flirt of some kind with the then USSR.

It was upon this complex political background that the decision on EU membership was taken, even though the state had a very patchy history of democracy and practically no experience at all of running a balanced economy. Indeed, after decades of occupation, civil war and dictatorship there was hardly any economy at all, barring shipping and domestic agriculture.

Greece joined in 1981, and though much was done in the intervening seven years to improve its economy and institutions, it is impossible to say these worked fully or perfectly – as both the Brussels leadership and the Heads of State knew well. It was equally well-known, as is now being tacitly admitted, that the vast sums received in Greece from the EU were not necessarily all used for reform and infrastructure, and that billions were given away within the complex world of Greek political clientelism. Moreover, as Mario Monti, a former EU Commissioner recently admitted in the FT, it was also known that Greece did not necessarily produce completely accurate accounts, both before and after it joined the euro. But such acts were considered a worthy price to pay, also after the Cold War, when Greece proved to be a very important conduit to Serbia and the Serbs in the Balkan wars of the 1990s, due to their shared history, geography and Orthodox religion.

CONCLUSION

There is a global crisis of political leadership

This crisis is led by the West's inability to deal both with its own structural ills and its economic decline. This weakness is compounded by the unwillingness of China to take a significant leadership role in any area other than economics, and other BRICs being incapable of assuming such a role. It is between these cracks that the Arab world, the Middle East and parts of Africa have emerged in conflict; and it is the global political impotence which can allow these conflicts to widen the cracks into canyons.

This political crisis could undermine the premises of globalisation

For globalisation runs on communications, both those of satellites and cyberspace as well as those of transport routes. The conflicts of the Arab Spring were enabled by the first form of communications – which apart from highly justifiable revulsion at dictatorships also exposed the paucity of international capabilities to deal with a significant geopolitical crisis. The underlying order which enables globalisation was therefore thrown into question. Moreover,

In short, Greece was taken on and kept in the EU due to completely justifiable political reasons, and at a price known to the politicians through the decades. To therefore now claim its problems in the Eurozone are but economic is irrelevant: Greece may desperately need economic and probably political reform – but the solution to the current crisis does not lie only in such measures.

Indeed, they must follow a political decision by the EU, not just the Eurozone, to assume the debts of Greece – especially in this time of Mediterranean and regional crisis. The Cold War may be over, but it remains a geopolitical lynchpin crucial to the security of the EU, North and South. Unfortunately, the current generations of European politicians appears incapable of making clear and strong geopolitical decisions, to the benefit of their own citizens. That is a strategic fault.

the global inability to stop the conflicts lays ever greater obstacles to the smooth flow of the second form of communications – transport. From the high price of fuel to the physical dangers of both getting it and passing it easily round the globe, the assumption that the globalised world is flat has been shown to be deeply flawed.

The business perspective

Such developments bode extremely ill: regardless of national identity or sentiment, business is increasingly cross-border and globalised. It actively needs the political backing for a global system, and secure modes of communication. If politicians continue with an ever narrower pursuit of the local interest and the strong national border, business will find it ever more difficult to operate, and co-operate. Especially in the West, where business and the state are often two separate blocs, this trend may become increasingly untenable – making it necessary for business to confront the political level.

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